

# Understanding the Property Investment Analysis (PIA)

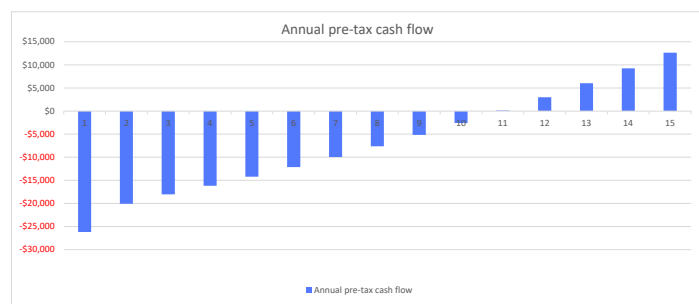
## FACTSHEET



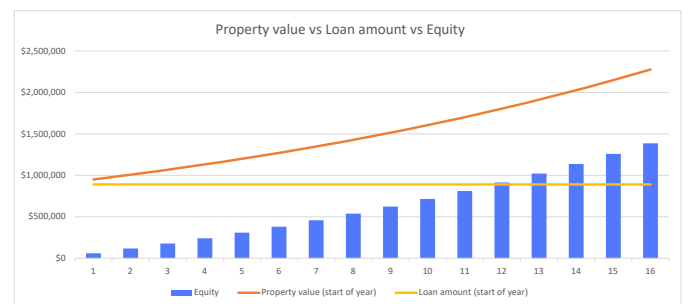
One of the things we do when we find properties that fit within our initial criteria is to do a Property Investment Analysis. This analysis gives us a deeper insight into how the financials of the property stack up over the next 15 years.

The Property Investment Analysis we build contains a lot of numbers. Here's what they all mean and why they're useful to have on hand.

Investment Analysis - Projections																
Year	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Property value (start of year)	\$950,000	\$1,007,000	\$1,067,420	\$1,131,465	\$1,199,353	\$1,271,314	\$1,347,593	\$1,428,449	\$1,514,156	\$1,605,005	\$1,701,305	\$1,803,384	\$1,911,587	\$2,026,282	\$2,147,859	\$2,276,730
Forecast capital growth	\$57,000	\$117,420	\$181,465	\$249,353	\$321,314	\$397,593	\$478,449	\$564,156	\$655,005	\$751,305	\$853,384	\$961,587	\$1,076,282	\$1,197,859	\$1,326,730	
Cash deposit \$ (if any)	\$60,000															
Lump sum payments																
Loan amount (start of year)	\$890,000	\$890,000	\$890,000	\$890,000	\$890,000	\$890,000	\$890,000	\$890,000	\$890,000	\$890,000	\$890,000	\$890,000	\$890,000	\$890,000	\$890,000	
Equity	\$60,000	\$117,000	\$177,420	\$241,465	\$309,353	\$381,314	\$457,593	\$538,449	\$624,156	\$715,005	\$811,305	\$913,384	\$1,021,587	\$1,136,282	\$1,257,859	\$1,386,730
<b>Income</b>																
Weekly Market rental income		\$822	\$867	\$915	\$965	\$1,018	\$1,074	\$1,134	\$1,196	\$1,262	\$1,331	\$1,404	\$1,482	\$1,563	\$1,649	\$1,740
Annual rental income:		\$42,750	\$45,101	\$47,582	\$50,199	\$52,960	\$55,873	\$58,946	\$62,188	\$65,608	\$69,216	\$73,023	\$77,039	\$81,277	\$85,747	\$90,463
Gross Yield		4.25%	4.23%	4.21%	4.19%	4.17%	4.15%	4.13%	4.11%	4.09%	4.07%	4.05%	4.03%	4.01%	3.99%	3.97%
<b>Expenses</b>																
Property expenses p.a.:		\$11,400	\$11,993	\$12,616	\$13,272	\$13,963	\$14,689	\$15,453	\$16,256	\$17,101	\$17,991	\$18,926	\$19,910	\$20,946	\$22,035	\$23,181
Vacancy cost p.a.:		\$1,644	\$1,735	\$1,830	\$1,925	\$2,031	\$2,143	\$2,261	\$2,385	\$2,516	\$2,655	\$2,801	\$2,955	\$3,117	\$3,289	\$3,470
Interest rate (I/O)		6.28%	5.78%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%
Interest costs:		\$55,892	\$51,442	\$51,175	\$51,175	\$51,175	\$51,175	\$51,175	\$51,175	\$51,175	\$51,175	\$51,175	\$51,175	\$51,175	\$51,175	\$51,175
Chattels Depreciation		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Annual pre-tax cash flow	\$0	-\$26,186	-\$20,068	-\$18,040	-\$16,174	-\$14,209	-\$12,134	-\$9,943	-\$7,629	-\$5,185	-\$2,604	\$121	\$2,999	\$6,039	\$9,248	\$12,637
Weekly pre-tax cash flow	\$0	-\$504	-\$386	-\$347	-\$311	-\$273	-\$233	-\$191	-\$147	-\$100	-\$50	\$2	\$58	\$116	\$178	\$243
Annual Cash Flow (after Depreciation)	-\$60,000	-\$26,186	-\$20,068	-\$18,040	-\$16,174	-\$14,209	-\$12,134	-\$9,943	-\$7,629	-\$5,185	-\$2,604	\$121	\$2,999	\$6,039	\$9,248	\$12,637
Tax Payable		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Annual Cash Flow		-\$26,186	-\$20,068	-\$18,040	-\$16,174	-\$14,209	-\$12,134	-\$9,943	-\$7,629	-\$5,185	-\$2,604	\$121	\$2,999	\$6,039	\$9,248	\$12,637
IRR Cashflows over 15 yrs	-\$60,000	-\$26,186	-\$20,068	-\$18,040	-\$16,174	-\$14,209	-\$12,134	-\$9,943	-\$7,629	-\$5,185	-\$2,604	\$121	\$2,999	\$6,039	\$9,248	\$1,399,368

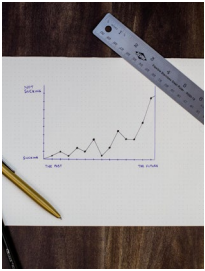


\*Not adjusted for inflation



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**Disclaimer:** The calculations and projections listed above are estimates of future outcomes given today's knowledge, market conditions and outlook. The forecast is based on positive, average returns over the long term. Actual returns will fluctuate over time and could be both negative and positive. Past performance is not necessarily a reliable guide to future performance. These calculations should be regarded as estimates and illustrations only. Investment performance and attaining investment objectives are not guaranteed.



### Property value

This is, initially, the purchase price. Then over the following 15 years will factor in the capital growth rate. Capital growth tends to be much lumpier but we're using an average. This can help you determine whether the property will provide enough capital gain to meet your wealth-growing goals.



### Investment, loan amount & equity

This is based on an initial deposit, whether that's cash or equity. The reason the loan amount doesn't go down is that we will structure your mortgage to pay interest only, rather than interest and principal.

Even though we're not paying down the principal of your mortgage, your equity will increase as the value of the property increases.



### Income

We calculate gross rent per week: This example is sitting at about 4% of the property purchase price – which is a good level for it to be sitting at. Too low, and you'll have to pay too much towards the property, and too high and the capital gains may be limited.

Subsequent annual rental income takes into account a 5% per annum increase and 2 weeks of the rental property being untenanted.



### Expenses

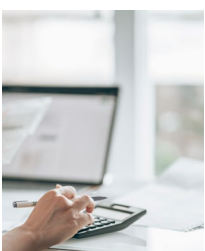
We make a guesstimate for the mortgage interest rate. While the figure is steady over the later years in this example, it may fluctuate depending on the market, and how long you fix for.

Your rental expenses factor in council rates, insurance, repairs and maintenance, accounting fees and property management costs.



### Depreciation of chattels

In the case of an investment property, chattels (like appliances and blinds) depreciate in value and can be counted as a deductible expense on your property alongside your rental expenses. Depreciation reduces your tax payable without being a cash cost.



### Your pre-tax weekly cashflow

Even if you ignore everything else on the property investment analysis, your weekly pre-tax cashflow is the one thing you should take note of.

This shows how much the property will cost you (on top of your initial deposit and mortgage repayments) during the first 15 years of your investment – or whether you'll be able to earn a little bit of passive income.