

WHAT IS LEVERAGING?

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Leveraging involves investing a small amount of your own money and borrowing the rest. We've all made leveraged purchases at some point: homes, cars, RVs, boats. Why is leverage a good thing?

DEBT ISN'T ALWAYS A BAD THING



If you are borrowing money to earn money, it can be used as a wealth creating tool. Use your money to make money. Leveraging means making a profit on the money you borrow, and using that profit to cover the interest you pay while still putting money in your coffers.



WHY LEVERAGE REAL ESTATE?

Most people don't consider real estate as a means of creating wealth unless it involves renovating a property to increase its value. Real estate can be leveraged just like any other asset and provide you with a better return than you ever imagined. It is an excellent way to create passive income and long-term wealth.

HOW CAN I BENEFIT FROM REAL ESTATE LEVERAGING?



APPRECIATION:

Both your principal residence and the property you leverage to buy will appreciate.

If you have \$10,000 to invest in a property, you can use that to borrow \$90,000 from the bank. You now have \$100,000 to buy a property. For the sake of this example, your property value increases, or appreciates, 5% per year (The appreciation rate for the GTA area can be much higher than this). Appreciation is calculated on the entire amount of the asset and not just the money that you put in. So, in the first year your property is worth \$100,000 plus the 5% appreciation (\$5,000) = \$105,000. If we continue these calculations for five years, you can clearly see the benefit.

FUN MATH

Year	Appreciation	New Value
1	\$5,000.00	\$105,000.00
2	\$5,250.00	\$110,250.00
3	\$5,512.50	\$115,762.50
4	\$5,788.12	\$121,550.62
5	\$6,077.53	\$127,628.15



While all borrowing involves some risk, wise investors minimize it and pay attention to their money.



Budget for maintenance costs, and set aside emergency funds in case revenues fall short.



PASSIVE INCOME:
Your tenants pay rent, covering all your expenses and putting money in your account.



TAX BENEFIT:
You can deduct mortgage payments, as well as many property related expenses.



FORCED SAVINGS

Rather than sticking your money in something with little return, think of leveraging as a means of forced savings for retirement. Invest a lump sum of borrowed money into real estate, watch your money start working for you right away and enjoy tax benefits from now until you decide to retire.

HIGH RETURN ON INVESTMENT:

Extra money used to buy a property is earning you money.

SHOW YOUR WORK!

Homeowner A puts \$50,000 down and buys a house for \$250,000. Homeowner A does not concern themselves with paying down the mortgage. They put their extra money into investments instead.

Homeowner B buys the home outright with \$250,000 cash. Both houses go up in value by 4% per year and both homeowners pay 25% in taxes. **So who ends up ahead over 30 years?**

Homeowner A: Initial Value of asset \$250,000

4% appreciation over 30 years – new value for property \$560,849

8% Return on investment of \$200,000 for 30 years \$480,000

Less 25% taxes (\$120,000), Current net worth \$920,849

Homeowner B: Initial Value of asset \$250,000

4% appreciation over 30 years - new value for property \$560,849

Current net worth \$560,849

HOMEOWNER A is the winner for leveraging the investment to earn revenue!



HOW DO I START?

Our strong real estate market and low interest rates on borrowing make leveraging an attractive option. If you want to know more about leveraging, please feel free to call me to discuss your options.