Investing in Property – Measuring Returns

It’s important to measure the return on your investment property to understand whether it’s contributing to your sustainable financial future.

This webinar explores the concept of how to measure if an investment property is profitable and achieving the goals set for it. In particular, it looks at:

- Strategy
- Financing
- Return

**Strategy**

It’s vital to define the overall strategy of the investment property. Is it capital growth (i.e. an improvement in the property’s value over time) or strong cash flow (to supplement income or grow your investment portfolio)? Commonly, it’s a combination of the two. Whatever it may be, it’s important to maintain focus on the strategy to ensure your decisions support your strategy and help achieve your overall goals for the investment property.

**Financing**

Financing your investment property looks at various areas including knowing what lenders look at and understanding your repayment and interest rate options.

**What do lenders look at?**

When assessing a finance application, most lenders look at your deposit/equity (which is the amount of deposit or equity you wish to have in the investment), your capacity to repay (which takes into account factors such as your existing income and financial commitments) and your credit history (which looks at your repayment history from sources such as banks, credit card companies, collection agencies, and government).

**Repayment options**

There are three common repayment structures you can select from to ensure you get the one that best suits you. **Principle, Interest and Fees** which reduces the principle amount of the loan as well as covering accrued interest and fees; **Interest Only** which lets you pay the interest accrued only on a monthly basis; and **Interest Only Advance** where you pay an annual amount of interest only in advance.
**Interest rate options**
You can choose between fixed or variable interest rates, or a combination of the two. Whilst fixed rates provide you with certainty around repayment amounts, variable rates enable you to make additional repayments and take advantage of any interest rate decreases.

**Return**
It’s important to measure the return from your investment property to see whether it is providing sufficient return and is line with your overall strategy. There are various ways you can measure the return on your investment property:

**Profit and Loss Statement**
This looks at what income has been received over the life of the investment, less the costs that have been paid, to determine how much money has been made from the investment.

**Return on Investment (ROI) Ratio**
This is useful when considering the entire investment, including the sale of the property. Here you calculate the profit which = total income – total costs. Then you divide the profit by total costs spent on the investment throughout its life. Multiply by 100 to calculate the ROI percentage return. The resulting percentage = the return of x% of profit you receive for every dollar of costs.

**Rental Return Ratio**
This indicates how effectively you’re converting the investment property into an ongoing cash flow. The ideal balance is one that sets the rent at a rate that gives us the desired return but not so high that the property is vacant for a long period of time. Here you divide the annual rental received by the purchase price of the property. Multiply by 100 to calculate the percentage return that you use to compare with average rental yields for the area.

*Any information provided is of a general nature. Before making any decisions please ensure you seek appropriate professional advice to ensure it is appropriate to you.*