

Investment Property ROI, Secondary Suites & More: Dirt goes up in value... buildings go down

There are many factors to consider when supporting your real estate goals & strategy.

When it comes to rentals: 3 factors that have impact on your mid to long term equity as well as short term/Cash flow are: Rent (**income**); Purchase price plus improvements & maintenance (**cost**); Appreciating & depreciating assets (**equity**). *The latter's impact is often underestimated.*

The "ballpark" scenarios here intend to illustrate the potential impact of rent value vs equity factors: In the current market a nice reasonably appointed 1000-1100 ft bungalow (\$350k) in an "ok" area may get \$1800-2000/m; One for \$275k-325k may rent for \$16-1800/m. I know firsthand of examples valued at \$300-350k getting \$2000/m plus utilities for the past 5 years & right now.

Many prefer a rental with a legal 2ndary suite (valued at \$400-500k), netting \$24-2600/m as a good return / better investment vs. the "single family bungalow". Thought being: There is higher potential for income with diversification.

There are many factors that drive the risks/rewards that should be considered when deciding for yourself (including the effort to rent to 2 groups vs 1 for effectively the same ROI at a higher cost). Be it Single Family or 2ndary; What the cost & rent will be are critical, but what does that look like?

Purchase cost	rent / m	annual rent	annual gross return on investment	
\$ 200,000.00 SFD*	\$ 1,400.00	\$ 16,800.00	8.40%	* \$200k (+/-) SFD may not be realistic in current markets. SF Attached / Condos may net similar cash-flow returns. Long-term equity may vary based on economic factors
\$ 300,000.00 SFD	\$ 1,800.00	\$ 21,600.00	7.20%	
\$ 400,000.00 2ndary	\$ 2,400.00	\$ 28,800.00	7.20%	
\$ 450,000.00 2ndary	\$ 2,650.00	\$ 31,800.00	7.07%	
\$ 500,000.00 2ndary	\$ 2,900.00	\$ 34,800.00	6.96%	

Is the 2ndary suite really a better option? More work to rent to 2 parties, potential for higher turnover & all the work that comes with prepping to re-rent vs the benefit of diversification – it's your call

Now for the impact of what appreciates vs depreciates on your investment:

Dirt goes up in value - buildings go down... (at least without reinvestment/force majeure /economic impact)

2 examples using same land value & 1 home value \$100k the other \$200k. CRA's "building" depreciation: -4% / year. Long term historical real estate returns are in the 5-7% (applied to land only in this scenario):

Depreciation of Buildings -4%	Year 1	Year 2	Year 3	Year 4	Year 5	5 Year total	Net change: land increase less Building depreciation
\$100,000	\$ 96,000	\$ 92,160	\$ 88,474	\$ 84,935	\$ 81,537	-\$18,463	\$22,980
\$200,000	\$192,000	\$184,320	\$176,947	\$169,869	\$163,075	-\$36,925	\$4,517
Appreciation of Land 5%*	Year 1	Year 2	Year 3	Year 4	Year 5	5 Year total	*Appreciation of Real Estate values include other economic factors & impact of depreciation & appreciation based on improvements (to land & buildings)
\$150,000	\$157,500	\$165,375	\$173,644	\$182,326	\$191,442	\$41,442	

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This may well impact your long-term results. That said; When considering your specific situation – consult your accountant / tax consultant. For some investors, higher depreciation value may bode well at time of disposition.

Example Applications (condition of properties & related maintenance costs vary & can impact results):

- **With a budget of \$500k:** If you buy 2 houses at \$250k each & rent for \$1600/m you may better your ROI via improved income, occupancy rate & equity growth... Buy 1 for \$250k & reno (if your handy/have access to super cheap support) using DIY options, spend \$50k to a total of \$300 invested with a closer to \$75+k impact). Rent for 2000/m to get an 8% annual return & find your diversification from a lower cost condo / other options (after maxing your RRSP's etc).
- **Many strive for the best of both; cashflow and future equity.** If you can buy 2 lower cost SFD's (as possible) at \$200k each & rent for \$14-1500. You may get the best of Annual Income & Equity too. There are many paths to "ROI" & more choices exist in both single & multifamily markets (for improved risk diversification).

It can be a "game of inches" that generates the best results in the long run. Beyond the obvious sage wisdom like: keeping total cost / purchase \$ low & a focus on marketability of the property (rent for more based on location & features); **High "land to building value" ratios can be a prudent bellwether.**

That said, some may prefer alternatives based on their goals / income / tax positions (i.e. cash now vs equity later, capital gains at disposition, level of maintenance you're comfortable with, etc.).

What's most important? You make informed decisions for what's best for you based on your goals, needs, risk tolerance, time, effort & skillset. Get as much info from trusted reputable sources when forming your plans right through to the execution of all actions.

Contact me any time to discuss!

John J Fraser

REALTOR®

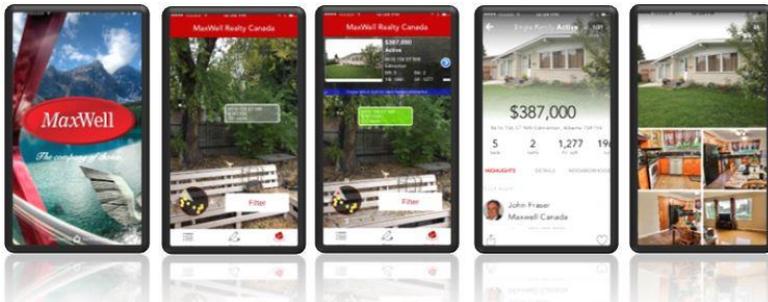
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