

# News from The Wolf on Bay Street



Friends,

On this day of Remembrance, I find myself thinking of our Veterans and all that they have done. Their service and sacrifice has provided us with the foundation for lasting freedom and opportunity that we enjoy today. We all owe a great debt to our servicemen and women who gave everything for future generations, of which many of them never had the opportunity to meet.

Remembrance Day really puts into perspective the trivial challenges that we face in our day to day lives. It also makes me think how can I help my children and future generations? Growing up in Toronto and the Greater Toronto Area, one of the greatest difficulties our children will face is entering the housing market. As we all know, real estate has reached levels that make the Canadian dream of home ownership seem unattainable for our children. I am here to tell you that there is in fact a real opportunity for our children to save and quickly build equity in housing. Today's "lower for longer" interest rates are the key. Here's the math:

### Scenario #1: Today's rates

Mortgage amount:	\$ 1,500,000.00
Interest rate:	2.90%
Amortization:	25 years
Term:	60 Months
Payment Freq:	Monthly
Compounded:	Semi-Annual
Monthly Payment	\$ 7,021.95
Total Payments:	\$ 421,316.40
Total Interest:	\$ 200,962.97
<b>Total Principal:</b>	<b>\$ 220,353.43</b>
Balance Remaining at maturity:	\$ 1,279,646.57

### Scenario #2: 1990s rates

Mortgage amount:	\$400,000.00
Interest rate:	11%
Amortization:	25 Years
Term:	60 Months
Payment Freq:	Monthly
Compounded:	Semi-Annual
Monthly Payment	\$3,850.12
Total Payments:	\$231,007.20
Total Interest:	\$210,089.96
<b>Total Principal:</b>	<b>\$20,917.24</b>
Balance Remaining at maturity:	\$379,082.76

Now I don't expect mortgage rates to hit 11% anytime soon and if they did it would be a catastrophe for all risk assets, including the housing market. However, the examples above illustrate how today's low interest rates allow homeowners to save and build equity in real estate at an accelerated pace. After adjusting for inflation, both examples have approximately the same monthly payment of \$ 3,850 \*\*1990s base currency\*\*. After 5 years the homeowner under scenario #1 has over 10X the amount of home equity \*\*Assuming housing prices are flat over 5yrs\*\* The difference is simply the payment ratio of principal: interest. I understand that saving for a down payment on a house is not easy. It requires planning, systematic savings and often years of sacrifice. But it can be done.

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Every generation faces its own unique set of challenges. I will always be grateful to our Veterans who fought for the freedom that we enjoy today.

I believe future generations will continue to benefit from their sacrifice by living longer, healthier and more prosperous lives. My best advice to anyone looking to save for their 1st house is start early, focus on your goals and remain disciplined. To learn more about real estate investing I encourage you to listen to my recent podcast with Brad Lamb: [https://omny.fm/shows/640-toronto/hifi-radio-with-the-wolf-on-bay-street-wolfgang-72?in\\_playlist=640-toronto!hifi-radio-with-the-wolf-on-bay-street-wolfgang-kl](https://omny.fm/shows/640-toronto/hifi-radio-with-the-wolf-on-bay-street-wolfgang-72?in_playlist=640-toronto!hifi-radio-with-the-wolf-on-bay-street-wolfgang-kl)

*Take up our quarrel with the foe:  
To you from failing hands we throw  
The torch; be yours to hold it high.  
If ye break faith with us who die  
We shall not sleep, though poppies grow  
In Flanders fields.*

**Wolfgang Klein**, BBM, CIM, AIFP  
The Wolf on Bay Street

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