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insideReport

On the cover: Jared Hope
Cover and contents photo by Sarah Sprietsma

THE HGTV EFFECT & WINTER IN CANADA

Welcome to the January edition of the REIN Report.

In addition to all of the detailed articles, analysis and strategies you see in the REIN Report, we often feature REIN Members and their investment focus. This month we highlight Jared Hope and unique investment strategy using a combination of long term buy and holds and flips that become long term holds.

We also feature articles on inspections, latent defects and your liability, and reno tips from a rookie to rookies. So, why January for this theme on inspections and improvements? Simply, because of our winter. In the early months of the year, as the weather gets a little less inviting, more people turn to living their real estate life vicariously through the dozens of ½ hour shows on HGTV and other stations across the country. These shows can be great educators and enjoyable entertainment, but too much of anything can start to change your perception of the world.

Many of these shows are based on renovations. Why? Simply because they make more engaging TV than a show outlining strategic buying based on economic fundamentals.

RIP, CRASH; find bad thing, fix bad thing; smiles follow the tears; a happy ending to another reno project. This is an engaging formula for sure. There are a couple of these shows I enjoy as well.

But, unfortunately, these ½ hour shows can change the perception of the hard work and planning that a real-life, unedited, renovation project really entails. In this edition of the REIN Report, you'll hear about strategies from professionals and DIYers - those who are doing projects - in real time, in real life as they share caution, strategies and sometimes their pain and suffering. Use your investing network to propel yourself forward and the wisdom of those who have come before you.

Truly,

Don R. Campbell

Editor-in-Chief

REIN REAL ESTATE Report

Volume 2, Issue 1

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JANUARY 2015

REIN SUBJECT MATTER EXPERTS

REIN's Subject Matter Experts are leaders in their fields who seek to educate and advise real estate investors and professionals through their education, practical experience, and their own investing expertise.

Calum Ross was ranked as the top producing mortgage broker in the country by Canadian Mortgage Professional Magazine. He holds both a B.Comm and MBA in finance and recently completed the Comprehensive Leadership Program at Harvard Business School. Reach him at: www.calumross.com.

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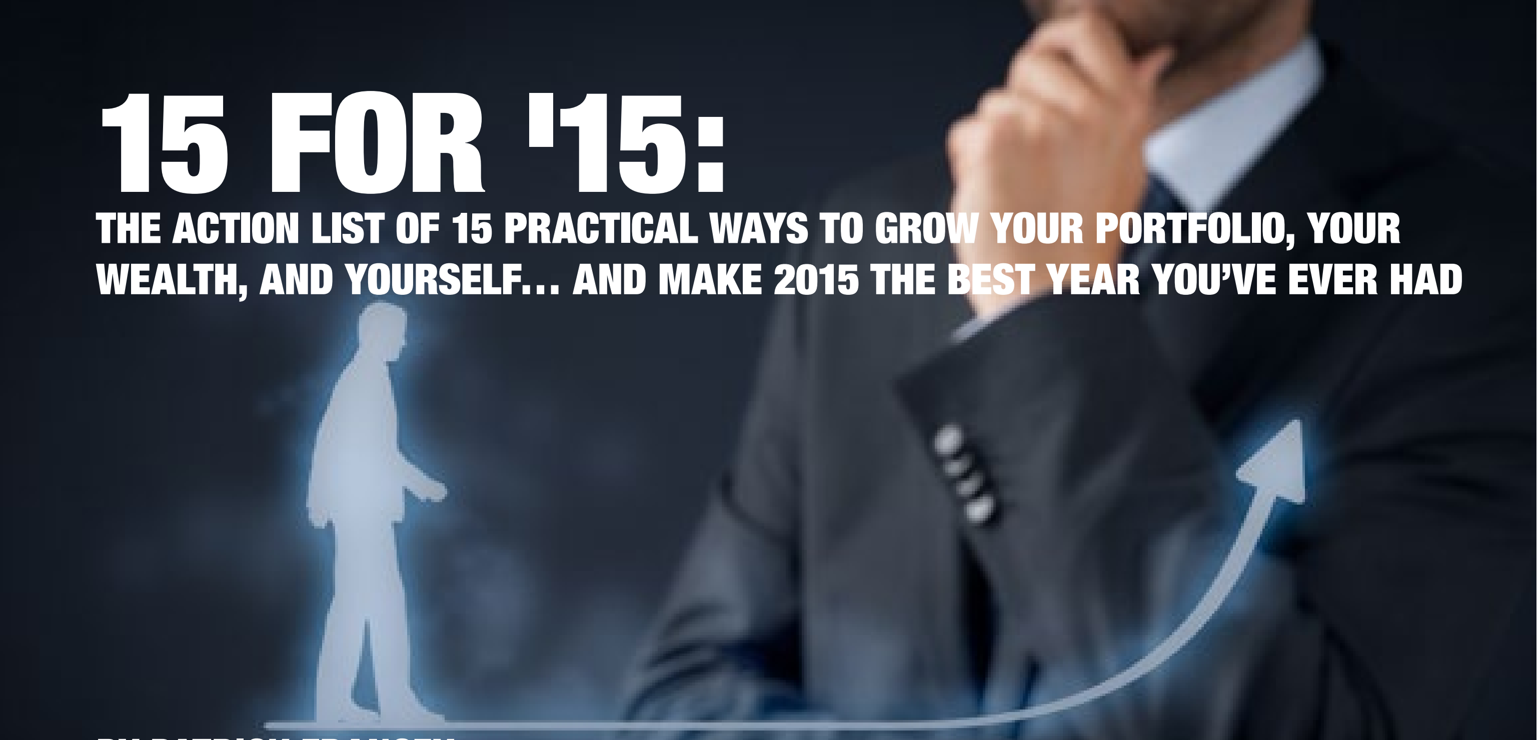
15 FOR '15:

THE ACTION LIST OF 15 PRACTICAL WAYS TO GROW YOUR PORTFOLIO, YOUR WEALTH, AND YOURSELF… AND MAKE 2015 THE BEST YEAR YOU'VE EVER HAD



BY PATRICK FRANCEY

THERE'S SOMETHING ABOUT THE "NEWNESS" OF THE NEW YEAR THAT MAKES ME WANT TO TAKE THE TIME TO REFLECT ON THE PAST YEAR AND TO LOOK FORWARD TO THE ROAD AHEAD. I'm not one to set New Year's Resolutions, but I do set some powerful intentions. Here at the REIN office we're always talking about growing and finding new ways to support our Members' successes. We are all excited about some of the great things we've got in store for you this coming year. You're probably also thinking about what the year ahead has in store for you – both personally and professionally. Over the past 22+ years we have seen time and time again how REIN Members seem "hard wired" to dream big, embrace new beginnings, change and grow.

In this article I want to give you 15 fast, practical and effective steps you can take right away to grow your real estate investing portfolio, your wealth, and even yourself. Keep this REIN Report close at hand and use it as a checklist that you work through starting now– and perhaps every year after.

Grow Your Portfolio

1 **Set a bold goal for yourself and chart a path to get there.** Stretch beyond 'what you know' and set goals that look past your belief of what is possible, because that is where opportunity lives. The hardest, most challenging goals are the most invigorating. What bold goal(s) can you set for yourself to build your real estate portfolio this year like never before? And, what do you need to do to get there? Don't worry if you don't know all the details yet – choose a destination, ask lots of questions and start charting your course.

2 **Level up your properties.** If you own rentals, it often makes sense to be as hands-off as possible. After all, you probably got into investing to generate passive income, right? Purposeful delegation is the right idea, but don't let it fool you into passive abdication. Schedule time throughout the year to review your portfolio, to look at how your properties are being maintained, and to consider how you can actually improve. Your goal is to end up with higher-value properties that quality tenants are more likely to live in longer; plus, your care and attention keeps costs down and rents going up!

3 **Identify 15 people you need to meet this year.** Our most successful Members have come to realize that real estate investing is really a "relationship" business and that the quality of your network is as important as the quantity of the people you know. The clearer you are about your outcomes, the more intentional you will be in who you must connect with to help you achieve your goals (and, of course, who you'll help to achieve their goals). Start by identifying 15 people, who you don't yet know, who you believe could enjoy a mutually beneficial relationship with you. Then take the time to reach out and connect with them, get to know them, and discover ways of helping each other be successful.

4 **Do 10% more.** I have experienced this myself and witnessed it with some incredibly successful people I know. When we're working on something and commit to doing just 10% more than what we think we can do or have done in the past, this small amount of additional effort creates BIG results when added up over the course of a year. The same goes for your portfolio: Whether you're making offers to motivated vendors, presenting opportunities to joint venture partners or attracting better tenants – whatever you are doing, try out this simple "10% more" strategy and you'll be amazed at how much more you'll accomplish with very little extra effort! (or, in keeping with this article theme, aim for 15% more!)

5 **Commit to being creative.** Not all deals happen in traditional ways. I love meeting and talking to REIN members (and often do) who have capitalized on deals by creating innovative win-win outcomes. These are often opportunities that even seasoned investors would never have considered. One of my favourite quotes is by Dr. Wayne Dyer who said "When you change the way you look at things; the things you look at change". Don't get stuck in the ways things are 'always done'; instead, commit to stretching yourself and making 2015 the year that you try something you've never done before. From joint ventures to new markets to new deal structures, there are so many ways to do great deals. Commit to honest win-win creativity and open up a whole new world of opportunity.

Grow Your Wealth

6 **Get organized!** Be honest: What does your filing cabinet look like, and how up to date are your books? If your financial folders are bursting at the seams with unsorted receipts and tax forms, you're starting the year on the wrong foot. In my experience, the most financially organized people are the most financially stable –and if bookkeeping is not your thing, hire a bookkeeper. The more you understand the numbers and financial picture of your business, the greater the number of wealth-generating opportunities that will show up, and the better you will likely sleep at night.

7 **Control your expenses.** "The more you manage your money, the more money you will have to manage." Wealth isn't just about increased income. Unnecessary expenses and operating costs can be detractors from achieving your financial goals. For example, review and find two or three personal or professional expenses that could be toned down this year in favour of the bigger financial picture. Implement the practice of putting 15% of revenue aside for future consideration…call it a 'sleep at night' or 'rainy day' fund, or a perhaps a celebration fund!

8 **Mitigate problems with your properties.** As the old saying goes, "take the time it takes, so it takes less time"…and money. Block off a couple of hours to thoroughly review your properties and identify areas where you can proactively prevent problems from happening. Work with professionals, such as an inspector or a licensed tradesperson, for example, to help you. Consider all systems in the house – from water to sewage to electrical and heating. Review the property from the perspective of prevention and assess what problems you could face in the near future, and then fix them now before you have to pay in both time and money for the more expensive cure!

9 **Identify a cause that you can contribute to and make it a priority to give more this year than last year.** What successful Members frequently tell me is that they recognize that the more they give, the more they receive; so give… (and it's not just about money!) Maybe your cause is a charitable organization or maybe it's a struggling real estate investor who needs your time and guidance (but is too shy to ask). There are great causes all around us and the universe has a funny way of returning to us more than we give.

10 **List three areas where you need to improve your real estate investing knowledge or skills.** Maybe you need help finding and attracting Join Venture Partners; maybe you'd like to expand your team so you can be a little more hands-off on managing your portfolio; maybe you need to hone your analysis skills to find more properties. Whatever your real estate investing business needs, pick three areas to improve and then commit to learning them. (Yes, there are probably many areas you can improve but just focus on three right now). Here's one example: The Renovation Secrets event coming up later this month is one great place where you can add to your knowledge.

Grow Yourself

11 **Take 15 minutes to review last year.** Solidify the lessons of the past 12 months by asking yourself and listing the top 5-10 answers to "What went well?" and the same for "What should I have done differently?" Don't dwell on the problems of the past but use them as a guide to help you avoid repeating them. (And take a moment to revel in the wins).

12 **List three things you need to change in yourself this year.** Chances are, you already know what needs to change. List them, commit to changing them, and – this is key – go out and find someone who can hold you accountable. For me, I need to get back to regular workouts and some additional fun time; the past few months have been pretty busy. (excuse…doh!)

13 **List three ways to stretch yourself this year.** I'm often most inspired by people who push themselves beyond their limits. These are the people who achieve more and, in the future years of their lives, will look back with pride on what they've accomplished. Nature abhors stasis, so identify how you can stretch yourself in 2015 to end the year as a stronger person than you thought possible at the beginning of the year.

14 **Commit to holistic change.** The REIN team are focused on helping you achieve your real estate investing goals. But we recognize that any goal (real estate or otherwise) is best achieved when your life is firing on all cylinders. Think about those other resolutions for your life – maybe cutting back on carbs or trying to jog every morning – and realize that the changes you make there will have a positive impact on your investing. (Hint: That knowledge can help you stick to those resolutions when the going gets tough).

15 **Commit to daily action.** There's one consistent quality shared by every successful REIN Member: They are action takers. They move forward constantly, taking action daily, and incrementally on their real estate investing business. Get out your calendar and write a reminder to yourself to take action every single day.

We're at the beginning of a year-long journey. Some will end up in about the same place they started; others will get a little way down the road; but I hope you follow these 15 for '15 action items to make 2015 the very best year you've ever had.

Patrick Francey is the CEO of REIN. As a serial entrepreneur he owns many businesses and has been a real estate investor for nearly 20 years. The majority of his holdings are located in Edmonton and Grande Prairie.

ZIG WHEN OTHERS ZAG
"THE DARK DEPTHS OF WINTER HIDE GREAT DEALS"
BY DON R. CAMPBELL

HERE WE ARE, IN THE DEPTHS OF OUR CANADIAN WINTER, AS A NEW YEAR ARRIVES. Hopefully you are reading this sitting by a fire with a warm drink after a brisk walk in the winter weather. For most Canadians, this is the time of year when thoughts of warm sand and swaying palm trees begin to take over. Winter has been fun; skiing and snowmobiling has been invigorating but at this point it starts to feel like "OK, that's enough thanks."

So why is this important to strategic investors? The answer is quite simple. It is in these first few months of the New Year when I often uncover the best real estate deals of the year. In fact, that is why I love this time of the real estate calendar. I have always been a contrarian thinker and it has helped me build strong businesses and a strong real estate portfolio. The old "Zig when others Zag" philosophy has served me very well.

> **"Contrarian thinking is strategic only if you have research to back up your contrarian move."**

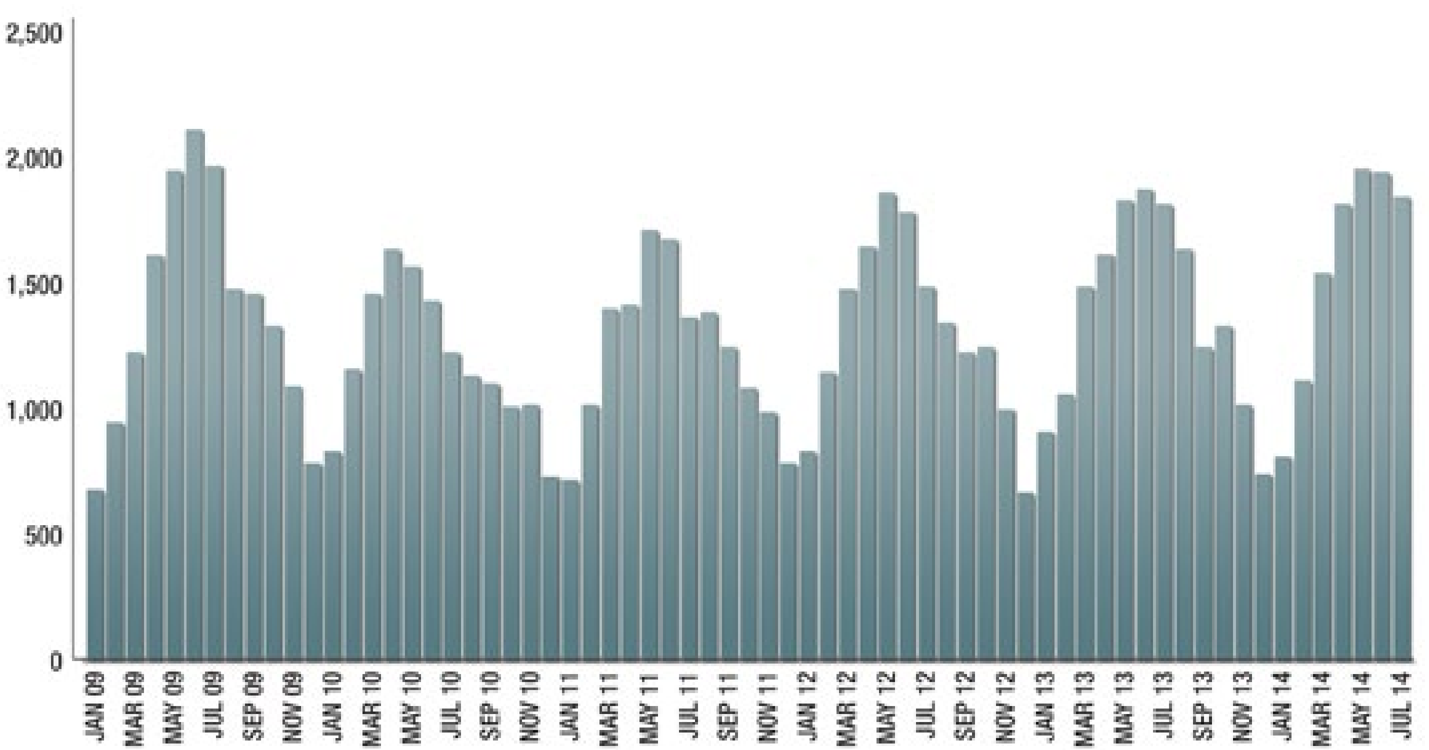
Consider the inevitable winter lag in real estate markets. Sales volumes drop, the number of listings drops, the post-Christmas blues kick in, and people become more interested in a warm vacation, thus causing overall interest in the market to drop. It happens every single year, in every city in the country. I have included two example graphs (for Edmonton and Toronto) that clearly show the repeating cycles, year after year after year. Strategic investors understand this cycle, and the psychology that drives these waves, and we use this information to our advantage. While others are sitting on the sidelines, we begin to increase our buying activity.

We know there are fewer buyers in our market, resulting in less competition from fair-weather investors. We also know that if you are listing your property in the dead of winter, you are probably very motivated to sell. That combination means the deals are often much better – even in the hot markets.

Other advantages you can benefit from by buying in the winter:

- Land title registration is quicker due to lower volumes
- Your real estate lawyer is often much less busy
- Your realtor is often less busy and thus can dig deeper for you
- Mortgage brokers and financing companies have more time for your file
- Inspectors and appraisers are easier to book

Edmonton Residential Sales: 2009 - 2014



All of these benefits come with the simple act of buying a warm coat and boots and zigging while others zag. Mid-winter is not the only time we buy, but it has proven to be a very strategic time.

Being a Contrarian at All Times of the Year

A winter Zag is not the only strategic reason for thinking like a contrarian. In my world, I use this strategy all year round.

For instance, investing heavily into neighbourhoods that have a bad local reputation, but are obviously about to enter a sustained revitalization. While others, mostly locals, live in the old perceptions, I am able to identify these regions on their upswing. Examples like The Junction in Toronto, Bowness in Calgary, Queen Mary Park in Edmonton, Hamilton in Ontario, or Maple Ridge in British Columbia all had bad local reputations but have turned into fantastic investments.

Using Headline Fear to Our Advantage

This contrarian strategy only works if you have quality research behind you. However, when you do it can prove to be an even larger advantage than you get by investing in mid-winter. For instance, many of us bought in Alberta right at "Peak Headline." Here are a few examples of how contrarian thinking and thinking long term proves to be a great advantage:

1. When the headlines said Kyoto Accord (you remember that, right?) was going to shut the province down and everyone was going to leave Alberta, our REIN Research showed that was not true and it proved to be a perfect buying opportunity.

2. Another buying window opened during the 2008 financial crisis. While many ran for the hills because of the headlines and the fear of loss, strategic investors quietly picked up some amazing Canadian properties at big discounts, simply by using research to think in a contrarian manner.

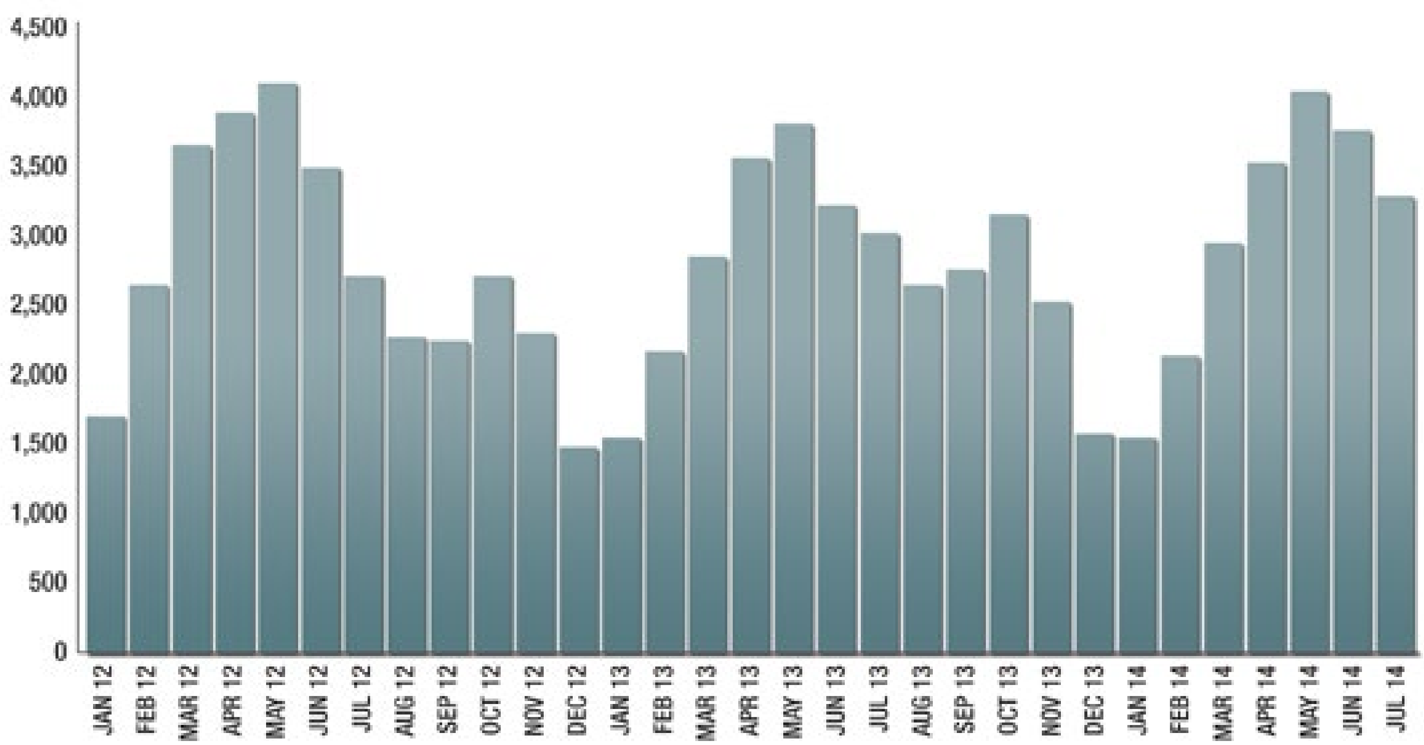
3. More recently the price of oil is dropping, pushing the Canadian dollar down, and putting fear into investors out west and governments across the country. For the long-term, we saw it as an opportunity, so we zigged while others zagged.

Contrarian thinking is strategic only if you have research to back up your contrarian move. There is no need to become a lone pioneer who proudly runs the opposite way of the masses, if your opposite way leads off a cliff. Sometimes there is intelligence in crowds. However, when you are backed up with the confidence that unbiased research can provide you, it is amazing what deals you will uncover.

Lesson: Go buy a great jacket and boots so you are prepared for action while others hunker down in their real or perceived winters.

Don Campbell began his investing career in 1985 with a house purchased in Mission, BC. He is Founding Partner and Senior Analyst at The Real Estate Investment Network and currently owns nearly 200 doors in BC and Alberta. A seven-time best-selling author, Don's expertise and passion for teaching Canadians how to create wealth through real estate are far-reaching and have made an impact on the lives of thousands. You can follow his daily thoughts on Twitter – www.twitter.com/DonRCampbell and on Facebook at www.facebook.com/thereinman.

Toronto Monthly Real Estate Sales: 2012 - 2014



Why Motivation Matters

BY RICHARD DOLAN

AS A PROFESSIONAL REAL ESTATEINVESTOR, I OFTEN FIND MYSELF DISTRACTED, DISENGAGED AND DISCONNECTED FROM MY GOALS, AIMS AND INTENTIONS TO INVEST IN REAL ESTATE. Somehow my *'get up and go'* has *'gotten up and gone'*. It begs the question: **does motivation play a role in the matter of realizing one's real estate investment goals and intentions?**

To answer this question, consider how **motivation** is defined as *"the reason or reasons one has for acting or behaving in a particular way; the general desire or willingness of someone to do something."*

The question for real estate investors is: what is the ***reason*** or *that* ***something***? To answer *this* question, let's first take a look at *what exactly should* motivate you, according to Abraham Maslow's hierarchy of needs in his paper "A Theory of Human Motivation". This hierarchy begins with the most basic motivation and moves up to the highest motivation, the motivation to self-actualize.

The Maslow Hierarchy of Needs:

- **Physiological needs** are considered ***the basics*** and include air, food, water, sex, sleep, homeostasis and excretion.
- **Safety needs** include security of body, employment, resources, morality, the family, health and property.
- **Love and Belonging** include friendship, family and sexual intimacy.
- **Esteem** includes self-esteem, confidence, achievement, respect of others, and respect by others.
- **Self-Actualization** includes morality, creativity, spontaneity, problem-solving, lack of prejudice, and acceptance of facts.

When it comes to real estate investing, I personally realized I invested, at first, for the money. Then it became about the freedom. Now I continue to push myself and my limits (both mentally and financially) for what it means to me personally: the challenge, the growth and the chance to say *'I did it 'cause I said I would.'* But you aren't me, obsessed with zero-tolerance for playing small. So the question becomes: how do you motivate yourself in real estate investing? Whether you've just gotten started, are stuck or are feasting on the yield of average.

I would assert that the older we get, the less motivated we are because fewer factors motivate us. Think about it. Growing up our parents held us up from falling down. Teachers encouraged us along. We played organized sports and insisted on digging deep to do our best. Friends would applaud our love. Support came when the children were born. Those who were significant and mattered to us cheered us on, in and through a career. And then came our personal and purposeful pursuits. Getting in shape, losing weight, learning new skills, getting divorced, remarried or starting from scratch. Or as we all share: real estate investing.

At REIN the monthly meetings, online community and faculty at head office are insistent reminders of **The Four Motivational Factors** for your personal growth and realization of any aim – real estate investment success included. When reviewing the four motivational factors, take on the exercise and self-evaluate; see for yourself if there is room to step up, grow or turn up the volume.

The First Motivational Factor: Comfortable

Comfortable, by definition, is *'being physically relaxed and free from constraint, not in pain, free from stress or fear'*. Ask yourself, cross-referencing Maslow's Hierarchy: Are you performing to merely meet your basic needs? Are you happy with doing just that? Can you live with being comfortable and meeting your basic needs for the rest of your life and nothing more? *(And if you answered yes to any of these questions, that is perfectly fine…this is about being motivated to meet* ***your goals*** *not about making what works for you wrong).*

The Second Motivational Factor: Stretch

Stretch, by definition, means *'to be made or be capable of being made longer or wider without tearing or breaking'*. Ask yourself, cross-referencing Maslow's Hierarchy: Are you stretching your mind, resources and capacity to achieve more than just meeting your basic needs? Are you hungry for **esteem** and more personal growth, both financially and mentally?

The Third Motivational Factor: Possibility

To be motivated by possibility is where I get chills up and down my back. This is where your imagination unleashes and you can see dreams and fantasies of your professional and financial existence as a reality. After all, it is *possible*, which doesn't mean necessarily probable, but it certainly means there is potential. By definition, possibility means *'a thing that may happen or be the case; the state or fact of being likely or possible; unspecified qualities of a promising nature;* ***potential.****'* Can you see that you are capable of stretching beyond your imagination and achieving more? Do you believe it's achievable? Can you fathom its realization?

The Fourth Motivational Factor: Opportunity

Once you have transcended the need to meet your basic requirements of life (although it is important to always satisfy that requirement first) and have grown comfortable with stretching beyond your limits (self-imposed, of course), you can **see what's possible with this growth. You are now set to create, grow and expand your opportunity set in life, business and real estate.**

To have an expanded opportunity set available to you means to have a wide spectrum of multiple possibilities, avenues, media, and leverage points to realize your goals and fulfill any intention you've set for yourself. In the words of Roman philosopher Seneca, *"Luck is what happens when preparation meets opportunity".* You will be presented deals and offered funds, investment dollars, partners and opportunities that were not previously and clearly made to you, had you not grown and expanded yourself and your capacity.

When you realize what comfortable looks like and the comforts of that trap, free yourself of their constraints and stretch, you grow. With growth comes new possibilities and new ways of realizing your goals in life and real estate. That's the opportunity. Not in abandoning the familiar, but in growing what you know you already have within you. Real estate isn't where motivation belongs, but it certainly can be appreciated. Whether a catalyst, a reminder or a fuel, motivation makes a difference for those seeking more in life, who want to realize it through the power and magic of real estate investing.

Motivation is like a match. It only takes a match to set a forest fire.

Richard Dolan is the President of REIN and the resident expert on Performance for real estate investors and professionals. Addicted to producing results, Richard is an expert on raising funds, building brand and strategy with one aim: to produce competitive immunity. Reach Richard at Richard@reincanada.com.

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RESOLUTION TO PURGE THE PAPER?

KNOW THE RULES BEFORE GETTING INTO TROUBLE WITH CANADA REVENUE

BY GEORGE E. DUBE, CPA, CA WITH ALEXANDRA WITMER, CPA, CA

HOW MANY TIMES HAVE YOU MADE A NEW YEAR'S RESOLUTION TO 'GET ORGANIZED'? Part of that organization may be looking at those boxes and boxes of paper records you've been keeping around 'just in case' and wondering when it's OK to get rid of them. Or, even better, when it's OK to scan them and shred the lot of it.

Straight from the horse's mouth – the CRA states "records have to be kept of a minimum of six years from the end of the last tax year to which they relate. The tax year is the fiscal period for corporations and the calendar year for all other taxpayers." For example, your 2013 personal tax return year-end is December 31, 2013. Six years later is December 31, 2019. So you may destroy supporting documents January 1, 2020, if you choose to do so.

But wait – be careful what and when you purge

This is not a green light to destroy everything! When contemplating a paper purge, you need to think about what is ok to destroy and what paperwork you should be keeping indefinitely.

Keep in mind that older documents may be needed even today. We accountants like to call the documents we need to keep for longer

continued...

WHO NEEDS TO KEEP RECORDS?

- Any person* carrying on a business
- Any person who is required to pay or collect taxes or other amounts
- Any registered charity or registered Canadian amateur athletic association
- Any registered agent of a registered political party or an official agent for a candidate in a federal election

***(person = an individual, a corporation, a trust, non-profit organizations)**

For further details you can check out:

- Information Circular 05-1R1 Electronic Record Keeping
- http://www.cra-arc.gc.ca/E/pub/tp/ic05-1r1/README.html
- Information Circular 78-10R5 Books and Records Retention/Destruction
- http://www.cra-arc.gc.ca/E/pub/tp/ic78-10r5/README.html

periods of time the "perm" file (permanent file). For example, the courts have supported the CRA's position that documents related to the purchase of equipment or a building are required to support the capital cost allowance (tax depreciation) you currently deduct. We would classify this as permanent file material.

Furthermore, in personal tax issues, the CRA may administratively allow you to claim missed tax amounts for up to 10 years. The catch is, you need the documentation to support your request.

Our recommendation continues to be to keep your paper records for at least 10 years, and your permanent information 10 years after they cease being relevant.

Now, get the scanner warmed up

Ok, so you've figured out what you are going to keep – but you really don't want a box of paper sitting around. It's the 21st century for crying out loud, why can't I keep everything electronically?!

Good news….you can! However, you need to take caution that the electronic copies are appropriate quality in the eyes of the CRA. Here is what they have to say:

- When the electronic copy is made to replace the paper source document, it must give the same information and any differences in resolution or colour must not obscure the document details.
- The CRA also has a process laid out of recording when you made these electronic copies. In a perfect world, the CRA would like you to:

a. keep a log book showing the date of the imaging

b. have signatures of the persons authorizing and performing the imaging

c. document descriptions of the records imaged

d. report whether the paper source documentation was destroyed or disposed of, and if it was, the date on which it occurred

At minimum, make sure that the image is legible and readable not only on your computer screen, but also if printed out onto hard copy.

Electronic records – they have rules as well

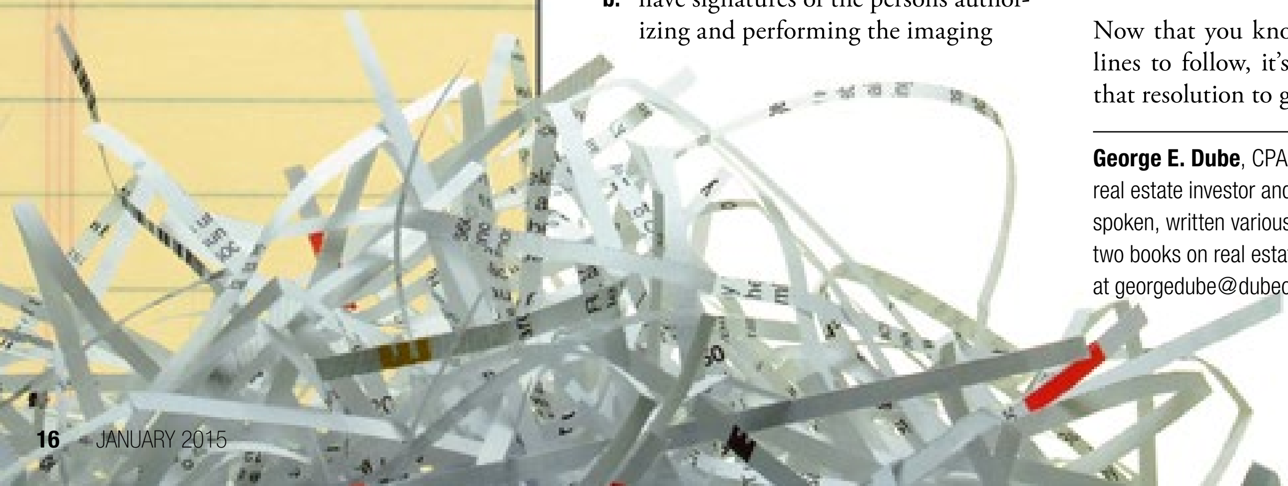
If we reverse the situation – you have all your source documents electronically; say spreadsheets, QuickBooks, emails, etc., you cannot simply print out a hard copy and then destroy your electronic records. These have to be kept for a minimum of six years too – which can prove challenging with what seems to be constant software and hardware updates (whether upgrading to the latest gadget or being forced to change when you spill chocolate milk all over your laptop).

The CRA says: *"a person who is required to keep records and who records them electronically must retain those records in an electronic readable format. This means that a person who uses computerized systems to generate books and records must retain the electronic records, even when a hard copy is kept. Electronically readable format means information that is supported by a system capable of producing an accessible and useable copy."*

This may seem like a no-brainer, but make sure you have a back-up copy of your electronic records. If you've been putting this off, set a goal date to have it done by – January 31st for example. Whatever your method, just do it!

Now that you know the rules and guidelines to follow, it's time to get started on that resolution to get organized for 2015!

George E. Dube, CPA, CA, LPA is a veteran real estate investor and accountant (CPA). He has spoken, written various articles, and co-authored two books on real estate accounting. Reach George at georgedube@dubecuttini.com.



THE TOP 10 THINGS INVESTORS WASTE MONEY ON

BY CALUM ROSS

OVER THE LAST TWO YEARS AS HEAD OF REIN REAL ESTATE FINANCE I HAVE REVIEWED HUNDREDS OF REAL ESTATE INVESTOR PORTFOLIOS. I have seen some people do amazingly well, but almost all could do much better if they followed some of my top tips below. Perhaps you are doing most of this, but I will say: I have yet to see any investor (including myself) do all of this. I am confident you will find these tips very useful. These are not necessarily in order of importance, but here are some ways to improve your cash flow and net worth in 2015:

1. Not using the home equity in your principal residence for investing.

Investors tend to have an aversion to borrowing against principal residence equity and this is almost always a big mistake. While I understand that no one wants to have a large mortgage against their family home, this can easily be protected from an estate-planning standpoint by having life insurance or by having sufficient net worth in other investments to pay this off (i.e. you can sell an investment property or other investments should anything happen to the household's income and pay off the mortgage). The fact is that, generally, the family home is subject to liability in the event you default on other debts and keeping a growing net worth and strong cash flow is still the best way to protect it.

Particularly in today's credit environment, borrowing against a principal residence is generally the easiest and cheapest access to capital – don't waste this easy and cheap money. It is what you borrow for, not what you borrow against, that makes something tax deductible – don't mistakenly believe interest borrowed on your home can't be written off on your tax return.

2. Thinking you need a line of credit to make interest tax deductible on a mortgage loan or loan.

According to the Canada Revenue Agency Interpretation Bulletin, (IT533 - Interest Deductibility and Related Issues www.cra-arc.gc.ca/E/pub/tp/it533/it533-e.pdf) the interest from borrowing is deductible regardless of the borrowing instrument, as long as you meet the stated provision for what it is borrowed for. Most lines of credit are at prime plus 0.5% or above and variable rates are once again at prime less 0.5% or below. Home equity lines are intended for short term borrowing only and were never intended to be left outstanding.

As lenders increasingly amortize lines of credit to include principal payments, why not consider the idea of taking a 30 or 35 year amortization at a below-prime variable rate? When you consider that lenders are starting to include an amortization in the credit lines for debt-servicing purposes, the case becomes even more compelling.

3. Failing to channel extra cash flow to the best mortgage/investment.

No matter how wealthy or poor, we all have a limited amount of cash flow. Building wealth requires you to channel your limited amount of cash flow to the highest pay-off area. In the case of multiple investment property owners, this means putting it toward the debt with the highest interest cost. If you have a non-tax-deductible mortgage still on your principal residence, this is likely the first mortgage to pay off. When you pay off that, then you want to channel all your extra cash flow toward the highest interest investment mortgage you have outstanding. Remember, the real cost on tax-deductible debt is actually the interest cost you can't write off. It also important to note that if your after-tax rate of return in your investments is greater than your after-tax cost of borrowing, then using the extra cash/cash flow toward investments is a better call.

4. Not taking advantage of income splitting.

Most couples who invest and/or who are joint venture partners are at different income tax rates. Regardless of the province in which you invest or live, Canada has a progressive tax rate structure. This means that the higher the income you have, the higher the tax rate that you pay on your income. By shifting the ownership of positive cash flowing assets into the lower income spouse's name (when possible and not triggering income attribution – as an accountant or financial planner) you can often legitimately increase your after-tax cash flow by considerable amounts. When considering the differences in the tax rates below - channeling the income to the lower income spouse can make a huge difference in building after tax net worth.

Federal tax rates for 2014

- 15% on the first $43,953 of taxable income, +
- 22% on the next $43,954 of taxable income (on the portion of taxable income over $43,953 up to $87,907),+
- 26% on the next $48,363 of taxable income (on the portion of taxable income over $87,907 up to $136,270), +
- 29% of taxable income over $136,270.

Provinces	Tax Rates
Ontario	5.05% on the first $40,120 of taxable income, + 9.15% on the next $40,122, + 11.16% on the next $69,758, + 12.16% on the next $70,000, + 13.16 % on the amount over $220,000
Alberta	10% of taxable income
British Columbia	5.06% on the first $37,606 of taxable income, + 7.7% on the next $37,607, + 10.5% on the next $11,141, + 12.29% on the next $18,504, + 14.7% on the next $45,142, + 16.8% on the amount over $150,000

5. Failing to understand the math of refinancing your mortgage.

Investors (and mortgage borrowers as a whole) have a tendency to have incorrect understandings about the costs/benefits for refinancing. First, remember that in many cases mortgage penalties incurred will likely create a tax deduction. Depending on your situation, this expense could be capitalized or expensed. The bottom line is that the real cost of the penalty is much lower than you likely think. Additionally, new lower mortgage payments cannot only save you interest, but they can also bring payments down, which increases the ever-important ability to qualify for other mortgages and loans. Refinance can not only save you interest, but allow you to lock-in a rate today and help you avoid being exposed to projected higher interest rates at your scheduled renewal date.

6. Not being proactive on future borrowing/investing plans.

Over and over again, REIN and the media warn about pending mortgage rule changes and/or lenders who become less investor-friendly, yet most people don't act on the advice. Despite being told the limitations of starting to do your investment property borrowing with your own big bank, in nearly half of the portfolios I see, this is exactly what people do. When you use the big banks first, you often close down the competitive financing that is offered by the big mortgage banks and a select number of local lenders, credit unions etc. Additionally, the penalties to break fixed mortgages are significantly higher from big banks. If you want to be a do-it-yourself mortgage person, then do so with the knowledge that most lenders only know their own mortgage products. In all my years in mortgages, I have never once heard of a bank calling a client and advising them that they would be better-suited to another bank's mortgage and/or that they should pay out their current mortgage to get a lower rate and save money.

7. Not comparing your property value to income from the property.

Generally speaking, investors are pretty good at buying only positive cash flowing properties. But there are still too many who buy negative cash flowing properties and too many that buy a cash flow that doesn't make sense to own. Buying a property with large costs that can't be passed on to the tenant (such as utilities) or buying a property that can't cash flow if rates rise by three percent is not wise. Look for properties where the cash flow has a gross cap rate of 7% or higher. If the property goes up in value and the rent doesn't keep going up with it, then you should seriously consider selling; at the very least, realize that it is not the highest and best use of cash flow.

8. Not being proactive at mortgage renewal time.

Statistics show that six out of ten mortgage borrowers still sign back their mortgage renewal at posted rates. Unless there is a statement in your 'Personal Belize' about wanting to make lenders and banks rich – stop throwing your money away. Often a simple call on a mortgage renewal can save you more than 1% of your lenders first renewal offer. If your mortgage is only $200,000, this work can save you over $2,000 per year (over $10,000 over five years, when you factor in principal repayment). If your time was worth $500 per hour, you could spend a full forty hour work week on this before you were at a time value equal to the savings you could have. Be more proactive, as renewal offers typically come 21 days before the renewal date and you can lock in a rate with another lender 120 days in advance. Not locking in a rate, in what is expected to be a rising fixed rate environment, is very bad (and potentially very costly) financial planning.

9. Investors doing their own income taxes.

I have 12 of my 17 required courses for the Chartered Accountant designation and extensive schooling. I have not done my own tax returns since I completed my undergraduate degree. First, you won't be prepared for tax court if you get audited and second, you will be taken less seriously if you self-represent. When you consider the cost of a good accountant, and the time it frees up, this is a no-brainer. Only a tax accountant and tax lawyer can give you tax advice and doing your own tax returns is simply amateur – it's not a DIY area, so stop doing it!

10. Investors failing to outsource the tasks that they are not good at, or equipped to do.

Over and over again, I see investors doing everyday roles that they are neither good at nor enjoy doing. While I encourage people to have functional knowledge – doing tasks well takes time, practice, and aptitude. Painting things yourself, being your own handy man, being an absentee landlord, doing your own mortgages, doing your own taxes, doing your own legal work etc. There is a reason the top investors build a team and draw on expertise. You can't be good at everything nor is it a good use of your time. You can't run a scalable business without outsourcing and letting go. If you think good service and expertise is expensive, stop to consider the true cost of working with amateurs doing it.

Follow these simple, top ten best practices and you will be well on your way to achieve long term success in real estate investing. Real estate remains the best asset class in which to invest, based on an adjusted risk/return basis, and it has been a near-bullet-proof hedge against inflation. Until next time – best of luck chasing your dreams!

Calum Ross was ranked as the top producing mortgage broker in the country by Canadian Mortgage Professional Magazine. He holds both a B.Comm and MBA in Finance and recently completed a comprehensive Leadership Program at Harvard Business School. Reach him at: www.calumross.com.

THE ULTIMATE WEALTH STRATEGY
REAL ESTATE INVESTMENT STYLES

BY QUENTIN D'SOUZA, ANDREW BRENNAN, & JEFF WOODS

WHAT WOULD YOU SAY IF WE TOLD YOU THERE WAS A BETTER WAY TO INVEST IN RESIDENTIAL REAL ESTATE? Now, hold on - bef0re you throw your proverbial shoe at us, smash your computer on the floor, and walk away - let us explain.

The two most commonly used methods for profiting in residential real estate are buy-and-hold and flipping. We recognize the benefits of both, but we've also uncovered a middle path that combines the best of each traditional path.

The purpose of this article is to compare and contrast these traditional methods with our strategy, which we call the BFRR (Buy, Fix, Refinance, and Hold) strategy. But, before we dive into a comparison, let's take a look at some of the characteristics that we usually find in a BFRR investor:

1. **Understand the Power of Time** – Most BFRR investors understand and agree with the buy-and-hold principle of holding for the long term. They have seen that markets fluctuate over short periods of time, but that real estate investors profit big over the long term.
2. **Dislike Costs Associated with Selling** – BFRR investors understand that every time they sell a property they end up losing about 10% of the value as a cost of sales. For this reason, BFRR investors prefer to keep properties in their portfolio but refinance to reuse excess equity at certain strategic moments during the ownership cycle.
3. **Understand the Power of Forced Appreciation** – BFRR investors love the fact that they can force up the value of their assets through the formula of buying under value and then doing targeted renovations. In this way, BFRR investors are value investors – the residential real estate kin to Warren Buffett and the value investing school. They recognize that the best way to accelerate wealth is to force appreciation.
4. **Dislike Leaving Cash To Stagnate** – We find that most BFRR investors are a little bit demanding of their cash. They hate the thought of sinking it into an investment and not being able to use it again for a long time. Doing a traditional buy-and-hold deal, cash invested is usually not recoverable for years. By forcing appreciation and then refinancing, BFRR investors are able to recover cash from a property within a couple of months, and they can then reuse the cash elsewhere. Using tools like an open mortgage, the refinance can be done within a few weeks or months, with very minimal costs, usually only a few hundred dollars.

As you can see, BFRR investors combine the characteristics of flippers and buy-and-hold investors. Let's take a closer look at the benefits and drawbacks of the two traditional methods now:

Flipping - Flipping is known as a highly unpredictable and difficult way to earn money in real estate and is the most active way to earn money in real estate. Flipping is a great way to create value in a property before extracting that value through a sale. Flippers sometimes win big when they sell. Other times they just make a few thousand dollars. Inexperienced flippers often lose money.

The biggest problem with flipping is continually losing wealth to the cost of selling. For this reason alone, many flippers get their real estate license. It allows them retain more of their hard earned profit.

The second major problem with flipping is never profiting from the long-term benefits of real estate. To truly benefit from real estate, you need to hold it while the market appreciates over the long-term.

Those are the downsides of flipping, but there is one major benefit to flipping. The flipper focuses on buying the property below market value then adding value in the renovations. This forced appreciation is wonderful, and it's one of the keys to the BFRR strategy.

Buy-and-Hold – Buy-and-hold is the baseline strategy for most wealth. Most people are executing on the buy-and-hold strategy without even knowing it, as the home they live in appreciates and provides them with wealth.

Expanding from one's personal residence into rental property buy-and-hold real estate is usually the perfect first step, and we find that most BFRR investors start with a few strict buy-and-hold deals before moving into the BFRR strategy.

One downside of the buy-and-hold strategy is in not buying properties with any intrinsic value. Buy-and-hold means no appreciation is forced on a property, so the only way to add value is by waiting for appreciation.

The other downside of the buy-and-hold strategy is that cash is locked up for years. When doing a buy-and-hold deal, the investor usually has to wait for years before the initial capital invested will be available for re-use.

In fact, BFRR investors often talk about "recycling money." We buy below market value and then force appreciation by renovating. Once the value has been bumped up, we refinance the property. With the refinance funds we pay out the entire initial mortgage and there is additional money left over. It is not uncommon for BFRR investors to raise the value enough to earn back the entire down payment and the renovations expense. On other deals, we earn back a portion of the renovations and down payment expense.

This is often startling to strict buy-and-hold investors who are accustomed to leaving cash sunk into a property over the long term. The BFRR strategy solves this problem of sunken capital and lets us reuse the same money to purchase another property.

Of course, the biggest benefit of buy-and-hold is the power of time. Buy-and-hold investors benefit from mortgage pay down, cash flow, and appreciation over the long-term. These benefits are nothing to sneeze at. In fact, they are the main source of financial attainment that real estate provides.

The BFRR strategy recognizes this and also capitalizes from the power of time, while at the same time accelerating profit in the near term and recovering investment capital in short window of time.

Principles Supporting the BFRR Strategy

Above, we compared the BFRR strategy to residential real estate's two most commonly used strategies – buy-and-hold and flipping. We have seen that the BFRR strategy combines the best of both worlds while at the same time avoiding the negatives of each.

There are two underlying principles of value investing that the BFRR strategy relies on to achieve these results. Let's take a look at those time-tested principles in the context of the BFRR strategy, so you can have a better understanding of why and how the strategy works:

Buying Undervalued Assets - Warren Buffett, the crotchety old CEO of Berkshire Hathaway (and one of the most successful investors to ever live) once said:

"Charlie and I only find 3 or 4 deals per year that we really like, and when we do our ears perk up."

Charlie is Charlie Munger – Buffett's equally crotchety and equally brilliant investing partner. These two old men are masters in the art of value investing and are renowned for their patience. They have to be patient, since value investing means only buying an asset for less than the asset's intrinsic value.

BFRR investors do the same thing. We buy undervalued real estate properties that have an intrinsic value higher than our purchase price. It's this gap between purchase price and intrinsic value we force up with our renovation efforts.

Raising Value - To force appreciation up to the intrinsic value, BFRR investors renovate. Of course, most investors fear the renovation process – fearing the renovations will be too costly and the value won't reflect their expense.

However, BFRR investors have a secret. Are you ready for the money making secret of the BFRR strategy? It's so simple:

Renovations don't cost much.

Make no mistake – renovations are expensive when you renovate like the TV renovations shows or like it's your own home, but they're cheap for BFRR investors because they only focus on renovations that will add value. There's a bit of a knack to renovating for cheap but, once you figure out the secret sauce, it's simple and repeatable.

As you can see the BFRR strategy truly offers the best of both worlds. This strategy certainly isn't for every investor – particularly for investors looking for as passive investments. However, we believe there is a huge pool of real estate investors that have the technical abilities and the ability to be active investors that the BFRR strategy could benefit.

Quentin D'Souza, Andrew Brennan, and Jeff Woods are authors of The Ultimate Wealth Strategy: Your Complete Guide to Buying, Fixing, Refinancing, and Renting Real Estate available at www.amazon.ca.

THE REIN SCORE: LEDUC, ALBERTA

BY MELANIE REUTER & ALLYSSA FISCHER

LEDUC IS BLESSED WITH A DIVERSE ECONOMY THAT LENDS TO ITS SUSTAINABILITY AS A LOCATION TO INVEST IN REAL ESTATE. It is a hub for Energy Services, Advanced Manufacturing, Transportation and Logistics, Agriculture, and Education. Energy companies use Leduc as a manufacturing base to support their exploration and drilling activities in Alberta's oil sands. Some of the largest energy service and manufacturing companies, such as National Oilwell, Varco, and Imperial Oil have located in the region and utilize Leduc's transportation links, which means their operations are more efficient and cost effective. The region is also home to the CANMET Energy Technology Centre (CETEC), the federal government's research centre for the development of hydrocarbon supply technologies, focusing on oil sands and heavy oil.

The International Region, of which Leduc is one part, contains Canada's largest energy sector industrial park, the Nisku Business Park. The 8,000 acre park is located on the outskirts of Leduc and is home to more than 600 companies and employs nearly 30,000 highly skilled trades people. In addition, Leduc's own business park is located on the northeast end of the city, only five minutes away from the Edmonton International Airport and has 100 acres of land available for more employers and more employees. These parks continue to attract new businesses, creating new job opportunities for Leduc residents and stimulating the local economy.

Leduc is a key transportation link for rail, truck and air transport. This accessibility is important not only for those who live in the area, but for businesses looking for a place to locate. Having excellent access to move their goods and people around increases their market competitiveness. Businesses want to locate in areas where they can operate less expensively and more efficiently and can attract top personnel and Leduc is certainly a place that excels in these areas, giving it an advantage over other locations.

Agriculture is another important sector in Leduc and adds economic stability to the area. However, crops and livestock are not the only job and income creators, big bucks come from Leduc's agriculture research and agri-food processing sub-sectors bringing scientists and other professionals to the area seeking homes close to their places of employment. This diversity means Leduc is not as attached to the oil and gas sector, like so many other Alberta towns.

There are nine post-secondary institutions within a 45 minute drive of Leduc, which not only provide the city with access to a large and intelligent labour pool, but also acts as an economic stabilizer; as in both good and bad economic times, people continue strive for higher education. Post-secondary institutions lend themselves very well to residential real estate rental because of that. In addition to the local economy, Leduc has the benefit of the ripple effect from the big city of Edmonton. Many take advantage of abundant and varied job opportunities in Edmonton and commute via the efficient Ring Road, to get from home to office and back.

Outlook

Alberta will continue to be a leader in job creation over the next decade, with major new oil sands projects driving job growth to 2023. Implementation of new drilling methods in tight oil plays across the province, as well as new provincial royalty incentives, have increased drilling activity and production. According to CAPP's 2014 Crude Oil Forecast, total Canadian crude oil production will increase from 3.5 million barrels per day in 2013 to 6.4 million barrels per day by 2030. As manufacturing base for major oil companies, Leduc will continue see job creation in the energy services, manufacturing, and transportation sectors. It has a great outlook for the future.

While oil may continue to be a major economic driver, the City of Leduc is beginning to shift towards other industries which will provide even more economic stability. Other drivers that are quickly rising in the ranks include construction & technical services, environmental services, and information technology.

In 2014, the Government of Alberta announced that it had granted the City of Leduc's request for the annexation of 1,300 acres (526 ha) from Leduc County which will lead to increased opportunities for residential, commercial and industrial development. As new job opportunities are created, we will see more residents begin to work within the city instead of traveling to Edmonton for work. Already, 44% of Leduc's workers are employed within the city's boundaries.

DEMOGRAPHICS

Population Growth

According to the last Federal Census (2011), the population of the City of Leduc was 24,279, an increase of 43.1% from 16,967 in 2006 (according to City census the population was 27,241 in 2013). Leduc was the ninth fastest-growing community in Canada over this time period. With a population growth of 25.9% already recorded between 2001 and 2006, the city has witnessed a growth of nearly 70% over the past decade. This is tremendous news. The frenzy of employment opportunities has and will continue to draw people to the area, people who need a place to live. In turn, housing values and rents will continue to climb.

Median Age

Leduc is getting younger! Since 2006, there has been a noticeable increase in the proportion of young adults ages 20 to 39 living in Leduc, bringing the average age down. The city's median age dropped to 34 in 2011 (from 36.8 in 2006). The city has become a haven for many young families moving to Edmonton region to work but wanting to live somewhere with a small-town feel. A young population means good things for a city: there are more services geared to the young and young families, which attracts more young families to the area. Younger age groups have more movement in the housing sector, meaning they move in and out of homes – renting, buying, and selling – as their life stages change. They are more apt to rent, a great thing for investors, and the buying and selling usually means a stimulated housing market. Working age residents create more money in income taxes and younger people often consume more than older cohorts; the purchase of furniture, vehicles, electronics, more food, eating out etc. means more local economic stimulation.

HOUSING MARKET

Rental Market

The adjacent table outlines the average rental rate by the housing type and number of bedrooms.

Average Rents in Leduc

# of Bedrooms	Average Price	Lowest Price	Highest Price
House			
2	$2,200	$2,200	$2,200
3	$1,925	$1,500	$2,500
4	$1,838	$1,600	$2,150
Basement Suite			
1	$944	$875	$1,000
2	$1,000	$1,000	$1,000
Townhouse			
2	$1,773	$1,695	$1,850
3	$1,614	$1,400	$1,900
Condo/Apartment			
1	$1,300	$1,300	$1,300
2	$1,394	$1,195	$1,600
3	$1,675	$1,450	$1,900

Source: www.rentboard.com (October 2014).

Different neighbourhoods command different rent and value depending on their desirability. Buying new versus old inventory has its pros and cons. It is often harder to cash flow newer properties, (although they may be more desirable to tenants), but repairs and maintenance is much lower and lower operation costs means just as much as higher rents, when it comes to the bottom line.

Sales Activity

Job creation means has attracted more people to Leduc, leading to a demand for housing and, consequently, higher housing values in recent years. However, Leduc still remains an affordable alternative to southern Edmonton. The average price of a home in Southwest Edmonton was $545,231 in June 2014 and a home near the Anthony Henday in Edmonton was selling for $504,547 in July 2013, over $100,000 above the average price of a home in Leduc ($411,289)– the difference between renting and buying a home for some people.

Recent Residential Developments

Residential building activity in Leduc has trended up in recent years, with building permit values hitting new records. In 2013 the city witnessed 506 homes begin construction, with 287 single-family homes started and 219 multi-family units started.

City of Leduc Sales Activity

	January - June		
	2013 YTD	2012 YTD	2011 YTD
Single Family Detached			
Total Sales	171	189	191
Average	$377,394	$360,307	$338,641
Median	$358,500	$356,000	$320,000
Condominiums			
Total Sales	36	41	71
Average	$236,638	$248,607	$230,448
Median	$216,450	$245,000	$220,000

Source: Edmonton Real Estate Board.

The City of Leduc's most recent census results show that developing neighbourhoods are more populated than the city's established and core neighbourhoods, a trend witnessed throughout North America as density becomes more sought after by city planners. At the end of 2013, developing neighbourhoods contained more than 40% of Leduc's population. New residential projects include the 116-unit Windrose homes (stage 9C), currently under construction at Windrose Drive and Wilkinson Place. Sales for available units start in the low $300,000's. The 24-unit single-family home project, Southfork, is currently under construction at Southfork Drive. Sales for available units range in price from $306,900 to over $392,000.

Residential building permits are a reaction to demand in the past. What is important is to see if supply is keeping up with demand or if it is out of balance. A glut of inventory can diminish values and rents, giving renters and buyers 'too much' to choose from from an investor's point of view. Currently, it seems as though demand is outstripping supply, as it certainly did in 2006/7, and while the future remains to be seen, the pro-business, pro-economic development attitude appears as though there will continue to be a housing demand in the mid-term future.

INFRASTRUCTURE

While growth is positive for a city, the rapid increase in Leduc has strained its existing infrastructure and capital budget. As the city's population continues to grow, Leduc's leadership must ensure that the city's infrastructure keeps up with resident demands. Infrastructure is important to meet the needs of the residents. People will leave a city that doesn't have the capacity to educate its children, mend its ill-stricken, or arrest its bad guys. Hospitals, schools, emergency services, as well as water, sewer, and roads are of paramount importance. Here is what Leduc has on its books as prioritized projects:

- Library at the Civic Centre
  - . $6.4 million.
- New fire hall
  (located off 50 Avenue/Highway 39)
  - $7.7 million (summer of 2015).
- Black Gold Regional School District K-9 school - located in west Leduc with an opening capacity of 450 students and the capability of expanding to meet the needs of 700 students. (Fall 2016)
- St. Thomas Aquinas Roman (STAR) Catholic School in Leduc's Southfork neighbourhood will accommodate approximately 600 students (Fall 2016)

Transportation

Planning has been completed for an upgrade of 23 kilometres of Highway 2 from just south of Leduc to north of Ellerslie Road in Edmonton. Proposed improvements include twinning the highway, the construction of new interchanges, and the reconstruction of the highway through Leduc to better serve residents. According to the government of Alberta, the project will begin construction by 2016. This twinning will reduce congestion and travel times between Edmonton and Leduc. This makes it even more attractive for people who live in Leduc and commute to Edmonton (and increasingly vice versa) by bringing the two cities 'closer together', at least in the time/space continuum!

Leduc residents will also benefit from upgrades to Highway 19. Although no official construction date has been announced, discussion and planning is currently underway for the twinning of 12.3 km of Hwy 19 from Hwy 60 to Hwy 2. The project will include two new bridges, a new airport access road, and seven intersection upgrades, including one at the airport access road intersection. These changes benefit not only residents but make it even more attractive for businesses to locate here, once again, creating jobs and increasing the coffers of the local economy.

Public Transit

Residents who don't want to commute via car have the option of taking the C-Line, an intermunicipal bus transit partnership between the City of Leduc and Leduc County that connects residents to Edmonton's Century Park bus/light rail transit centre. The route has 15 bus stop locations, and each bus is equipped with Wi-Fi — the only bus service with internet access in the Edmonton region. Although bus service is not as desirable to commuters as light rail, it is, at least, an option.

POLITICAL CLIMATE

Rental Rules

Unlike other provinces in Canada, there are no controls on the amount of rent increases in Alberta. Rent may be increased if there has not been a rent increase within the previous 365 days or since the start of the tenancy, whichever is later.

The City of Leduc's Land Use Bylaw allows three forms of secondary suites on single-detached lots: Basement Suites, Garage Suites, and Garden Suites.

Tax Incentives

Leduc does not currently offer any tax incentives to businesses or investors. The city believes its surging popularity with businesses means it has no reason to offer any kind of discount or rebate to attract new business, and so far this seems to be the case.

Economic Development

The Leduc Nisku Economic Development Association has a fantastic website. The team is quick to respond (within 1 hour on a week day), and was able to answer any questions we had. The forward-thinking economic development team has ensured Leduc will continue to attract businesses for years to come. This is a key consideration for investors. If the Economic Development office is difficult to deal with, you can often assume that they will be the same for potential employers looking to move into the region.

Investor Rating

Economic Stability	11/12
Yield Growth Potential	10/12
Local Politics Conducive to Business	6/8
Access to Transportation	7/8
Investors' Insights	10/10
Total	44/50

Melanie Reuter is the Director of Research with REIN and a Real Estate Investor owning both single and multi-family units in BC and Alberta. She has a Master of Arts Degree from California State University, San Bernardino and a BA from Simon Fraser University in Burnaby, BC.

Allyssa Fischer joined the REIN team in 2008 as a research assistant. In the past five years, Allyssa has contributed to many of REIN's research reports, including various Top Investment Towns reports and Transportation reports.

JARED HOPE
TRIAL, ERROR AND SUCCESS

BY DASHA ZOLOTA

HOODIE ON, HAT PULLED LOW, ARMS CROSSED - THAT'S HOW JARED HOPE USED TO ATTEND THE FIRST SIX MONTHS OF REIN MEETINGS. He was the guy in the back of the room, listening but not writing anything down, there because his wife, Krista Hope, had committed them to be present.

"I was right annoyed that she signed us up for this program, because I didn't know what it was," Jared says. "My judgment was that someone is going to be in the back of the room selling me product."

But, since the first session in October 2003, the rest "is history." He purchased three properties within his first year of real estate investing, followed by eight properties in his second year, and 64 properties in his third. Jared currently owns 149 doors, (mostly in Edmonton and Grand Prairie, Alta.), his own property management company, Landlord Resource Centre Canada (LLR), and a fix-and-flip company.

"I just started to realize, 'You know what? If these guys can do it, there's no reason why I can't do it,'" Jared says. "'If it works for these guys, there's no reason why it won't work for me.'"

When it came to purchasing his first property, a personal residence for himself and Krista, it wasn't easy. Krista was starting a massage studio at the time, Jared had just finished hockey and was trying to figure out what to do at that point. Jared borrowed $7,500 from his father, Krista sold off her condo and managed to get another $7,500. Together they had enough to put 10 per cent down on a house worth $150,000.

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Photo by Sarah Sprietsma

That's exactly what they did, purchasing a house with a basement suite for around $147,000. Mortgage and taxes for them were shy of $850 per month and they rented out the lower level for $550. Later, a friend going through a divorce rented a bedroom from them as well, for $300 a month, and Jared and Krista found themselves living at $50 per month. They did this for two years while expanding their real estate portfolio.

"The best thing is that house that Krista and I bought in 2003," Jared says. "We could not afford it but we found a way to make it work." He says that getting in the game early is one of the keys to success. Just buy your own personal residence as early as possible.

Reflecting on his investment career, Jared says there are three lessons to keep in mind when it comes to real estate: patience, location and math.

Have the necessary patience to buy the right property - Jared admits that the two properties following the purchase of his initial house he should never have bought. He purchased one property $20,000 over list price because he got too caught up in the moment and energy of a multiple-offer deal - he comes from a very competitive background and just wanted to win. That property had issues renting.

"One thing I've learned over the last 11, 12 year of investing that just because I don't buy this particular house, there's another one that's coming up within weeks or days or hours that I'm going to buy and that's going to fit my model," Jared says.

The location is also super important because you need to buy in an area that has a tenant profile fitting your needs and wants. The second house Jared purchased was in a challenged area of Edmonton called Montrose. Though he wanted young couples with solid jobs and good relationships, he wasn't able to get his ideal tenant in that area.

"I thought I could buy any house and put any tenant there," Jared says. And as important as patience and location are, the math is what it comes down to for Jared. A property needs to be able to do well in a hot market and still sail smoothly if there's a downturn, and that kind of investment requires some foresight.

In 2008, Jared was making upward of $130,000 a year just from being a personal trainer. At that point, he decided to quit his day job to invest full-time and live off his portfolio, a mistake he says that most beginner real estate investors make, or intend to make.

"By living off my real estate portfolio I put my whole family, my life, everything at risk," Jared says. "Whatever the market did is what I did, is what happened to me."

Even worse is that it took Jared a year to figure out that he'd made a mistake. By the end of 2008, his vacancy rates went up to about 12 percent while rent plummeted down by 20 percent. Just before the market had dropped that year, he'd sold off a few properties, pocketing $450,000. Before the year ended, they were living off those savings. Within about two years, they had blown through them.

"Most people come into real estate thinking that, 'You know what? I make $5,000 a month from my job. I'm going to get into real estate, and my goal is to make $5,000 a month from my real estate portfolio so I can leave my job,'" Jared says. "Once again, that's short-sighted thinking."

That short-sighted thinking meant it was time to either close the doors on his real estate portfolio, or time to get a job again. Jared decided to open up a property management company, LLR, consequently. Having dealt with property management companies previously, he saw the opportunity to take what he liked and didn't like from their approaches and then create an elite service for customers like himself. This job would pay the bills and his portfolio would be his retirement fund.

Now, his portfolio is largely buy-and-hold, but for a quick one-time money hit (to buy down debt, rather than shoes or fancy cars), Jared likes to fix and flip, but minimizing his risk as much as possible.

"Would I recommend one of the other? I don't think I would," Jared says. He cautions that a flip scenario costs a lot of immediate cash, it requires an understanding of current market trends and a backup plan in case selling doesn't work.

"The real wealth, from real estate, comes from buy and hold," he says. With fixing and flipping, there's quite a bit more risk involved, especially since purchasing is based off speculation more in this instance.

When it comes to a fix and flip, the right person has to walk through that house. Something as minute as a Corian countertop instead of granite could prevent a person from making a purchase. That's because future homeowners buy based on how they feel, whereas an investor buys based on the mathematics behind the situation.

So, to minimize that kind of risk, Jared mixed up his strategy a bit. Two years ago, he realized there was a niche in the market - flipping businesses. He'd buy anywhere between a 1,050 sq. ft. or 1,200 sq. ft. bungalow, fully renovating it and adding in a legal basement suite in the property. Then, if the property doesn't sell, he rents it out and rolls it over to his portfolio.

"The guy flipping a home, if he can't sell it, he has to float it," Jared says. "Whereas, me, if I can't sell it, I've rented it and it's generating cash flow on a monthly basis."

Within the next five years Jared wants to pay off half of his portfolio - a lofty goal, he admits, but feasible. He says if investors think in five or ten-year terms it will result in better decision-making when purchasing a property.

"I think the market right now is fantastic," he says. "I think it's a great time to be buying. There are a lot of good deals. I think people have to get creative when the market picks up, with different approaches to buying real estate. But, at the end of the day, what I feel, for me, it always comes down to is the math."

COSTS OF DEVELOPMENT AFFECT THEIR COMMUNITIES' ECONOMIC FUTURES:

A LOOK AT METRO VANCOUVER'S DEVELOPMENT CHARGES

BY MELANIE REUTER

THE COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION OF METRO VANCOUVER RELEASED ITS ANNUAL COST OF BUSINESS SURVEY THAT EXAMINES MUNICIPALITIES' COSTS OF DEVELOPMENT AND PROCESSING TIMES.

Each city was given a case study and asked to analyze the application based on their development fees and procedures. This year's case study was based on an office development - the construction of a 2-storey, 50,000 square foot Class B office building on 2.5 acres of land. It required rezoning, subdivision, and development permit and building permit approvals. The building costs were listed at $132 per square foot, for a total of $6.6 million.

The study then ranked the municipalities on costs and time to process. High municipal property taxes for these types of businesses have serious impacts on our city, neighbourhoods and employment opportunities for residents. Although it is often said that businesses 'don't vote' in local elections, in reality they do cast a ballot, by making the decision to relocate to lower-cost jurisdictions in which their businesses can thrive and contribute to the sustainability and vitality of their local communities.

Chilliwack was the only city to appear at, or near the top, for municipal fees, timing and property tax (mill) rates. Chilliwack and Surrey were the quickest at issuing building permits, while Chilliwack was also listed as the municipality with the lowest tax (mill) rates, at a 2.02 commercial-to-residential ratio.

Principles in the study said that what is important for developers is certainty, as this helps solidify costs to the end user and profit for the developer. In some cases, municipalities are "losing out to other municipalities, so they need to do something to either make it easier to develop in terms of the process for the application review, or [find a way] to decrease costs somewhere," said Pacific Land Group's Christopher Correia.

This is absolutely true. It cannot be stressed enough how important ease of development is for economic growth. The future, the funding, and the experiences within the city are in part due to the income generated from the taxes from the businesses that choose to reside there. By attracting businesses that create jobs for the community, a city creates more income for its residents through retail spending, sales tax, and income taxes. People will only live in places where there are jobs. We need to accommodate attractive jobs and attractive homes for employees to live in.

Processing Times

The speed of development directly impacts the bottom line of a project. Delays often translate into higher costs for the end user as capital is tied up, trades and schedules are delayed, and changing weather results in different approaches to accomplish a build. Consider the 300 day variance in application processing between the top and bottom cities on the list: The City of North Vancouver (last on the list) took 390 days to process the same application as the Cities of Surrey and Chilliwack (tied at number one on the list), which took 90 days. Consider the financial blow this has on developers.

Municipal Fees

White Rock reported the lowest fees, including development cost levies, building permit and application fees and rezoning application fees with a total of $140,643; Maple Ridge was fifth at $228,406 and Chilliwack ranked sixth in municipal fees, reporting a total cost of $261,982. Surrey's fees were $509,990; Abbotsford's were

$536,693; and last and most expensive on the list was Vancouver at $801,860 in fees on a $6.6 million development.

Tax Burden

A primary source of income for cities are the residential and business property taxes, which fund roads, emergency services and parks and utilities. Property tax is based on the value of the property being taxed and the rate at which it is taxed (mill rate).

NAIOP says the ideal median commercial-to-residential tax ratio as three-to-one.

For the full report see: http://www.naiopvcr.com/media/37791/naiop_cobs_2014.pdf.

Melanie Reuter is the Director of Research with REIN and a Real Estate Investor owning both single and multi-family units in BC and Alberta. She has a Master of Arts Degree from California State University, San Bernardino and a BA from Simon Fraser University in Burnaby, BC.

Metro Vancouver Mill Rates per Municipality, 2014

2012 Rank	2014 Rank	Municipality	Commercial Mill Rate	Residential Mill Rate	Commercial to Residential Tax Ratio
1	1	City of Chilliwack 10.45	5.18	2.02	
2	2	City of Langley	8.88	3.89	2.29
5	3	District of West Vancouver	4.25	1.77	2.39
4	4	City of Abbotsford	12.69	5.17	2.45
3	5	City of White Rock	8.93	3.58	2.49
9	6	City of Surrey	7.02	2.47	2.84
6	7	District of Maple Ridge	12.73	4.46	2.85
8	8	City of Port Moody	10.19	3.52	2.89
7	9	Township of Langley	9.60	3.23	2.97
12	10	Municipality of Delta	10.58	3.47	3.04
11	11	City of Pitt Meadows	12.48	4.01	3.11
15	12	City of Richmond	7.29	2.25	3.24
13	13	City of Port Coquitlam	12.94	3.88	3.33
17	14	City of North Vancouver	8.18	2.38	3.43
14	15	District of North Vancouver	8.48	2.44	3.47
10	16	District of Mission	16.43	4.68	3.51
16	17	City of New Westminster	13.23	3.75	3.52
19	18	City of Burnaby	9.36	2.34	3.99
18	19	City of Vancouver	7.88	1.85	4.27
20	20	City of Coquitlam	13.81	3.20	4.31

THE AMERICAN DREAM IS DEAD

BY BEN MYERS

IN OCTOBER I HAD THE HONOUR OF BEING ONE OF THE KEYNOTE SPEAKERS AT THE PRESTIGIOUS EMERGING TRENDS EVENT HOSTED BY PWC CANADA AND ULI TORONTO. I spoke about the new residential market in key metropolitan areas across Canada, shared my thoughts on the current market conditions, and summarized the opinions of other top real estate analysts on the prospects for 2015.

After the presentation, there was a question and answer period featuring the three speakers, and I was asked about the continuing urbanization trend occurring in major markets across Canada. I started off by proclaiming that my firm is one of the most bullish firms regarding the 'return to downtown' movement, as we have urban condominium apartment projects in Calgary, Edmonton, Regina, Winnipeg, Toronto and Ottawa. Quite off-the-cuff, when asked about affordability and constantly shrinking unit sizes, I declared that the American Dream is dead. Let me explain that rather blunt statement. The desire among young people for a single-detached home in a quiet neighbourhood with a white picket fence and a small back yard has been subsiding; the new dream for first-time buyers is a condominium with hardwood floors, 9' ceilings, granite countertops and modern finishes – something like the 'Stainless Steel' dream.

Just as important as the interior suite finish of a condominium, is the neighbourhood in which it resides. It is so important for this generation of buyers to be connected in more ways than one. Are they connected to their friends by living close by, are they connected to work by having transit within walking distance, and most importantly, are they connected to their phones? These buyers don't want to sit in traffic to get anywhere, that would be a waste of time, and that would mean they are disconnected.

How does a real estate investor take advantage of these trends? How can you ensure the building you buy into will meet the needs of your prospective tenants over the long-term? In the future, I predict that resale listings for condominium apartments will include the building's download speeds, as this desire for instant connectivity grows, and the need for additional bandwidth widens. Imagine watching Netflix or Hulu on your TV, surfing the web on your tablet, responding to emails on your phone, and controlling the blinds, stove, lighting, coffee maker and other appliances on your Wi-Fi universal remote. Sounds futuristic, but it is probably not too far off.

Can older buildings accommodate this condo of the future? New buildings with new wiring, the best broadband, better project amenities and suite amenities, green features, and direct transit access will likely be the condos that satisfy the demand for connectivity and the 'Stainless Steel' dream. The advantages of buying a new condominium become more apparent when you have an eye to the future of living among our nation's youth.

Affordability, adaptability, connectivity, and shareability are buzzwords that you will continue to hear this decade. Ensure that your investment strategy considers these key emerging trends. Think just as much about the neighbourhood and the area's potential as you do the actual suite itself.

Fortress Real Developments partners with residential and commercial builders across Canada, and Ben assists in evaluating both the market conditions and projects that Fortress is active in. Follow his blog posts and commentary on the Canadian Housing Market at www.fortressrealdevelopments.com/news or follow him on twitter at @BenMyers29

SIX THINGS TO WATCH FOR WHEN DOING INSPECTIONS

BY JARED HOPE

SOME OF YOUR BIGGEST CASH FLOW CAN BE MADE ON THE DAY YOU DECIDE WHETHER TO BUY A PROPERTY. When looking at an investment, remember that many of these items listed below can cost a lot of money, meaning a lot, if not all of your cash flow if they need to replaced, repaired or remediated right away. In addition to putting your own knowledge to work, be sure to always use an accredited and insured inspector to help determine the condition and life expectancy of these big ticket items.

And for further information, be sure to read Darren Richard's article about disclosure and liabilities when it comes to purchase and inspection in this month's issue.

1. Basement

Your nose may be one of the best tools for doing this inspection. Use your nose to detect damp or musty odors throughout the basement. Inspect for evidence of water leaking on the floor and ceiling of the basement. Check for signs of leaking around the foundation of the house. Check for evidence of rotting wood in exposed beams in the basement and also look for cracks in interior basement walls.

The use of a thermal imaging camera can also provide assistance when inspecting basements as this will allow for a more thorough investigation of areas behind walls you cannot see.

2. Electrical

The electrical panel should be easy to access and in good condition. It is recommended to have a panel with 100amps. Lots of the older and smaller homes will have 60 amps. Check throughout the house to note the number of electrical outlets to ensure that the house has sufficient outlets. Check outlets in the kitchen and bathroom for ground fault circuit interrupters – GFCI. These inexpensive outlets can prevent severe shocks from occurring.

Also make sure that all breakers are properly marked with the right area of the house's services. This will make it easy to deal with issues in the future if and when you need to shut power off to a certain location of the house.

3. HVAC

The heating and air conditioning systems of the house are extensive and important. Check the capacity and models to ensure they're the appropriate size for the house. It is always wise to hire an expert to examine and inspect these systems to ensure they are in proper working order.

Always make sure furnace filters are replaced on a regular basis. It's recommended to replace the filters every 2-3 months

4. Exterior

Gutters and downspouts are what keep and drive the water away from your foundation. Water prevention is the best way to keep water for entering your basement. Ensure all gutters are clean of all debris. It may also be a good idea to increase the size of the gutters to allow more water to be captured off the roof in a heavier rainfall. Also, adding extensions to the down spots or securing the down spouts to the side fence or a post in the ground will help prevent water from entering the foundation.

You shouldn't see evidence of water around the foundation and the ground should slope away from the foundation.

Take a look at the landscaping on the property as well. Trees, shrubbery and other plants should not appear overgrown and unkempt. If the property has larger than normal trees it may be an idea to remove these tree from the property. Big trees usually have large roots and roots can and will go through plumbing and foundation. Best solution is to remove the bigger trees and plant smaller varieties, which have roots that stay isolated.

5. Ceilings, Walls, and Floors

Examining walls and ceiling in areas such as bathrooms and kitchens is crucial. These locations are high water areas and if there are signs of water damaged drywall or water stained floors (or ceilings) than there may be a bigger issue behind the walls or under the floor.

Large cracks in the walls and ceiling are also signed of structural issues. House shifting is normal but if a larger than normal crack appears, it could be a sign of bigger problems.

6. Doors and Windows

Open and close all doors and windows to ensure they work smoothly and close properly. Check around windows, looking for evidence of mildew and moisture. Weather permitting, it is recommended to inspect windows for fog because this could indicate a broken seal. In the event the weather is more warm than cold, make sure to inspect the corners of the window frames for signs of water or moisture damage. If a window has a poor seal, the window will frost up in winter. This frosting on the inside will eventually cause water damages to the window frame or trim.

Jared is an Operating Partner and General Manager of Landlord Resource Centre. Over the past nine years, Jared has successfully managed all aspects of a dynamic and growing real estate portfolio including direct and contractor based maintenance programs. His experience has been gained through his 'in the trenches, hands on' work and provides Jared a very real perspective and scope of the work necessary to successfully, and profitably manage a portfolio. It is within this process and mindset that Jared has created the infrastructure to support his business foundation for long term success in managing his real estate portfolios. Reach him at Jared@llrcanada.com

CAVEAT EMPTOR & LATENT DEFECTS

BY DARREN RICHARDS

A PURCHASER MOVED IN TO A BEAUTIFUL HOME ON CLOSING DAY, UNPACKED AND TURNED ON THE COFFEE MAKER. The power went out in the whole house. Another moved in and within days and found that a large section of the main floor wall was infested with termites. Yet another moved in and found that the drywall in the basement was wet after a 'typical' rain fall the night before. After investigating a bit more (removing drywall, vapor barrier and insulation) it was discovered that the wall was recently repaired and painted and covered a gaping crack in the basement wall. Water was literally pouring in.

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IGNORANCE IS NOT ALWAYS BLISS.

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All these are nightmares for any home buyer. And many believe that these situations will never happen to them. What are the chances? I got a home inspection after all! And, really, how much could it cost to rectify something like that anyway?

Well, it does happen; quite often, in fact.

And look closely at that home inspection report. A typical inspection agreement and report make it clear that it is a "visual inspection of accessible areas" and that "certain defects and problems which may be concealed behind walls or otherwise, are not expected to be discovered by the inspection". A professional inspection helps with respect to the conditions of the siding or the shingles but not termites and hidden cracks.

And with respect to damages: the water damage in the basement cost the new homeowner over $50,000 to correct. The electrical issue turned into a $123,000 problem (although, in that case, the circuit breaker wasn't the only issue – lack of water for weeks at a time, faulty heating and other issues existed too).

Is there any recourse against the Seller when these 'hidden' issues are discovered after the closing? The answer isn't necessarily simple. The general rule is that of Caveat Emptor or "buyer beware".

There are two types of defects one can encounter or discover after buying a home: latent and patent defects.

Patent defects are the responsibility of the buyer to discover – they are defects that a 'reasonable person' using 'reasonable diligence' should discover. And under the common law principle of caveat emptor, the buyer is actually the one responsible for finding these. That is, the seller is generally not obligated to point them out or disclose them.

If, for example, your son broke a hole in the wall behind his bedroom door practicing some cool skateboard move, he said nothing to you about it, and you said nothing to the buyer about it, you'd likely be fine (although I'm not sure how the son would fare). The buyer would be expected to actually open that door and look at the wall. If it's discoverable after reasonable diligence it would be a patent defect. The seller would not likely be held liable.

On the other hand, **latent defects** are not discoverable upon reasonable inspection – they are defects that are essentially hidden from a reasonable due diligence inspection. The courts generally require sellers to disclose any latent defect that they have actual knowledge of – if they don't, they may be liable for damages.

A few cases have given some guidance on these matters. In the case of Biegler v Stacey (1995) (Alta Prov. Ct) the judge held that it was incumbent upon the [buyer] to prove that (1) the matter complained of was a latent defect (2) the [seller] actively concealed the defect and (3) the latent defect went to the fitness of the premises for habitation. She went on to define a latent defect as one that could not have been identified by a reasonable observation. As to fit for habitation, Alberta has followed Ontario's lead and extended the historically limited application to "any loss of use, occupation or enjoyment of any meaningful portion of the premises or residence that results in the loss of the enjoyment of the residence as a whole". As you can well imagine, that could cover a lot of defects.

Does the Seller need to "actively" conceal or hide the issue to be caught by this obligation to disclose? Not necessarily. In an Alberta Queens Bench case (Palmer v Van Keulen (2005)) the court stated: "In a situation where a vendor actively conceals a latent defect, the rule of caveat emptor no longer applies and the purchaser is entitled to rescind the contract or seek damages... However, a claim for fraudulent misrepresentation does not require that an overt misrepresentation be made. *The law is clear that silence and half-truths can amount to a fraudulent misrepresentation...* In a residential conveyancing context, fraud can arise where there is an active concealment or silence about a known major latent defect."

The B.C. Supreme Court weighed in and noted that while the law of vendor and purchaser has long relied on the principle of caveat emptor to distribute losses in real estate cases, the rule is not without exception. "Two major exceptions are in the case of fraud, and in cases where the vendor is aware of latent defects which he does not disclose. The law also supports the imposition of a duty to disclose latent defects on the vendor where he is not subjectively aware of those defects, but where he is reckless as to whether or not they exist" (emphasis added).

So be careful out there. If you're a seller and know of a material defect, err on the side of disclosure. If you're a buyer, complete your proper due diligence. And as always, if you have any questions about the contract, or your specific situation or facts, consult your lawyer.

Darren Richards is a partner with Richards Hunter Toogood. He focuses on both residential and commercial Real Estate and Corporate/Commercial Law serving both small and medium sized owner-managed business in the Edmonton and surrounding region. Mr. Richards also acts for major banking institutions and other lenders in relation to their commercial loan facilities. Reach him at: d.richards@rht-law.ca.

SETTING THE FOUNDATION FOR THE MULTIFAMILY INVESTMENT PROCESS:
ASSESSING PROPERTY

BY KYLE PULIS

THE NUMBERS CONTINUE TO SHOW THAT OWNING A MULTI-FAMILY BUILDING IS A GREAT RETIREMENT PLAN. The investment is safe, low maintenance and provides a constant stream of residual income that will help fuel a great lifestyle over many years. It's the reason that multifamily investment has become the preferred retirement plan for thousands of baby-boomers across Canada in recent years. Clearly, I very much support this type of plan. But success in the multifamily investment marketplace requires proactivity and preparation. As an investor, you have to make sure the building is ready for decades of successful ownership. So let's look at the most important elements to consider when reviewing potential multifamily investments.

When you arrive at a property there are two things you have to keep in mind throughout: how you are going to ensure this property will continuously stay rented and how you will be able to keep costs low. It's important for you to take a long-term view when assessing the property's infrastructure. This means that, when reviewing the building for the first time, your two major concerns should be the major capital expenditures and the building design. Major capital expenditures such as HVAC systems, roofing, plumbing and electrical systems are a critical element in successful real estate ownership. In any property purchase, these systems can make or break the value of the deal.

The building's design will play an important role in attracting tenants. Because the average tenant isn't going to have knowledge of the mechanical elements of the building, they'll likely focus on the aesthetics of the design. It's important to think like a tenant when considering the property's design. Are the hallways new and clean? Have the bathrooms and kitchens in the home been renovated in recent years and are they big enough to comfortably move around in? These are

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the types of questions that tenants will be asking themselves when reviewing the home and these factors should be reflected in your thinking as well when visiting the multi-family building for the first time.

Here are the Major Capital Expenditures to Consider:

Roofing Systems

The roofing system will play a critical role in the safety and security of the property. Investors should have the roofing system reviewed professionally to ensure that the system is well protected against problems such as cracking tiles and moisture leaks. Roofing leaks can become one of the largest expenditures for multifamily building owners, as they often lead to serious interior or even structural damage. Closely assessing all roofing systems will protect your investment.

Windows

When analyzing windows within a multi-family property, you should look at both the aesthetic and structural factors. Are there small cracks in the glass due to weathering? Are the windows mismatched within the property? Multifamily owners will find they can save money on their heating and cooling by integrating quality window systems. Also, making sure the windows open and close properly and have screens in place will ensure a happy tenant.

HVAC

HVAC systems such as boilers and heaters must be closely reviewed when assessing the entire property. The age of the HVAC systems is an important point to consider. For example, if the boiler system is over 20 years old, it will require replacing during your ownership if you buy the building. How much will this system cost? Can you afford the outlay in the first 5 years of ownership, even if you don't need to replace it? Is it functioning as efficiently as possible? When it was last cleaned/serviced? A good service can save you 20% or more on your heating bill, especially if it has been years since the system's last service and if the system has not been working properly.

Plumbing and Electrical

The building's plumbing and electrical systems will play a key part in your month-to-month operations costs. You'll have to consider whether the latest efficiency standards are met by the building's system. You'll also have to ensure that the electrical work has been analyzed and approved by a certified contractor to avoid potential security risks within the property. Switching your plumbing fixtures to low-flow fixtures and placing LED or CFL light bulbs in your hallway lights are great ways to lower your utility bills.

The Role of Renovation and Design in Attracting Your Tenant Profile

After closely reviewing all of the important capital expenditures for the property, it's time to analyze the building's design. I know, from experience, the importance that tenants place on nicely laid out units. It's amazing the difference that modern decorations can make in the caliber of tenant you're able to bring in to the property. Quality décor can bring in quality tenants that pay their rent on time.

Consider the convenience factor too when reviewing property design. Having systems like in-suite laundry and the ability to control their own temperature are very important to today's high caliber tenants. High value tenants also appreciate conveniences such as dishwashers and cutting-edge cooking equipment. The return on investment can be high with these types of additions.

If you decide to complete renovations on the property, remember that durable materials can help keep maintenance costs low. Complete comprehensive research, on both the contractor and the materials they use, to ensure you're getting a good deal for the future rather than just the short-term. Flooring, cupboards and paint products should be of the highest standard for building owners to keep their costs low.

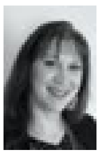
Proactive, Future-Focused Investors Can Save over the Long-Term

By making the correct decisions during the property analysis process, you'll make lasting savings over your years of multifamily building ownership. At every step in the analysis, make contacts with construction industry professionals and ensure they're available to answer your questions along the way. There's clear value and lucrative opportunity in multifamily property ownership, but you have to make data-backed choices and get the planning right first. When you do, you'll get the right tenant living in the right property under your ownership for many years.

Kyle Pulis, winner of REIN's Rookie of the Year, Multi-Family Player of the Year, Leslie Cluff Memorial Player of the Year and Top 10 Player of the Year awards also volunteers at the Brampton Downtown Development Committee. Kyle can be reached at: kyle@pulisinvestments.com.

RENO TIPS FROM A ROOKIE TO A ROOKIE

BY SHELLEY VISSER



WHEN I WAS ORIGINALLY ASKED TO WRITE THIS ARTICLE ON RENOVATIONS MY FIRST THOUGHT WAS, "ME? Why me?" I am not that experienced with renovations. I am not a contractor. Other people are way better than I am. I'm a single mom and a girl who wears make up, does her hair. I'm a Flight Attendant who is gone ½ the month. And then I realized I did what so many of us do – try and talk myself out of it before I even started. Fear and my assumed lack of knowledge paralyzed me. Yes, all the above is true, but it is also true that, in spite of all that, I have gone out and renovated homes. I didn't let any of those fears stop me. So I determined that this article would be for the very brand new person. The person who hasn't done renovations – you may have not even painted a room yet. It's not for the expert – I am still learning lots from the experts. This is a story of some of my experiences.

When starting any renovation project as a beginner, ask lots of questions and ask many people in the field. You will get different answers, which will then help you learn. One of the best questions I was told to ask was: "What don't I know that I should know?" I have learned much from that question! To whoever said that at one of the REIN workshops – thank you! *(Editor's note: I think it was Patrick Francey).*

Be Precise

Landscaping can be one important aspect to renovations. On one of my renovations I actually needed to have the trees pruned. I had a few quotes done. Each quote gave me a price and said they would trim back the overhanging branches. For future reference, have them explain exactly what they mean by "trim back". And – when you only point out the overhanging branches – that is all they will trim. When the company was done they had shaved ½ the tree and sheared off one major limb. The tree looked awful – it appeared crooked and lopsided. It would have been better for it to have been chopped down.

Document, Document, Document

Documentation of everything is very important. During a demolition stage I decided to hire a well-known company to remove everything in one shot. I had a great day ripping up carpet, pulling down cabinets, removing tiles, etc. I was going through a divorce and it was fantastic therapy. I had everything outside for the guys to take. The guys arrived with their large cube truck and proceeded to back up into the space. The complex for this unit had a walkway with the neighbour's fence on one side and the complex on the other side. He had to back the truck up into this space. There was lots of room except it was at a little bit of an angle. The driver watched the fence and had his helper on the other side watching the house. However, the driver forgot to roll down his window to hear the other guy. We watched him back his truck right into the corner of the complex, ripping the new drainpipe off the building and tearing the gutter off. I took lots of pictures. However, I trusted him when he said he'd be back the next day to repair it. Lesson learned –don't let them promise to come back to fix it. It took me three months of follow-up to get them to reimburse me for the repairs I ended up paying for. Recording everything really pays off – every call, every person, time, date, etc.

The "Bigger" Project, May be the Cheaper One

Like everyone, I had a budget. But when I bought an older home that had wood paneling, I knew it needed to be updated. Painting over it wasn't going to do it. I decided to rip them down. The first couple came down easily and I thought, "Great, fill a few nail holes and then slap some paint on." Well, the rest were actually nailed and glued down. The glue had to be scraped and sanded off, which doesn't work well. I talked to many people and one person suggested replacing the drywall. Everyone else said skimming it would work and would be cheaper. By the time we had someone skim, and sand it a few times it would have been cheaper to replace the drywall. The end result never did cover the black, tar-like glue and the wall was very uneven. As it was in a hallway with a large window at the end you could see the imperfections very clearly. I ended up spending even more to purchase paint with a sand-coat finish to cover it up. When it will be time to repaint that wall I will need to rip it down and replace the drywall anyway. Next time slap up some drywall. Time is money too.

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Sometimes Cutting Costs Doesn't Work for Everyone

I love having new floors – whether it be linoleum, laminate, hardwood, long plank vinyl, etc. It really makes a difference. I was told when putting down new linoleum have a maximum of two layers beneath it. If any of the layers are torn it's best to tear it up. The floor had at least three layers down, plus I had redesigned the kitchen. A new subfloor had to be put down in the places where appliances had been or cupboards moved around. It turns out the installers don't like it when you are very frugal and cut and shape small pieces of subfloor to fit your spaces. I had very annoyed men who had to spend a lot more time gluing the floor down in between the cracks. Being too frugal, or not having the right knowledge, can cause frustrations for not only you but for your contractors as well.

50 Shades of Grey

No reno project would be complete without the painting stories. There are always painting accidents. If you aren't familiar with colours, purchase a small can of paint and do up a large area on one wall. Sometimes that nice green is actually a very bright Granny Smith Apple Green and it doesn't look nice on the wall. And sadly, when it cures, the colour doesn't change that much!

Here are some invaluable, mental health saving tips:

- Always know where your paint tray is and close your cans. You get where I am going with this. Rushing can cause spills and feet can end up on the tray and in the can.
- Paint does seep through a tarp – especially when there is lots of paint on it from spilling a 5L bucket.
- Never try and pour that large bucket into a smaller container when you are tired.
- Wearing disposable gloves saves you lots of time in cleaning your hands.
- No matter how small the touch-up is, if you wear good clothes paint will drip onto them.

With today's technology, the Internet and YouTube can provide many educational tools. Don't be afraid to get out there and learn. Before you buy, know what you are good at, what you can do, what you need to learn, what you need to hire out for, what your budget is, the level of renovation for the product/area you are buying in, and your timeline. Ask lots of questions! Don't worry about being the expert. You will learn along the way but have multiple back-up plans ready and a slush fund!

In time, you too will have your own stories.

And one word of caution – when going through old homes with attics and you knock a vase over – it's probably not ash from a fireplace. It could be Great Aunt Betty that was forgotten, all over your head…

Shelley Visser is a real estate investor and a flight attendant with a major airline. She lives by the mottos "There are no mistakes, just learning opportunities" and "Obstacles are not excuses". She has been investing consistently since 2009. You can reach her at shelley@frontdoorinvestments.ca

USING REAL ESTATE TECHNOLOGY IN YOUR BUSINESS

BY JARRETT VAUGHAN

OVER THE PAST NUMBER OF MONTHS, I HAVE OBSERVED A NUMBER OF TECH START-UPS THAT ARE FOCUSING THEIR BUSINESS DEVELOPMENT AROUND SUPPORTING THE EMERGING MILLENNIAL REAL ESTATE INVESTMENT MARKET. Some are taking it from a tenant focus, allowing simpler and more convenient ways for landlords and property managers to interact with their tenants. Others are looking to increase efficiency and effectiveness for landlords and property managers in managing their businesses from a broader perspective. In this article, I am going to review four emerging real estate tech companies; RentMoola.com, VivaLiva.com, Rooof.com and PendoRent.com.

Rent Collection

First, RentMoola is taking a unique approach when it comes to payment collection. Digital payment collection or money transfer is not a new or revolutionary idea in the real estate investment sphere; however, the approach by RentMoola is very compelling. Solving the age-old problem that paying and collecting rent is a major hassle, RentMoola is an online global payment network that allows landlords and property managers to seamlessly accept credit cards and direct debit at no cost. Members enjoy the freedom of paperless payments while getting access to the Rentmoola's MoolaPerk program that provides exclusive deals and rewards to their favourite stores and services. Offers include discounts with companies such as Frank and Oak, SPUD, Yyoga and FrogBox. Each of these companies has developed a strong millennial client base, allowing RentMoola to attract a similar target market that is looking for more than a simple and convenient rent collection program.

Marketing

Next we look at VivaLiva.com. As we all know, marketing our properties is one of the most important aspects of our business. Viva Liva is an online marketplace for listing and discovering rental properties. Their mission is to deliver a millennial-friendly experience that is mobile, visual, and social. One of the best ways to increase your reach to Generation Y customers is to have a strong mobile web presence. Their users often access content while on the go, which is why VivaLiva.com is designed for optimal mobile and tablet browsing. Properties listed on Viva Liva look great no matter which device they're viewed on.

Millennials tend to be visual learners who expect rich media and smart design. Viva Liva reduces visual clutter and showcases large photos, interactive maps, and embedded video tours. Attention to visual design and presentation encourages brand affinity among millennials who value modern web experiences. This is a far cry from the traditional mass media marketing tools and allows for a much more impactful experience for the savvy tenant than what is offered by Craigslist and Kijiji.

Most millennial users are active on multiple social networks, so Viva Liva is developing a central hub that allows property managers to push content to multiple social networks and partner sites. Viva Liva aims to provide real estate owners with the tools to attract millennials as tenants in addition to providing millennial investors with a user-friendly marketing opportunity.

One of the many challenges involved with real estate investing is the time it takes to update your property listing online. When an investor's property becomes vacant, the process to create a digital listing on each of the popular web listing services can be cumbersome and frustrating. Rooof.com is a software company that helps landlords and property managers to syndicate their online listings to multiple websites. Instead of manually making ads on Kijiji or Craigslist, and then foregoing other websites where tenants are searching, Rooof automates the entire process for you to reach more websites, more quickly. Rooof software runs like a macro in your web browser that mimics how humans click and type, allowing for maximum posting efficiency.

Improving Cash Flow

Last, founded in 2012, Pendo Rent software is a rental property management software that helps self-managed landlords achieve cash flow profitability through real-time financial data. They know that landlording isn't a cakewalk and that the biggest concern is cash flow management. Pendo Rent is tackling this issue with a product that will eventually offer features that meet all phases of the landlording cycle. They partner with landlords and value the close relationships they have with their community. Through their various communication channels, they listen to the landlord's needs and develop a customer-centric solution that we all value and appreciate. Pendo Rent is mobile friendly and has a user-friendly app, which allows for continual monitoring. Like all the products mentioned, Pendo Rent is free and worth trying.

What we can see when looking at these four tech start-ups is the recognition that progress is needed in the Canadian real estate business. Driven by the advancing demands of the millennials, we are seeing a shift away from traditional advertising methods or property management tools into mobile friendly apps and slick management tools allowing the digital native to move beyond traditional business practices.

Being start-ups, these companies are continually advancing. Keep your eyes on them, check them out and use them to move your real estate investment or property management businesses forward.

Jarrett Brian Vaughan: Millennial, Adventurer, Musician, University Marketing Instructor, Real Estate Investor. Reach him online in all ways: Twitter: @JarrettVaughan; Instagram: @JarrettVaughan; LinkedIn: /JarrettVaughan

BRAVING THE DEPARTURE
FROM CORPORATE TO ENTREPRENEUR

BY TYLER PEARSON

WHEN I FIRST GRADUATED FROM LAURIER UNIVERSITY WITH MY BUSINESS DEGREE IN HAND, I DID WHAT MOST NEWLY APPOINTED GRADUATES DO, OR SHOULD DO, IN MY OPINION, AND THAT IS PACK A BAG, BOARD A PLANE AND SIMPLY TRAVEL. As it turned out, my lofty goals for travel were short-lived and practicality prevailed. I decided to cut short my world travels and begin a corporate career, as so many young people do.

Although it may sound crazy, I can vividly remember the day I officially joined the corporate world on October 25, 2004. Shoes were shined, suit was pressed and as I pulled into the parking lot and walked up towards the office, I distinctly remember saying to myself, *"Here we go, day 1 and only 40+ more years to go"*. This moment has forever stayed with me and has always been one of many motivating factors for wanting to do more, build more and, at the end of the day, simply live life more.

I realized early on that I had to find an alternative way to generate wealth, since I was not comfortable being completely dependent on my corporate salary. Furthermore, I ultimately wanted to build my own business and not someone else's. In fact, Tony Gaskin's quote has always resonated with me: *"If you don't build your dream, someone will hire you to help build theirs"*. It is for this reason that I had an immediate attraction to investing in real estate, as I saw no better vehicle for getting me to where I ultimately wanted to go.

Consequently, I devoted a significant amount of resources to learning as much as I possibly could on the subject. (And still do.) That said, like any subject matter, you can study and analyze relentlessly but at some point you just have to jump in and trust that you can and ultimately will, succeed. To me, failure is simply not an option. So it was in May 2007 that I bought my first property in Toronto and although many media outlets were touting the *"sky is set to fall"* in the residential real estate market (similar to today), I knew that at some point I just had to get off the bench and start playing the game.

At times I often look back at my initial purchase with a sense of disbelief. The reason I say this is because that rundown, little, old two-story at Dufferin and St. Clair was a major catalyst for my entire portfolio moving forward, as it allowed me to scale my portfolio from one rental unit to 50+ units over the last seven years. Perhaps more importantly though, it allowed me to leave the corporate world behind and begin another new chapter in my life as a full-time real estate investor.

Although there are many investment options available today, I firmly believe there is simply no better vehicle for creating long-term generational wealth for you and your family than real estate. Furthermore, for anyone looking to explore this asset class, I would encourage you to base your investments on economic fundamentals and not speculation, surround yourself with a great team and don't be afraid to get off the bench and play the game, as you will be amazed at what you can achieve. **Retire Early.**

Tyler Pearson is a REIN Member in Toronto. Reach him at: tpearson@redriverrei.com.

PROPERTY GOLDMINE SCORECARD
KEY DEMOGRAPHIC & FINANCIAL STATISTICS MONTHLY UPDATE

THERE ARE KEY FUNDAMENTALS THAT AFFECT THE VALUE, BOTH CURRENT AND FUTURE, OF EVERY PIECE OF REAL ESTATE. An astute investor analyzes each of these factors for every town, neighbourhood and property before they buy to identify an area with great potential.

The following is part of REIN's Property Goldmine Scorecard, a tool designed to give you a simple and easy checklist to follow when purchasing an income property. It will help you uncover property goldmines by eliminating emotions and opinions, while ensuring you analyze the current and future profit potential of a property before you take action. The more checkmarks you uncover for a property, the better indication it has for profit potential.

Key drivers are market factors that propel the real estate market through the real estate cycle. They directly affect supply and demand. These are national and provincial statistics for the Key Demographic and Financial Drivers questions on the scorecard. You can use this information as a comparison to your chosen locations. Some provinces may conduct more frequent censuses than that conducted by the Federal level so check provincial websites for more detailed information.

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DEMOGRAPHIC DRIVERS

Is the area's population growing faster than the national/provincial average?

	BC	AB	SK	MB	ON	QB	NL	NB	NS	PE	CAN
2006 (in millions)	4.11	3.29	0.97	1.15	12.16	7.55	0.50	0.73	0.91	0.13	31.61
2011 (in millions)	4.40	3.65	1.03	1.21	12.85	7.90	0.51	0.75	0.92	0.14	33.48
% Change	7.0%	10.8%	6.7%	5.2%	5.7%	4.7%	1.8%	2.9%	0.9%	3.2%	5.9%

Source: Statistics Canada. (2011). Federal Census Results.

Is the area's population younger than the provincial/national median?

	BC	AB	SK	MB	ON	QB	NL	NB	NS	PE	CAN
Median Age 2011	41.9	36.5	38.2	38.4	40.4	41.9	44.0	43.7	43.7	42.8	40.6

Source: Statistics Canada. (2011). Federal Census Results.

Is the area's residential vacancy rate lower than the provincial/national average?

	BC	AB	SK	MB	ON	QB	NL	NB	NS	PE	CAN
April 2013	3.5%	1.5%	3.0%	1.8%	2.6%	3.1%	1.7%	7.6%	3.4%	7.8%	2.9%
April 2014	2.4%	1.8%	3.3%	2.1%	2.8%	2.9%	4.3%	9.1%	4.5%	8.5%	2.9%

Source: CMHC. (Spring 2014).Rental Market Report - Canada Highlights.

Is the area creating jobs faster than the provincial/national average?

	BC	AB	SK	MB	ON	QB	NL	NB	NS	PE	CAN
Employment Growth Aug 13 - Aug 14	25,500	54,200	18,500	600	48,700	12,100	-2,700	1,500	-8,700	700	150,400
% Change YOY	1.1%	2.4%	3.3%	0.1%	0.7%	0.3%	-1.2%	0.4%	-1.9%	1.0%	0.8%

Source: Statistics Canada. (October 10, 2014). Labour Force Survey.

Is the area's infrastructure being built to handle the expected growth?

Take a look at the province's latest Major Projects Inventory Report. This will list all major projects that are recently completed, currently under construction, or proposed to begin construction over the next few years. Look for expansion of water treatment, sewers, commercial and industrial space, hospitals, and schools.

Is the housing start number lower than the historic average?

	BC	AB	SK	MB	ON	QB	NL	NB	NS	PE	CAN
2012	27,465	33,396	9,968	7,242	76,742	47,367	3,885	3,299	4,522	941	*
2013	27,054	36,011	8,290	7,465	61,085	37,758	3,862	2,843	3,919	636	*
'12-'13 % Change	0.8%	7.8%	-16.8%	3.1%	-20.4	-20.3%	-26.3%	-13.8%	-13.3%	-32.4	*
2014F	27,500	38,600	7,900	6,400	57,100	38,400	2,700	2,300	3,350	475	*
2015F	27,900	36,800	7,500	6,500	57,100	38,700	2,650	2,160	3,300	450	*

Source: CMHC Housing Now – British Columbia, Prairie, Ontario, Quebec Region, & Atlantic Region. (Third Quarter, 2014).

* Unavailable

Is it in an area that is going to benefit from a Boom's Ripple Effect?

Look at surrounding towns and regions for increased activity in jobs, transportation improvements and infrastructure. Is the activity occurring in the surrounding region going to positively affect your target community? If yes, this is a sign of potential boom in your target area. The province's Major Projects Inventory Report will also prove useful.

FINANCIAL DRIVERS

Are the area's average rents higher than the provincial/national averages?

	BC	AB	SK	MB	ON	QB	NL	NB	NS	PE	CAN
April 2013	$1,069	$1,117	$977	$912	$1,046	$691	$751	$716	$918	$808	$884
April 2014	$1,090	$1,190	$1,036	$940	$1,072	$709	$785	$725	$951	$803	$904
% Change	1.8%	5.5%	4.3%	3.2%	2.7%	2.2%	2.6%	0.0%	1.0%	0.0%	2.5%

Source: CMHC Housing Now - Canada Highlights. (Spring 2014). Rate for 2 Bedroom Units

Are property taxes lower than the national average?

Property taxes are enforced and collected by the municipal government. As such, there is no national average. However, it is a good idea to compare your potential investment community's to the nearest metropolitan area.

	Vancouver	Calgary	Edmonton	Regina	Winnipeg	Toronto	Montreal	Halifax	CAN
2013 Taxes per $1,000 of Property's Assessed Value	$3.79	$6.32	$7.82	*	$14.10	$7.46	$8.69	$12.19	$9.01
2014 Taxes per $1,000 of Property's Assessed Value	$3.68	$6.10	$8.01	$13.69	$12.13	$7.23	$8.27	$12.11	$9.51

Source: Real Property Association of Canada. (September 2014). 2014 Property Tax Rate Analysis

Is the area's average income increasing faster than provincial/national average?

	BC	AB	SK	MB	ON	QB	NL	NB	NS	PE	CAN
July 2013 weekly earnings	$866.46	$1,100.82	$946.35	$831.41	$919.95	$831.27	$943.56	$809.03	$803.28	$758.30	$910.44
July 2014 weekly earnings	$983.10	$1,153.81	$972.90	$864.10	$942.91	$872.94	$992.93	$847.49	$826.87	$778.96	$940.43
% Change	3.1%	4.8%	2.8%	3.9%	2.5%	5.0%	5.2%	4.8%	2.9%	2.7%	3.3%

Source: Statistics Canada. (September 25, 2014). Average weekly earnings (including overtime) for all employees – Seasonally adjusted.

Is the area's GDP growing faster than the provincial/national average?

	BC	AB	SK	MB	ON	QB	NL	NB	NS	PE	CAN
2000-2012	2.5%	3.2%	2.1%	2.3%	1.9%	1.8%	2.8%	1.3%	1.6%	1.8%	2.2%
2013	2.0%	3.9%	4.8%	2.2%	1.2%	1.1%	7.9%	0.0%	0.8%	1.4%	2.0%
2014F	2.1%	3.9%	2.2%	2.0%	2.0%	1.7%	0.9%	0.9%	1.5%	1.3%	2.3%
2015F	2.8%	3.4%	2.6%	2.3%	2.3%	1.9%	1.2%	1.1%	1.9%	1.5%	2.5%

Source: Scotiabank. (October 1, 2014).Global Forecast Update.

Is the area's Affordability Index in the Hot Zone? (25-39%)

(Assuming a down payment of 20%, the monthly Principle & Interest (P&I) payment should be 25 – 39% of the median family monthly pre-tax income for a median priced home).

	BC	AB	SK	MB	ON	QB	NL	NB	NS	PE	CAN
Bungalow	67.0%	31.9%	35.1%	36.3%	44.7%	33.4%	29.7%	29.7%	29.7%	29.7%	42.5%
Two-Storey	72.0%	33.4%	38.9%	37.0%	50.9%	41.9%	34.5%	34.5%	34.5%	34.5%	48.0%
Condo	32.6%	20.1%	24.4%	23.7%	29.3%	25.7%	24.5%	24.5%	24.5%	24.5%	27.4%

Source: RBC Housing Affordability Index. (August 2014). Q2 2014 Statistics.

Once the preliminary due diligence is completed on the region, the neighbourhood and the property, you must make a decision on whether to move forward with the rest of your due diligence or search elsewhere. You're looking for a region, and property that has as many "YES" checkmarks as possible. The more checkmarks you have the stronger the fundamentals are for that property's future.

BY MICHAEL LEE

FINANCING FOR COMMERCIAL PROPERTY IS COMPLETELY DIFFERENT THAN FINANCING FOR RESIDENTIAL PROPERTY. To a large degree, it is a different set of lenders and a different set of lending criteria.

Qualification

One of the main differences regarding qualification for commercial financing versus residential financing is that the borrower's personal income is generally NOT a factor. From the lender's point of view, the property should be generating enough net income to stand on its own merit.

This is not to say that lenders don't need to see any income from the borrower. They will look at the whole picture, and consider all factors, in their assessment of a loan request (property location, its condition, personal net worth, credit, etc.). If the property's income were to be reduced, the lender will want some assurance that the borrower has additional personal income to supplement potential cash flow shortfalls.

Interest Rates

Interest rates on commercial property tend to be higher than on residential property for the simple reason that, from the lender's point of view, there is a greater risk of default on commercial property (i.e. a person doesn't have to live in their commercial property). One exception is CMHC insured financing of multi-family property.

Loan to Value

In general, lenders require that borrowers provide a larger down payment when purchasing a commercial property. Lenders will generally finance 75% on multi-family, mixed use, and strata office/retail types of property. They will normally do 65% on industrial warehouse, flagged (part of a chain) hotels/motels, strip malls, gas stations, RV/mobile home parks, and 50% on raw land. If the land is to be developed within a year, and rezoning is in the latter stages, lenders will generally consider providing a higher loan to value or simply do it as part of a construction loan where they might do 70% of the overall costs (including all soft costs, hard construction costs, and land costs).

Other Considerations

The turnaround time on commercial financing is usually 4-6 weeks. In the case of more complicated transactions, such as construction/development projects, the timeframe can easily be 3-6 months or longer. As compared to the residential side, where a deal commonly is completed and funded within a few weeks, you must allow for the longer lead times when setting subject removal and completion dates. Unless it's an all-cash deal, and financing is not required, do not let Realtors® suggest that you should write the purchase offer with less than 4 weeks for financing subject removal and 5-6 weeks for completion (citing that the seller won't accept that long a lead time). It's rarely going to happen any quicker and you'll just end up in a more stressful situation, requiring the seller to extend dates.

Costs are much higher than on the residential side, as commercial lenders will usually require a commercial appraisal, and environmental Phase 1 report, and sometimes require a building condition report. Depending on the type of property and location, and how busy the consultant is, a commercial appraisal may cost upwards of $2500 and an environmental is usually around $2000. This is also part of the reason that the commercial financing turnaround time is so much longer, as it usually takes several weeks for these types of reports to be prepared.

Unlike the residential side, whereby the mortgage broker is compensated by the lender, on the commercial side brokers are not compensated and, therefore, charge a broker fee. Typically, there are lender and broker fees involved in putting the commercial financing in place, and the legal costs of both the lender and the borrower are to the account of the borrower.

If you have been investing primarily in residential real estate, and are looking to move into the realm of commercial real estate, you will definitely need some help navigating the new waters.

Even if you are a seasoned professional with commercial property, it is hugely beneficial to make use of a knowledgeable commercial mortgage broker. As the year progresses, a lender's portfolio and tolerance for certain asset classes will change. For example, your bank/lender might have been able to finance your development project at the beginning of the year but later in the year their portfolio for that asset class might be full and they would have to turn you away.

A commercial mortgage broker can correctly structure the loan request for a particular lender, know which lenders to approach at any given time, and shop the market for a client. It is extremely time consuming work. It is far better to use the commercial mortgage broker as a resource and extension of your team and concentrate on what you do best.

Michael Lee, AMP, B Comm., has over 9 years of commercial financing experience in Western Canada. As the head of the Vancouver office for Mortgage Alliance Commercial, Michael has experienced all types of commercial financing and was a 2008 and 2013 finalist for the Commercial Mortgage Broker of the Year award.

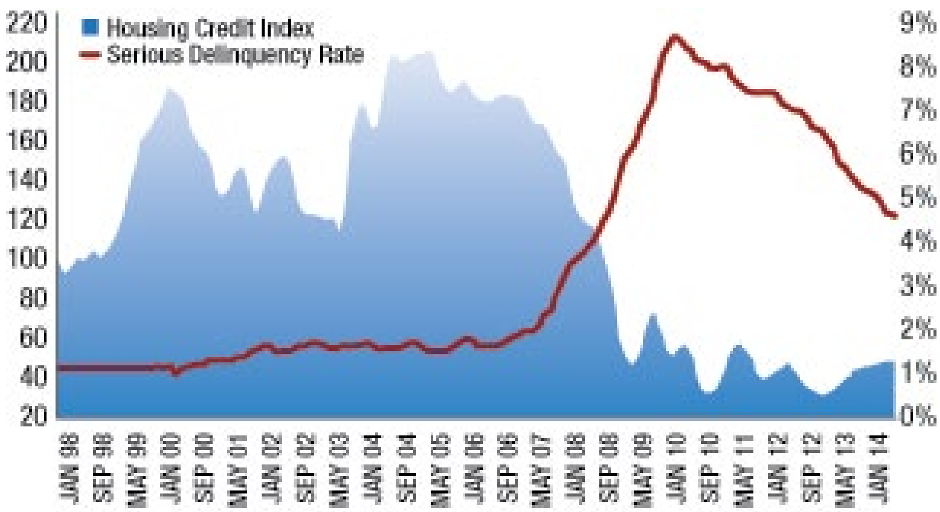
BELOW THE BORDER:

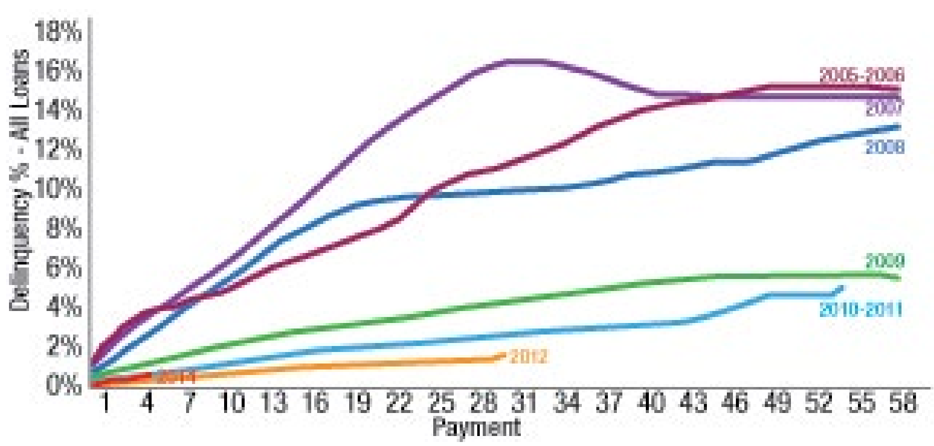
MORTGAGE TIGHTNESS IN THE US COMPARED TO CANADA

BY DAVID FRANKLIN

THE LARGE US BANKS THAT DOMINATE THE MORTGAGE MARKET ARE REQUIRING BORROWERS TO HAVE CREDIT SCORES ABOVE 720 AND MOST OF THE LOANS ARE AVERAGING A 750 CREDIT SCORE. In layman's terms, impeccable credit, as credit is scored in a range of 350 to 850. The Federal Housing Authority (FHA), an arm of the US government, the American equivalent of CMHC, will insure loans for borrowers with credit scores over 620 who have a down payment of 3.5%. A purchaser with a larger downpayment, say 10%, may be insured by the FHA with a credit score as low as 500. The normal term for these mortgages is 30 years and the rates on these mortgages are set by the lender. The rates range from about 3.75% to 4.5% and these rates are higher than what investors are requiring for return on the 30-year US bond. The current bond yield is about 3%, which should actually make these mortgages attractive as investments because of their higher return.

The large banks are also restricting mortgages to borrowers who are working and have regular pay checks. The borrower whose income varies from year to year does not qualify. Ben Bernanke, the former chairman of the US Federal Reserve, advised at a conference that he could not refinance his home. "Just between the two of us," Bloomberg quoted him as telling the audience, "I recently tried to refinance my mortgage and I was unsuccessful in doing so." When the comment drew laughs, he added, "I'm not making that up." He then went on to say, "I think it's entirely possible [that lenders] may have gone a little bit too far on mortgage credit conditions."





- Delinquency rates among loans originated between 2012-2014 are lower than any of the past seven years.
- 2012-2014 vintage loans are outperforming 2009-2011 vintages at comparable points in the life of the loan, and are eclipsed by the delinquency rates seen among 2005-2008 vintages

Other indications that credit is too tight can be seen in this post from Mark Fleming:

In order to determine whether credit is too tight, too loose, or just right CoreLogic has developed the Housing Credit Index (HCI) that measures the range and variation of residential mortgage credit over time and multiple housing credit underwriting attributes.

The index is benchmarked to 100 in January 1998, the most recent period of relative normality in the housing market. As with home price indices, the changes relative to 100 can be thought of as shares or percentages, so if the index increases to 200 then credit is twice as loose as the base period.

Most recently, the index is indicating a slight easing, but remains tight by historic standards.[1]

continued...

Bloomberg also reported:

Lenders are continuing to tighten the credit vise on homebuyers after five straight years of economic expansion, imposing the toughest standards since at least 1998, according to a new index by CoreLogic Inc. In May, credit availability for all home loans was half of what it was in the late 1990s, when the housing market was making steady gains much like today, according to the Housing Credit Index. Banks are less likely to overlook periodic shifts in income or brief credit lapses in adopting rigid rules to avoid losses after the housing crash, leaving creditworthy Americans without financing.[2]

Today, about 10 percent of borrowers with purchase loans have a FICO credit score of 660 or below, on a scale of 350 to 850, compared with about 20 percent of borrowers in 2001, according to Taz George, an Urban Institute researcher.

"Policymakers are cognizant that the pendulum has swung too far toward restricting credit availability and there's a concerted effort to expand the credit box in the weeks and months ahead," said Isaac Boltansky, an analyst at Compass Point Research & Trading LLC in Washington."[3]

The following graph only includes loans originated in 2005 through 2014, but older data show the recent loans are the best performing ever. The loan performance suggests lending is currently tight (I believe this is better loan performance than even during the 2001 through 2005 period when house prices were rising quickly)."[4]

Canada, after the credit crisis in 2008, loosened mortgage requirements to stimulate the economy. To do this, mortgage amortizations were increased to 40 years, and CMHC insured mortgages with zero down payments. In addition, the HELOC loan terms were eased as well. As a result of these changes the residential housing market stabilized and then started increasing in price. As prices continued to increase, mortgage amortizations were reduced for CMHC insured loans to 25 years and 5% down payments were required. The banks also purchased bulk insurance from CMHC for their mortgage loans with 20% down payments to remove these assets from their book for regulatory purposes as they were insured by CMHC so that they would have more capital to lend on uninsured mortgages.

Because of the "easy" credit for obtaining mortgages, prices in Canada keep increasing.

Once the US eases mortgage credit to their normal levels, more buyers will qualify for mortgages and as a result, prices of houses in the US should increase in value even more than they have increased to date.

David Franklin, B.Comm, JD, has been practicing law in Ontario for over three decades, specializing in securities, mortgages, tax and real estate, and overseeing and transacting millions of dollars of transactions.
Contact David at david@reincanada.com.

1 Corelogic. www.corelogic.com/blog/authors/mark-fleming/2014/10/goldilocks-and-the-three-credit-bears.aspx#.VEayg2ddWVM

2,3 http://washpost.bloomberg.com/Story?docId=1376-ND1JJR6KLVRK01-7UP6V4M8DS4AC5HPLBQDA1PC1F

4 www.calculatedriskblog.com/2014/10/is-mortgage-credit-too-tight.html#uhCTXhR1Ir60IbAD.99

Feb 3
REIN Edmonton
Note: Venue Change
7:00 PM -10:00 PM
Sutton Place Hotel
10235 101 Street, Edmonton, AB

Feb 4
REIN Calgary
7:00 PM -10:00 PM
Red & White Club
1833 Crowchild Trail NW, Calgary, AB

Feb 5
REIN BC
7:00 PM -10:00 PM
Theatre at the Hard Rock Casino Vancouver
2080 United Boulevard, Coquitlam, BC

Feb 19
REIN Toronto
7:00 PM -10:00 PM
Pearson Convention Centre
2638 Steeles Avenue East, Brampton, ON

Feb 20 21, 22
Rapid Cash
The Canadian Quick Turn Profit Guide
Friday Evening, 9:00am – 5:00 pm Sat & Sun
Pearson Convention Centre
2638 Steeles Avenue East, Brampton, ON
*Non-REIN Event – Additional Fees Apply

Mar 3
REIN BC
7:00 PM -10:00 PM
Theatre at the Hard Rock Casino Vancouver
2080 United Boulevard, Coquitlam, BC

Mar 4
REIN Edmonton
Note: Venue Change
7:00 PM -10:00 PM
Westin Hotel
10135 100 St NW, Edmonton, AB

Mar 6
REIN Edmonton
7:00 PM -10:00 PM
BMO Centre – Stampede Park
20 Roundup Way, Calgary, AB

Mar 7 & 8
ACRE 2015 Calgary
9:00 AM -6:00 PM
BMO Centre – Stampede Park
20 Roundup Way, Calgary, AB

Mar 11
REIN Ottawa
7:00 PM -10:00 PM
Ottawa Conference Centre
200 Coventry Road, Ottawa, ON

Mar 12
REIN Toronto
Note: Venue Change
7:00 PM -10:00 PM
Embassy Grand Convention Centre 8800 the Gore Road, Brampton, ON

Mar 28 & 29
Renovation Secrets The Complete Blueprint
9:00 AM -6:00 PM
Sutton Place Hotel
10235 101 Street, Edmonton, AB
*Non-REIN Event – Additional Fees Apply

Mar 31
REIN Edmonton
7:00 PM -10:00 PM
Sutton Place Hotel
10235 101 Street, Edmonton, AB

Apr 1
REIN Calgary
7:00 PM -10:00 PM
Red & White Club
1833 Crowchild Trail NW, Calgary, AB

Apr 2
REIN BC
7:00 PM -10:00 PM
Theatre at the Hard Rock Casino Vancouver
2080 United Boulevard, Coquitlam, BC

Apr 17
REIN Toronto
7:00 PM -10:00 PM
Pearson Convention Centre
2638 Steeles Avenue East, Brampton, ON

Apr 18 & 19
ACRE 2015 Toronto
9:00 AM -6:00 PM
Pearson Convention Centre
2638 Steeles Avenue East, Brampton, ON

Apr 30
REIN BC
7:00 PM -10:00 PM
Theatre at the Hard Rock Casino Vancouver
2080 United Boulevard, Coquitlam, BC

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[1]Results from a province-wide research study commissioned by OREA and conducted by Ipsos Reid published July 10, 2014

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