

Show me the Money!!!!!!!

With interest rates so low at the moment, many property investors are attaining significant profits on their investment portfolio's.

Many of our clients ask the question, 'Well if I made so much money, where is it?'

The reason for this is that in most cases, the investment properties have been purchased by way of loans from the banks and although the interest rates have dropped, the actual loan repayments for many investors have remained the same.

EXAMPLE 1

Take an investor with £2m property portfolio, £1.5m in loans against this.

When the loan was set up over say 15 years at 5%, the loan repayments on this would have been £12k per month of which £6k was interest.

Say the properties returned £100k rental income with £15k other expenses.

Income £100k
Other expenses £15k
Interest £72k (£6k per month x 12)

Profit £13k

EXAMPLE 2

Investor with same assets and loans as above.

Nowadays, with base rate down to 0.5%, the interest charge is down to 1.5%.

Loan repayments are still at £12k per month but interest element is now only £2k per month.

Say the properties still returned £100k rental income with £15k other expenses.

Income £100k
Other expenses £15k
Interest £24k (£2k per month x 12)

Profit £61k

The same investor with the same portfolio is now returning profit of £61k compared to £13k, yet they still say they have no cash!!! Why?

The loan **repayments** have stayed the same despite the loan **interest** reducing. The excess is being deducted from the loan capital and although it feels as though there is no benefit from the profit, hopefully it will be seen down the line when the loan is repaid sooner than anticipated.

Note: If the cash flow is putting extra pressure on you, it would be wise to have a word with your bank as you should be able to negotiate a reduced loan repayment in line with the original term of the loan.