MAXIM BAGINSKIY

**REAL ESTATE BROKER/
INVESTMENT ADVISOR**

WWW.REMLIS.CA / 416-832-8343

*Right at Home Realty Brokerage Inc.
905-695-7888*

How to Make Money on Real Estate

Many of you have often wondered how to get out of the vicious circle in which in order to meet the ever-growing cost of living one has to work ever more. Is it possible to make money come your way without such efforts? The answer is actually quite simple; yes, there are ways to create a situation where, instead of you working for money you make money work for you. It is not complicated - start investing today and, 10 years from now, you will be totally free; the passive income you will be receiving will help you break out of the proverbial vicious circle. Investing in real estate is a snowball that exponentially grows with time.

Have you ever wondered what would happen if you have $10,000 and set a goal to double the amount every year? In just over 10 years your capital will reach the mark of more than 10 million dollars. Not likely? Yet it is true. This is what happens with real estate investments. Novice investors cannot even imagine the heights they can reach within 10, 15 or 20 years if everything is done correctly.

Here is an interesting fact. Let's look at Canadian real estate prices for the past 50 years, with all their sharp ups and downs, long periods of stagnation and slow recoveries of the market. The graph of all these fluctuations will show the average appreciation of real estate at about 6% per year. It does not mean that in 10 years the price of your property rises by 60%; it increases by 6% each year, and this is a big difference. This phenomenon is not unique to Canada; most developed countries show similar performance. Besides, this is the most reliable form of investment since, unlike the stock market and other types of investments, your money is not invested in a business that may go bankrupt any time but is backed by a real object. And most importantly, it is the total value of real estate that grows while all that is required from you is to make an initial contribution of 10-20%. No other type of investment gives you a chance to operate with hundreds of thousands of dollars having invested only a small percentage of the total cost.

There are many different strategies of investing in real estate; each of them has its pros and cons. Today, I would like to focus on one of them, the most promising in my opinion, proven over the years, bringing investors a very good profit and, most importantly, the one that is safe and that yields an end result of guaranteed passive income. We are talking investing in a condo apartment at a very early stage of construction. The condition of obtaining maximum return on such an investment is making a correct choice based on such factors as location, developer, major infrastructure projects planned in the area in the near future, etc. In addition, try to buy an apartment in the primary sales, when prices are lower and sales conditions, much better. And of course you need to purchase the best apartments in the project, taking into consideration the number of floors, layouts and views.

Another very important point is that your money should not be tied to a certain period of time; you need to be able to keep it in as long as it takes to achieve the highest return. Real estate prices fluctuate but if the acquired property when rented covers its own running cost and still pays a certain amount per month for the repayment of the loan, you are completely safe. Real estate values will inevitably correct themselves, catching up with any losses and surpassing them. I have no doubt that in the coming years the rate of growth for condo apartment prices in downtown Toronto will be quite high. Yet, to be on the safe side, one needs to accurately assess the purchase price against rental rates in the area. Ideally, from the rent income you should be able to cover loan payments, real estate taxes, and maintenance fees plus have a couple of hundred dollars left over.

Let's look at some numbers to see how your money works in a rental situation. A one-bedroom apartment in a good area of Toronto is currently about $350 000. With a downpayment of 20% monthly mortgage payments will be $1100 of which about $450 goes towards reducing the principle amount; the maintenance fee is $320 and real estate taxes are approximately $180 per month. Thus, the total monthly outlay is about $1600. You can rent this apartment out for at least $1800 a month. Therefore, each month you are repaying $450 of the amount of your credit and get $200 of clear income. This amounts to $7800 per year.

A downpayment of 20% is $70,000; you will also need about $8000 for closing costs. This places the return on money invested at a 10% per annum, even at the most pessimistic scenario I offered above. In reality the ROI (return on investment) with the 20% downpayment is usually higher. Remember that upon the sale of the apartment you will also receive ROI in the amount of the positive difference in price of your property. And since the latter ROI represents capital gain rather than income one half of this amount is not subject to income tax. As I mentioned above, the projected return on the investment made is calculated on the basis of the averaged percentage price increase for the past 50 years (6% per year). Therefore, if the value of the property is $350,000 it makes you another $21,000 per year, which raises the return on investment up to 35% per year.

Now let's calculate the return on the money invested as a deposit to purchase an apartment at the pre-construction phase. Usually the developer requires a deposit of 15-20% of project cost, which has to be made in three or four stages within 1 to 2 years. As a VIP broker working with most developers in Toronto I usually manage to obtain price discounts for my clients as well as a lower required deposit of 10% of the project cost. Accordingly, for purchasing a $350,000 apartment at the initial phase of construction you will need $35,000. An average term of condo construction in downtown Toronto is about three years. Accordingly, given the 6% averaged price increase the worth of such an apartment at the project completion will be about $415,000. Therefore, the $35,000 you have invested will bring a return of over 60% annually.

Besides, I keep tracking the development plans of the city to select projects in areas where major infrastructural changes are planned for the nearest future and where besides the overall price increase in the condo market we will also see additional positive dynamics in the area. This often raises the return on investment up to 100 percent or more annually. I recommend to my clients to buy two units in the project, with one apartment assigned at the end of the construction, which means reselling the contract. Since the price at the closing is higher than the one paid at the initial stage, the difference can be fully or partially transferred to the first apartment with a view to closing the deal with a 20% downpayment. The apartment is then rented out and a year later you can refinance the loan and get back the money invested and part of the profits.

Consequently, you get an apartment that brings you a decent rental income. Besides as a result of selling it a few years later you will get great dividends from capital gains even though you have taken back all of the previously invested money and part of the profits. It is a win-win situation: the apartment pays for itself and even gives you some extra money. In the climate of economic stagnation or price drop people buy less and rent more. This makes rental rates go higher giving you more income and a chance to patiently wait a few years for the prices to level out enough to make selling your condo attractive.

I have been dealing in real estate investing for many years and have helped many clients not only to earn good money but also to ensure a guaranteed passive income for which many are so eager. If you are interested in this kind of investment call me and visit my office. Good investment projects are few and far between – therefore, they need advanced preparation. You can also register on my website WWW.REMLIS.CA to receive information on various projects long before it becomes public.