

## **CASE STUDY 3: JAMES AND WENDY**

In thirties

Still have personal house debt, \$300k

Costs \$300 per week in repayments

Aims:

- Debt free personal home
- Long term capital gain and passive income

No time

No subdivision or build experience

### **Rental 1:**

- Hamilton
- Large section – perhaps duplex or minor dwelling on back
- Rent \$350
- Purchased \$250k
- Debt \$250k
- Value \$550k
- Older property so some repairs
- Reasonable tenants
- Costing \$1,800 per year
- With minor dwelling, \$4,000 positive

### **Rental 2:**

- Hawkes Bay
- Cost \$160k and loan \$160k
- Rent \$320
- Older and some maintenance
- Worth \$260k
- 6.15% Gross Yield
- \$1,000 profit after tax

### **Rental 3:**

- Hamilton 2
- Old villa, roof and foundation problems, \$40,000 to fix over next 5 years
- Sub-dividable into 3
- Hamilton worth \$650,000
- Cost \$350k and \$350k mortgage
- Rent \$380 per week
- 2.92% Gross Yield based on 50 weeks
- \$6,000 cost after tax

## Expected Rental Return -

Case Study 3

Rental 1 Hamilton

House Value	\$550,000
	\$550,000
Less Deposit	\$300,000
<b>Total Borrowed</b>	<b>\$250,000</b>

### Income:

Rent - Weeks	50	17500
Per week	350	
As a % of total house	3.18%	

### Less Expenses:

Accounting	1300	
Bank fees	50	
Body Corporate	0	
Insurance	1000	
Interest	Rate	4.50%
	11,250	If interest goes up 7.50% \$18,750.00
Property Management at 7.5% plus GST	1,509	
Rates	2500	
Repairs and Maintenance	2500	
Seminars	100	
Subscriptions	300	
Travel	86	

<b>Total Expenses</b>	<b>20595.38</b>	<b>\$28,095.38</b>
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<b>NET CASH SURPLUS (DEFICIT)</b>	<b>-3095.38</b>	<b>-\$10,595.38</b>
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<b>Less Depreciation</b>	Building chattels	0.00	
		1000.00	1000.00

<b>NET TAXABLE PROFIT (LOSS)</b>	<b>-\$4,095.38</b>	<b>-\$11,595.38</b>
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<b>Tax refund</b>		<b>\$1,290.04</b>	<b>\$3,652.54</b>
Person 1 - Tax rate	33.00% Own	50%	
Person 2 -	30.00%	50%	

<b>Overall Cash surplus =Taxation refund less cash deficit</b>	<b>-\$1,805.33</b>	<b>-\$6,942.83</b>
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<b>Weekly cash</b>	<b>-\$34.72</b>	<b>-\$133.52</b>
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Cash Return on Investment	-0.60% after tax
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Capital gain at inflation rate -	3.00%	\$16,500.00
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Cash & Possible Capital Gain Return on Investment	4.90% after tax
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This is based on estimated costs and returns.

## Expected Rental Return -

Case Study 3

Rental 2 Hawkes Bay

House Value	\$260,000
	\$260,000
Less Deposit	\$100,000
<b>Total Borrowed</b>	<b>\$160,000</b>

### Income:

Rent - Weeks	50	16000
Per week	320	
As a % of total house	6.15%	

### Less Expenses:

Accounting	1300	
Bank fees	50	
Body Corporate	0	
Insurance	1000	
Interest	Rate	4.50%
	7,200	7.50% \$12,000.00
Property Management at 7.5% plus GST	1,380	
Rates	1500	
Repairs and Maintenance	1500	
Seminars	100	
Subscriptions	300	
Travel	500	

<b>Total Expenses</b>	<b>14830.00</b>	<b>\$19,630.00</b>
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<b>NET CASH SURPLUS (DEFICIT)</b>	<b>1170.00</b>	<b>-\$3,630.00</b>
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<b>Less Depreciation</b>	Building chattels	0.00	
		500.00	500.00

<b>NET TAXABLE PROFIT (LOSS)</b>	<b>\$670.00</b>	<b>-\$4,130.00</b>
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<b>Tax refund</b>		<b>-\$211.05</b>	<b>\$1,300.95</b>
Person 1 - Tax rate	33.00% Own	50%	
Person 2 -	30.00%	50%	

<b>Overall Cash surplus =Taxation refund less cash deficit</b>	<b>\$958.95</b>	<b>-\$2,329.05</b>
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<b>Weekly cash</b>	<b>\$18.44</b>	<b>-\$44.79</b>
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Cash Return on Investment	0.96% after tax
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Capital gain at inflation rate -	3.00%	\$7,800.00
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Cash & Possible Capital Gain Return on Investment	8.76% after tax
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This is based on estimated costs and returns.

## Expected Rental Return -

Case Study 3

Rental 3 Hamilton Villa

House Value	<b>\$650,000</b>
	<b>\$650,000</b>
Less Deposit	<b>\$300,000</b>
<b>Total Borrowed</b>	<b>\$350,000</b>

### Income:

Rent - Weeks	<b>50</b>	<b>19000</b>
Per week	<b>380</b>	
As a % of total house	<b>2.92%</b>	

### Less Expenses:

Accounting	<b>1300</b>	
Bank fees	<b>50</b>	
Body Corporate	<b>0</b>	If interest goes up
Insurance	<b>1000</b>	
Interest Rate	<b>4.50%</b>	<b>7.50%</b> <b>\$26,250.00</b>
Property Management at 7.5% plus GST	<b>1,639</b>	
Rates	<b>2500</b>	
Repairs and Maintenance	<b>5000</b>	
Seminars	<b>100</b>	
Subscriptions	<b>300</b>	
Travel	<b>86</b>	

<b>Total Expenses</b>	<b>27724.75</b>	<b>\$38,224.75</b>
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<b>NET CASH SURPLUS (DEFICIT)</b>	<b>-8724.75</b>	<b>-\$19,224.75</b>
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<b>Less Depreciation</b>	Building chattels	<b>0.00</b>	
		<b>0.00</b>	<b>0.00</b>

<b>NET TAXABLE PROFIT (LOSS)</b>	<b>-\$8,724.75</b>	<b>-\$19,224.75</b>
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<b>Tax refund</b>	<b>\$2,748.30</b>	<b>\$6,055.80</b>
Person 1 - Tax rate	<b>33.00%</b> Own	<b>50%</b>
Person 2 -	<b>30.00%</b>	<b>50%</b>

<b>Overall Cash surplus =Taxation refund less cash deficit</b>	<b>-\$5,976.45</b>	<b>-\$13,168.95</b>
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<b>Weekly cash</b>	<b>-\$114.93</b>	<b>-\$253.25</b>
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Cash Return on Investment	<b>-1.99% after tax</b>
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Capital gain at inflation rate -	<b>3.00%</b>	<b>\$19,500.00</b>
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Cash & Possible Capital Gain Return on Investment	<b>4.51% after tax</b>
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This is based on estimated costs and returns.