Bob Bracken CASE STUDY

Good Investments Often Made NOT Found

(originally published in 1999, updated to 2018) By Bob Bracken

The following Case Study illustrates that Sellers may not want to be tied up with long completions and will look at all offers as to when they would best receive the sell proceeds and their price. It is always the story to have your financing in order to be ready to compete with what you can afford and thus can compete and win against offers that turn out to be higher in price but with longer terms. This case study was done originally in 1999. Below is a brief summary update regarding value performance for this property to 2017.

Sale/Purchase Price June 1999: $780,000
Current Assessed Value 2017: $3,738,100
Capital Appreciation Factor 9.6%/annum:
Gross $$/Wealth Gain: $2,958,000
(Not including mortgage balance pay down by tenants/income.)

Cash Flow Gain - Wealth Gain: This Wealth Gain does not include mortgage balance pay down by tenants/income, and the cash flow returns which would increase each year as rental rates increased. The original mortgage balance of $585,000 would have been paid down to approx. $260,000 if mortgage rates remained at 6.5% over the ensuing years, adding $325,000 to the Buyer's Wealth Gain. Given the decline in mortgage interest rates, it is possible that the entire mortgage balance would have been paid off if the original mortgage payment schedule was maintained. Current rental rates in this area indicate current monthly gross income in the range of $15,000/mo or over $180,000/yr, creating very high net cash flows to the Owner.

The Buildings: Two "Duplex Buildings", with a total of 4 three level (including full basement) townhouse units. Each of the units is totally self-contained with its own hydro and gas meters, hot water tank, furnace and laundry hook-up. The units are just over 1600 sq.ft., for a total building area of 6500 sq.ft. The buildings are very plain and about 60 years old, but are in reasonable condition with no pressing maintenance issues. The basements are mostly unfinished and have further development potential.

The Land: is a 66'x115', RM-4 (Multifamily) zoned, corner lot in the Kitsilano neighbourhood of Vancouver. The RM-4 zoning allows for redevelopment of the property to a multifamily building of 8 to 14 units, and up to 10,800 sq.ft. of floor area. The neighbouring properties had recently sold (for $135 PSF) and a large condo development has been built.

Replacement Cost: Land prices for similar types of property in the area had ranged from about $110 PSF to $135 PSF. Building costs under current City code would be about $100 PSF. Total replacement cost would be about $220 PSF or ($220 x 6,500 sq.ft.) = $1,430,000.

The Revenue: 2 of the units were rented at an "under market" rate of $1,100/month, while the other 2 units had been brought to "market rents" of $1,400 and $1,500 for a total monthly income of $5,100, or $61,200/yr. The units are fully self-contained, there is no common area maintenance and the tenants pay all utility costs. So expenses are quite low - after taxes, gardening, garbage removal and maintenance, yearly expenses are about $12,500/yr.

The Sale: The property was listed for $875,000 and sold for $780,000. Offers were received from developers planning to build a new multifamily project, at a higher price than the eventual sale price. These offers were marred by the requirement for lengthy "tie-up" periods, and other conditions unattractive to the seller. The successful buyer is an investor who plans to hold the property.

The Financing Analysis: The buyer received a mortgage for 75% of the sale price ($585,000), at 6.5% interest with a payment of $3918/month or $47,000/yr. The Setup:

Gross Yearly Income: $61,200
Less Expenses & Reserves: (12,500)
Cash Flow from Operations (CFO): $48,700
Less Financing Costs (FC): (47,000)
Cash Flow after Financing (CFAF): $ 1,700

- Return on Assets (ROA): $48,700/$780,000 = 6.25%
- Financing Cost (FC): $47,000/$585,000 = 8.03%
- Return on Equity (ROE): $1,700/195,000 = 0.87%

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The "Upside": The buyer purchased an "easy care" property in good condition at a price close to "land value". The property was "under rented" and the units contained "unimproved" space in the basements, allowing the buyer to add value immediately. By renovating the basement areas and adding a bathroom and bedroom at an estimated cost of $10,000/unit, he should be able to increase rents to a total of $1,700/unit. If he finances these reno's at the same rate as his purchase, his "New Setup" looks like this:

Gross Yearly Income: $81,600
Less Expenses & Reserves: (12,500)
Cash Flow from Operations (CFO): $69,100
Less FC ($625,000 @ 6.5%): (50,240)
Cash Flow after Financing (CFAF): $18,860

- Return on Assets (ROA): $69,100/$820,000 = 8.43%
- FC: $50,240/($585,000+$30,000) = 8.17%
- ROE: $18,860/$205,000 = 9.20%

Basic Real Estate Tips and Principles worth repeating:

- Buy Something Sooner Than Later.
- Getting an acceptable deal is more likely to create wealth than waiting for the "perfect deal".
- Great deals, in a strong market, are usually "made", rather than "found" - or delivered.
- If you want inflation and amortization schedules to work for you, you have to give them something to work with and time to work.

Is there anything you want to know regarding real estate, please contact Bob Bracken at
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