



Your Latte Factor ~ Turning Coffee and Donuts Into Real Estate

By Brian Madigan

David Bach popularized the expression “your latte factor” in his book *The Automatic Millionaire*.

His point was that anyone could find some extra money in their day to day living expenditures if they wished to do so. Some expenditures are indeed a little extravagant. They can be cut out, and the savings realized can be invested. Over time the savings together with accumulated interest will grow into a substantial sum.

So let’s take the case of Don and Marilyn a young married couple who live in an apartment in Toronto and are trying to save a downpayment for a house. Don works as a sub-contractor for a small homebuilder in Barrie and Marilyn drives downtown to her position as the human resources co-ordinator for a large accounting firm. They both start off each day with a coffee and a donut and they each smoke a package of cigarettes per day. Don drives out to a local fast food restaurant for lunch and Marilyn goes to the food court except for Fridays when she goes out for lunch with her co-workers.

Where are the opportunities to save money for this young family? Let’s focus on the coffee, donuts, cigarettes, fast food and gas.

Don

Don works 6 days per week. He drives 136 km to the job site each day. He drives a small pick-up truck and averages just 7 km/litre. However, he sleeps in late and rushes up the 400 at 120 km/hour. Assuming a dollar/litre, what if we could make his vehicle 25% more efficient. If you look at most motoring magazines, this is quite possible. Here are their recommendations:

reduce speed from 120 km/hr to 90 km/hr
have tires all properly inflated

don't follow too closely
don't constantly change lanes
keep at a steady pace
coast to a stop rather than applying the brakes
no jack rabbit starts
plan the route well in advance
turn down or turn off the air conditioning

Don will have to get up a little earlier, but he will have a far more relaxing and enjoyable trip. Surprisingly, this will only cost him about 10 minutes in time, but it will save him \$ 9.71/day or \$ 58.26/week.

Six mornings every week Don is in a lineup at Tim's for a coffee and donut. He really doesn't need them, but it has become part of his morning routine. This costs \$ 2.40/day or \$ 14.40/week.

He drives over to a fast food restaurant at lunchtime. If he took his lunch, not only would he save some time, but he could save \$ 4.00 per day or \$ 24.00 in the week.

Now we have the big one. He smokes a pack a day. Not good! But, this article is about saving money not saving your health, so what does it cost? Basically, \$ 56.00/week.

So, if we took everything into consideration, Don's potential savings amount to \$ 152.66 per week.

Marilyn

Marilyn's potential savings will be a little different. After all, she doesn't have that huge commute. But, she does drive 5 days/week to the downtown Toronto office, and if she could take public transportation instead, she could save \$ 4.50/day on gas. Still, that's only \$ 22.50/week. However, there is one more consideration. She parks the car in her building's underground parking at \$ 23.75/day. This affords a potential saving of \$ 98.00/week if she could give this up.

The coffee and muffin early morning starter costs the same as Don's, \$ 14.40/week. She eats lunch at the food court, but if she took her lunch 4 days/week she could save \$5.75/day or \$ 23.00 for the week.

Yes, she has the same bad habit, but she is in an office and someone is always borrowing a cigarette. Actually, they gave up smoking or at least paying for them. So, she buys 9 packs per week, although she only smokes 7 herself. Amazingly, her potential savings amount to \$ 229.90/week.

So, have you been keeping track? Their potential savings are \$ 382.56/week or \$ 19,893.12 annually. You will have to appreciate that in order to save that amount, they would have to make all of the changes at once, instantly, and we both know that's not going to happen.

Turning Savings into Real Estate

Let's assume that they both continue to drive as they do now and they continue to eat lunches the same as they do now. However, the early morning coffee, donuts and cigarettes all have to go. I'm sure that I read somewhere that there were some health benefits here. Maybe you can look that up. But, we're just talking about money, so what are the savings? Cigarettes alone amount to \$ 6,656.00 annually and the early morning visit to Tim's is another \$ 1,497.60, for a total of \$ 8,153.60.

The next and probably most important question is: what difference does that make? They now have another \$ 679.47/month to pay towards their mortgage. Assuming a 5% interest rate and 25 year amortization, they could carry another \$ 116,826.71 in mortgage principal. That would add nicely to the cost of a new house.

Now, let's fast forward one year's time. Not only do they have a better house, but with an appreciation in value of 7%, this higher value adds another \$ 8,177.87 to their equity, and that is tax free. And, don't forget they paid a little off the mortgage principal as well.

So, the morale of the story: switch to chocolate cigarettes, they are better for you!

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