

Bricks & Mortar



property investment

made simple

and how it

can work for you

PHONE 0800 LENDING • 0800 536 346

<http://www.mortgagesolutions.co.nz>

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Disclaimer

While every effort has been made to ensure that this booklet is correct at time of publication, it is only intended to give general information. Mortgage Solutions, or any subsidiaries or employees thereof, accept no responsibility for any reliance by any person on the information in this guide. If you require advice or assistance on any area pertaining to buying and selling property we recommend that appropriate professional advice be sought in order to meet the requirements of your particular circumstances.

Introduction

“Money is the root of all wealth.”
-Anon.



Welcome to “Bricks and Mortar – How Ordinary People Become Successful Property Investors”, the Mortgage Solutions guide to creating financial security through property investment.

OK, we’ve all met them.

They’re people who have become financially secure and wealthy through property investment. And the frustrating part is that most of them are no different to you and I. Most of them aren’t builders, Real Estate agents, already rich or even Lotto winners. But they own investment properties that are increasing in value all the time.

So, if they’re no different to you and I, how come they own all this property?

What we’re going to try and do with this Guide is show you how easy it really is

to become a property investor. How you don’t need to have any special skills or even have a lot of money. We’re going to show you how you can build a property portfolio, and be on the path to creating financial security for yourself and for your family.

But we’re going to point out the potential problems. And yes, they do exist. There are people out there who have lost money through property investment. There are people who have to hold down two jobs to pay the mortgage on an empty house they can’t rent. There are people out there who have found that the lovely young couple they rented their house out to were in actual fact gang members, and their house has been trashed and the rent not paid.

There are potential pitfalls and they are, by and large, avoidable. If you get the right advice and take the right precautions the odds are very much in your favour. In your favour to end up a successful property investor. That’s right, you can be a successful property investor; if you want to.

Read on, and if you have any questions, or want to have anything clarified and explained, the team at Mortgage Solutions will be happy to answer your questions, or point you in the right direction to get the information you need.

First Things First

*“Money is better than poverty, if only for financial reasons.”
- Woody Allen -*

1.

Before we start, we need to stop and get a few things straight. After all, we’re talking about investment. Successful investment has a few basic rules and guidelines, regardless of whether you’re talking about buying a 2 bedroom flat, a portfolio of shares or Government Stocks.

The first rule is to buy quality. OK, we’ve all heard stories about people who’ve made money on old shacks, but you’ve got to remember that you’re going to want someone to rent the house, and desirable tenants are not likely to rent a dump. You’re also going to have to maintain it, and a good house is going to need less maintenance than one that’s already falling down. Finally the day is going to come when you’re going to want to sell it. If nobody wants to buy it, you may end up losing money by having to drop your price.

The second point is that you don’t have all the answers. In other words, don’t be afraid to get professional advice. Owning investment property is a business venture,

and you need to approach it as a business person. Almost without exception successful business people delegate responsibility to the appropriate professionals. How many companies do you know where the manager is also the accountant and the solicitor?

And when you get that advice, get it from someone who has experience in property investment. Property investment is a specialised field, and there are people who have made it their business to become experts in their field. Use these people, it may be costly not to.

Finally, to quote Stephen Covey. “Begin with the end in mind”. Know where you want to be financially and set things up to make sure that you get there.

Never look at property investment as a get rich quick scheme. If you want to be a millionaire in 5 years, unless you’re already very wealthy, property investment is not the way to go. Property can be a very good long term investment. That means at least 10 years, and probably 15 or even 20 years. So set your goals and hang on in there. If you’re patient and you get the right advice, you’ll more than likely exceed your expectations. If not, you probably won’t.

Why Invest In Residential Investment Property?

*“Of all millionaires 90 percent became so through owning Real Estate and a wise young man or wage earner should invest his money in Real Estate”
- Andrew Carnegie -*

Why do people invest in residential investment property?

There are a lot of reasons, some purely financial, some because they have an interest in property and some because friends and family have done it successfully.



Tax Advantages.

There are some significant tax advantages to investing in residential property. For a start, the interest (but not the principal) component of your mortgage payment is deductible against the total income received. So is depreciation, house insurance, rates, repairs and maintenance and any costs incurred in running your rental home (accountants fees, property manager etc.). You can also deduct the initial costs when financing the property; things like legal costs, bank fees etc. However, the most significant tax

advantage of rental property is the facility (under current tax law) for a landlord to be able to offset any losses against their personal income, even if they're a wage and salary earner. It's not uncommon for landlords to get a tax rebate if their affairs are managed properly.

The important thing with the tax advantages of property investment is to make sure that you get professional advice from an accountant. The other thing to remember is that you should never allow tax to drive your investment decisions.

Income Yield

The most significant benefit rental property can provide is to give you an income. This is known as income yield. The income yield of a property is the percentage income return of that property. For example, a \$140,000 property earning \$200.00 per week in rent (\$10,400 p.a.) would have an income yield of 7.43%.

In most cases this income is used to pay the mortgage. Over time the mortgage is paid off leaving the landlord with a mortgage free property as an asset. This creates a tax efficient saving programme.

If you're in need of a living income from your investments, a portfolio of rental properties can generate a good income. 7.43% is an acceptable return in it's own right. However when capital gain is added the total return is greater, and is known as the total yield.

Capital Gain

The other area that rental property benefits the investor is with capital growth. There are a lot of people who buy and sell rental property on the grounds that it will generate significant (currently tax-free) capital growth.

Whilst this should be considered in the decision making process it is important to recognise that the growth has been most significant in times of high inflation.

We now live in an era of low inflation, and with it lower capital growth. Wise property investors will buy for income yield and let any capital gain look after itself. While there are always “up and coming” areas, they are usually much easier to pick after they have made it.

However, having said that, there is the concept of Negative Gearing to consider.

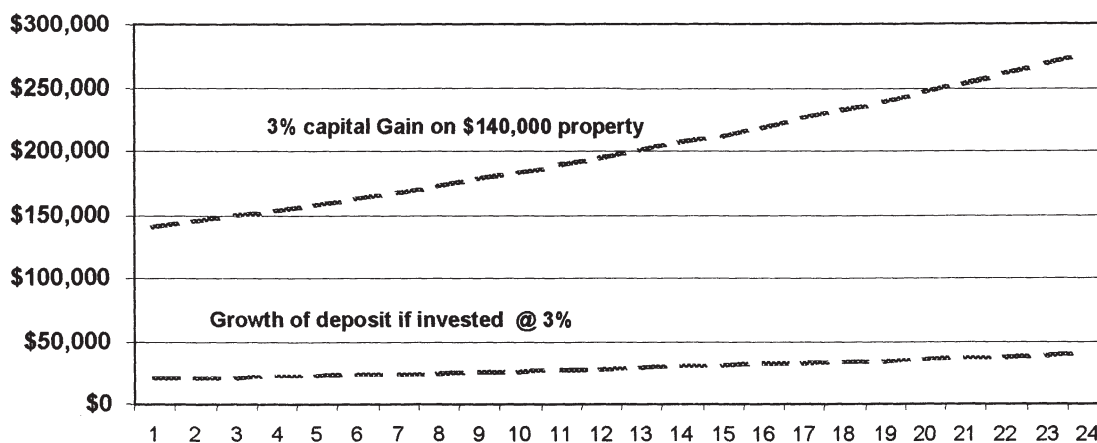
If you purchase a \$140,000 property with a \$20,000 deposit, your investment is only \$20,000. However, property will typically grow with the economy. The property investor’s capital gain is not on the \$20,000 investment, but rather on the whole value of the property.

The chart below illustrates negative gearing nicely.

Other Benefits

There has long been a part of the kiwi psyche that is attracted to property. There is an undisputed pride of ownership aspect that is worth considering. Along side that is the fact that a lot of Kiwis are consummate home handymen. Buying a property and doing it up, has created wealth for a lot of people.

There is no denying, done properly, investment Real Estate can be a great way to substantially build your net worth. A lot of Kiwi’s have successfully created wealth through Real Estate, and there is no reason why you can’t join them. Property investment is complimentary to other investment types, with certain tax advantages. But remember, there are two sides to every story and some people (including very smart people) have lost money through property investment, so read the next section before you do anything else.



Reality Check - Why shouldn't you invest in residential property?

*“If something can go wrong, it will go wrong”
- Murphy -*

So what, if anything, can go wrong?

For a start, we're going to assume that you did everything right the first time. You bought the right property and you got the right tax and financial advice. If you didn't do this, your success will be more accidental than planned. But if you do this, all things being equal, shouldn't you be in a good situation to sit back and watch your wealth grow?

Unfortunately tenants are human, and one of the characteristics of human beings is their variability. Most tenants, especially if you make sure they are carefully screened first, are great. They'll pay their rent on time, won't annoy their neighbours and when they move on will give you plenty of notice and leave the flat as they found it.

But there are always the exceptions.

No matter how carefully you go about selecting your tenants, there are always the ones who look a lot different from what they really are. The nice, quiet young couple with the kitten who turn out to be front people for gang members with Rottweillers.

But surely there's the law? Unfortunately the law substantially favours tenants. Refer to the section “Landlords and the Law” for more information on this. Regardless of the tenants and the situation,

there will be periods when your property will be empty. You'll still be paying the mortgage, insurance and rates. If your budget depends on the property being occupied for 52 weeks a year to balance, you need to revisit the amount you're spending. Typically, tenants will turn over every 8 months, and it would be wise to budget for 48 weeks a year tenanted.

The final pitfall is liquidity. If you need money in a hurry, even if it's only a few thousand dollars you may find that all your money is tied up in your property. Unlike shares or managed funds you can't sell off as much as you need. The only real alternatives are financing a loan using the property as security (hard if you've borrowed to your limit) or selling the property. The latter option is usually not a good one because property is a long term investment. Diversifying across investments is the easy solution and our advisers will show you how you can have other investments as well as your investment property.

Also landlords are permanently “on call”. When a water pipe bursts at 3.00 am, (unless you've appointed a Property Manager), guess who the tenants call?

A good alternative is to either appoint a handyman for maintenance purposes, or appoint a property management company to manage the property. Both are tax deductible expenses

Types of Investment Property

*“It’s choice – not chance – that determines your destiny.”
- Jean Nidetch -*



There are various types of investment property. They behave quite differently, have different investment returns, and cost different amounts to get into. We’ll only cover the residential rental type, as commercial property is a specialist subject in it’s own right and if you want more information on commercial property, we suggest you talk to an adviser at Mortgage Solutions.

Residential Rental:

Residential Rental can again be broken into two distinct types. Blocks of flats and stand alone houses.

Stand alone houses are easily the most common type of residential investment property. The advantages of these are that they are usually easier to sell, as potential buyers can include owner occupiers as well as landlords, and you can attract a better class of tenant. They can also cost less. Blocks of flats can be expensive

unless you’re buying a single flat in a block.

Blocks of Flats can include apartments and big houses broken into blocks. Blocks of flats generally generate a higher income yield, and one of the primary advantages is that you have several tenants, meaning that if you have problems with (say) one tenant, you’re only having problems with (in the case of a block of 4 flats) with a quarter of your tenants. The other advantage is that because they are usually purpose built for rental, they are usually more durable and require less maintenance. Although that isn’t always the case, which is another reason to buy quality. Another very valid advantage is that if the units are on separate title you can sell them off individually if and when you need to free up capital. Obviously this does not apply to houses broken into flats.

The disadvantages are that they can be harder to sell, as, generally speaking the only buyer is another landlord. This impacts on any capital gain, as price is ultimately determined by demand, and the lower the demand, the lower the price.

The other main disadvantage is that you have more tenants, and if you choose to manage the property yourself you'll have a whole lot more of those "burst water pipe" calls at 3.00 am.

Other Options:

Direct investment (buying a property yourself) isn't the only way to get into property investment. There are a variety of ways that people can get into an investment property without going direct:

Syndicated Property

With syndicated property a group of investors get together and pool resources to purchase Real Estate (usually commercial property). A manager is usually appointed and the members of the syndicate share the costs. Profits from rentals are usually distributed amongst shareholders on an annual basis. The advantages of this system are that people without hundreds of thousands to invest can purchase good quality commercial property. The major disadvantage is that there are a large number of people involved and syndicates can be paralysed through endless committee meetings. There can also be liquidity problems, meaning if you need money you need to

find a willing buyer for your share at a fair price.

Unit Trust

The other popular option is through the use of Unit Trusts. These are becoming very popular as they allow diversification and liquidity of investment. The investor is able to invest in a wide range of properties, usually commercial and including global.

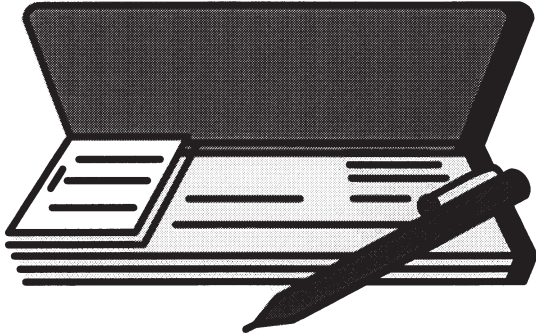
The Sharemarket

Another valid way to invest in property is to purchase shares in property companies. These companies usually have a diversified portfolio of properties, meaning that diversification is good. Liquidity is also usually good, as shares can normally be sold quite quickly.



Financial Stuff

*“A bank is a place that will lend you money if you can prove that you don’t need it.”
- Bob Hope -*



Purchasing

Like most people, you probably don't have the money you need for a decent investment property lying around. Or even the amount required for a deposit. So how can you get into an investment property?

Assuming you own your own home, you quite probably have enough equity to get into a rental property. Most lending institutions will lend up to 80% of the combined value of your home and the investment property, and often the income from tenants will satisfy the lenders.

For example, if you own a house worth \$200,000, with a \$100,000 mortgage, and buy an investment property for \$180,000, you are able to borrow up to 80% of the combined value of the properties (\$380,000) being \$304,000. Because you only owe \$100,000, you can readily borrow the full \$180,000 for the investment property.

There are some instances where lending institutions will lend more.

Finance

Borrowing on investment property can be as simple as borrowing for an owner occupied house if you receive the right advice.

Structuring your mortgage effectively is one of the key elements of a successful mortgage. A well structured mortgage will consider the borrowers tax status, borrowing entity, long/short term goals, business financial position external to the investment, and the many lending product options available, all of which could save the borrower considerable money. If you are at all uncertain contact your Mortgage Solutions advisor for more information.

Tax

First, never let tax drive your investment decisions.

Under current tax law, you can claim all repairs, maintenance, depreciation at a defined rate, insurance on the property, fees paid to property managers and interest on money owed against your rental income. This can often make your rental income almost “tax free”. However you cannot claim against improvements, which are capital.

Also any capital gain is at present tax free **under current tax laws**. That may well change, so again, never let tax drive investment decisions.

Types of Tenants and How To Attract Them

*“I would never belong to the type of club that would have someone like me as a member”
- Groucho Marx -*

OK, we have identified that one of the biggest problems with residential investment property is the tenant. One way to reduce that problem is to use a property manager, but more on that later.

Another way is to buy a property that is more likely to attract the right tenants. Many property investors give very little thought to the decision as to who they're going to rent to. Which is a good reason why some landlords have problems attracting tenants.

If you decide on your “market”, and buy a house that is ideally suited to that market, you'll stand a better chance of attracting the pick of the tenants in that market.

Some of the types of tenants are:

Single Parents

These are generally good tenants. Often they leave a relationship without the equity for a home, and need to rent. However they are typically responsible, frugal people who don't (as a rule) hold wild parties. In addition they tend to stay put to avoid disrupting their kids.

If you are looking to have a “Solo Parent” friendly property, consider their needs; being close to schools, kindergartens, doctors and shops are all important considerations. Being close to a bus stop

can also be a good selling point. A fenced garden is very attractive to these tenants.



Students

Students nowadays seem to be more diligent than in the past, but you still need to be very careful. Also be aware that you may have an empty property at the end of the year, and limited potential tenants. An advantage of students is if the property is a bit run down, they are less likely to be put off, as long as the rent reflects the condition.

To attract students, cheap white ware is always effective, as is some simple furniture. You'll need to be either close to Uni, a suitable bus route or close to town. As many rooms as possible makes a property very attractive, as more flatmates can be brought in.



Families

These people often find that they are unable, for many reasons, to buy their own homes. To attract these people, look at the needs of single parents, but be aware that they are likely to want/need more room.

These are only some of the classes of tenant, and there are many people who fit into more than one classification. Regardless, it's important to remember that when you are looking at houses, you're not looking for yourself. When you look at a house, ask yourself who is likely to rent it, and what would make them want to rent your property ahead of someone else's? Put yourself in the shoes of your ideal tenant, and imagine them walking in in response to an advertisement.

Young Professionals

While these people may seem very attractive, be aware that they are likely to buy their own homes as soon as possible.

However, they get well paid and are less likely to "trash" the place, so are a valid market.

They will be attracted to clean, renovated older houses or up market apartments in good areas, especially close to town. A garage or off street parking is important, as is a low maintenance garden/interior, with the capacity for outdoor entertaining.

A dishwasher, waste disposal unit, automatic garage door opener and security alarm are all good selling points that will make your property stand out.

Similar in needs are the increasing numbers of older professionals who have made a conscious decision to rent. Interestingly, many of these people own rental properties but choose to rent their own accommodation



Renting property is a business, and like any business you have competitors in other landlords. Buy a property that is going to be attractive to your chosen tenants, and you are more likely to find yourself getting good tenants because you'll have the luxury of choice.

Landlords and the Law

*Goldwyn's Law of Contracts:
"A verbal contract isn't worth the paper it's written on."*

The legislation that affects you as a landlord is the Residential Tenancies Act 1986. Available from Whitcoulls this document will define in detail what your obligations and rights are as a landlord. In summary, the key things to remember are:

There are two basic types of tenancy agreement – fixed term (usually 12 months) and periodic. The terms are agreed on and set out in the tenancy agreement at commencement of the tenancy. You are required to have in place a written tenancy agreement. "Tenancy Services" in your area is able to supply these.

Rent can be charged for a maximum of two weeks in advance. Typically 2 weeks rent is paid in advance and no more can be paid until that has been used up. A landlord must give 60 days notice in writing before putting up the rent, and rent cannot be increased within 180 days of the commencement of the tenancy, or the last rent increase. Also a tenant can apply to the tenancy tribunal if they think that their rent is significantly higher than for other similar local tenancies.

For a periodic tenancy, a tenant must give 21 days written notice to vacate, unless the landlord agrees in writing to a shorter term. The landlord must give 90 days written notice in most cases.

This may be reduced to 42 days if:

- The property has been sold with vacant possession;
- The premises are needed for the landlord or the landlords family to live in;

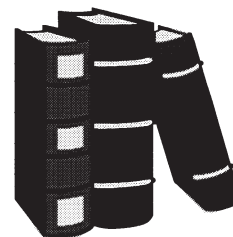
If your tenants breach any part of the tenancy agreement, or are more than 21 days in arrears with their rent, you may issue them with a "10 working days" letter.

This gives them 10 working days to remedy the situation. If they haven't, you may then apply for a hearing with the Tenancy Tribunal. This will take up to 10 days, less with mediation, and the appropriate action will then be taken.

As you can see, the law tends to favour the tenant. This really reinforces the importance of ensuring that the tenants you select at the beginning are good ones.

However, good tenants are out there, and once you have one, they can be worth their weight in gold.

Even if you are going to use a property manager, it is advisable to read and understand the legislation. This could save you a lot of trouble.



People You Can Work With to Get the Best Results

“I daresay one profits more by the mistakes one makes off one’s own bat than by doing the right thing on somebody else’s advice.”

-M. Somerset Maugham – “Of Human bondage”, 1915

It’s usually possible to make mostly good decisions when you’re buying a house to live in yourself. However with investment property there is a lot more to go wrong and as a result you need to involve professionals so that all the way through you get the best advice.

The people you need to involve are:

Financier/Mortgage Solutions

The first thing you need to know is just how much you can afford. The advisers at Mortgage Solutions look at your goals and help you make the right decision. They will sit down with you, look at what you’ve got and what you need and advise you if you can proceed.

If you can’t, they will help you find ways to build up your equity or raise money from other sources.

If you are in a position to go ahead with property investment, they will set everything up so that you can be in a position to be a cash buyer, meaning your negotiation will be easier and more likely to be in your favour.

Accountant

An accountant will help you make sure that your tax is minimised. While your Mortgage Solutions advisor can help you with a lot of this, it is often prudent for you to talk to an accountant. It may be that something like setting up a company or family trust is a good way to minimise your tax liability. A good accountant will advise you on these issues.

Lawyer

Forget the bad jokes about Lawyers. If you get a good lawyer working on your side, he or she will ensure that all the legal red tape doesn’t catch you. The law sides with the tenant nowadays, and a lawyer will help make sure that there are no unpleasant surprises. In addition a lawyer is involved in the conveyancing aspect of the property transaction.

Valuer

While a valuer is usually required in domestic property transactions, in property investment they can really add value. A good valuer will not only be able to identify what the property is worth (usually a lenders requirement) but will also be able to give a good indication of potential rent that can be charged.

Real Estate Advisor

Having a good relationship with a skilled Real Estate Advisor is pivotal to the whole arrangement. It is important to make sure you establish a business relationship with one Advisor, that person is then in the position to put the word out amongst their colleagues and prospective vendors to find the right place. A good advisor will also make sure you purchase a rentable proposition as opposed to just a cheap house.

Property Inspector

How many of us wouldn't even consider buying a \$5,000 car without an AA report, yet will happily spend \$120,000 plus on a house without so much as a second glance. Tenants are going to be harder on the property than an owner-occupier, so getting a property inspector to give the place a once over is important.

Property Manager

Unless you want a hands on approach,

these people are essential, and well worth the cost.

It is probably also worth talking to a property manager before you go out shopping, or certainly before you buy, as they'll tell you what rents well.

A property manager will find suitable (good) tenants for you, represent you in any mediation (required in 2-5% of cases) and look after all the maintenance and tenant enquiries. Remember that burst pipe at 3.00 am? That's the Property Managers problem. They will also inspect the property for you on a regular basis and solve any problems like noise complaints from neighbours. They will also make sure that rates and insurance are paid, and look after small incidental bills for you. However, you need to be aware that property managers will charge their fee (typically 7.5%) on every transaction, so if you've got a high maintenance (older) house negotiate to see if there's a different charging structure. And remember that the property managers fees are tax deductible against your income.



Conclusion – where to from here

*“We can try to avoid making choices by doing nothing, but even that is a decision.”
- Gary Collins -*

OK, so property investment is not that difficult to get into. Providing you’ve got either reasonable equity in your home, or access to a deposit of some form, you can be in the situation of building your own portfolio of investment properties.

However there is a right way and a wrong way. The wrong way could leave you with bad tenants, a property you can’t rent out, and probably even having to sell at a loss. The right way will leave you with a steady income stream from rental property(s) that can be either paying off a mortgage on your property(s) or giving you a steady income stream. The ultimate result over time is likely to be if not outright wealth, certainly financial security.

But you’ve got to make the right decisions, especially now. Decisions that include:

- Are you willing to buy quality? It’s important not to settle for anything but the best property in your price range currently available.
- Are you willing to get the best advice? Act on that advice to get the right finance package, tax structure and the right property.
- Do you have the patience to hang on in there? Property investment is not a get rich quick scheme. It is a long-term road to wealth so beware of anyone who advises otherwise.
- Will you do the property management yourself or employ someone to do it for you? Delegating this task will save a lot of headaches, at a cost that

is fully tax-deductible. It can be a good idea to distance yourself from your investments by having them managed, if you can afford to.

- Can your cash flow sustain the costs of property investment? There are times, especially if interest rates rise when you may well have a negative cash flow – in other words it will cost you to maintain your rental investment. Can you support the mortgage when you have no tenants?



If you make the right decisions, you stand a good chance of doing very well. The key is to take action. There are many people who have deliberated and delayed making a decision, and in years to come had said “I wish I’d...” You can join them if you wish, or be the ones they stare enviously after. The difference is a decision away. Even if you decide not to invest in property, research the facts, talk to successful landlords, your financial planner, accountant and Real Estate advisor and see if property investment is for you.

Appendix 1: Sample Rental Investment Worksheet

<u>Assumptions</u>		<u>Specialised Depreciation</u> Older Property		<u>Avg. Depn. Rate</u> DV	
Tax Rate	33%				
Interest Rate	8.00%	Land	\$85,000		
Rates & Insurance	\$1,100	Buildings*	\$40,000	4.00%	\$1,600
Repairs & Maintenance	\$400	Chattels/Fitout	\$15,000	12.00%	\$1,800
Rental per week*	\$220				
Capital Gain	3%	Total	\$140,000		\$3,400

*Allow 4 weeks vacancy per annum

Deposit	0%	10%
Equity	\$0	\$14,000
Loan	\$140,000	\$126,000
Monthly Loan (Interest Only)	\$933	\$840

<u>Annual Income</u>		
Rental (48 weeks rent)	\$10,560	\$10,560
<u>Annual Expenditure</u>		
Interest	\$11,200	\$10,080
Rates & Insurance	\$1,100	\$1,100
Repairs & Maintenance	\$400	\$400
Total	\$12,700	\$11,580
Depreciation	\$3,400	\$3,400
Total	\$16,100	\$14,980
Taxable Profit / -Loss	-\$5,540	-\$4,420
Tax Refund / - to pay	\$1,828	\$1,459
Net Position after tax	-\$3,712	-\$2,961

Real Cash Profit PA**	-\$312	\$439
Real Cash Profit Weekly	-\$6	\$8
Real Cash Position Excluding Depreciation		

Assumed Capital Gain Year One	\$4,200	\$4,200
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* At sale time the IRD can require depreciation recovery tax if the property is sold for a price higher than the purchase price. A specialised apportionment for tax purposes can minimise any recovery tax on many of the chattels, buildings and fitout.

** Net position less depreciation which is a non cash expense

Note: These figures are estimates only.

Sample Rental Investment Worksheet

<u>Assumptions</u>		<u>Specialised Depreciation</u> Older Property	<u>Avg. Depn. Rate</u> DV	
Tax Rate	33%			
Interest Rate	8.00%	Land	\$105,000	
Rates & Insurance	\$1,350	Buildings*	\$50,000	4.00% \$2,000
Repairs & Maintenance	\$600	Chattels/Fitout	\$25,000	12.00% \$3,000
Rental per week*	\$280			
Capital Gain	3%	Total	<u>\$180,000</u>	<u>\$5,000</u>

*Allow 4 weeks vacancy per annum

	0%	10%
Deposit		
Equity	\$0	\$18,000
Loan	\$180,000	\$162,000
Monthly Loan (Interest Only)	\$1200	\$1080

<u>Annual Income</u>		
Rental (48 weeks rent)	\$13,440	\$13,400
<u>Annual Expenditure</u>		
Interest	\$14,400	\$12,960
Rates & Insurance	\$1,350	\$1,350
Repairs & Maintenance	\$600	\$600
Total	\$16,350	\$14,910
Depreciation	\$5,000	\$5,000
Total	\$21,350	\$19,910
Taxable Profit / -Loss	-\$7,910	-\$6,470
Tax Refund / - to pay	\$2,610	\$2,135
Net Position after tax	-\$5,300	-\$4,335

Real Cash Profit PA**	-\$300	\$665
Real Cash Profit Weekly	-\$6	\$13
Real Cash Position Excluding Depreciation		

Assumed Capital Gain Year One	\$5,400	\$5,400
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* At sale time the IRD can require depreciation recovery tax if the property is sold for a price higher than the purchase price. A specialised apportionment for tax purposes can minimise any recovery tax on many of the chattels, buildings and fitout.

** Net position less depreciation which is a non cash expense

Note: These figures are estimates only.

Appendix 2: Rental Investment Worksheet

<u>Assumptions</u>	<u>Specialised Depreciation</u> Older Property	<u>Avg. Depn. Rate</u> DV	
<i>Tax Rate</i>			
<i>Interest Rate</i>	<i>Land</i>		
<i>Rates & Insurance</i>	<i>Buildings*</i>	%	\$
<i>Repairs & Maintenance</i>	<i>Chattels/Fitout</i>	%	\$
<i>Rental per week*</i>			
<i>Capital Gain</i>	<i>Total</i>	=====	=====

*Allow 4 weeks vacancy per annum

	0%	10%
<i>Deposit</i>		
<i>Equity</i>	\$	\$
<i>Loan</i>	\$	\$
<i>Monthly Loan</i>	\$	\$
<i>Interest Only</i>		

Annual Income		
<i>Rental</i> (48 weeks rent)	\$	\$
Annual Expenditure		
<i>Interest</i>	\$	\$
<i>Rates & Insurance</i>	\$	\$
<i>Repairs & Maintenance</i>	\$	\$
<i>Total</i>	\$	\$
<i>Depreciation</i>	\$	\$
<i>Total</i>	\$	\$
<i>Taxable Profit / -Loss</i>	\$	\$
<i>Tax Refund / - to pay</i>	\$	\$
<i>Net Position after tax</i>	\$	\$

<i>Real Cash Profit PA**</i>	\$	\$
<i>Real Case Profit Weekly</i>	\$	\$
<i>Real Cash Position Excluding Depreciation</i>		

<i>Assumed Capital Gain Year One</i>	\$	\$
--------------------------------------	----	----

* At sale time the IRD can require depreciation recovery tax if the property is sold for a price higher than the purchase price. A specialised apportionment for tax purposes can minimise any recovery tax on many of the chattels, buildings and fitout.

** Net position less depreciation which is a non cash expense

Note: These figures are estimates only.

Appendix 3. Statement of Net Worth

Asset	Current Value
Primary Residence	\$
Other Real Estate	\$
Funds on Deposit	\$
Funds in Bank Accounts	\$
Managed Funds	\$
Share Portfolio	\$
Other Investments	\$
Business Equity	\$
Motor Vehicles	\$
Furnishings	\$
Other Assets	\$
TOTAL ASSETS:	\$

Less:

Liabilities	Current Value
Mortgage on Primary Residence	\$
Mortgage(s) on Other Real Estate	\$
Overdraft	\$
Other Loans	\$
Credit Card(s)	\$
Hire Purchase	\$
Student Loan	\$
Other Debts	\$
TOTAL DEBTS:	\$

TOTAL ASSETS	\$
Less TOTAL DEBTS	\$
NET WORTH at/...../.....	\$

Appendix 4 : Rental Property Checklist

Property Address:

Asking Price: \$..... Valuation: \$

Number of Bedrooms:

Currently Rented? YES / NO Rent Paid / Est. Rent: \$

General Condition:

Comments:.....

.....

.....

.....

Feature	Yes	No
Garage / Carport		
Off Street Parking		
Close to Bus Stop		
Easy Care Section		
Fully Fenced		
Close to Schools, Kindergartens		
Close to Shops		
Close to Doctors		
Easy Care		
Heating		
North Facing / Sunny		
Dishwasher		
Auto Garage Door		
Security System		
Other:		

