**HEADING: Everyone says it’s a numbers game**

**STANDFIRST:** Simple-to-use free tools make it easier

**PHOTO**: Nicola Valentine

**CAPTION**: Nicola Valentine

By Paul Dykes

Strategy is the yellow brick road that will get investors to their goals, says Nicola Valentine, one of the guest speakers at the NZPIF national conference in Napier in October.

The Christchurch-based property investor and Registered Financial Adviser is a self-confessed research junkie and she has created resource tools that she is happy to share.

She founded PropertyPlot/Lendr, an investment property analyser/portfolio tracker software package, plus online mortgage broker, which she described as “QV on steroids”. It was sold to an Australian company in September.

Nicola and her husband Tim bought their first investment property when she was 18 and they had paid back the borrowed deposit two years after finishing university studies. Their portfolio has been diverse, but is now solely in Christchurch.

“The success of my portfolio has come down to running it like a business,” says Nicola. “I continuously educate myself, I make sure I use the best tools, and that I have efficient systems and processes, and I network a lot, because you never know who you might be able to help or how they can help you.”

For Nicola, now graduated with an MBA, there is no substitute for education. “It’s okay to be good – you need to transition to be great.”

And just like all great businesses, you need the right people in the right places on your team, such as the right accountant who specialises in property, or the right mortgage broker who specialises in investment property.

“Now, let’s think about yourself. What type of investor are you? What’s your risk profile? How much time do you have? If you are in fulltime employment it will be difficult for you to do renovations yourself after work, especially if you have a family.

“You want to do something you love, so think about your interests and your strengths. Are you good at project managing? Do you love to network, or do you have building skills? All of these attributes will help you determine the best strategy for you to achieve your goal.”

Nicola finds it suits her to do the research, while Tim is much more hands-on as a bricklayer.

She might identify 200 properties for sale, do the hard number-crunching on about 50 of them, make a bid on about 10 and finally settle on just the one deal.

“So, you need a process that will help you determine the best property to buy. My process is broken down into four simple steps: My strategy, my buying rules, being an expert at what I’m looking for, and research.

“I look for three things when hunting:

* Potential value add
* Capital gains and cash flow (if a development project, it will be cash flow negative until completion)
* What can and can’t be done to a site or property. (I know the council regulations inside and out so I can quickly assess. This is key because it saves in time and in costs to employ an expert to do it).”

Nicola is heavy on the numbers when she assesses an investment, typically analysing market value, actual property value, net yield, capital gain potential, the rental appraisal, value add potential and what instant equity can be achieved.

Gross yield is the most basic of her five formulas. She says this calculation is a useful measurement of a property’s income earning potential. “Its weakness is that it does not consider your cost of renting nor the benefit of leveraging with the bank’s money.

“Net yield is similar to the above, but also it includes the costs of renting. This is the best to compare apples with apples because different areas and houses have different rates and insurance, etc.

“The Cash-on-Cash Return formula is great because it considers the reality that you will finance much of a property deal using other people’s money. If you are chasing capital gains for the medium to long term under a buy-and-hold strategy, the cash-on-cash return is less relevant.

“Growth on Equity Return: Unlike Cash-on-Cash Return and yield, this calculation takes into consideration the capital appreciation of a property over time.

“The final formula is Net Profit Percentage. If you are like me and have a combination of cash flow and growth it’s silly to just calculate one or the other. This formula offers a balanced view of the net profitability of your property investment.

“You should crunch these numbers for every potential property and then check them against your actual portfolio quarterly.”

**PANEL 1:**

**Heading: Key formulas for analysing property**

* Gross yield (Annual rent divided by purchase price) x 100
* Net yield (Annual rent minus opex) divided by purchase cost x 100
* Cash-on-cash return (CoCR) (Cash back divided by cash down) x 100
* Growth on equity return (GoER) (Expected annual growth divided by current equity) x 100
* Net profit percentage (NPP) (Annual cash flow plus annual expected growth) divided by cash down x 100

**Examples:**

* Gross yield (annual rent divided by purchase cost) x 100 = Gross yield.  
  Rent is $25,000 and the purchase price is $300,000. The gross yield is (25,000 divided by 300,000) x 100 = 8.3%.
* Net yield (annual rent minus opex) divided by purchase cost) x 100 = Net yield.   
  Example: Rent is $25,000, the purchase price is $300,000 and the operating expenses are $4,000. The net yield is (25,000 minus 4,000) divided by 300,000) x 100 = 7%.

Nicola says it is way easier using a spreadsheet, so she has made her simple-to-use spreadsheets freely available via email (see below) to analysis potential property investments and to track your existing portfolio.

Nicola also provides property investment consulting and creates client-specific strategies. Contact her at nicola@eyefour.co.nz

**PANEL 1 ENDS**

**Disclosure statement:** Nicola Valentine is a Registered Financial Adviser. The views and opinions expressed above are not intended to be a personalised service for an individual retail client. The views and opinions are general in nature, may not be relevant to an individual's circumstances, and constitute a class advice only. Nothing contained in this article is endorsed by the Financial Markets Authority. Before making any investment, insurance or other financial decisions, you should consult a professional financial adviser.