

Issue #17 - “Real Estate Investing”

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Given the warming weather, renovation and the home-buying season has arrived. As such, I thought I would dedicate this month's issue of IMI to real estate.

Let's begin with personal property. According to the personal financial guru Robert Kyosaki of 'Rich Dad, Poor Dad' your personal home is not an asset, but rather a liability as it costs you a monthly upkeep, but does not bring any positive cash flow until the time of sale. As an investor, you must thus be weary of considering home improvements as an investment seeing as they will not increase your cash flow, but rather hinder it as most large renovations are done using lines of credit.

As my parents like to remind me, there is more to life than maximizing returns on investments, and loving the home you live in is important. Of the major renovations one can make to their home, some recover a greater percentage of your renovation expenses upon resale than others and get you a bigger bang for your buck.

According to the Appraisal Institute of Canada, kitchen and bathroom upgrades top the list averaging a recovery of 75% to 100% of the renovation costs upon resale, while a pool can actually lower your cost of resale. For more information on anticipated cost recovery, please click visit these two links ([Link 1](#)), ([Link 2](#))

Given the low interest rate environment and the struggling Canadian stock market, many investors have begun turning their eyes towards real estate. I am a strong believer in diversifying one's income stream and thus, as many of you are aware, have a few rental properties of my own. In my opinion, there are two ways to look at real estate investing: buy-and-hold or speculation.

Speculation is the 'art' of buying a property with hopes that it appreciates in value by more than you paid to maintain, upkeep and service the property. Arguably the biggest factor in earning a rate of return while speculating on real estate is timing.

If you buy when the markets are low, you can make a profit. If you buy when they are high, you can get wiped out, just like many Americans can attest.

Although it is possible to earn a good rate of return in this manner, I am a believer that investing is a long-term game focused on building residual revenue for the owner. For this reason, my primary focus in real-estate ventures is on finding buildings that generate positive cash flow, while potential for appreciation comes in second. By finding properties that generate enough rental income to cover all expenses including the mortgage while setting aside repair contingency dollars, the focus turns to paying down the mortgage and walking away with an income stream for life.

The skill then turns to choosing buildings that are profitable, will always be rented and are inexpensive to maintain. A good realtor can help you find the right area, a good contractor can help you maintain the building affordably and a good financial advisor can help you crunch the numbers.

In an effort to help my clients 'play with the numbers' I have prepared a workbook in Microsoft Excel. I encourage all would-be real-estate moguls to have a look and call me to schedule a demo on how to use it. We have tried to make it intuitive and easy to use. ([Link to Rental Analysis Sheet](#))

For those of you who already have buildings, this document can help you determine the actual rate of return you are earning on your property. I have also included a book-keeping spreadsheet that we have put together to help landlords track their incomes and expenses for income tax time. We have made the document easy to use, and with a printable summary, will make your income tax preparers life a whole lot easier! ([Link to Rental Bookkeeping](#))

Our goal as your financial advisors is to help you in all financial decisions while empowering you to grow your personal wealth. Should you have any questions on either of these documents, please do not hesitate to contact us as we are here to help! ☺
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