FOR OWNERS

Key Terms to Know

Yield

Yield shows the return you can expect on your investment, expressed as a percentage of the property's purchase price or total investment. To calculate gross rental yield, multiply the expected weekly rent by 52, divide by the purchase price, then multiply by 100. For example: a $600,000 property renting for $500/week would give a gross yield of about 4.3%. There are two types of yield:

- Gross yield - based on rental income and purchase price.
- Net yield - after you deduct expenses like maintenance, property management fees, rates, and other costs.

Cash flow

Cash flow is what's left over at the end of each month after all expenses (including mortgage repayments, maintenance, rates, etc.) are paid. If income from rent exceeds expenses, you have positive cash flow; if expenses exceed income you have negative cash flow.

Gross rate of return

This is the total return on your investment before any fees, costs or expenses are taken into account - usually calculated over a year.

Interest rate

The interest rate is what your lender charges you for borrowing money - usually expressed on an annual basis (APR).

Offset account

An offset account is a regular bank account linked to your mortgage. Any savings in that account reduce the balance on which interest is calculated, helping to lower your interest payments without locking away your cash.

Negative gearing

Negative gearing occurs when your property's running costs (mortgage payments, maintenance, etc.) exceed the rental income. While this may mean you're making a short-term loss, some investors use negative gearing because those losses can sometimes be used as tax deductions.

Positive gearing

When rental income exceeds all property-related expenses, that's called positive gearing. The surplus is considered taxable income.

Appreciation

Appreciation refers to the increase in a property's value over time, whether through market demand, renovations, or improvements.

Capital gain

A capital gain is the profit you make when you sell a property for more than you paid for it. For instance, if you bought a property for $600,000 and sold it for $700,000, your capital gain would be $100,000.

Capital gains tax (CGT)

If you sell a property and make a gain, you'll generally need to report that profit on your taxes. Gains realised within a year may be taxed differently from long term gains.

Depreciation

Depreciation is the opposite of appreciation: it refers to a property (or part of it) decreasing in value over time, something that might impact long term value or be considered during tax assessments.

Equity

Equity is the difference between your property's current market value and the amount you still owe on your mortgage. As you repay the loan or if the property value increases, your equity grows - which can then be used as a basis for future investments.

What to Do With This Knowledge

Understanding these terms gives you a solid foundation - but the real value lies in applying them.

Once a property is purchased:

- Use yield, cash flow, and rate-of-return metrics to benchmark performance against other investments (like shares, term deposits, etc.).
- If performance is underwhelming: consider renegotiating your loan terms, reviewing rental rates, checking maintenance costs, or even reassessing whether the property fits your investment goals.
- If performance is strong: explore opportunities to grow your portfolio - for example, by leveraging equity to acquire additional properties.

Note: *This is general information only. Tax implications, interest rates, and cashflow outcomes can vary significantly depending on your personal situation. Always seek advice from a qualified professional before making financial decisions.*