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RETIRING RICH WITH multi-family properties

Multi-family properties can be challenging, but the rewards can be great. *Paul Kondakos* explains how they can get you on the fast track to post-retirement wealth

Multi-family investing seems daunting to many investors, but can be a financially fruitful strategy.

THE SCENARIO:

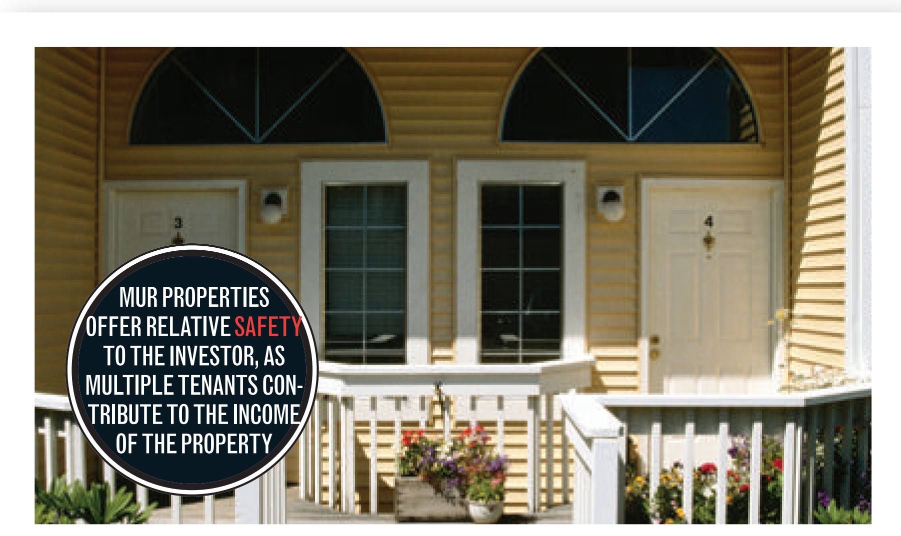
Our goal is to develop a strategy through investing in multi-family properties that will achieve a minimum of $1 million in equity by retirement, which will generate in excess of $50,000 in annual income during the 15-year post-retirement period.

Time is your greatest ally, as it facilitates the three pillars of real estate investing: cash flow, mortgage pay down and appreciation. It is fortuitous that Canadians begin planning for retirement at 40 years of age, as it gives them ample time to build a portfolio which can facilitate a comfortable retirement.

THE STRATEGY

Step 1. Free up equity (Year 0)

To begin, one must have a down payment of 20-25 per cent of the purchase price. In this strategy, the down payment required is approximately $100,000. If you don't have that kind of money, the good news is that by age 40, many Canadians have built up substantial equity in their primary residence. Re-finance your primary residence to free up $100,000 in cash to be used as down payment. This has no tax consequences, as the capital gains from your principal residence are not taxable.



Step 2. Purchase a multi-unit residential

MUR properties offer relative safety to the investor, as multiple tenants contribute to the income of the property.

Target property: Triplex
Target area: Smaller urban centre (e.g. Kitchener, Guelph, Cambridge, Oshawa, Hamilton)
Target cap rate: Approximately six per cent
Price range: Approximately $400,000
Down payment: Approximately $100,000
Financing: Approximately four per cent (5-year term / 25-year amortization)

Step 3. Re-finance MUR

After five years, your multi-unit property will have created equity through mortgage pay down and appreciation. You can re-finance this property to free up equity to purcahse your second multi-unit property.

Market value of MUR #1: $440,000
(Assume two per cent annual appreciation)
Mortgage: Approximately $260,000
Re-finance at 75 per cent LTV and approximately $70,000 can be freed from the property.

Step 4. Purchase second multi-unit residential property

Use the same parametres as for buying property No.1. Adjust for appreciation and the price for the same type of triplex is approximately $440,000.

As such, $110,000 is required for a down payment, and $70,000 has been freed up from MUR #1, which means an additional $40,000 will be required. This can be freed up from the principal residence, if required.

Step 5. Re-finance again

Refinancing to take place in year 10. Assume two per cent annual appreciation for each.

MUR property No.1
Market value: $484,000
Mortgage: $287,000
Re-finance at 75 per cent LTV and approximately $76,000 can be freed from the property.

MUR property No.2
Market value: $484,000
Mortgage: $287,000
Re-finance at 75 per cent LTV and approximately $76,000 can be freed from the property.
Total capital available: $152,000

Step 6. Purchase third multi-unit residential

Target property: Six-plex
Target area: Smaller urban centre
Target cap rate: Approximately six per cent
Price range: Approximately $720,000
Down payment: Approximately $185,000
Financing: Approximately four per cent (5-year term)

> It is easy to see how real estate can create significant wealth and cash flow

A total of $152,000 has been freed up from your two multi-unit properties, which means an additional $33,000 will be required. This can be freed up from the principal residence, if required.

Step 7. Re-finance your properties

Assume two per cent annual appreciation for each.

MUR property No.1
Market value: $532,000
Mortgage: $316,000
Re-finance at 75 per cent LTV and approximately $83,000 can be freed from the property.

MUR property No.2
Market value: $532,000
Mortgage: $316,000
Re-finance at 75 per cent LTV and approximately $83,000 can be freed from the property.

MUR property No.3
Market value: $792,000
Mortgage: $470,000
Re-finance at 75 per cent LTV and approximately $124,000 can be freed from the property.
Total capital freed: $290,000

Step 8. Purchase fourth multi-unit residential property

Target property: 12-plex
Target area: Smaller urban centre (e.g. Kitchener, Guelph, Cambridge, Oshawa, Hamilton)
Target cap rate: Approximately six per cent
Price range: Approximately $1.4 million
Down payment: Approximately $350,000
Financing: Approximately five per cent (5-year term)

At this point, $290,000 has been freed up from your three multi-units, which means an additional $60,000 will be needed. Once again, this can be freed up from the principal residence, if required.

Step 9. Wait for retirement

By now, our strategy has achieved the goal of more than $1 million in equity and $50,000 in annual income by retirement age. More aggressive investors can continue to purchase bigger properties in Year 20 and Year 25 for even greater equity and income in their retirement years.

Even using a relatively conservative approach to real estate investing, it is easy to see how real estate can create significant wealth and cash flow for a more comfortable retirement.

THE RESULTS (YEAR 25)

Assume two per cent annual appreciation for each.

MUR No.1
Market value of $638,000
Mortgage: $284,000
Equity: $354,000
Annual cash flow: ....$10,000+

MUR No.2
Market value of $638,000
Mortgage: $284,000
Equity: $354,000
Annual cash flow: ....$10,000+

MUR No.3
Market value of $950,000
Mortgage: $423,000
Equity: $527,000
Annual cash flow: ....$20,000+

MUR No.4
Market value of $1.68 million
Mortgage: $775,000
Equity: $905,000
Annual cash flow: ....$30,000+
Total equity: $2,140,000
Total annual income: ....$70,000+

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