

Your Road to Earning \$100,000 Per Annum In Retirement

Welcome to part one of our four part series of working towards earning \$100,000 per annum (over \$1,900/week) in your retirement.

This outcome is achievable through investing in property or by investing in a mix of property, shares and other financial instruments such as bonds, unit trusts and debentures.

As expert property advisors, Affinity is qualified to assist you in learning more about the pathway for you to achieve a passive income of more than \$1,900 per week.

The Starting Point - Education

Before you invest a single dollar, it's important to build your knowledge. There are many books written on property investing and the following books are highly recommended for people who are new to investing:

- Making Money Made Simple, Noel Whittaker (1987)

- Building Wealth through Investment Property, Jan Somers (1992)

- Rich Dad, Poor Dad, Robert T Kiyosaki (1997)

- Building Wealth Story by Story, Jan Somers (1998)

- Six Ways to Wealth, Paul Clitheroe (2002)

- The Armchair Guide to Property Investing, Ben Kingsley & Bryce Holdaway (2016)

Each of these books will build and enrich your knowledge and provide a level of confidence or 'frame of reference' for your investment decisions. All of the books (excluding 'Rich Dad, Poor Dad') are written by Australian authors and are based on investing in the Australian market. Consequently, they are a perfect reference point to understand Australian banks' lending policies, the Australian tax system, investment planning, budgeting and how you can make money out of property in Australia.

The End Goal – What Does it Look Like?

In simple mathematical terms, if you want to achieve \$100,000 per annum in retirement you will need an asset base of \$2 million returning an average of 5% per annum (i.e. 5% x \$2,000,000 = \$100,000).

\$2 million sounds like a lot of money to most people. However, when you consider compounding growth in the value of property over time, you may only require 3 or 4 investment properties held for 10 – 20 years to achieve the \$2 million property value target.

Different people have different end goals. The table below shows different gross incomes that will be achieved from owning multiple properties with average income of \$400/week in rent from each property.

SCENARIO 1

Average Rent \$400/week

End Goal		Total Value of Properties	Number of Properties
(income per annum)	(income per week)		
\$40,000	\$769.23	\$800,000	1.9
\$50,000	\$961.54	\$1,000,000	2.4
\$60,000	\$1,153.85	\$1,200,000	2.9
\$70,000	\$1,346.15	\$1,400,000	3.4
\$80,000	\$1,538.46	\$1,600,000	3.8
\$90,000	\$1,730.77	\$1,800,000	4.3
\$100,000	\$1,923.08	\$2,000,000	4.8

Scenario 1 shows that with average rent of \$400/week, you only need to own 1.9 properties with a total value of \$800,000 and they will deliver you a gross income of \$40,000 per year.

To achieve \$100,000 gross income per year under Scenario 1 (average \$400/week rent), you need to own 4.8 properties which have a combined value of \$2,000,000.

SCENARIO 2

Average Rent \$320/week

If we buy cheaper rental properties with lower weekly rents, the investment scenario changes.

For example, if you own multiple properties with average income of \$320/week in rent from each property, your end goals would be presented in the following table:

End Goal		Total Value of Properties	Number of Properties
(income per annum)	(income per week)		
\$40,000	\$769.23	\$800,000	2.4
\$50,000	\$961.54	\$1,000,000	3.0
\$60,000	\$1,153.85	\$1,200,000	3.6
\$70,000	\$1,346.15	\$1,400,000	4.2
\$80,000	\$1,538.46	\$1,600,000	4.8
\$90,000	\$1,730.77	\$1,800,000	5.4
\$100,000	\$1,923.08	\$2,000,000	6.0

As you can see, having a lower average rent requires you to own more properties to achieve your investment goal. At \$320/week average rent, you will need 2.4 properties to generate \$40,000 gross income per year and will require up to 6 properties valued at \$2,000,000 to achieve \$100,000 gross income per annum (assuming 5% yield).

SCENARIO 3

Average Rent \$500/week

In contrast, if you own properties with a higher average rent you require less properties to achieve your end goal.

For example, if the average rental income is \$500/week from each property, your end goals would be presented in the following table:

End Goal		Total Value of Properties	Number of Properties
(income per annum)	(income per week)		
\$40,000	\$769.23	\$800,000	1.5
\$50,000	\$961.54	\$1,000,000	1.9
\$60,000	\$1,153.85	\$1,200,000	2.3
\$70,000	\$1,346.15	\$1,400,000	2.7
\$80,000	\$1,538.46	\$1,600,000	3.1
\$90,000	\$1,730.77	\$1,800,000	3.5
\$100,000	\$1,923.08	\$2,000,000	3.8

With average rent at \$500/week you only require 1.5 properties (valued at \$800,000 returning 5% yield) to achieve \$40,000 gross income per annum. If you are aiming for \$100,000 in gross income, you would need 3.8 properties based on the same investment assumptions.

NOTE:

- The above scenarios all assume a 5% average yield.
- Average rent per week is indexed against average property value in each scenario.
- Income figures presented are gross income and do not include property outgoings.
- The examples above are presented as educational material and do not constitute investment advice.

Summary

The examples above show there are a range of different property investment scenarios to achieve your end goal of earning \$100,000 per annum in retirement.

In the coming months, we'll cover PARTS 2, 3 & 4 of the strategy which will include:

- Understanding the costs of investing;
- The importance of yield and capital gains;
- How to calculate your break even point on each investment and generate extra cash flow;
- Selecting good investment properties and avoiding bad investments;
- Property finance options and determining which loans to use and when to use them;
- Paying down debt and using equity to build your property portfolio;
- And much more ...

If you would like to discuss your property investment plans or would like an analysis completed for your investment properties, please contact

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