Invest without fear- by analysing the numbers

Written by Helen Collier-Kogtevs on January 17th, 2013

The majority of property investors who fail to crunch the numbers properly do so because they are not being thorough enough. Their idea of crunching the numbers is a guesstimation of what things will cost, without fully understanding the true costs involved, or the implications of their financial position, writes Helen Collier-Kogtevs.

The comprehensive understanding of the numbers allows you to work out whether a property will be negatively geared, neutrally geared or perhaps even provide a positive cash flow, which allows you to ascertain what the impact will be on your lifestyle.

For example, take an investor who purchased a negatively geared property in a major capital city. He crunched the numbers and came to the conclusion that the property would have a financial shortfall of $100 per week.

A few months in, he realised the property was costing him more than he expected. On proper analysis of the numbers, he discovered it was actually costing him closer to $260 per week – and this was his out of pocket expenses – after tax deductions had been accounted for. His bank told him that they would not lend him any more money for further property purchases and now it was clear why.

Most investors, when starting out, don't fully understand the power of the numbers and what they actually mean to them on a weekly basis. It is not until investors thoroughly analyse the numbers that they can clearly see how much a property will cost them each week and gain a full appreciation of their financial position.

Solution

Using property analysis software allows you to understand how getting into property investing will impact your lifestyle. It makes the numbers 'real' for you.

Before putting in any offers, you can crunch the numbers on each and every property deal. The two variables you will play with the most are the purchase price and the rent. If the asking price and the market rent of the property do not meet your requirements, you can offer less or increase the rent to see if it changes the bottom line. If the numbers still don't meet your requirements, even after tweaking, walk away and look for something else. Your due diligence will indicate what is fair market rent and value for a property.

Analysis software allows you to play with different scenarios so you can see what you need to achieve in the purchase price and rent for the deal to stack up. There are a number of software packages on the market that allow you to crunch the numbers on existing and potential property deals. For a small amount of money, this software could potentially save you from making a huge financial mistake.

Some analysis software even allows you to add in several properties and obtain an overview of the whole portfolio. For example, take a block of units with an excellent rental return. This block of units was on the market for $500,000 and the rental return was approximately $70,000 per year.

There were no body corporate fees and there was room to increase the rent. However, when all the costs were entered, including the very high council rates, it made the deal negatively geared. At the time, it was advertised as a cash flow opportunity and had the numbers not been crunched, this block of units would ultimately have cost around $120 per week.

Here's my tip

Crunching the numbers could save you thousands of dollars. Not understanding the numbers is like gambling and there are too many zeros involved to get it wrong.

I have developed two programs to help investors, myself included, to ascertain whether a deal stacks up. To find out more about Number Cruncher Deal Maker and Number Cruncher Portfolio Manager (Professional) or to trial the software free for 14 days.

http://www.21stcenturynews.com.au/invest-fear-analysing-numbers/