

Strategies for Building a High Performance Real Estate Portfolio

Simplifying Real Estate Investing for You

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"Real estate purchased with common sense and managed with reasonable care is about the safest investment in the world." – Franklin D. Roosevelt,
Former President of the United States

"Don't wait to buy real estate. Buy real estate and wait." – Robert G. Allen

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How You Can Create a Passive Income for Life

As one of the four pillars of a well-balanced investment portfolio, real estate has an important place in your investment portfolio and retirement plan.

Real estate is an inflation proof, hard asset that has the potential to generate cash flow, capital appreciation and important tax benefits – to name just a few of the many advantages of investing in real estate. Yet for one reason or another, many investors are not taking advantage of the tremendous wealth-building potential of strategically selected revenue-producing investment real estate.

This report will introduce you to seven proven strategies for maximizing your real estate investing success. These are the very same strategies that have helped our clients achieve their real estate investing goals. From clarifying your investment goals, deciding what type of real estate to buy and understanding the market, to discussions around the power of leverage, making the most of tax advantages and when it makes sense to use a professional property manager, this report has the information you need to get started.

As STRATEGIC INVESTMENT REALTORS®TEAM members, we believe that becoming educated about what it takes to be a successful real estate investor is a critical first step along your path to building a high performance real estate portfolio. Whether you're not sure where to start or feel you don't have the knowledge needed to invest in real estate, we can provide you with the education you need to make wise investment choices.

We encourage you to contact us for professional service, strategic advice and priority access to revenue-producing real estate investments. Our Real Estate Advisors are highly trained, certified professionals who have your long term financial success at heart. They often invest in the very same properties we present to our clients and can provide you with sound advice, key market knowledge and access to a strategic network of trusted professionals that will help simplify the process for you.

We welcome the opportunity to learn more about your financial goals and help you create a strategic real estate investment action plan that will keep you moving forward on your path to achieving these goals. Contact us today to learn more.

Sincerely,

STRATEGIC INVESTMENT REALTORS® TEAM

"Real estate has worked to create wealth for thousands of people throughout the country. It represents a sound, solid approach to financial planning."

Hal Morris, Noted Real Estate
Expert and Author

Strategy One: Clarify Your Investing Goals

Lay the groundwork for success

Like any other type of investment, successful real estate investing requires you to have a clear understanding of your goals, expectations, risk tolerance and time horizon. When you have a firm grasp of these elements of successful investing, you can begin to develop a real estate investing action plan that will help you achieve your financial goals within an investing framework uniquely suited to you.

There are many reasons why you might be looking to start investing in real estate. Some of these include:

- ❖ You want your investment portfolio and retirement plan to include hard assets like real estate and the passive income these investments can generate.
- ❖ You would like to increase your net worth through a combination of capital appreciation, incremental mortgage pay down and refinancing options over time.
- ❖ You want to generate the positive cash flow needed to either supplement or replace your existing source(s) of income, so you can pursue the activities that interest you, no matter what stage of life you're in.
- ❖ You wish to build a legacy that can be passed down to future generations.
- ❖ You're looking to use real estate investments to create a college fund for your children or grandchildren.

Understand your strengths

Whether you've participated in real estate investments before or you're just starting off, it's important to be strategic in your approach, upfront about your strengths and clear about the areas where your knowledge could be broadened. Taking an approach like this can have a significant impact on both your level of satisfaction and success. Why? Because *you* are at the very center of your real estate investment strategy. Here are some questions you may wish to ask yourself:

- ❖ Am I very detailed and analytical?
- ❖ Do I understand the factors that impact the attractiveness of a region for real estate investment?
- ❖ Do I have the time to focus on managing my investment properties?
- ❖ How will I make time for family and employment commitments?
- ❖ What about vacations?
- ❖ Do I have a realistic outlook in the event of a market downturn or interest rate volatility?
- ❖ How will I handle any repairs that may be needed?

Generally speaking, real estate is not a hands-off investment; and your answers to these questions can help you mitigate some of the risks associated with investing in real estate. As well, it's only when you know your strengths and recognize the areas where you need to broaden your skills and/or knowledgebase that you can choose to seek out the resources you need to learn more. This can include turning to a professional advisor for support and advice.

Determine how much retirement income you need

For the purposes of this report, we will focus on creating an investment portfolio and retirement plan that includes hard assets and passive income as your reason for investing in real estate. The next question for you to consider is: *Do I envision achieving financial freedom in my retirement years?*

According to Statistics Canada, only five percent of Canadians will retire either comfortably or wealthy. This is a sobering statistic that underscores the importance of having a financial plan in place that is both realistic and achievable.

Short and long term goals are essential ingredients of your financial plan and no matter what age you aim to achieve financial freedom, there are a few more questions to ask yourself that will help you begin to develop these goals.

- ❖ How much annual retirement income do I need to live comfortably?
- ❖ How will inflation impact that amount?
- ❖ How much will I need to save to support this level of income?
- ❖ What kind of return do my investments need to earn to achieve this?

Clarity through example

The following examples illustrate how much you will need to save in order to generate a retirement income of \$50,000 per year.

- ❖ A 35 year old needs to save **\$4.6 million**
- ❖ A 45 year old needs to save **\$2.8 million**
- ❖ A 55 year old needs to save **\$1.7 million**

These figures assume an average annual return of eight percent on investment savings and a five percent average annual rate of inflation.¹

The power of real estate to achieve your financial goals

As you can see, the path to achieving financial freedom demands a prudent and well thought out plan. When you add strategically selected real estate to your investment portfolio and retirement plan, you are capitalizing on a powerful investment vehicle that has the potential to earn above-average returns. Although we've already touched on some of the things you need to consider before you begin building your personal portfolio of strategically selected real estate, there are many more.

Let's begin by discussing why we believe investing in revenue-producing, multifamily real estate is the safest and easiest way to take advantage of real estate's tremendous wealth building potential.

¹ Source: Fiscal Agents (www.fiscalagents.com). Calculator adapted from source material provided from the financial book *The Pension Puzzle*, co-authored by Bruce Cohen and Brian Fitzgerald. It assumes all savings are tax-sheltered and that users of the calculator will be withdrawing at least the RRIF maximum.

Strategy Two: Decide What Type of Real Estate to Buy

Where to invest your hard-earned dollars

Multifamily real estate investments (townhouses and condominiums) are the most straight forward and safest types of real estate investments you can use to achieve your financial goals. Although single-family homes, duplexes and triplexes can certainly be good investments, these types of rental units can require more hands-on management compared to multifamily rental units. They can also be more expensive to maintain since these properties lack the economies of scale that a multifamily property purchased with other unit owners brings. Because of these reasons, it can be more difficult for single-family homes, duplexes and triplexes to achieve rental rates high enough to offset mortgage payments and related expenses, let alone generate positive cash flow.

Top five advantages of multifamily real estate

| Advantage | Features |
|---|--|
| Strong, Continuous Demand | <ul style="list-style-type: none">• Plays a key role in providing essential affordable housing for those in the rental market out of necessity rather than choice• There is continuous demand for multifamily rentals in virtually any economic environment• Properties that are well situated, reasonably priced and well maintained generate the most demand |
| Enhanced Economic Vitality Boosts Demand | <ul style="list-style-type: none">• Multifamily property construction enhances the economic vitality of a neighbourhood or region• Multifamily property construction creates jobs related to designing, building, managing and financing these projects• A balanced mix of housing options attracts businesses looking to expand or relocate to reach a wider market |
| Diverse Demographic Appeal | <ul style="list-style-type: none">• Serves a variety of people and lifestyles• The best or preferred housing solution for people at many different stages of life• Broad appeal attracts highly diverse demographic groups |
| Cash Flow Advantage | <ul style="list-style-type: none">• Often costs significantly less than single-family homes• Lower cost can generate net monthly cash flow, even after mortgage, taxes, repairs/maintenance and management/condo fees are paid• Lower financing and operating costs often mean lower rents, which can enhance demand |
| Lower Cost of Ownership | <ul style="list-style-type: none">• Purchasing multifamily properties in a variety of geographic regions is more financially feasible• Exposure to different economic cycles is maximized, creating the potential for multiple revenue streams• Geographic and economic cycle diversification minimizes market fluctuation risk in one region |

Strategy Three: Understand the Market

Decide where and when to buy

When you have a good understanding of what makes a particular real estate market attractive for investment, you can then make a well-informed decision about where and when to buy. Of course, real estate market timing is not an exact science. There are a variety of factors that can have a significant impact on property prices. A firm understanding of the real estate cycle, supported by thorough market area research and the determination to get into the market, will help you focus on those markets with the strongest potential for property value growth.

What makes a market attractive for investment?

If your goal is to purchase a quality property located in an area that is poised to attract strong, continuous demand for housing, what factors must be taken into consideration? Four key areas include:

Economic Strength

A strong or growing economy coupled with a diverse economic base and high consumer confidence can have a significant impact on the strength of a region's real estate market.

Population Trends

Since population growth typically goes hand-in-hand with increased demand on both housing and rental markets, real estate values and rents often increase in response to this demand.

Employment Trends

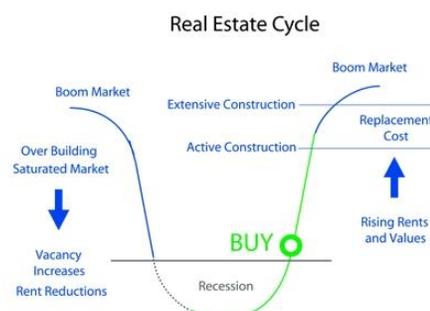
A strong economy usually means low unemployment, which can in turn put pressure on all areas of a real estate market – from increasing demand on rental markets to boosting real estate values.

Housing Market Strength

Understanding the real estate sales and vacancy trends of a specific area within a city or town will help you gain insight into whether this area will provide the right balance between income and expenses.

When is the optimal time to enter a market?

Real estate goes through cycles and understanding where a region sits in its specific real estate cycle will help you make solid investment choices. As the illustration shows, the optimal time to enter any region is when it is emerging from a recession or experiencing strong, sustainable economic growth. At this point, property values are usually affordable and poised to rise as the region's economy continues to improve. Taking action when an upward trend is identified can generate strong future returns.



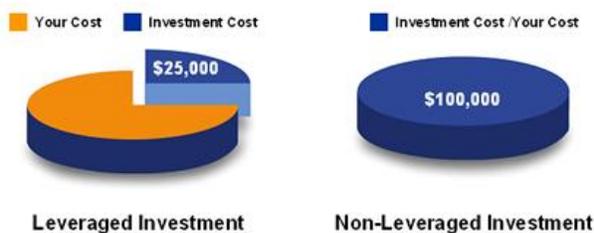
"Don't wait to buy real estate. Buy real estate and wait." – Robert G. Allen

Strategy Four: Unleash the Power of Leverage

When compared to all other investment types, real estate provides the greatest opportunity to maximize the power of leverage. In fact, there are three types of leverage you can benefit from when you invest in strategically selected, revenue-producing real estate.

Leverage your investment capital

With real estate you can allocate a relatively small amount of your investment capital to an investment property purchase, compared to the actual cost, and borrow the remaining capital. The potential return on your leveraged investment is enhanced considerably compared to a non-leveraged investment; and since real estate is a tangible or hard asset, financing options are generally more readily available.



| | Leveraged Investment | Non-leveraged Investment |
|--|----------------------|--------------------------|
| Investment cost | \$100,000 | \$100,000 |
| Your cost | \$25,000 | \$100,000 |
| Financing | \$75,000 | - |
| Appreciation per year (assumed) | 3% | 3% |
| Increase in value | \$3,000 | \$3,000 |
| First Year Return on Investment | <u>12%</u> | <u>3%</u> |

Leverage your mortgage financing

The rental income earned from strategically selected, multifamily properties is often sufficient to offset your mortgage payments and associated expenses. When you're able to take this a step further and use net rental income to make additional payments against your mortgage financing, you are benefiting further from the power of leverage.

Leverage your time

The opportunity to leverage your time comes when you choose to engage a professional property manager to manage your investment property. You benefit from owning a solid investment and leave the day-to-day management – advertising and tenant selection, tenant management, rent collection and expense disbursement, repairs and maintenance, budget management and regular financial reporting – to the professionals.

“Leverage is what makes real estate the most powerful investment of all time.” – David Chilton, Noted Investment Expert & Author

Strategy Five: Make the Most of Tax Advantages

For most people, buying a home is the largest single investment they will make in their lifetime. Many people believe their home is also the largest financial obligation they will have; however, taxes are actually the largest financial obligation most people will face in their lifetime.

Tax reduction and tax deferral are two important ways to mitigate your tax obligations and owning revenue-producing real estate investments is a highly effective way to achieve both.

Let's take a closer look at three key tax advantages to owning investment real estate.

Tax Advantage #1 – Tax Deferred Growth*

Investing in revenue-producing, multifamily real estate typically involves a long-term time horizon in order to give the property time to appreciate in value; and this value appreciation is sheltered from tax until you sell the property, just like an RRSP or 401(k).

For instance, if you purchase an \$80,000 property that increases in value to \$120,000, this capital gain of \$40,000 is sheltered from tax until you sell. When you own multiple properties this benefit compounds since there is no limit to how much growth you can shelter with real estate investments.

Tax Advantage #2 – Tax Breaks

When you do trigger a profit by selling a property, this gain is considered a capital gain and receives preferential tax treatment. This is compared to a straight interest-only gain you might get from a savings account or term deposit that is fully taxed. In Canada, for instance, just 50 percent of the capital gain is taxed at your marginal tax rate (highest tax rate) and the other 50 percent is *tax free*. This 50 percent tax free profit can quickly add up when you own multiple properties!

Important note: At the time of writing this report, Canadian real estate investors must pay the capital gains tax on the profit triggered by the sale of an investment property in the current tax year. In the US, however, real estate investors can take advantage of Section 1031 of the Internal Revenue Code (commonly called the 1031 exchange), which allows investors to “exchange” the property for a similar property investment within a specified timeframe in order to defer the capital gains tax.

Tax Advantage #3 – Tax Deductions

There are many tax deductions you can claim when you own investment real estate. For instance, the cost of financing and operating your property can be deducted from the income you earn. This includes mortgage interest, property taxes, property management fees (if applicable), repairs and maintenance and other related expenses that can be deducted from your gross rental income, thus minimizing the amount of tax you will pay.

* The specific tax benefits you will enjoy may differ from other investors, so be sure to consult your tax accountant for specific advice.

Strategy Six: Use Professional Property Management

Prudent property management is an essential part of the day-to-day operation of your investment property, saving you time, money and hassles now and down the road.

If you are located within a convenient distance from your investment property and if you have the time and expertise, you can certainly manage the property yourself. Many real estate investors experience great success with managing their own properties. There are, however, many important advantages to engaging the services of a professional property management company. In fact, most real estate investors would probably agree that professional property management is an essential part of the day-to-day administration and operation of their properties. When you have a solid understanding of the advantages of professional property management, you can then make an informed choice when it comes to deciding whether or not this is the right path for you.

Not only are many key functions taken care of for you when you choose to engage the services of a property manager, you are also leveraging their market expertise and resources. Some of these resources include back-end administration, industry connections and economies of scale related to advertising, insurance and so on.

Elements of Effective Property Management:

- Advertising & tenant selection
- Tenant management
- Rent collection & expense disbursement
- Repairs & maintenance
- Budget management
- Accurate & timely financial reporting

The key functions a property manager will take responsibility for include: advertising and tenant selection, tenant management, rent collection and expense disbursement, repairs and maintenance, budget management and regular financial reporting. It's important to point out here that an effective property manager will be accountable for delivering accurate and detailed financial reporting for your investment. This should include a detailed, monthly report of income and expenses, as well as any other relevant details that could impact your property's performance.

Property management companies can also offer unit owners an opt-in rental income program wherein participating unit owners receive a proportionate level of net rental income relative to the number of unit holders participating in the program and the level of vacancy among these units. You

benefit from the economies of scale offered by the pooled rental income even if your particular unit is vacant, which will help to offset most, if not all, of your ongoing expenses.

When you work a professional real estate advisor, he/she will often have experience working in many different markets and with different property management companies. This allows him/her to recommend a good local company for your property.

"Real estate purchased with common sense and managed with reasonable care is about the safest investment in the world." – Franklin D. Roosevelt, Former President of the United States

Strategy Seven: Get Started TODAY!

One of the most common regrets of all real estate investors is – ***"I wish I had started sooner!"***

As STRATEGIC INVESTMENT REALTORS®TEAM members, we're as passionate about real estate investing as we are about simplifying the investing process for you. When you work with us, you gain priority access to: solid real estate investment opportunities; the education and information you need to make informed investment choices; our proven framework for optimizing your investing success.

Getting Started

As mentioned in *Strategy One: Clarify Your Investing Goals*, it is important to start with a strong understanding of your goals, expectations, risk tolerance and time horizon. For instance, is real estate investing part of an investment and/or retirement plan, tax planning strategy or your goal to create a family legacy? When viewed together, your goals, expectations, risk tolerance and time horizon will provide the basis for your customized real estate investing action plan.

The next critical step is to decide what type of structure you will use to put this plan into action. Will it be a personal structure, a corporate structure, a family trust or a combination of these? Or are you looking to develop a tax efficient structure using an investing system such as the *Smith Manoeuvre*™?*

Understanding the implications of each type of structure relative to your overall plan will provide a solid foundation upon which you can begin adding strategically selected, revenue-producing multifamily real estate to your investment holdings. Keep in mind that it's highly recommended to always consult a qualified accountant and real estate lawyer to set up the appropriate structure to meet your objectives.

Take advantage of turnkey real estate investing & start creating a passive income for life!

The Virtual Apartment Building System® is an investing concept that best captures our systematic, portfolio approach to real estate investing. This system is designed to support the purchase, financing and management of your real estate investments, while giving you the flexibility to hold a variety of properties from geographically diverse markets in your real estate portfolio.

Through our portfolio investing system, you secure individual title to a diversified selection of revenue-producing, multifamily real estate located in growth markets across North America. Our system is designed to minimize risk, the substantial time commitment associated with legal paperwork, market assessments, renovations and tenant management inherent in investment property ownership.



"Real estate is the greatest wealth builder of all time for individuals. It has been and it will always be."
– Ozzie Jurock, Noted Real Estate Expert & Author

Our real estate professionals

Building a high performance real estate portfolio with the STRATEGIC INVESTMENT REALTORS®TEAM starts by requesting a Real Estate Advisor. This advisor will help you develop and implement a customized real estate investing action plan based on your personal profile and specific financial and retirement goals.

The next step is to join the Strategic Investor Club. The many benefits of this club include:

- ❖ Advanced previews of new properties
- ❖ Personal Real Estate Advisor
- ❖ Access to due diligence on each property
- ❖ Competitive mortgage rates & legal fees
- ❖ Professional property management options
- ❖ Investment manual for all properties
- ❖ Access to educational material
- ❖ Participation in the Members Helping Members program
- ❖ Subscription to our TIPS newsletter

"Your honesty and integrity are such a breath of fresh air in a world where it is often difficult to know who you can trust... Too often we let exemplary service and assistance like yours go unnoticed while complaining vociferously when we do not get this level of service and support. I just want to say "Thank You" for ALL you do." –
Marv S. Strategic Investor Club Member

We follow a comprehensive due diligence process that ensures you are presented with only high quality residential investment properties that can be managed to deliver maximum returns to you. *That means more profits in your pocket!*

We encourage you to contact us today to discover how we can help you reach your financial and retirement goals.

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