

Just Show Me the Money

The other day my father and I were getting caught up.

“How’s business going? Are you making any money?” he asked.

Forget apartments or retail, real estate market cycles, political and economic assessments, or property management strategic planning; he just wants to know if my business is making money.

When somebody says “Show me the money,” there are a lot of ways to measure success. The first one people tend to think about is positive cash flow. But you can have positive cash flow and still have a negative return on investment.

The best way to measure the success of your investment is to use the internal rate of return, or IRR

If you want to get a clear picture of your ROI, the best tool to use is the internal rate of return, or IRR. The beauty of IRR is it measures the percent earned on each dollar, every year during the life of your investment, and it can be used to track the ROI on any kind of investment. Other cash-on-cash methods like gross rent multiplier (GRM) give you results for the first year and can only be applied to real estate investments.

The IRR gives you straightforward answers to four questions:

1. How much money went into the investment?
2. When did the money go into the investment?
3. When did the money come out of the investment?
4. How much money came out of the investment?

Since an IRR can be applied to any kind of investment, you can do a comparative analysis of real estate, stocks, mutual funds, art collectables and a primary savings account. You will find that, with the right kind of income-generating real estate investment, you not only get a return on your investment; you get actual cash in hand every month you own the property.

There are a few other considerations when you’re looking at ROI, such as taxes and tracking the returns on dollars after they come out of the investment, but the IRR is the foundation for tracking investment performance.

If you’d like to learn more about IRR or other topics, please give me a call.

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