



Property Investment Costs Part 5

Welcome to the final part of this 5-part series outlining the costs of owning an investment property.

In this final part, we will look at the long term benefits of owning an investment property, and the value of leveraging (using other people's money) to purchase capital growth assets.

We will use the Cash Flow Analysis report once again, and scroll down to the second last page where we will see a graph outlining who pays the costs of ownership of this property in the first year.

You can see from this graph in the first year that the tenant pays this percentage, the Tax Office pays this percentage and you will pay just this small percentage of the costs. We will now scroll down to see this graph at year 15, and you can see that your contribution is now way down. So the longer you hold the property, the lower your actual percentage of outgoings will become. As the rent grows each year, more and more of your costs of owning the property are met by the tenant.

If we now switch to the Investment Analysis report, we can see that the estimated value of the property in Year 15 based on a conservative capital growth rate. This means you will have this equity by Year 15. If you were to sell the property and realise the gain, a net gain after Capital Gains Tax would be this amount.

How many of us can say that we can save that much money after tax and all living expenses? Not many of us, particularly those of us with families to support. Real estate investment, where you can have access to large capital gains using other people's money, is the safest and surest way to wealth generation.

Lets look now at what may happen if we change a some variables here.

We will move back to the Spreadsheet, and select the Tax Rate calculator. We will increase the Marginal Tax Rate to the next highest rate and then see the difference to the calculations. The net cash outflow after tax deductions drops quite a lot. You can see from this that the more you earn, the higher your marginal tax rate, and the lower your net outgoings after tax will be.

Now lets see the result if we change the capital growth rate to 7.2%, still a conservative figure given historical evidence. If we select the Cash Flow Analysis report once more, you will see that your cash contribution in Year 1 has dropped, and in Year 15, it is way down. Now let's move to the Investment Analysis Report, and look at the equity this property would give you if it were to raise in value an average of 7.2% every year.

These figures are meant to be conservative, and we have many of our clients that have achieved property performance levels well above these example figures. Please take the time to view some of our Video Testimonials for yourself and meet our clients first hand. We would be happy to arrange a personal discussion with our clients if you so desire.



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That concludes this series on Investment Property Costs, and if you feel you may be in a position to purchase a property, please click the link below now to view the financial qualification provisions of the majority of Australia's lenders.