CHAWAZA FOUNDATION WORLDWIDE

EST. 2019

PRESENTS

HOW TO ESTIMATE THE RECOUPING TIME OF AN ASSUMED INVESTED CAPITAL IN REAL ESTATE INVESTMENT TOGETHER WITH AN ESTIMATED PERIODIC RENTAL REVIEW

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HOW TO ESTIMATE THE RECOUPING TIME OF AN ASSUMED INVESTED CAPITAL IN REAL ESTATE INVESTMENT TOGETHER WITH AN ESTIMATED PERIODIC RENTAL REVIEW

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Estate valuers, investors, developers, and financiers might want to have a quick idea on the duration an investment will take to regenerate it's invested capital. This method integrates an assumed rental review through the use of logarithm of number (Ln) "2" which is equivalent to 69.3 in percentage.

Mathematically;

[Rent Received Annually ÷ Total Amount used in building the property]×100 = income %

The figure gotten in percentage simply divide 69.3 by and 1 to know the recouping year.

<u>Example:</u>

Assuming you build a property at the rate of #5,000,000 and you gave it out for rent at #450,000 annually. To know when to recoup the capital used in building the property you simply say;

[(450,000 ÷ #5,000,000) x 100] = 9%

Now for the years to recoup the capital divide 69.3 by 9 =7.7+1=8.7 approximately 9 years.

Using the Amount of #1 P.A to model check:

A#1 P.A= $[(1+0.09)^9 – 1] / 0.09 = 13.0210$

Now, multiply the Amount of #1 P.A figure by annual rent

13.0210 × #450,000 = #5,859,450

Interpretation; An invested sum of #5,000,000 with an annual rental value of #450,000 will be recouped in 9years time based on the rule of 69.3.

Rental Review Pattern

period	Year	Rent	Accumulated
1	1-3	450,000	1,350,000 [+0%]
2	4-7	625,783.5	1,877,350 [+3%}
3	8-11	917,866.5	2,753,599 [+4.3%]

Note

i. The first period usually don't have any rental increment.

ii. From Second period beyond, the rent increases by 3% on Amount of #1 P.A multiplied figure (#5,859,450).

iii. While the last period is the summation of period 1 and 2 subtracted by Amount of #1 P.A multiplied figure (#5,859,450) then divided by 3.

The method above is applicable to any given parameters.

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