

# Bob Bracken



## CASE STUDY

### Real Estate Is An Expanding Investment

(originally published in 2001, updated to 2018) By Bob Bracken



The following Case Study illustrates one of the most compelling reasons for buying and owning rental investment real estate is the phenomena of expanding value and expanding return on investment. This occurs as a well bought and well maintained property experiences income growth and decreasing debt over the investment period.

As rents increase (modestly) year to year, and mortgages are paid down on a regular, escalating basis, the prudent and patient investor can watch while other people (tenants) work to pay off his/her property - bought (largely) with other peoples' (the bank's) money. This case study was done originally in 2001. Below is a brief summary update regarding value performance for this property to 2017.

Sale/Purchase Price Nov 2000: \$427,500 Current Assessed Value 2017: \$2,387,000 Capital Appreciation Factor 11.3%/annum: Gross \$\$/Wealth Gain: \$1,959,000 (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. 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, adding \$337,500 to the Buyer's Wealth Gain. Current rental rates in this area indicate current monthly Gross Income in the range of \$65,000 - 80,000/yr, creating very high net cash flows to the Owner.

**The Property:** A legal 6-plex containing 3 X 1 bedroom suites and 3 bachelor suites in a well

maintained building, with an area of approximately 3650 sq. ft. (including laundry, storage, mechanical areas etc.) It sits on a 50" x 124" RT-6 zoned lot approximately 2 blocks to Vancouver City Hall. The roof is newly replaced, the drain tiles have been redone and an underground oil tank has been removed. There is a rear yard garage containing 3 separate single car bays, each with their own doors and electrical power.

**The Income and Expenses:** The current rental income is \$4,030/month from the 6 suites, laundry and garage rental. This income may be immediately increased by renting out 2 of the garage bays (currently used by the owner for storage) for \$125/month each.

Current expenses (adjusted for the latest Gas and Hydro increases) are \$10,000/year, plus an additional \$2,000/year for maintenance reserves. The Net Operating Income (NOI) is:

Rental Income (including garages): \$4,280/month Expenses (including reserves): 1,000/month Net Operating Income (NOI) \$3,280/month or \$39,360/year.

We are predicting that Net Income will increase at a rate of 3% each year over the 5 year analysis period. This assumption is supported by historical rental information from CMHC, and by the fact that Vancouver has been experiencing a flat rental (and real estate) market for several years, and is now poised for a period of higher demand. The rental increases may not be as "straight line" as the analysis shows, but will average out over the 5 year period.

#### The Investment Analysis for this Legal 6 Unit Building Vancouver B.C.

Purchase Price: \$450,000, Capitalization Rate: 8.75% Expense ratio: 23.4% Net Income (NOI): \$3,280/mo. or \$39,360/yr Gross Rent Multiplier: 8.76

**Financing:** Purchased with a \$337,500 (75% loan to value) 1st mortgage @ 7% interest, 5 year term, 25 year amortization and payments of \$2,364/month or \$28,368/year...

Down Payment: \$112,500 , Net Income (yr 1): \$3,280/mo or \$39,360/yr Closing Costs: 8,000 Less Debt Service: 2,364/mo or 28,368/yr Total Investment: \$120,500 Before Tax Cash Flow: \$916/mo or \$10,992/yr

**Summary:** Mortgage Balances & the Mortgage Pay Downs at the end of each of the 1st 5 years:

Year 1	Year 2	Year 3	Year 4	Year 5
\$332,257	\$326,641	\$320,624	\$314,179	\$307,275
\$5,243	\$5,616	\$6,017	\$6,445	\$6,904

#### 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 604-220-2035 cell 604-263-2823 office bob@bobbracken.com email.**

