

Section 10 Somerset Corner: Financial Analysis

22 March 2021.

1. Preamble

This section is an unfurnished 2-bedroom (en suite) apartment. It is 50 m² and has off-street parking for 1 vehicle. There is a fuller description on our website.

2. Financials details

Fully let to November 2021 at R4000 per month. Monthly levy is R1 325, and monthly rates are R350. The asking price is R839 000.

3. 10-Year Forecast

Attached is a 10-year forecast of the financial performance of the unit.

- 3.1. Rent. In year 1 income is R96 000. This increases at 4% p.a. (see notes)
- 3.2. The expenses in year 1 are R21 780 (see notes for details) and they are increased by 4% p.a. Please note that no finance costs are included.
- 3.3. The nett income (rent expenses before interest and tax) is R74 220, which gives a yield (before interest and tax) of 8.85% based on the asking price of R839 000. This is the return on investment (ROI).
- 3.4. The nett income accumulates monthly through the year. For the purposes of this model, it is treated as if the owner of the property has the funds available at the end of each year. In reality some amount should be available monthly, depending on the monthly expenses.

4. Financial Analysis

4.1. Funding the purchase.

When you invest in a buy-to-let property you can either pay for it in full or you can leverage the purchase. In this forecast the free cash flow is R74 220 in year 1.

Assuming this will accumulate evenly over the year, this gives a monthly income of R6 185. Based on a mortgage bond over 20 years and an interest rate of 8,25 % (prime plus 1), the R6 185 would service a bond

Exceptional Service Inspires Outstanding Results

of R725 000. The asking price is R839 000.

4.2. Cash requirements

| | |
|---|------------------|
| Based on an asking price of | 839 000 |
| and a bond of | <u>-725 000</u> |
| you will need a cash contribution of | 114 000 |
| Plus, transfer and bond costs of about | <u>35 000</u> |
| Total cash needed at the time of purchase | R <u>149 000</u> |

4.3. Return on investment

As calculated, the return on investment is 8.85%. To this must be added the percentage capital appreciation that this property will achieve if it is sold at the asking price of R839 000.

This property was bought in December 2008 for R695 000. If this is appreciated at 1.55% p.a. the value would grow to R839 000.

Therefore, the total return on investment is:

| | |
|----------------------------|--------------|
| Cash component | 8.85 |
| Capital appreciation | <u>1.55</u> |
| Total return on investment | <u>10.4%</u> |

4.4 The value of the investment.

The 10-year forecast shows that the return on investment at the end of year 1 is 8.55%. Looking at the cumulative cash flow in year 5, before interest and tax, it is R86 827. Assuming that 8.55% is still an acceptable return on investment, this would make the value of the property R1 021 000. This means the value has grown at a compounded rate of 4% over the 5 years.

5. An alternative funding model.

The 10-year forecast (attached) is based on a selling price of R839 000 funded by an 85% bond of R713 000 over 20 years at 8.25%. The annual interest charge has been included as a deduction leaving a nett income after interest but before tax of R15 945.

Exceptional Service Inspires Outstanding Results

Grahamstown

Pepper Grove Mall
African Street, Grahamstown 6136
t (046) 636 1388 f (046) 622 9735
P.O. Box 34, Grahamstown, 6140
info@grahamstownproperties.co.za
www.grahamstownproperties.co.za

This style of funding the purchase requires the buyer to put down a deposit of R126 000 to secure the bond. This means the buyer's real investment is just R126 000 and the ROI is calculated on the cash-on-cash return. This works out to be 12.65%.

This investment also has an excellent pay-back period. The cumulative cash flow shows that in year 5, after 4 years and 9 months, the buyer's investment (initial deposit of R126 000) will have been recovered through the cumulative cash flow.

6. Conclusion

Whichever way you choose to fund your purchase of this property are assured of an outstanding investment. The returns are good, the capital appreciation looks great and within 5 years you will be ready to fund another purchase from the free cash flow of this one.

What more could you ask for? Now you just need to look at it and we can get the paperwork started!

Regards,
Steve Birt

DISCLAIMER

Whilst every care has been taken when compiling this financial analysis and the information contained therein, neither the agent nor Grahamstown Properties can be held liable for any claim arising from any damages or loss arising from any inaccuracies or errors herein.

Exceptional Service Inspires Outstanding Results

Bentwood Investments 9CC

Principal: S.P. Birt. B.Com C. A (S.A)