morrison
MORTGAGE TEAM

How to Invest in Rental Properties to Build Wealth

Presentation Flow

TOPICS TO COVER

1) How to invest and what you'll need
2) Advice from Realtors
3) Life as a landlord
4) Growing a Portfolio
5) Case Studies

1) How to invest and what you'll need

BEFORE YOU INVEST

In this section we'll be discussing:

- **Why invest in rental properties**
- **Rental vs other investments**
- **Getting financially ready**

Greater Vancouver Market

AVERAGE SALE PRICES FROM 2000 TO 2019

We can see the Vancouver market has a history of increasing prices, giving a return on real estate investments.

Rental vs Other Investments

How to invest your money is a HUGE topic, and which investments are best is a subject of much debate...
A few pros and cons of investing in rental properties as opposed to other investments:

Pros

- Can gain from both rental income & increasing equity
- History of solid long term gains
- Relatively secure in the long term

Cons

- Large amount needed up front, big barrier to entry
- Isn't as passive as other investments (more maintenance)
- Knowledge (or having experts by your side) is required

Owning Rental - Pros vs Cons

When considering investing in rental properties, there are many pros and cons you should consider before you get started, these may include:

MONTHLY INCOME

TAX DEDUCTION

CAPITAL APPRECIATION

GROWING WEALTH

RETIREMENT PLAN

LANDLORD RESPONSIBILITY

UNEXPECTED EXPENSES

RENT INCOME IS TAXABLE

LOW LIQUIDITY

GAINS ARE LONG TERM

Getting finances in order

IS YOUR DOWNPAYMENT BIG ENOUGH?

You will need at least 20% downpayment to invest in rental properties.

DO YOU HAVE GOOD CREDIT?

You will need to show a history of repaying your debt. Lenders will have a minimum Beacon score requirement, which is typically in the upper 600's.

DO YOU FIT INCOME REQUIREMENTS?

Depending on your downpayment and collateral, you will need to prove income in order to get financing.

Can you invest & cover other financial obligations

DO YOU HAVE EMERGENCY MONEY?

Do you have a rainy day fund to cover emergencies, or urgent repairs and replacements in the rental?

WHAT OTHER LOANS DO YOU HAVE?

If you have other outstanding loans, these *may* need to be paid off, or put in with your mortgage in order to get financing.

DOES THE PROPERTY CASHFLOW?

Will rent cover expenses? Do you need it to? (more on this later)

Closing Costs & Budget

Depending on which province you are buying in, there are lots of costs to consider when buying real estate for rental purposes, these may include:

APPRAISAL
INSURANCE
LEGAL FEES
DOWN PAYMENT
TITLE INSURANCE
HOME INSPECTION

PROPERTY TAX ADJUSTMENT
PROPERTY TRANSFER TAX
STRATA FEES
LOCKS
FURNISHING
MAINTENANCE

Sourcing your down payment

Lenders will always need to know where your down payment is sourced because of anti-money laundering requirements. Typically a 90 day history is required.

WHAT SOURCES OF DOWNPAYMENT ARE ACCEPTED FOR RENTAL PROPERTIES?

Down Payment can be drawn from multiple sources such as:

- Cash (savings, investments, stocks etc),
- Refinance/restructuring a current mortgage
- HELOC (Home equity line of credit) **Most common*
- Gift **Most often NOT accepted*

Get Pre-Approved

SPEAK TO A MORTGAGE BROKER

WHY PRE-APPROVAL IS SO IMPORTANT

Pre-approval can give your offer more strength, and makes sure you're purchasing at a suitable budget. **i.e. STRATEGY SESSION**

HOW MORTGAGE BROKERS CAN HELP

A mortgage broker has access to many different lenders and can work on your behalf to get you the best deal.

Often when investing in rental properties, you need to consider all of your finances, loans and investments. A mortgage broker will review all of this with you, make sure you're set up financially, and give you an idea of what potential returns will be.

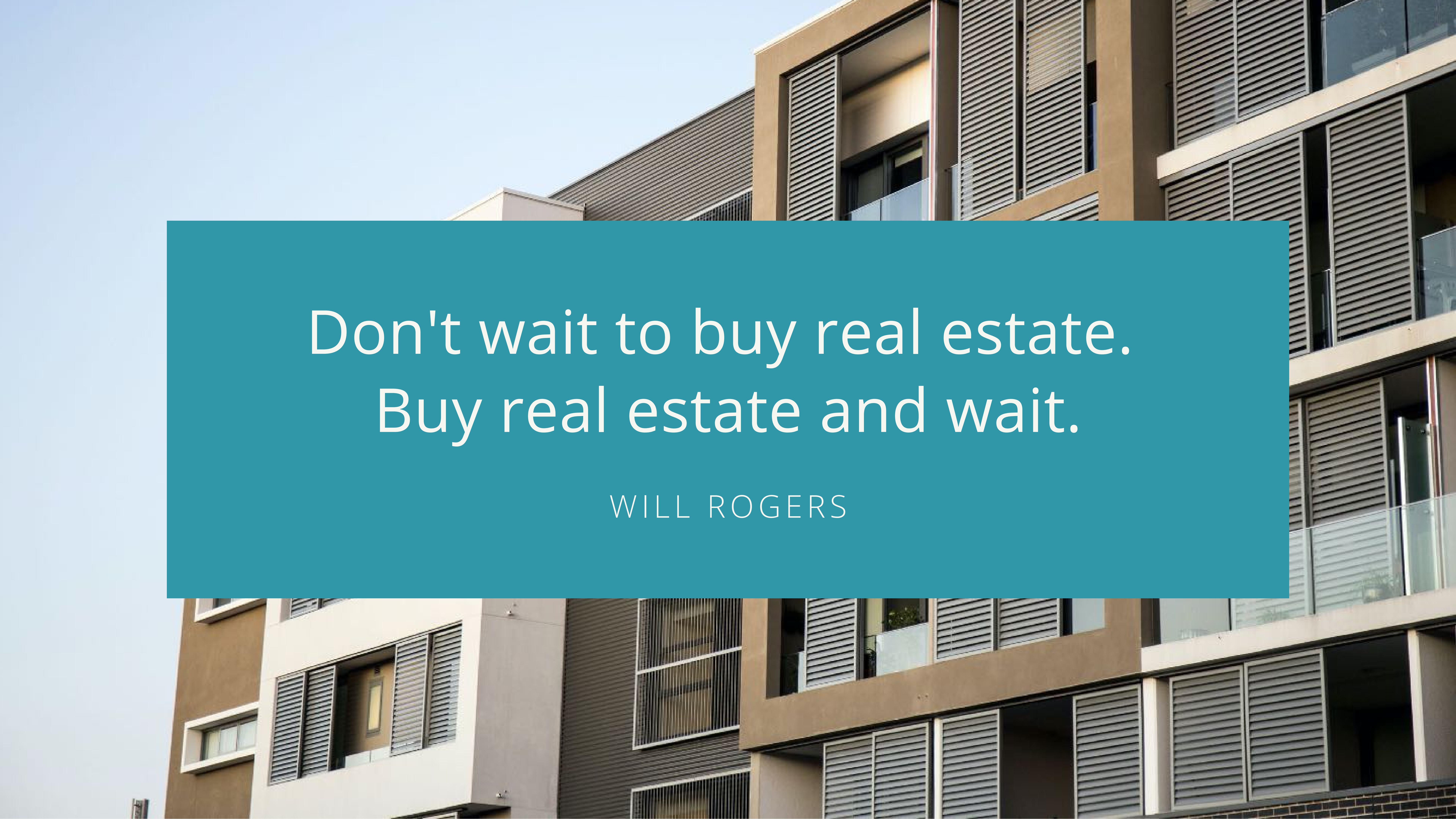
Should I still invest if the property doesn't cash flow?

The short answer is yes. However there is some debate on whether a property needs to cash flow or not...

LONG TERM GAINS ARE KEY

Investing in real estate isn't just about cashflow. Long term gains are the result of rental income paying down the mortgage, and the property increasing in value.

In some areas such as Vancouver or the Lower Mainland, rent will not always offset all of your expenses. However, the demand for these areas make increasing property values highly likely over a long-term holding period.



Don't wait to buy real estate.
Buy real estate and wait.

WILL ROGERS

2) Advice from realtors

WHAT DO REALTORS THINK?

Finding a realtor with knowledge and experience of your local market is key, as they can give you important information about things like: **neighbourhood and location, vacancy rates, average rents, property taxes, schools and amenities, crime, unemployment rates, future development, and best types of properties to invest in.**

We asked 7 realtors for their top 3 tips when investing in rental...

Kevin Trieu - Sutton Premier

1.LOCATION

Obvious locations close to transport links will get you good rental prices, however don't overlook other areas other investors deem far away, as prices may be cheaper.

2.CONSIDER FUTURE SALEABILITY

Be aware of how appealing the property will be for when you come to sell, also be wary with strata and how well the building is managed for older units too.

3.KNOW YOUR COSTS

Make sure you are financially set up and know all costs involved with rental. But don't get too hung up on cash flow and rent numbers... Remember you're investing in the asset itself!

Monica Redondo - Sutton West Coast

1.UNDERSTAND WHY YOU'RE BUYING RENTAL

There are 3 main reasons people invest in rental: investment, income generation, and speculating for a quick win. So make sure you know why you're investing so you can best meet your personal goal.

2.BE PREPARED FINANCIALLY

Before you get into the market, ensure you have the finances to stay there. Will you be able to withstand any unexpected repair bills, rate increases or strata levies?

3.HAVE A PLAN FOR YOUR INVOLVEMENT

Late rent, loud tenants, paperwork... At one time or another these are all part of a landlord's life. How willing or able are you to take on these repsonsibilities.

Alex Dunbar - RE/MAX

1. LOCATION

Choose location wisely and avoid high vacancy areas

2. CHOOSE A LOCAL REALTOR

Choose a realtor who has knowledge and is an expert in the area you're looking to purchase.

3. CHOOSE TENANTS WISELY

Make sure you thoroughly screen tenants, and understand the landlord tenant laws.

Janessa MacDonald - Homelife

1.DO YOUR RESEARCH WHEN BUYING CONDOS

When purchasing condos, make sure you know the age of the building and cost of expenses which can vary significantly. Older buildings could mean unforseen expenses in the future.

2.LOCATION, LOCATION, LOCATION

Many renters will look for homes within a walking distance to transport, shops and recreation. If your rental property is near amenities it will be much easier to rent out.

3.TRY LOOKING FOR A PROPERTY WITH MORE THAN ONE SOURCE OF RENTAL INCOME

For example a duplex, or townhome with rental suite. This is a great way to increase profitability.

Tamara Baltic - Royal LePage

1.RESEARCH THE BUILDING

Make sure the building doesn't have any upcoming issues that will cost you money in the future

2.WORK OUT RENT VS COST

Double check your rent vs. cost to see if you have positive cash flow

3.BE READY TO ACT FAST

Have a pre-approval and be ready to act fast. Well priced investment properties don't last long.

Jamie Hucul - Royal LePage

1.FIND THE RIGHT LOCATION

Population growth and revitalization plans potentially represent the best investment opportunities.

2.CONSIDER PROPERTY MANAGEMENT

Consider whether it's worth hiring a property manager and calculate your margins.

3.FACTOR IN UNEXPECTED COSTS

Understanding the depreciation report for strata properties helps you forecast any long term costs.

Angela Evennett - Royal LePage

1. RESEARCH THE COSTS

Make sure you've done calculations to ensure that either you have cash flow or are able to top up the difference. Remember cash flow is taxable so you don't necessarily want there to be too much!

2. KNOW THE RENTAL MARKET

Research the rental market, is there a shortage or is the rental market saturated? You don't want a vacant property.

3. RESEARCH THE PROPERTY THOROUGHLY

If you buy strata don't buy anything too old. If the property is a house with land, research any future development proposals. Land typically icnreases in value more than strata .

Summary - Advice from realtors

Some key learnings that we can take from the realtor's advice are:

1. FIND THE RIGHT LOCATION
2. RESEARCH THE PROPERTY
3. BE FINANCIALLY PREPARED

3. Life as a landlord

KEY THINGS TO KNOW

In this section we'll be discussing:

- **Key considerations as a landlord**
- **Growing a portfolio**

Insurance

Real estate has proven to be a solid choice for investing for many years. Another investment you will need to consider is what sort of Insurance you should have. Here are some 'Types of Insurance' to consider:

- Mortgage Life Insurance
- Mortgage Critical Illness Insurance
- Mortgage Disability Insurance
- Title Insurance (lender requirement)
- House insurance (lender requirement)
- Strata Unit Policy (highly recommended)
- Master Strata Policy (make sure your strata is covered)
- Tenant/Renters Insurance (recommended for your tenant)
- Rental Property Insurance

Finding the right tenants

Finding the perfect tenant can sometimes take more time but is worth the extra due-diligence. Tenant turnover is arguably the single biggest cost for you as a landlord. Here are some tips:

1) Keep your property well maintained
2) The best rent is not always the best tenant
3) Check references thoroughly
4) Run a credit check
5) Ask for a quick bio
6) Note what stage the prospective tenant is in their life
7) Be prepared to work

Kijiji and Craigslist are potentially great sources to advertise your rental property. Use a personal picture as this helps get inquiries.

Property Management

Property management is a way to reduce the stress of owning a rental property. Some of the benefits are listed below:

- Tools and experience to deal with issues
- Ensure legal compliance
- Manage for you if you're abroad or non-resident
- Assist with finances
- Monitor strata property changes
- Network of trusted tradespeople for repairs
- Tenant management.

The main downside of property management is the cost. A property manager can cost anywhere between 6-12% of the rent.

Legal Considerations

If your property is in BC, there are various legal considerations you must comply with, including:

- The Residential Tenancy Act
- The Employmeny Standards Act
- The Real Estate Services Act
- WorkSafe BC
- The Human Rights Code
- Many other federal, provincial, and municipal acts and regulations

This is where a property manager can help. Or alternatively, it's important to have a good legal team by your side that can inform you of the legal considerations and make sure you comply.

Managing tenants

If you don't have a property manager, you will be responsible for managing tenants yourself. Consider your tenants as a customer of yours and make it a priority to build a rapport and relationship.

The province of BC has a great website with 'quick tips for landlords and tenants', that provides key information such as:

- Giving notice to end a tenancy
- Landlord entering the unit
- Moving in or out: do an inspection
- Paying rent
- Repairs and maintenance
- Tenancy agreements
- And more...

Tenancy Agreements

Landlords are required to prepare a written agreement for every tenancy. Even if a landlord doesn't prepare one, the standard terms of a tenancy agreement still apply. ***Note*****,** paying a security deposit establishes a tenancy, even if there is no written tenancy agreement and if the tenant never moves in.

For a tenancy agreement:

- Landlords and tenants must both sign and date it
- Landlords must provide a printed copy within 21 days
- Tenancy agreements must comply with the Residential Tenancy Act, & the Manufactured Home Park Tenancy Act

Expenses

Owning and managing a rental property is essentially having your own business. BUT, with the great feeling of receiving income, comes the reality of dealing with expenses... Some common costs you need likely need to budget for include:

- Repairs due to wear and tear
- Repainting when preparing for new tenants
- New carpet or carpet cleaning
- Mortgage payments
- Property taxes
- Insurance payments
- Yard maintenance
- Covering missed rents
- Taxes!

Realities of owning rental - Summary

In this section we've reviewed some of the key considerations for landlords. They can be summarised as:

1) Property Management - Maintenance, repairs, insurance, taxes, bills, strata fees.

2) Tenant Management - Occupancy, paperwork, legal, rent collection, relationship management.

3) Cashflow & Budgeting - Accounting, tax, expenses, rent collection, cashflow.

4. Growing a portfolio

REFINANCING & RE-INVESTING

In this section we'll be discussing:

- What you need to reinvest
- Benefits of reinvesting
- How to use existing equity to reinvest
- Useful mortgages to help invest

What do I need to reinvest?

EQUITY

If refinancing you need to keep 20% equity in your property. You can also use a secured LOC to invest.

DOWNPAYMENT

When purchasing a rental investment your minimum downpayment needs to be 20%.

INCOME

You'll need to qualify for any extra debt either by using rental income, or your own income.

Benefits of keeping & re-investing

Years 0-5

Purchase Property 1
$500k Value
$400k Mortgage
Equity $100k (20%)

Property 1 End of Year 5
$580k Value
$342k Mortgage
Equity $238k (41%)

Potential $122k to invest

(leaving required 20% of $116k in main property)

Calculations for illustration purposes, and based on an interest rate of 3%, and annual property value appreciation of 3%

Benefits of keeping & re-investing

Owning 1 Property - *What happens if you didn't reinvest at year 5...*

End of Year 5
$580k Value
$342k Mortgage
Equity $238k (41%)

End of Year 10
$672k Value
$274k Mortgage
Equity $398k (64%)

Total Equity Growth after 10 years = $298k
($398k - $100k)

Calculations for illustration purposes, and based on an interest rate of 3%, and annual property value appreciation of 3%

Benefits of keeping & re-investing

Owning 2 Properties - *What happens if you reinvest $100k at year 5...*

Property 1
$580k Value
$442k Mortgage/LOC
Equity $138k (24%)

End of Year 10 - P1
$672k Value
$378k Mortgage
Equity $294k (44%)

Purchase Property 2
$500k Value
$400k Mortgage
Equity $100k (20%)

End of Year 10 - P2
$580k Value
$342k Mortgage
Equity $238k (41%)

Total Equity Growth after 10 years = $432k
($532k - $100k)

Difference of $134k

****Calculations for illustration purposes, and based on an interest rate of 3%, and annual property value appreciation of 3%***

How to use equity to reinvest?

REFINANCE

If refinancing you need to keep 20% equity in your property, this means taking out a new mortgage so there may be a penalty.

HELOC

A way to use equity in your home to reinvest without refinancing, is by using a Home Equity Line of Credit (HELOC).

2ND MORTGAGE

A second mortgage is exactly as you'd expect. Instead of refinancing you can take out a second mortgage against equity built in your home

Refinance

Refinancing involves breaking your current mortgage and starting a new one. This allows you to borrow more and use the equity built up in your home (up to 80% of home value).

Pros

- You can access your home's equity at the same rate as your mortgage.
- You can lock into a fixed rate.

Cons

- You'll need to re-qualify for the increased loan amount.
- There may be a penalty for breaking the term on your existing mortgage.
- You pay interest on the cash amount immediately

Home Equity Line Of Credit

A Home Equity Line of Credit, is a facility on your mortgage that lets you draw out cash as you need it. You will need to already have a HELOC in place to use it however or if not will need to set one up.

Pros

- Only withdraw cash as needed
- You don't pay interest until you take it out
- If have access already, no refinance needed to access funds

Cons

- HELOCs come with variable rates typically higher than the rate on your mortgage

Second Mortgage

Instead of refinancing, you can take out a second mortgage against the equity that you've built up in your home. Although this avoids costs of refinancing, this is often the most expensive way to access equity in your home, and is generally used as a last resort.

Pros

- Access home's equity without refinancing
- Lower credit rating requirements

Cons

- Significantly higher rates (around 8-15%) plus fees!
- The most expensive way to access equity in your home

Mortgage for Investing - Scotiabank STEP (Case Study)

This is why planning matters... If you know you want to invest in the future then choose a mortgage which allows you to easily use the equity in your home down the line. An example of a mortgage that does this is the Scotiabank STEP mortgage.

This mortgage allows you to:

- Borrow up to 80% of your homes value

- Decide how and when you use available credit

- Have mortgage payments go into an available LOC

- Draw from your home equity during your term

- Split your mortgage into different types of mortgages and terms

4. Growing a portfolio

SUMMARY

In this section we've seen why planning matters! With the right plan and mortgage product you can:

1) Get a better return by investing and growing more equity in the long run.

2) Access the equity in your home cheaper and quicker with the right mortgage.

5) Case Study

SMALL CHOICES MAKE A BIG DIFFERENCE

In this section we'll look at 2 different rental investors, Brian and Brenda, and how their choices when purchasing their rental investment might impact their situation.

Case Study 1 - Brian

Brian has bought a 2 bed rental property for $500,000, with a 20% down payment as his first rental investment.

1 - Brian spoke only to his bank for convenience, and got a 5 year fixed mortgage without a line of credit, due to the low rate
2 - Brian didn't use a realtor as he has knowledge of the area.
3 - Brian decided to interview the tenants himself, and rely on his gut feel to assess their character.

What do you make of Brian's choices?

Case Study 1 - Brian

Overall Brian made choices that many of us would make: speaking only to his bank due to convenience, and relying on his own experience and expertise. However this strategy is very risky:

1 - By focusing too much on rate, his options for future investments are now more limited. This is because the lowest rate mortgages often have restrictions and high penalties.
2 - Brian missed out on other potential opportunities, and a couple of issues in the strata paperwork that cost him money.
3 - Without running formal checks for tenants (references or credit check), his investment and cashflow could be at risk.

Case Study 2 - Brenda

Brenda has bought a 2 bed rental property for $500,000, with a 20% down payment as her first rental investment.

1 - Brenda spoke to a mortgage broker, as she'd heard they could give useful advice.
2 - Brenda used a local realtor she found through social media.
3 - Brenda decided to use a management company to reduce stress of managing the property herself.

What do you make of Brenda's choices?

Case Study 2 - Brenda

Overall, these small differences in Brenda's choices can have a big impact down the line, which we can see below.

1 - She got herself a good rate, as well as a mortgage with a line of credit that allows her to invest money down the line (at no extra cost and with no penalty).
2 - The local realtor identified an issue with the strata building she was considering, and showed her an opportunity she wasn't previously aware of that improved her cashflow.
3 - The management company did all of the legwork for her, and found her tenants that were a young professional couple with great credit.

5) Case Study - Summary

Even though both Brian and Brenda purchased at the same level with the same downpayment. We can see how small choices early on can have a big impact down the line...

With the choices Brenda made as opposed to Brian she likely will have:

- More flexibility to invest in the future without penalty.
- A plan for her finances and investments going forward having spoken to a mortgage broker about her goals.
- A property much more likely to be a solid investment.
- Tenants that are better quality, and cause her less issues.

Any Questions?

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Thanks for listening!

GOOD LUCK AND HAPPY INVESTING!