

20<sup>th</sup> Mar 2009

## Case Study

Investors

**I thought I'd do something a little different this e-mail and show a case study, especially for investors unsure whether wanting to own a multiple property portfolio is for them.**

I recently meet a couple with one young child and the parents had decided that it was important for a parent to be at home, so it is a story of a one income household on just above average income. They knew they needed to do something proactive with their finances otherwise they would be like their parents, owning a house but on a pension at retirement. For those with no concept of what a pension pays, for a single it is \$281 a week or \$469 a couple. It's a tough lifestyle, significantly less than what is regarded as a modest lifestyle.

They had owned a house and built up some equity. They purchased another property and the lender they used cross-guaranteed their properties so they could borrow 110% (of the new property price) to purchase another property which they moved into. They are currently renovating this home and renting out their previous home as an investment property. This is not ideal in terms of a finance arrangement as most of the debt is non tax deductible.

Owning two properties is a great start but that is where they got stuck. Like most people, their lifestyle is governed by their income and as the income grows, so do the expenses. Not extravagant expenses, but normal living expenses. They could not see anyway they could afford to purchase another investment property. They did not have any savings to speak of and their current income did not allow any additional costs such as funding a normal negatively geared investment property.

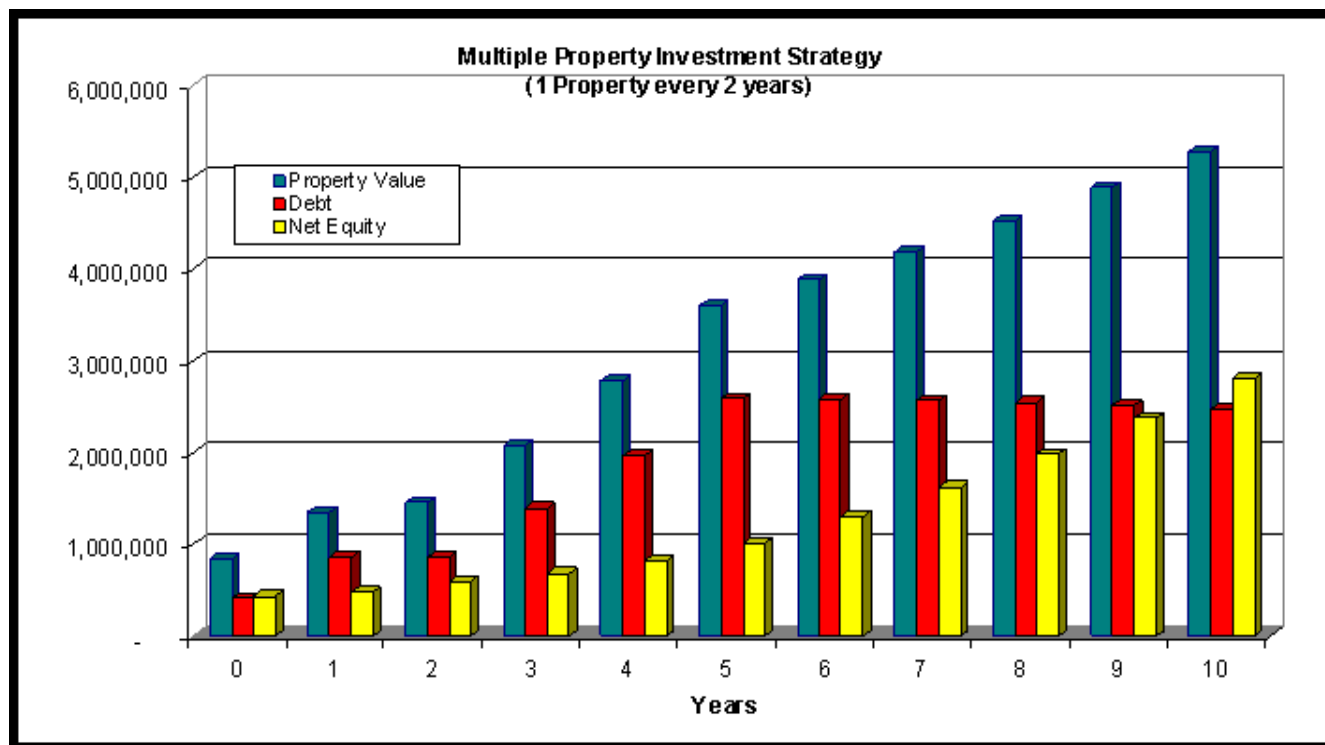
This is where 95% of property investors stay, just owning one investment property and they cannot see anyway to own another.

I reviewed their assets and liabilities and their income and expenses and put a strategy plan together that will see them owning 5 properties in the next 5 years. I sat with them and explained the methodology, the way they fund the deposit required and obtain a large safety net at the same time. I showed them how to use income tax variation forms, what the benefit of a depreciation schedule provides and showed them numerically what the numbers were so they were comfortable with the strategy and that they could achieve such a goal.

Through refinancing their investment property with another lender (mainly to get away from the cross-guarantee) they could access about \$160k equity via a Line of Credit (LOC) facility to be used for investment purposes. Using about \$65k of this, they are then able to fund a median priced investment property of around \$400k. With the current rent yields being around 4.5% and higher, this will enable them to obtain a loan with another lender at around 90% LVR. I showed them how to fund the small after tax cash flow shortfall of about \$65 a week by using their new LOC. That means it will not affect their day to day living costs.

They are using other people's money to acquire capital growth assets that will benefit them. This is how the wealthy build their own wealth, by acquiring capital growth assets. Done wisely and you create your own financial future, done poorly and without regard to risk or having safety nets built in, you become victim to the Henry Kaye, the Storm Financial, the Opes Prime and numerous other scandals where you have a very different financial future.

I have attached a graphical representation of what these clients can achieve in the next 10 years.



This is just following a formula, buying median priced properties in good locations. They will normally be established properties, there is no off-the-plan, no hyper-capital growth rates, no extraordinary rent yields, just good investment properties. At the end of ten years their Net Wealth will be \$2.8m. In year 10, their net worth increase will be over \$400k and there will be a positive rent yield of \$40k a year.

**My questions to each of you**, will your day job achieve this? If you stopped working in ten years, will you have a positive income of \$40k per annum and your net wealth increase by over \$400k pa?

### **Our Service to You**

We provide a specialised service for investors wanting to create long term wealth for themselves and their families. We are finance strategists, credit advisers and mortgage brokers, helping you achieve your goals. Give us a call when you think it's time to consider your options.

As well as providing a service to investors, we will assist you in purchasing as an owner-occupier, or upgrading to a new property, or simply looking at better pricing or structuring options for your current loans and banking or assisting seniors looking at possible reverse mortgage options.

Our business is built on referrals provided by clients, so please don't keep us a secret, feel free to forward this e-mail to family and friends interested in their own financial future. Give us a call and book an appointment to see if it makes sense for you.

If you have any questions about any of these topics, give me a call.

***Helping People through Finance***