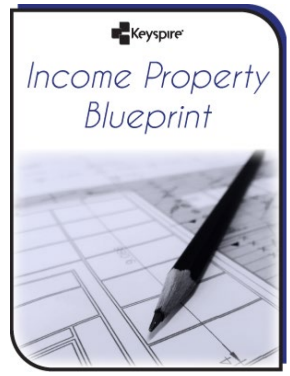
Module 4 – Lesson 4

Buy and Hold – Passive Approach



RESULT

Week 45

This week, we're focusing on a specific strategy: Flip to Yourself, Passive Approach.

With this strategy, you're purchasing a property and holding it for several years and then doing a Flip to Yourself to pull out some of the equity. You're not completing any major renovations when purchasing the property. This is a great strategy to use when purchasing a turnkey income property.

In this week's video, Michael walked us through an example using this strategy to calculate the annualized Return on Investment (ROI). It's important to calculate the Total ROI before purchasing a property to decide whether this investment will have the greatest return on your money. If the Total ROI isn't high enough and you can make more money investing in something else, you would need to know beforehand.

Flip to Yourself: Passive Approach Example

Watch the video and refer to this walkthrough to fully understand the numbers.

Deal Details:

Property Value:	$350,000.00
Down Payment:	20%
Amortization:	30 Years
Term:	5 Years
Interest Rate:	4.0%
Market Appreciation Rate:	3.0%
Time Horizon:	5 years

Year	Market Value 3%	Mortgage Amount	Cash Flow	Principal Recapture	Passive Appreciation	Active Appreciation
0	$350,000.00	$280,000.00	$0.00	$0.00	$0.00	$0.00
1	$360,500.00	$275,040.84	$6,000.00	$4,959.16	$10,500.00	$0.00
2	$371,315.00	$269,881.33	$6,000.00	$5,159.51	$10,815.00	$0.00
3	$382,454.45	$264,513.37	$6,000.00	$5,367.96	$11,139.45	$0.00
4	$393,928.08	$258,928.55	$6,000.00	$5,584.83	$11,473.63	$0.00
5	$405,745.93	$253,118.10	$6,000.00	$5,810.46	$11,817.84	$0.00

- At the end of year 5, how much equity can you access (available capital)?

  Available capital = (New MV x 80% Loan to Value) - New principal $ - Refinance Fees
  = ($405,745.95 x 0.8) - $253,118.10 - $500.00
  = $324,596.74 - $253,118.10 - $500.00
  = $70,978.64

When you Flip to Yourself after 5 years in this Passive Approach example, you will receive a cheque for $70,978.64.

- How does this translate into Return on Investment (ROI)?

$$\text{ROI} = \frac{\text{5 Year Return (Passive Appreciation \& Principal Recapture)}}{\text{Capital Invested (Down Payment + Closing Costs + Refinance Fees)}}$$

$$= \frac{\$70{,}978.64}{\$70{,}000 + \$1{,}200.00 + \$500.00}$$

= 98.99% over 5 years

$$= \frac{98.99\%}{5 \text{ years}}$$

= 19.8% annualized ROI on capital invested!

- Let's take into account the Cash Flow too!

$$\text{Total ROI} = \frac{\text{Cash Flow + (Passive Appreciation \& Principal Recapture)}}{\text{Capital Invested (Down Payment + Closing Costs + Refinance Fees)}}$$

$$= \frac{\$30{,}000 + \$70{,}978.64}{\$70{,}000 + \$1{,}200.00 + \$500.00}$$

= 140.8% over 5 years

$$= \frac{140.8\%}{5 \text{ years}}$$

= 28.2% annualized ROI on capital invested!