

# Tap into your home equity

Appreciating value and low lending rates have made the family home a key source for investment funds

In the past five years the average detached house in Greater Vancouver has increased in value by 43.9 per cent, according to the Real Estate Board of Greater Vancouver. The typical condo's value has risen 50.9 per cent.

The result is that many baby boomers are heavy with home equity in the midst of an historic period of growth in real estate as British Columbia prepares for the 2010 Olympics.

The question is how to tap into that home equity for maximum and secure returns either for immediate profit, an income stream or as part of a retirement strategy.

One of the biggest trends I've experienced as a mortgage broker is the increase in homeowners looking to leverage their equity to get into real estate investments, either through mortgage investing or direct property purchases.

Ever since 9/11 people have been looking to real estate and other hard assets in lieu of stocks. This fire has been further fueled by the lowest lending rates in nearly 50 years and a tendency towards more relaxed lending policies than in the past. Investors have more options and Canadian banks are making funds available now in more creative ways than ever before. All of this leads to more choices for the investor, but can also lead to more confusion.

## Develop a plan

The underlying question is: Do you have a plan?

Have you thought about where you want to be in five years? Are you putting your toe in the water or are you going to take a plunge? Are you going to start by buying a few rental houses and, if so, is your objective to create cash flow or long-term equity appreciation? Or perhaps you simply want to take out some equity in your house at these low rates and re-invest them through a Mortgage Investment Corp. (MIC) that can create returns from 8 to 14 per cent. Whatever the strategy, the key is knowing what you want out of it before you go in to it.

Over the past few years I've worked almost exclusively with real estate investors. I have found that those who approach real estate investment from a tactical view and have taken the time to develop a five- or 10-year plan with clear goals have greater success and have an easier time making decisions along the way. Real estate financing can be something akin to chess; the ability to plan three moves ahead enhances your ability to win. The key is knowing where you want to end up and making decisions today that position you for future opportunities.

## Mortgage investments

Part of this planning process will include looking at different options. A popular option that

a lot of investors are taking advantage of these days is to invest some of that equity in private mortgages (MIC) that will net them a return of 7-9 per cent on a first mortgage and as high as 14-15 per cent on a second mortgage.

This would be a fairly simple and rather safe investment in that it is secured by a mortgage and can provide the investor a solid return without venturing into the stock market.

For novice investors looking to invest in a MIC, I recommend they do their homework and only invest in a larger pool. A MIC that has a pool of \$50 million or so invested will not be affected by the odd deal going south and you as the investor should not be impacted on a month-to-month basis.

Just remember when investing in second mortgages, the ratio of risk and reward. The reason you're being offered higher interest rates is because it's a second mortgage and, as such, the risk is higher. The end borrower may also have a poor credit history. The key is to educate yourself on the options and then make the decision.

## Income property

For those looking for high returns, investing in properties may be the answer. The investment approach would be to go for cash flow or equity appreciation. Ideally they would get both, but not necessarily. Once this is determined, our typical investor will want to leverage the equity in their property. This is where a lot of people make their first mistake. I appreciate getting a call from a client before they take the equity out of their home because even a simple thing like a line of credit should be done within the context of your overall plan.

## Line of credit

A perfect example of this is the couple who want to buy enough rental properties over the next five to 10 years to allow themselves to retire.

The first thing they discover is that the typical lender is going to require 25 per cent down on most revenue property purchases. Simple math would lead you to deduce that if you had \$100,000 that you were able to get out of your home in equity and this is what you were using for your down payment, then the maximum revenue property you can purchase would be \$400,000. If your goal was to buy four properties over the next five years and you spend the full \$100,000 that you had in equity on the first property, how will you achieve your goals? In this example, I would look into which lenders offered a line of credit that increased every time I made a payment on my principle balance. In setting up the line of credit in this way, we could do two things.

1. We could access the money we need today, and

2. We could build into the line of credit an ability to have a replenishing supply of future funds available for future purchases.

By structuring your line of credit in this fashion, you would eventually end up with a zero balance on your mortgage and the full amount would be in the form of a line of credit for which the interest, since it is being used for the purchase of revenue properties, is tax-deductible.

The main advice to those starting out: Make a long-range plan, decide what you want from your investment strategy, get expert advice and go for it. ♦

Study  
the  
options  
then  
decide



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