

## Commercial News

# Why aren't you getting rich through real estate investment

**T**he KEY to financial freedom and great wealth is the ability to convert money you work for (earned income) into money that's working for you (passive income). Real Estate is a powerful investment tool to create passive income for financial independence and freedom. The earlier you start in real estate investment, the more long term your benefits will be.

### Real estate investment - powerful, smart and safe

1. Residential mortgages in Alberta (except CMHC insured loans) are "Non-Recourse" loans. That means the real estate is the loan security, and there is no personal liability.

2. In addition to capital appreciation as prices increase over time, your real estate investment can generate recurrently positive cash flow each month. (See Examples 1 and 2)

3. Interest payments and expenses for rental property are tax deductible.

4. Life insurance premiums on rental property mortgages are tax deductible.

5. Rental income is considered earned income for personal income tax purposes. This increases your RRSP entitlement and defers tax payment so you can enjoy compounding yearly growth on your money.

6. Mortgage refinancing and equity withdrawal can increase cash flow and provide equity for reinvestment.



7. Focus on the long-term price growth of your property. Short-term up and down price adjustments will come and go.

8. Salary increases do not keep up with the appreciation of real estate prices. Use future income (salary or rent) to pay the mortgage at today's price. First-time homebuyers can consider a house with a suite that can be rented to help build equity for the second ideal dream home.

### Example 1: Capital Appreciation

Choosing the right product with proper management, the value will grow in time and increase your assets and net worth.

October 1987 - average sale price for single family home is \$93,004

October 2000 - average sale price for single family home is \$175,804

With a 25% down payment and averaged mortgage interest at 8% (assuming rental income covers mortgage, property tax and maintenance costs), in 13 years the price appreciation is \$82,800 and the equity increase is \$20,418. This total: \$103,218 tax-free wealth built, which can

be used for retirement or investment planning.

### Example 2: Recurrent Income

In 1995 a client bought an R-2 bungalow for \$150,000 in the Banff Trail area and rented out the main floor, a basement suite and a garage separately, with a monthly rental income of \$1,750. After expenses, with 100% financing, a \$450 positive cash flow was generated every month. Additionally, the property is now worth more than \$220,000, because its well-selected location beats the overall market appreciation percentage.

You can achieve results similar to the examples above by choosing the right Realtor. A Realtor who has professional legal, accounting, tax and property management experience can be a great asset to his client.

Canada has already increased the tax exemption rate from 1/3 to 1/2 on capital gains. U.S.A. and U.K. residents are permitted to deduct mortgage interest payments on their principal residence. Imagine what would happen to real estate values if Canadians could do the same. Let's talk to Government officials and our representatives in the legislature and make it happen.

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