

PLATINUM

June 2018

Cash Cow

Mastermind
Event

Perth

Tamara Read
WA State Coach



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Event Outline -

- 6:00 – 6:30 Networking
- 6:30 - Start
- 6:30 – 6:45 Introductions
- 6:45 – 8:00 Accountability
- 8:00 – 8:30 Networking Break
- 8:30 – 10:00 Cash Cow

Workshop Format

- Use microphone
- Involve everyone in the conversation
- Be supportive

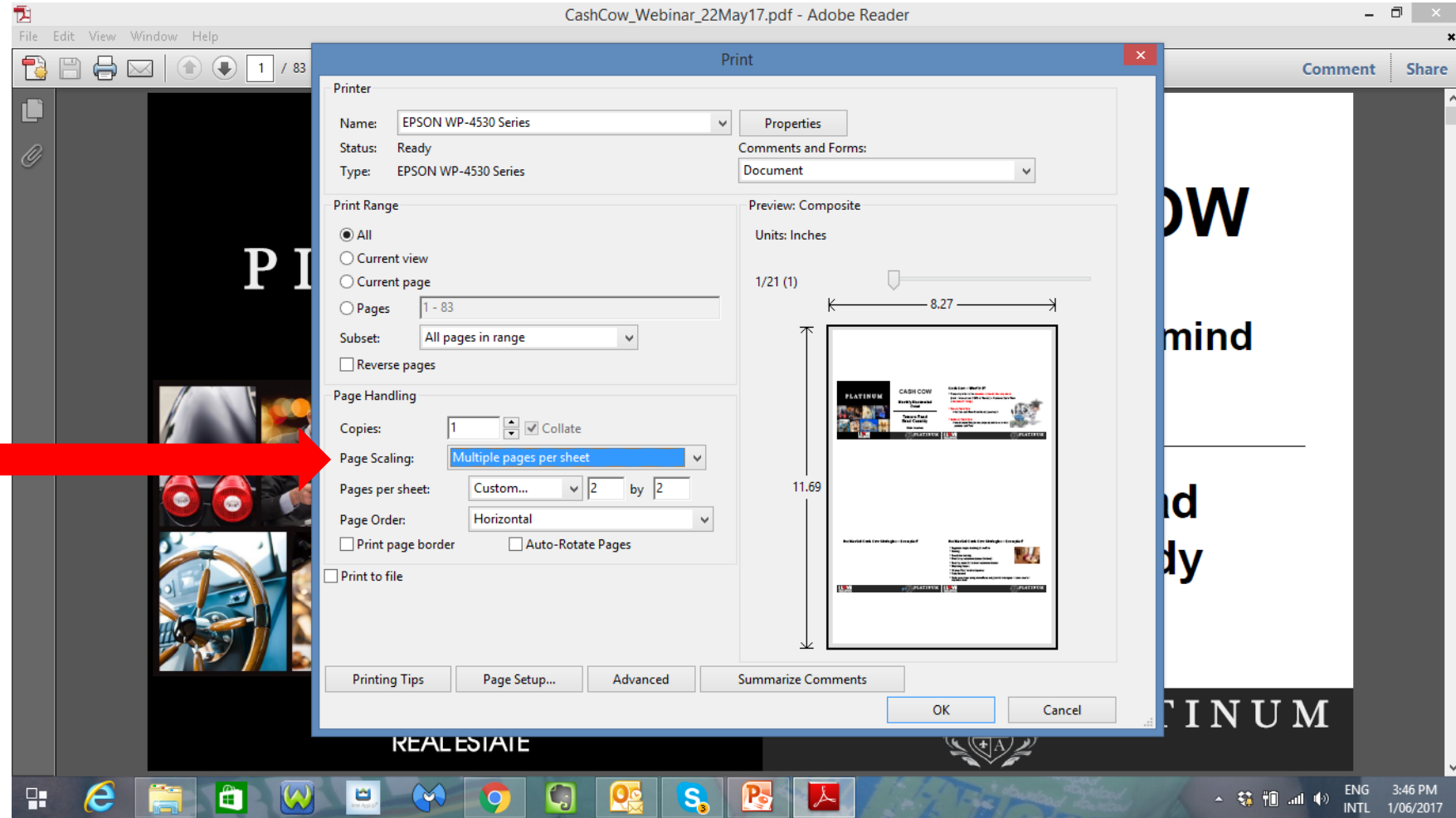


Housekeeping

- Millionaire Within: 13-15th July, Brisbane, RSVP
- Platinum National Conference: 4-5th August, Sunshine Coast, RSVP, Open Bar Fri 3rd.

Housekeeping

- Printing Webinar Slides – pdf
 - File, print
 - Can print multiple pages per sheet!!



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Commitment



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Tendai Monks



Their Story

The Tendai Monk Challenge

- **During Year 1** - monk must run 30 km per day (about 18 miles) for 100 straight days.
- **During Year 2** - monk must again run 30 km per day for 100 straight days.
- **During Year 3** - monk must once more run 30 km per day for 100 straight days.
- **During Year 4** - monk must run 30 km per day. This time for 200 straight days.
- **During Year 5** - monk must again run 30 km per day for 200 straight days. After completing the fifth year of running, the monk must go 9 consecutive days without food, water, or rest. Two monks stand beside him at all times to ensure that he does not fall asleep.
- **During Year 6** - monk must run 60 km (about 37 miles) per day for 100 straight days.
- **During Year 7** - monk must run 84 km (about 52 miles) per day for 100 straight days. (52 miles per day!) And then, he must run 30 km per day for the final 100 days.
- The sheer volume of running is incredible, of course, but there is **one final challenge** that makes The Kaihogyo unlike any other feat...

Day 101

- During the first 100 days of running, the monk is allowed to withdraw from the Kaihogyo.
- However, from Day 101 onwards, there is **no withdrawal**. The monk must either complete the Kaihogyo ... or **take his own life**.
- Because of this, the monks carry a length of rope and a short sword at all times on their journey.
- In the last 400+ years, only **46 men** have completed the challenge. Many others can be found by their unmarked graves on the hills of Mount Hiei.

Lessons to be Learnt from the Tendai Monks

1. “Complete or Kill”

- The Marathon Monks are an extreme version of the “complete or kill” mentality. But you can take the same approach to your goals, projects, and work.
- If something is important to you, complete it. If not, kill it.
- What half-finished, half-completed projects and ideas do you have in your life right now? Do you need all of those loose ends?
- Either something is important enough to you to complete, or it's time to kill it.
- Fill your life with goals that are worth finishing and eliminate the rest.

Make a list of unfinished projects and either schedule in completion time frame or kill it

Lessons to be Learnt from the Tendai Monks

2. If you commit to nothing, you're distracted by everything.

- Most of us never face a challenge with the true possibility of death, but we can learn a lot from the monk's sense of **commitment and conviction**. They have clarified exactly what they are working toward and for seven years they organize their life around the goal of completing the Kaihogyo. Every possible distraction is rendered unimportant.
- Do you think the monks get **distracted** by TV, movies, the internet, celebrity gossip, or any of the other things that we so often waste time on?
- We all have things that we say are important to us — but do you make time for these goals above all else? Do you organize your day around **accomplishing** them?

Write down what your biggest distractions are in your life right now

Lessons to be Learnt from the Tendai Monks

3. It doesn't matter how long your goal will take, just get started.

- On Day 101, the Tendai monks are thousands of miles and 900 days from their goal. They are setting out on a journey that is **so long and so arduous** that it's almost impossible to imagine. And yet, they still accept the full challenge. Day after day, year after year, they work.
- And seven years later, they finish.
- Don't let the length of your goals **prevent you from starting** on them.

Never give up on a dream just because of the length of time it will take to accomplish it. The time will pass anyway.

—H. Jackson Brown

Lessons to be learnt from the Tendai Monks

4. **Mental Toughness and Commitment**

When you believe in something enough – any obstacle or hardship that arises is simply part of the journey, an opportunity to problem solve and ultimately learn

WHETHER YOU
THINK YOU CAN,
OR THINK YOU CAN'T,
YOU'RE RIGHT.

Commitment & Conviction

- Imagine the **sense of commitment** that the monk feels on Day 101.
- Imagine what it feels like to embrace the final 900 days of that challenge and accept a goal that is so important to you that you tell yourself, “**I’m going to finish this or I will die trying.**”
- If you have something that is important to you, then eliminate the unrelated and unimportant tasks, get started no matter how big the challenge, and **commit to your goal.**

Every big challenge has a turning point. Today could be your Day 101. Today could be your Day of Commitment.

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Accountability



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Buddy Process Follow-Up



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Cash Cow



Fundamental Characteristic of a Cash Cow?

- Income Greater than Expenses

it's all
ABOUT the
NUMBERS



Activity - Cash Cow Analysis

❖ List calculations important when analysing a cash cow?

1) Cash Flow Analysis –

- a) Feasibility
- b) Value Add
- c) Sensitivity Analysis

2) Deal Analysis -

- a) Value Add Potential
- b) Funds Required

3) Refinance Analysis-

- a) 80% LVR

4) Opportunity Cost Analysis -

- a) Metrics
- b) Property Analysis Spreadsheet

The Deal – Indirect Cash Cow

- Purchase Price: \$285,000
- Purchase Costs: \$17,000
- Rates: \$2100 / year
- Insurance (House & Contents): \$550 / year
- Landlord Insurance: \$300 / year
- Management fees: 7.7% incl GST
- Letting fee: 1 week rent plus GST
- Maintenance: \$1000 / year
- Rental (unreno): \$290 / week
- Rental (reno'd): \$350 / week
- Rental for Granny Flat: \$310 / week
- Renovated existing end val: \$375k
- Unrenovated with granny flat end value: \$405k
- Renovated with granny flat end val: \$495K
- Renovation budget: \$26K
- Granny Flat Build (turn key) Incl. certification etc: \$120K

The Deal




The Deal



The Deal

- Population of 6,252
- Approx. 689m² block (15.4m frontage)
- Residential zoning

Metrics 	HOUSE	UNIT
Median price	\$398,750	N/A
Quarterly growth	0.69%	N/A
12-month growth	9.25%	N/A
Average Annual Growth	4.70%	N/A
Weekly median advertised rent	\$380	N/A
Number of sales	91	N/A
Gross rental yield	4.96%	N/A
Days on market	48.15	N/A

Source: CoreLogic

Qu: Is This a Positive Cash Flow Deal?



A: Do Cash Flow Analysis - Feasibility

1a) Cash Flow Analysis - **Feasibility**

Item	Formula	\$
Income – Rent @ 48 weeks		
Hold Costs		
Interest - Loan		
Interest – Owners Funds		
Property Management		
Let Fee		
Insurance – Building / Contents		
Insurance - Landlord		
Rates & Water		
Maintenance & Repairs		
Body Corporate Fees / Land Tax		
Total Hold Costs		
Annual Cash Flow		

❖ **Activity –**
Fill-in line items
in feaso

1a) Cash Flow Analysis - Feasibility

Item	Formula	\$
Income – Rent @ 48 weeks		
Hold Costs		
Interest - Loan		
Interest – Owners Funds		
Property Management		
Let Fee		
Insurance – Building / Contents		
Insurance - Landlord		
Rates & Water		
Maintenance & Repairs		
Body Corporate Fees / Land Tax		
Total Hold Costs		
Annual Cash Flow		

❖ Activity –

Add figures & calculate cash flow

Assume:

- 80% LVR on purchase
- 4.5% Interest (bank & owner funds)

Note:

Calculating cash flow in first year of purchase not after longer term hold. Depreciation is not being accounted for.

1a) Cash Flow Analysis - **Feasibility**

Item	Formula	\$
Income – Rent @ 48 weeks	$\$290 \times 48$	13,920
Hold Costs		
Interest – Loan 80% Purchase	$\$285k \times 80\% = \$228k \times 4.5\%$	10,260
Interest – Owners Funds 20% Purchase + 100% Purchase Costs	$(\$285k \times 20\% = \$57k) + \$17k = \$74k \times 4.5\%$	3,330
Property Management	$\$13,920 \times 7.7\%$	1,072
Let Fee	$\$290 \times 1.1$	319
Insurance – Building / Contents	\$550	550
Insurance - Landlord	\$300	300
Rates & Water	\$2,100	2,100
Maintenance & Repairs	\$1,000	1,000
Body Corporate Fees / Land Tax	0	0
Total Hold Costs	Sum	18,931
Annual Cash Flow	$\$13,920 - \$18,931$	- 5,011

Qu: Can We Do Anything To Make It A Positive Cash Flow Deal?



A: Do Cash Flow Analysis – Value Add Calcs

1b) Cash Flow Analysis - Value Add

Item	A) Do Nothing	B)	C)	D)
Income – Rent @ 48 weeks	13,920			
Hold Costs				
Interest - Loan	10,260			
Interest – Owners Funds	3,330			
Property Management	1,072			
Let Fee	319			
Insurance – Building / Contents	550			
Insurance - Landlord	300			
Rates & Water	2,100			
Maintenance & Repairs	1,000			
Body Corporate Fees / Land Tax	0			
Total Hold Costs	18,931			
Annual Cash Flow	- 5,011			

❖ **Activity – Add Value-Add Strategies**

1b) Cash Flow Analysis - Value Add

Item	A) Do Nothing	B) Cosmetic Reno	C) Granny Flat	D) Cosmetic Reno + Granny Flat
Income – Rent @ 48 weeks	13,920			
Hold Costs				
Interest - Loan	10,260			
Interest – Owners Funds	3,330			
Property Management	1,072			
Let Fee	319			
Insurance – Building / Contents	550			
Insurance - Landlord	300			
Rates & Water	2,100			
Maintenance & Repairs	1,000			
Body Corporate Fees / Land Tax	0			
Total Hold Costs	18,931			
Annual Cash Flow	- 5,011			

❖ **Activity** – Calculate the cash flow for D) reno + granny flat strategy

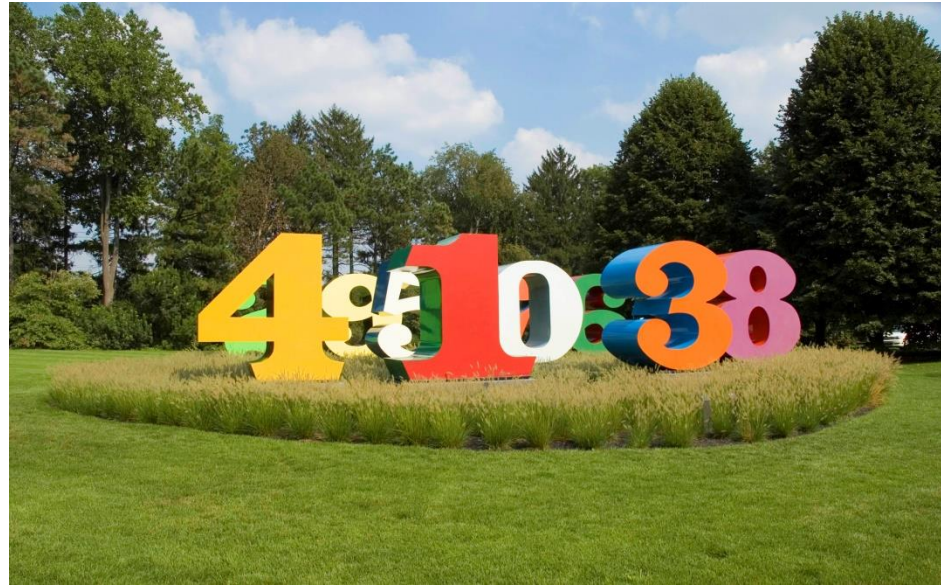
Assume

- 80% LVR on purchase & granny flat build

- 4.5% Interest (bank & owner funds)

Item	A) Do Nothing	B) Reno	C) Granny Flat	D) Reno + Granny Flat
Income – Rent @ 48 weeks	13,920			$(\$350 \times 48 = \$16,800) + (\$310 \times 48 = \$14,880) = \$31,680$
Hold Costs				
Interest – Loan (80% Purchase + 80% Granny flat)	10,260			$\$285k + \$120k = \$405k \times 80\% = \$324k \times 4.5\% = \$14,580$
Interest – Owners Funds (20% Purchase + 20% Granny flat) + 100% Purchase Costs + 100% Reno	3,330			$(\$285k + \$120k = \$405k \times 20\% = \$81k) + \$17k + \$26k = \$124k \times 4.5\% = \$5,580$
Property Management	1,072			$\$31,680 \times 7.7\% = \$2,439$
Let Fee	319			$(\$350 + \$310) \times 1.1 = \$726$
Insurance – Building / Contents	550			$\$550 \times 2 = \$1,100$
Insurance - Landlord	300			$\$300 \times 2 = \600
Rates & Water	2,100			$\$2,100\#$
Maintenance & Repairs	1,000			$\$1,000$
Body Corporate Fees / Land Tax	0			0
Total Hold Costs	18,931			$\$28,125$
Annual Cash Flow	- 5,011			$\$3,555$

Qu: How Secure (Reliable) Is the Positive Cash Flow



A: Do Cash Flow Analysis – Sensitivity Analysis

1c) Cash Flow Analysis – **Sensitivity Analysis**

❖ **What is the purpose of Sensitivity Analysis?**

- “**What if**” analysis to determine how sensitive the positive cash flow is to changes in parameters.
- How much do things have to change to reach **break even point**?

❖ **What parameters should be tested?**

- Interest Rate Increase
- Rental Vacancy Increase
- Rental Rate Decline
- Maintenance Cost Increase



Item	D) Reno + Granny Flat - Formula	\$	Sensitivity
Income – Rent @ 48 weeks	$(\$350 \times 48 = \$16,800) + (\$310 \times 48 = \$14,880)$ $= \$31,680$	\$31,680	
Hold Costs			
Interest – Loan (80% Purchase + 80% Grannyflat)	$\$285k + \$120k = \$405k \times 80\% = \$324k \times 4.5\%$ $= \$14,580$	\$14,580	
Interest – Owners Funds (20% Purchase + 20% Grannyflat) + 100% Purchase Costs + 100% Reno	$(\$285k + \$120k = \$405k \times 20\% = \$81k) +$ $\$17k + \$26k = \$124k \times 4.5\% = \$5,580$	\$5,580	
Property Management	$\$31,680 \times 7.7\% = \$2,439$	\$2,439	
Let Fee	$(\$350 + \$310) \times 1.1 = \$726$	\$726	
Insurance – Building / Contents	$\$550 \times 2 = \$1,100$	\$1,100	
Insurance - Landlord	$\$300 \times 2 = \600	\$600	
Rates & Water	\$2,100	\$2,100	
Maintenance & Repairs	\$1,000	\$1,000	
Body Corporate Fees / Land Tax	0	0	
Total Hold Costs	\$28,125	\$28,125	
Annual Cash Flow	\$3,555	\$3,555	

❖ **Activity –**
How much
does rent
have to
reduce by
to reach
break
even?

$\$3,555 / 52 =$
 $\$68 / \text{wk}$

Item	D) Reno + Granny Flat - Formula	\$	Sensitivity: 7% interest
Income – Rent @ 48 weeks	$(\$350 \times 48 = \$16,800) + (\$310 \times 48 = \$14,880)$ $= \$31,680$	\$31,680	
Hold Costs			
Interest – Loan (80% Purchase + 80% Grannyflat)	$\$285k + \$120k = \$405k \times 80\% = \$324k \times 4.5\%$ $= \$14,580$	\$14,580	
Interest – Owners Funds (20% Purchase + 20% Grannyflat) + 100% Purchase Costs + 100% Reno	$(\$285k + \$120k = \$405k \times 20\% = \$81k) +$ $\$17k + \$26k = \$124k \times 4.5\% = \$5,580$	\$5,580	
Property Management	$\$31,680 \times 7.7\% = \$2,439$	\$2,439	
Let Fee	$(\$350 + \$310) \times 1.1 = \$726$	\$726	
Insurance – Building / Contents	$\$550 \times 2 = \$1,100$	\$1,100	
Insurance - Landlord	$\$300 \times 2 = \600	\$600	
Rates & Water	\$2,100	\$2,100	
Maintenance & Repairs	\$1,000	\$1,000	
Body Corporate Fees / Land Tax	0	0	
Total Hold Costs	\$28,125	\$28,125	
Annual Cash Flow	\$3,555	\$3,555	

❖ **Activity –**
Calculate
what
impact 7%
interest
rate would
have on
cash flow

Item	D) Reno + Granny Flat - Formula	\$	Sensitivity: 7% interest
Income – Rent @ 48 weeks	$(\$350 \times 48 = \$16,800) + (\$310 \times 48 = \$14,880) = \$31,680$	\$31,680	\$31,680
Hold Costs			
Interest – Loan (80% Purchase + 80% Grannyflat)	$\$285k + \$120k = \$405k \times 80\% = \$324k \times 4.5\% = \$14,580$	\$14,580	\$22,680 (\$324k x 7%)
Interest – Owners Funds (20% Purchase + 20% Grannyflat) + 100% Purchase Costs + 100% Reno	$(\$285k + \$120k = \$405k \times 20\% = \$81k) +$ $\$17k + \$26k = \$124k \times 4.5\% = \$5,580$	\$5,580	\$8,680 (\$124k x 7%)
Property Management	$\$31,680 \times 7.7\% = \$2,439$	\$2,439	\$2,439
Let Fee	$(\$350 + \$310) \times 1.1 = \$726$	\$726	\$726
Insurance – Building / Contents	$\$550 \times 2 = \$1,100$	\$1,100	\$1,100
Insurance - Landlord	$\$300 \times 2 = \600	\$600	\$600
Rates & Water	\$2,100	\$2,100	\$2,100
Maintenance & Repairs	\$1,000	\$1,000	\$1,000
Body Corporate Fees / Land Tax	0	0	0
Total Hold Costs	\$28,125	\$28,125	\$39,325
Annual Cash Flow	\$3,555	\$3,555	-\$7,645

❖ **Activity -**
What
impact
would 7%
interest
rate
have?

\$7,645 neg.
cash flow

Qu: What Is The Profit Potential Of The Value Add Strategies?



A: Do Deal Analysis – Value Add Potential Calcs

2a) Deal Analysis – Value Add Potential (Roughly)

– A) Do nothing, B) Cosmetic reno vs C) Granny flat vs D) Reno + Granny flat

Item	Option A Do Nothing	Option B Cosmetic Reno (8wks*)	Option C Add Granny Flat (12wks*)	Option D Reno + Granny Flat (12wks*)
Purchase Price				
Purchase Costs				
Hold Costs*	\$0	\$2,300	\$4,400	\$4,700
Strategy Costs				
Total Costs (A)				
End Value (B)				
Profit Potential (B-A)				

❖ **Activity –**
Calculate the profit potential of each value-add strategy

2a) Deal Analysis – Value Add Potential (Roughly)

– A) Do nothing, B) Cosmetic reno vs C) Granny flat vs D) Reno + Granny flat

Item	Option A Do Nothing	Option B Cosmetic Reno (8wks*)	Option C Add Granny Flat (12wks*)	Option D Reno + Granny Flat (12wks*)
Purchase Price	\$285,000	\$285,000	\$285,000	\$285,000
Purchase Costs	\$17,000	\$17,000	\$17,000	\$17,000
Hold Costs*	\$0	\$2,300	\$4,400	\$4,700
Strategy Costs	\$0	\$26,000	\$120,000	\$146,000
Total Costs (A)	\$302,000	\$330,300	\$426,400	\$452,700
End Value (B)	\$285,000	\$375,000	\$405,000	\$495,000
Profit Potential (B-A)	-\$17,000	\$44,700	-\$21,400	\$42,300

❖ **Activity –**
Calculate the profit potential of each value-add strategy

**Qu: How Much Do I Need To a) Borrow
& b) Contribute From My Own Funds?**



A: Do Deal Analysis – Funds Required Calcs

2b) Deal Analysis – Funds Required

	OPTION B - COSMETIC RENO		
Item	Total Costs \$	Loan Funds 80% LVR	Owner Funds
Purchase Price	\$285,000		
Purchase Costs	\$17,000		
Hold Costs	\$2,300		
Strategy Costs	\$26,000		
Total Costs (A)	\$330,300		
End Value (B)			
Profit Potential (B-A)			

- Simply add 2 extra columns
- Remember – Owner Funds = Cash \$, LOC \$, Offset Acct \$, JV Partner \$ etc.
- ❖ **Activity** – Identify who pays for what in this example?

2b) Deal Analysis – Funds Required

Item	OPTION B - COSMETIC RENO		
	Total Costs \$	Loan Funds 80% LVR	Owner Funds
Purchase Price	\$285,000		
Purchase Costs	\$17,000		
Hold Costs	\$2,300		
Strategy Costs	\$26,000		
Total Costs	\$330,300		

❖ **Activity –**
Calculate
the Loan
required &
Owner
Funds
required

2b) Deal Analysis – Funds Required

Item	OPTION B - COSMETIC RENO		
	Total Costs \$	Loan Funds 80% LVR	Owner Funds
Purchase Price	\$285,000	\$228,000	\$57,000
Purchase Costs	\$17,000		\$17,000
Hold Costs	\$2,300		\$2,300
Strategy Costs	\$26,000		\$26,000
Total Costs	\$330,300	\$228,000	\$102,300

❖ **Activity –**
 Calculate the Loan required = **\$228,000** & Owner Funds required = **\$102,300**

2b) Deal Analysis – Funds Required

	OPTION B - COSMETIC RENO			OPTION D – RENO + GRANNY FLAT		
Item	Total Costs \$	Loan Funds 80% LVR	Owner Funds	Total Costs \$	Loan Funds 80% LVR	Owner Funds
Purchase Price	\$285,000	\$228,000	\$57,000	\$285,000		
Purchase Costs	\$17,000		\$17,000	\$17,000		
Hold Costs	\$2,300		\$2,300	\$4,700		
Strategy Costs	\$26,000		\$26,000	\$146,000		
Total Costs	\$330,300	\$228,000	\$102,300	\$452,700		

❖ **Activity** – Option D - Calculate the Loan required & Owner Funds required

2b) Deal Analysis – Funds Required

	OPTION B - COSMETIC RENO			OPTION D – RENO + GRANNY FLAT		
Item	Total Costs \$	Loan Funds 80% LVR	Owner Funds	Total Costs \$	Loan Funds 80% LVR	Owner Funds
Purchase Price	\$285,000	\$228,000	\$57,000	\$285,000	\$228,000	\$57,000
Purchase Costs	\$17,000		\$17,000	\$17,000		\$17,000
Hold Costs	\$2,300		\$2,300	\$4,700		\$4,700
Strategy Costs Reno + Granny flat	\$26,000		\$26,000	\$146,000	\$96,000 (\$120kx80%)	\$24,000 + \$26,000
Total Costs	\$330,300	\$228,000	\$102,300	\$452,700	\$324,000	\$128,700

Qu: If I Hold & Refinance Will I Release All My Initial Funds Contributed,Plus Some?



A: Do Deal Analysis – Hold & Refinance Calcs

3a) Refinance Analysis – Hold & Refinance @ 80% LVR

❖ From Previous Slide: End Value(B)=\$375,000; Original 80% Loan(C)=\$228,000; Owner Funds(D)= \$102,300

Item	Formula	Option B – Cosmetic Reno
New Loan on Refinance @ 80%	$A = B * 80\%$	
Loan to be Paid Out on Refinance	C	
Equity Released on Refinance	$E = A - C$	
Owner Funds to Repay	D	
Owner Funds Quarantined in Deal* *(Only relevant if F = negative (-) number)	$F = E - D$	
EXTRA Funds Released for Next Deal# #(Only relevant If G = positive (+) number)	$G = E - D$	
Total Owner Funds Available for Next Deal	$H = E$	

❖ **Activity –**
Calculate if refinancing releases all of the owner funds and any extra

3a) Refinance Analysis – Hold & Refinance @ 80% LVR

❖ From Previous Slide: End Value(B)=\$375,000; Original 80% Loan(C)=\$228,000; Owner Funds(D)= \$102,300

Item	Formula	Option B – Cosmetic Reno
New Loan on Refinance @ 80%	$A = B * 80\%$	\$300,000
Loan to be Paid Out on Refinance	C	\$228,000
Equity Released on Refinance	$E = A - C$	\$72,000
Owner Funds to Repay	D	\$102,300
Owner Funds Quarantined in Deal* *(Only relevant if F = negative (-) number)	$F = E - D$	-\$30,300
EXTRA Funds Released for Next Deal# #(Only relevant If G = positive (+) number)	$G = E - D$	\$0
Total Owner Funds Available for Next Deal	$H = E$	\$72,000

❖ **Activity –**
Calculate if refinancing releases all of the owner funds and any extra

❖ **Activity**
Who pays interest on F & H?

❖ **Activity** - Owner Started with \$ 102,300 & Ended with \$72,000

Rule of Thumb

- Hold & Refinance if property is **neutral or positive cash flow** PLUS if can **release most if not all owner funds** put into deal.
- If deal quarantines too much of your \$ after refinance – have less funds available to use in next deal and can **quickly run out of \$** to move forward.
- Each deal should put you in a **better position** moving forward (cash flow / available funds) – or at least not in a worse position



QUESTIONS?