REAL ESTATE RETIREMENT STRATEGY

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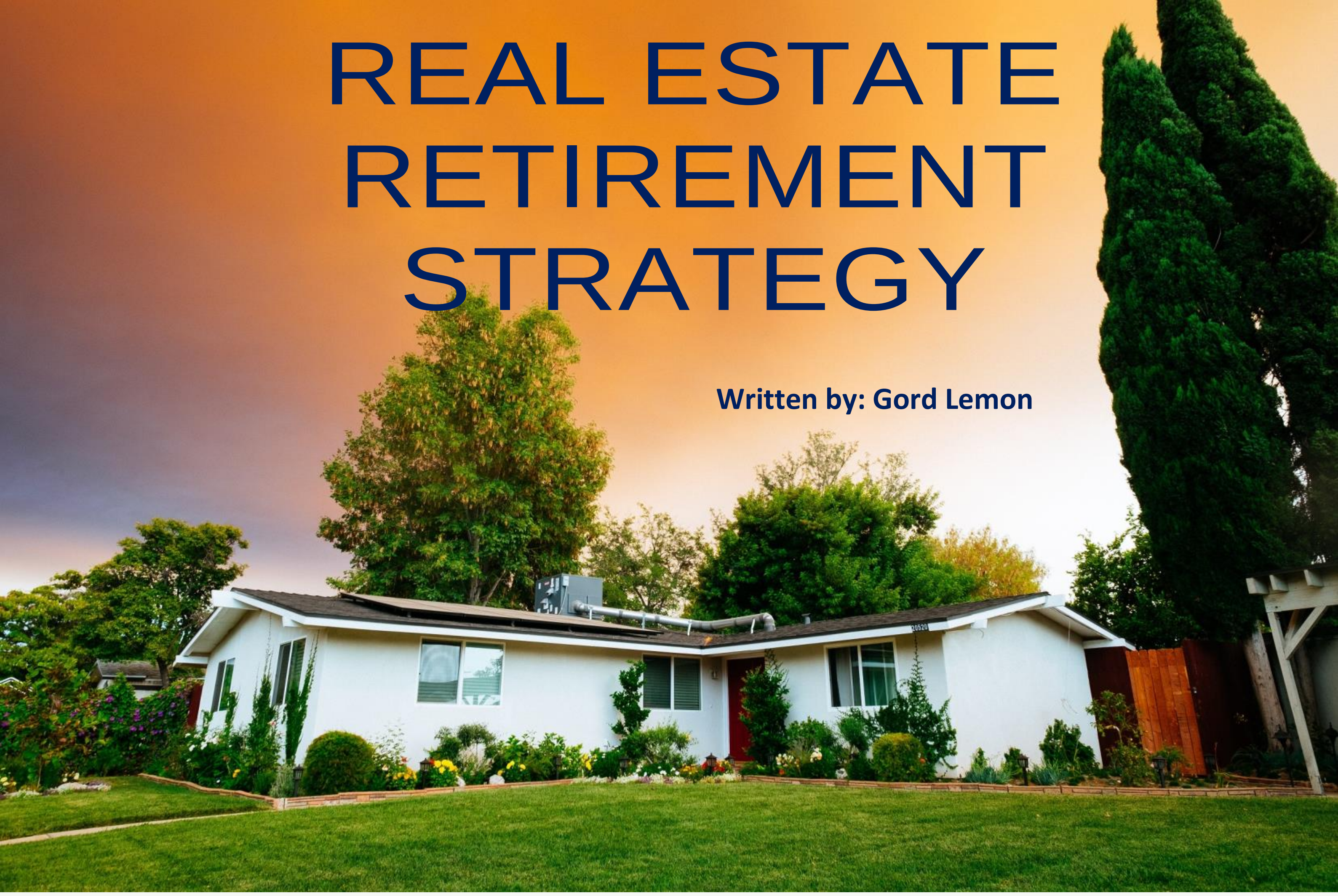


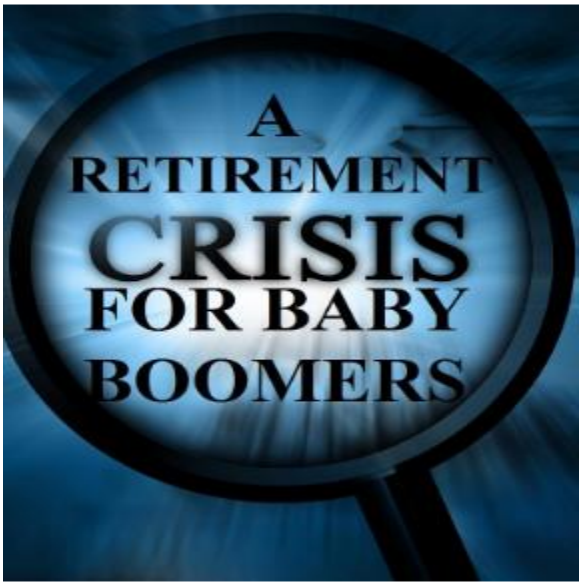
The BIG Question

As one starts looking at their life and ultimately their retirement, some questions ultimately arise. Of course there are the philosophical questions which I will not tackle, but there are more practical questions and concerns.

For many, the BIG question, and often biggest fear is: Will I outlive my money? According to the latest medical stats, the average male will now live until 80 and a woman until 84. That’s the average. 50% will live longer to perhaps 90 or even past 100. That’s a lot of living which requires some serious $$$!!!

I think you’ll agree that all of us would like to retire comfortably. To most, this means having the ability to pursue a hobby, a sport, travel, go out for nice meals or just hangout without the looming, overarching stress of counting your pennies every time you chose to do anything which requires spending.

10,000 baby boomers in the US are turning 65 daily and approximately 1000 per day in Canada and the biggest fear for most is having enough savings. According to the Economic Policy Institute, the average retirement savings of all working age families is just under $100,000. So at even $3000 of living expenses per month, that's only 2.7 years of retirement! If you add government pension, you are able to squeeze out a few more years of retirement, but certainly not the kind of retirement most people dreaming of, but rather a penny pinching existence.



So let's change that prevailing fear of outliving your money into a retirement which is free of financial stress and worry. Picture a retirement nest egg which includes regular income produced from tangible assets coming into your bank account each and every month which not only covers your immediate expenses, but also covers a cushion which continues to build year after year. On top of that, you can have an increasing net worth of assets you can pass along to your heirs.

Owing rental real estate is an excellent investment vehicle to enhance your retirement as you can receive steady income without biting into your savings. You also can benefit from many tax advantages which accompany owning rental real estate.

The following strategy will over time, generate a handsome annual income and, depending on real estate values in your area, will likely provide you a million dollar or multi-million dollar net worth. Additionally, we use the simplest form of real estate investing, which is acquiring single family rental real estate.

This real estate investment strategy has been designed as two processes which work simultaneously...cash flow and equity building. The best part of the plan is that it is simple and you can do it part time, meaning you only have to purchase one property per year for the next five years, then simply follow the process which will be outlined below. To clearly explain this strategy, we will use simple numbers which, for ease of explaining the concept, will remain consistent for each property.

Assumptions:

The following assumptions are based on where things are at in the 4th quarter of 2018 in Canada, in terms of pricing, interest rates, mortgage rules regarding rental properties and rental amounts in urban centres.

For our example, we will use a single family house with a suite consisting of:
3 BR, 2 bath Upper unit which commands $2,750 monthly rent and,
2 BR, 1 bath Lower unit (suite) which gets $1,250 per month.
Total monthly rent: $4,000

- Average house price (with a suite): $500,000
- Down Payment: 20% or $100,000
- Mortgage Balance (at time of purchase): $400,000
- Prevailing interest rate: 3.59 (we will use 5% to account for increases over our holding period)
- Mortgage type: Fixed
- Amortization: 25 years
- Payment frequency: monthly
- Mortgage Payment: $2,326.42
- Rental income (from both units): $4,000

Working Expenses
- Property Taxes: $4,482.42 annually or $373.58/month
- Property Insurance: $2400 annually or $200/month
- Utilities (gas & electricity): $450/ month
- Water/sewer: $75/month
- Vacancy allowance: 5% of gross rent: $200/month
- Condo/Strata/HOA = N/A for our example

Total monthly working expenses: $1,223.58

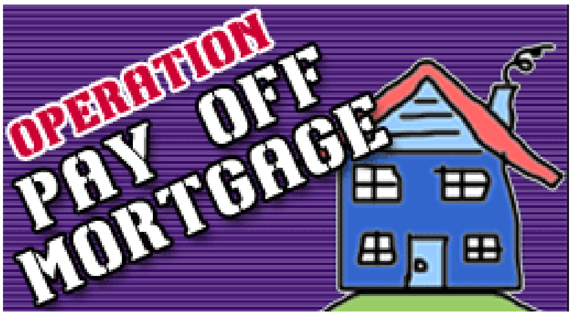
Cash flow calculation:
Monthly rent: $4,000

Less Mortgage payment: $2326.42
Less Working expenses: $1,223.58
Cash flow per month: $450 (passive income)

Building Equity

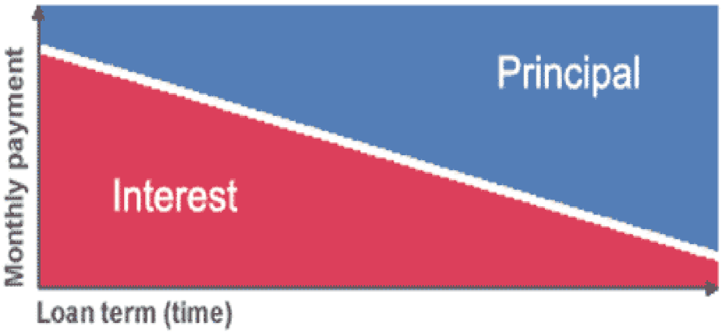
The biggest expense we pay in our real estate careers is mortgage interest. At the beginning of any mortgage, the interest portion far outweighs the principal portion. The significant factor of this strategy is to increase our profits on these 5 properties by paying the mortgage off as fast as possible.

In our example, the first year interest expense is $19,608 or $1,634 per month on average. You'll notice the lender is making around twice your profit.
The average mortgage interest on a typical residential house that runs the entire amortization ends up being as much or more that the original price paid for the property. This expense is often exacerbated by people jumping around to different lenders each time their term comes up for renewal, which results in the mortgage amortization beginning again at the highest interest cost.



Understanding how the banks make profits on your property and how to minimize it can end up saving you tens or even hundreds of thousands of dollars and as you will see in our example, pay off the property in record time.

In our example, initially there is $297,926 total interest paid for each house. That's a lot of revenue wasted on mortgage interest. The chart gives you a visual idea of what interest vs. principal payments look like throughout a typical amortization period.



You'll see how much interest we will save by illustrating the simple version of a powerful strategy, which begins by utilizing the per month cash flow as an extra payment on top of the regular payment, effectively reducing the principal balance, eliminating tons of interest charges and decreasing the amount of time you are paying the mortgage significantly.

The Plan

Year 1 .

Purchase: $500,000
25% down payment: $100,000
Mortgage Balance: $400,000
Rental Income: $4,000
Mortgage Payment: $2,326.42
Expenses: $1,223.58
Net Cash Flow: $450
Summary: $2,326.42 + $450 = $2,776.42 to Mortgage 1

Note: *We will maintain this for the first year (or combine the $450 into a lump sum payment of $5,400, depending on your mortgage terms, until we purchase Property 2 in year 2.*
We will then combine the cash flow from Property 2 ($450), add it to the cash flow from Property 1 (giving us $900) and pay the extra principal payment to Property 1's mortgage every month.

Year 2 .

Purchase: $500,000
25% down payment: $100,000
Mortgage Balance: $400,000
Rental Income: $4,000
Mortgage Payment: $2,326.42
Expenses: $1,223.58
Net Cash Flow: $450
Summary: $2,326.42 + $450 + $450 = $3,226.42 to Mortgage 1 ($900 extra towards the principal of Property 1)

In year 3, we purchase a third property, add the cash flow of Property 1 and 2, which goes as a principal payment towards the mortgage of Property 1.

Year 3 .

Purchase: $500,000
25% down payment: $100,000
Mortgage Balance: $400,000
Rental Income: $4,000
Mortgage Payment: $2,326.42
Expenses: $1,223.58
Net Cash Flow: $450
Summary: $2,326.42 + $450 + $450 + $450 = $3,676.42 to Mortgage 1 ($1200 extra towards the principal of Property 1)

This continues for 2 more years until you have acquired the 5 properties, and the cash flow from all five targeting the principal of Property 1. You will continue to pay the regular mortgage payment on the other four properties until Property 1 gets paid off…that's where the fun begins.

Year 4 .

Purchase: $500,000
25% down payment: $100,000
Mortgage Balance: $400,000
Rental Income: $4,000
Mortgage Payment: $2,326.42
Expenses: $1,223.58
Net Cash Flow: $450
Summary: $2,326.42 + $450 + $450 + $450 + $450= $4,126.42 to Mortgage 1 ($1600 extra towards the principal of Property 1)

Year 5 .

Purchase: $500,000
25% down payment: $100,000
Mortgage Balance: $400,000
Rental Income: $4,000
Mortgage Payment: $2,326.42
Expenses: $1,223.58
Net Cash Flow: $450

Summary: $2,326.42 + $450 + $450 + $450 + $450 + $450 = $4,576.42 to Mortgage 1 ($2250 per month or $27,000 annually extra towards the principal of Property 1)

Now it's time to rest easy, keep the properties tenanted (remember, you have been collecting $200 per month for your vacancy allowance), and let the program work for five more years.

Year 9 .

Congratulations! Property 1 is paid off! You are mortgage free! This is now where things ramp up. With **no mortgage payment** on Property 1, you now receive the entire cash flow, minus the $1,223.58 in expenses. You have also saved over $170,000 in interest by paying this off in 10 years.

This strategy ramps up as you add the former mortgage payment from Property 1 and the cash flow) and target the mortgage on Property 2.

Let's recap our Property 1 numbers:
Income: $4000
Expenses: $1,223.58
Mortgage payments: $0
Net cash flow: $2,326.42 + $450 = **$2,766.42 per month**
Cash flow from other properties: $450 x 4 = $1800.
Total monthly cash flow: ($2,766.42 + $1800) = $4,566.42

Our new target is the mortgage on Property 2. This means $2,326.42 (the regular mortgage payment on Property 2, which began in year 2) being paid, plus $4,566.42 per month going to principal or an annual lump sum of $54,797.04.

Year 12 .

Congratulations! Property 2 is paid off and mortgage free!
This strategy keeps getting more exciting as we have another $2,326.42 to add to our cash flow, which as you may have guessed, is targeting Property 3, whose mortgage began in year 3 of your strategy.

To recap, we now have $2,326.42 (the regular mortgage payment on Property 3, which began in year 3) being paid, plus an extra $6,892.84 per month or $82,714.08 annually going toward principal.

Year 14 .

Congratulations! Property 3 is paid off and mortgage free!

It certainly didn't take long to have another $2,326.42 to add to our cash flow for targeting Property 4, whose mortgage began in year 4 of your strategy.

To recap, we now have $2,326.42 (the regular mortgage payment on Property 4, which began in year 4) being paid, plus an extra $9,219.26 per month or $110,631.12 annually going toward principal.

Year 15 .

Congratulations again! Property 4 is paid off and mortgage free, only 1 year later!

Now of course we have our $2,326.42 to add to our cash flow for targeting Property 5, whose mortgage began in year 5 of your strategy.

To recap, we now have $2,326.42 (the regular mortgage payment on Property 5, which began in year 5) being paid, plus an extra $11,545.68 per month or $138,548.16 annually going toward principal.

Year 16 .

Congratulations again! Property 5 is paid off and mortgage free, only a few months later! The Strategy is complete!

It's time to reflect on what has happened over the last 16 years (other than you being 16 years older…which you would have been anyway…but you are a lot richer!)

The Downside .

I know you are excited about what your retirement will look like. We will get there, but first let's look at the downside of the strategy.

1. Total out of pocket expenses for downpayment and closing costs: $100,000 down payment per property, plus say $2,500 closing costs. So you have invested $512,500, which spread out over 5 years isn't bad. (We can discuss how to come up with your downpayments by contacting me through the contact area of the website)

2. The whole strategy takes 16 years to complete, but 16 years will come and go anyway, so you may as well be creating this retirement plan.

3. Finding property with cash flow is difficult in some areas…you may have to go outside your own geographical area to find the cash flow. A common real estate investor's motto is: Live where you want to live, but invest where the money/cash flow is!

4. Will you spend money on repairs over the years? Yep! But if you are a trained real estate investor, you will have ensured the major components of all your properties (roof, windows, furnace, HVAC, electrical, plumbing and water heater) are all in good working condition with lots of fail time left. Your repairs should then be primarily minor.

5. Will your repair costs go up? Yes, but so will your rents.

6. Will the units in the properties go vacant? For sure! However, you have allotted $200 per month per property in your expenses, so if you need to go into your fund to float a mortgage payment, that's what it's for.

The Upside .

1. In 16 years, you have paid off 5 properties once worth $500,000 each. Without calculating any appreciation over this time, that's $2,500,000 in free and clear property.

2. By using this system, you have saved over $700,000 in interest! That's money in your pocket!

3. In 16 years, these properties may have appreciated to the point of doubling in value (as real estate usually doubles in price every 7 - 10 years). For our purposes, let's say they only increase by 50%. This means you own $3,750,000 worth of paid off real estate.

4. What about the income? Ahh, here's what you have been waiting for. Based on the numbers we were using, we have $4000 of income per month and $1,223.58 of expenses per property. So that's a net income of $2,776.42 per property.
   $2,776.42 x 5 = $13,882.10 per month or $166,585.20 annually!
   Not too shabby!

Of course there are a number of other contributing factors which can accelerate this system, making it even more appealing, such as buying undervalued properties which immediately increases your equity at purchase.

Also, don't forget that this strategy can be going on whilst doing other real estate deals. If you are an active investor with a growing joint venture network, you will certainly be doing deals outside of this strategy. After all, in this strategy you are finished acquiring properties after your 5th purchase. Many investors will keep buying properties and/or doing other strategies until retirement.

If you would like to learn more about how a joint venture network happens including how to set one up or become part of an existing network, please contact us at www.gordlemon.com/contact.

Gord Lemon has been a real estate entrepreneur in Canada & the U.S. for over 30 years, specializing in renovation and value enhancement of single and multi-residential properties, rent to own properties, long term holds and commercial property ownership.

Gord has over 15 years' experience in assisting investors to dramatically increase their real estate portfolios and net worth through training, coaching and joint venturing.

Gord has shared his knowledge as a real estate trainer, coach and author to audiences across Canada, U.S.A. and the U.K.