MONEY–MAKER OR MONEY PIT?

GETTING REAL ABOUT COTTAGE INVESTING

CANADIAN Real Estate Wealth

CANADA'S #1 REAL ESTATE INVESTMENT MAGAZINE

GETTING STARTED WITH $50K

HOW YOU CAN DO IT

✔ WHERE AND WHAT TO BUY

✔ OPTIMIZING THE RETURNS FROM YOUR FIRST PROPERTY

✔ HOW TO SCALE UP AND START BUILDING YOUR PORTFOLIO

BONUS

50 elite women in Canadian real estate

- The right way to use RRSPs to buy real estate
- Belize: cash flow in the Caribbean
- No cash flow, no problem: the huge potential of buying land

Display until August 12, 2019

JULY/AUGUST19 $7.99

08

0 55113 70148 1

canadianrealestatemagazine.ca

GETTING STARTED WITH $50K

It might sound impossible, but there are several markets and strategies open to investors who can pull together a down payment of $50,000. Five of *CREW*'s most trusted investors share their ideas for getting your portfolio off the ground

In a country where personal debt often greatly overshadows personal savings, cobbling together a down payment of any size can feel like an impossibility. Even those potential investors with a healthy income and the ability to stash it somewhere safe might still feel overwhelmed by the elevated prices in some of Canada's most attractive cities.

Daunting? Yes. The end of the road? Not even close.

CREW occasionally plays its part in making real estate investment seem like a privilege – put 35% down, refinance your primary residence, turn $100,000 into $1 million – that is simply out of reach for the majority of Canadians.

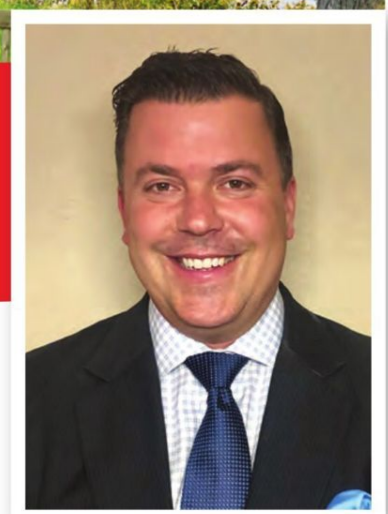
But that's not the case. Money matters, of course, but real estate investing requires more than just capital; it means sacrifice and testing your boundaries, both mental and financial. And it often involves starting smaller than you would have liked and working your way up from a property you may never have considered purchasing.

With that in mind, *CREW* is excited to unveil our newest cover feature – one that proves that real estate investing isn't only for those who are already well-off. We rounded up some of our favourite investors to provide the advice and inspiration so many people sitting on the sidelines need before they feel confident enough to suit up and play.

If you think you need $75,000 or $100,000 to get your portfolio off the ground, these five experts are here to tell you differently.

Become a beast in the east

Brock Rogerson, investor, consultant and president of HABO Inc., invites first-timers to make their fortunes in one of Canada's most slept-on real estate markets



Brock Rogerson

Getting started with $50,000 is an extremely workable proposition in Saint John, New Brunswick. I'm a firm believer that aspiring real estate investors should start their investment careers in exactly a place like Saint John because it allows for the flexibility of trying numerous types of investment strategies and projects that are both affordable and achievable for newbies.

A new investor can quickly gain experience by cutting their teeth on strategies like buy-renovate-rent-refinance [BRRR] or by simply finding properties that are receiving below-market rents, increasing the rental rate and refinancing without having to renovate. There's also the possibility of adding one more step – a partner – for a BRRRP strategy. But we'll get to that a little later.

The market

Saint John offers the kind of opportunities many investors will see as unconventional. You can search for the traditional financial fundamentals – population growth, low vacancy, GDP growth, etc. – but the problem is, all of those criteria are based on the future being the same as, or better than, the past. If you purchase a property with 1% vacancy, you will be paying a higher purchase price because it already has almost maximum rental income. But how much can you improve on 1% vacancy? Likewise, population growth and GDP growth may improve, but if the numbers are already strong, it's quite possible that the growth won't be sustainable.

If you take a more contrarian view, investing in a market like Saint John is the way to go. It's not at a peak or a trough, but is instead recovering from significant weakness. The important trend to pay attention to is the relative improvement of the fundamentals, not the absolute values. If you invest in a market with declining vacancies year-over-year, the absolute number is not as important. Saint John has average vacancy numbers, but they are getting better.

Further, smaller secondary markets offer less competition. It is much easier to access properties that are true profit centres. In Saint John, most investors coming from Vancouver, Calgary or Toronto only look at 12-unit apartment buildings and larger. They completely miss the smaller properties, and because the local economy in New Brunswick has not been booming for some time, there's not enough local investment to improve the housing stock.

This leaves numerous properties waiting to be purchased and improved. Single-family homes can be purchased for less than $50,000, and numerous six-unit buildings are available for less than $200,000 with a $50,000 down payment. Saint John also has a large number of properties that are over 100 years old, so you'll not only have the chance to upgrade the property, but you'll also receive an education at the same time. While dealing with old properties is not directly a positive, gaining experience with knob-and-tube electrical, Kitec or galvanized plumbing builds your credibility with future joint-venture partners.

The property

Imagine buying a duplex for less than $30,000 cash. Now imagine that same duplex requires less than $20,000 in repairs to be fully rented. It may sound too good to be true, but I bought two properties like that last year (and a triplex for $40,000 in May of this year). In the case of the property I purchased last year on Sherbrooke Street, I was able to refinance and partner to access the funds needed to purchase a separate five-unit building on Saint John Street using the same initial proceeds.

Because the duplex was vacant and in need of some repairs, I was able to negotiate the purchase price down to $23,000. The owner had it on the market for a while and was losing money every month. The property required some minor foundation repairs, the replacement of a portion of the roof and some minor cosmetic upgrades inside for a renovation bill of $17,000. The total cost to get the property purchased, renovated and rented was $40,000.

RENOVATION COSTS

Roof repairs	$8,000
Minor foundation repairs	$7,000
Cosmetic improvements	$2,000
Total	**$17,000**

This duplex now rents for $1,050 upstairs and $950 downstairs – that's $2,000 a month in rental income on a $40,000 purchase.

When the numbers look like this, the first thing you should do is reconfirm them. Obtain multiple quotes for the work required and discuss the expected rent levels with property managers and appraisers to ensure your numbers are as accurate as possible. Once you know the numbers are correct, quit thinking and act! Analysis paralysis can rob you of some real gems.

The interior of Rogerson's renovated duplex

The finances

When a property is under $50,000, you most likely won't be able to get a traditional mortgage. Most chartered banks won't approve mortgages under certain minimums (especially for rental properties), as the small margins aren't worth their time. So you either use cash, a line of credit or some other type of credit facility, such as a hard-money loan from an asset-based lender.

Another reason this property wouldn't be financeable by the major banks is because they are cash-flow lenders. Because this property was listed as vacant, there was no cash flow, so no bank would have approved it until it was tenanted. When the Sherbrooke property was repaired and rented, it appraised for $57,000, and I was able to pull out $44,000, which covered the initial capital contribution and a little extra. Plus, I still have a property that will appreciate over time and has positive cash flow to gradually pay down the debt.

Property optimization

After you've acquired the property, there are numerous strategies you can implement. But don't overthink this step – just get to work. The truth is, I didn't do anything mind-blowing on this property. My property manager suggested updates that needed to be done, and I received quotes for the work. I completed the renos, filled the property with tenants and started cashing rent cheques.

Again, the key is to take action. By contemplating all the different ways to add value, you might miss out on the opportunity sitting right in front of you. You don't need to add an extra bedroom or secondary suite in Saint John. If you need to come up with some ingenious plan to make a property profitable, it's probably not a great investment. Keep it simple and just do it.

The next step

Use your past successes and experience to graduate and find a joint-venture partner. Based on the success of my property on Sherbrooke Street – those returns are hard to ignore – I was able to refinance and joint-venture on another property with two gentlemen who had been looking for viable investments in Calgary for months before finally seeing the light and deciding to start getting a piece of the Port City.

When you're first starting, it might be difficult to find partners, so you might decide to start the project on your own and joint-venture at the end. This means you put up the initial capital and take the risk during the project because your partners might not be confident in the numbers until you're further along in the process.

When I explain to friends and family in Calgary what I was able to accomplish with my duplex, their minds are blown. They struggle to grasp the reality of it and often assume it's not possible. But when I show them the actual appraisal of the building, renovated and tenanted, they are more comfortable and understand how it all works. Sometimes it's easier to get a partner at the end rather than the beginning.

In my case, those JV funds were used to purchase a five-unit building on the west side of Saint John for $124,750. It required $8,000 to $9,000 renovations in two of the five units, but other than that, it was great the way it was. It is currently fully rented ($3,250 per month), and I have given notice to the tenants of rent increases, so the new monthly income will be $3,810. (Even the untouched units got increases because their rents were below market value.) After the renos and rent increases, the building was appraised at $174,000.

This is another example of capitalizing on an improving trend rather than buying in an already strong market. None of these tenants will move out because I'm only raising rents to the fair market value, something that's happening all across the city. If they look around, they will see they've been getting a deal the last couple of years.

There are a million different ways to make money in real estate. Some strategies are complex and challenging, but many of them – the best ones – are the simplest. Look for a market where the numbers make sense based on the reality of today, not the speculation of tomorrow. You don't need to reinvent the wheel – you just need to get it rolling. ■

BUY-AND-HOLD PROJECTION: FIVE-UNIT BUILDING

Income analysis	Year 1	Year 2	Year 3	Year 5	Year 10	Year 20	Year 30
Net operating income	**$15,973**	**$16,452**	**$16,946**	**$17,978**	**$20,841**	**$28,009**	**$37,642**
Mortgage payments	-$6,177	-$6,177	-$6,177	-$6,177	-$6,177	-$6,177	$0
Improvements	$0	$0	$0	$0	$0	$0	$0
Cash flow	**$9,796**	**$10,276**	**$10,769**	**$11,801**	**$14,665**	**$21,832**	**$37,642**
Cap rate (purchase price)	12.9%	13.3%	13.7%	14.5%	16.8%	22.6%	30.4%
Cap rate (market value)	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%
Cash-on-cash return	**24.4%**	**25.6%**	**26.8%**	**29.4%**	**36.6%**	**54.4%**	**93.8%**
Return on equity	26.6%	24.0%	22.0%	19.0%	14.8%	11.1%	12.5%

Loan analysis	Year 1	Year 2	Year 3	Year 5	Year 10	Year 20	Year 30
Market value	$127,720	$131,552	$135,498	$143,750	$166,646	$223,958	$300,981
Loan balance	-$90,928	-$88,761	-$86,495	-$81,651	-$67,473	-$27,638	$0
Equity	**$36,792**	**$42,791**	**$49,003**	**$62,099**	**$99,173**	**$196,320**	**$300,981**
Loan-to-value ratio	71.2%	67.5%	63.8%	56.8%	40.5%	12.3%	0.0%
Potential cash-out refi	$11,248	$16,481	$21,903	$33,349	$65,844	$151,528	$240,784

Sale analysis	Year 1	Year 2	Year 3	Year 5	Year 10	Year 20	Year 30
Equity	$36,792	$42,791	$49,003	$62,099	$99,173	$196,320	$300,981
Selling costs	-$7,663	-$7,893	-$8,130	-$8,625	-$9,999	-$13,437	-$18,059
Proceeds after sale	**$29,129**	**$34,898**	**$40,873**	**$53,474**	**$89,174**	**$182,883**	**$282,922**
Cumulative cash flow	$9,796	$20,072	$30,841	$53,920	$121,347	$305,670	$605,511
Initial cash invested	-$40,120	-$40,120	-$40,120	-$40,120	-$40,120	-$40,120	-$40,120
Net profit	**-$1,194**	**$14,850**	**$31,594**	**$67,274**	**$170,401**	**$448,432**	**$848,313**
Internal rate of return	-3.0%	19.0%	25.9%	29.9%	30.4%	29.4%	29.1%
Return on investment	-3%	37%	79%	168%	425%	1,118%	2,114%