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Property Investment Seminar



Wednesday 3rd August, 2011

● ACCOUNTING ● FINANCIAL PLANNING ● LENDING ● LEGAL

ph: 03 5330 7200 e: info@mulcahy.com.au w: www.mulcahy.com.au 300B Gillies St, Wendouree

Disclaimer

The advice given in this presentation should be regarded as general advice only. You need to receive advice specific to your circumstances before acting on this information.



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Securing Your Financial Future

Most people tell us they want to have greater personal wealth to fund their lifestyle, provide financial security for their family and children and to retire in comfort.

Whatever your goals Mulcahy & Co has the expertise and experience to help you achieve them in the most effective way.

The steps to becoming Financially Secure:

- Goals & objectives
- Estate plan
- Risk plan
- Asset protection
- Taxation plan
- Debt plan
- Retirement plan
- Business plan
- Superannuation plan
- Investment plan



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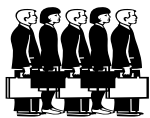
Take 100 Australians aged 65, After 40 years of Work



1 - Rich



4 - Independent



5 - Still Working



54 - Depend on Government or Charity



12 - Totally Broke



24 - Died



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Why Invest in Property?

More millionaires have been created through property than any other form of investment.

- Anyone can do it
- Security
- Income that grows
- Consistent capital growth
- You can buy it with someone else's money
- You are in control
- Tax benefits
- You can add value
- You don't need to sell it



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Market Update

Melbourne median house price hits \$590,000

- Melbourne has increased by 5.4% to \$590,000 in the June quarter from a revised \$560,000 in the March quarter.
- Increased house prices in the last quarter and over the last two years are due to an imbalance between housing supply and the needs of our growing population.
- The median price of a unit or apartment increased by 3.2% to \$474,500
- Median house prices in regional Victoria increased by almost the same as the metropolitan area over the past 12 months.
- Regional Victoria had a 1.6% increase to \$325,000 from \$320,000 in the March quarter.



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Market Update

The City of Ballarat's median house price had the largest increase of 8.9% to \$288,500.

- Ballarat is very affordable, has a very diverse economy, lots of different employment opportunities and they will grow as the city grows
- The Bankwest Key Worker Housing Affordability Report revealed police, teachers, nurses, fire fighters and ambulance officers could easily afford to buy a house in Ballarat.
- It showed that all key workers in Ballarat paid an average of 3.4 times their annual earnings when purchasing a home.
- Population Growth, Council projections in terms of the Ballarat population are between 118,000 and 130,000 by the year 2026.



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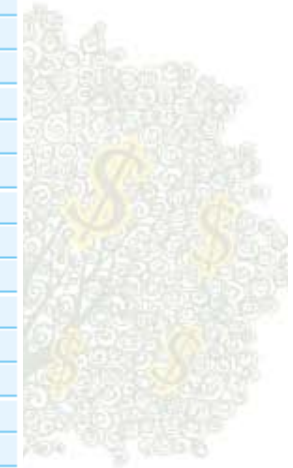
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Market Update

MEDIAN HOUSE PRICES

Area	Lower Quartile	Jun-11 Median	Upper Quartile	Mar-11 Median	Jun-10 Median	Quarterly Change	Annual Change
CITY OF BALLARAT	\$230,000	\$288,500	\$370,000	\$284,900	\$265,000	1.3%	8.9%
ALFREDTON	\$284,750	\$361,000	\$384,375	\$315,000	\$321,750	14.6%	12.2%
BALLARAT	\$232,000	\$298,750	\$380,000	\$290,000	\$277,500	3.0%	7.7%
BALLARAT EAST*	\$258,000	\$274,500	\$357,500	\$245,750	\$229,900	11.7%	19.4%
BALLARAT NORTH*	\$255,000	\$295,000	\$420,000	\$262,500	\$265,000	12.4%	11.3%
BUNINYONG	\$274,250	\$322,500	\$384,750	\$350,000	\$349,000	-7.9%	-7.6%
GOLDEN POINT*	\$215,000	\$241,500	\$280,000	\$279,500	\$267,500	-13.6%	-9.7%
LAKE GARDENS*	\$356,250	\$425,000	\$492,500		\$385,000		10.4%
LAKE WENDOUREE*	\$363,750	\$440,000	\$598,750	\$612,500	\$571,000	-28.2%	-22.9%
MINERS REST*	\$308,125	\$317,500	\$365,250	\$345,000		-8.0%	
MOUNT CLEAR*	\$265,500	\$287,000	\$342,250		\$285,000		0.7%
MOUNT HELEN*	\$335,000	\$361,250	\$420,000		\$380,000		-4.9%
SEBASTOPOL	\$202,500	\$226,000	\$252,500	\$227,000	\$215,000	-0.4%	5.1%
SMYTHES CREEK*	\$386,000	\$472,500	\$475,000		\$382,500		23.5%
WENDOUREE	\$179,500	\$218,975	\$236,750	\$225,000	\$220,000	-2.7%	-0.5%



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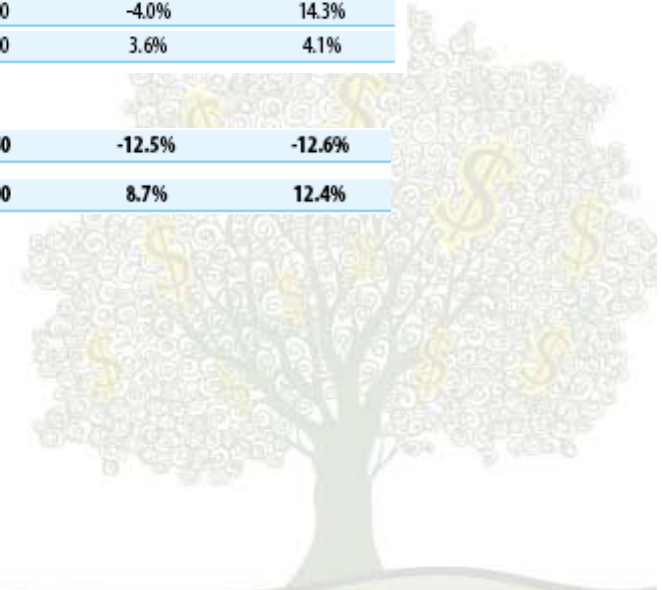
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Market Update

UNIT & APARTMENT PRICES

Area	Lower Quartile	Mar-11 Median	Upper Quartile	Dec-10 Median	Mar-10 Median	Quarterly Change	Annual Change
CITY OF BALLARAT	\$186,625	\$230,000	\$265,000	\$235,000	\$226,475	-2.1%	1.6%
BALLARAT	\$201,000	\$240,000	\$285,000	\$249,950	\$210,000	-4.0%	14.3%
SEBASTOPOL*	\$180,000	\$215,000	\$244,250	\$207,500	\$206,500	3.6%	4.1%
CITY OF GREATER BENDIGO	\$173,000	\$200,000	\$214,000	\$228,500	\$228,750	-12.5%	-12.6%
CITY OF GREATER GEELONG	\$255,000	\$317,000	\$358,500	\$291,750	\$282,000	8.7%	12.4%

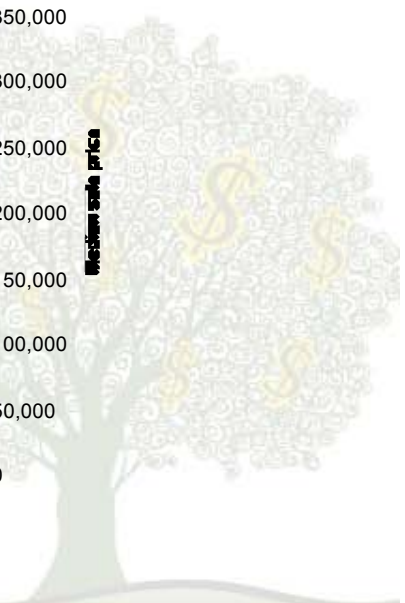
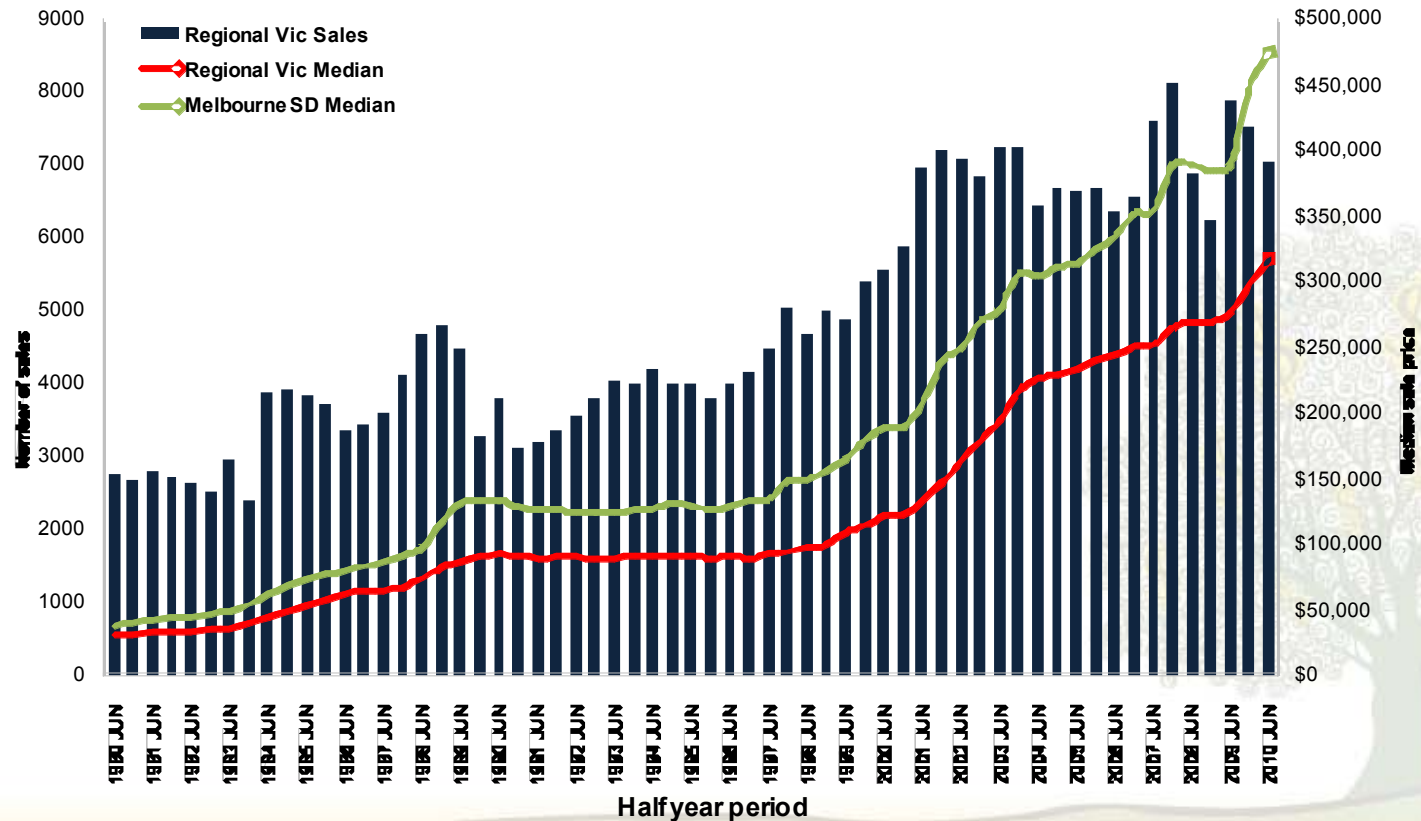


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Market Update

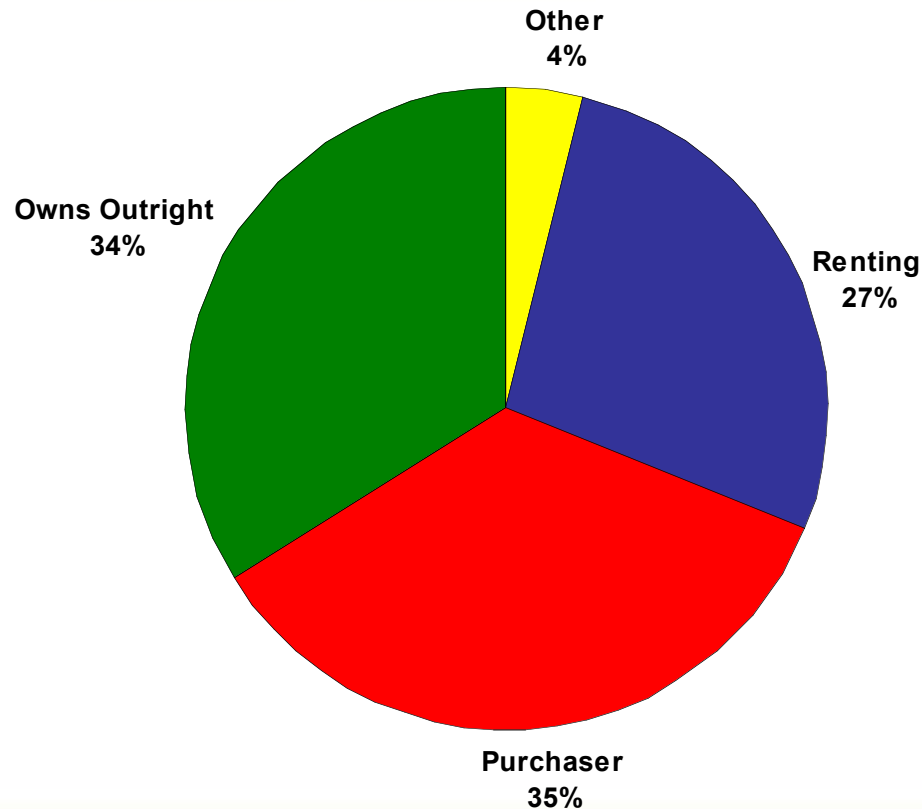


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Rental Market Update



27% of Ballarat Residents are renting



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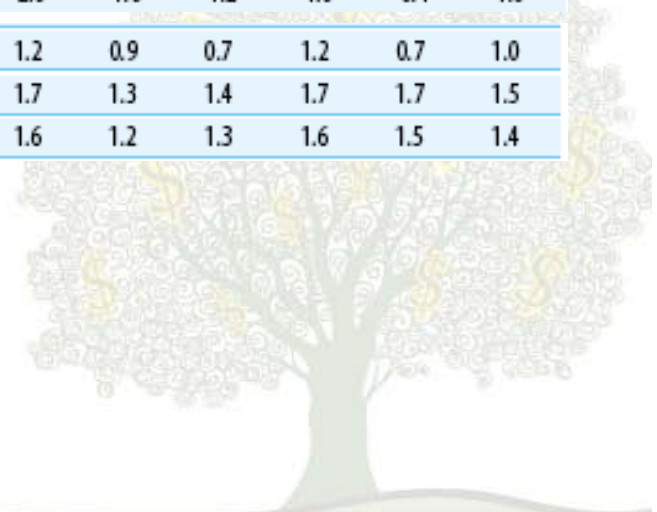
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Rental Market Update

Conditions in the regional Victoria rental market was very similar to the metropolitan one, with Ballarat recording a rental vacancy rate of 0.8 per cent for the quarter ending June, 2011.

	Jun* 2011	Jun 2011	May 2011	Apr 2011	Mar 2011	Feb 2011	Jan 2011	Dec 2010	Nov 2010	Oct 2010	Sep 2010	Aug 2010	Jul 2010	Jun 2010
GEELONG REGION & BARWON	3.3	2.4	1.9	1.6	1.6	2.5	1.7	1.4	1.6	1.3	0.9	1.4	1.2	1.3
BENDIGO & LODDON	1.1	0.5	0.7	1.0	0.9	0.5	0.9	0.7	0.6	0.1	0.2	0.4	0.4	0.4
BALLARAT & CENTRAL HIGHLANDS	1.5	0.8	0.8	0.9	1.4	0.4	0.7	0.7	2.0	1.0	1.2	1.0	0.4	1.0
REGIONAL VICTORIA TOTAL	2.3	1.5	1.3	1.2	1.3	1.3	1.3	0.9	1.2	0.9	0.7	1.2	0.7	1.0
MELBOURNE TOTAL	3.1	2.2	1.7	1.7	1.7	1.6	2.0	2.3	1.7	1.3	1.4	1.7	1.7	1.5
VICTORIA TOTAL	2.9	2.0	1.6	1.6	1.6	1.6	1.8	2.0	1.6	1.2	1.3	1.6	1.5	1.4



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Rental Market Update

MEDIAN RENTS

AREA		MEDIAN (PER WEEK)	% CHANGE OVER QUARTER	% CHANGE OVER YEAR	LOWER QUARTILE (PER WEEK)	UPPER QUARTILE (PER WEEK)
Geelong	2br	\$260	0.0%	2.8%	\$230	\$290
	3br	\$310	3.3%	10.7%	\$275	\$350
	4br	\$390	0.0%	5.4%	\$350	\$440
Ballarat	2br	\$220	0.0%	10.0%	\$200	\$250
	3br	\$260	2.0%	8.3%	\$235	\$290
	4br	\$345	-1.4%	7.8%	\$290	\$395
Bendigo	2br	\$230	0.0%	9.5%	\$200	\$260
	3br	\$265	-1.9%	6.0%	\$240	\$300
	4br	\$335	3.1%	11.7%	\$290	\$370



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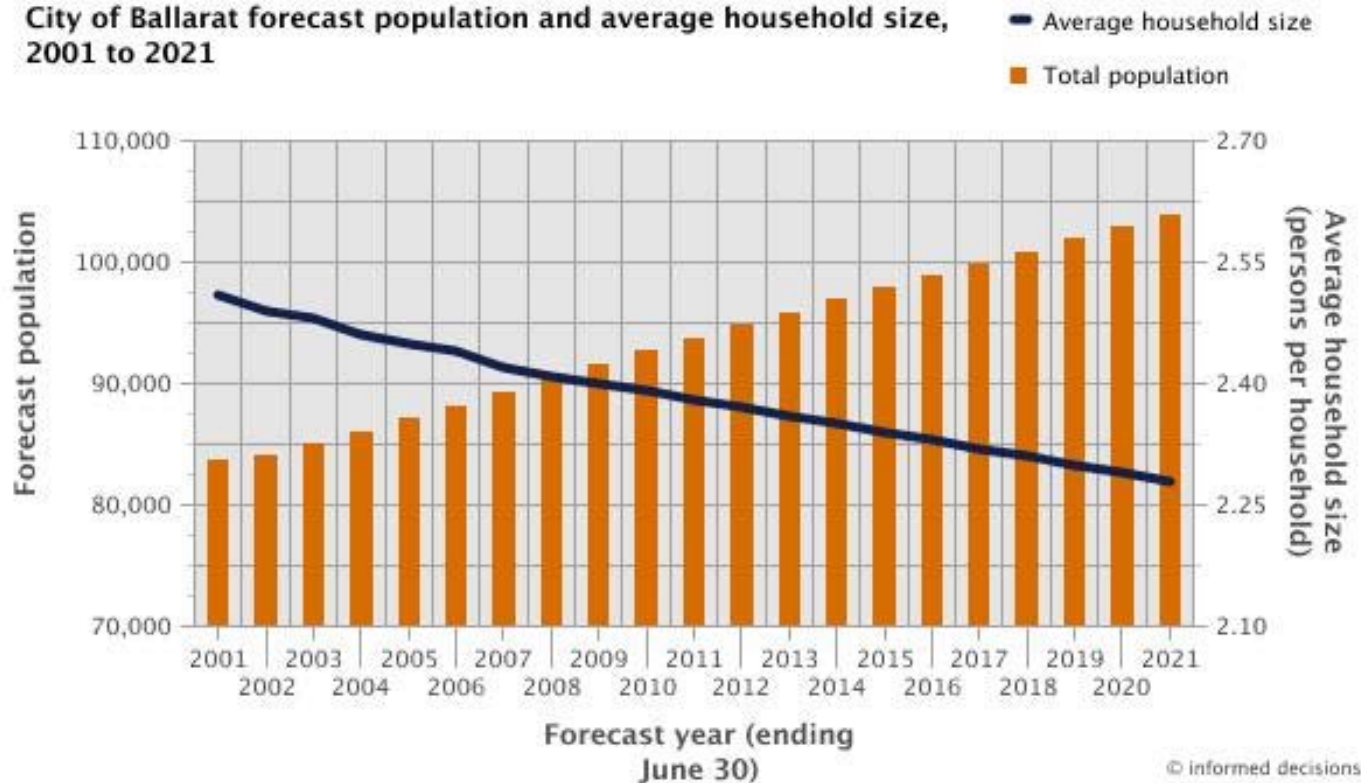
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Future Growth - Ballarat

City of Ballarat forecast population and average household size, 2001 to 2021



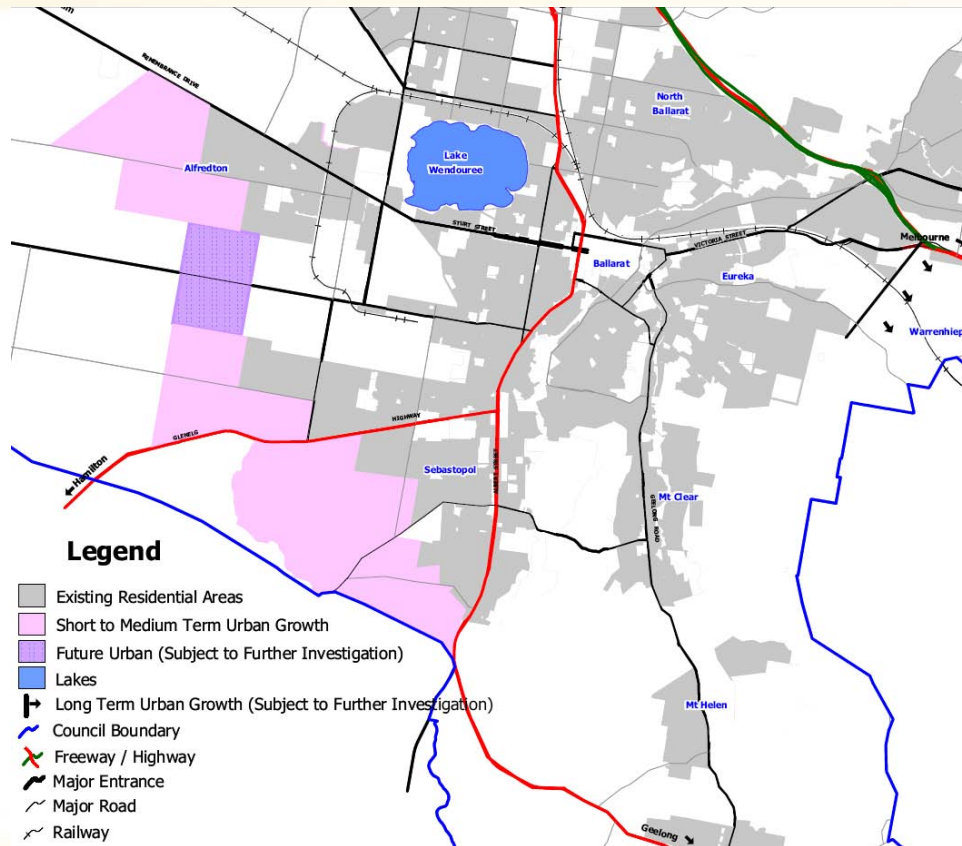
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Future Growth - Ballarat



- Growth Area will provide 18,000 new houses
- Accommodate a population of over 40,000 people.



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Market Summary

↑ Property Values

↑ Population

↑ Rents



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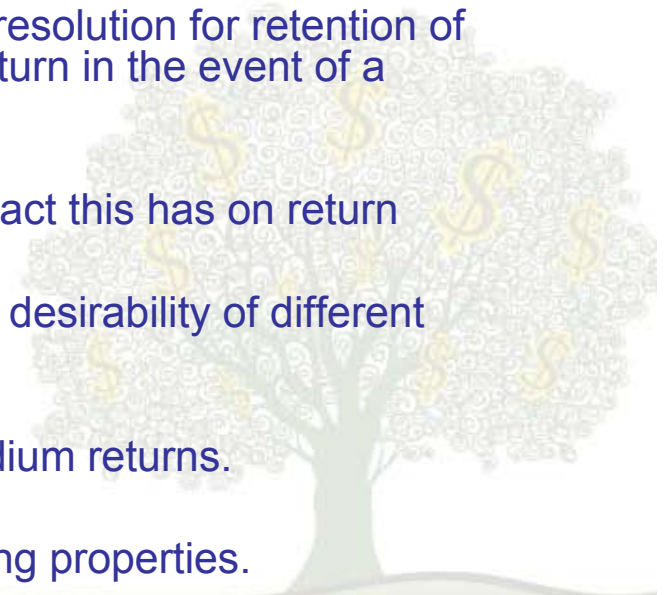
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Why use a Property Manager?

Property Managers minimise risk by;

- Having the knowledge of governing law and the compliance that all parties are required to adhere to.
- Being experienced in VCAT presentations and dispute resolution for retention of bonds and compensation, therefore maximizing your return in the event of a dispute.
- A thorough understanding of market forces and the impact this has on return
- A thorough understanding of tenancy demands and the desirability of different property and locations.
- An understanding of the current vacancy rates and medium returns.
- An understanding of how to improve the return of existing properties.



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Why use a Property Manager?

What things to ask before employing a Property Manager

- How long have you been a property manager for?
- What training do you undertake on a regular basis?
- What size portfolio are you currently managing?
- Do you own your own investment property?
- Can I contact you for your free advice when I am looking to purchase a property?



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Why use a Mortgage Broker?

What does a Mortgage Broker Do?

- Assess your needs
- Manage the process
- Provide advice at every step
- Cost
- Find a suitable loan for your situation



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Choosing The Right Loan

Step 1 - Know how much you can afford to borrow

Step 2 - Learn about the different loan options available

- **Basic variable rate loans**
- **Standard variable rate loans**
- **Fixed-rate loan**
- **Split loans**
- **Package loan**
- **Low-Doc home loan**
- **Principle & Interest V's Interest Only**
- **Line of Credit**



Step 3 - Be aware of the fees

Step 4 - Get advice



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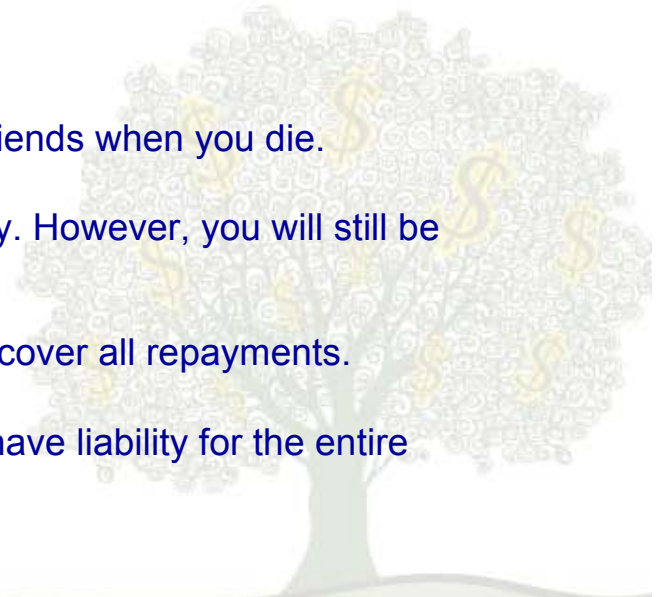
Property Syndicates

Rising prices = Increase in property partnerships

Friends, Family, Investment partners, Workmates

Key points

- Discuss contingencies: what will you do if things don't work out?
- Sign a legal agreement accordingly before buying.
- Specify tenants-in-common on title or your share will pass to friends when you die.
- Split your portions of the loan so you can pay it off more quickly. However, you will still be liable to each other for the total loan repayments due.
- The bank is entitled to sell if your friends default and you can't cover all repayments.
- Your borrowing power may be affected for future loans as you have liability for the entire amount of the loan
- Unit Trust may be more appropriate structure



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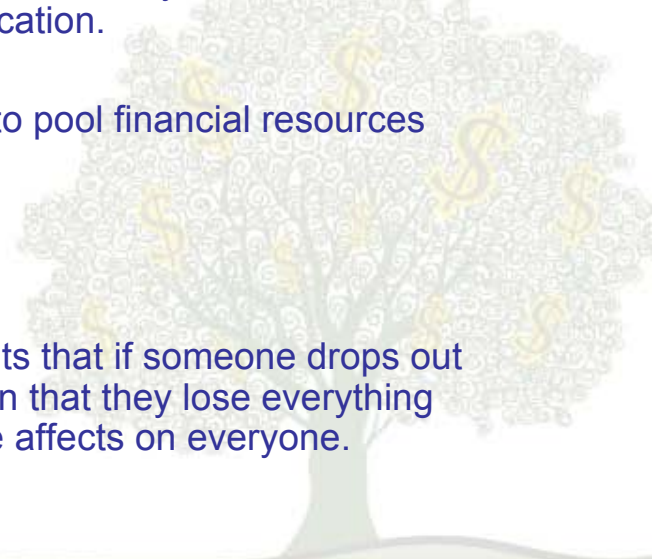
Property Syndicates

Advantages:

- The major advantage of a syndicate is that it allows an investor access to an investment that may otherwise be out of their reach.
- Reduced risk to the investor by reducing the investor's exposure. If the syndicate invests in a number of properties, risk is further reduced through diversification.
- For young professional people who do it right, it can be a way to pool financial resources and actually own much faster.

Disadvantages:

- Someone drops out. Normally you will have in place agreements that if someone drops out of the syndicate they will be harshly penalised. This could mean that they lose everything that they had put in. The problem is this can also have adverse affects on everyone.
- Issues between friends



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Beach Property

Additional Considerations

- Holiday rental V's regular income stream
- Cashflow – untenanted periods
- How often, and when would you want to use the property
- Additional costs in getting ready to rent – Furniture
- Cleaning fees after each tenant



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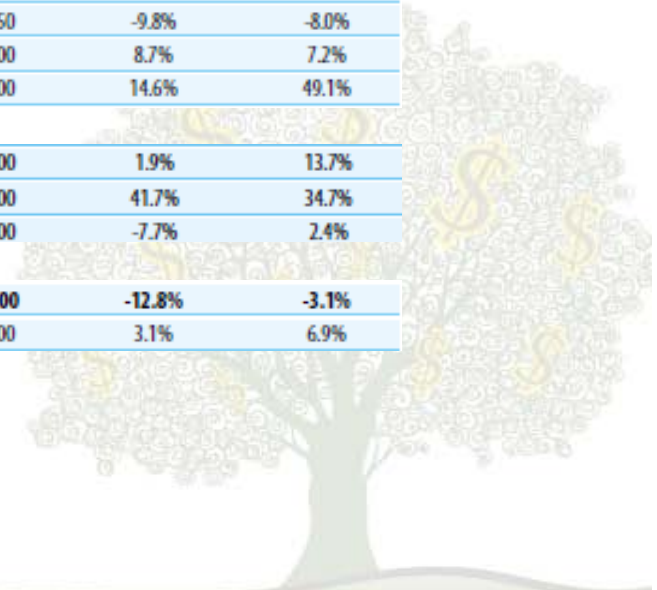
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Beach Property

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CITY OF GREATER GEELONG	\$306,000	\$370,000	\$483,250	\$385,000	\$370,000	-3.9%	0.0%
BARWON HEADS*	\$583,500	\$692,500	\$781,500	\$712,500	\$665,000	-2.8%	4.1%
BELMONT*	\$305,000	\$323,500	\$439,500	\$351,000	\$339,000	-7.8%	-4.6%
CLIFTON SPRINGS	\$302,650	\$340,000	\$369,250	\$352,000	\$319,250	-3.4%	6.5%
CORIO*	\$193,750	\$201,250	\$250,000	\$223,000	\$218,750	-9.8%	-8.0%
DELAcombe*	\$265,000	\$299,000	\$330,000	\$275,000	\$279,000	8.7%	7.2%
DRYSDALE*	\$515,000	\$530,000	\$555,000	\$462,500	\$355,500	14.6%	49.1%
OCEAN GROVE	\$432,000	\$478,750	\$556,250	\$470,000	\$421,000	1.9%	13.7%
POINT LONSDALE*	\$573,500	\$815,000	\$1,243,750	\$575,000	\$605,000	41.7%	34.7%
PORTARLINGTON*	\$385,000	\$420,000	\$490,000	\$455,000	\$410,000	-7.7%	2.4%
SURF COAST SHIRE	\$510,000	\$567,000	\$700,000	\$650,000	\$585,000	-12.8%	-3.1%
TORQUAY*	\$510,000	\$558,500	\$692,500	\$541,500	\$522,500	3.1%	6.9%



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Beach Property



2 Casuarina Avenue, Torquay, Vic 3228

\$495,000 - \$535,000

House: 3  2  2 

Property No. 107546989



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SUMMARY

Assumptions		Projected results over	
Property value	\$520,000	Property value	\$769,727
Initial investment	\$0	Equity	\$222,727
Gross rental yield	3.80%	After-tax return /yr	6.38%
Net rental yield	2.82%	Net present value	\$21,270
Cap. growth rate	4.00%	IF SOLD	
Inflation rate	4.00%	Selling costs & CGT	\$63,472
Interest rate	8.00%	Equity	\$159,255
Marginal tax rate	31.50%	After-tax return /yr	0.09%

Investment Analysis	Projections over 10 years					
	2011	1yr	2yr	3yr	5yr	10yr
End of year						
Property value	\$520,000	540,800	562,432	584,929	632,660	769,727
Purchase costs	\$27,000					
Investments	\$0					
Loan amount	\$547,000	547,000	547,000	547,000	547,000	547,000
Equity	\$-27,000	-6,200	15,432	37,929	85,660	222,727
Capital growth rate	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Inflation rate (CPI)	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Gross rent /week	\$400	19,760	20,550	21,372	23,116	28,125
Cash deductions						
Interest (I/O)	8.00%	43,760	43,760	43,760	43,760	43,760
Rental expenses	24.43%	5,081	5,284	5,495	5,944	7,232
Pre-tax cash flow	\$0	-29,081	-28,494	-27,883	-26,587	-22,867
Non-cash deductions						
Deprec.of building	2.50%	5,000	5,000	5,000	5,000	5,000
Deprec.of fittings	\$20,000	2,667	2,311	2,003	1,504	736
Loan costs	\$0					
Total deductions		56,507	56,355	56,258	56,208	56,727
Tax credit	31.50%	11,575	11,278	10,989	10,424	9,010
After-tax cash flow	\$0	-17,505	-17,215	-16,894	-16,163	-13,857
Rate of return (IRR)	6.38%					
Pre-tax equivalent	9.31%	337	331	325	311	266



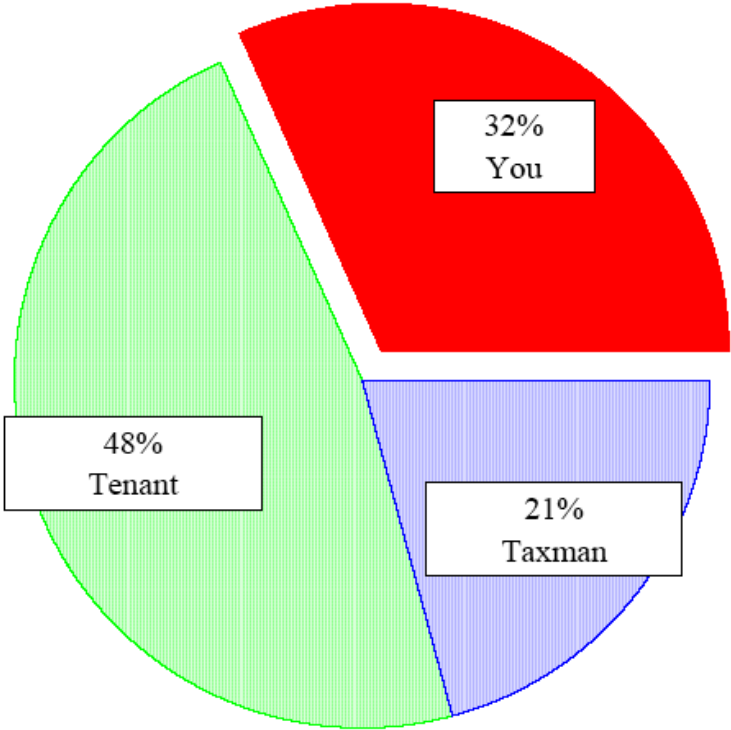
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Average contribution (10 years)

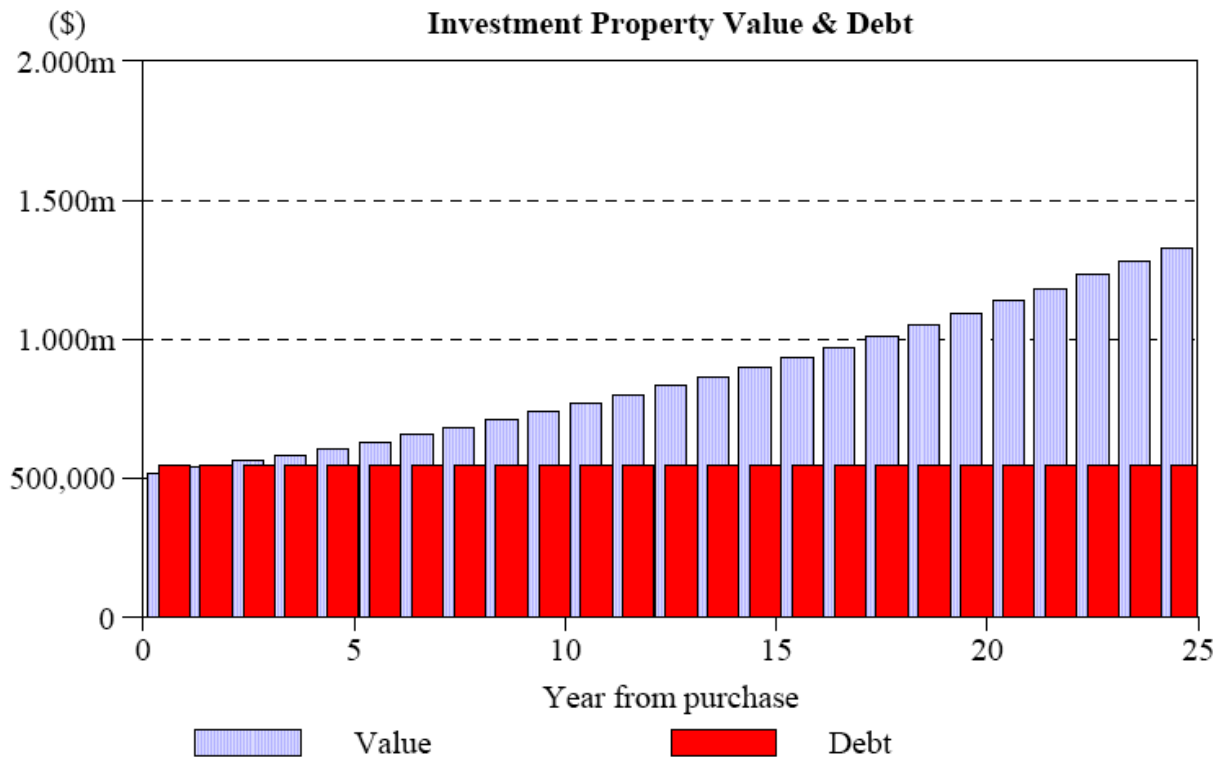


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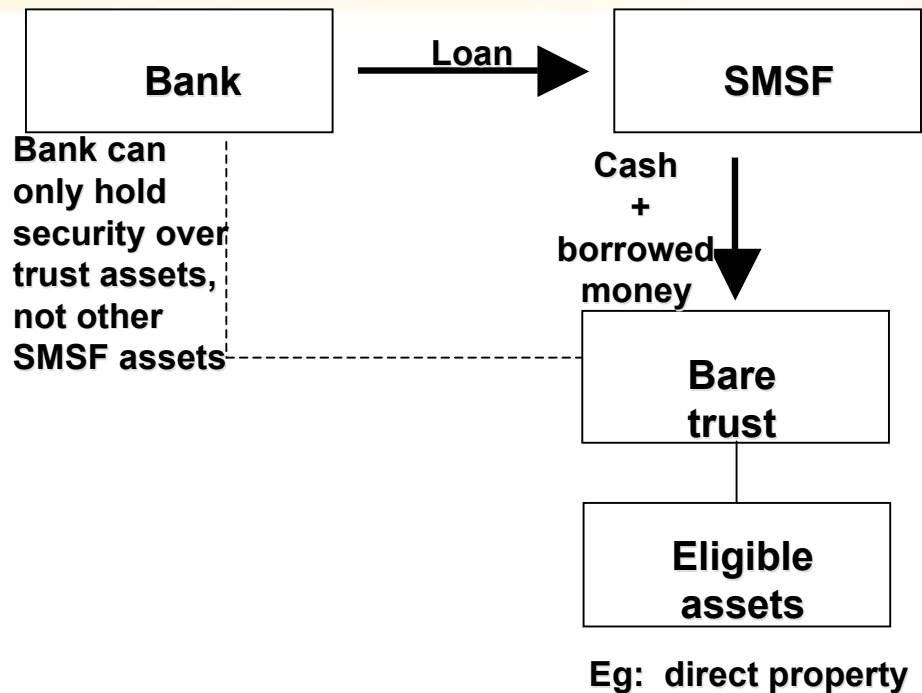
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A Super Revolution - Borrowing



Security trustee holds legal ownership of assets

SMSF can acquire legal ownership after paying sufficient instalments



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A Super Revolution - Borrowing

Advantages:

Taxation – A superannuation fund whilst in accumulation phase has a tax rate of 15% on taxable income and 10% on capital gains.

The tax rate reduces to 0% (nil) on investment income once a member enters pension phase (see below).

Tax on superannuation income can be summarized as follows:

<i>Details</i>	<i>Tax on this income</i>
<i>Accumulation Phase</i>	
Investment income & concessional contributions	15%
Capital gains tax for assets held > 12 months	10%
<i>Pension Phase</i>	
Concessional contributions	15%
Investment income, including all capital gains	0%



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A Super Revolution - Borrowing

Advantages:

- Tax free investment income
- Tax planning options
- Additional cashflow available from tax savings
- Borrowing to increase equity
- Asset protection
- Loan repayments
- Succession planning
- Self funding
- Use of superfund's to use for the deposit
- Salary Sacrifice to super (Receive a tax deduction to repay loan)



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A Super Revolution - Borrowing

Disadvantages of this Strategy

- **Use of property for future borrowing** – As the property is owned in the SMSF it cannot be used as security for borrowing purposes in your personal names. Also within the SMSF once this new loan is established and repaid there is no opportunity to use the property as security for future borrowing in the SMSF.
- **Changes to superannuation rules** – Similar to all areas of taxation law and planning opportunities, the legislation regarding superannuation is subject to change that may have an impact on the estimates and forecasts included in this summary.
- **Limitations imposed by banks** – Whilst loan funding from a bank is similar to standard bank loan products, there are certain limitations and restrictions that the banks impose.

LVR Commercial 65 - 70% - Residential 70 - 80%



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16 Creekstone Drive, Alfredton, Vic 3350

\$345,000 - \$355,000

House: 4 🏠 2 🚗 2 🚗

Property No. 107349536



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SUMMARY

Assumptions		Projected results over		10 yrs
Property value	\$350,000	Property value		\$518,085
Initial investment	\$0	Equity		\$151,085
Gross rental yield	5.36%	After-tax return /yr		14.37%
Net rental yield	3.93%	Net present value		\$47,393
Cap. growth rate	4.00%	IF SOLD		
Inflation rate	4.00%	Selling costs & CGT		\$46,465
Interest rate	8.00%	Equity		\$104,621
Marginal tax rate	31.50%	After-tax return /yr		7.89%

COMPUTER PROJECTIONS

Investment Analysis	Projections over 10 years					
	2011	1yr	2yr	3yr	5yr	10yr
End of year						
Property value	\$350,000	364,000	378,560	393,702	425,829	518,085
Purchase costs	\$17,000					
Investments	\$0					
Loan amount	\$367,000	367,000	367,000	367,000	367,000	367,000
Equity	\$-17,000	-3,000	11,560	26,702	58,829	151,085
Capital growth rate	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Inflation rate (CPI)	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Gross rent /week	\$380	18,772	19,523	20,304	21,961	26,718
Cash deductions						
Interest (I/O)	8.00%	29,360	29,360	29,360	29,360	29,360
Rental expenses	25.31%	5,002	5,202	5,410	5,851	7,119
Pre-tax cash flow	\$0	-15,590	-15,039	-14,466	-13,251	-9,761
Non-cash deductions						
Deprec.of building	2.50%	5,000	5,000	5,000	5,000	5,000
Deprec.of fittings	\$20,000	2,667	2,311	2,003	1,504	736
Loan costs	\$0					
Total deductions		42,028	41,873	41,773	41,716	42,215
Tax credit	31.50%	7,326	7,040	6,763	6,223	4,881
After-tax cash flow	\$0	-8,264	-7,999	-7,703	-7,028	-4,879
Rate of return (IRR)	14.37%					
Pre-tax equivalent	20.97%					
		Your cost /(income) per week				
		159	154	148	135	94



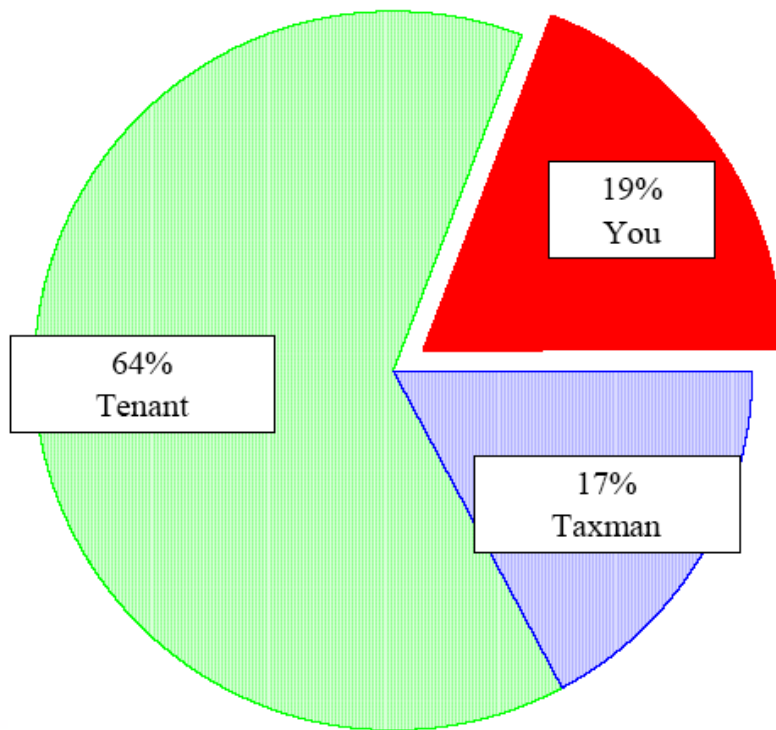
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Average contribution (10 years)

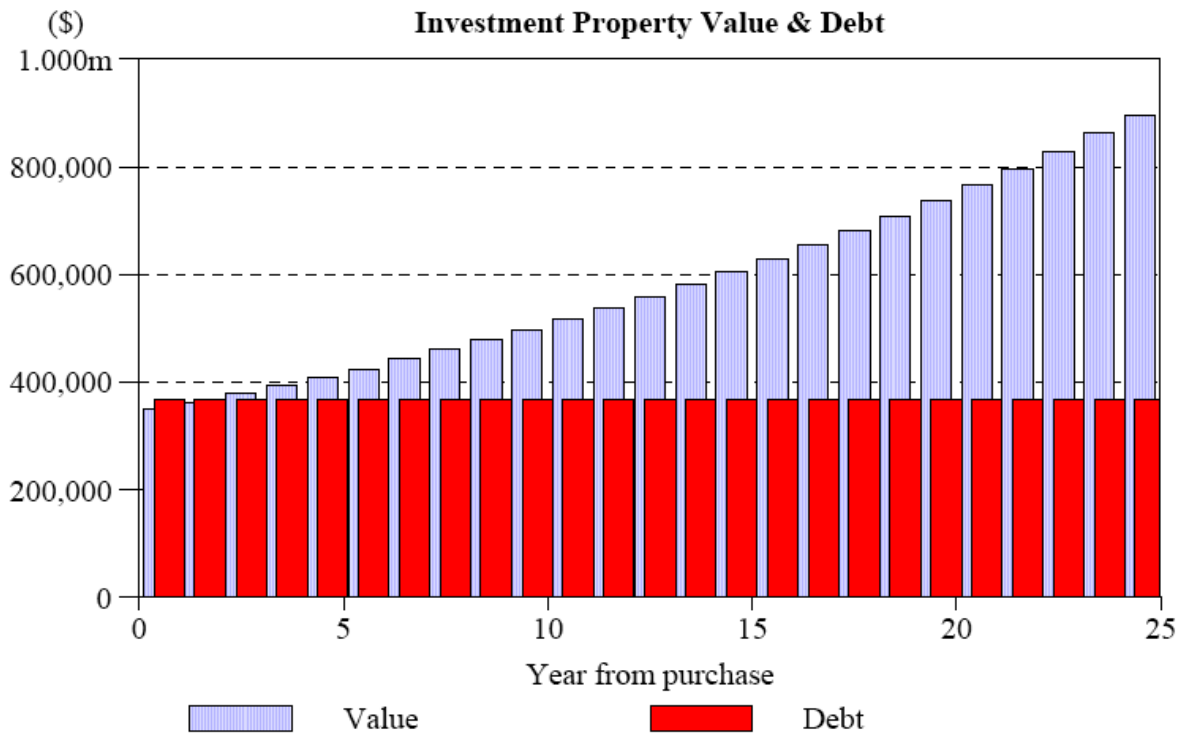


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**SELF MANAGED SUPERANNUATION FUND
PROPERTY INVESTMENT SUMMARY & ASSUMPTIONS**

Purchase Cost	\$ 350,000
Other Costs	
Estimated Set Up Costs	4,950
Estimated Stamp Duty & Transfer Costs	16,000
Conveyancing Costs	1,000
Loan Fees (Estimate)	3,000
Other	-
Total Other Costs	\$ 24,950
Total Investment	\$ 374,950
Funded as follows	
Cash available in Super Fund for this Purpose	120,000
Loan from Bank	254,950
Loan / Contribution Required by - Member	
Total Funding	\$ 374,950
Other Details	
Amount of Loan	\$ 254,950
Term (years)	25
Estimated Average Interest Rate	8%
Estimated Annual Repayments	\$ 22,114
Personal Marginal Tax Rate	31.5%
Superannuation Tax Rate	15.0%
Difference between Personal and Super Tax Rate	16.5%
Estimated Rent Received Year 1	\$ 19,760
Estimated Occupancy Rate	95.00%
Estimated Rent Received	\$ 18,772
Estimated Annual Rental Increase	4.00%
Estimated Annual Capital Growth	4.00%
Estimated Rental Expenses Year 1	\$ 4,883
Depreciate Estimate Year 1	\$ 7,667
Additional Repairs & Maintenance Each 4 Years	\$ 1,000
Combined Gross Wage Income (estimate)	\$ 80,000
Superannuation Employer Contribution Amount per Year	\$ 7,200
Superannuation Contribution - Additional Tax Deductible	\$ 8,000



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**SELF MANAGED SUPERANNUATION FUND
CASHFLOW FROM PROPERTY INVESTMENT**

	TOTAL	1 2012	2 2013	3 2014	5 2016	10 2021
Investment Income:						
Rent Received	\$ 217,432	\$ 18,772	\$ 18,772	\$ 19,523	\$ 21,116	\$ 25,691
Yearly Increase	4% \$ 7,946	\$ 751	\$ 781	\$ 845	\$ 1,028	
Total Investment Income	\$ 225,379	\$ 18,772	\$ 19,523	\$ 20,304	\$ 21,961	\$ 26,718
Investment Expenses						
Deductible Expenses:						
Interest	\$ 254,950	8% 164,373	20,396	19,737	19,017	17,330
Depreciation (Estimate)		25% 29,836	7,667	5,750	4,313	2,426
Other		3% 60,105	5,243	5,400	5,562	5,901
Repairs & Maintenance - Additional		2,000				6,841
Total Deductible Expenses:	\$ 256,314	256,314	33,306	30,888	28,892	25,657
NET PROFIT (LOSS)	(\$30,936)	(30,936)	(14,534)	(11,365)	(8,588)	7,669
Superannuation Contributions:						
Employer SGC Contributions	9% \$ 72,000	\$ 7,200	\$ 7,200	\$ 7,200	\$ 7,200	\$ 7,200
Salary Sacrifice Contributions	\$ 80,000	\$ 8,000	\$ 8,000	\$ 8,000	\$ 8,000	\$ 8,000
Total Superannuation Contributions	\$ 152,000	\$ 15,200	\$ 15,200	\$ 15,200	\$ 15,200	\$ 15,200
Loan Principal Repayments						
Minimum Repayments	22,114	\$ 56,770	\$ 1,718	\$ 2,377	\$ 3,098	\$ 4,784
Other		\$ -	\$ -	\$ -	\$ -	\$ -
Other		\$ -	\$ -	\$ -	\$ -	\$ -
Total Principal Repayments	\$ 56,770	\$ 56,770	\$ 1,718	\$ 2,377	\$ 3,098	\$ 4,784
Income Tax						
Tax Expense (Refund) on Investment Result	15% (4,640)	(2,180)	(1,705)	(1,288)	(554)	1,150
Tax Expense on Superannuation Contributions	15% \$ 22,800	\$ 2,280	\$ 2,280	\$ 2,280	\$ 2,280	\$ 2,280
Total Income Tax Expense (Refund)	\$ 18,160	\$ 18,160	\$ 100	\$ 575	\$ 992	\$ 3,430
TOTAL CASH OUTFLOWS:	\$ 301,407	\$ 299,407	\$ 27,457	\$ 28,090	\$ 28,668	\$ 29,741
NET CASH INFLOWS (OUTFLOWS):	\$ 75,971	\$ 77,971	\$ 6,515	\$ 6,633	\$ 6,835	\$ 7,420
Loan - Opening Balance		254,950	246,717	237,707	216,628	140,607
Less Principal Repayments		1,718	2,377	3,098	4,784	10,866
Less Additional Repayment from Net Cash Flows		6,515	6,633	6,835	7,420	9,533
Less Additional Repayment from Other		0	0	0	0	0
Loan Closing Balance		120,209	246,717	237,707	204,425	120,209
Estimated Tax Saving (Cost) Personal Names	16.50%	8,096	(\$1,078)	(\$555)	(\$97)	\$710
Estimated Property Market Value	4%	\$ 350,000	\$ 364,000	\$ 378,560	\$ 409,450	\$ 498,159
Estimated Net Equity		\$ 103,283	\$ 126,293	\$ 150,786	\$ 205,026	\$ 377,950



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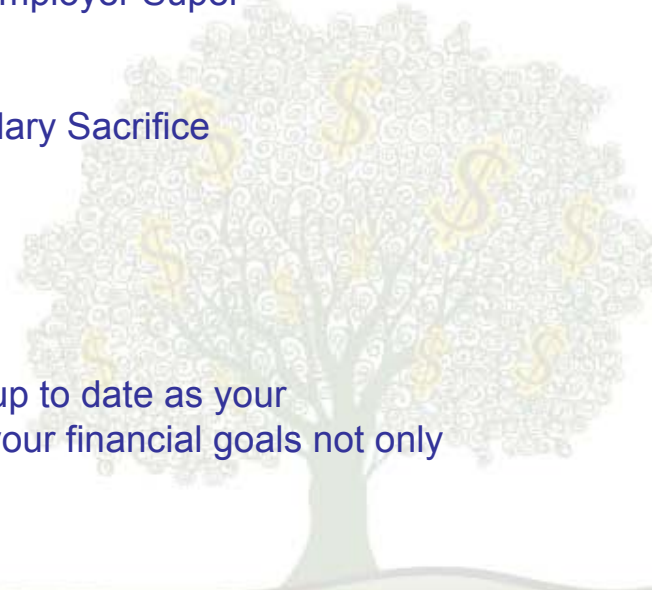
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Financial Plan

When considering financial planning matters it is important to understand that it is a broad area and our underlying aim is to formulate a plan to increase your overall wealth, which will involve analysing the following topics;

- Existing Loans/Debt
- Current Superannuation Arrangements. I.e. Defined Benefit/Employer Super
- Personal Insurance Cover I.e. Life, Income Protection
- Existing Investment(s)
- Wealth Accumulation Strategies I.e. TTR Pensions, Super Salary Sacrifice
- Children Education Expenses / Savings Plan
- Annual Income and Expenses I.e. Budget
- Taxes
- Estate Planning

Providing proactive advice and keeping the plan relevant and up to date as your circumstances change is also our role in helping you achieve your financial goals not only now but also for the future.



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