

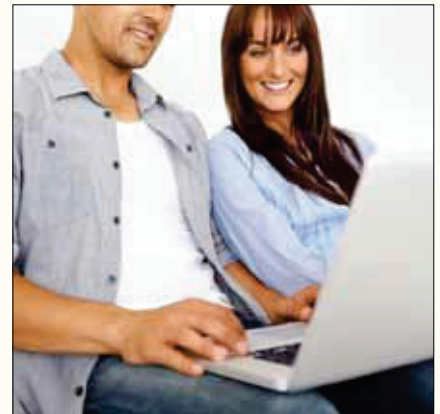
Retire sooner, RICHER!

Do you dream of retiring rich through property investment? Robin Christie explores how to make this dream a reality

We all want to retire rich, and property investment is a tried and tested

means of achieving this dream. Plus, with the right strategy in hand, you can turbocharge your plans and retire richer and sooner than expected.

Your *Investment Property* decided to set three expert teams the task of putting together a detailed retirement plan for three hypothetical scenarios: a couple in their 30s, 40s and 50s. Read how they can make our couples retire sooner and richer.



30s

The 30-something couple

The numbers

In this scenario, we assumed the following:

Ages: 31 & 33

Incomes: \$60,000 & \$70,000

Super: \$40,000 & \$50,000

Savings: \$20,000

Credit card debts:

\$2,000 & \$2,500 (currently making repayments of \$100pm on each at 13% interest rate)

Car loan: Outstanding balance of \$5,000 (currently making repayments of \$300pm at 9% interest rate)

Rent: \$380pw

Essential spending (bills, transport, groceries, etc): \$320pw

Discretionary spending (dinners, drinks, cinema, etc): \$250pw

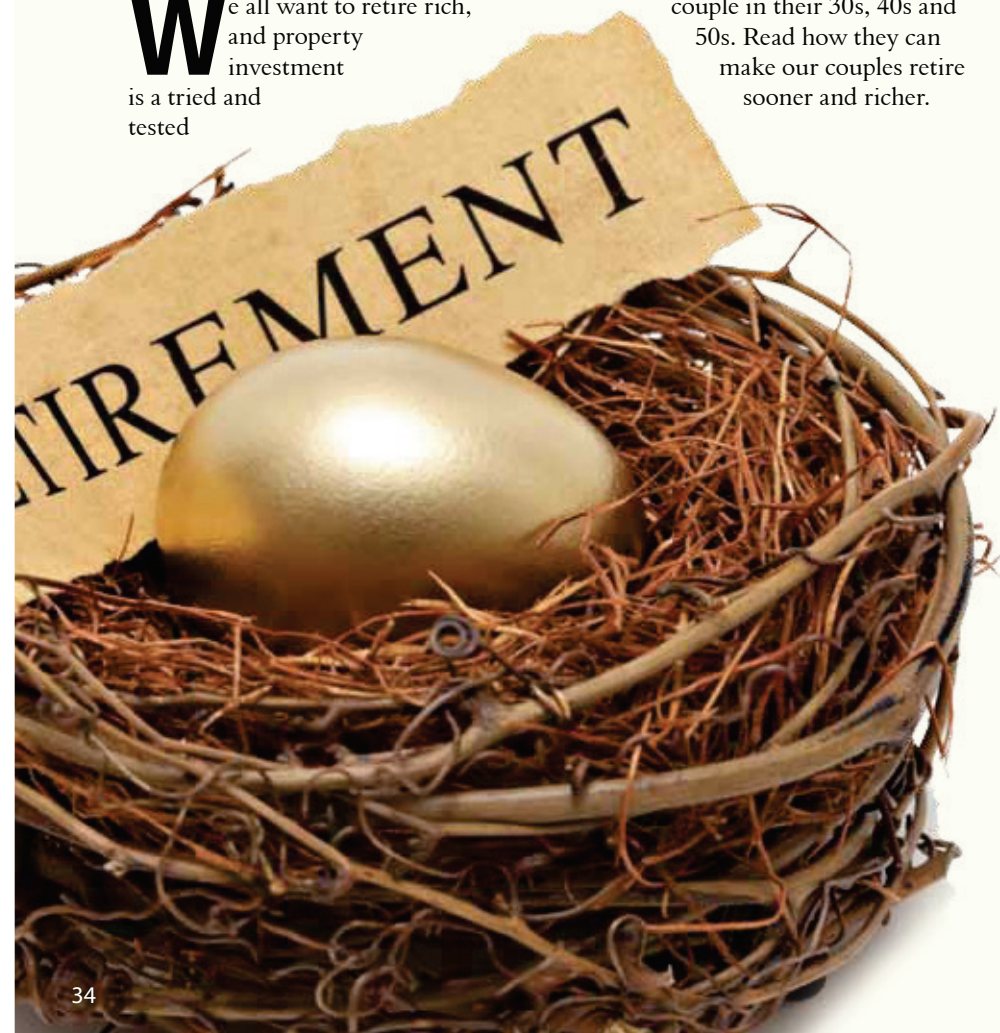
One-off holiday spending: \$4,000 pa

Target retirement date: 2043

Target combined passive income: \$100,000 (in today's dollar terms)

Profile

Our hypothetical 30-something couple, Daniel and Rebecca, are CBD-based middle managers working their way up the career ladder in Sydney. They have a combined income of \$130,000, and realistically think that this will peak at \$150,000 (\$168,000) in about 10 years from now. They think that a \$100,000 passive income in today's dollars would be enough to fund their lifestyles in retirement – if



they didn't have any debts to worry about – and would like to achieve this passive income by 2043.

They don't own any property, but are saving up to buy their first home. They hope to buy this property with the aid of the First Home Owner Grant (FHOG) and, based on the recent NSW state government decision to cut stamp duty concessions for first homebuyers at the end of this year for existing property, they plan to purchase their first property before 31 December. Once they've made this purchase, they would like to look at buying investment properties to create their passive retirement income.

They also want to account for the cost of bringing up a family in their retirement plan. They plan to have two children within the four years of buying their own home, and plan to send them to publicly-funded schools.

They've managed to save \$20,000 towards a house deposit, but are also encumbered with credit card and car loan debts.

One-off purchases that they plan to make include:

- a \$20,000 second car in five years' time
- car upgrades in five, 15 and 25 years
- a big family holiday once a year
- a house upsize in 10 years to the value of \$650,000 in today's values

They would like to know:

- if their target passive income of \$100,000 in today's dollars is realistic
- how they can reach their required passive income by 2043 through property investment

The team

The Empower Wealth team consists of highly qualified and successful professionals with years of experience and proven track records in offering specialised advice in residential property investing, mortgage broking, financial planning, money, wealth planning and wealth education. Visit www.empowerwealth.com.au

Initial steps

First, the Empower Wealth team take a look at Daniel and Rebecca's current financial position to get the lay of the land.

They calculate that Daniel and Rebecca's combined income, post-tax and Medicare levy, comes in at \$102,100: Daniel's net income is \$54,300, while Rebecca's is \$47,800.

Next, they take a look at the couple's asset situation. For the purposes of this hypothetical scenario, they estimate that Daniel and Rebecca's household contents (TVs, furniture, computers, etc) are worth \$20,000, and their car is worth \$25,000. Add to this their combined superannuation nest egg of \$90,000, and they have a total asset base of \$135,000.

Liabilities come next, which in Daniel and Rebecca's case means credit card and

car loans. These tally up to a combined total of \$9,500.

The team then breaks down our couple's expenses and work out their current cash flow position. And the good news is that – if they stick to their current expenses budget – Daniel and Rebecca are in the black to the tune of \$3,558 per month, or \$42,700 pa.

Future expenses

Now, given our hypothetical couple's stage in life, there are quite a few future expenses that need to be accounted for in their plan. These include maternity leave, child care costs, school fees, car upgrades and family holidays.

The team put together a detailed table which estimates how much each of these expenses will cost, how often Daniel and Rebecca will need to make these payments and for how long.

1. Liabilities

Description	Amount	As at	Rate	Payment	Term
Credit card	\$2,000	Sep-11	13%	\$100	2 years
Credit card 2	\$2,500	Sep-11	13%	\$100	2 years
Car loan	\$5,000	Sep-11	9%	\$100	1 year

2. Expenses

Description	Cash	Credit	Frequency	Total annual amount	Term
Food and household	\$400		Monthly	\$4,800	2 years
Living and lifestyle	\$683		Monthly	\$8,200	
Savings and emergency	\$333		Monthly	\$4,000	
Bills		\$3,033	Monthly	\$36,400	
Fixed payments	\$500		Monthly	\$6,000	2 years
Total monthly	\$1,917	\$3,033	Total	\$59,400	

3. Current cash flow position

Current cash flow position	Annual	Monthly
Total income	\$102,100	\$8,508
Total expenses	\$53,400	\$4,450
Loan repayments and fees	\$6,000	\$500
Cash flow surplus/deficit	\$42,700	\$3,558

4. Planned future expenses

Reason	Variation	Frequency	Start	End
Child 1	\$5,000	Once off	Aug-14	
Maternity leave		Monthly	Aug-14	Jan-15
Additional cost of living - child 1	\$500	Monthly	Aug-14	Jul-34
Child care	\$618	Monthly	Feb-15	Jul-16
School fees	\$1,000	Annually	Jan-20	Dec-26
School fees	\$2,000	Annually	Jan-27	Dec-32
Maternity leave		Monthly	Aug-16	Jan-17
Child 2	\$5,000	Once off	Aug-16	
Additional cost of living - child 2	\$500	Monthly	Aug-16	Jul-36
Child care	\$1,235	Monthly	Feb-17	Dec-21
School fees	\$1,000	Annually	Jan-22	Dec-28
School fees	\$2,000	Annually	Jan-29	Dec-34
New car	\$20,000	Once off	Aug-16	
Family holiday increase	\$2,000	Annually	Aug-18	Jul-43
New car	\$20,000	Once off	Aug-26	
New car	\$30,000	Once off	Aug-36	



Wealth creation strategy

With these essential preliminaries out of the way, the team can focus on Daniel and Rebecca's wealth creation strategy.

1 Buy the first home

First, the couple will buy their first home. On their budget, Daniel and Rebecca could go for a unit within striking distance of the Sydney CBD, but the team points out that a more practical choice – given our couple's desire to start a family – would be to pick up a larger middle-ring property.

They suggest going for a two- or three-bedroom townhouse, to be purchased in November, so that they have a home in which they can start bringing up their new family without feeling the pressure to upgrade to a larger place too soon.

Location wise, Daniel and Rebecca will want to be close to a train station to make the commute to work as manageable as possible. The team also suggests that they'll want their property to be within 15–17km of the city to give it the best prospects for capital growth.

With these specifications in mind, the team points to a recently sold property in Lidcombe as a prime example of the type of property that our couple could target. This modern three-bedroom townhouse, which is within a couple of kilometres of Lidcombe station (which is just under a half-hour train ride from the CBD) sold for \$450,000 in August.

The team's modelling works on initially purchasing property at an LVR of 95%, with lenders mortgage insurance (LMI) costs being capitalised

into the loan. In this case the FHOG and current NSW stamp duty concessions should offset the LMI costs that Daniel and Rebecca would incur in this scenario.

2 Buy an investment property after one year

The team notes that because our couple want to use property as their route to wealth, they'll be looking at retaining their first home as an investment when they decide to upgrade. It's important, therefore, to assess its future investment potential as well as making sure that it would be a suitable family home.

They note that another property in the same block as our example townhouse (also a three-bedroom property) was advertised for rent at \$450pw, which equates to a gross rental yield of 5.2%. This is well above the conservative 4.5% yield that the team will be using for Daniel and Rebecca's wealth projection.

Once our couple are settled into their first home the team's plan sees Daniel and Rebecca diversifying their portfolio and purchasing an investment property outside of NSW.

They suggest purchasing a two-bedroom unit in the inner south of Brisbane in December 2012. To ensure that the property has good growth prospects, and will attract tenants, it should be no more than 5–6km from the CBD and within walking distance of a train station.

The suburb of Woolloongabba fits the bill, because it offers quality accommodation in the entry level price range and with close proximity to major employment opportunities, transport and a developing lifestyle infrastructure. The team believes it will deliver long-term capital growth and sustain strong rental demand, and notes that a property in Woolloongabba valued at \$320,000 in today's dollars should provide a healthy 5.5% rental yield.

Given Daniel and Rebecca's current mortgage debt and plans for a purchase of a significant family home down the line, the team needs to ensure that they can afford this next purchase without putting too much strain on their cash flow situation. In this case their budget would accommodate the Woolloongabba purchase based on the

strong rental yields and their income position at the time.

In order to raise the minimum 5% deposit required to purchase the property Daniel and Rebecca will need to focus on building significant savings in their PPOR offset account from the get go. Plus, if their PPOR has performed well in the year since purchase at this point, they should be in a position to access some of its increased equity to aid the purchase of the Brisbane unit.

Achieving that 5% deposit for Daniel and Rebecca's next acquisition is a must. Otherwise the timing of this first investment property purchase would have to wait until they can raise the required funds.

3 Upgrade the family home

In 10 years, the plan sees Daniel and Rebecca deciding to upgrade to a larger home to accommodate their young family. The team assume that our couple will have integrated into the local community and therefore won't want to move too far from Lidcombe.

They add, however, that Daniel and Rebecca will need to be flexible and look at properties within a 5km radius of Lidcombe in order to pick up a larger, four-bedroom home that fits within their budget – but also has rail, road, school and shopping facilities nearby.

At this point it's also assumed that Daniel and Rebecca are considering trying their hand at cosmetic renovation to make their mark on their home and increase its value, so they'll be looking for a property that – while still liveable as a family home – has this reno potential.

To give Daniel and Rebecca an idea of what type of property they may be able to acquire in 10 years, the team points to a recently sold property in Auburn. The four-bedroom property sold for \$650,000 in June, and is a short walk from schools, Auburn Shopping Centre and the train station. Assuming 8% capital growth per year, this property would be valued at \$1.2m–1.3m in 10 years when our couple look to upgrade.

4 Crunching the numbers

With the strategy out of the way, it's time to crunch the numbers, and the team sets about putting together a wealth projection for our 30-something couple. In order to do this, they need to

plug a few assumptions into the system. These include the following:

- the market value of Daniel and Rebecca’s properties will increase by 8% per year
- rental income will increase in line with the market value of the property
- rental properties will be occupied and provide rental income 90% of the time
- costs associated with investment properties (including rates, insurance, maintenance, etc) will increase by 3% pa
- superannuation assets will generate a net return of 6% pa
- CPI and wage inflation will be 3%

5 Streamlining their finances

The team’s plan also sees Daniel and Rebecca restructuring their finances to run the family budget as efficiently as possible.

This is done by first of all paying all of their income into a mortgage offset account to help bring down their mortgage debt as quickly as possible.

All regular spending, such as fuel and bills, will then be made using a credit card – which will be paid off using the offset account before the credit card’s interest-free period expires.

A separate transaction account will then be set up for living and personal spending costs, and a relevant weekly allocation will be paid into this account to fund this spending.

All the investment properties will have separate loan accounts, which will be interest-only accounts, while

the couple focuses on retiring non-deductible debt. Once this is achieved, the focus shifts to retiring investment debt – which in turn increases the passive income flows into the future.

If all goes as planned, the team predicts that Daniel and Rebecca’s goals are certainly achievable within their retirement timeframe.

The team works out what our couple’s property investment income at retirement would be in today’s dollars, and the good news is that they’re predicted to bring in \$123,000 pa. Subtract their annual property investment expenses of \$19,000 pa from this amount and they’re left with \$104,000pa in cold hard cash to fund their retirement lifestyle.

Their situation at retirement

Assets

Family home: \$2.2m

Investment property 1: \$1.46m

Investment property 2: \$2.05m

Superannuation: \$625,000 (after withdrawal of \$114,000 to close out all remaining loans)

Total net worth: \$6.34m (PPOR + investment properties + superannuation)

Nest egg (income-producing assets): \$4.14m (investment properties + superannuation)

Cash flow

Investment income: \$123,000pa

Investment expenses: \$19,000pa

Available income: \$104,000pa

All figures are in today’s dollar values



40s

The 40-something couple

Ages: 43 & 45

Incomes: \$66,000 & \$80,000pa

Super: \$55,000 & \$65,000

Savings: \$20,000

Property value: \$590,000

Debt: \$200,000

Equity: \$390,000

Credit card debt: \$2,500 (currently making repayments of \$100pm on each at 13% interest rate)

Mortgage: \$1,611.19pm (currently on a 20-year term, paying P&I at 7.5%)

Essential spending (bills, transport, groceries, etc): \$500pw

Discretionary spending (dinners, drinks, cinema, gifts & activities for the kids, etc): \$600pw

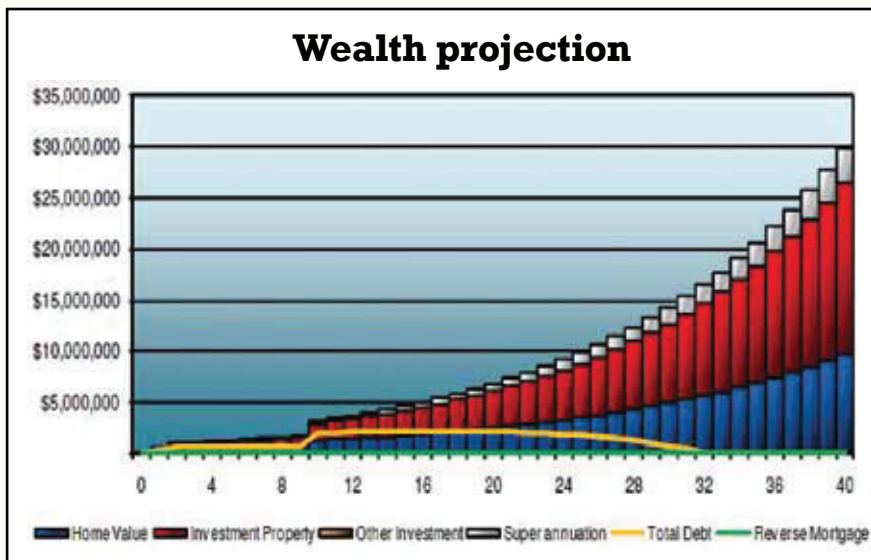
One-off holiday spending: \$8,000pa

Target retirement date: 2031

Target combined passive income: \$180,000pa

Dependents: Two children, aged 8 and 10

Wealth projection



Profile

Our hypothetical 40-something couple, John and Sarah, bought their property in Melbourne 12 years ago and have been diligently paying off their mortgage since. They’ve refinanced along the way to pay for renovations and currently owe \$200,000 on a \$590,000 property. They’re now on a 20-year term, making P&I repayments of \$1,611.19 per month. They would like to pay off their home loan early if possible.

They have a combined income of \$146,000pa, and hope that this will