Investment Property ROI, Secondary Suites & More:
Dirt goes up in value… buildings go down

There are many factors to consider when supporting your real estate goals & strategy.

When it comes to rentals: 3 factors that have impact on your mid to long term equity as well as short term/Cash flow are: Rent (**income**); Purchase price plus improvements & maintenance (**cost**); Appreciating & depreciating assets (**equity**). *The latter's impact is often underestimated*.

The "ballpark" scenarios here intend to illustrate the potential impact of rent value vs equity factors: In the current market a nice reasonably appointed 1000-1100 ft bungalow ($350k) in an "ok" area may get $1800-2000/m; One for $275k-325k may rent for $16-1800/m. I know firsthand of examples valued at $300-350k getting $2000/m plus utilities for the past 5 years & right now.

Many prefer a rental with a legal 2ndary suite (valued at $400-500k), netting $24-2600/m as a good return / better investment vs. the "single family bungalow". Thought being: There is higher potential for income with diversification.

There are many factors that drive the risks/rewards that should be considered when deciding for yourself (including the effort to rent to 2 groups vs 1 for effectively the same ROI at a higher cost). Be it Single Family or 2ndary; What the cost & rent will be are critical, but what does that look like?

Purchase cost	rent / m	annual rent	annual gross return on investment
$ 200,000.00 SFD*	$ 1,400.00	$ 16,800.00	8.40%
$ 300,000.00 SFD	$ 1,800.00	$ 21,600.00	7.20%
$ 400,000.00 2ndary	$ 2,400.00	$ 28,800.00	7.20%
$ 450,000.00 2ndary	$ 2,650.00	$ 31,800.00	7.07%
$ 500,000.00 2ndary	$ 2,900.00	$ 34,800.00	6.96%

* $200k (+/-) SFD may not be realistic in current markets. SF Attached / Condos may net similar cash-flow returns. Long-term equity may vary based on economic factors

Is the 2ndary suite really a better option? More work to rent to 2 parties, potential for higher turnover & all the work that comes with prepping to re-rent vs the benefit of diversification – it's your call

Now for the impact of what appreciates vs depreciates on your investment:
Dirt goes up in value - buildings go down… (at least without reinvestment/force majeure /economic impact)
2 examples using same land value & 1 home value $100k the other $200k. CRA's "building" deprecation: -4% / year. Long term historical real estate returns are in the 5-7% (applied to land only in this scenario):

Depreciation of Buildings -4%	Year 1	Year 2	Year 3	Year 4	Year 5	5 Year total	Net change: land increase less Building depreciation
$100,000	$ 96,000	$ 92,160	$ 88,474	$ 84,935	$ 81,537	**-$18,463**	**$22,980**
$200,000	$192,000	$184,320	$176,947	$169,869	$163,075	**-$36,925**	**$4,517**
Appreciation of Land 5%*	Year 1	Year 2	Year 3	Year 4	Year 5	5 Year total	
$150,000	$157,500	$165,375	$173,644	$182,326	$191,442	**$41,442**	

*Appreciation of Real Estate values include other economic factors & impact of depreciation & appreciation based on improvements (to land & buildings)

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This may well impact your long-term results. That said; When considering your specific situation – consult your accountant / tax consultant. For some investors, higher depreciation value may bode well at time of disposition.

Example Applications (condition of properties & related maintenance costs vary & can impact results)**:**

- **With a budget of $500k**: If you buy 2 houses at $250k each & rent for $1600/m you may better your ROI via improved income, occupancy rate & equity growth… Buy 1 for $250k & reno (if your handy/have access to super cheap support) using DIY options, spend $50k to a total of $300 invested with a closer to $75+k impact). Rent for 2000/m to get an 8% annual return & find your diversification from a lower cost condo / other options (after maxing your RRSP's etc).

- **Many strive for the best of both; cashflow and future equity.** If you can buy 2 lower cost SFD's (as possible) at $200k each & rent for $14-1500. You may get the best of Annual Income & Equity too. There are many paths to "ROI" & more choices exist in both single & multifamily markets (for improved risk diversification).

It can be a "game of inches" that generates the best results in the long run. Beyond the obvious sage wisdom like: keeping total cost / purchase $ low & a focus on marketability of the property (rent for more based on location & features); **High "land to building value" ratios can be a prudent bellwether.**

<u>That said</u>, some may prefer alternatives based on their goals / income / tax positions (i.e. cash now vs equity later, capital gains at disposition, level of maintenance you're comfortable with, etc.).

What's most important? *<u>You make informed decisions for what's best for you</u>* based on your goals, needs, risk tolerance, time, effort & skillset. Get as much info from trusted reputable sources when forming your plans right through to the execution of all actions.

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