



**The Successful Investor - Michael Sloan**

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Prepared for: The Formula  
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 Property: Sample for cash flow illustration purposes only  
 Description: \$450,000 house and land package

**SUMMARY**

<b>Assumptions</b>		<b>Projected results over</b>	<b>10 yrs</b>
Property value	\$450,000	Property value	\$805,881
Initial investment	\$0	Equity	\$329,951
Gross rental yield	5.10%	After-tax return /yr	57.10%
Net rental yield	4.09%	Net present value	\$225,024
Cap. growth rate	6.00%	<b>IF SOLD</b>	
Inflation rate	4.00%	Selling costs & CGT	\$111,852
Interest rate	6.00%	Equity	\$218,099
Taxable income	\$90,000	After-tax return /yr	50.17%

**COMPUTER PROJECTIONS**

Investment Analysis	Projections over 10 years					
	2016	1yr	2yr	3yr	5yr	10yr
End of year	2016	1yr	2yr	3yr	5yr	10yr
Property value	\$450,000	477,000	505,620	535,957	602,202	805,881
Purchase costs	\$25,000					
Investments	\$0					
Loan amount	\$475,930	475,930	475,930	475,930	475,930	475,930
Equity	<b>-\$25,930</b>	1,070	29,690	60,027	126,272	329,951
Capital growth rate	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
Inflation rate (CPI)	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Gross rent /week	\$450	22,932	24,079	25,283	27,874	35,575
Cash deductions						
Interest (I/O)	6.00%	28,556	28,556	28,556	28,556	28,556
Rental expenses	19.41%	4,542	4,723	4,912	5,313	6,464
Pre-tax cash flow	\$0	<b>-10,165</b>	<b>-9,200</b>	<b>-8,185</b>	<b>-5,995</b>	555
Non-cash deductions						
Deprec.of building	2.50%	5,625	5,625	5,625	5,625	5,625
Deprec.of fittings	\$27,000	4,331	5,673	3,923	2,020	592
Loan costs	\$500	100	100	100	100	
Total deductions		43,154	44,677	43,116	41,613	41,237
Tax credit (single)	\$90,000	7,426	7,719	6,933	5,358	2,208
After-tax cash flow	\$0	<b>-2,739</b>	<b>-1,481</b>	<b>-1,252</b>	<b>-637</b>	2,763
Rate of return (IRR)	57.10%	Your income /(cost) per week				
Pre-tax equivalent	93.61%	(53)	(28)	(24)	(12)	53

*Disclaimer: Note that the computer projections listed above simply illustrate the outcome calculated from the input values and the assumptions contained in the model. Hence the figures can be varied as required and are in no way intended to be a guarantee of future performance. Although the information is provided in good faith, it is also given on the basis that no person using the information, in whole or in part, shall have any claim against The Successful Investor - Michael Sloan, its servants, employees or consultants..*

## Detailed Notes on Spreadsheet Items

### PROPERTY VALUE

The property (or market) value refers to how much the property is worth (i.e. how much you could sell it for). Its book value, on the other hand, refers to how much you have paid for it plus the cost of any immediate renovations.

Property price:	450,000
Renovation costs:	0
Total book value:	450,000
<b>Property market value:</b>	<b>\$450,000</b>

### PURCHASE COSTS

These include your solicitor's conveyancing fees and, where applicable, State Government stamp duty charges. In Australia, stamp duty varies from State to State and is a function of purchase price whereas, in New Zealand, it has been abolished on all property transfers since May 1999. Conveyancing costs may also be dependent on purchase price and may be negotiable. In some States of Australia (e.g. A.C.T.), purchase costs are tax deductible in the first year of the investment, though normally they will only be taken into account in Capital Gains Tax calculations in the year of sale.

Conveyancing costs:	2,000
Stamp duty:	23,000
<b>Total Purchase costs:</b>	<b>\$25,000</b>

### INVESTMENT & LOAN

Your initial investment is usually just the total of all monies outlaid at the time of purchase. These may include contributions toward any, or all, of the costs listed below. The remainder will largely determine the size of the loan. If you have sufficient equity in other property, it is possible to outlay nothing, and actually borrow the lot (i.e. the purchase price, purchase costs, loan costs, any renovation costs, and even additional monies to cover such things as fittings). If you are modelling an investment from some point in time after purchase (e.g. to assess the return on major renovations), your investment might also include the equity you already have built up in the property.

	<b>Investments</b>	<b>Loan</b>	<b>Total Cost</b>
Property costs:	0	450,000	450,000
Renovation costs:	0	0	0
Purchase costs:	0	25,000	25,000
Furniture costs:	0	0	0
Loan costs:	0	500	500
Additional loan:		430	
<b>Totals:</b>	<b>\$0</b>	<b>\$475,930</b>	<b>\$475,500</b>

### CAPITAL GROWTH & INFLATION RATES

Rate of capital growth is your anticipated annual compound rate of increase of the property value. It will undoubtedly vary substantially over the short term, but over the longer term (10 years or more), it has generally been about 2 to 3% above the rate of inflation.

Average rate of inflation (%):	4.00
Average rate of capital growth (%):	6.00

### EQUITY

The equity is the difference between the property value and the loan. The equity increases in line with the increasing property value in the case of an interest-only loan. For a principal & interest loan, it also increases with the decrease in the debt.

<b>Projected values over</b>	<b>5 yrs</b>	<b>10 yrs</b>	<b>15 yrs</b>	<b>20 yrs</b>
Property value	602,202	805,881	1.078m	1.443m
Loan	475,930	475,930	475,930	475,930
<b>EQUITY</b>	<b>\$126,272</b>	<b>\$329,951</b>	<b>\$602,521</b>	<b>\$967,281</b>
<b>Approximate costs if sold.....</b>				
Capital Gains Tax	30,628	89,367	165,555	261,664
Solicitor's fees	3,011	4,029	5,392	7,216
Sales commission	13,974	18,455	24,452	32,477
<b>EQUITY (after sale)</b>	<b>\$78,658</b>	<b>\$218,099</b>	<b>\$407,122</b>	<b>\$665,924</b>

## INTEREST COSTS & TYPE OF LOAN

The type of loan can be either interest-only and/or principal & interest. Repayments for interest-only loans, as the title suggests, consist of interest only. Repayments for principal & interest loans include a component of the principal. Interest-only loans are usually of a shorter term (e.g. 3 to 5 years) at which time they are usually rolled-over.

Loan type:	I/O Yrs 1-40
Interest rate (yr 1) (%)	6.00
Loan:	\$475,930
Loan costs (written off over 5 yrs):	\$500
Monthly payment:	\$2,380
<b>Annual payment:</b>	<b>\$28,556</b>

## RENT

The potential annual rent is simply the rent per week times 52. The actual annual rent must account for any period that the property is vacant. Annual rents are assumed to increase in line with inflation.

Rent per week:	450
Potential annual rent:	23,400
Vacancy rate (%):	2.00
<b>Actual annual rent:</b>	<b>\$22,932</b>

## ANNUAL RENTAL EXPENSES

These are all the real operating costs associated with the investment property with the exception of loan interest payments. The first cell of the spreadsheet represents the expenses expressed as a percentage of the potential annual rent. As a guide, expenses could vary anywhere from 13% to 30%, depending on the maintenance and whether a professional property management agent is used. For holiday letting, with higher vacancies, the percentage can be more than 50%.

Normal Expenses:	
Agent's commission (6.60%):	1,514
Letting fees:	450
Rates:	1,428
Insurance:	600
Maintenance:	550
Special expenses:	0
<b>Total expenses:</b>	<b>\$4,542</b>
Normal expenses as % of annual rent (%):	19.41
Net yield or Capitalisation rate (%):	4.09

## PRE-TAX CASH FLOW

These are all of the monies that flow out of your pocket before tax is taken into account. Normally, it would represent the gross annual rent less interest and rental expenses. This will vary if interest or expenses are capitalised or rents used directly to reduce the loan.

Year		1yr	2yr	3yr	5yr	10yr
Rent		22,932	24,079	25,283	27,874	35,575
Cash invested	0	0	0	0	0	0
Principal payments		0	0	0	0	0
Interest		28,556	28,556	28,556	28,556	28,556
Expenses		4,542	4,723	4,912	5,313	6,464
<b>Pre-tax cash flow</b>	<b>\$0</b>	<b>\$-10,165</b>	<b>\$-9,200</b>	<b>\$-8,185</b>	<b>\$-5,995</b>	<b>\$555</b>

## DEPRECIATION ON THE BUILDING

This represents the capital allowance on the construction costs.

Property value:	\$450,000
Construction costs:	\$225,000
Depreciation allowance rate (%):	2.50
<b>Depreciation allowance:</b>	<b>\$5,625</b>

**DEPRECIATION OF FITTINGS (diminishing value method)**

Item	Value	Effective Life (yrs)	Depreciation
General fittings	13,500	15.00	1,800
Low-value pool	13,500	4.00	2,531
<b>Total</b>	<b>\$27,000</b>		<b>\$4,331</b>

**LOAN COSTS**

In Australia, the loan costs are written off over the term of the loan (or five years, whichever is the lesser).

Search fees:	500
<b>Total loan costs:</b>	<b>\$500</b>

**TOTAL TAX DEDUCTIONS (Cash & Non-Cash Deductions)**

These include both "cash" (e.g. interest, rental expenses) and "non-cash" (e.g. depreciation) deductions.

Year	1yr	2yr	3yr	5yr	10yr
Interest	28,556	28,556	28,556	28,556	28,556
Expenses	4,542	4,723	4,912	5,313	6,464
Deprec.-building	5,625	5,625	5,625	5,625	5,625
Deprec.-fittings	4,331	5,673	3,923	2,020	592
Loan costs	100	100	100	100	0
<b>Total deductions</b>	<b>\$43,154</b>	<b>\$44,677</b>	<b>\$43,116</b>	<b>\$41,613</b>	<b>\$41,237</b>

**TAX CREDITS & AFTER-TAX CASH FLOW**

The after-tax cash flows are all of the monies that flow in or out of your pocket AFTER tax is taken into account. They represent the PRE-tax cash flow LESS any tax credits (or tax refunds). In this analysis, it is assumed that the investor has obtained a tax variation from the Taxation Office and thus the tax refunds are credited for the same year in which they are based.

Year	2016	1yr	2yr	3yr	5yr	10yr
Pre-tax cash flow	0	-10,165	-9,200	-8,185	-5,995	555
Tax credits		7,426	7,719	6,933	5,358	2,208
After-tax cash	0	-2,739	-1,481	-1,252	-637	2,763
<b>Income /(cost) per week</b>		<b>(53)</b>	<b>(28)</b>	<b>(24)</b>	<b>(12)</b>	<b>53</b>

**INTERNAL RATE OF RETURN**

The internal rate of return (IRR) is the method of calculating the return on a series of cash flows where the time factor is taken into account. To understand it, think of the money you are outlaying on your investment property as being deposited in a bank account, with interest added each year. In this case the "deposits" are represented by the after-tax cash flows

Year	2016	1yr	2yr	3yr	5yr	10yr
After-tax cash flow	\$0	\$-2,739	\$-1,481	\$-1,252	\$-637	\$2,763
Equity						\$329,951

The total amount in your "account" (including interest) at the end of the period is the equity (\$329,951) in the investment property. The IRR (57.10%) represents the effective "interest rate" that you have received, but with one important difference - because the interest remains in the property, it is not taxed. To receive an equivalent return from bank interest, you need to get 93.61% before tax.

If the property were to be sold at the end of the period, the after-sale equity would be reduced to \$218,099 after taking account of selling costs and capital gains tax and the IRR after the sale would be 50.17%.

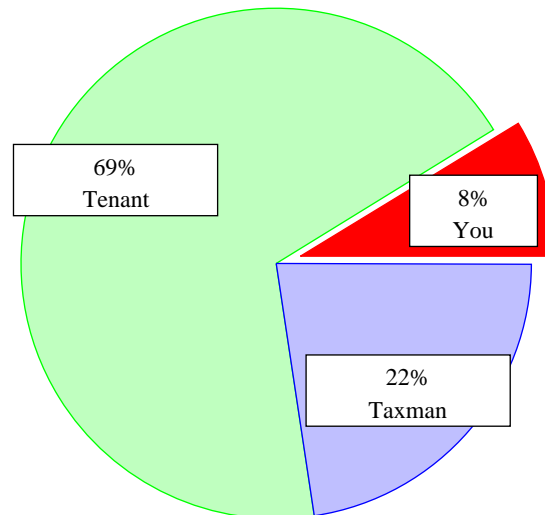
**TAX BENEFITS**

These are shown below for the given taxable incomes and are based on the specified tax scale.

Number of properties: 1

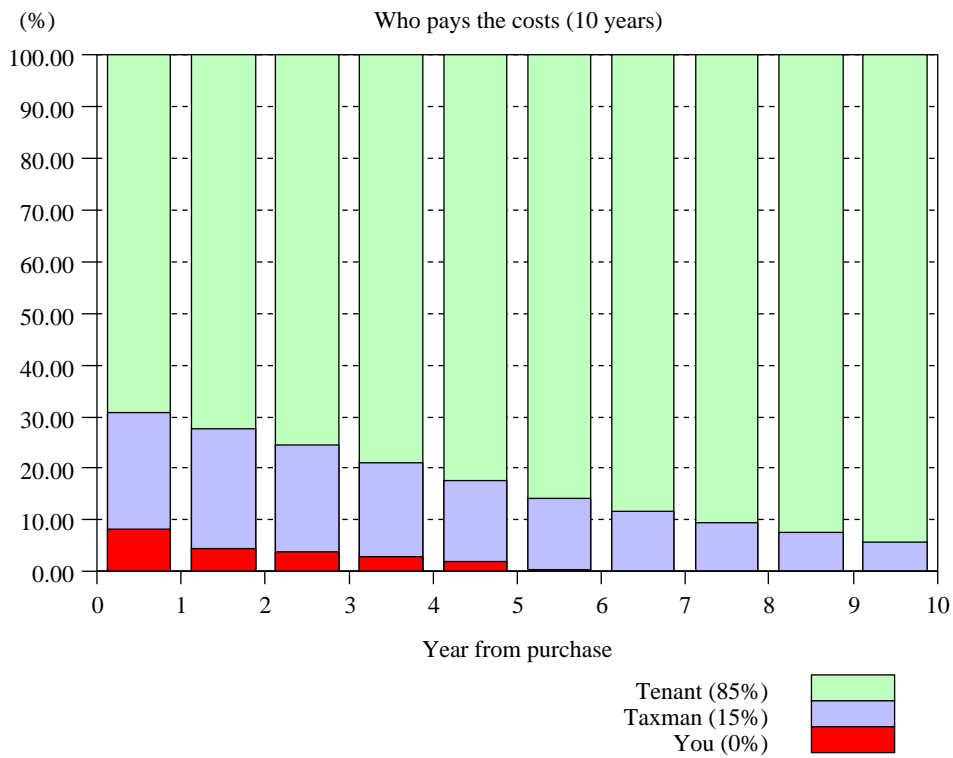
	<b>Investor</b>
Current taxable income:	90,000
Rental income:	22,932
Total income:	112,932
Rental deductions:	43,154
New taxable income:	69,778
Current tax (on 90,000):	23,047
New tax (on 69,778):	15,621
Tax saving:	7,426
<b>Total tax credits:</b>	<b>\$7,426</b>

## Who pays the cost (1st year)?

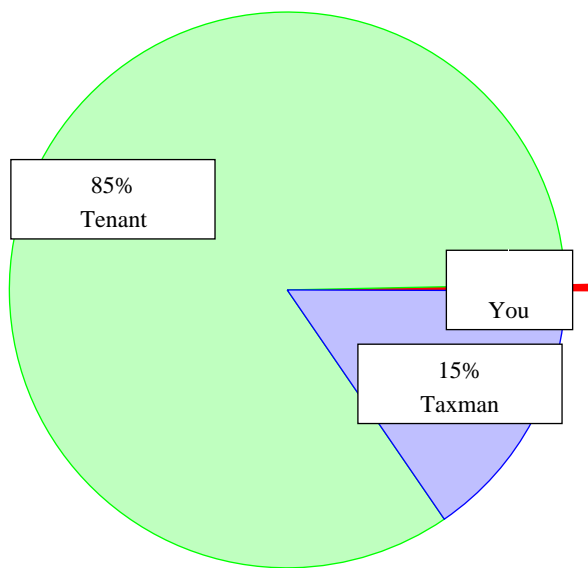


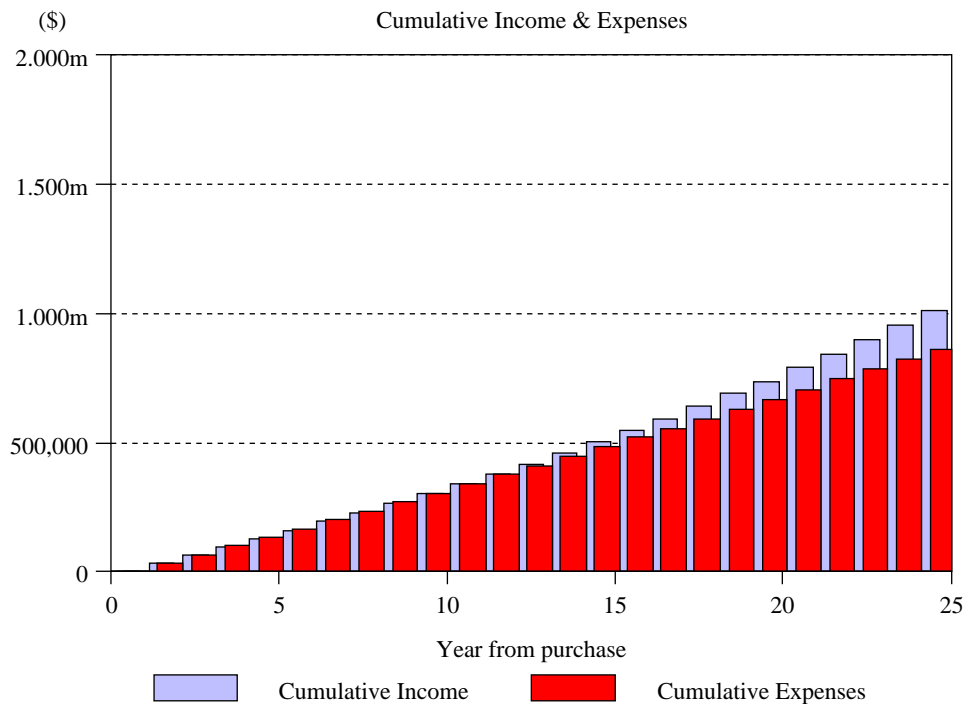
## Projections over 25 years

Year	Interest costs	Rental expenses	Total cost	Rent (tenant)	Tax credit (taxman)	Cash (you)
1yr	\$28,556	\$4,542	\$33,097	\$22,932	\$7,426	\$2,739
2yr	\$28,556	\$4,723	\$33,279	\$24,079	\$7,719	\$1,481
3yr	\$28,556	\$4,912	\$33,468	\$25,283	\$6,933	\$1,252
4yr	\$28,556	\$5,109	\$33,664	\$26,547	\$6,093	\$1,025
5yr	\$28,556	\$5,313	\$33,869	\$27,874	\$5,358	\$637
6yr	\$28,556	\$5,525	\$34,081	\$29,268	\$4,660	\$154
7yr	\$28,556	\$5,746	\$34,302	\$30,731	\$4,037	\$-466
8yr	\$28,556	\$5,976	\$34,532	\$32,268	\$3,430	\$-1,166
9yr	\$28,556	\$6,215	\$34,771	\$33,881	\$2,824	\$-1,934
10yr	\$28,556	\$6,464	\$35,020	\$35,575	\$2,208	\$-2,763
11yr	\$28,556	\$6,723	\$35,278	\$37,354	\$1,576	\$-3,651
12yr	\$28,556	\$6,991	\$35,547	\$39,222	\$921	\$-4,595
13yr	\$28,556	\$7,271	\$35,827	\$41,183	\$240	\$-5,596
14yr	\$28,556	\$7,562	\$36,118	\$43,242	\$-470	\$-6,654
15yr	\$28,556	\$7,864	\$36,420	\$45,404	\$-596	\$-8,388
16yr	\$28,556	\$8,179	\$36,735	\$47,674	\$-2,070	\$-8,869
17yr	\$28,556	\$8,506	\$37,062	\$50,058	\$-2,873	\$-10,123
18yr	\$28,556	\$8,846	\$37,402	\$52,561	\$-4,202	\$-10,956
19yr	\$28,556	\$9,200	\$37,756	\$55,189	\$-5,785	\$-11,648
20yr	\$28,556	\$9,568	\$38,124	\$57,948	\$-6,957	\$-12,867
21yr	\$28,556	\$9,951	\$38,507	\$60,845	\$-8,189	\$-14,150
22yr	\$28,556	\$10,349	\$38,905	\$63,888	\$-9,485	\$-15,498
23yr	\$28,556	\$10,763	\$39,319	\$67,082	\$-10,848	\$-16,915
24yr	\$28,556	\$11,194	\$39,749	\$70,436	\$-12,280	\$-18,407
25yr	\$28,556	\$11,641	\$40,197	\$73,958	\$-13,786	\$-19,975



Average contribution (10 years)





**Cumulative projected income and expenses over 25 years**

Year	Rent (tenant)	Tax credits (taxman)	Cumulative income	Interest cost	Rental expenses	Cumulative expenses
1yr	\$22,932	\$7,426	\$30,358	\$28,556	\$4,542	\$33,097
2yr	\$24,079	\$7,719	\$62,156	\$28,556	\$4,723	\$66,376
3yr	\$25,283	\$6,933	\$94,371	\$28,556	\$4,912	\$99,844
4yr	\$26,547	\$6,093	\$127,011	\$28,556	\$5,109	\$133,509
5yr	\$27,874	\$5,358	\$160,243	\$28,556	\$5,313	\$167,377
6yr	\$29,268	\$4,660	\$194,170	\$28,556	\$5,525	\$201,459
7yr	\$30,731	\$4,037	\$228,939	\$28,556	\$5,746	\$235,761
8yr	\$32,268	\$3,430	\$264,636	\$28,556	\$5,976	\$270,293
9yr	\$33,881	\$2,824	\$301,341	\$28,556	\$6,215	\$305,064
10yr	\$35,575	\$2,208	\$339,124	\$28,556	\$6,464	\$340,084
11yr	\$37,354	\$1,576	\$378,054	\$28,556	\$6,723	\$375,362
12yr	\$39,222	\$921	\$418,197	\$28,556	\$6,991	\$410,909
13yr	\$41,183	\$240	\$459,619	\$28,556	\$7,271	\$446,736
14yr	\$43,242	\$-470	\$502,391	\$28,556	\$7,562	\$482,854
15yr	\$45,404	\$-596	\$547,199	\$28,556	\$7,864	\$519,274
16yr	\$47,674	\$-2,070	\$592,803	\$28,556	\$8,179	\$556,009
17yr	\$50,058	\$-2,873	\$639,987	\$28,556	\$8,506	\$593,071
18yr	\$52,561	\$-4,202	\$688,346	\$28,556	\$8,846	\$630,473
19yr	\$55,189	\$-5,785	\$737,749	\$28,556	\$9,200	\$668,229
20yr	\$57,948	\$-6,957	\$788,740	\$28,556	\$9,568	\$706,354
21yr	\$60,845	\$-8,189	\$841,397	\$28,556	\$9,951	\$744,860
22yr	\$63,888	\$-9,485	\$895,800	\$28,556	\$10,349	\$783,765
23yr	\$67,082	\$-10,848	\$952,034	\$28,556	\$10,763	\$823,084
24yr	\$70,436	\$-12,280	\$1,010m	\$28,556	\$11,194	\$862,833
25yr	\$73,958	\$-13,786	\$1,070m	\$28,556	\$11,641	\$903,030