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It is wonderful when you have a high and stable pay from your job that satisfies you; however, we all know that money is not easily earned. We spend so much time working that we barely have enough time for family, our health, and other basic moments of happiness that we would be striving towards if only we had more precious time. Furthermore, we inevitably get old and eventually work will not be able to be a source of financial income for the family; thus, we will have to learn to restrain our spending. For many, the solution lies in selling their current home and moving into a cheaper option. Various kinds of pension plans exist to provide you with some sort of financial insurance; however, if you carefully dissect all aspects of these plans, you will realize that they work with a minimal profit for the future income. As a result, this money merely covers inflation. Without a doubt, more profitable instruments exist on the market but practically all of them are packaged with the risk of partial or at times full loss of the accumulated funds. Historically, real estate was much more profitable than various savings programs – both in price and prospect. In addition, you are secured from losing your accumulations. Most importantly, investing in real estate will allow you to create a “passive income” over time which has a high potential to become the primary source of income, overshadowing your income from every day work. Since the focus of this article is the creation of a passive income, let’s put aside the so-called “flips” – purchases with the purpose to quickly re-sell – “assignments” – re-selling of the builder’s contracts – and other forms of financial schemes that enable quick profit from real estate but fail to provide a passive income. We will also not consider schemes that involve purchasing old houses for rent, homes for student residencies, and multi-unit houses as these investments require constant manage-

Financial Independence and Real Estate Investments with Numbers

ment. These scenarios are analogous to buying a business that will take up a lot of valuable time. Remember that we assume that you are an employed individual who will require an effective strategy that will not take up your time. In this article, I would like to present you with a tested scheme that has its roots in numbers. The first step of this scheme is the purchase of a condominium unit from the builder at the initial stage of construction. It is recommended to obtain a condo unit during the VIP sales which provide sufficient discounts and lower deposits. Another important factor is choosing the proper project. Since the apartment will be put up for rent only upon the completion of construction, it is essential to choose the project in areas that expect an economic growth in the near two to three years. This can be due to the infrastructure of the area: the construction of large office buildings, hospitals, universities, a developed transportation system, renewal of old buildings, etc. In this case, besides an increase in the price of the general real estate market, the price of the particular area will also increase. Pay close attention to areas in downtown Toronto as they have the highest demand for renting apartments and finding the so-called “AAA Tenants” – those who have a good credit history and a stable job – is not a hard task. Furthermore, the increase of prices in downtown is much more rapid than that of other areas in the GTA.

For instance, let’s say that an apartment in the “foundation stage” is bought for \$350 000 which is the average price for a one bedroom apartment in good projects in rapidly developing areas of downtown Toronto. To obtain such an apartment, you will need to leave a deposit of 15% from the total cost of the real estate – \$52 500. Generally, the deposit is given in the first year and a half in a series of three or four payments. Once construction is completed in approximately 3 years, such an apartment will cost no less than \$440 000. This price is composed of two factors: 6% annually – a statistically determined increase in the market in the last 40 years + 2% yearly increase in the price of the area if the project is in the right area. Once completed, such an apartment will provide a

stable rent income of \$2 200 per month. Correspondingly, if equating with a year, we get the following numbers: the rent for a year is \$26 400 and the mortgage payment (mortgage 2.5% for 30 years with 20% deposit) is \$13 254. The maintenance fee is \$4 176, real estate taxes – \$2 800. After all of the expenses you have cash flow of \$6 170 left. Do not forget that at this point you also have the profit from mortgage pay down of \$6 362 by the tenant. Overall, your net income from rent in the first year is \$12 532. In the future, it will only increase as the mortgage amount will decrease.

Furthermore, real estate constantly increases in value; in some years, we saw a 15% increase and in others only 2%. At some times, stagnation and a drastic drop in prices occur. However, if we plot the prices of real estate and apply a line of best fit, we will see that there is an increase of an average of 6% annually. This statistic is stable not only for Canada, but also for the majority of the developed world countries. As a result, after the first rental year, your rental unit price is about \$25 000. If we add the income from rent to this value, we get approximately \$37 000.

The income from the price hike of the real estate is always greater than the profit from rent; accordingly, it is beneficial to refinance the apartment and increase the mortgage amount after the first rental year. If using the above example, by increasing the mortgage amount and decreasing the profit from rent by \$4000 per year, you can receive a cheque of \$90 000 from the bank and put this money towards obtaining another pre-construction deal. The proposed scheme will allow you to obtain a passive income of over \$100 000 per year over a span of ten years. Don’t forget that you started investing with only \$52 500 over a period of a year and a half.

**I deal with investments
for many years – investing for myself
and helping my clients obtain
financial independency.
If you any questions,
feel free to contact me.**