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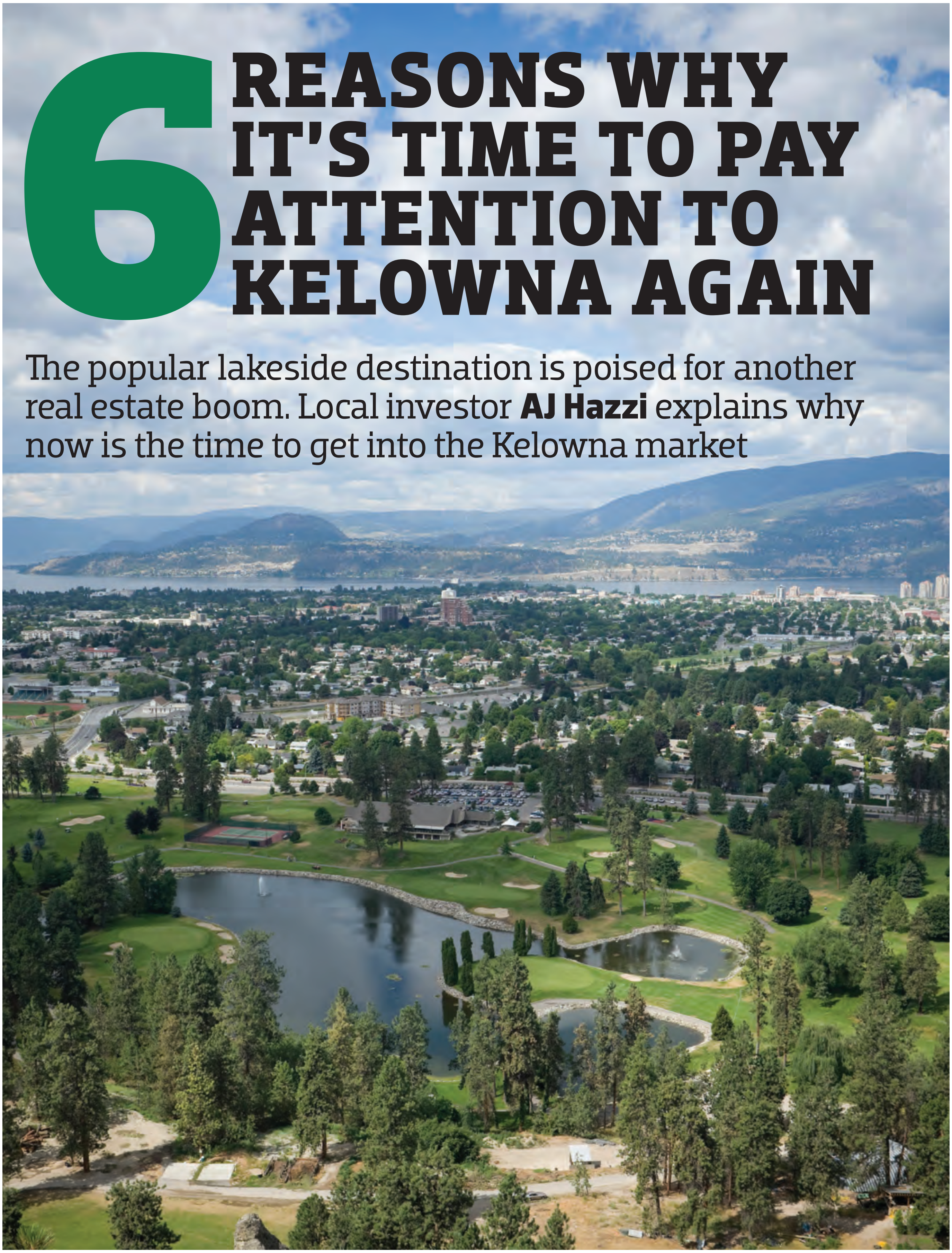
6 REASONS WHY IT'S TIME TO PAY ATTENTION TO KELOWNA AGAIN

The popular lakeside destination is poised for another real estate boom. Local investor **AJ Hazzi** explains why now is the time to get into the Kelowna market



Kelowna was the talk of the proverbial real estate town 10 years ago, but after slipping into a six-year slump following the global financial crisis, during which the city lost its prime earners to the Alberta job market, the tap shut. With the Canadian dollar on par with the US, Kelowna's $600,000 hillside homes couldn't compete with the deals south of the border, no matter how nice the view of Okanagan Lake was.

Today, that's all changed. As much of Canada battens down the hatches now that oil is below $40 a barrel and new government leaders have emerged, this four-season playground has been setting records. Here are six reasons why Kelowna is worth another look.

1. Terrific job market

BC is experiencing solid growth in the current economic conditions. Kelowna in particular was just rated the second hottest job market in Canada. The city has an emerging technology sector, a thriving tourism industry and endless work for skilled labourers, due in large part to a construction industry that's on fire. Experience shows that people will go where the work is. After years of losing workers to the Alberta job market, Kelowna is definitely seeing the pendulum swing back the other way.

2. Steady population growth

Over the past 12 months, Kelowna has seen a very strong inward migration from all over Canada and other parts of the world. Students are piling in as UBCO continues its expansion. Young families are migrating to Kelowna for the lifestyle and the job opportunities. Retirees continue to flock here because of our world-class amenities, hospital and agreeable weather. Kelowna is very much a destination town that is garnering attention on a world stage.

3. Near-zero vacancy rates

That population growth leads to increased rental demand, since most people move to a city and rent for a period before putting down roots and buying a property. Ask any local property manager, and they will tell you that they have their pick of quality applicants. There is a literal frenzy for new rental listings. There has never been a better time to be a landlord in Kelowna.

4. Increasing rents

Of course, near-zero vacancy rates lead to increased rental prices. We have seen the average rents for units increase by 20% or more, turning average-performing properties into home runs.

> The city has an emerging technology sector, a thriving tourism industry and endless work for skilled labourers, due in large part to a construction industry that's on fire

5. High demand for properties

Combine upward-trending rents with cheap mortgage rates, and you see increased property demand. Kelowna just finished its strongest year for demand, with record-setting months in 2015. Sales were up 13% year-over-year, and this has been the trend since the slump ended and the recovery began in 2013. As a result, the number of properties being purchased for investment has risen dramatically.

This has led to a significant decrease in supply. Kelowna's inventory levels have plummeted to the levels of the peak boom period in 2007. All of this has put the city into a seller's market since last spring. As a consequence, we are seeing prices rise in a steady, sustainable way. Values in 2015 were up roughly 8% year-over-year, and the average home price in Kelowna is poised to meet or exceed that level of growth again in 2016.

6. Incredible cash flow

As savvy investors, we know better than to buy for appreciation, even though it's hard not to think about the huge return we can get when prices trend upward. For real investors, cash flow is king, and this is actually why Kelowna deserves your attention.

An average five-bedroom house for $420,000 with a basement suite will bring in as much as $2,800 per month ($1,650 for the upstairs and $1,150 for the basement suite). On cash flow alone, this gives you a 12% return. Factor in the mortgage pay-down and completely ignore appreciation, and you'll see returns of 20% on your investment.

Market conditions in Kelowna have never been better, so you should strongly consider adding some prime Kelowna real estate to your portfolio this year before prices and interest rates inevitably rise. ■

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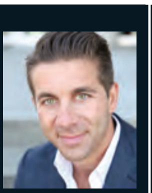


AN OVERLOOKED GOLD MINE

If you've always shied away from investing in apartment buildings, you're missing a lucrative opportunity. **AJ Hazzi** explains how investing in multi-family properties can significantly grow your portfolio

For more than a decade as a real estate investor, I've been pretty faithful to duplexes or homes with secondary suites, but recently I have had my attention fixated on a more alluring beast: apartment buildings. Multi-family buildings combine my favourite two aspects of real estate – cash flow and value-adding – except they put both on steroids.

Right now you might be thinking that apartment buildings are too risky or out of your league, but I'm here to challenge that limiting belief. For starters, obtaining a mortgage on a building that has been run like a business for years is surprisingly less challenging than financing a residential property. With residential lending, banks focus on the strength of the applicant. In multi-family lending, they look at the strength of the building's financials.

It may seem like because the numbers are higher, the risk is greater, but that couldn't be further from the truth. In an apartment building, there's an economy of scale – you have only one roof to worry about, one heating system, one property tax bill, etc. For example, a roof for an apartment building is worth approximately $20,000. If you had 10 duplexes and had to do all 10 roofs, you would be looking at closer to $100,000 in costs.

> It may seem like because the numbers are higher, the risk is greater, but that couldn't be further from the truth

But what about the risk of vacancy putting strain on your cash flow? Consider that if five of your 20 apartment tenants suddenly vacated, you would still be cash-flow positive. By contrast, if one side of your duplex vacates, you are faced with an ugly negative cash-flow situation.

Risk aside, my favourite part about apartment buildings is that their value is based on net income – or, more specifically, net operating income divided by the local cap rate. For example, a building with a net operating income of $120,000 per year divided by a cap rate of 6% (the current rate for the Okanagan Valley) would be worth $2 million. In other words, an investor would have to invest $2 million of their own and the bank's capital for an income stream of $120,000, or $10,000 per month.

FINDING THE REAL PROFITS

So how does an investor take an apartment building and really turn it into a gold mine? I'm talking raising the value by as much as a million dollars in two to three years through a process called normalization. In simple terms, this means getting the rents up to maximum market price and the expenses down as low as you can negotiate them.

Here's the basic principle: $50 added to the bottom line monthly equals $10,000 in increased value per unit. And when you have 20 units, that multiplies into $200,000. Let's explore how an ordinary investor could turn a $1 million profit by systematically going after the lowest-hanging fruit over a two- to three-year period.

For this case study, we'll use an average 20-unit apartment building in the Okanagan Valley. I prefer buildings built in the 1970s – due to their age, you can count on the majority of the big-ticket items, like the roof, windows and boiler system, to have been upgraded in the past decade. Also, it is very likely that the current owner has not kept up with rental increases over the years, and because they typically don't have debt on the building, they are not overly concerned with maxing out the rents.

Our buying criteria is a building where the current rents are approximately $100-$150 below market value. When looking at the financials of a building, look for things like utilities being included, which, once eliminated, can provide an instant increase in cash flow of about $75/month per unit. That move alone adds $300,000 to the valuation. The other item we are looking for is a high expense ratio in relation to the gross income. Anything 40% or higher is the sweet spot. Our job will be to lower expenses by at least 5%.

Here is a basic income and expense scenario for our hypothetical apartment building:

BUILDING SNAPSHOT: BEFORE

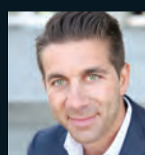
- **Property:** 20-unit apartment building with an average rent of $800/month
- **Gross revenue:** $192,000
- **Expenses, including utilities:** $76,800 (40% expense ratio)
- **Net operating income:** $115,200
- **Market value based on 6% cap rate:** $1,920,000

Our three main objectives will be: 1) raise average rents to $950/month, 2) stop including utilities in rent, and 3) reduce remaining expenses by 5%. These objectives will take some time to complete – allow for two to three years to fully normalize a building, but trust me, it's well worth the investment of your time and energy. Let's look at our investment after we've accomplished our three missions.

BUILDING SNAPSHOT: AFTER

- **Property:** 20-unit apartment building with an average rent of $950/month
- **Gross revenue:** $228,000
- **Expenses:** $55,860
- **Net operating income:** $172,140
- **Market value based on 6% cap rate:** $2,870,000
- **Net gain:** $950,000

Despite this staggering profit, very few people will ever make the leap into multi-family properties. However, you shouldn't let a lack of capital stop you from pursuing this dream. Raising investment money from people in your inner circle is very doable. Partnering with people to do multiple deals is as profitable and fun as any business venture. ■



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GETTING CASH FLOW FROM A VACATION

Some investors shy away from recreational properties because of their presumed negative cash flow, but **AJ Hazzi** explores two properties in Kelowna that dispel that stereotype

Vacation properties have a reputation for being overvalued cash-flow vampires, and most owners dream of the day when their seasonal income will allow them to break even. The negative cash flow of beachfront condos is tolerated because historically they've offered great appreciation, personal enjoyment and that bit of prestige – after all, it feels better to say you have a beach spot than it does to say you have a triplex.

Beach condos usually tend to appreciate better than average due to the fact that demand for them is high and the supply of projects that can be situated on the water is extremely finite. Over the long term, people have done quite well buying this type of property – if they can afford to subsidize it over the years.

But rarely do you get to have your cake and eat it too. Where do you find a nice piece of downtown beachfront that offers the ideal vacation property for your personal use four weeks per year, but also cash flows spectacularly? There are two developments in Kelowna that will tick both boxes: Discovery Bay and Sunset Waterfront Resort, both on Sunset Drive and both the product of the same developer. Discovery Bay has 236 units that sell for $392 per square foot. Sunset Resort is a concrete high rise with fewer units (128), so it commands $470 a square foot. Both rent for about the same amount, making Discovery Bay a slightly better cash flow property.

I have a decade's worth of experience owning units in both of these complexes through good markets and bad, so I know the numbers and the secret to getting both enjoyment and cash flow. The reason why they cash flow so well is because demand for them is great in both the on- and off-season, yet the prices are still comparatively lower than other tourist destinations.

These two developments have a special kind of zoning called resort residential. This allows the owner to do nightly and weekly rentals and charge handsomely for it: $275 a night or $1,800 a week is what you will pay if you visit Kelowna during the beautiful summer months.

The units in these complexes switch back and forth each year from furnished long-term rentals to vacation rentals. Because of the location, demand is extremely strong. Keeping the units booked up has never been a problem, even during the 2008–2012 recession.

In the off-season, there's a frenzy of

people waiting to rent them for $1,800 a month. I opt for an eight-month lease from September 15 to May 15. This allows me to get the place summer-ready in time for the Memorial Day long weekend – and I get to personally enjoy it for at least a week in May and then again in June for two weeks. July and August will be booked solid and will bring in more than $15,000 in revenue alone. In September, I typically block off a week for myself to enjoy the late summer weather in Okanagan, which is almost always perfect – and the resort is slightly more peaceful and relaxing as we enter the shoulder season.

As a nice little bonus, I park my boat in the protected lagoon and enjoy the most affordable moorage in the city. I can use the resort's many amenities whether I have the units rented or not, spending the day by the pool and then walking to best restaurants in the city.

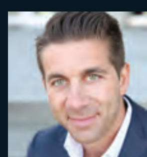
As shown in the box at right, an average year's income for a two-bedroom unit is around $36,000. Expenses for the year are actually pretty low, as the heating, cooling and water are covered in the strata fee of $360 a month. The taxes are also quite low at around $2,300 a year, and tenants pay for the cleaning, so you have about another $1,000 in incidentals for advertising and supplies. Neither complex requires you to be part of a rental pool, so you can manage them yourself on VRBO with relative ease and save the 20%. For many, however, the $4,000 to $5,000 investment in a manager is worth it to be totally hands-off.

The net operating income of these investments is $28,680, which makes these a perfect 7% cap rate while you can still buy them for around $400,000. Multi-family residential and commercial properties are selling for approximately a 5.5% cap rate in Kelowna, so this is extremely good. And when was the last time you spent four weeks poolside at your duplex? ■

MONTHLY REVENUE FOR A TWO-BEDROOM UNIT

January	$1,800
February	$1,800
March	$1,800
April	$1,800
May*	$1,500
June	$3,600
July	$7,950
August	$7,950
September**	$2,700
October	$1,800
November	$1,800
December	$1,800
Total	$36,300

*Half month plus three-night Memorial Day weekend rental
**Half month plus one weekly rental



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BUY NOW … OR WAIT?

Worried you've missed your chance to get into the market before the boom? **AJ Hazzi** explains why timing the market isn't as important as you might think

It seems that real estate is once again the hot topic of conversation in Canada. As such, people are looking for ways to capitalize on the first bull run we've had since the crash in 2008. Sales of investment properties have skyrocketed, putting serious pressure on our supply, which further fuels the fire. Once word gets out that we're in a boom, many people start to doubt themselves for wanting to get into the market. Thinking the ship has sailed, many decide that they should wait for the market to correct. But are they right?

THE MARKET-TIMING MYTH

There is truth to the old adage that the best investors do the 'uncommon thing.' They sell when no one is selling, and they buy when no one is buying. In principle, this is absolutely correct; in a perfect world, we would begin our investing careers in a market slump, collect a few properties and ride the wave of appreciation through the next boom.

The problem with this is that it's mainly a fairy tale. To not leave money on the table, you would need a rare combination of dumb luck, business acumen and more discipline than I've come across in mere mortals.

But do we need to be market-timing oracles for this? Or does a simple buy-and-hold strategy with a long enough runway get you to the promised land anyway? Let's examine a case study of two people, both faced with the decision to buy or not to buy on April 1, 2008. I pick this date because it was technically one of the worst in terms of 'timing' – just weeks before the headlines claiming the sky was falling and yet still in the busy spring season, when sellers helped themselves to their annual 15% property value windfall (and no one knew not to give it to them!).

Meet Jon. He is cautious and conservative, 30 years old, and currently renting and living comfortably. He has been saving $5,000 per year for the past five years in his high-interest savings account, hoping to accrue a down payment on a starter home. He has a rather pessimistic outlook on real estate. His instincts tell him to wait – don't buy now, or you will lose money. He decides to keep renting his apartment and keep saving his cash.

Now meet Jane. Jane has also been diligently saving and has the same $25,000 to put down on a new house. She is determined to own a home, and despite her dad telling her that she is making a big mistake, she plunges into the market and buys a 1970s starter home in Rutland for $415,450. Her payment is $1,935.90 over 40 years, based on the current discounted rates of 5.19%. She has a basement suite that provides her with an extra $1,000 a month, so she's able to keep saving the $5,000 per year – and she has a sense of pride and excitement about making the place her own.

A few months later, she realizes that the bottom has fallen out of the market, prices are plummeting, and homes all around her are going up for sale at prices lower than what she owes on her mortgage. She couldn't sell even if she wanted to. But Jane doesn't really care, because she likes her house now that she's put down fresh laminate and repainted. She prides herself that she's living below her

means, paying far less than her friends are paying in rent.

Each year for the next few years, Jane gets her property assessment and sees it has dropped another 5%. By 2011, her house has lost nearly 20% of its value. Just her luck, she thinks, buying a house just before the worst recession since the Great Depression – but oh well, the mortgage payment stays the same.

Fast-forward to Jane's reset date of April 1, 2013. Her current mortgage balance is $377,600, and similar homes in her neighbourhood are selling in the $350s. To make matters worse, the banks have taken away the 40-year amortization, and she must now renew at a 25-year amortization. Fortunately for Jane, the banks, in an effort to stimulate the economy, have also lowered interest rates significantly. Her bank quotes her 2.64% for another five years. Lo and behold, her payment actually goes down to $1,717.96 over 25 years, and better still, nearly $900 of that is going toward principal reduction. And she still has her basement tenant, so now 100% of the money she puts toward the house payment goes right back into her pocket.

Now it's April 2016, and her current market value is $444,600. Her mortgage balance is now just $344,235. Her net worth is looking pretty good – she has a little over $100,000 in equity in her home, and her savings account has more than $40,000 in it as well from her faithful $5,000 per year contributions.

Jon never did take the plunge on a piece of real estate because he was reluctant to buy during all the doom and gloom – now in 2016, he thinks the sky is about to come falling down again. He loves his rental apartment, and he has a $70,000 nest egg. And his landlord loves him; he's paid down a solid chunk of his mortgage!

To not leave money on the table, you would need a rare combination of dumb luck, business acumen and more discipline than I've come across in mere mortals

MAKING THE LEAP

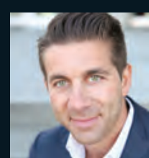
Let's compare Jon's and Jane's positions after eight years. Jon's net worth is $70,000, while Jane's is twice that at $140,000. Although it was an emotional ride, Jane's choice to invest her $25,000 in real estate made a real difference, as her down payment quadrupled in just eight years.

With a taste for real estate, Jane decides to invest in a slightly more expensive property downtown ($600,000), something with a newer carriage house she can live in for free while she rents out the old five-bedroom house for enough to cover the entire mortgage. Jane also rents both suites of her first home and gets nearly $1,000 per month in positive cash flow.

Now 38 years old, Jane owns over a million dollars in real estate. She lives for free and makes an income from her first home. Her friends think she's really smart. Really, she's also one of the worst market timers, since she seems to only buy when prices are peaking – but that doesn't seem to bother her much.

Jon, also 38, is doing OK, but he's a little self-conscious about still being a renter. It's also really annoying that his landlord has upped his rent every year for the past five years, and his once-affordable apartment is now costing him an arm and a leg.

The moral of the story? Be like Jane. ■



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THE DIFFERENCE BETWEEN SPECULATING AND INVESTING

Tempted to roll the dice on that hot new development project? **AJ Hazzi** explains why the best returns often come from playing it safe

Like clockwork, every time the market cycle heats up, the opportunist in us comes out to play. The 'slow and steady wins the race' mentality gets abandoned as people chase the sexier, faster buck. People with admirable intentions to do right by their families look to invest some of the freshly minted equity in their home into something that has the potential to pay off big.

They might have the right idea, but lately the conversation has begun to shift from solid yet agreeably less sexy investments like suited single-family homes and duplexes to purchasing multiple units in pre-sale condo developments. The thinking goes something like this: "I could spread out my $150,000 by putting deposits on three units, and then in a year or two, when the market has climbed up another 10%, each of my $500,000 units are now worth $550,000. Since I only have a deposit with the developer of $50,000, this means I have doubled my money on each unit just for sitting on them for a year!"

Is the above scenario possible? Sure. Is it a forgone conclusion? Absolutely not! There are countless other ways this can go, including losing the entirety of your investment. I use the word 'investment' reluctantly because although the intention of the person was to invest their equity, what they were actually doing is speculating. Speculation, by definition, means an idea or guess about something that is not known.

For me, the cruel teacher of experience has instilled the lesson that to win big in this real estate game, you must avoid guesswork at all costs. Forget about trying to predict where pricing is headed, and focus on the fundamentals: positive cash flow and creating your own appreciation through value-adding renovations.

I fell into the trap of speculating the last time the market was hot in 2006/2007. I put $1.5 million worth of the hottest condo project under contract for $150,000 and had expectations of doubling my money at the very least. I wasn't alone as I waited at the front of a 300+-person line the night before the sales centre opened its doors to the ravenous public. Long story short, I lost every penny of my six-figure investment when things went sideways in 2008.

Contrast that with a duplex I bought right around the same time in 2007, at the peak of things. I put a similar amount down on this property: $140,000. I bought this property because the cash flow made sense. I wasn't trying to guess what the market would do; I was investing my capital into a proven revenue stream. In this case, it netted about $1,000 per month. Between that and the equity I was building each month through my mortgage being paid off by the tenant, the returns were actually pretty good (18%), despite paying peak pricing for the duplex.

Around the same time that my half-completed condominiums saw their

For me, the cruel teacher of experience has instilled the lesson that to win big in this real estate game, you must avoid guesswork at all costs

values sliced by 20%, my duplex value also plummeted by a similar amount. The difference between the two was that I wasn't forced to sell my duplex at a loss – it cash-flowed through the entire five-year market slump. My mortgage got paid down by nearly $50,000, and I received approximately $50,000 in cash flow during that time as well. Today, that duplex is worth about 10% more than what I paid for it, and the cash flow is about 20% better than what it once was, thanks to rents climbing at about 3% per year.

The $150,000 I dumped into the condos was an expensive lesson, but one I'm glad I learned as we go into this next boom cycle. As exciting and alluring as some of these shiny new projects seem as an investment, sinking that same money into a boring old duplex or multi-family building will always be my choice. I know what I'm getting into. I know where I can add value, and I know that as long as it cash-flows, there's no downturn in prices that will ever force me to take a loss.

As an investor, I like control – I don't like to leave my fate in the hands of bankers, politicians or even public opinion. I like to see my returns on paper in black and white, and I like to be able to influence my upside. But if I'm being honest, I love the thrill of a good wager as well. That means I have to work hard at finding the discipline to stay the course with my investments and follow the plan I've laid out – as unsexy and tortoise-like as it may be. ■

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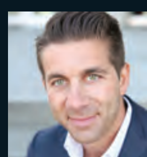

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THE BANK OF MOM & DAD: NOW OPEN!

AJ Hazzi explains how the government's new mortgage rules provide fresh opportunities for homeowners and their children

The federal government's recent decision to change the qualifying rate for mortgages has sent shock waves through the lending and real estate industries. The decision has made homeownership nothing but a pipe dream for many first-time buyers in pricier areas like BC.

The average home price is now over $500,000, meaning the first-time buyer with 5% down now needs a taxable income of $100,000 just to afford an entry-level property. This is well above the average income of a new buyer.

IS THE DREAM DEAD?

The answer to this question should be of particular concern to anyone who already owns a home, as the health of our market is partially reliant on a steady stream of first-time buyers. First-timers getting in at the bottom of the property ladder sets into motion a domino effect, allowing what were entry-level buyers to purchase mid-range homes and mid-range buyers to move into luxury homes.

In my local market of Kelowna, first-time buyers represent nearly 20% of the total purchases. Although we don't have any hard stats yet on how many of these people are now priced out of the market, I would guess that at least half of them do not have the income to buy the starter home they had planned to acquire prior to the rule change that took effect on October 17.

But we humans are a resourceful bunch, and as the old saying goes, "when one door closes, another one opens." In this case, the door closing is that of the high-ratio financing option, and the one that could open is the Bank of Mom & Dad, which can potentially help young buyers secure friendlier financing.

FAMILY + EQUITY = OPPORTUNITY

Let's examine a case study of a win-win deal struck between an aspiring first-time millennial buyer and her Baby Boomer parents, who have seen their property values swell in the last two years.

If our aspiring homeowner attempts to buy her $500,000 starter home with 5% down using an average five-year fixed rate of 2.49% and a 25-year amortization, her payments would be $2,125 a month. Assuming her household income is three times the total of her average annual payments ($75,000), she could happily start paying down that mortgage today. But under

You can make homeownership a reality for your kids and create a secure investment for yourself with a solid yield

the new mortgage guidelines, she would require a six-figure income in order to afford the home at the posted rate of 4.64%. She no longer qualifies for a mortgage.

But our discouraged millennial doesn't necessarily need more income – she just needs a 20% down payment, which would free her from both a high-ratio mortgage and the considerable extra costs of mortgage insurance. In this scenario, our buyer needs to borrow 15% of her $500,000 home from Mom and Dad. That's $75,000 that needs to be bundled in with her 5% down payment.

Thanks to the steady appreciation in many BC markets over the last few years, most homeowners who bought before the market recovered are sitting on at least a $100,000 equity gain. Most banks give homeowners access to this equity through a home equity line of credit [HELOC]; they typically charge a little over the prime rate for access to this equity. The bank will charge Mom and Dad 3.1% on the $75,000, resulting in a monthly payment of just under $200 a month.

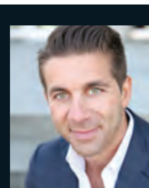
Since our buyer's down payment is 20% and not 5%, she now has access to a 30-year amortization. The mortgage payment drops to $1,575, a savings of $550 a month. The transaction will also be free of CMHC premiums totalling more than $17,000.

But the buyer, like most adults, wouldn't feel right about simply taking $75,000 from her parents without giving them something in return. She agrees to pay the full amount that she was comfortable with ($2,125); $1,575 goes toward the mortgage, and the remaining $550 goes to her parents.

We're looking at a clear win-win. The daughter can afford a home of her own, and her parents are in a position to profit from their equity. After they make their $200 HELOC payment each month, they are left with $350. That's $4,200 per year on the $75,000, which was free money afforded by an inflating market.

If we treat the $75,000 like regular capital, $4,200 represents a 5.6% return. Look at it like a term deposit that matures in five years when the daughter's five-year mortgage is up for renewal. By this point, she will be able to pay her parents back in full. It just so happens that 5.6% is a shade better than what most investments are paying out these days, including even commercial real estate, which has seen cap rates fall to 5%.

By leveraging a little bit of creativity and enduring the minor hassle of refinancing your home, you can make homeownership a reality for your kids and create a secure investment for yourself with a solid yield. ■



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BOOMERS: EXIT THE RAT RACE

AJ Hazzi explains how millions of Canadians nearing retirement can safely leave the workforce and turn their primary residences into lifelong passive income

After years of steady growth in our major centres, never has there been a time where it makes more sense to downsize your primary residence, shrink your footprint, and experience the freedom of exiting the rat race while earning passive income for life and watching your net worth continue to grow into your retirement years.

Assuming 25 years of both runaway and conservative growth expectations, I can confidently assure you that your $500,000 investment will not only split off the income you need to make your 'elegant exit,' but will also become a sum of money healthy enough to be representative of multi-generational wealth.

I have had the pleasure of consulting with a fair number of Boomers who are looking to invest their nest egg strategically in order to be able to live off of the return provided by their investment in real estate. Here are two real-world examples of how I was able to help investing individuals and couples do exactly that, using investment strategies that took six months to a year to execute – with no expertise or MBA required on their part.

EXAMPLE 1: CONDO CHARLES

Investor profile: Single male, early 50s; sold his house and business in Toronto and relocated to Kelowna.

Available capital: $800,000

Desired reality: Purchase a small new condo unit downtown for cash and invest the balance in residential real estate with hopes of earning $50,000 per year passive income. Does not want to have to work.

Step 1: Get situated. Charles found a beautiful one-bedroom loft for approximately $300,000 in the downtown core – modern and close to all amenities.

Step 2: Purchase a triplex. Charles bought a triplex within three blocks of his loft for $650,000, which brought in $48,000 per year. The property was financed using a 35% down payment of $227,500, for a net income of $22,200.

Step 3: Purchase a duplex. Charles' duplex is in an area 10 minutes away. He bought it for $630,000, and it generates $43,200 a year. The duplex was financed with a 25% down payment of $157,500, for a net income of $12,600.

Step 4: Purchase a second duplex. Charles' second duplex property is 90 minutes outside of town, but it had excellent rent increase potential. He purchased it for $350,000 with 35% down; it's generating a net income of $13,200.

Portfolio value: $1.61 million (not including condo)

Total down payments: $507,500

Gross annual income: $120,000

Principal, interest, taxes, insurance and contingency: $72,000

Net income: $48,000 per year

Charles also has a $200,000 line of credit available to him on the condo he lives in, which he can lend or invest at 8% interest, earning a further $10,000 per year, spread on the 3% LOC interest.

Total income from equity: $58,000 per year

If you're playing the long game, a 55-year-old investor, as he approaches 80, will have a debt-free portfolio worth $4 million

EXAMPLE 2:
RESORT PROPERTY RANDAL AND REBECCA

Investor profile: Mid-40s couple tired of working in the oil patch. They sold their property in Fort McMurray, Alberta, and relocated to Kelowna, BC, in hopes of fully retiring.

Available capital: $500,000

Desired reality: Generate enough income to be able to fully retire.

Step 1: Purchase an eight-plex. Randal and Rebecca found an eight-plex building slightly out of town for $900,000. Because an eight-plex is considered commercial real estate, it required a 25% down payment; with buying costs, it accounted for a $250,000 investment.

Step 2: Purchase three resort condos. The couple put 20% down on three units ranging from $350,000 to $450,000. These waterfront condos with special hotel zoning allow for short-term off-season rentals.

Step 3: Divvy up management responsibilities. Rebecca handles management of the resort condos, while Randal is in charge of the eight-plex.

Condo gross income: $108,000 per year ($1,800/week for 12 weeks; $1,800/month for eight months)

Principal, interest, taxes and strata costs for all three units: $80,000

Net income from condos: $28,000 per year

Eight-plex gross income: $100,800 per year (each unit $1,050/month)

Principal, interest, tax, insurance and contingency: $77,000

Net income from eight-plex: $23,000

Total portfolio value: $2.1 million

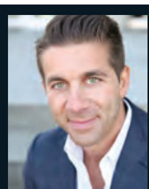
Total net income: $51,000 per year

How to get a 26% ROI

These real-world examples demonstrate what's possible with a real estate investment strategy. For the sake of argument, let's assume you can sell your present home at a profit of $500,000. (A higher profit would mean even more leverage.) If $500,000 earns you $50,000, that's an outstanding 10% ROI, but there's additional good news.

The mortgage paydown taking place on your loans adds another $24,000 to your net worth each year. Using conservative growth of 3.5%, an investor can see $56,350 in capital gains in the first year alone, meaning your total income for the first year will be more than $130,000 – a total ROI of 26%.

If you're playing the long game with these properties and intend to own them for 20-plus years, a 55-year-old investor, as he approaches 80 and looks at succession planning, will have a debt-free portfolio worth approximately $4 million, which will generate an income of $250,000 per year. How's that for a legacy? ■



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MAKING SENSE OF YOUR OPTIONS

AJ Hazzi explains the gross rent multiplier and its value in evaluating properties in a market of overwhelming choice

The Kelowna market is garnering a lot of attention, as it has some of the best economic fundamentals converging to create a boom of epic proportions. Still relatively affordable to boomers and gen x-ers cashing out of major markets like Toronto and Vancouver, Kelowna is drawing investors in droves, thanks to the four-season lifestyle, unrivalled aesthetic and investment potential of this gorgeous lakeside city.

Faced with the burden of choices – new versus pre-owned, single family versus condo, downtown versus the suburbs – it's no wonder many would-be investors are getting caught in analysis paralysis. On top of that, while they're slowed down by the overwhelming task of trying to make sense of all the options, the properties in the price-range sweet spot continue to increase by $5,000 to $10,000 per month.

There are many ways to analyze real estate returns, but the gross rent multiplier [GRM] is one of my go-to tools. The GRM is the ratio between the gross monthly rent of a property and its purchase price or value. Simply put, it's the number of times you need to multiply your annual rents to reach your purchase price. With GRM, the lower the number, the better.

The box to the left shows a selection of properties, ranging from the least attractive to most attractive in terms of GRM. For those of you who still can't seem to get double-digit appreciation numbers out of your mind, you'll find comfort in the fact that, as we work our way down the list, the property type gets more and more scarce. This means the rules of supply and demand will be even more in your favour as developers bring on condos and townhomes. And you can expect to see the prices of single-family homes perform exceptionally well through the remainder of the decade. ■

Building type		Fundamentals	GRM
Condo		Condos typically produce negative cash flow or break even at best. Two-bedroom units in a concrete high-rise start at $500,000 and rent for $1,800 a month	20+
Townhouse		A newer townhouse, for a price of $450,000 to $475,000, will command $2,000 to $2,200 a month	18 or 19
Five-bedroom house		The highly sought-after five- bedroom home with a basement suite will run you $550,000 and bring in $3,000 a month	15 or 16
Duplex		A duplex will cost $700,000+ and will produce $4,000 a month in rental income	14 or 15
Executive rental		An executive rental property in West Kelowna can still be found for less than $570,000 and will net more than $19,000 a year	13.5

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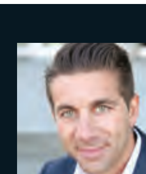


A BOOM, NOT A BUBBLE

AJ Hazzi of Vantage West Realty explains why investors questioning the staying power of Kelowna's bustling market have little to fear

Having been through a couple of market cycles, it's interesting to watch people's investing behaviour detach from logic during a boom. Amidst all the optimism surrounding Kelowna, BC, and the seemingly endless growth and opportunity, I try to deliver a dose of practical realism to my clients as we move through a predictable cycle. There's a fortune to be made in real estate if we detach from emotion and become strategic and proactive in our approach. As an active investor myself, this is precisely what I am doing with my own portfolio.

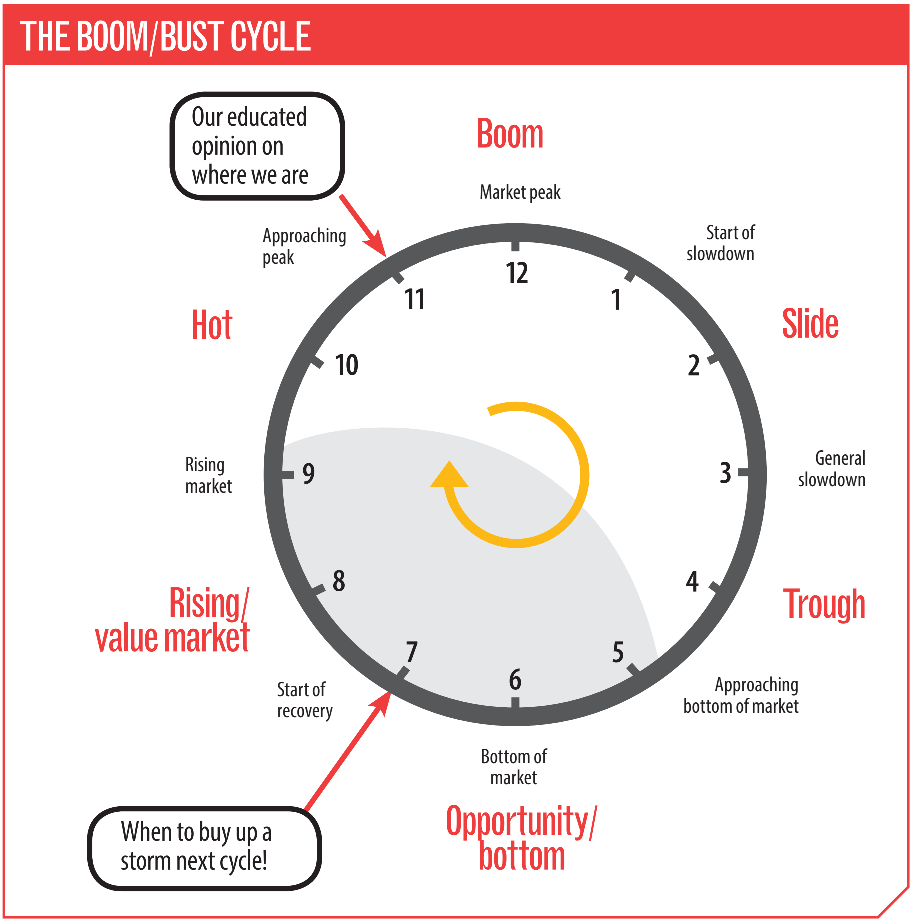
At my firm, Vantage West Realty, we are tracking 17 market drivers and a dozen different market influencers in order to know exactly where we are in the cycle and, more important, what's coming next. Since the market always moves through three phases in the same order – boom, slump and recovery – if we can pinpoint where we are in the cycle, it allows us to know where we're heading next.

In tracking financial, demographic and emotional drivers, the data tells us that we are still in the beginning to middle stage of the boom. Strong inward migration, a crazy construction market and a healthy first-time buyer market are all indicative of the early stage of a boom.

How long does a boom last? No one knows for sure. My prediction, however, is that this boom has a fair bit of runway left in it. I've personally taken on multiple development projects that will take me well into 2019, and I sleep well at night.

Boom or bubble?

Any time you say the word 'boom,' 20% of people hear 'bubble.' These words are far from synonymous. A boom is an amazing thing for an economy; a bubble can have devastating consequences. Since fear sells in the media and a large percentage of people base their opinion on what they see there, it's no wonder



that people are quick to throw around the word ‘bubble.’ Here are a few points you can use in a debate with anyone who tries to tell you we are heading toward another crash.

• The Kelowna market is not speculative. In fact, CMHC recently published a stat explaining that in 2007, the height of our last boom, there were five times as many people purchasing with the intent to resell within a year. Speculation is when everyone becomes a flipper or a condo high-rise investor with dollar signs in their eyes. That’s not the climate we’re in.

• During our last boom, our labour market was in trouble – we were losing all of our skilled youth to the Alberta oil boom without much to attract young talent to our region. Now we are seeing a large diversity in new jobs created in the tech and film sectors, along with good-paying jobs in healthcare and construction.

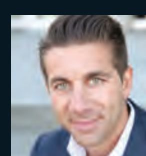
• Tight lending is what will truly save us from ourselves. Anyone who has tried to get a mortgage in the past few years will know what I’m talking about. To say that the underwriting process has become thorough would be the understatement of the year. Contrast that with the end of our last boom in 2007, where we saw zero down, 40-year amortization and stated income lending. This basically meant that if you could fog a mirror, you were likely approved.

> There's a fortune to be made in real estate if we detach from emotion and become strategic and proactive

Riding the wave

What we have at the moment is healthy growth driven by good, solid economic fundamentals. I’m not saying the party will continue forever. As affordability gets diminished and developers push new inventory out in droves, supply and demand will naturally shift the other way. Following every boom is a slump.

Once you accept that this is a forgone conclusion, you can begin to be strategic and take some proactive steps to ensure that you are prepared to capitalize on the market when it does normalize and enter its inevitable slump. As I’ve said for years, the slump is where fortunes are truly made. ■



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KELOWNA'S TOP 5 NEIGHBOURHOODS

Despite an incredible two years of growth, Kelowna is still one of Canada's strongest markets for investors. Vantage West Realty's **AJ Hazzi** examines the city to find its hottest neighbourhoods

As you might expect after two consecutive years of double-digit growth in property values in the Okanagan – and the headlines that go with it – the number of properties in the region purchased for investment has increased by 40%, primarily due to a combination of baby boomers looking to augment their retirement income and out-of-towners catching wind that Kelowna's market is still in full boom and looking to get a piece of the action.

We keep seeing headlines trumpeting that the central Okanagan real estate market is up 8.5% year-over-year. That's great, but which neighbourhoods in Kelowna are driving that appreciation? Which ones are performing well above the regional average? Whether you're an investor looking to buy in the hottest little pocket or just a homeowner curious to know how your neighbourhood stacks up, this comparison should be of interest to you.

Before we jump into the top five growth neighbourhoods, here's a bit of context to give you a frame of reference: The bottom five neighbourhoods in Kelowna 'only' appreciated by between 4% and 10%, while the top three are essentially in a three-way tie at 23% price growth. A couple tenths of a percent can be swayed by one or two large sales, so for all intents and purposes, it's a deadlock for the hottest 'hood.

> The number of properties in the Okanagan region purchased for investment has increased by 40%

West Kelowna Estates

West Kelowna Estates has been one of Kelowna's best-kept secrets for a while now, but the highly sought-after Mar Jok Elementary and the long-established Rose Valley Elementary have young families flocking to this neighbourhood for its lifestyle and relative affordability. With buyers snapping up a mix of West Coast contemporary homes built in the 1980s and the newer homes being built in the Rose Valley neighbourhood, the supply-and-demand dynamics of this neighbourhood are extremely strong.

Lower/Upper Mission

The Mission appreciates on reputation. If you're new to Kelowna and ask someone where you should live, the Mission will undoubtedly be on the short list. With lots of new commercial development in the south and Pandosy Village and some new grocery shops a little further south, the Mission's only drawback – being far from the things you need – is really no longer an issue.

KELOWNA'S TOP 5 NEIGHBOURHOODS BY THE NUMBERS

NEIGHBOURHOOD	2017	2016	% GROWTH
West Kelowna Estates	$666,471	$541,755	23.0%
Black Mountain	$757,259	$615,727	23.0%
Upper/Lower Mission	$977,126	$795,278	22.9%
Rutland North/South	$512,975	$421,603	21.7%
Glenrosa	$502,996	$413,690	21.6%

Black Mountain

Black Mountain's spike in average sales price has to do with the bulk of the sales being new homes, which naturally sell for higher price points. There's an old saying that all boats rise with the tide, so as these more expensive homes increase in price, so does the older stock.

Rutland and Glenrosa

Rutland and Glenrosa trade on affordability. The large jump in price is attributed to the fact that many first-time buyers or those coming from less expensive markets will focus their attention on the only neighbourhoods where $500,000 can still buy a house with a decent-sized yard. ■

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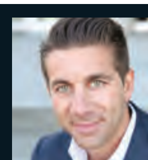

THE YEAR AHEAD

Kelowna's real estate market is still in the midst of a historic boom, but will the good fortune continue for investors in 2018? **AJ Hazzi** weighs the pros and cons of one of Canada's most intriguing markets

What does the real estate market have in store for 2018? Now that real estate has become a hot topic again in Kelowna, this is the most frequently asked question I hear, and it invevitably leads to another one: Things have been good, but have they been a little too good?

I will do my best to address these questions the only way they should be addressed – by analyzing the drivers and influencers that shape our local market. The media typically only reports on the Canadian housing market as a whole, which results in consumers being given information that has no connection whatsoever to the area they call home. There is no such thing as a 'Canadian real estate market' – it is town by town and neighbourhood by neighbourhood.

Kelowna, once a single-family market, is undergoing a big change. The market has seen affordability erode and its demographics shift. Townhomes and apartments that fit the price range and lifestyle of baby boomers and millennials will be the hot item in the year ahead. First-time buyers purchase them because they can only afford a maximum of around $450,000, which no longer buys you a house. Empty nesters choose them because they want to be close to amenities. There are currently only 1.15 months of active supply in the stratified sector of the market, showing just how hot condos and townhomes are these days. This is still very much a seller's market.

Recently, units sold at two new towers in downtown Kelowna were bought by 'end users' – people actually wanting to move into the units and not flip them for a quick buck. This is indicative of a healthy market, not a dangerous bubble like we saw in the boom-bust era of 2007/2008.

But it's not all good news. Affordability will continue to deteriorate in 2018, driven by tightening credit and prices rising to unrealistic levels. This will be the main thing hindering the single-family market in 2018. Starter homes will be out of reach for the vast majority of first-time buyers, which has an effect on mid-range homes and certain luxury properties – although the moneyed-up Gen X clientele coming in from the Lower Mainland will help absorb some of the nicer homes being downsized out of by the area's boomers.

Let's analyze the things Kelowna has going for and against it in 2018 and what the opportunities and potential pitfalls might be.

Completing the cycle

After the crash in April 2008, prices in Kelowna collapsed by 20% over the following

KELOWNA: A SWOT ANALYSIS

Strengths
- Strong population growth from inward migration
- Employment up 9.4%
- Strong first-time buyer/millennial market
- Baby boomers retiring
- Vancouver Gen Xers moving in
- Economic recovery in Alberta
- Downtown revitalization

Weaknesses
- Political uncertainty
- Consequences of 2016/2017 federal housing policies
- Decreasing affordability
- Rising interest rates
- Labour shortage driving up building costs
- Instability of Canadian dollar

Opportunities
- Developing for density in urban centres (think RU7)
- Three-bedroom rental stock
- Student housing
- Affordable housing options between $350,000 and $500,000

Threats
- New mortgage stress testing hurting borrowing power
- Media sentiment could turn sour
- Oversupply in new construction
- Emotion – greedy sellers and fearful buyers could create a standoff

> I believe the Kelowna market has every economic and demographic driver going for it

year. We spent four full years in the slump phase of the market. In 2012, we entered into the recovery phase, and supply-and-demand dynamics continued to shift from a buyer's market to a seller's market. In 2016, we officially entered the boom phase. No one knows exactly how long a boom will last, but often we can see where we are going based on where we have been. If the slump was four years long and the recovery was four years, then it is reasonable to expect that our boom phase could last just as long.

Each phase of the market has a beginning, middle and end, and a set of clues that tell us where we are. Based on what I'm seeing, I believe we are entering into the third trimester of the boom phase. This will last 12 to 18 months before the supply-and-demand dynamics shift back in favour of the buyer.

And what will the slump look like? In my opinion, it will be a soft landing, not a sharp correction. We shouldn't have a financial collapse south of the border, we don't have the insane lending that was taking place in 2007, and we aren't witnessing the same speculative buying we saw 10 years ago.

What we do have, regardless of interest rates and which political party is in power, is some of the most desirable real estate in Canada, with a lifestyle that the two largest demographics in history, boomers and millennials, will be trying to get a piece of for years to come. A well-located real estate market like the Okanagan's will be one of the safest, most lucrative investments over the next couple of decades.

I believe the Kelowna market has every economic and demographic driver going for it. Growth, however, will be tempered by political and emotional influences. My prediction is that the market will hold strong through 2018, posting single-digit growth overall, with the largest increases being seen in the townhome market. ■

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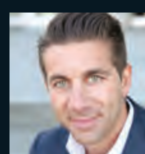


15 YEARS AND YOU'RE IN THE CLEAR

AJ Hazzi lays out a strategy that can help you own an investment property outright in 15 years. All it takes is a down payment, financing and a little mortgage magic

Not everyone who reads *CREW* wants to be a land baron; many just want a simple, bulletproof plan that gets them to the coveted seven-figure mark without eating up too much of their personal time or adding stress to their life. This article is for that person.

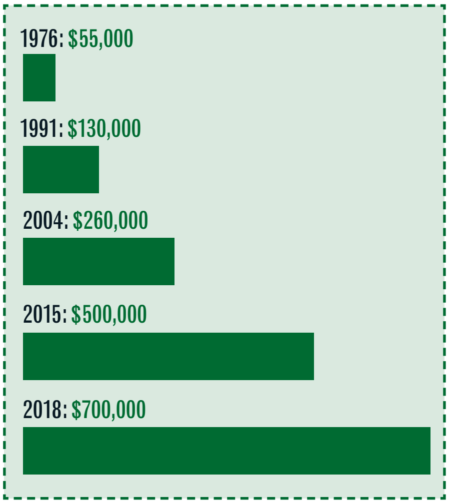
You might think it odd to learn that I consider playing with a mortgage calculator to be a source of amusement, but I'm genuinely fascinated by what happens to an amortization schedule when I make seemingly minuscule adjustments to payments. I always advocate a 30-year amortization – it's the best way to ensure you have options and flexibility with your investment – but with a few simple tweaks, you can cut that mortgage in half. You can:

- **Switch to bi-weekly payments.** This alone will chop nearly five years off your mortgage, and you won't even feel it.
- **Accelerate payments.** It will require discipline to defer the benefit of all the glorious positive cash flow your investment generates, but is a 'set it and forget it' decision.

Yes, that cash flow could cover the payments on a brand-new Lexus, but to be a net worth millionaire on a single investment in 15 short years, you need to increase your mortgage payment by just enough to cut the amortization down another 10 years. Unlike your minimum monthly mortgage payment, which is split almost equally between principal and interest, these additional payments go straight to principal. Not only will they have you mortgage-free a decade sooner, they will also save you nearly $60,000 in interest.

Now let's talk about the other side of this equation: property appreciation. The historical rate of real estate appreciation is 5.4%. At that rate, real estate doubles in value every 12 to 15 years. I believe we have entered a sustainable growth period in the Okanagan that will more or less follow this historic trend for the foreseeable future.

I can hear the skeptics already, so let me show you actual sales data for a duplex in Rutland I recently sold to an investor:



> I always advocate a 30-year amortization ... but with a few simple tweaks, you can cut that mortgage in half

Duplexes in our area have been priced at roughly $700,000 for the last two years; I've bought most of my duplexes just shy of this price point. I did so out of the firm belief that history will repeat itself. By 2030 or sooner, I believe the market value of any of my Rutland duplexes will be in excess of $1 million.

Let's look at how the numbers shake out and how this conservative plan will require almost no input from you as the owner.

Each side of your four-bedroom, two-bathroom duplex rents for $2,100 a month. This means that your gross revenue for the duplex is $50,400 in the first year, and your costs are as follows:

- $30,060 for accelerated mortgage payments ($28,264.50 @ 3%)
- $5,040 for a competent property manager
- $3,800 for property taxes
- $1,800 for insurance premiums

You still have about $5,000 per year in contingency money that will go towards preventative maintenance or covering a vacant month now and again. And that's just in the first year. Fifteen years from now, based on 3% inflation, that duplex could be generating gross revenue of $78,500.

Dream with me for a minute here. You're 50 years old today and have a $100,000 nest egg or access to $100,000 in equity in your primary residence. This simple strategy lands you a million-dollar asset, paid off by the time you're at retirement age.

You now have options. If you want access to your capital, you could sell your property, pay some capital gains, take your money and run. Or you could put a line of credit on the property for 80% of its new value, take that $800,000 out tax-free, reap the additional tax benefits of writing off the interest costs of the HELOC, and fund whatever passions you are now free to explore.

There's no brilliance required to pull this off. You don't need to become an expert or set up a complicated holding company. You just need to take the first step and call your Realtor or mortgage broker.

The duplex like the one in this example is not particularly hard to come by in Kelowna, but there aren't usually more than a handful on the market at any given moment. Less than half a dozen change hands each month. Will one of them be yours? ■

AJ HAZZI is a Kelowna-based investor and founder/associate broker of Vantage West Realty, Kelowna's leading investor-focused real estate brokerage. For a PDF analysis of one of the properties discussed in this article, contact him at info@ajhazzi.com or 778-765-0377 or visit vantagewestrealty.com.

SAME LAKE, DIFFERENT RULES

Vantage West Realty's **AJ Hazzi** explores how BC's most recent budget is affecting investors in the Kelowna market

Kelowna has been regarded as a mecca for Canadians due to its status as a four-season playground and its proximity to countless world-renowned wineries. Over the past 20 years, owning frontage on the famous Lake Okanagan has proved to be one of the soundest real estate investments one could make. Prices have seen nearly 2,000% appreciation in that timeframe. (No, that's not a typo.) For the vast majority of us, pricing on the lake is now out of reach. Empty waterfront lots in Kelowna are selling for $2 million and up.

But thanks to one particular facet of the most recent BC budget, owning one of those waterfront properties might no longer be impossible.

Opportunity knocks

In February, British Columbia's newly elected premier, John Horgan, imposed a pretty onerous tax that seems to target the affluent second-home owner. Known as the speculation tax, this measure is aimed at cooling speculative foreign buyer activity in the white-hot Vancouver market. This tax will be levied against any properties that are not occupied as a full-time residence by their owners or made into long-term rentals.

Without debating the merits of this policy (you don't have to go far online to find endless rhetoric from both sides), let's look beneath the surface at the potential impact – and, more importantly, the potential opportunities – of this new speculation tax.

Many waterfront properties in Kelowna are owned by out-of-province owners who only use them for three or four months out of the year, leaving them otherwise empty. These owners are now being faced with a stiff annual tax of $10,000 for every million dollars in value. This has led to knee-jerk reactions from many out-of-province owners, who have already engaged in a number of fire sales. Many are opting to cash out of Kelowna and head somewhere

The new tax has emotions running high, making this the summer to invest

a little more economically welcoming. For investors, these sales represent an opportunity to buy luxury lakeshore property at a relative bargain.

Compounded by the dock-destroying floods of last year, the supply-and-demand dynamics of the lakeshore market have actually shifted in favour of the buyer. There are currently 200-plus lakeshore properties for sale in Kelowna; fewer than 10 of them sell each month. This is roughly 300% more inventory than what would be available in a balanced market. As a consequence, we are seeing average discounts of nearly 8% on lakeshore deals. This may very well be the best buying opportunity for Kelowna lakeshore in the foreseeable future.

The new tax has emotions running high, making this the summer to invest. It's entirely possible that the NDP will claw back this tax in the fall when they finalize the budget, but until then, fear is the prevailing emotion. And with fear comes opportunity.

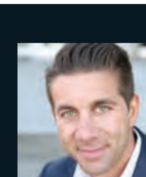
The loophole

You might be asking, "Why would I want to inherit this new tax myself?" Well, there's a very simple way to avoid it. If you were to make the property available as a rental for six months each year, the tax is not applicable. The property will either sit vacant anyway because of the higher-end price point, or you'll attract a wealthy executive tenant – someone new to town or perhaps a new resident building a house. Any one of these scenarios will completely exempt you from the tax.

Keep in mind that Kelowna isn't the only option on this meandering 80km lake. In as little as 15 minutes by boat, you can be in Peachland or Lake Country, which, for all intents and purposes, are extensions of Kelowna. An additional benefit of looking at these communities is that the speculation tax doesn't extend to either of them. Both of these beautiful spots offer lakeshore options starting at $350,000 for a condo or townhouse or $800,000 for a home with its own private beach.

It hasn't happened yet, but out-of-town buyers, particularly Albertans and Vancouverites, will soon catch on that these properties can be their second home and left empty as much as they want. Demand will spike in these outlying areas and inevitably drive up prices. If you want to claim your slice of the Okanagan dream, now is the time to do it. ■

AJ HAZZI is a Kelowna-based investor and founder/associate broker of Vantage West Realty, Kelowna's leading investor-focused real estate brokerage. For a PDF analysis of one of the properties discussed in this article, contact him at info@ajhazzi.com or 778-765-0377, or visit vantagewestrealty.com.



FILL ME IN

Looking for a project that's both challenging and profitable? **AJ Hazzi** of Vantage West Realty shares an advanced infill strategy that could turn you into a millionaire in as little as five years

Infill development has become a popular way for small-scale investors and developers to add serious value to a small, manageable plot of land in the urban core. This works great in cities like Edmonton or Kelowna.

Some infill developers are looking for the quick return of capital and a tidy profit by selling four-unit projects for a profit inside of 18 months. These developers will take the lift and move on to the next venture in hopes of parlaying the new equity into another equally lucrative project. Others are looking at these newly built four-plexes or row houses as a long-term cash-flow property, aiming to generate wealth from the three-course meal that is long-term real estate investing: cash flow, mortgage pay-down and capital gains.

There is, however, a third option that blends these two approaches into a sort of hybrid between a short- to mid-term hold and a pre-determined, profitable exit. Both the sale price and the cash flow are amplified by 15% to 20% due to the rent-to-own component of this deal. Let's take a detailed look at both the strategy and the returns it can generate, which should be pretty enticing to most investors.

I operate in Kelowna, so we'll use the numbers from this still highly viable market as a base. The purchase of a small tear-down home in an infill area here will run you roughly $750,000. Constructing four new three-bedroom homes on that lot will cost around another $1.1 million, so expect to need a half-million in capital in order to get started. These four freshly constructed units will fetch $550,000 each, or $2.2 million in total. After soft costs, the project should net approximately $300,000.

> Both the sale price and the cash flow are amplified by 15% to 20% due to the rent-to-own component of this deal

If you were to take the purpose-built rental approach, you could expect each of these well located, newly built homes to bring in about $2,400 per month in gross rent, or $115,000 per year on your $1.85 million investment. This is a solid cash-flow equation with a gross rent multiplier of 16, which is similar to what you would get by purchasing older rental stock, but with the added benefit of being new without the deferred maintenance of an older building. As you can see, both are attractive options, but let's consider a hybrid option – one that stirs in a rent-to-own component.

In a rent-to-own deal, the rents are based on market-value rent plus equity buildup. It's also customary to tack on a pre-agreed rate of appreciation to the eventual purchase price. I have had great success creating win-win deals

using 3.5% appreciation.

In a five-year deal, using a 3.5% rate of appreciation, the sale price on the four units will be $650,000 each. During that five-year window, your tenant-buyer will have been paying $2,900 a month, which includes market-value rent of $2,400, plus $500 worth of equity buildup, which will be credited back upon closing. This will accumulate and become their 5% down payment when added to their initial deposit of $10,000.

Returning to the three-course meal analogy, the appetizer in this scenario – cash flow – is very good. You receive $11,600 every month in revenue to pay your mortgage (at a rate of $7,000 a month) and take care of your additional monthly expenses, taxes, insurance and water, which should total approximately $1,600 a month. That leaves you with a net $3,000 per month in positive cash flow, or $180,000 at the end of five years.

Now on to the second course. Over the five years of your tenant-buyers making their payments, your loan went from $1,387,500 down to $1,197,000. That's a significant reduction of about $200,000 in a very short period, if you opt for a bi-weekly payment plan and stick to it.

The dessert in this example is the capital gain when you sell: $2.6 million minus your base cost of $1.85 million leaves you with a gain of $750,000.

Profit from sale	$750,000
Mortgage reduction	$200,000
Cash flow	$180,000
Total gain	$1,130,000

But don't forget about the tenant's equity buildup of $30,000, which was part of their original deal. Multiplied by the number of ecstatic new homeowners you've helped create, that $30,000 balloons to $120,000. That's not yours to keep – and also prepare to pay another $10,000 in legal and accounting fees. You will still be left with a million dollars in new wealth after only five years. ■

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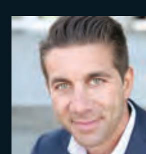


THE CENTRE OF THE BULLSEYE

Finding the right property for your unique investment needs is a process that shouldn't be rushed. Vantage West Realty's **AJ Hazzi** outlines the steps required to sharpen your aim and hit your chosen targets

In today's real estate landscape, it takes more than an open cheque book to capitalize on the best real estate opportunities. You need to have a system for cutting through all the noise and chaos – a system that allows you to zero in on the best property for you at that precise moment. One day in the not-too-distant future, we'll have artificial intelligence to tell us where to invest based on our own unique set of criteria, but until then, you can confidently use the simple system outlined below to not just find your target, but to zero in on the bullseye.

Many people believe that their real estate investment needs to be in their own backyard so they can keep an eye on it. I used to think this as well. I purchased my first 50 or so doors right where I lived. This was because I believed I was saving money by managing my own properties in the 'spare time' that I had around a 60-hour workweek.

When I discovered the wonderful world of professional management, my paradigm shifted. Not only did I go from having a second job of managing tenants and staying on top of maintenance to becoming an actual passive investor, but suddenly the entire continent became open season for deal-hunting. All I needed was a system.

> Remember, buying property is a process of elimination rather than selection. These filters allow you to search effectively in markets with thousands of active listings

As a member of the Real Estate Investment Network, I had always been privy to the research reports the group releases about the top 10 towns for each province. The very publication you're reading also does a great job of breaking down the markets area by area. Resources like these provide a first set of filters.

Having seen that my hometown of Kelowna kept making these lists, I was

THE POWER OF GROSS RENT MULTIPLIER

Over the years, I've used many different ways to analyze property, and what I've found is that the key to success is something simple and quick that can be done in under 30 seconds: gross rent multiplier, or GRM.

It's very simple. All you need is the current or potential rent of the property you're looking at – an investment-focused Realtor or a property manager can help you with this. Then take that number and plug it into the following formula:

List price ÷ annual rent = GRM

The lower the number, the better. I have an embarrassingly simple Excel spreadsheet that I use to compare a short list of properties so that the cream easily rises to the top. I'd be happy to share it with you – just email me at grmsheet@vantagewestrealty.com.

struck with the thought that people reading in Ontario, for example, didn't quite have enough information to make an informed decision. Consider where you live. Are there some areas that are better than others? Particular neighbourhoods that seem to appreciate like crazy and others that should be avoided like the plague? Of course!

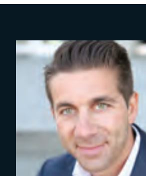
My next set of filters is to determine the top neighbourhoods or pockets of this 'top town.' There are a number of ways to do this type of research. My favourite is to find a good agent who has been in the game through a few market cycles. Such an agent should intuitively know where these pockets are. Finding a seasoned agent who is also an investor will save you a ton of DIY market research.

By now, you've narrowed your focus to the top town's top neighbourhoods. You're getting close, but you haven't yet nailed the elusive centre of the bullseye. To do that, you must consider what type of property you're aiming for.

The area's demographics come into play here. Is this a first-time homebuyer market? A retiree haven? Is it a university town? A vacation mecca? Depending on the answer, you might consider completely different properties: a suited entry-level home; a well-appointed, centrally located three-bedroom townhouse; a multi-room home with proximity to a growing campus; or even a vacation property you can use for short-term rentals.

You need to narrow your focus to a specific type of property – this will give you the clarity to be able to properly assess and compare one opportunity against another. Your goal here is to be set up on a Realtor's automated custom search so you only receive listings that match exactly the areas, property type and price range you're shopping in. This allows you to completely ignore everything else on the market, including those properties being marketed to you with no regard to your unique needs. Remember, buying property is a process of elimination rather than selection. These filters allow you to search effectively in markets with thousands of active listings.

If you started wide and systematically narrowed the field to a particular property type in a particular area, you will have created a targeted shortlist of properties. Only then will it be time to start crunching numbers and selecting the very best of the bunch. This is the fun part – where you break out your calculator and separate the wheat from the chaff in the absolute centre of the bullseye. ■



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BUY NOW … OR WAIT?

AJ Hazzi of Vantage West Realty sheds some light on a timeless investor dilemma: When the market's future is as cloudy as it currently is, do you stay inside and wait out the storm or grab your boots and get muddy?

It seems that real estate is once again a hot topic. People are looking for ways to capitalize on the first bull run we've had since the crash in 2008. The amount of sales related to real estate investment have skyrocketed, putting serious pressure on supply and further fuelling the fire.

In such instances, people start to doubt getting into the market. They regret not buying a couple of years ago when the market was more suited to buyers. Are they right? Let's examine this together.

Do the uncommon thing

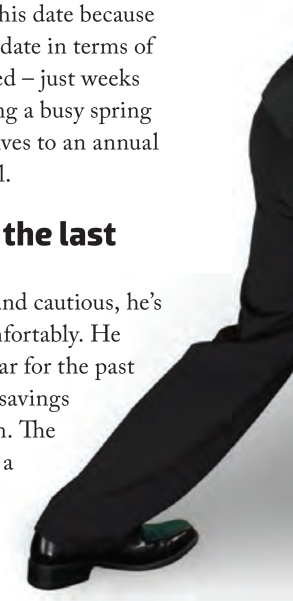
One phrase you may have heard is that "the best investors do the uncommon thing," meaning they sell when no one is selling and buy when no one is buying. In principle, this is absolutely correct: In a perfect world, you would begin your investing career in a market slump, collect a few properties and ride the wave of appreciation when the market recovers and booms again.

The problem is that it's mainly a fairy tale. To not leave any money on the table, you would need a rare combination of dumb luck, business acumen and more discipline than I've come across in us mere mortals.

Do we need to be market-timing oracles to succeed? Or does a simple buy-and-hold strategy with a long enough runway get you to the promised land regardless? Let's examine a case study of two people, both faced with the decision to buy or not to buy on April 1, 2008. I picked this date because it was technically the worst date in terms of timing you could have picked – just weeks before the sky fell, but during a busy spring when sellers helped themselves to an annual 15% property value windfall.

A case study from the last market bust

Meet Jon. Thirty years old and cautious, he's been renting and living comfortably. He has been saving $5,000 a year for the past five years in a high-interest savings account, getting a 3% return. The plan has been to save up for a down payment on a starter home. But his instincts and market research tell him to wait. He decides to keep renting and keep saving.



Meet Jane. She too is 30 years old and has the same $25,000 to put down on a house. She is determined to own her own home, and despite her dad's protestations, she plunges into the market and buys a 1970s starter home in Rutland for $415,450 (the average price for similar homes in Rutland in April 2008).

Do we need to be market-timing oracles to succeed? Or does a simple buy-and-hold strategy with a long enough runway get you to the promised land regardless?

Jane's mortgage payment is $1,935.90 over 40 years (based on the period's typical discounted rate of 5.19%). She has a

basement suite paying her $1,000 a month, so she's able to keep saving $5,000 a year.

A few months later, Jane realizes that the bottom has fallen out of the market; prices are plummeting, and homes all around her are going up for sale at prices lower than what she owes on her mortgage. She couldn't sell even if she wanted to. By 2011, her house has lost nearly 20% of its value.

On her mortgage reset date of April 1, 2013, Jane's current mortgage balance is $377,600. Similar homes in her neighbourhood are selling for around $350,000. To make matters worse, the banks have taken away the 40-year amortization, and she must now renew at a 25-year amortization. Fortunately, the banks have also lowered interest rates, and she's able to renew her mortgage for another five-year term at 2.64% . Her payment actually goes down to $1,717.96, and better still, nearly $900 of that is going toward principal reduction.

Jane still has her tenant in the basement, so now 100% of the money she puts toward the house payment goes right back in her pocket. Fast-forward to April 2018: Her home's current market value is $500,050; her mortgage balance is $320,759.02.

Jane's net worth is looking pretty good. She has more than $100,000 of equity in her home, and her savings account has over $50,000 in it from her faithful $5,000 annual contributions.

Jon never did take the plunge. He was reluctant to buy during all the doom and gloom. Now, in 2018, he thinks the sky is about to come falling down again. He loves his rental apartment and has a $75,000 nest egg in the bank. His landlord loves him – of course he does; Jon has paid down a solid chunk of his mortgage!

Who comes out ahead?

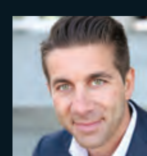
After 10 years, Jon is worth $75,000, while Jane is worth double that: $150,000. Although it was an emotional ride, her choice to invest her $25,000 in real estate was the difference-maker, as her down payment quadrupled in only a decade.

She also has options. Renting out the upper floor of her current home and getting nearly $1,000 a month in positive cash flow tempts her. She plans to purchase an $800,000 property downtown, something with a newer carriage house that she can live in for free while she rents out the five-bedroom house for enough to cover the entire mortgage ($2,960.23 a month over 25 years).

When Jane hits 40, she'll own over a million dollars in real estate. She lives for free and nets almost $1,000 a month off her first home. She's also one of the worst at timing the market because she seems to only buy when prices are peaking. Ask her how much that bothers her.

Jon is doing all right, but he's a little self-conscious about still being a renter. He's also really annoyed that his landlord has upped his rent every year for the past five years, so his once affordable apartment is now costing him an arm and a leg.

The moral of the story? Be like Jane. ■



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A DEAL WITHIN A DEAL

In the current lending environment, turning $5,000 into a $500,000-a-year operation might sound like a pipe dream. Vantage West's **AJ Hazzi** describes how to make it a reality

I'm often asked what I would do if I had to hit the reset button and was starting all over again with my first $5,000 in working capital. That might sound like an impossibly small figure to get started with in 2019, but there is a way to turn that five grand into something special by using a lease option agreement. This strategy will require approximately five to 10 hours a week of active involvement to implement. If you have or can carve out that kind of time, you will quickly see it's worth your while.

The biggest thing holding investors back from building their empires is access to capital – mainly the banks' capital. If you believe the only way to control a portfolio of real estate is to own it, you will be stuck in the investor's dilemma of playing the bank game and trying to come up with 20% down payments.

There is another way: a strategy that combines an option with a long-term lease. Simply put, you secure an option to purchase a home at a pre-agreed price for a term of two, three or even five years. You agree on a lease payment that relieves the titled owner of his financial obligations.

The best way to find these opportunities is to notice when properties that were previously for sale suddenly come up for rent. This indicates the homeowner has two problems you can potentially capitalize on: They want to divest themselves of the property, and, more pressing, they're in need of relief from the monthly carrying costs. This property owner has resigned himself to the fact that he will need to rent the property to cover costs and hope that in the future, the property – and the market – will still be in good enough shape that he will eventually be able to sell the home for the amount he was trying to get originally.

Opportunity knocks

Resigned to holding onto his property longer than he had hoped, the homeowner in question is looking for a solid tenant to take over the property and make monthly payments. He may be looking for half a month's rent as deposit. Let's say, for example, that the rent is $2,000 a month and the deposit is $1,000.

Let's say the seller was trying to get $500,000 for the property when it was first listed. (You're welcome to negotiate, but for this example, let's assume you agree to an option on the property for the full purchase price.) You sign a two-year option agreement for the $500,000 with a two-year lease at $2,000 a month. You now have full legal control of a half-million-dollar asset, and

you've only laid out $1,000.

Your next step is to advertise a rent-to-own opportunity and post the ad in the classifieds. You will get a fairly large volume of leads if you're focusing on single-family homes in the starter to mid-priced sector of the market.

Structuring the deal

When it comes to a final selling price for your property, rent-to-own deals often come with a pre-agreed rate of annual appreciation. I've had success using 3.5%, which typically ends up being a win-win between the seller (you) and the eventual buyer. It's also in line with a conservative 50-year average.

Typically, when you advertise a rent-to-own, your tenant-buyer expects to pay rent above market value. For a $500,000 home, marked up to $535,000 over the course of two years, you could easily ask $2,800 a month. You might offer a small credit of around $500 per month towards the purchase price to help your tenant-buyer build equity.

The best part of the rent-to-own agreement is that the tenant-buyer assumes all maintenance and repairs during the tenancy and puts down a significant deposit. For this example, let's assume the deposit is $20,000, which you will receive

> If you believe the only way to control a portfolio of real estate is to own it, you will be stuck in the investor's dilemma of playing the bank game

upfront and will represent the bulk of your net profits on the sale. Between that and the $12,000 in monthly credits they have accrued, the tenant-buyer will have cobbled together enough to cover both their 5% down payment and all associated closing costs at the end of the term. That $32,000 is all yours, in addition to the annual net cash flow the deal has created, about $9,600. Your total net revenue per transaction is approximately $40,000.

The question quickly becomes, how many of these can I do? A person with the ability and drive to find one of these deals a month could earn nearly $500,000 a year working part-time. The startup capital required? Less than $5,000 and the price of a good book on rent-to-owns. ■

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STRENGTH AND WEEK-NESS

As far as short-term rental markets go, Kelowna's is hard to beat. Vantage West's **AJ Hazzi** offers advice for investors considering the nightly or weekly route in Orchard City

It's that time of year again: The sun comes out, boats go in the water and tourists begin flocking to holiday destinations across Canada. The Okanagan Valley has become one of the country's most highly regarded travel destinations, and it's becoming increasingly more popular with internationals. Kelowna's airport is the second busiest in British Columbia, with 2 million passengers per year. The Okanagan wine scene, the world-class golf and spectacular lakes are bringing moneyed tourists from all over.

With our local hotels unable to accommodate the growing number of tourists, peer-to-peer rental sites like Airbnb and VRBO have taken centre stage. Demand is still outstripping supply, and weekly rental rates during the peak season continue to climb.

This is great news for vacation property investors who want to capitalize on their real estate investment with the added benefit of enjoying the property in the shoulder seasons of early May or late September – two gorgeous times to be in the valley without other tourists to compete with.

> This growing industry has attracted some fantastic new technology in recent years that has really streamlined the process

In the Okanagan, most condo complexes don't allow short-term rentals; in fact, 90% will have you facing heavy fines if you contravene the bylaw. Of the 1,300 condos for sale at the present time, only 130 are zoned for short-term rentals. This special resort-residential zoning is found in only about a dozen or so developments throughout the Okanagan Valley. The properties range from resort-style condominiums on the lake to secluded beachfront cabins a little off the beaten path, all the way to hotel-style condo properties that have a front desk and in-house management or a rental pool.

It's easier than you think

When I consult with first-time investors, they're often a little apprehensive about getting into the short-term rental game due to what they perceive to be a lot of work: The booking, cleaning and constant turnover sounds exhausting.

But this growing industry has attracted some fantastic new technology in recent years that has really streamlined the process. Platforms like Properly have

revolutionized the changeover and cleaning process. Other tech can have your property listed on multiple sites and platforms with handy software that automatically updates your calendar across all sites each time a booking comes in.

All of the communication, contracts and customer service touches can be completely automated. Deposits and rent collection are handled seamlessly. You can even manage physical access from afar by giving a special access code to each guest that expires at the end of their stay. This industry has evolved to the point where absentee owners can manage a portfolio of properties from their iPad halfway across the globe. There are even consultants you can hire to help you optimize your business. (Check out vacationrentalstrategist.com and speak to Suzanne. I highly recommend her services and her e-book on this very subject.)

A vacation rental strategist will tell you the importance of staging and let you know which colours inspire people to select your unit over others. They will share tips and tricks about copywriting and photography, along with systems to collect the ever-important five-star reviews. An experienced consultant can share proven strategies to get your unit rated as a top property across various platforms.

When you really do this right and use the different platforms available, it starts to make more sense to keep these properties available for nightly and weekly rentals year-round. Offering discounts on Booking.com, for example, can keep you relatively full during the shoulder months and even bring in enough bookings during winter for ski season.

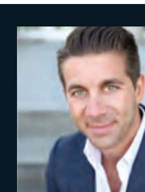
Risks versus rewards

Most investors in Kelowna put long-term tenants in their properties during the off months. This can work, but you could face some challenges with the new tenancy laws that forbid fixed-term tenancies. There is also the possibility of wear and tear if a long-term tenant decides to beat up your unit for eight months.

You might be thinking that short-term wear and tear would be worse. I can say from experience that the people who rent units on peer-to-peer sites tend to respect them. You also have their credit card information and a healthy deposit. More than anything else, the weekly professional cleaning keeps your unit in top condition. The best part about that? The traveller pays the cleaning fee.

If you're like me, you like to stop in front of real estate offices and check out what's for sale. Why not take it a massive step further and try before you buy? Book a unit in a complex you might like to own in and get a feel for the lifestyle, the clientele and the location. More and more investors are test-driving their investments before taking the plunge.

If that's not an option, there are plenty of great resources out there, such as lists of all the properties that allow short-term rentals and spreadsheet analysis that ranks different properties by their revenue per square foot and more. Just shoot me an email. I'd be happy to get you informed – and hopefully ready to buy in one of the best rental markets in Canada, short-term or otherwise. ■



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HOW TO MAKE A MILLION – WITH ONE INVESTMENT

AJ Hazzi presents his own take on *CREW*'s annual investor challenge, turning $150,000 into $1 million in net worth and an annual income of $60,000

There are myriad ways a person can make a million dollars in real estate. Over the years in *CREW*, I've covered everything from renovating multi-family apartment buildings to buying a series of single-family homes to using a lease option strategy.

The two things these strategies all have in common is that they are battle-tested and they take work on the part of the investor. This time, however, I'm going to share a simple strategy that will get you to a million dollars in net worth with almost no work on your part.

What and how to buy

The key is buying the right kind of property at the outset. For two reasons, I suggest you grab something as close to new as possible. First and foremost, it will limit the amount of repair and maintenance you will incur over your 10-year holding period. Second, it will improve your tenant profile substantially.

For this example, let's assume an initial investment of approximately $150,000 in cash, which, once leveraged, will allow you to control $750,000 in real estate. There are a few options here, but the target revenue is the same in all cases: $5,000 per month, which will give you an annual revenue of $60,000. You might choose:

- A duplex with two nicely appointed three- or four-bedroom units that will rent for $2,500 per side.
- A nice three-bedroom vacation rental property in a market that attracts upscale vacationers. Something with a proven track record of $2,500 a week in the summertime will get you to the amount you're hoping to hit.

> With $60,000 per year in revenue, you're able to have some fun with your mortgage amortization schedule

Now for the magic of velocity banking. With $60,000 per year in revenue, you're able to have some fun with your mortgage amortization schedule. You'll want to make sure you select a mortgage without pre-payment restrictions, as the name of the game is to invest all of the cash flow from the property into aggressive mortgage pay-down.

Assuming a 3% interest rate with a bi-

weekly payment of $1,261, you can afford to do a bi-weekly mortgage top-up of $600. In doing so, you'll be cutting your 30-year mortgage nearly in half – 15 years and six months, to be exact. Your total payments to the bank will be $48,407. Expect to spend another $10,000 per year between tax, insurance and some contingencies.

A decade down the line

Delaying the real gratification until the 10-year point is going to require some discipline. When your investment property is generating $1,200 per month in positive cash flow, it's tempting to want to take that money and use it instead of paying it all to the bank. Realistically, though, most of us would absorb that $1,200 a month into our daily existence and barely change our lifestyle, let alone improve it in any noticeable way.

In the chart below, you can see that investing $1,200 a month over 10 years into accelerating the mortgage ends up going fairly well. The total interest saved is nearly $120,000, and a difference of just over $180,000 opens up between the two mortgage balances at the 10-year mark.

The advanced, and more disciplined, version of this would be to take the $1,200 a month and invest it in paper assets. Assuming an 8% return over 10 years, you could stand to do even better and end up with more than $240,000 in your trading account.

In either case, the actual real estate asset will have also been appreciating over the 10-year period. Assuming a conservative 5% per year compounded growth rate, the value of your $750,000 investment should be over $1.22 million, leaving approximately a $1 million equity position in the property.

You have some choices now. Do you draw out your equity, tax-free, using a home equity line of credit? Do you sell the property, pay some capital gains and move on? Or do you simply finish paying off the home in another five and a half years and enjoy the $60,000 per year in net cash flow for your retirement? Any way you slice it, you're a happy camper. ■

MORTGAGE SUMMARY

Loan amount	$600,000	
Amortization	30 years	
Interest rate	3%	
	Without prepayment	**With prepayment**
Payment	$600 bi-weekly	$1,261.81 accelerated bi-weekly
Balance at the end of 10-year term	$426,184.23	$245,381.51
Loan will be paid off after	26 years, 6 months	19 years
Total payments	$867,340.03	$749,640.92
Total interest paid	$267,340.03	$149,640.92
Interest savings	**$117,699.11**	

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CRANK YOUR ROI

There's no shortcut to success in real estate, but there are plenty of crafty ways to get more out of your properties. Vantage West's **AJ Hazzi** shares 10 of them

Investing in real estate is a fairly simple process. Buy a property with positive cash flow, complete some home improvements to bump up the value, manage it very well and then hold it for the long-term. Repeat this process a few times, and lo and behold, you've become financially secure within 20 years.

But if you're like me, you're not the kind of person to sit around and twiddle your thumbs while there are better returns to be had – you're constantly looking for strategies that can quickly boost your rental cash flow and improve your bottom line. Here are 10 battle-tested strategies that I've used to take my own real estate portfolio to the next level. I hope they can help you do the same.

1 Complete smart renovations. Target minimalistic, modern and practical upgrades that will appeal to millennial renters. These include stainless steel appliances, solid-surface countertops, fibre internet hookups, vinyl flooring products, fresh paint for the walls (cool grey tones are timeless and very trendy right now) and smart home features like Nest to remotely control things like thermostats, security systems and door locks at a low cost.

2 Provide a dishwasher and bathtub. Each of these nice-to-haves will command an additional $50 per month from renters and cost you around $500 each. This means they will start to generate positive cash flow in less than two years.

3 Be dog-friendly. There are droves of responsible pet owners struggling to find a suitable home for themselves and their furry best friends. These tenants expect to pay a premium, tend to stay longer and will provide double the regular security deposit. Once you've made the switch away from carpeting, renting to a responsible dog owner is a relatively low-risk endeavour.

4 Include an on-time payment discount in your lease agreements. For example, if you plan to rent your property out at $2,000 a month, write up the lease at $2,200 but offer a $200 on-time payment discount. An on-time discount makes late payments far less likely and gives you more flexibility when it comes time to renew the lease. Eliminating an on-time discount does not count as a rental increase.

5 Charge a flat-rate utility fee. This should cover your combined expenses and then some. Average out the costs for all household bills (water, gas, electric, internet) and then add a profit margin that's acceptable to you. Your renters will appreciate the convenience and consistency, and you'll benefit from knowing that your utility expenses are covered for the year.

6 Use a long term rent-to-own strategy. This is the ace strategy for increasing your monthly payments and boosting ROI. Rent-to-own payments are significantly higher than regular rent payments since they're based on the real cost of home-ownership and include costs like taxes and insurance. Rent-to-own also removes repair and maintenance from your side of the ledger, which improves your bottom line by a couple hundred bucks each month. Tenant vacancy won't be a concern, as the initial rent-to-own deposit is usually six months' rent or more. The only downside to this strategy is that you have to be willing to let the property go at the end of the rent-to-own term.

7 Strategically time your lease resets. The two most competitive months for renters are April/May and August/September, which means these are the best months to be advertising your property. This strategy alone will provide quality tenants willing to pay top dollar for your rental. The ebb and flow of supply and demand means that rental rates can swing by as much as 10% to 20% throughout the year. Make sure your rental agreements end during these peak rent seasons, and over the years, those percentages will start to stack up.

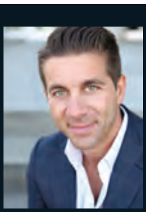
8 Rent your property as a fully furnished unit. Furnished properties tend to attract executives moving into town, homeowners in the process of building a house and similar high-quality tenants. With the rental premium on furniture – which should last for at least 10 years – you'll usually make back your investment within 12 months.

9 Consider getting a short-term rental licence. This will allow you to take advantage of Airbnb traffic during the summer months. For well-located properties, you can expect to take in your usual monthly rent on a weekly basis. Renting your property by the night comes with the added benefit of having it professionally cleaned every week – on the tenant's dime.

10 Rent by the room. It's not uncommon for people to pay $800 or more a month to rent a bedroom with shared access to a kitchen and bathroom. A three-bedroom suite that would normally rent for $1,800 can suddenly generate $2,400 a month. The caveat is that you can expect a little more turnover and some additional … let's call them 'managerial moments.'

These are just some of the strategies we use at Vantage West to optimize returns for our investor clients and in our own personal portfolios. You don't need to be a professional property manager to profit from these tips, but should you wish to have us take care of your rentals for you, or if you'd like more details on the strategies above, we're always happy to help. ■

> If you're like me, you're constantly looking for strategies that can quickly boost your rental cash flow and improve your bottom line



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2020 VISION

Vantage West's **AJ Hazzi** subjects Kelowna to a thorough SWOT analysis and explains why it deserves investor attention in the new year

Making sense of the Kelowna market has become increasingly difficult; we have more data (and opinions) to wade through than ever before. Nevertheless, 'tis the season for prognostication. Let's run a SWOT analysis on the city and see what the best play is for 2020.

Strengths

1. The job market. The Okanagan has a growing knowledge economy, an unemployment rate that's trending downward and was named the top job market in Canada in 2018.

2. Population growth. That diverse job market and Kelowna's reputation as a four-season playground continue to make the city a top destination for young professionals, retiring baby boomers and newly landed immigrants. Kelowna's population is expected to grow by up to 2% annually.

3. Demographics. Equity-rich baby boomers and their millennial kids are by far the largest and most influential generations in the real estate market today. They will continue to be a driving force over the next five to 10 years as boomers expand their investment portfolios and downsize homes and millennials look to escape the trap of rental housing.

4. Low vacancy. Private rental housing supply is decreasing in Kelowna. Stiffer rules against landlords and the mortgage stress test will continue pushing would-be homebuyers to the sidelines, where they'll be forced to rent.

Weaknesses

1. Tight lending policies. Banks are still very conservative with their lending policies, and it will continue to be difficult to qualify for a mortgage. With borrowing power reduced, fewer people can afford to buy homes, which slows price appreciation.

2. Affordability. Household incomes are rising in Kelowna, but they haven't maintained pace with rising home prices, which are already relatively high compared to the rest of the country.

3. Media sentiment. We have six months of housing supply in Kelowna, and pricing is flat. But none of that makes for a good headline. Negative news about the market will get far more attention than anything remotely positive, which could dampen interest in the region.

4. Fear. With many predicting a global recession or a Wall Street meltdown, it's no wonder the market is scared. People may adopt a wait-and-see attitude, which sidelines cash until confidence returns.

Opportunities

1. Vancouver's rebound. Reports showed a 45% year-over-year increase in sales in Vancouver in September, so we can look forward to a resurgence of that city's buyers in our local market. They came out in full force the last time Vancouver was humming.

2. First-Time Home Buyer Incentive. CMHC's plan to provide interest-free loans of up to 10% of a home's value will give many first-time buyers the help they need to enter

With fear in the market and people facing challenges selling, there will be deals

the market. This will increase demand on the lower and middle end of the market, starting a chain reaction of move-up buying.

3. Coastal GasLink and Trans Mountain pipelines. These projects are expected to bring more than 10,000 high-paying jobs to BC. When the resource sector is on, the Kelowna market comes alive.

Threats

1. An economic black swan. This is always a looming threat, but between trade wars, social unrest and threats of real wars, the world looks especially volatile for 2020. An unexpected global catastrophe would certainly be felt in the real estate market, at least in the short term.

2. Further government intervention. Stress tests, speculation taxes and foreign buyer taxes have all put a damper on the market. Anything further on a federal or provincial level could discourage investment.

How to make the most of it

Now that I've laid out these market drivers and influences, here are my predictions for Kelowna. I believe this year will see slightly higher sales volume than 2019, similar to 2015 levels. I believe the average value of a home at the median price point will appreciate by an underwhelming 2% to 4%.

The luxury housing market will continue to suffer through 2020, but it should pick up again in the next couple of years as Vancouver's and Alberta's housing markets come back to life. For the time being, there will be exceptional value in the higher end, which makes 2020 a potentially strong year for move-ups.

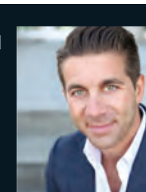
So what's the ideal tactic for investors looking for yield in an uncertain, fearful, lending-challenged 2020? I recommend advertising or letting your agent know that you can offer cash for homes in exchange for a discount of at least 10%. Be patient here. With fear in the market and people facing challenges selling, there will be deals. The best deals will come with the opportunity to force appreciation by completing simple renovations.

Once you've bought a property at a nice discount and added value through some cosmetic updates, it's time to complete the circle and provide a housing solution for the many people who can't get a mortgage today. That's right: rent-to-own.

The primary benefit of RTO for an investor is that you'll get above-market-value rent and a cash deposit that mitigates vacancy risk. Best of all, you get to transfer the carrying costs – repairs and maintenance, property taxes, insurance – onto the new owner-in-training. This provides positive cash flow for a two- to three-year term. Afterwards, you'll sell the property at a predetermined markup, usually 10% over what fair market value was at the outset of the agreement.

With this strategy, you can create an equity margin of 25% – and that's without taking into account any forced appreciation on renovations or the rental cash flow of 8% to 10%.

This is the exact play I'll be using in the Kelowna market through 2020. I've even created a limited partnership with the purpose of executing this very strategy en masse for investors interested in maximizing their returns in the city, which remains a great place to park your money in 2020. ■



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CREATING A CASH COW

If you have $500,000 in equity built up in your primary residence, Vantage West's **AJ Hazzi** says the world is your oyster. He shares three strategies for cracking it open

According to Canada's latest census, 67.8% of Canadians own their own homes. If you've worked hard enough to count yourself among Canada's homeowners, congratulations – you own one of the most desirable assets in the world.

As we begin a new decade, interest rates are at all-time lows, and the US Federal Reserve and the People's Bank of China are racing to out-print one other to avoid a cataclysmic debt default. This means the era of 'easy money' is not quite over. In an easy-money economy, hard assets like commodities, precious metals and property become increasingly valuable.

With major equities trading at all-time highs, corporate earnings in decline and Trump's trade shenanigans ongoing, it's never been riskier to enter traditional financial markets. While I'm sure your financial advisor would love it if you bought more commission-generating stocks, I'd like to present a strategy that can better capitalize on the low-interest era and generate passive investment returns through your golden years.

The equity optimization manoeuvre

If your home is valued around $1 million and you've paid off at least half of that, you're now sitting on a $500,000 home equity nest egg. Now is a good time to put your biggest asset to work. To illustrate, here's a real-life case study of a couple from BC's Lower Mainland, Gordon and Cathy, who realized their dream of retiring comfortably in the Okanagan using just $500,000 in home equity.

Gordon and Cathy owned a Coquitlam property valued at $1.2 million with $300,000 left on their mortgage. After their kids moved out, Gordon and Cathy found they no longer needed a 3,000-square-foot house on a quarter-acre property – and they've always had their minds set on retiring in the Okanagan.

They found a beautiful new 1,800-square-foot townhouse in vibrant South Pandosy Village with an asking price of $750,000. Using the $1.2 million sale proceeds from their Coquitlam house, they paid off their remaining $300,000 mortgage balance and moved to Kelowna, flush with $900,000 in cash. By negotiating a cash discount on their new townhome, they took possession with $200,000 in cash left in the bank.

So far, so good – they made it to the Okanagan debt-free. There was just one problem: Their monthly cash flow was inadequate to live the lifestyle of their dreams. Owning their own home felt nice, but they were left wondering if there was a better way forward. Cathy and Gordon happened to read an article of mine and contacted me for some advice. We sat down together to map out their options.

> If you've worked hard enough to count yourself among Canada's homeowners, congratulations – you own one of the most desirable assets in the world

The plan

The first step was to unlock the huge chunk of equity tied up inside their largest asset, their home. Owning your own home is great, but it produces zero cash flow. In fact, homeownership costs you money in property taxes, home insurance and upkeep.

Gordon and Cathy were a little old-school; they didn't like the idea of using leverage, but they eventually decided that investing a piece of their home equity in high-yield instruments made good financial sense. This way, they would still own their home and benefit from an appreciating housing market while being free to make cash-producing investments.

Given the Okanagan's growing population, low mortgage rates and the strength of the local housing market, they decided to buy an investment property in Kelowna.

The problem

Gordon and Cathy were no longer working, which means they couldn't qualify for a new mortgage or a bank line of credit. Was this a dead end?

Hardly. I introduced them to a lending product through the chartered HomeEquity Bank that was created specifically for Canadians looking to improve their lives in retirement. The CHIP program lets Canadians access up to 55% of their home equity without paying any monthly payments – you read that correctly – until the property is either sold or passed on through their estate.

They qualified instantly for a $250,000 loan at a deferred 5% interest rate, which they used to purchase an income-generating property in Kelowna. These were the three options I mapped out for them:

1 A VACATION PROPERTY. The couple set their sights on a short-term rental property for $375,000 at Playa Del Sol, just down the road from their Pandosy townhome. They bought the property with 65% down using the $250,000 loan. Net of expenses and management fees, their vacation property generated more than $30,000 in cash per year.

A side benefit of owning this vacation property is that they can list it for rent on HomeExchange.com in the shoulder seasons of early June and late September, which lets them earn credits toward stays at member properties anywhere in the world.

2 A SMALL APARTMENT BUILDING. The advantage of multi-unit investment properties is that they're financed using the bank's commercial lending department. The decision to lend has much less to do with the borrower's income and more to do with the income potential of the asset.

Typically, these properties are leveraged at 25/75, meaning Gordon and Cathy's $250,000 loan would provide $1 million in investment capital. In this range, a turn-key building like a six-plex can easily rake in $80,000 to $90,000 per year in rent for an 8% to 9% cash-on-cash return.

3 A HANDS-OFF INVESTMENT. A private equity fund called Cash Offer Canada buys distressed properties, fixes them up to force appreciation and markets them as rent-to-own opportunities for purchasers who need a leg up toward homeownership. The fund targets 18% to 20% annual returns with a consistent hurdle rate of 12%.

Gordon and Cathy appreciated the idea of a steady $30,000 annual cash flow and watching their capital grow in the diversified fund. But what they liked most about this plan was not having to take out a new mortgage or do any property management.

Armed with knowledge and a willingness to do the uncommon, Gordon and Cathy were able to generate enough cash flow to enjoy life in their dream retirement spot. You might remember that they still have that $200,000 left over in the bank, too. It's a good thing, because their kids just called – they need a loan so they can make a down payment on their first home. ■

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