RETIRE RICH

CREW asked investors to provide four practical strategies for making $50,000 a year from a thoughtfully assembled real estate portfolio. One of them could be your path to what we're all hoping for: a prosperous, worry-free retirement

For a period of life that so many of us are looking forward to, retirement provokes a significant amount of anxiety among Canadians. Our golden years are meant to be a time of relaxation, reflection and reclamation, but none of these rewards comes for free.

Achieving serenity, or even a basic level of comfort, in retirement is no longer something most of us can take for granted. And the reason is as simple as it is painful to admit: not enough money.

By the time most of us are ready to retire, that nebulous thing we've been told to chase for 40 years – the idea of financial independence – remains as elusive as ever. And as more and more people drift toward cities where exorbitant living costs are the norm, the amount of savings put aside for retirement will inevitably dwindle.

That's scary news, especially when you consider just how much you'll need to retire comfortably in the coming years. In a survey released by CIBC in February 2018, baby boomers and gen x-ers estimated that they would need to save $518,000 and $842,000, respectively, in order to retire. Of that cohort, 32% said they currently have no retirement savings, while 49% had saved less than $250,000.

As the cost of living rises, life expectancies increase and the number of company pension plans shrinks, most Canadians will need to consider an alternative path to a dignified and fulfilling retirement. *CREW* is pleased to provide four in this edition of Retire Rich.

This year's contributors, some of our most trusted and knowledgeable experts, took on the challenge of using real estate to generate an annual post-retirement income of $50,000. Each of these strategies will require patience, but they are all practical, attainable and, in the hands of a prepared investor, potentially life-changing.

If you're one of the millions of Canadians worried about what your retirement is going to look like, *CREW* hopes that one of the following strategies can help relieve the anxiety you're feeling. Let's get to work turning that pressure into pleasure.

Thomas Bagogloo

RETIRE RICH BY INVESTING IN HALIFAX

Thomas Bagogloo, one of Re/Max's top agents in Eastern Canada, shares two options for investors targeting Halifax for a retirement-focused real estate strategy

In recent years, the Halifax real estate market has been catching the attention of many investors, both from other provinces and other countries. Our city is blessed with several features that make it attractive to investors: It is a major port, naturally beautiful with impressive historic architecture, home to multiple universities and colleges, and is the business hub for Atlantic Canada.

Halifax is also a vibrant city whose unique energy and culture attract high numbers of immigrants, international students and retirees, who exert continued pressure on the local vacancy rate and keep investment properties tenanted.

All of these factors – not to mention the affordability of the real estate here – make Halifax one of the best rental markets in the country and an excellent option for investors putting together a real-estate-based retirement strategy.

Getting started

There are two investment strategies that work well with Halifax's intriguing demographics. The first is investing is a residence zoned for two units; the second involves purchasing a two-bedroom downtown condo and renting it to students or young professionals.

Both strategies allow you to diversify the type of real estate you're investing in, target high-demand renters and take advantage of the city's low vacancy rate. (CMHC pegged it at a meagre 1.6% in its most recent housing survey, only 0.5% higher than Toronto's.) Furthermore, these strategies can provide great opportunities to achieve a passive income of $50,000 per year after retirement with an investment horizon of 15 to 25 years.

STRATEGY 1 **Purchase a residence with two units**

Because the downtown core of Halifax is a short commute from so many surrounding communities, a residence with the zoning to add a second unit is an ideal investment. There are many sought-after neighbourhoods full of bungalows and split-entry homes that permit a second unit. The basement can be developed or renovated to add an additional modern unit.

The key is to focus on a sought-after neighbourhood near a bus route, schools, parks, shopping and amenities. This type of investment will attract all types of renters, but particularly retirees and young couples.

Let's take a look at a fairly typical example. You purchase an appropriate property for $260,000 and budget $40,000 to renovate it and add a second unit. You've put 20% down and secured a 15-year mortgage at 4%. Assuming a 3% annual increase in the property's value, the property will be worth $467,400 in 15 years when the mortgage is paid off.

Rent and expenses (property taxes and insurance) are assumed to increase yearly by 1.5%. Both units would have either two or three bedrooms. Your property will be located in strong, rentable areas, so vacancy has been factored into the rent. The tenants will be responsible for snow removal and lawn care, but any remaining maintenance will be an expense from your overall income – and will be a good deduction in your higher-income-earning years. Taxes and insurance are estimated at $2,500 and $1,675 per year, respectively.

RESIDENCE WITH TWO UNITS	
Purchase price	$260,000
Renovation costs	$40,000
Total costs	$300,000
Value in 15 years	$467,400
Monthly rent	$1,125 for upper unit and $1,000 for lower

ANNUAL INCOME AND EXPENSES		
	Today	In 15 years
Rent	$25,500	$31,880
Property tax	$2,500	$3,125
Insurance	$1,675	$2,095
Mortgage	$21,255	PAID
Total expenses	$25,430	$5,220
Total annual net cash flow	$70	$26,660

After 15 years, this investment strategy offers a net cash flow of more than $26,000 per year based on the assumptions in the analysis on the previous page. Now that Halifax has moved into a growth cycle, there's even greater upside in both income and capital gains. The increase in value is estimated at almost $170,000.

With the purchase of just two of these investment properties, your total equity in 15 years would be almost $1 million, and that's in addition to the more than $50,000 in net cash flow those two properties would be generating. Not too shabby for having only made two purchases.

STRATEGY 2 Downtown condo near the universities

Halifax has a high concentration of universities and colleges on the Peninsula, our bustling downtown core. Many students come from abroad, which provides a strategic investment opportunity to focus on these potential renters, as well as young professionals wishing to enjoy the benefits of downtown living.

Historically, the highest property value increases have been seen on the Peninsula and in downtown Halifax. However, the Peninsula is also more expensive than the rest of Halifax, so in this scenario we'll assume a purchase price of $400,000. To increase cash flow, you'll need to put down 35% and secure a 25-year mortgage at a 4% rate. Assuming a 3.5% increase in yearly property value, this two-bedroom condo will be worth approximately $945,300 (an increase of $545,300) in 25 years when the mortgage is paid off. The monthly mortgage payment would be around $1,368 a month.

Rent and expenses are assumed to increase yearly by 2%. Rents may range between $1,800 a month and $2,500 a month, depending on the unit and whether it's furnished. (With a furnished unit, the associated costs could be expensed during your higher-income-earning years, as could any updates made prior to your retirement.) We'll assume your condo is achieving rents of $2,250 a month.

If you choose to purchase with a lower down payment, 20% for example, you would incur a monthly shortfall that could be a tax write-off during your higher-income years, but this will help you build equity and capital gains for the future. Your condo will be in a highly desirable area, so vacancy has been factored into the rent.

DOWNTOWN CONDO	
Purchase price	$400,000
Value in 25 years	$945,300
Monthly rent	$2,250
ANNUAL INCOME AND EXPENSES	
Rent	$27,000
Property tax	$4,000
Insurance	$350
Condo fees	$6,300
Mortgage	$16,416
Total expenses	$27,066
Total annual net cash flow	-$66
Total annual net cash flow in 25 years (when mortgage is paid off)	$26,800

> Now that Halifax has moved into a growth cycle, there's even greater upside in both income and capital gains

Many landlords facilitate the demand for student rentals by offering a combined lease to students on a per-room basis. This is especially attractive to graduate and professional students.

Condos can be a bit more costly in terms of the required down payment in order to break even on income versus carrying costs. However, the ease of management and the additional consideration of having exterior maintenance included in monthly fees when compared to a freestanding investment property such as a single-family home can outweigh the additional burden, especially for out-of-province investors.

The growth in Halifax values is expected to rise over the mid- to long term. Securing real estate on the Halifax Peninsula, near the universities and downtown, is a great long-term investment that will pay dividends after your retirement.