FundStar

Video 10-day course
Deeper understanding real estate returns

Video 1: high level overview real estate returns

Hello, welcome to this first video of the 10-day video course. My name is René Slagter, co-founder of FundStar. In this first video I would like to give you an initial introduction of time-weighted and money-weighted returns.

When you want to calculate real estate return, there are really only two options: IRR or TWR. The IRR stands for Internal Rate of Return. This is a money-weighted return. The TWR stands for Time Weighted Return. As the name suggests, this is a time-weighted return.

So IRR is money weighted. It uses the total investment. The TWR is time weighted. It uses fair value. But what does that mean?

The IRR is based on the total investment. When you look at this timeline, you will receive a net rent here at the dot. For the impact of the net rent on the IRR, that net rent is divided by the total investment at the start of the period. The total investment of an asset remains the same throughout the entire timeline. This means that the impact of net rent on the IRR is not affected by an increase in the value of the assets.

The TWR is based on the fair value of the assets. When you receive the same net income, it is divided by the fair value at that time. With an increasing value of an asset or portfolio, the net income impact is therefore lower than with the IRR.

Furthermore, with the TWR, a return is first calculated every period. All periods are then linked together. With this linking, every period has the same weight. Even if the volume of the portfolio is not the same from period to period. This can lead to major differences between the TWR and the IRR. We will come back to this extensively later in this 10 day course.

In the following video we look further at the characteristics of the IRR, and when it makes sense to use it.

See you in the next video!