

Making your purchases at auction add up

Basic calculations that can help you **maximise returns** on your property portfolio explained...

It is important to know and understand the legal and commercial calculations that can guide you when evaluating a property proposition, or assessing your own portfolio. These calculations are useful as they can help you plan your next move, whether you are looking at achieving a higher rental income or longer term higher sales value.

Calculating the cost of improvements

Scott Hendry, New Business Manager at Auction Finance Limited comments, "Various factors can influence the value of a property and the question of improvements should also be considered, including

whether the cost will be reflected in a higher value price. With the low prices at some auctions, bidding can be very appealing, and as long as you do your research and ensure there is long term potential in the property you are planning to secure at auction, you can get a property with a fantastic yield that will be a good investment for years to come.

"I hope the calculations explained here help budding property professionals to better understand the performance of their purchases."



CALCULATIONS

Below are the formulae that are the basic tools by which you will be able to measure your progress.

Gross Yield

This is a basic calculation, expressing the notional rental income (assuming there are no vacant periods or other costs) as a percentage of the purchase price.

$$\text{Gross yield} = \text{rental income} / \text{purchase price}$$

e.g. £8,000 / £100,000 = 8% yield

Net Yield

This is a useful way of calculating how much you can borrow against the value of the property and the net yield will tell you the return after fees, repairs and running costs have been taken into account.

$$\text{Net yield} = (\text{rental income} - \text{costs}) / \text{purchase price}$$

Interest Cover

This percentage indicates the margin for error on payments before you start losing money. It's the difference between actual rental income (less costs) and total mortgage repayments.

$$\text{Interest cover} = \text{net rent} / \text{interest costs}$$

e.g. £8,000 / £6,000 = 33% margin

If the margin drops below 0%, you are making a loss.

Net Rent Cover

This tells you how low your rental income can drop before you're making losses. If you're mortgage rates or other costs increase and you hit, for example, vacant

period interruptions to your income stream, your 'rent cover' percentage will suffer.

$$\text{Net rent cover} = \text{interest cost} / \text{net rent}$$

e.g. £3,000 / £8,000 = 37% net rent cover

Under Market Value

If you pay less than the market value of a property, you have, in effect, gained instant equity. UMV is a measure of how far the market would need to drop before your percentage of equity is eroded.

$$\text{Under market value} = (\text{market value} - \text{purchase price}) / \text{market value}$$

Capital Growth

If, on disposal of a property, you ignore the costs of sale (estate agents fees/legal fees) and costs of purchase (legal fees, stamp duty) the basic margin between the sale price and the original purchase price represents the growth in your capital.

$$\text{Capital growth} = \text{sales price} / \text{purchase price}$$

The percentage return on your initial capital is calculated by dividing the number of years between purchase and sale.

Price Per Square Metre

Used as a way of comparing the valuation of a property with very similar properties in the immediate area. If comparable 'square metre' prices have been recently achieved nearby, then a valuation can usually be relied upon.

$$\text{Price per square metre} = \text{purchase price} / \text{property area}$$

When developers and agents refer to 'density', they are referring to the number of properties on comparable sites. As a rule, the higher the density, the lower the price of individual properties.



Essential Stats

By *David Sandeman*

Welcome to the April statistics, which give a view of activity in the month of March. I am pleased to report that the number of lots offered and sold has crept up across both the residential and commercial sectors. This shows a positive trend and demand in the auction rooms remains strong.



Total

	Last Month			Last Quarter			Last Year		
	Mar 2010	Mar 2009	Increase	Jan 2010 - Mar 2010	Jan 2009 - Mar 2009	Increase	Apr 2009 - Mar 2010	Apr 2008 - Mar 2009	Increase
Lots Offered	3,042	2,538	19.9%	6,651	6,506	2.2%	29,850	36,395	-18.0%
Lots Sold	2,102	1,844	14.0%	4,717	4,813	-2.0%	22,056	23,754	-7.1%
Percent Sold	69.1%	72.7%	-5.0%	70.9%	74%	-4.2%	73.9%	65.3%	13.2%
Total Raised	£353,571,875	£247,064,110	43.1%	£711,518,166	£645,745,495	10.2%	£3,448,027,381	£3,445,914,559	0.1%

Residential

	Last Month			Last Quarter			Last Year		
	Mar 2010	Mar 2009	Increase	Jan 2010 - Mar 2010	Jan 2009 - Mar 2009	Increase	Apr 2009 - Mar 2010	Apr 2008 - Mar 2009	Increase
Lots Offered	2,355	2,101	12.1%	5,312	5,462	-2.7%	23,868	30,182	-20.9%
Lots Sold	1,620	1,517	6.8%	3,760	4,045	-7.0%	17,557	19,536	-10.1%
Percent Sold	68.8%	72.2%	-4.7%	70.8%	74.1%	-4.5%	73.6%	64.7%	13.8%
Total Raised	£206,434,975	£163,058,260	26.6%	£470,011,441	£458,670,485	2.5%	£2,252,361,805	£2,426,294,176	-7.2%

Commercial

	Last Month			Last Quarter			Last Year		
	Mar 2010	Mar 2009	Increase	Jan 2010 - Mar 2010	Jan 2009 - Mar 2009	Increase	Apr 2009 - Mar 2010	Apr 2008 - Mar 2009	Increase
Lots Offered	687	437	57.2%	1,336	1,044	28.0%	5,979	6,213	-3.8%
Lots Sold	482	327	47.4%	957	768	24.6%	4,499	4,218	6.7%
Percent Sold	70.2%	74.8%	-6.1%	71.6%	73.6%	-2.7%	75.2%	67.9%	10.8%
Total Raised	£147,136,900	£84,005,850	75.2%	£241,506,725	£187,075,010	29.1%	£1,195,665,576	£1,019,620,383	17.3%

Focus On...

Global Property Auctions LTD.



Two entrepreneurs from Middlesbrough are embarking on a new business project, creating Global Property Auctions. The company holds a large portfolio of houses, commercial properties and land currently available for auction and will be holding auctions once every two months in the local area. Global will also shortly be launching their website - www.globalpropertyauctions.ltd.uk offering a ground breaking and up to date access to the properties on their books. Our next auction is at 6.30pm on Wednesday 19th May at the Thistle Hotel in Middlesbrough.

Global make the whole process of auctioning property a whole lot more accessible to people with their rates and charges being highly competitive in the market. Global Property Auctions can be contacted on:

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If you require any further assistance please contact Auction Finance or visit our website at www.auctionfinance.co.uk

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