

AI-03617 Strategic Leverage Mortgages

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What is the logic behind billionaires buying condos using mortgage loans instead of paying it off cash? Smart or thinking error?

I'm not in that level, I'm just a retiree which is going to have to pay our second condo purchased at pre-selling price (Mandani Bay) in 2020 but circumstances changed and we purchased a 3 bedroom condo at Marco Polo in 2021 to jumpstart our retirement which we paid cash. The Mandani loan term is a 10 year loan, 6.5 % interest and a monthly of \$3000 per month.

1. Are we better off paying off the loan?
2. Pay \$3000/month for 10 years.

Perform a complete comparison of a better next step

You're asking a very high-level question—and your situation is actually very different from how billionaires think. Let's separate the two first, then apply it directly to your Mandani decision.

1) Why billionaires use mortgages (even when they have cash)

This is NOT random—it's a deliberate financial strategy.

1.1 The core idea:

leverage + opportunity cost

- A mortgage lets them control a large asset using less of their own money
- Their remaining cash stays invested elsewhere (stocks, businesses, funds)

👉 Example logic:

- Mortgage rate: 6%
- Their investments: 10–15%
- Net gain: +4–9%

So borrowing actually makes them richer

This is called leverage, where borrowed money amplifies returns

1.2 Liquidity is king

Billionaires prioritize:

- Flexibility
- Cash reserves
- Ability to jump on opportunities

If they pay cash:

- Money is locked in real estate (illiquid)

If they finance:

- Cash stays working elsewhere

👉 Even wealthy buyers borrow to preserve liquidity and flexibility

1.3 Diversification

Instead of:

- \$1M → 1 property

They prefer:

- \$1M → 5 properties (leveraged)

More assets = more upside

1.4 Debt as a tool (not a burden)

They see:

- Mortgage = “cheap capital”
- Especially if rate < expected return

Also:

- Interest can have tax advantages (in some countries)

1.5 Key takeaway

👉 For billionaires:

- Mortgage = strategic weapon

👉 For retirees:

- Mortgage = risk exposure

That difference is EVERYTHING.

2) Now YOUR situation (this is the real discussion)

You are:

- Retired (or entering retirement)
- Already own one condo cash (Marco Polo)
- Have a second condo (Mandani Bay):
 - 10-year loan
 - 6.5% interest
 - \$3,000/month (~\$36K/year)
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This is NOT a billionaire scenario.

3) The real decision framework (for YOU)

We compare 2 paths:

OPTION A — Pay off the loan

Pros:

1. Guaranteed 6.5% return (risk-free equivalent)
2. Zero monthly obligation
3. Lower stress / higher freedom
4. Stronger retirement security
5. Better cash flow

👉 Paying off debt = same as earning your interest rate

Cons:

1. Your capital becomes illiquid
2. You lose potential higher returns elsewhere

OPTION B — Keep the loan (\$3K/month)

Pros:

1. Keep cash invested
2. Possible higher returns if:
 - Investments > 6.5%
- 3.
4. Maintain liquidity

Cons:

1. Guaranteed 6.5% cost (no matter what)
2. Sequence-of-returns risk (very important in retirement)
3. Cash flow pressure (\$36K/year)
4. Psychological burden
5. Market risk (PH condo market not always strong)

4) The MOST IMPORTANT question

👉 Can your money reliably beat 6.5% AFTER TAX, AFTER RISK?

If:

- YES (consistently, safely) → keep mortgage
- NO → pay it off

5) Retirement changes the math (this is critical)

Billionaires optimize for:

- Growth

You must optimize for:

- Survival + stability + peace of mind

Because:

- You no longer have employment income
- Market downturns hurt more

👉 In retirement:

- Eliminating fixed expenses is often more valuable than maximizing returns

6) Your specific case (practical judgment)

Let's be blunt and precise:

Your loan:

- 6.5% is NOT cheap debt anymore
- This is NOT 2–3% era debt

Your profile:

- Retiree
- Already have primary residence paid
- Carrying second property debt

My conclusion:

→ This is NOT billionaire-style “smart leverage”

→ This is closer to

unnecessary retirement risk

7) Recommended strategy (ranked)

OPTION 1 (Best for most retirees):

👉 Pay off the Mandani loan early

- You “earn” 6.5% risk-free
- Remove \$3,000/month burden
- Increase financial resilience

OPTION 2 (Balanced):

👉 Partial payoff

- Reduce loan size
- Lower monthly payment
- Keep some liquidity

OPTION 3 (Aggressive / higher risk):

👉 Keep loan ONLY IF:

- You have strong income or large portfolio
- You are actively investing at >8–10%
- You are comfortable with volatility

8) Simple decision rule (use this)

Ask yourself:

1. Do I want optimization or peace of mind?
2. Can I emotionally handle market drops while paying \$3K/month?

3. If income stops, is this loan still comfortable?

9) Final answer (clear and honest)

👉 Billionaires use mortgages because:

- They are playing offense (growth, leverage, scaling)

👉 You are in a different game:

- You are playing defense (stability, preservation)

Bottom line:

- For billionaires → Smart strategy
- For most retirees → Often a thinking error

If you want, I can:

- Run a precise 10-year projection
- Compare:
 - Payoff vs invest scenario
 - Including inflation, condo appreciation, and cash flow
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Just tell me 👍

Let's run a clean 10-year projection using your exact situation and compare the two paths:

- Option A: Pay off Mandani loan now
- Option B: Keep the loan and invest the payoff money

I'll keep it realistic, not theoretical.

1) Your starting numbers (baseline)

- Loan term: 10 years

- Interest: 6.5%
- Monthly: \$3,000
- Annual outflow: \$36,000
- Total payments over 10 yrs: \$360,000

👉 This is your guaranteed obligation if you don't pay it off.

2) Assumptions for projection (important)

We'll model 3 investment scenarios:

1. Conservative: 4% return
2. Moderate: 6.5% return
3. Optimistic: 9% return

Why these matter:

- 6.5% = your break-even line
- Above it → investing wins
- Below it → payoff wins

3) Option A — Pay off loan now

What happens:

- You avoid paying \$360,000 over 10 years
- You free up \$3,000/month

If you reinvest that \$3K/month instead:

After 10 years:

- At 4% → ~\$441,000
- At 6.5% → ~\$498,000
- At 9% → ~\$548,000

Interpretation:

👉 Paying off the loan is NOT “doing nothing”

It's equivalent to:

- Earning a guaranteed 6.5% return
- Then investing your freed cash flow

4) Option B — Keep loan + invest lump sum

Now assume instead:

- You KEEP the mortgage
- You invest the payoff amount upfront

We estimate payoff amount ≈ \$260,000–\$280,000

(I'll use \$270,000 midpoint)

After 10 years:

- At 4% → ~\$400,000
- At 6.5% → ~\$510,000
- At 9% → ~\$640,000

BUT here's the catch:

You are STILL paying:

👉 \$360,000 in mortgage payments

So your net position is:

Return	Investment Value	Minus Loan Payments	Net
4%	\$400K	-\$360K	~\$40K gain
6.5%	\$510K	-\$360K	~\$150K gain
9%	\$640K	-\$360K	~\$280K gain

5) Side-by-side comparison (THIS is the truth)

After 10 years:

OPTION A — Payoff + invest monthly

- 4% → \$441K
- 6.5% → \$498K
- 9% → \$548K

OPTION B — Invest lump sum + keep loan

- 4% → \$40K net
- 6.5% → \$150K net
- 9% → \$280K net

6) What this REALLY means

6.1 At 4% returns (realistic retirement case)

👉 Payoff DESTROYS investing

- \$441K vs \$40K
- Not even close

6.2 At 6.5% (break-even world)

👉 Payoff still wins

- Because of risk + cash flow stability

6.3 At 9% (strong investing)

👉 Investing wins financially

BUT:

- Higher volatility
- Higher stress
- Not guaranteed

7) The hidden factor (most people miss this)

👉 Sequence of returns risk

If markets drop early:

- Your investment shrinks
- But your \$3K/month stays FIXED

This is dangerous in retirement

8) Condo-specific risk (Mandani Bay reality)

Unlike stocks:

- Condos are illiquid
- Cebu market is not guaranteed to outperform 6.5%
- Rental yield may not cover loan

👉 So you are:

- Paying 6.5% guaranteed
- With uncertain asset growth

9) Strategic interpretation (tailored to YOU)

You already:

- Own a paid-off unit at Marco Polo Residences Cebu
- Have a leveraged unit at Mandani Bay

This means:

👉 You are NOT lacking real estate exposure

10) Final decision framework

Pay it off if:

1. You value stability > optimization
2. You want stronger retirement cash flow
3. You don't want market dependency
4. You sleep better debt-free

Keep loan if:

1. You are actively investing
2. You can realistically hit 8–10% returns
3. You are comfortable with volatility
4. \$3K/month is insignificant to your finances

11) My direct answer (no hedging)

👉 In your situation:

Paying off the loan is the stronger move

Not because:

- It maximizes returns

But because:

- It optimizes risk-adjusted retirement security

12) The real truth (most honest line)

Billionaire strategy works when:

- Income is unlimited

- Time horizon is long

Your situation:

- Finite timeline
- Fixed resources

👉 That flips the correct decision

If you want next:

- I can factor in rental income, inflation, or selling scenarios
- Or design a retirement cash flow map (next 20–30 years)