

Why becoming a landlord can pay off



Rubina Ahmed-Haq talks of her best financial decision. She and her brother bought a triplex house in the Greenwood and Gerrard area. They were able to make enough money through various investments to buy other places but she still rents out her original house.

When I started my first permanent job as a journalist in 2004, I made the best financial decision of my life — I invested in two rental properties with my brother. While many of our friends were living in chic condominiums, we were chasing tenants for rent and fixing leaky pipes.

We made mistakes that cost us time and money, but years later we're financially ahead.

Our first investment was a triplex in east Toronto. We took the lowest available five-year, fixed-rate mortgage. Considering the low interest-rate environment that followed, a variable rate would have saved us more than \$20,000. But at the time, we were unwilling to take the risk.

With no time or money to renovate, we chose a house that was in move-in condition. It closed at the beginning of the month, giving us enough time to advertise and have renters in place before the first mortgage payment was due. We moved into one unit and rented out the other two.

From the beginning we paid rent. After all, we were tenants in our investment. Eighteen months later we took equity out of the investment and bought another property in the same area. We stuck to what we knew and we bought another turnkey triplex.

For the first three years we managed both properties, which was a lot of work. From taking calls in the middle of the night when the furnace broke to the death of a tenant, this was real work and we often thought of quitting.

We also made a lot of mistakes. In the beginning, we didn't keep a good account of the money we spent on our investment. Also, we missed opportunities to write off expenses; we saw our tenants as friends and were lax in collecting rent. And we often spent weekends removing snow and throwing out garbage that was piling up because we had failed to create a system for general maintenance. And, as bad as it sounds, our biggest mistake was borrowing money to put down a responsible 20 per cent on our first property. At the time, 5 per cent would have been enough, and we could have written off the mortgage interest, saving thousands.

After a few years of managing on our own, we sought professional help. We had both moved into our own homes, so we hired a property manager to oversee the six units. His company charges 6 per cent of total rent revenue collected each month. He finds the tenants, does the credit checks and deals with the day-to-day calls.

We're not out-of-touch landlords. My brother and I meet once a month to go over our account, do the checks and balances and bring up any concerns. We also have a line of credit against our investment. This is our business line and we pay all the bills from it. The interest on this loan is tax deductible and we pay it down with the money collected from rent. It's also good to have one accountant looking at all the tax claims in your family. It gives them a holistic view of your financial situation and helps identify opportunities to save money. Ours is great. She's not cheap — last year I paid more than \$800 in fees — but her advice has saved us thousands over the last few years.

When the time came to renew our first mortgage, I quickly learned banks offer better treatment to new customers and we could take advantage of this fact. Mortgages are banks' biggest business, and they're willing to offer huge incentives to make you a client. We moved our business from one major bank to another and collected thousands in cash-back incentives.

Both of us are in our 30s and we estimate the properties will be paid off by the time we're in our early 50s. Conservatively our real-estate agent says our houses are worth 45 per cent more than what we paid. We realize we've benefited from the housing price boom, but according to the Toronto Real Estate Board the long-term trends are still good. Even with the threat of a house price correction we're okay.

Real-estate investment is not for everyone. If you're a so-called couch-potato investor, don't become a landlord. In the beginning it's a lot of work. But for us it was worth it and I feel good knowing our investments are growing.

Life only gets more expensive — I realize now the disposable income I had during my first job was the most I will probably ever have and investing it was the smartest move I made.

Source: <http://www.moneyville.ca/article/1032143--why-becoming-a-landlord-can-pay-off>