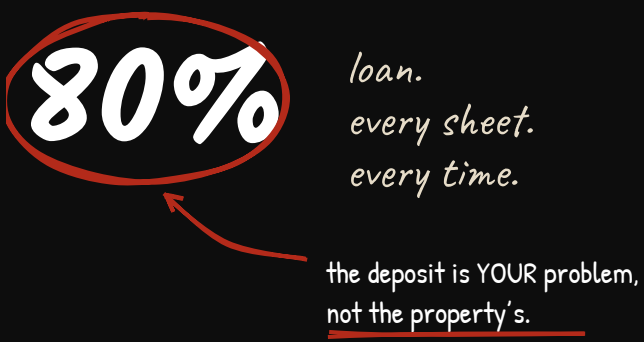
THE CASH FLOW SHEET

How to Calculate a Cash Flow Sheet

The interest-only cash flow sheet, line by line, and why I always run it at 80%



> **QUESTIONS THIS CHAPTER ANSWERS**
>
> *How do I actually calculate a cash flow sheet, line by line? And if I'm borrowing the deposit as well, shouldn't the sheet show 100% or 105%?*

Every property my team looks at gets a cash flow sheet. Every single one. It's the one-page answer to the question every investor should ask before they sign anything: what is this property going to cost me, or pay me, to hold?

You've seen these sheets throughout this book. Council rates, water, insurance, management, the interest-only repayments, the rent, and at the bottom the number everyone jumps straight to: the estimated cash flow before tax.

In this chapter I'm going to pull one apart, line by line, so you can build your own. I'll show you where every number comes from, the mistakes that make a bad property look good, and the one rule I never break when I run these sheets.

That rule is about the loan.

My Rule: Every Cash Flow Sheet Is Done at 80% LVR

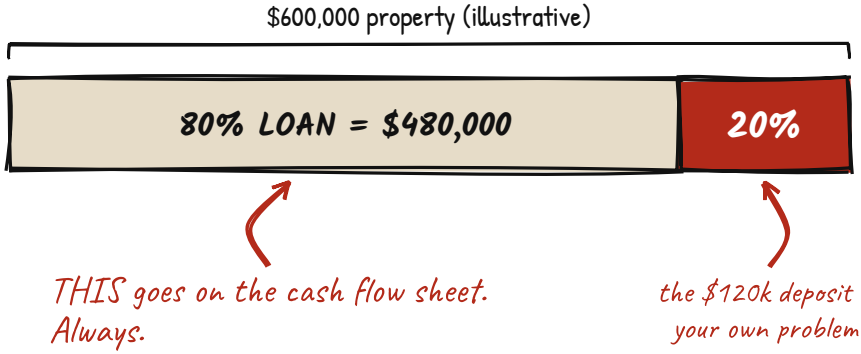
Here it is, the way I say it to my team and the way I'll say it to you:

In my words — the rule

Always make sure you are calculating a cash flow sheet off an 80% LVR if you are in residential — the loan being at 80%. Putting 20% into the property is your own problem, and you should never say this is the cash flow sheet for 100% or 105% LVR. Yes, that is important, but in life you've gotta contribute things, and if that's the case, the deposit isn't an ongoing cost and it's not the property's fault that you don't have the cash to put in — you're simply using equity and borrowing 105%. Irrespective, you should only do cash flow sheets based off 80%.

Let me be clear about what this is. **This is my method.** It's how my team and I standardise every residential property we assess, so we can compare one deal against another fairly. It's not a law. It's not an accounting standard. It's not a bank rule. It's a discipline, and I think it's the right one.

The rule, drawn out:



What LVR means

LVR is your loan-to-value ratio. It's the loan divided by the value of the property.

> **$480,000 loan ÷ $600,000 property = 80% LVR**

Banks will typically lend up to 80% against residential property. That's why 80% is the line I draw. The other 20% is the deposit. Where that 20% comes from is your business, not the property's.

Why I always use 80%

1. It's the property's number, not yours. Give the same property to three different investors. One has cash for the deposit. One borrows 100%. One borrows 105% using equity from another property. If each of them ran the sheet off their own loan, you'd get three different cash flow sheets for one property. So which one is the property? Only the 80% one.

2. The deposit isn't an ongoing cost. You pay the deposit once. Council rates come every year. Insurance comes every year. Interest comes every month. The deposit doesn't. Putting it on the property's sheet like it's a holding cost is

just wrong.

3. It's not the property's fault. If you don't have the cash to put in, that's not a problem with the townhouse or the house you're buying. In life you've gotta contribute things. You're simply using equity and borrowing 105%.

4. You can compare apples with apples. A $600,000 townhouse and a $900,000 house can only be compared fairly if they're both run the same way. Same LVR. Same interest rate. Same type of loan. That's the whole point of a standardised sheet.

But Don't Pretend the Extra Borrowing Is Free

Now here's where people twist my words, so read this part twice.

When I say "Yes, that is important", I mean it. The deposit itself is a one-off, but if you borrow it, the interest on that borrowed money is not a one-off. It comes every month, just like the interest on the main loan. It's a real cost and it doesn't disappear because I've left it off the property's sheet.

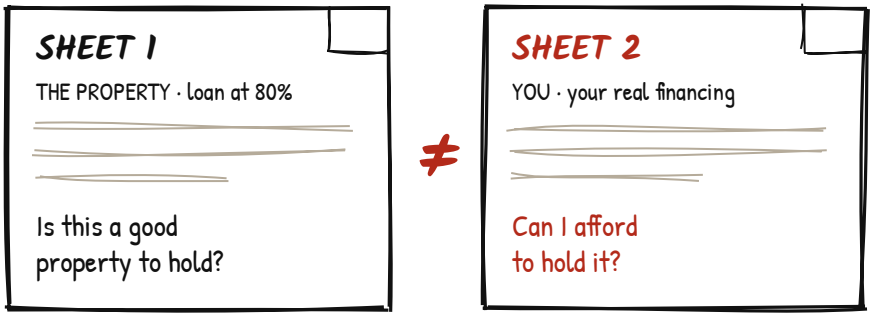
It just doesn't belong on the *property's* sheet. It belongs on *your* sheet.

So there are always two sheets:

Sheet 1: The property cash flow sheet (80%). The question it answers: *is this a good property to hold?* This is the sheet you use to compare one deal with another. Every property gets it, run exactly the same way.

Sheet 2: Your actual cash flow (your real financing). The question it answers: *can I afford to hold this, with the way I'm actually paying for it?* This includes the interest on any deposit and costs you've borrowed against equity, at whatever rate you're actually paying. This is the sheet you use for your budget, your cash buffers and your conversations with your broker.

Never mix them up. Never present one as the other. I'll show you both, with real maths, later in this chapter.



never swap them. never mix them up.

The Example We'll Use

To teach this properly I need numbers. So here's a made-up property. **These are illustrative numbers only.** It's not a real property, not a quote and not a forecast. Your rates, insurance and rent will be different, so plug in your own.

Illustrative assumption	Figure
Property type	Residential house
Purchase price	$600,000
Loan (80% LVR)	$480,000
Interest rate	6.00% interest only
Rent	$650 per week
Property management	7% of rent
Tax and depreciation	Not included (before-tax sheet)

Why 6%? As I said earlier in the book, interest rates move around. Sometimes they're 4%, sometimes 5%, sometimes 6%. In our standard cash flow sheets we use 6% interest only, so the numbers still hold up when rates rise. If your actual rate is lower, that's a bonus. If it's higher, run the numbers again before you buy.

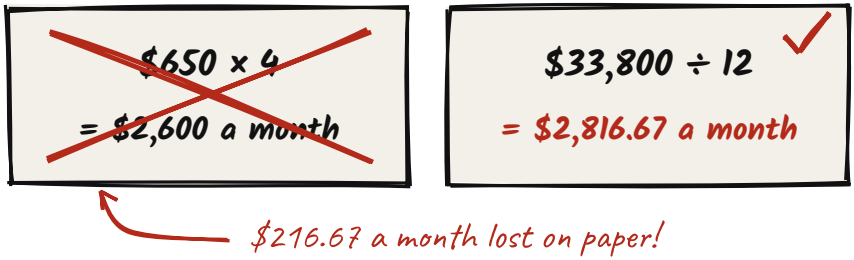
First, get your conversions right

Every line on the sheet has three columns: weekly, monthly and annually. Here's the trick most people get wrong. Always start from the annual number.

Weekly = Annual ÷ 52

Monthly = Annual ÷ 12

Never work out the monthly figure by multiplying the weekly figure by 4. A month isn't four weeks. Four weeks times twelve is only 48 weeks, so you lose four weeks of rent a year on paper.



Line by Line: The Interest-Only Cash Flow Sheet

Right, let's build it. I'll go through every line in the order it appears on our sheet: the income, then the loan, then the holding costs, then the bottom line.

Part A: The income

LINE 1

Rent

$650 a week

$650 × 52 = **$33,800** a year
$33,800 ÷ 12 = **$2,816.67** a month

Be realistic, not optimistic! Use rents that are actually being achieved.

Where does the rent come from? If the property is already tenanted, start with the lease. Then check comparable properties that have actually leased nearby, and get a rental appraisal from a property manager. Use what's being achieved, not the highest asking rent on the street.

You'll notice some of our sheets show two rent lines: the rent at purchase and the rent after it's brought up to market, like the Marsden sheet earlier in this book. The maths is exactly the same for both lines. Just don't pretend the higher rent is already in your bank account.

Part B: The loan

LINE 2

Loan amount

80% of the price

$600,000 × 80% = **$480,000**

Not $600k. Not $630k. $480k. Every time.

This is where my rule lives. Whatever you're actually borrowing, the property's sheet is calculated on a loan of 80%. For this property that's $480,000.

LINE 3

Interest-only repayment

6.00% on $480,000

$480,000 × 6% = **$28,800** a year
$28,800 ÷ 52 = **$553.85** a week
$28,800 ÷ 12 = **$2,400.00** a month

Interest only = the balance stays at $480k. You're not paying it down.

On an interest-only loan you're only paying the interest. The loan balance doesn't go down. That's why the sum is so simple: loan times rate.

I've explained before why I use interest only. It keeps your repayments lower and frees up cash that could go towards the next deposit. My goal isn't to slowly pay off one property over 30 years. It's to build an asset base. Interest-only periods don't last forever, though. When the period ends, the loan usually switches to principal and interest unless it's renewed, so talk to your broker about how your loan is set up. I'll show you the principal and interest version shortly.

Part C: The holding costs

These are the genuine ongoing costs of owning the property. If it comes every year whether you like it or not, it goes on the sheet.

LINE 4

Council rates

$2,200 a year

$2,200 ÷ 52 = **$42.31** a week
$2,200 ÷ 12 = **$183.33** a month

Get the actual rates notice. Don't guess.

LINE 5

Land tax

$0 in this example

$0 ÷ 52 = **$0.00** a week

$0 here ≠ $0 for you! Check your own.

Land tax depends on the state, the value of the land you hold and how you own it. In this example I've put it at zero, but that won't be true for everyone. Some of our sheets put it on the same line as council rates. Either way, if it applies to you, it goes in. Check with your accountant or your state revenue office.

LINE 6

Water rates

$1,000 a year

$1,000 ÷ 52 = **$19.23** a week
$1,000 ÷ 12 = **$83.33** a month

Service charges are yours. Usage depends on your state and lease.

LINE 7

Strata or body corporate

$0 for this house

$0 ÷ 52 = **$0.00** a week

Unit or townhouse? This line can be thousands!

A freestanding house usually has no strata. Units and many townhouses do, and it can be one of the biggest lines on the sheet. Check whether the strata levy already includes building insurance. On the Marsden sheet it did. If it does, don't count the insurance twice.

LINE 8

Building insurance

$1,800 a year

$1,800 ÷ 52 = **$34.62** a week
$1,800 ÷ 12 = **$150.00** a month

Get a real quote. Your excess changes the premium.

LINE 9

Landlord insurance

$500 a year

$500 ÷ 52 = **$9.62** a week
$500 ÷ 12 = **$41.67** a month

Covers the landlord risks. Read what it actually covers.

LINE 10

Property management

7% of rent

$33,800 × 7% = **$2,366** a year
$2,366 ÷ 52 = **$45.50** a week
$2,366 ÷ 12 = **$197.17** a month

It's a % of the RENT, not the price. Ask about letting fees too.

Use the rate in your actual management agreement. Ask about the extra fees as well, like letting fees and advertising, so they don't surprise you.

LINE 11

Repairs and maintenance allowance

$1,000 a year

$1,000 ÷ 52 = **$19.23** a week
$1,000 ÷ 12 = **$83.33** a month

Hot water system dies = $3,000 gone. Budget for it.

Something will break. One hot water system replacement can wipe out $3,000. I'd rather you put a sensible allowance on the sheet than pretend it's zero.

What does NOT go on this sheet: the deposit, stamp duty, legal fees and your building and pest inspection. Those are funds to purchase. You pay them once, at the start. They're not holding costs. (If you borrow them, the *interest* on them is ongoing, and that goes on your own sheet, which I'll show you below.)

Part D: The bottom line

Now add it all up.

Holding costs = $2,200 + $0 + $1,000 + $0 + $1,800 + $500 + $2,366 + $1,000 = $8,866 a year

Total outgoings = $8,866 + $28,800 interest = $37,666 a year

LINE **12** **Net cash flow before tax**

Rent minus everything

$33,800 − $37,666 = **−$3,866** a year
−$3,866 ÷ 52 = **−$74.35** a week
−$3,866 ÷ 12 = **−$322.17** a month

THIS is the cash flow. Not rent minus interest.

So at 80% LVR, 6% interest only and $650 a week rent, this illustrative property costs about **$74 a week** to hold, before tax. It's negatively geared.

Is that bad? Not necessarily. Being negative is OK, as it's usually temporary because rents increase, as long as you can sustain the negative gap. In this example the rent would need to be about $730 a week before the property is neutral at 6%.

What rent breaks even at 6%? (illustrative)

costs except management: $6,500 + $28,800 = $35,300

you keep 93% of the rent (100% − 7% management)

$35,300 ÷ 0.93 = $37,957 a year

÷ 52 ≈ $730 a week

rents rise.
just sustain the gap.

And remember, this sheet is before tax. It doesn't include tax benefits or depreciation. Those could be received as a bonus, but don't buy a property that only works if you get a tax refund. Your accountant can tell you what applies to you.

Here's the whole sheet laid out the way our team does it:

The whole sheet, drawn out:

bottom line = the real number

Illustrative example (80% LVR, 6.00% interest only)	Weekly	Monthly	Annually
Council rates	$42.31	$183.33	$2,200.00
Land tax (if applicable)	$0.00	$0.00	$0.00
Water rates	$19.23	$83.33	$1,000.00
Strata / body corporate	$0.00	$0.00	$0.00
Building insurance	$34.62	$150.00	$1,800.00
Landlord insurance	$9.62	$41.67	$500.00
Property management (7%)	$45.50	$197.17	$2,366.00
Repairs and maintenance allowance	$19.23	$83.33	$1,000.00
Holding costs (excluding interest)	**$170.50**	**$738.83**	**$8,866.00**
Repayments: 6.00% interest only on $480,000	$553.85	$2,400.00	$28,800.00
Total outgoings	**$724.35**	**$3,138.83**	**$37,666.00**
Rent	**$650.00**	**$2,816.67**	**$33,800.00**
Net cash flow before tax	**-$74.35**	**-$322.17**	**-$3,866.00**

Weekly and monthly figures are worked out from the annual figures and rounded to the cent, so a column may not add to the exact cent. Illustrative example figures only. This does not include tax benefits and depreciation benefits that could be received as a bonus.

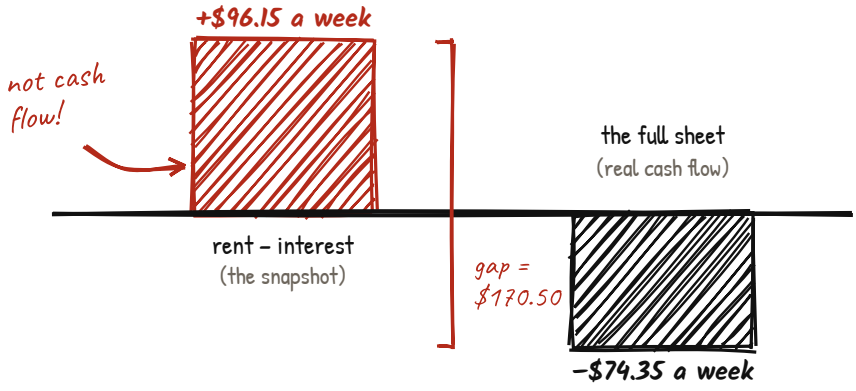
The Rent-Minus-Interest Trap

This is the one that catches people out, and you'll see it in property marketing all the time.

Somebody takes the rent, takes away the interest, and calls it cash flow.

> *$650 rent − $553.85 interest = +$96.15 a week. "It's positive!"*

No, it isn't. Look at the real sheet. The property is costing **$74.35 a week**. The gap between the two numbers is $170.50 a week, and that's exactly the holding costs: rates, water, insurance, management and maintenance.



Rent minus interest is a quick snapshot. It's fine as a first filter when you're comparing two properties side by side, and I've used it that way in this book. But it's not cash flow. Never call it cash flow. The full sheet takes every genuine ongoing cost away from the rent. That's the only number that tells you what's actually leaving your pocket.

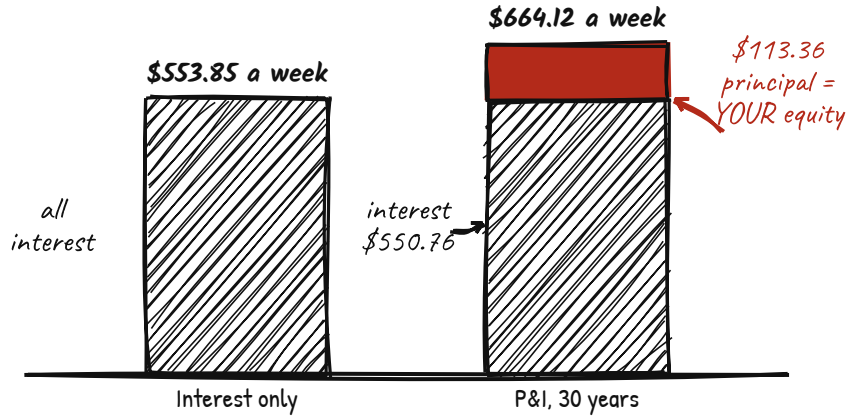
Interest Only vs Principal and Interest

Our standard sheets are interest only. But you need to know what happens on principal and interest, because one day your loan might switch, and you should never compare an interest-only sheet against a P&I sheet.

On principal and interest, every repayment pays the interest *and* pays a bit of the loan off. Same example: $480,000 at 6%, over 30 years.

Illustrative, first year	Interest only	Principal and interest (30 years)
Repayment per month	$2,400.00	$2,877.84
Repayments per year	$28,800.00	$34,534.11
... of which interest (year 1)	$28,800.00	$28,639.65
... of which principal (year 1)	$0.00	$5,894.46
Loan balance after year 1	$480,000.00	$474,105.54
Cash flow after all repayments (per week)	–$74.35	–$184.62
Cash flow excluding principal (per week)	–$74.35	–$71.26

Year-1 interest on P&I is slightly lower because the balance falls during the year. Illustrative example figures only.



Look at what's going on. On P&I about **$184.62 a week** leaves your pocket, compared with $74.35 on interest only. But $113.36 a week of that P&I repayment is principal. That's not a cost of holding the property. You're paying down your own debt and building equity. It's still cash leaving your account though, and it's cash you can't use for the next deposit.

So if you ever run a P&I sheet, show both numbers: the cash flow after all repayments, and how much of it is principal. And always label the sheet. "6.00% interest only" or "6.00% principal and interest, 30 years". Never leave people guessing.

Your Actual Numbers: The 105% Sheet

Now let's do Sheet 2, the one that's about you.

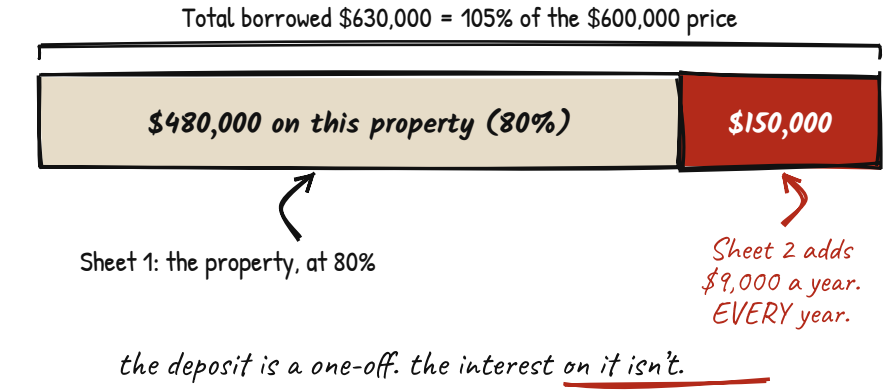
Say you don't have the cash for the deposit and costs. You're using equity in another property you already own. Here's how the money might look, again with illustrative numbers.

Illustrative funds to purchase	Amount
Deposit (20% of $600,000)	$120,000
Stamp duty, legals and other purchase costs (assumed)	$30,000
Total funds needed	**$150,000**
Loan against this property (80%)	$480,000
Loan against equity in another property	$150,000
Total borrowed: $630,000 = 105% of the price	**105%**

Stamp duty depends on your state, the price and your circumstances. Use your state's calculator. The $30,000 here is an assumption to keep the maths simple.

The $150,000 is a one-off. You don't pay the deposit every year. But the interest on the $150,000 you borrowed? That comes every single month.

Extra interest = $150,000 × 6% = $9,000 a year
= $173.08 a week = $750.00 a month



Now put your two sheets together:

Illustrative example	Weekly	Monthly	Annually
Property cash flow (Sheet 1, 80% LVR)	−$74.35	−$322.17	−$3,866.00
Interest on the borrowed $150,000 (6%, interest only)	−$173.08	−$750.00	−$9,000.00
Your actual cash flow before tax (Sheet 2)	**−$247.42**	**−$1,072.17**	**−$12,866.00**

So the property costs about **$74 a week** to hold. **You**, with the way you've financed it, are out of pocket about **$247 a week**, before tax. Both numbers are true. They answer different questions.

The property sheet tells you whether this is a good property compared with the other ones you're looking at. Your own sheet tells you whether you can afford it. The deposit isn't an ongoing cost, but the interest on a borrowed deposit is, and it has to be in your budget.

A few things to check on your own sheet:

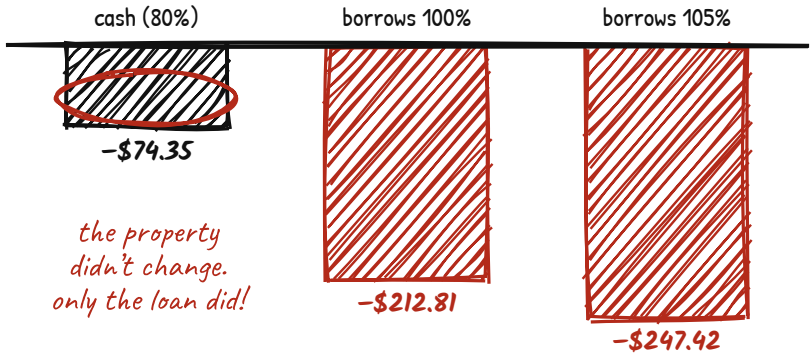
- **The rate on your equity loan might be different.** I've used 6% to keep it simple. Use your real rate.
- **Extra debt uses up borrowing capacity.** That $150,000 counts against you when a lender assesses your next loan. Your broker can tell you how.
- **Lenders mortgage insurance.** If you borrow more than 80% against the property itself, you may pay lenders mortgage insurance. That's another reason I don't model the property that way. If it applies to you, it goes on your sheet, and if it's added to the loan, the interest on it is ongoing too.
- **Tax.** Whether the interest on an equity loan is deductible depends on what the money is used for and how it's structured. That's a question for your accountant, not your cash flow sheet.

Why the 105% sheet is the wrong sheet for the property

Here's what happens if you run the *property's* sheet off your own loan.

Same property, same rent, same costs	Loan	Interest (6%)	Cash flow per year	Per week
Investor with cash (80%)	$480,000	$28,800	−$3,866	−$74.35
Investor borrowing 100%	$600,000	$36,000	−$11,066	−$212.81
Investor borrowing 105%	$630,000	$37,800	−$12,866	−$247.42

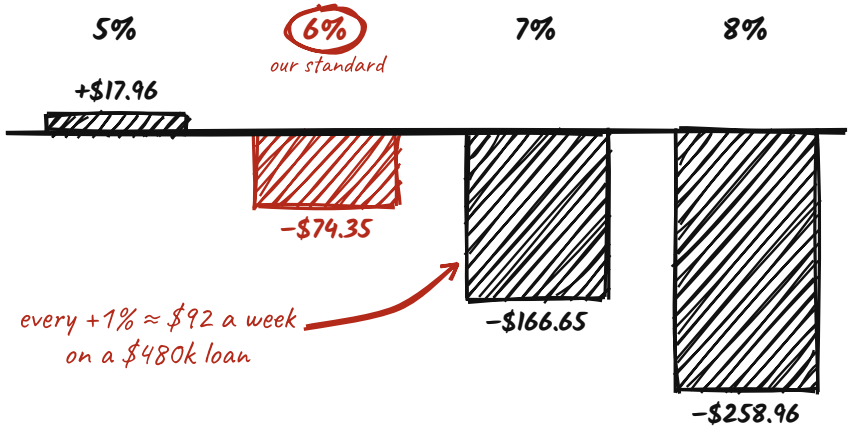
Same property. Same rent. Same rates. Three completely different "cash flow sheets". The property didn't change. Only the investor's financing changed. That's my whole point. The 105% number is real and you need to know it, but it's a number about *you*, not about the property. Irrespective, you should only do cash flow sheets based off 80%.



Stress Test It Before You Buy

The last thing I want you to do is move the interest rate and see what happens. Same property, still at 80% LVR.

Interest-only rate	Interest per year	Cash flow per year	Cash flow per week
5.00%	$24,000	+$934	+$17.96
6.00% (our standard)	**$28,800**	**−$3,866**	**−$74.35**
7.00%	$33,600	−$8,666	−$166.65
8.00%	$38,400	−$13,466	−$258.96



Every 1% on a $480,000 loan is $4,800 a year, or about $92 a week. On your actual borrowing of $630,000, every 1% is $6,300 a year, or about $121 a week. Run both. If the 8% line would break you, you need a bigger buffer or a

different property.

Same property. Same rent. Different rate. That's why I want you to build buffers in from the start.

In Summary

Before you buy any residential property, build the sheet like this:

1. **Run the property sheet at 80% LVR.** Always. The loan is 80% of the price. Putting 20% in is your own problem, not the property's.
2. **Start from annual figures.** Weekly is annual divided by 52. Monthly is annual divided by 12. Never weekly times 4.
3. **Rent:** use what's actually being achieved. Be realistic, not optimistic.
4. **Interest:** label it. Our standard is 6.00% interest only, and the interest is simply loan times rate.
5. **Holding costs:** rates, land tax if it applies, water, strata, building insurance, landlord insurance, management and a maintenance allowance. Every genuine ongoing cost goes in.
6. **Net cash flow = rent minus interest minus all holding costs.** Rent minus interest is a snapshot, not cash flow.
7. **If it's P&I, show the principal separately.** Principal repayment is cash leaving your pocket, but it's building your equity, not a holding cost.
8. **Then build your own sheet.** Add the interest on any deposit and costs you've borrowed. The deposit is a one-off. The interest on it isn't.
9. **Stress test the rate.** If you can't hold it at a higher rate, rethink it before you buy.

Do every property the same way and you'll be able to compare deals properly, and you'll never get caught out by a sheet that looked positive in an ad.

General information only. Every figure in this chapter is an illustrative example based on stated assumptions, not a prediction, a quote or financial, tax or credit advice. Speak to your mortgage broker, accountant and financial adviser about your own situation.

YOUR TURN

property cash flow sheet · 80% LVR

	Annual	÷ 52 weekly	÷ 12 monthly
Rent			
Loan = price × 80%			
Interest = loan × rate (10)			
Council rates			
Land tax (if any)			
Water rates			
Strata / body corporate			
Building insurance			
Landlord insurance			
Management (% of rent)			
Repairs allowance			
Holding costs total			
NET CASH FLOW (property)			
+ interest on borrowed deposit/costs			
MY ACTUAL CASH FLOW			

annual first. ÷ 52 for weekly. ÷ 12 for monthly. never × 4.

Sheet 1 stops at the property line. Sheet 2 is yours.