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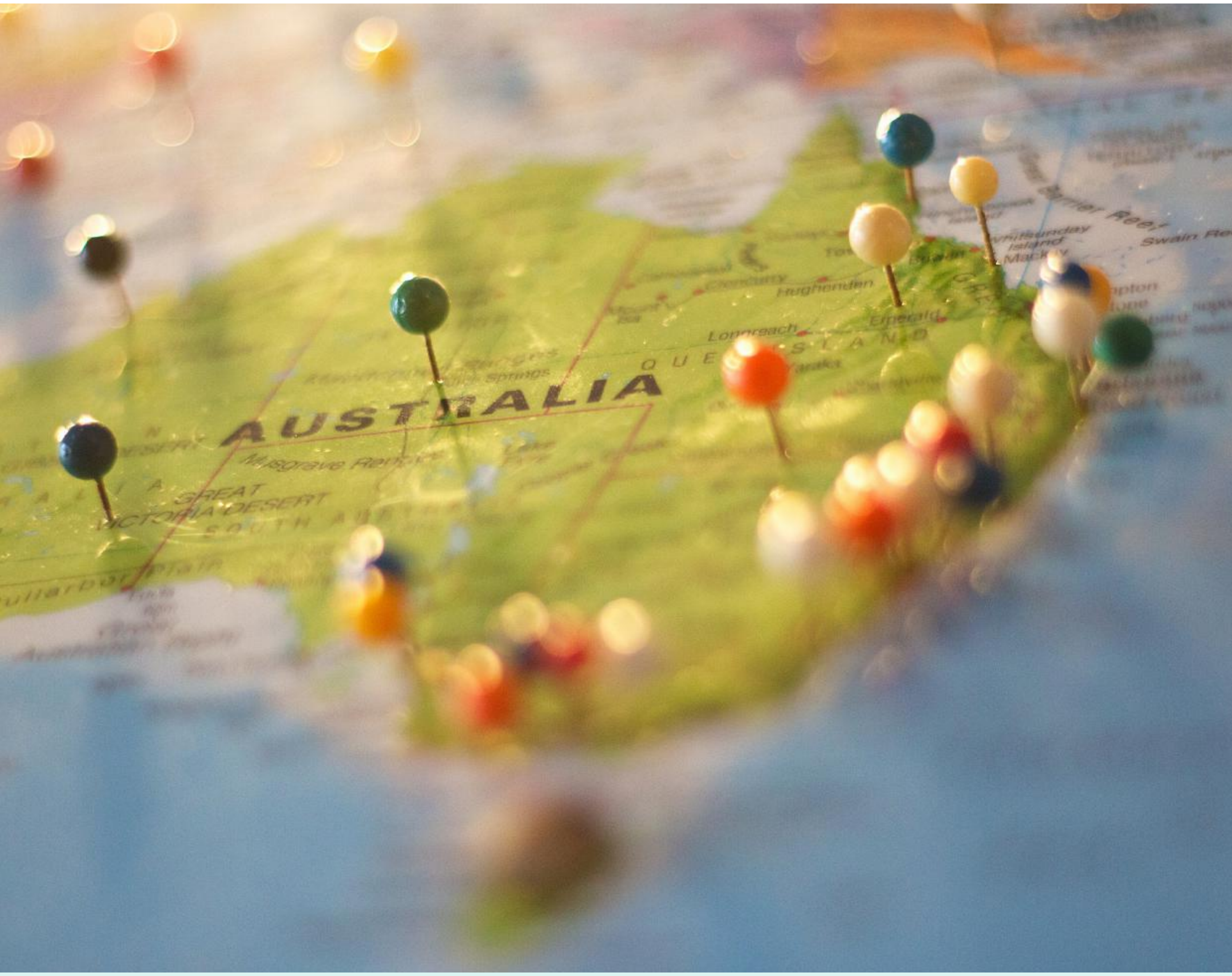

WHAT SIZE PROPERTY PORTFOLIO DO YOU NEED TO RETIRE?

Building Property Investment Portfolios are a time-tested method that will ensure a comfortable and early retirement.

However, figuring out how big your portfolio needs to be is an important key to setting yourself up for early success.

A clearly defined goal is essential for success right from the start of your journey. It gives you a clear objective to aim for and allows you to pinpoint each piece of the puzzle necessary along the way.

Everybody has a different target needed to achieve their version of a comfortable retirement, but don't worry, we have an easy formula you can apply for your success.

WORKING OUT YOUR NUMBERS

The first step to determining how many properties you need to retire is obtaining a rough estimate of what $ figure you need each year to live comfortably once you are retired.

STEP 1: FIGURE OUT YOUR STRATEGY – RENTAL INCOME OR CAPITAL GROWTH

Live off rental income

Strategy 1 is to gradually build an investment property portfolio that enables you to live on the net rental income generated.

This requires you to know your expenses and annual living costs. Don't forget to factor in inflation which affects costs and allow for some money to do the finer things in life – such as travel and helping your children and grandchildren.

You will likely need **more than 1 property** to achieve this.

Sell and live on capital growth profit

Strategy 2 is to build a portfolio of properties in well-researched growth areas. It is then a matter of playing the waiting game to work out the right time to sell and live on the profit made from the capital growth.

The upside to this strategy is you don't have to worry about changing markets during your retirement and how that could affect your income. The downside is this strategy only leaves you with a limited chunk of cash to ration out accordingly, as opposed to the ongoing and consistent income of strategy number one.

Below we will look at the number of properties that you would need to be able to successfully live on rental income if you decide strategy one is right for you.

> *Your situation and goals dictate which strategy is going to work best for your lifestyle and retirement goals.*

STEP 2: WORKING OUT YOUR NUMBERS

No matter which strategy you chose the next step is to work out your numbers.

Beginner investors will often set arbitrary property goals that will not achieve the financial and family security they desire in retirement.

To work out how ambitious your property objectives need to be, the first step is to determine what your actual living costs will be.

ESSENTIAL ADVICE #1

It is common to overestimate income and under-estimate expenses when it should be the reverse.

Start with what you know:

How much do you currently earn and what are your costs? Do you need more or less than that in your retirement?

Future factors that need to be considered include:

✔ **Debt** - Will you still have debt when you retire? If so, that must be factored in

✔ **Annual Living Costs** - food, holidays, alcohol, eating out, entertainment, gifts clothes and everything else that will be part of your retirement

✔ **Healthcare** - As you age your healthcare costs will increase, so don't get caught out by under budgeting. **(Pro-tip, look to expenses of elderly family members)**

✔ **Safety Buffer** - You never know what other expenses may arise so make sure you leave a little wriggle room in your calculations.

✔ **Inheritance** - Do you want to help your children or grandchildren?

Analyse your current expenses then adjust by considering these projected future expenses to obtain a realistic annual target.

ASFA Retirement Standard	Annual living costs	Weekly living costs
Couple – modest	$34,560	$663
Couple – comfortable	$59,619	$1,143
Single – modest	$23,996	$460
Single – comfortable	$43,372	$832

Source: https://www.finder.com.au/how-many-properties-do-you-need-to-retire

The Association of Superannuation Funds of Australia has provided a recent estimate of retiree annual expenses which you can compare your estimate with.

When are you planning to retire?

Next question is, “When are you planning to retire?”

An investor looking to retire in 7 years needs quite a different strategy to an investor looking to retire in 30 years.

Remember when you are working out your numbers:

Don’t let the inconvenience of calculating for inflation leave your 70-year-old self without enough money to feed the cat or survive on baked beans for breakfast, lunch and dinner.

STEP 3: WORKING OUT YOUR INVESTMENT STRATEGY

Great, so now you know a rough time frame and dollar figure that you need to work towards. If you have chosen to live on your rental income these numbers influence the number of properties, you need in your portfolio.

ESSENTIAL ADVICE #2

Don't make the mistake of not calculating the cost of investing. Unavoidable fees like property management, maintenance, insurance and rates are going to be a consistent part of each property and need to be considered and added into your total annual income requirements.

These charts give you a rough idea of the number of properties you need to fund two different levels of annual expenses – one of $50,000 and the second of $100,000

Number of properties owned	4
Value of each property	$350,000
Net rental yield	5%
Before-tax income	$70,000
Income tax payable	$14,297
Annual income	$55,703

Number of properties owned	5
Value of each property	$580,000
Net rental yield	5%
Before-tax income	$145,000
Income tax payable	$41,282
Annual income	$103,718

Source: https://www.finder.com.au/how-many-properties-do-you-need-to-retire

Keep in mind these are estimates based on recent market conditions and no guarantee of future performance.

Factors such as capital growth and equity could drastically change your scenario and you may see the opportunity for building a larger portfolio or changing your direction and goals at any point as your circumstances and markets change.

CONCLUSION

The purpose of this handout is to help you start thinking about what the possibilities might be and how you can live the retirement life of your dreams.

Both strategies – living on rental income or acquiring capital grown are achievable ways of building a wealth portfolio. There are advantages and disadvantages to both approaches.

Every successful investor with a portfolio of three or more properties will tell you the same thing. Having the right team around you isn't a choice, it's a necessity. Any expense you save by going it alone is dramatically outweighed by opportunities lost. Many hands make light work and when it comes to growing a thriving property portfolio this certainly rings true.

Contact Jason McDaniel from Radius Property Group on 0439 269 137 to find out more.