

Grahamstown

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5 African Street, Makhanda: Financial Analysis

1. Preamble

This is a free-standing house of 4 bedrooms and 2 bathrooms close to Kingswood College. It has potential to be turned into a 5-bedroom, 3-bathroom house.

There is a fuller description on our website.

2. Financials details

It is not yet let for 2023.

The monthly rates are R1 339.

The asking price is R864 000. We have added R64 000 to this to arrive at the investment value for ROI purposes. This will be spent on creating the 5th bedroom and the 3rd bathroom and furnishing the property.

3. 10-Year Forecast

Attached is a 10-year forecast of the financial performance of the unit based on a purchase price of R930 000.

- 3.1. Rent. In year 1 income is R165 000. This increases at 5% p.a. (see notes). Note that this rental is for 10 months as the student trend is for 10-month leases. This is a worst-case scenario.
- 3.2. The expenses in year 1 are R26 044 (see notes for details) and they are increased by 6% p.a. Please note that no finance costs are included.
- 3.3. The nett income (rent expenses before interest and tax) is R138 956, which gives a yield (before interest and tax) of 14.94% based on the investment of R930 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 R138 956 in year 1.

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Assuming this will accumulate evenly over the year, this gives a monthly income of R11 579. Based on a mortgage bond over 20 years and an interest rate of 11,25 %, the R11 579 would service a bond of R1 103 000. The asking price is R864 000.

4.2. Cash requirements

Based on an investment of	930 000
and a bond of	<u>-1103 000</u>
you will need a cash contribution of	-173 000

4.3. Return on investment

As calculated, the return on investment is 14.94%. To this must be added the percentage capital appreciation that this property will achieve if it is sold at the asking price of R864 000.

This property was bought in December 1998 for R115 000. If this is appreciated at 9.05% p.a. for 23.3 years the value would grow to R864 000.

Therefore, the total return on investment is:

Cash component	14.94
Capital appreciation	<u>9.05</u>
Total return on investment	<u>23.99%</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 14.94%. Looking at the free cash flow in year 5, before interest and tax, it is R167 679. Assuming that 14.94% is still an acceptable return on investment, this would make the value of the property R1 122 000. This means the value has grown at a compounded rate of 5.37% over the 5 years.

5. An alternative funding model.

The 10-year forecast can be adjusted to show the selling price of R864 000 funded by a 100% bond of R864 000 over 20 years at 11.25%. The annual bond instalments would be R108 760. The free cash flow at the end of year

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1 is forecast to be R138 956, which means that there would still be a surplus of R30 196.

Following this funding mechanism would require that the buyer would need cash of approximately R35 000 for legal costs and about R66 000 for setting the property up, a total of R101 000. This means the buyer's real investment is just R101 000 and the ROI is calculated on the cash-on-cash return. This works out to be 29.9%.

6. Pay-back Period

This investment also has an excellent pay-back period. The cumulative cash flow shows that in year 5, after 4 years and 8 months, the buyer's investment (initial investment of R864 000) will have been recovered through the cumulative cash flow.

7. Conclusion

Whichever way you choose to fund your purchase of this property you 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.

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