

Financial analysis of 11 Gray Rose

So, you understand the wonders of compound interest and you would like to build a property portfolio? Then you should have a careful look at this unit as it is a classic example of how to use other people's (the banks) money to make money for yourself-but you must be patient!

Preamble

11 Gray Rose is a 3-bedroom unit in the Gray Rose complex. The financial details are:

Asking price	: R1 095 000
Rent (market related)	: R9 600 per month
Levy (until 31 August 2022)	: R1 114.01 per month
Rates (until 30 June 2022)	: R1 156.78 per month

Procedure

The way to structure the deal is to pay a deposit of 15% of the purchase price, R164 250, and to get a 20-year bond for the balance of R930 750 at no more than 8,25% p.a.

Attached is a 10-year forecast for 11 Gray Rose. This is based on there being 3 tenants in the apartment paying an initial R3 200 per month each. You must also ensure that the rent increases by 4% p.a.

Then you have everything in place, and you'll enjoy the same success and profits as shown on the 10-year forecast.

- A return on investment on your own funds of 5,83% in the 1st year. It just keeps growing from there.
- Your personal investment of R164 250 is paid back to you through the free cash flow early on in year 7.
- Over the 10 years you will make a profit of R360 739 plus your investment income of R75 049, giving you a total nett profit before tax of R435 788.
- Based on your initial investment of R164 250, your bond balance at the end of 10 years is R646 590.41. If you sell the property, your nett income before interest is (163 966 – 42067) R121 899. If this is capitalised at 8%, the value of the property will be R1 524 000.
- If you sell for R1 524 000 you have to pay the bank R647 000 and are left with R877 000. This is more than 5 times your initial investment!

How about that for a high-performance investment?

Call me and let's go through these numbers together and then you can go and have a look at the property.

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