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HOW TO MAKE A MILLION

... IN YOUR OWN BACKYARD

As prices continue to rise in Canada's hot property market, is it still possible to make big profits within a short period of time? *CREW* challenged four investors — from four regions of the country — to share strategies on how to make a million in less than 10 years by staying in your own backyard

There's no denying that Canada's real estate market is hot – average prices in many urban centres are continuing their seemingly endless upward trajectory. But it's also true that the country's housing market is local, so a strategy that works for an investor in one province may be completely wrong in another.

With that in mind, *Canadian Real Estate Wealth* set out a location-based challenge, asking four experienced investors with boots on the ground in four different parts of the country to outline their strategies for taking an aspiring investor with a starting fund of $100,000 to more than $1 million in equity in just 10 years.

Four of Canada's most experienced property investors – Ryan Griffiths in BC and Alberta, Stefan Aarnio in Manitoba, Paul Kondakos in Ontario, and Scott Bentley in Nova Scotia – leapt at the chance to share their tips on where to buy locally, as well as their detailed investment plans and financing strategies to turn $100,000 into $1 million.

METHODOLOGY

CREW's panel of experts was provided with the following challenge: Turn $100,000 into $1 million in less than 10 years through real estate investment. Since we know that Canada's housing market is very regional, we assigned the challenge to investors in four specific parts of the country: Western Canada, the Prairies, Central Canada and the Atlantic provinces.

Though our experts were welcome to outline the strategy they believe would be the most beneficial in their 'backyard,' we also made sure they took the following elements into consideration:

Where to buy: The hot markets for investors in each region

What to buy: Type of property (condo, single-family home, etc.), new build or older property, price, how many properties and why

How to finance the purchase: What type of loan, the loan-to-value ratio, initial cost and expenses

The ongoing strategy: Whether the strategy focuses on capital growth or cash flow, at what points equity would be used to fund more property purchases, whether renovations would factor into the equation and how to get the most out of joint-venture partnerships

THE EXPERTS

Ryan Griffiths was born and raised in BC's lower mainland and moved to Alberta to invest in the real estate market. He is the president of Insumo Property Solutions, which acquires single-family and multi-unit properties. Learn more at insumopropertysolutions.com or insumo@telus.net.

Paul Kondakos is the Toronto-based founder of RealtyHub, a website dedicated to helping investors generate wealth through multi-family properties. For more information, visit realtyhub.ca.

Stefan Aarnio was named *CREW*'s Joint Venture Partner of the Year in 2012. Based in Winnipeg, he can be contacted on Twitter @stefanaarnio, facebook.com/stefanaarnio, ca.linkedin.com/in/stefanaarnio, or moneypeopledeal.com and exclusiveinvestorclub.com.

Scott Bentley is a mortgage professional with Premiere Mortgage Centre's The Bentley Group in Halifax. He was recognized as *Canadian Mortgage Professional*'s top mortgage broker in Nova Scotia and has appeared on *CMP*'s Top 75 Brokers list for several years running. For more information, visit thinkbentley.com.

Central Canada

Ontario and Quebec

Real estate has dominated the headlines in Canada for the past decade as we've seen year-over-year growth in just about every city across the country. Anyone who invested in real estate has undoubtedly benefited from this trend. The good news is that even if you missed the boat the first time around, you can still get into the real estate game and make some great returns as long you are diligent, committed and have a strategy in place.

But in order to be a truly effective real estate investor, you need to understand the what, where and why before you make a purchase.

GAME PLAN

Turn an initial investment of $100,000 into $1 million in less than 10 years.

WHERE TO BUY

Let's begin by looking at the macro-economics of Canada. The oil price slump has redrawn Canada's provincial economic map; the West no longer leads GDP growth. This title has now been conferred to Central Canada, and more specifically Ontario, which is set to lead 2015 with a projected growth rate of 3.3%, according to RBC Economics Research. Quebec also shows a healthy projected growth rate of 2% for both 2015 and 2016. As such, the numbers point to Central Canada as the best geographic region for real estate investment.

To determine which cities within Central Canada provide the best opportunities for investment, let the numbers guide you once again. Cities with the most favourable metrics are the ones where you want to be invested in the long term because they will offer the lowest vacancy rates and highest rental rates. Metrics to look at include GDP and population growth, unemployment, vacancy and rental rates, new construction projects, university locations and cap rates.

Based on the parameters above, a sample list of the Ontario cities to consider includes Kitchener, Waterloo, Cambridge, Barrie, Durham Region (Pickering, Ajax, Whitby, Oshawa) and Hamilton.

WHAT TO BUY

Since our goal is to reach $1 million in less than 10 years, our strategy will involve a degree of aggressiveness. However, as a prudent investor, you should always look to mitigate your exposure and risk. As such, our investment vehicle of choice will be multi-unit residential properties, as these are considered to be the safest asset class and offer significant leverage to the investor.

Your first purchase would be a six-plex because it sits in a sweet spot for investors – it can be financed at residential rates with up to 80% loan-to-value and can be easily managed. The property specifications to target include a cap rate of 6% or more, a purpose-built building and a purchase price of approximately $100,000 per door.

HOW TO FINANCE THE PURCHASE

Your six-plex can be financed at 80% LTV and, with interest rates sitting at historic lows, it will cash flow nicely. For your first property acquisition, you would use your own resources to close the deal.

The following cash-flow scenario is based on an actual income property in Kitchener-Waterloo:

Property type	Six-unit building
Purchase price	$600,000
Loan-to-value	80%
Capital required	$120,000 plus closing costs of $12,000*
Cap rate	6.6%
Interest rate	2.4% (five-year term, variable rate mortgage)
Gross income	$55,000
Expenses	$15,000
Net income	$40,000/year
Mortgage payment	$2,125/month
Cash flow	**$1,200/month or $14,400/year**

**You are starting with $100,000, but you'll need another $32,000 to close on this property. The best bet is to draw this amount from a line of credit or equity in your principal residence. If you can't access additional capital, you should look to purchase a triplex or four-plex instead.*

THE ONGOING STRATEGY

With the six-plex acquisition completed, you should take the next 12 months to

AN INVESTOR IN ONTARIO: TURNING $60,000 INTO $1 MILLION

Jennifer Brouwer, an investor and interior designer, purchased her first income property in 2010 with a $60,000 deposit that she had saved through the management of funds from building her own custom home. It was a single-family home in Keswick, north of Toronto, and cost $435,000 at purchase. With a background in renovation and construction design, Brouwer went on to invest another $160,000 in the property, finishing the basement and adding a nanny suite and a secondary kitchen.

When Brouwer's first flip was ready to go back on the market, it sold for more than $800,000. Four years and two more property flips later – one in Markham and one in Scarborough – she had reached a net worth of more than $1 million.

"I had zero financial goals in respect to real estate, especially not to make a million dollars," she says. "I was simply following my passion, auctioning what I know so well and doing what I love to do – design. I didn't find real estate; it found me."

Brouwer's approach for choosing properties to flip is part 'real estate 101' and part secret formula. The obvious steps are to find the worst house on the best street in a desirable neighbourhood at a profitable price point.

"The other part is understanding renovation costs," she says. "In today's market, basic renovation costs begin at $100 per square foot. If a home is 2,700 square feet, a minimum cost to renovate at a basic level would be $270,000. I take this number, tack on the cost of purchase and assess if there is any money to be made based on comparable properties in the neighbourhood."

Brouwer advises others who are considering property flipping that they should start with smaller, more manageable properties, which have the opportunity for growth. "If you do this three to five times, you can soon become mortgage-free and eventually keep reinvesting the profit back into the next address to begin building a portfolio," she says. "The catch is not to be caught up in arrogance; none of us know what we don't know. Seek help. Plan to make less, initially. Learn from the pros. Perfect the plan, then rinse and repeat."

CENTRAL CANADA INVESTMENT STRATEGY

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	
Property 1: Six-plex												
Value (2% appreciation)	$600,000	$612,000	$624,240	$636,725	$649,459	$662,448	$675,697	$689,211	$702,996	$717,056	$731,397	
Mortgage	$480,000	$464,150	$448,300	$432,450	$416,600	$400,750	$384,900	$369,050	$353,200	$337,350	$321,500	
Equity	$120,000	$147,850	$175,940	$204,275	$232,859	$261,698	$290,797	$320,161	$349,796	$379,706	$409,897	
Property 2: Six-plex												
Value (2% appreciation)		$612,000	$624,240	$636,725	$649,459	$662,448	$675,697	$689,211	$702,996	$717,056	$731,397	
Mortgage		$489,600	$473,627	$457,654	$441,681	$425,708	$409,735	$393,762	$377,789	$361,816	$345,843	
Equity		$122,400	$150,613	$179,071	$207,778	$236,740	$265,962	$295,449	$325,207	$355,240	$385,554	
Joint venture 50/50											$127,777	Subtract initial investment from JV partner
Property 3: 12-plex												
Value (2% appreciation)			$1,200,000	$1,224,000	$1,248,480	$1,273,450	$1,298,919	$1,324,897	$1,351,395	$1,378,423	$1,405,991	
Mortgage (CMHC, 85% LTV)			$1,065,000	$1,038,250	$1,011,500	$984,750	$958,000	$931,250	$904,500	$877,750	$851,000	
Equity			$135,000	$185,750	$236,980	$288,700	$340,919	$393,647	$446,895	$500,673	$554,991	
Joint venture 50/50											$169,996	Subtract initial investment from JV partner
Property 4: 12-plex												
Value (2% appreciation)				$1,224,000	$1,248,480	$1,273,450	$1,298,919	$1,324,897	$1,351,395	$1,378,423	$1,405,991	
Mortgage (CMHC, 85% LTV)				$1,087,000	$1,060,000	$1,033,000	$1,006,000	$979,000	$952,000	$925,000	$898,000	
Equity				$137,000	$188,480	$240,450	$292,919	$345,897	$399,395	$453,423	$507,991	
Joint venture 50/50											$143,996	Subtract initial investment from JV partner
Property 5: 12-plex												
Value (2% appreciation)					$1,248,480	$1,273,450	$1,298,919	$1,324,897	$1,351,395	$1,378,423	$1,405,991	
Mortgage (CMHC, 85% LTV)					$1,109,000	$1,081,834	$1,054,668	$1,027,502	$1,000,336	$973,170	$946,004	
Equity					$139,480	$191,616	$244,251	$297,395	$351,059	$405,253	$459,987	
Joint venture 50/50											$117,494	Subtract initial investment from JV partner
Property 6: 12-plex												
Value (2% appreciation)						$1,273,450	$1,298,919	$1,324,897	$1,351,395	$1,378,423	$1,405,991	
Mortgage (CMHC, 85% LTV)						$1,131,000	$1,103,600	$1,076,200	$1,048,800	$1,021,400	$994,000	
Equity						$142,450	$195,319	$248,697	$302,595	$357,023	$411,991	
Joint venture 50/50											$92,996	Subtract initial investment from JV partner
Property 6: 12-plex												
Value (2% appreciation)							$1,298,919	$1,324,897	$1,351,395	$1,378,423	$1,405,991	
Mortgage (CMHC, 85% LTV)							$1,154,000	$1,127,000	$1,100,000	$1,073,000	$1,046,000	
Equity							$144,919	$197,897	$251,395	$305,423	$359,991	
Joint venture 50/50											$62,496	Subtract initial investment from JV partner
Property 7: 12-plex												
Value (2% appreciation)								$1,324,897	$1,351,395	$1,378,423	$1,405,991	
Mortgage (CMHC, 85% LTV)								$1,177,000	$1,150,000	$1,123,000	$1,096,000	
Equity								$147,897	$201,395	$255,423	$309,991	
Joint venture 50/50											$34,996	Subtract initial investment from JV partner
Property 8: 12-plex												
Value (2% appreciation)									$1,351,395	$1,378,423	$1,405,991	
Mortgage (CMHC, 85% LTV)									$1,200,000	$1,173,000	$1,146,000	
Equity									$151,395	$205,423	$259,991	
Joint venture 50/50											$9,996	Subtract initial investment from JV partner
Property 9: 12-plex												
Value (2% appreciation)										$1,378,423	$1,405,991	
Mortgage (CMHC, 85% LTV)										$1,224,000	$1,197,000	
Equity										$154,423	$208,991	
Joint venture 50/50											$-	No equity created yet
Property 10: 12-plex												
Value (2% appreciation)											$1,405,991	
Mortgage (CMHC, 85% LTV)											$1,249,000	
Equity											$156,991	
Joint venture 50/50											$-	No equity created yet
Total equity after 10 years											**$1,169,641**	

AN INVESTOR IN ONTARIO AND THE US: TURNING $12,000 INTO $2 MILLION

Luis Limgenco and his wife immigrated to Canada from the Philippines in March 2001 with around $12,000 in their pockets. Just 15 years later, their net worth is $2 million.

Through a combination of hard work and aggressive saving, the couple bought a townhouse in Toronto's North York for $208,000 in September 2001. With continued savings and equity growth, the couple bought a condo in June 2005 for $240,000 and made it their primary residence. They kept the townhouse and rented it out. "All our condo expenses were covered by the rental revenue," Limgenco says.

They sold the townhouse for a $100,000 profit in August 2008, the month before Lehman Brothers collapsed, and in August 2009, they sold the condo for a $100,000 profit, putting the money into two detached houses in the GTA while prices were still down. "We split one bungalow into four units, instantly generating $3,000 of income," Limgenco says. "We were highly cash-flow positive."

In 2011, the Limgencos saw opportunity in the US and bought four properties in Las Vegas for a total of US$720,000. "The timing was perfect," Limgenco says. "The market prices in Vegas actually overreacted to the market collapse back in 2008. It was like buying a house back in 2000 or even earlier. Based on recently sold homes in the neighbourhood, those four properties are now worth at least $1.5 million and are generating a monthly gross rental income of around $6,000. It's a better business proposition than my experience in Toronto."

Limgenco's advice for other investors is to treat real estate like any investment in stocks and bonds. "Be very objective and know when to exit," he says. "Never 'fall in love' with the property."

manage the property and get a real feel for the different aspects involved in running the property in all seasons. There are a range of constructive steps you can take during this time to become a real expert, including learning the legislation around residential rental properties in your province; joining a real estate investment club or network; attending real estate conferences, lectures and seminars; becoming a real estate agent; and finding a mentor.

After that first year, you now have real-life property management experience and an income property in your stable. The next move to building your portfolio is to start attracting capital and using a joint venture for the next acquisition. You should start by talking to family, friends and associates to seek out JV partners. The good news is that if you can demonstrate you are successful at what you do, attracting capital from investors is not all that difficult.

Joint-venture agreements can take many forms; however, one of the most common structures is for one partner to put up the capital and the other partner to bring the expertise and management skills to the table. The profits are then split 50/50.

The second purchase should be a similar property type to the one you have already acquired – this will make it easier to sell to a prospective JV partner due to the 12 months of experience you have already gained.

After another year, your third purchase can be a step up, moving to a bigger 12-unit property. The property specifications to target include a cap rate of 6% or more, purpose-built building, 12-unit residential multiplex and a purchase price of approximately $100,000 per door.

The following cash-flow scenario is based on an actual income property in Oshawa:

Property type	12-unit building
Purchase price	$1.1 million
Loan-to-value	85%
Capital required	$165,000 plus closing costs of $30,000
Cap rate	6.1%
Interest rate	2.4% (CMHC-insured, five-year term, 30-year AM)
Gross income	$115,000
Expenses	$48,000
Net income	$67,000/year
Mortgage payment	$3,800/month
Cash flow	**$1,783/month***

**Given that this is a JV partnership, the profits and cash flows are divided equally between the partners, so the your actual cash flow would be $892/month or $10,700/year.*

Depending on the level of aggressiveness you are comfortable with, you can start looking at even bigger properties, such as 24-, 36- or 48- multi-unit residential properties. If we assume she wants to take a more conservative approach, we would focus only on 12-plexes until Year 10.

GROWTH PROJECTIONS

Over the past decade, real estate appreciation throughout Central Canada has been very robust. Based on the available statistics, one can assume that strong appreciation will continue over the next decade. For the purposes of our growth projections, we will use a conservative 2% appreciation year over year.

The graph on the opposite page demonstrates that even a conservative approach of purchasing just one property per year for the next 10 years can generate more than $1 million in equity. The chart doesn't even take into account the cash flows generated by the properties over the 10-year period.

CONCLUSION

After 10 years, your portfolio would consist of more than 100 doors with a valuation of more than $12 million and positive cash flow somewhere in the neighbourhood of $10,000 per month.