

BONUS CHAPTER

Crunching The Numbers Quickly And Easily

One of the most important facets of property investing is knowing how to crunch the numbers. Ideally, you should be able to work out very quickly if you want to pursue a potential property, or if you should walk away.

This bonus chapter includes some tips on how to do this, and covers two types of number crunching – that of crunching a project, and that of calculating a rental return.

It is said that you look at 100 properties, become serious with ten, put contracts on three, and you end up buying one. We don't like to waste time, and who wants to look at 100 properties to buy one?

Number Crunching Projects

When you are looking for projects, be very clear on what it is that you want. This may mean the type of strategy, but, more importantly, it means having a good idea of the following:

- Your budget including purchase and project costs
- The percentage profit you wish to make (we recommend at least 20% on a project)

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- The minimum profit you want in dollars
- Potential strategies you wish to consider
- Potential area you are interested in

Once you are clear on this, everything you look at is weighed against these objectives, and it makes it easy to make an unemotional, informed decision about the numbers.

Now you need to communicate this to the agents that you are working with. Spend some time with your agents explaining to them, and educating them, on what you are looking to achieve.

In addition, set up real estate alerts for properties that fit your criteria. Some of the sites you should be looking at include www.realestate.com.au and www.realcommercial.com.au.

Whilst you MUST do an inspection of a property prior to purchasing (and please do not let anyone tell you it doesn't matter, because it does), a quick number crunch before leaving your house can save you time and avert a trip to a property that will not suit your criteria.

The quick number crunch can be done anywhere, anytime – on a napkin in a restaurant, on a scrap of paper at home, or in the notes section of your phone or ipad!

There are four basic components to a number crunch. They are:

- Purchase Costs – this includes the purchase price, stamp duty, inspections and legal fees

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- Project Costs – this covers the cost of whatever you have to do to complete the project. For example, if undertaking a renovation, what is the cost of the renovation? This figure does not have to be exact, and practice will give you a better idea of this figure.
- Holding Costs – this is the cost of holding the property and can include interest payments, rates and insurance
- Selling Costs – this includes agent's fees, advertising, home staging, and legal fees

Here's some tips to help you do a really quick number crunch.

You will generally find that the costs of purchase (excluding the purchase price) are around 3-5% of the purchase price.

And you will also generally find that the costs of selling are around 3-5% of the sales price.

Once you have determined what percentage suits your area, then the number crunch becomes even simpler!

Another tip for you is to crunch the numbers without holding costs being included. If the deal does not work without holding costs, it definitely will not work with holding costs.

In respect to the Project Costs, you may need to do basic research to start to gather some knowledge of what the various costs are. A good way to do this is to keep spreadsheets of all enquiries you make. Before long, you will be able to estimate your costs easily and quickly.

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To work out your Selling Price, check in with a couple of agents, asking them questions about the value of the finished project. Another way to estimate a sales price is to check recent sales on websites such as www.realestate.com.au.

To work out your profit in dollars, simply take the estimated sales price, minus all the costs, and you will have a dollar figure.

To work out your profit margin as a percentage, simply take the dollar profit figure, and divide it by the total of all the costs of the project. Times it by 100 divided by 1 to express it as a percentage.

Learning to do number crunches quickly saves time and effort, and it also enables you to unemotionally evaluate whether a deal is worthwhile pursuing or not.

If on the Quick Number Crunch the figures work, then start verifying and confirming your costs. This becomes the basis of a budget for your project, and, as you become more succinct with your figures, you will be able to check at each stage of the number crunching if the project is still viable.

Calculating Rental Returns

The formula for calculating rental returns is as follows:

$$\frac{\text{Annual Rent (\$)}}{\text{Value}} \quad \times \quad \frac{100}{1}$$

For value, use the purchase price, or a current valuation.

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Here are some tips on rental returns.

If you have no debt at all on the property, then the rent return, less costs, will be all yours, usually making the property positive cashflow.

If you have a mortgage on the property, then the interest payments on the loan will become a cost to the property.

Generally, most people who have a mortgage have at least 80% of the property under finance. In this case, a quick way to determine if the property is negative or positive is to determine the percentage rental return, and know the interest rate you will be paying.

Your rental return will need to be at least 3% above the going interest rate for the property to be positive cashflow, and if you have maintenance costs, or an unexpected cost, then this will pull the property into negative cashflow.

See the chapters on negative gearing and positive cashflow for more information.

In conclusion ...

Remember, the numbers tell the story! Do your research, crunch the numbers, and make an informed decision on your purchase.

And a bonus ...

To help you out, you are welcome to photocopy the blank table (on the following page) and use it for a quick number crunch.

QUICK NUMBER CRUNCH – PROJECT

Address:
Type of Project:
Description:
Possible strategy:

Purchase Costs <ul style="list-style-type: none"> • Purchase Price • Other Costs (use 3-5%) 	
Project Costs	
Holding Costs	
Selling Costs <ul style="list-style-type: none"> • 3-5% of sales price 	
TOTAL COSTS	
Sales Price	
PROFIT (sales price – total costs)	
Profit as a percentage	
$\frac{\text{Profit}}{\text{Total costs}} \times \frac{100}{1}$	

CALCULATING RENTAL RETURNS

$\frac{\text{Annual Rent (\$)}}{\text{Value (purchase price or valuation)}} \times \frac{100}{1}$
