INVESTOR DNA

Do you have what it takes to succeed as a real estate investor?

By Kara Kuryllowicz

DO YOU HAVE what it takes to become a real estate investor? Quite likely, yes! Anyone with access to cash or equity can invest in real estate, but if you want to succeed at it, understand this: it's a business.

"You wouldn't consider becoming a doctor without getting the necessary education, so before you become a real estate investor, take courses, attend seminars, find a coach or mentor, surround yourself with successful investors and at the very least, read as many good books as possible," says Michael Ponte, founder and president, Prosperity Real Estate Investments, Langley, BC. "Invest in yourself first, because you are the key factor to your own success."

Experts are overly familiar with the losses and challenges faced by rookie investors who acted without forethought and opted out of their due diligence. Sure, savvy investors can make money, but as in any business, a certain industry expertise, experience and a little good fortune are required. And even then, there are no guarantees.

"Educate yourself, but you can pay experts to do everything from finding the best property for you to managing the books and the property, while you focus on your existing career," says Nick Karadza, who co-founded Rock Star Real Estate and Rock Star Inner Circle, an Oakville, Ont.-based investment group.

In 2012, Ash Srivastava, who still owns and operates an IT consultancy, sold his first home at a profit of $80,000 just one year after purchasing it. Intrigued, he read up on real estate as an investment vehicle, then started slowly growing his portfolio. His first small rental condo proved a learning opportunity, and after the third of his now seven investment properties (in Waterloo, Mississauga, Toronto and Brantford), he joined Rockstar.

There are investors who make big money quickly, but not many who do it consistently. And if you're risk adverse and want to protect your earnings, the strategy known as "buy, hold and rent" is the best route. The "fix and flip" method is rife with risk, and even buying pre-construction condos aren't a sure thing.

Let's look at the various investment strategies

1 FIX + FLIP

High risk. It's a gamble, particularly for novice investors. Can you make money? Yes – but you need cash, expertise and luck to make it work.

"It can be profitable for knowledgeable, experienced investors, but there is a lot involved and it's not the easy money people think it is," says Karadza. "There are far too many variables – the profit margins tend to be small, so one misstep or unforeseen issue and your profit becomes a loss."

2 PRE-CONSTRUCTION CONDOS

Worth a look. A condo, particularly a studio or one-bedroom, will cost less than a single-family home, and may appreciate during the pre-construction phase.

"It's an amazing concept that has proven very successful, provided the investors selected the right building in the right city," says Sharon Golberg, president, Dash Property Management, Toronto. The company advises investors and manages property for investors who live in Canada and about 25 other countries.

Focusing on the building's appreciation during the wait time can be fun, but it's more important to consider the net post capital gain, once the capital gains taxes, realtor, legal and other fees associated with the sale have been paid.

Golberg

Karadza, meanwhile, is not a fan. As he sees it, "Why would I give someone else my money and watch my money work for them? I'd rather watch my tenant pay down my mortgage."

Banking on your condo to appreciate during the sales and construction phases could backfire or net you less than anticipated; no one knows what the future holds in a world where global events increasingly affect national and even local economies and real estate markets.

"You're gambling that the future price will hopefully remain the same or increase, but no one has a crystal ball," says Ponte, who has seen just how hard the decline of the oil and gas industry has hit Alberta real estate investors in the past 18 to 24 months.

If your down payment is limited, pre-construction may be the only way to buy, hold and rent. As Golberg notes, condos are more affordable and straightforward with predictable costs

THE GREAT CANADIAN REAL ESTATE SURVEY

We asked: How much are you willing to pay for tech and Green features in your condo?

Same as for other condos **58%**

Slightly more **41%**

Significantly more **2%**

3 BUY, HOLD + RENT

Excellent idea. Experts suggest the most successful real estate investors focus on their time in the market, versus timing the market. Buy, hold and rent is generally the experts' preferred strategy.

"Our investment strategy is 95 per cent buy, hold and rent, as we found this to be the safest strategy and more importantly, provides some of the best returns," says Ponte.

Why? If you do it properly, your tenants pay down your mortgage and cover all of your operating expenses, including property management and taxes, insurance, utilities, maintenance and repairs and even the emergency funds set aside for unexpected repairs and vacancies.

"This is my preferred property type because of the GTA's appreciation rates," says Srivastava, who typically devotes six to eight hours a month to his real estate investments, with the bulk of this time spent analyzing new opportunities. "Positive cashflow is key to my investment strategy, and to maximize the cashflow, I self-manage my local properties and pay for services as needed."

Experts highly recommend setting up to five per cent of the monthly rent aside for contingencies, and having $5,000 to $7,000 per property on hand to cover temporary vacancies, repairs and unforeseen events.

Looking at that extra cash every month, investors might be tempted to treat themselves to a motorcycle or a dream vacation, but our experts highly recommend more practical, responsible plans. For example, you can set aside a set percentage or even an entire property to fund young children's education.

While the perfect investment property may not exist, according to Karadza, there are winners and losers. Does it consistently generate positive cashflow? Will it do so over the long term?

Buy a property with positive cashflow and make sure that either you know how to analyze the deal, or that your advisors do, so that you're not kicking in $700 a month to carry your so-called investment. This is something our experts see far too frequently from inexperienced investors.

Srivastava

"I do the due diligence to make sure (properties) meet my specific criteria, and I hire professionals to tackle the cleaning and touch-ups required before showing a unit," says Srivastava. "A clean, fresh-looking unit warrants more rent and tends to attract tenants who stay longer and take better care of it."

Rather than risk a costly and stressful tenant-related error and take time and energy away from your primary career and family, outsource the property management to the professionals.

"Do you know all of the rules and regulations – do you have the interest and time required to learn the ins and outs?" asks Golberg.

As Ponte says, "If the property can't support a property manager, it's a crappy deal to begin with."

Ponte

4 BUY, RENOVATE, HOLD + RENT

Proceed with caution. Unless you get an outstanding deal on a property and have the cash to renovate, it's a risk and your return on the renovation won't be seen for so many years that by the time you're ready to sell, it will likely be time for another major upgrade.

An upgrade beyond a refresh will warrant a higher rent, which typically attracts better tenants, but know that tenants are hard on properties and their various finishes.

"After the first year with the tenants, it won't have the pristine shine, which is why I save the big renovation with the high-end finishes until right before you sell it," advises Ponte.