The Agency 2022

Cash Flow Versus Capital Growth

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All investors who purchase properties do so hoping to achieve results that will benefit them financially. A positive cash flow scenario is generally associated with buying properties that have a high rental yield. The aim is to select a property that will receive a higher income than the outgoing property expenses; for example, interest rates, property management fees, repairs and maintenance costs. This usually means the owner will not be out of pocket and the money left over can be used to reduce the loan faster, save for future properties or put away for personal use.

A capital growth scenario is a longer term approach, whereby investors aim to buy a property in an area with a projection for growth. Investors aim for these properties to increase in value in the long term so that when the time comes to sell, the increase in value will far outweigh the original costs associated with buying and holding the property. Sometimes these types of properties receive lower rental yields and could see the investor with more outgoing expenses than income in the short term.

No matter which scenario, there are tax implications to be aware of. In a positive cash flow scenario, any additional income earned must also be declared when preparing an annual tax return. Investors who achieve capital growth from their property must understand the capital gains implications that may apply at the time of sale. Ensuring the maximum depreciation deductions are claimed is of utmost importance for either of these strategies.

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