3.2.7 EXCESSIVE CAUTION LEADS TO PARALYSIS

Recognize when it is time to take the plunge.

Even with your investment plan in hand you may hesitate to commit yourself to real estate investing. Perhaps you feel you don't have enough knowledge. Do not let this stop you. There are a number of real estate professionals who can advise you or even partner with your first venture – real estate agents, developers, appraisers, builders. Consider proposing a joint venture with someone who has a proven track record. You contribute the money and they contribute the knowledge and time, while you learn from the experience.

We offer the following advice to vacillating investors when they face the "to buy or to pass" question. It is always possible to find fault with a property and decide not to buy it. However, decades of experience have shown us that 99.9 times out of 100, buyers are glad they overcame their doubts and bought the property. There are many, many more sellers who are sorry to have sold than buyers who are sorry to have bought.

3.3.1 FINANCIAL IMPACTS OF NOT BUYING

Some people refuse to buy a property because it is too expensive, or the timing is not right, or for any other reason. Let's look at the economic consequences of this decision (to do nothing).

Usually, as an alternative, investors "park" their money in a money market fund, which pays 2-3% before taxes. The after-tax return is 1.2-1.8%. If a person has $500,000, this represents: $500,000 x 1.5% = $7,500.

Let's assume that the property to be purchase is price at $2,000,000, the Net Operating Income (NOI) is $160,000, the down payment is $500,000, the Cap Rate is 8%, the Capital Cost Allowance (CCA) is 4% (we disregard the half-year rule), the mortgage is at 6.25%, and the tax rate is 46%.

The return for a buyer of this property is:

NOI:			$160,000
Income deductions:			
Mortgage payments (interest only: $1,500,000 x 6.25%)		=	$ 93,750
CCA:	$1,650,000 x 4%	=	$ 64,000
Total:			**$157,750**
Taxable income	($160,000 - $157,750)		$ 2,250
Tax payable	$2,250 x 46%	=	$ 1,035

Property's direct and indirect return after taxes:

Direct return:			$ 1,035
CCA (+ tax postponing):			$ 64,000
Appreciation (indirect return):	$2,000,000 x 6%		$120,000
After tax return:			**$185,035**

Return on Equity (ROE) after tax:

(a) including CCA, if the building is like new (no repair required):

$185,035/$500,000 = 37.01%

(b) excluding CCA:

$185,035 - $64,000 = $121,035/$500,000	=	24.21%
Return with money market: $500,000 x 1.5%	=	7,500

Difference in:

(a) $185,035 - $7,500	=	$177,535
(b) $121,035 - $7,500	=	$113,535

Just in case you still need an extra push, meditate over the following: if you keep doing what you did yesterday, how can you expect your future to be any different? Obviously, you were doing something wrong if you did not get where you wanted to be.