# MAKE A SILK PURSE OF A SOW'S EAR!

**BY W. RICK HARRIS, REIA**

## How to Sow Value from Your Investment Real Estate Portfolio

In 1579, Stephen Gosson is said to have coined the phrase, "You can't make a silk purse from a sow's ear" in reference to what he regarded as low writing of poets and playwrights. While that may have been true of the literature he was referring to, within that phrase lies opportunity for all of us who own an investment real estate portfolio that is looking a little old and tired. It also rings true of investment real estate investors looking to find great value in a property that has not been used to its full potential.

In my last article in the January-February issue of *REIN Life*, I promised to discuss how to use your existing investment real estate equity to complete renovations, make the most of an underutilized property, and increase the value of your investment real estate portfolio.

### Building Equity by Sharing

When my wife and I first started out investing in investment real estate, one of our joint venture partners showed me a great technique to create almost instant equity through turning a sow's ear of investment real estate into a silk-purse property filled with value. My joint venture partner had a couple of sow's ear–type investment real estate and did not have the cash to renovate. These two properties had their mortgages coming up for renewal and he was willing to give up some of the equity and ownership to bring the properties up to the standard of the rest of the units in the building and hopefully get higher rents.

Part of the joint venture agreement outlined the details of my cash injection for full renovations of the two units. As joint venture partners, we did the renovations in advance of the mortgage renewals. We had the properties reappraised with higher values after the renovations, and new mortgages were put in place with shared ownership.

There were two other pieces of good news: we were able to negotiate a lower interest rate, and with full renovations completed we were able to increase our rents.

My joint venture partner was thrilled to have a lower percentage of ownership, knowing the ownership percentage he now owned had more value, equity, and revenue.

### Finding Under-Valued Properties

Look for properties that were undervalued, renovate and remortgage. This is not easy; it takes patience and an ear to the ground.

I use every opportunity to tell people I am in investment real estate. The two best properties I own came through a conversation using this technique. I was put in contact with owners of two properties. These properties came into the owners' possession as part of an estate. These new owners had no interest in renting or renovating; they just wanted out. It took almost six years of telling my story and putting my ear to the ground to get this opportunity.

We were able to find a money investor to pay for the full renovations and then we secured new mortgages on these tired and unloved properties.

With our TLC, within a year we started to pay down the mortgages quicker; the first couple of years we made lump sum payments and then eventually increased our every two-week payment amounts. During the first five-year term, interest rates had decreased and, on renewal, we locked into lower interest rates with more of our mortgage payments going to principal paydown. We are now ending year seven of ownership and have gone from 30 years to pay off the mortgages to just under 14 years.

When our next term comes up in three years, we are reviewing our options with equity growth that has blossomed beyond our wildest dreams.

### Under-Utilized Property

I have a friend who was living in a bungalow, and like many bungalows it was used as a single-family home with a partially renovated basement. My friend's family had grown up and moved out; her marriage had ended and she had kept the property. She never considered that her home could create accelerated equity growth and additional revenue.

She and I were talking about my daughter who, as a single mother, had converted her basement into a legal revenue suite. With an income suite in her home, my daughter was able to generate rental income that covered over 73% of her mortgage payment.

My friend was house rich and money poor. With my consulting, she took out a line of credit on her home; we found her an experienced general contractor. She did everything according to standard, including soundproofing and installing a new furnace and new shared laundry appliances.

We then set out to find her tenants for her new beautiful suited basement. She has had the same tenants now for the last three years, and their rent covers her line of credit payment, leaving her enough left over each month for her to accumulate and take a major vacation once a year. I just saw her pictures from her last vacation to Norway, Denmark, Sweden, and Finland. She is already planning her trip to visit the United Kingdom. She never dreamed the home she lived in most of her adult life would be her ticket to that kind of lifestyle in her golden years.

As a side note, since she began this journey she ended up remortgaging her home and got rid of her line of credit, thus reducing her monthly payments. Her health is awesome, which is also supporting her new-found lifestyle. She is in no hurry to pay off her mortgage. Her property has increased in value. She knows there is lots of equity down the road to leave for her family and community.

### Stitching All the Lessons Together

Whether you are using equity-growth funding to sow value in your portfolio by sharing ownership to renovate and grow value, find partners and share undervalued properties by renovating and refinancing, or realize that your property maybe underutilized and reconfigure to produce additional revenue and value; one or all these options are within your design.

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