2015 SPECIAL GUIDE TO U.S. PROPERTY INVESTMENT: HOW TO WIN WITH A LOWER LOONIE

CANADA'S #1 REAL ESTATE INVESTMENT MAGAZINE

CANADIAN Real Estate Wealth

RETIRE RICH

and stay that way

- 6 step-by-step guides from the experts
- Complete strategies by property type – houses, condos, multifamily units
- Real-life success stories from investors in their 20s, 30s, 40s and 50s
- 10-, 20-, and 30-year plans to ready you for retirement

CANADIAN CONDOS: The time is now for high-rise investment

5 things to look for when analyzing an investment property

15 tips for keeping good tenants

2,500+ Canadian neighbourhoods: Exclusive home data

Display until April 27th, 2015
MAR/APR 2015 $7.99
04
0 55113 70148 1
canadianrealestatemagazine.ca

HOW TO RETIRE RICH BY INVESTING IN multi-family properties

Multi-family properties have their challenges, but the rewards can be great. **Paul Kondakos** sets out the fast track for post-retirement wealth

Gone are the days when people were employed by the same company for 35 years and then retired with a comfortable pension. These days, more and more Canadians are taking matters into their own hands to ensure they can enjoy their golden years. On average, retirement planning in Canada begins at the age of 40, which gives people 25 years to plan. The good news is that if you approach real estate investing with a solid plan in place, 25 years is more than sufficient to ensure a comfortable retirement.

THE SCENARIO

You're in your mid-40s with around 20 years until retirement. Your aim is to amass a portfolio that provides you with at least $50,000 per annum in your retirement years.

Basic assumptions for the low-risk strategy:

- Financing is on a five-year term with a 25-year amortization
- Appreciation is 2% per year

Basic assumptions for the high-risk strategy:

- We are using a CMHC-insured mortgage (85% LTV – five-year term, 25-year amortization, between 2.7% and 3.5%)
- The price for the CMHC-insured mortgage includes the CMHC insurance premium

THE LOW-RISK STRATEGY (25-YEAR PLAN)

Not all investors are created equal – risk tolerance, lifestyle and time constraints vary widely. This first approach is ideal for investors who have an aversion to risk, time constraints or who don't want any drastic changes to their lifestyle. The down payment required for this strategy is approximately $100,000. If you don't have that kind of money lying around, refinance your primary residence.

Step 1: Purchase a multi-unit residential property (MUR 1) (Year 0)

Target property: Triplex in a smaller suburban centre
Price range: $400,000
Down payment: $100,000
Financing: 4%

Step 2: Refinance MUR 1 (Year 5)

After five years, the property will tthave created equity through both mortgage paydown and appreciation. Refinance it in order to free up equity for a down payment on a second property.
Market value of MUR 1: $440,000
Mortgage: $260,000
Refinance at 75% LTV to free approximately $70,000 from the property.

Step 3: Purchase MUR 2 (Year 5)

Purchase MUR 2 using the same parameters as Step 1. Adjusted for appreciation, the price for the same type of triplex is approximately $440,000. As such, $110,000 is required for a down payment. Around $70,000 has been freed up from MUR 1, which means that an additional $40,000 will be required, which can be freed up from the principal residence if required.

The results (Year 25)

Property	Market Value	Mortgage	Equity	Annual Cash Flow
MUR 1	$638,000	$284,000	$354,000	$10,000+
MUR 2	$638,000	$284,000	$354,000	$10,000+
MUR 3	$950,000	$423,000	$527,000	$20,000+
MUR 4	$1,680,000	$775,000	$905,000	$30,000+
TOTAL	$3,906,00	$1,766,000	$2,140,000	$60,000+

Step 4: Refinance both properties (Year 10)

Market value of MUR 1: $484,000
Mortgage: $287,000
Refinance at 75% LTV to free approximately $76,000 from the property.

Market value of MUR 2: $484,000
Mortgage: $287,000
Refinance at 75% LTV to free approximately $76,000 from the property.
Total capital available : $152,000

Step 5: Purchase MUR 3 (Year 10)

Target property: Six-plex in a smaller urban centre
Price range: $720,000
Down payment: $185,000
Financing: 4%

Since $152,000 has been freed up from MURs 1 and 2, an additional $33,000 will be required, which can be freed up from the principal residence if required.

PREPARING IN YOUR 20S/30S: CHRIS AND ARLENE KARRAM

Chris and Arlene Karram, currently aged 35 and 32, entered into their first multi-residential real estate investment five years ago, a joint-venture opportunity in a 24-unit building in Kitchener, Ontario.

Chris, a financial advisor, is a big believer in the power of real estate as an excellent long-term and strategic investment vehicle. He adds: "As a couple, we believe it provides tremendous long-term growth potential, and consistent and less volatile future income. It is nice to have actual bricks and mortar in our portfolio, as it is something we can see and manage personally."

Today, the Karrams own a principal residence in Lawrence Park North, two investment condos on King West and are partners in the 24-unit building in Kitchener – all for a grand total net worth of $2.6 million. "It's a great investment vehicle, as long as you are willing to assume the leverage required to invest, can either manage or find someone to manage your property effectively, and are thinking long term," says Chris.

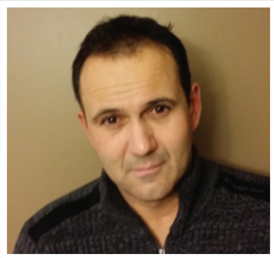
Step 6: Refinance all three properties (Year 15)

Market value of MUR 1: $532,000
Mortgage: $316,000
Refinance at 75% LTV to free approximately $83,000 from the property.

Market value of MUR 2: $532,000
Mortgage: $287,000
Refinance at 75% LTV to free approximately $76,000 from the property.

Market value of MUR 3: $792,000
Mortgage: $470,000
Refinance at 75% LTV to free approximately $124,000 from the property.

PREPARING IN YOUR 50S: TED LUCAS



Ted Lucas invested in his first multi-plex right around his 50th birthday, considering it a good investment for retirement. "It builds equity through both mortgage paydown and appreciation," he says. The cash flow in the meantime is an added bonus."

The triplex, which is located in Ajax, Ont., is currently worth approximately $450,000. "I was always hesitant and afraid of making the commitment to enter into the investment of multi-plex real estate," Lucas says. "But once I experienced the rewards of real estate investing, the fear has slowly disappeared. As my confidence builds further, I have plans to acquire another investment property in the near term."

Total capital available : $290,000

Step 7: Purchase MUR 4 (Year 15)

Target property: Twelve-plex in a smaller urban centre.
Price range: $1,400,000
Down payment: $350,000
Financing: 5%
Since $290,000 has been freed up from MURs 1, 2 and 3, an additional $60,000 will be required, which can be freed up from the principal residence if required.

Step 8: Wait for retirement

At this point, our conservative investing strategy has achieved the desired end result of a $50,000-plus an annual income by retirement age and, as an added bonus, has generated more than $2 million in real estate equity.

THE HIGH-RISK STRATEGY (25-YEAR PLAN)

This approach is ideal for investors who have a high risk tolerance, minimal time constraints or are open to a lifestyle or career change. The foundations of the aggressive strategy are buying bigger, investing in smaller urban centres with strong fundamentals and using leverage.

To get started, you only need a down payment of 15% of the purchase price, as we will be using leverage in the form of either a VTB or CMHC insurance. In this strategy, the down payment required is approximately $195,000. If necessary, refinance your primary residence to free up $195,000 in cash to be used as a down payment.

Step 1: Purchase MUR 1 (Year 0)

Target property: 12-plex
Price range: $1,080,000
Down payment (15%): $162,000
CMHC-insured mortgage: $959,000
Closing costs: $33,000
Total cash required: $195,000

Step 2: Refinance MUR 1 (Year 5)

You will have to pay a CMHC premium for the additional equity drawn from the property, which will be added to the new mortgage. You will be able to draw approximately $195,000 in equity from the refinance.
Value: $1,188,000
Mortgage: $815,000
New CMHC-insured mortgage: $1,020,000
Remaining funds: $195,000

Step 3: Purchase MUR 2 (Year 5)

Purchase MUR 2 using the same parameters as used for MUR 1. Adjusted for appreciation, the price for the same type of 12-plex is approximately $1,188,000. As such, $211,200 is required for closing. Since $195,000 has been freed up from MUR 1, an additional $16,200 will be required, which can be freed up from the principal residence if required.

Step 4: Refinance both properties (Year 10)

Market value of MUR 1: $1,306,800
Mortgage: $880,050
Refinance at 85% LTV to free approximately $230,000 from the property.

Market value of MUR 2: $1,306,800
Mortgage: $910,450
Refinance at 85% LTV to free approximately $200,000 from the property.
Total capital available : $430,000

Step 5: Purchase MUR 3 (Year 10)

Target property: Apartment building (24 units)
Purchase price: $2,600,000
Down payment (15%): $390,000
CMHC-insured mortgage: $2,309,450
Closing costs: $70,000
Total cash required: $460,000

Since $430,000 has been freed up from MUR 1 and MUR 2, an additional $30,000 will be required, which can be freed up from the principal residence if required.

Step 6: Refinance all three properties (Year 15)

Market value of MUR 1: $1,500,000
Mortgage: $880,000
Refinance at 85% LTV to free approximately $395,000 from the property.

Market value of MUR 2: $1,500,000
Mortgage: $880,000
Refinance at 85% LTV to free approximately $395,000 from the property.

Market value of MUR 3: $2,860,000
Mortgage: $1,990,000
Refinance at 85% LTV to free approximately $430,000 from the property.
Total capital freed : $1,220,000

Step 7: Purchase MUR 4 (Year 15)

Target property: Apartment building (50 units)
Purchase price: $6,000,000
Down payment (15%): $900,000
CMHC-insured mortgage: $5,330,000
Closing costs: $150,000
Total cash required: $1,050,000

Step 8: Continue to refinance and acquire

After only 15 years – well ahead of retirement – your aggressive investing strategy has led to the acquisition of almost 100 doors, the creation of several million dollars in real estate wealth and annual cash flow of well over $100,000.

With 10 more years before retirement, truly aggressive investors can continue to add more properties to their portfolio by continuing to refinance and use leverage, which will provide them with a very comfortable retirement.

The results (Year 25)

Total equity: $8,000,000
Total annual income: $200,000+

PAUL KONDAKOS is the founder of RealtyHub, a website dedicated to helping investors generate wealth through multi-family properties. For more information, visit www.realtyhub.ca.