

Property Investment Costs Part 1

Welcome to this first part of a 5 part series outlining the costs of purchasing and then owning an investment property.

In this first part we will outline the underlying assumptions that underpin the calculations on the spreadsheet of costs laid out before you. This spreadsheet is derived from the commercially available Property Investment Analysis Software, one of the most highly respected tools available to property investors, that calculates outcomes today and into the future from any given personal circumstances. We use this software to ascertain the precise costs you will incur based on your personal financial circumstances if you decide to purchase a property through OzInvest.

The purchase price in this example is the price of purchasing a brand new 4 bedroom, 2 bathroom, double garage home of around 200 square metres in size overall. Built on a standard building block of around 500 square metres and situated in an Estate of new homes, the property will be located close to all major facilities like schools, shops, public transport and health care.

We are assuming in this case that you are borrowing the full purchase price plus purchasing costs utilising the equity you have in an existing property as your deposit. The purchasing costs will be detailed later.

We are assuming a capital growth rate of this percentage compounding each year, and when you consider that all major capital cities have experienced actual capital growth rates on average in excess of 8% per annum over the last 30 years, this is a conservative growth rate.

We are assuming an underlying inflation rate of this percentage, even though Australia's current inflation rate is much less, again to be conservative.

We are assuming you will receive this weekly rental income, and due to the Leaseback Program, there is no requirement to provide a rental vacancy factor in the calculations. We thoroughly research the current market rental amount in every Estate we market, as the Leaseback Program uses this recommended rental value as the minimum you will receive if for some reason a tenant is not found in the first 30 days after the building construction is completed.

We are assuming a loan interest rate on an interest only loan of this interest rate on a three year loan term.

We are assuming your marginal tax rate is this including the Medicare Levy. This is the marginal tax rate for all average income earners in Australia. We will demonstrate later the effect of a higher marginal tax rate if you earn more than the average weekly income.

We suggest you verify what your personal tax circumstances may be with your own tax advisor.