PROPERTY INVESTORS CLUB

Property 101 - Growth vs. yield

Think of Yield as what you get paid regularly, and Growth as how much your property increases in value.

Both are important if you want to succeed in the New Zealand property market. You need Yield – To repay the bank for your mortgage – but Yield won't be a significant contributor to your retirement savings. For that, you need Growth.

It's important to know this because when you're choosing an appropriate property to buy, you'll generally be trading off one for the other. If it's got a great Yield, it's probably got less Growth potential.

Apartments are a typical example of this – High Yield, Low Growth. This might be appropriate if you need to increase your regular cash income.

Houses in high-end neighborhoods are the opposite – Low Yield, High Growth. This will net you a better return in the long run, if you can sustain the drain on your monthly cashflow.

Most investors prefer something in the middle – A good house, in a good area. Enough rent to pay most of the mortgage each month, alongside reasonable long-term growth, to build your wealth.

Let's look at the numbers:

We've compared both types of investment;High Yield/Low Growth vs Low Yield/High Growth. The first property has a positive cashflow of $50 per week, and increases in value by 3%pa. The second property has a lower yield, so costs $50 per week to keep, butincreases in value by 6%pa.

	High Yield Property	**High Growth Property**
Purchase Price	$500,000	$500,000
Weekly Cashflow	$50 gain	$50 loss
Growth Rate	3%	6%

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10 Year Growth	$171,958	$395,424
10 Year Cashflow	$26,000	-$26,000
Net Profit	$197,958	$369,424

After 10 years, property one has achieved a net profit (growth plus income) of $197,958. Property two however has achieved a net profit of $369,424. This makes property two 87% more profitable, despite costing slightly more from a cashflow perspective.

If you can afford it, choose Growth, but don't leave yourself unable to pay the mortgage, by skimping on the Yield.

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