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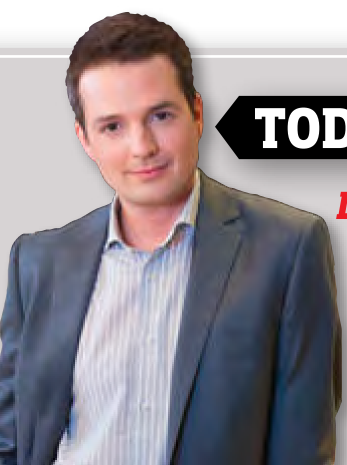

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The 40-something investor

With retirement on the horizon, the 40s investor is looking to build their savings to prepare for that stage in their life. *Dalia Barsoum* and *Enza Venuto* explain how they can attain their goal of making $1 million

Our investors (Mark and Michelle) are in their 40s, a married couple in Vancouver, B.C. with two teenaged kids. It has been a decade since the couple bought a $550,000 house, which has since grown in value by $250,000. They wish to utilize equity and make a good start in property investing, in a bid to maximize their returns over the next couple of decades.

THE INVESTOR
Married couple, 40s, living in Vancouver, BC

THE GOAL
Wants to have a $1 million net equity in real estate within 10 years

THE PAYOFF
Security, additional savings for retirement

INCOME/SAVINGS
Household income $120,000/year, $0 in RRSPs, $5,000 credit card debt

ASSETS/LIABILITIES/CASH FLOW
Principal Residence: $800,000 Current Value w/ $440,000 mortgage (80% LTV, 30 years, 2.5% interest rate)

Before tackling a particular investment strategy to reach their goal, Mark and Michelle should position themselves from a financing point of view to invest.

With the help of their mortgage broker, they should look at the most effective way to leverage equity from their primary residence to invest. With their home now worth $800,000 and their existing mortgage at $440,000, Mark and Michelle have $360,000 of equity in their primary residence.

If Mark and Michelle qualify with their bank for a secured line of credit, then their bank should be willing to give them $200,000 in secured line of credit funds that they can use to start investing.

Michelle and Mark could also explore with their mortgage broker the costs or benefits of switching their existing loan to a provider that offers a re-advanceable mortgage product, whereby they get a secured line of credit in addition to their current mortgage. But as they pay down their mortgage principal over time, the capacity on their secured line of credit increases. Therefore, this gives them the access to funds as they grow their portfolio without the need to go through the full mortgage application process.

Regardless of the financing options chosen, the couple would have $200,000 to start investing with.

They should look at the most effective way to leverage equity from their primary residence

WHAT TO BUY: SMALL MULTI-RESIDENTIAL PROPERTY

We suggest that Mark and Michelle focus on small multi residential properties (1 – 4 units) and renovate them to a higher standard in well selected inner city neighborhoods that present hubs for employment, continued population growth, low vacancy rates and

THE BENEFITS OF THIS STRATEGY ARE FIVE FOLD:

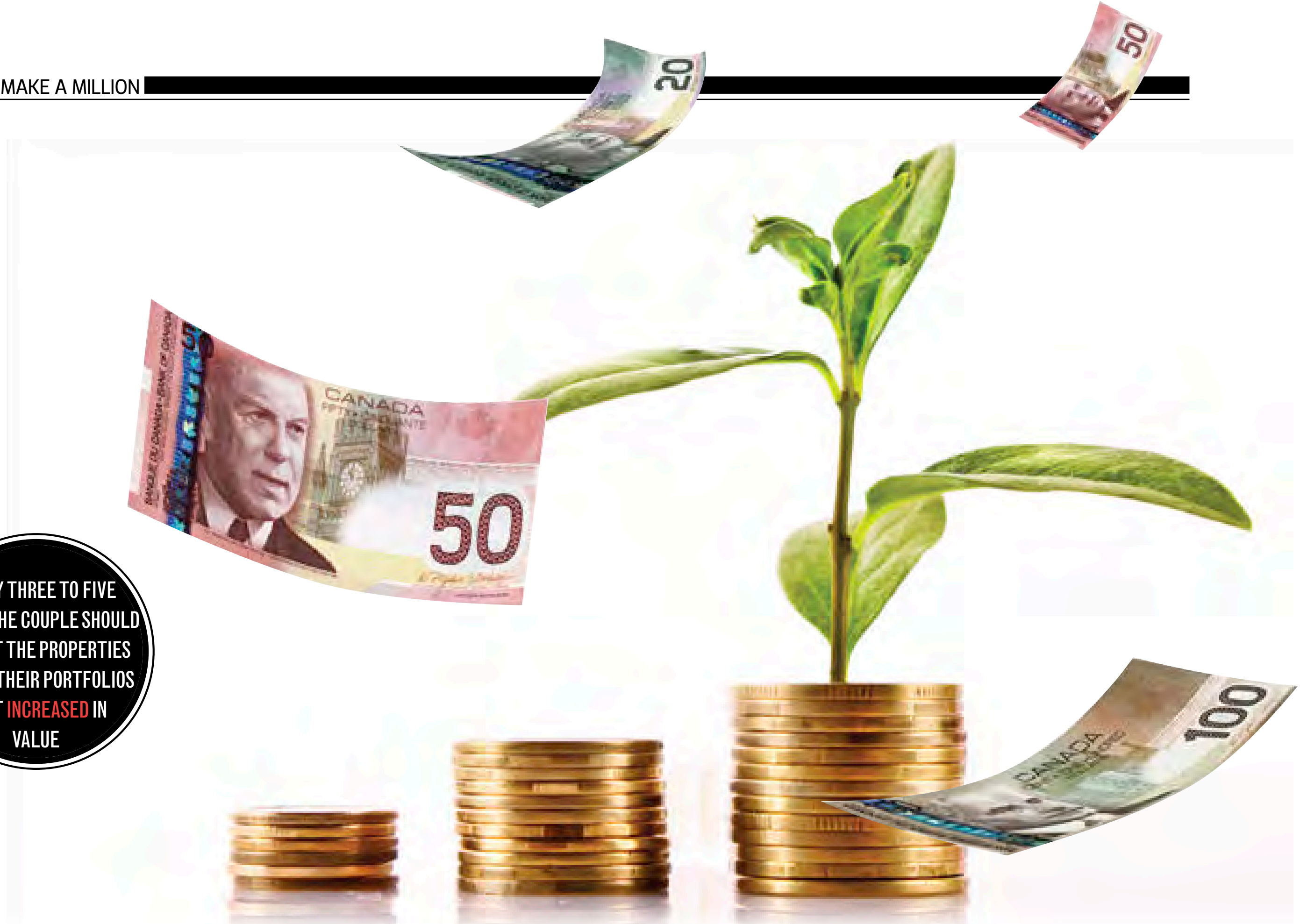
1. Mark and Michelle will force appreciation through strategic renovations and won't wait for market forces and time to lift the value of their investment properties

2. Turn a property that may be initially negative cash flowing to strong cash flow property as the newly renovated property will attract a different caliber of tenant willing to pay a much higher rent

3. Increase the likelihood that their property will continue to go up in value over the long term , given that it was purchased in a city – driven by strong economic fundamentals – and its improved condition

4. Use "residential" vs. "commercial" financing, where rates and fees are much more competitive

5. Reduced vacancies as properties in great condition and strong locations attract long term tenants



EVERY THREE TO FIVE YEARS, THE COUPLE SHOULD RE-VISIT THE PROPERTIES WITHIN THEIR PORTFOLIOS THAT INCREASED IN VALUE

where there is an appetite for renovated real estate properties.

THE 40S INVESTOR PLAN

It is important that Mark and Michelle hire a skilled and reliable team that can assist with the renovations as well as a realtor who understands the local city's bi-laws and guidelines and specializes in working with investors. These experts are critical to know where to spend the renovations funds, how much to spend, what the units will rent for and what the property will be worth at the end.

Mark and Michelle can start by purchasing a duplex or triplex, put 20% down plus the closing costs using some of the secured funds from their aforementioned line of credit. With the remaining funds, they can budget for the renovations and holding period costs.

Once renovations are complete (three to six months),the property is worth more and they can refinance the property at 80% of the new appraised value. Through this exercise, the couple can pull out a large part of their initial invested capital and use the funds to buy another property using the same strategy.

They should continue to hold on to the improved property through the rental of the renovated units at more attractive market rents; providing them with solid positive cash flow.

Any residue cash flow should be used to pay down the mortgage on the existing property. Furthermore, they should leverage any amortization and pre-payment mortgage options to accelerate the mortgage pay down.

Every three to five years, the couple should re-visit the properties within their portfolios that increased in value.

They can refinance them up to 80% again and leverage existing equity to continue to acquire more properties using the same strategy.

At some point, Mark and Michelle will have to make a decision to sell one or more of the properties within their portfolio and pay the mortgages on the remaining properties.

The speed at which the couple can turn their initial $200,000 into $1 million is largely dependent on how long it takes them to renovate the acquired properties, how soon they can pull the funds out upon completion of renovations and how much they walk away with to further invest in their next project.

In order to accelerate their plans, they can consider alternate sources to finance their projects. Once they have completed one or two projects, the couple can leverage joint venture partnerships whereby the JV partner provides the funds and they put in the sweat equity to make the investment works. They have to be prepared to share the equity with the JV investor under this situation and while that is the case, the idea here is for Michelle and Mark to walk away with their share of return upon completion of the project and use that cash into a property where they have 100% ownership.

The couple can also use creative financing strategies such as RRSP financing to help release equity from their existing property portfolio (above and beyond what the traditional lenders are willing to give) to re-invest the funds into other projects.

DALIA BARSOUM, *MBA, FICB and* **ENZA VENUTO,** *AMP, CMP are the authors of Canadian Real Estate Investor Financing : 7 Secrets to Getting All the Money You Want. They have over 48 years of combined experience as speakers, investors and lending advisors. Their lending practice (www.streetwisemortgages.com) specializes in strategically improving Real Estate Investors' portfolios of residential and commercial investment properties and positioning it for growth and success.*