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Dear Clients,

I found this article written by Romana King, and I thought I would pass it along.

Q: Why do rich people invest in real estate? Housing prices are at an all-time high in Canada. It just seems so counter-intuitive!
— *Confused about real estate investing*

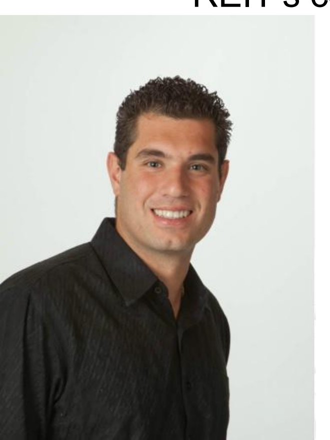
Answer from Romana King, senior editor and real estate specialist at *MoneySense*: Over half a decade ago, financial planners and trusted portfolio advisors started to look for stable, steady returns that could actually beat inflation. The reason? Bonds yields were weak and the equity market was volatile. Their clients wanted stable returns that didn't cap out at 2% per year. That's when real estate started to flourish as a leading investment choice among high-net-worth (HNW) investors.

To fully appreciate why HNW investors are still in the Canadian real estate market, it's best to learn the four investing methods they use when investing in this asset class.

1. Real estate as an income investment

The aim of an income investor is to optimize cash flow. This is when the cash made on the investment on an ongoing basis—either through monthly rent or yearly leases—is the focus of the investment strategy, not the long-term potential price appreciation.

This type of real estate investor is more concerned with stable, secure returns. While income investment can focus on one building or development, it's also prompted the creation and expansion of the Real Estate Investment Trust (REITs). REITs are a basket of equities. Yet, unlike traditional equity funds, a REIT's core business and growth is based on net operating income of its property holdings (and to a lesser degree any potential appreciation in the value of these properties).



The great news is that income investing using real estate is accessible to both HNW investors and to ordinary investors, like you and me.

the Mortgage Group Inc.

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2. Short-term opportunity using real estate

Opportunistic investors have one goal: To maximize profits in the shortest timeframe. These HNW investors typically take on a great deal of risk in an effort to juice returns. A good ordinary-guy example of this style of real estate investment is the renovation contractor who buys a run-down bungalow with the intention of rebuilding and reselling. This “flipping” of an outdated residential home is usually done in a short timeframe with the sole purpose of making the most profit.

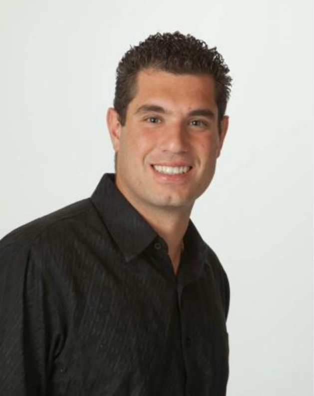
3. Longer-term big profit through buy-and-hold development

Someone once owned a lot of the land that South Calgary. Now, there are housing developments, commercial stores and other amenities. Development investors aim to buy raw land, which they then develop into a major hub by building residential or commercial projects.

HNW investors that go into development must have deep pockets, though, as there are always unexpected and expensive setbacks. Still, the payoff can be substantial, with some investment advisors estimating a return as high as 50% for these types of projects.

4. Using debt to make money

The last way HNW investors will use real estate to juice their investment returns is to go into the money-lending business. Using their own capital, these investors fund mortgages or lend capital to developers and builders. In exchange, they get a bigger-than-bank-rate returns, as well as the security of an asset-backed debt. This is one of the most advantageous ways to invest in real estate, as private lenders can usually expect anywhere from 6% to 16% return on the money they loan out and the land or building is still collateral protection in case the borrower defaults on the loan.



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How can I invest in real estate?

This all sounds great, but the real question is: How can I get in on it? I mean, who hasn't suffered a bit of envy watching housing prices skyrocket in the last decade?

Truth is there is no simple answer to this question. Real estate investments, just like stock market investments, require due diligence and research. Any decision should be part of a larger financial plan—and no philosophy or scheme should be followed simply because it sounds good.

If you have any questions please do not hesitate to call, email or text.