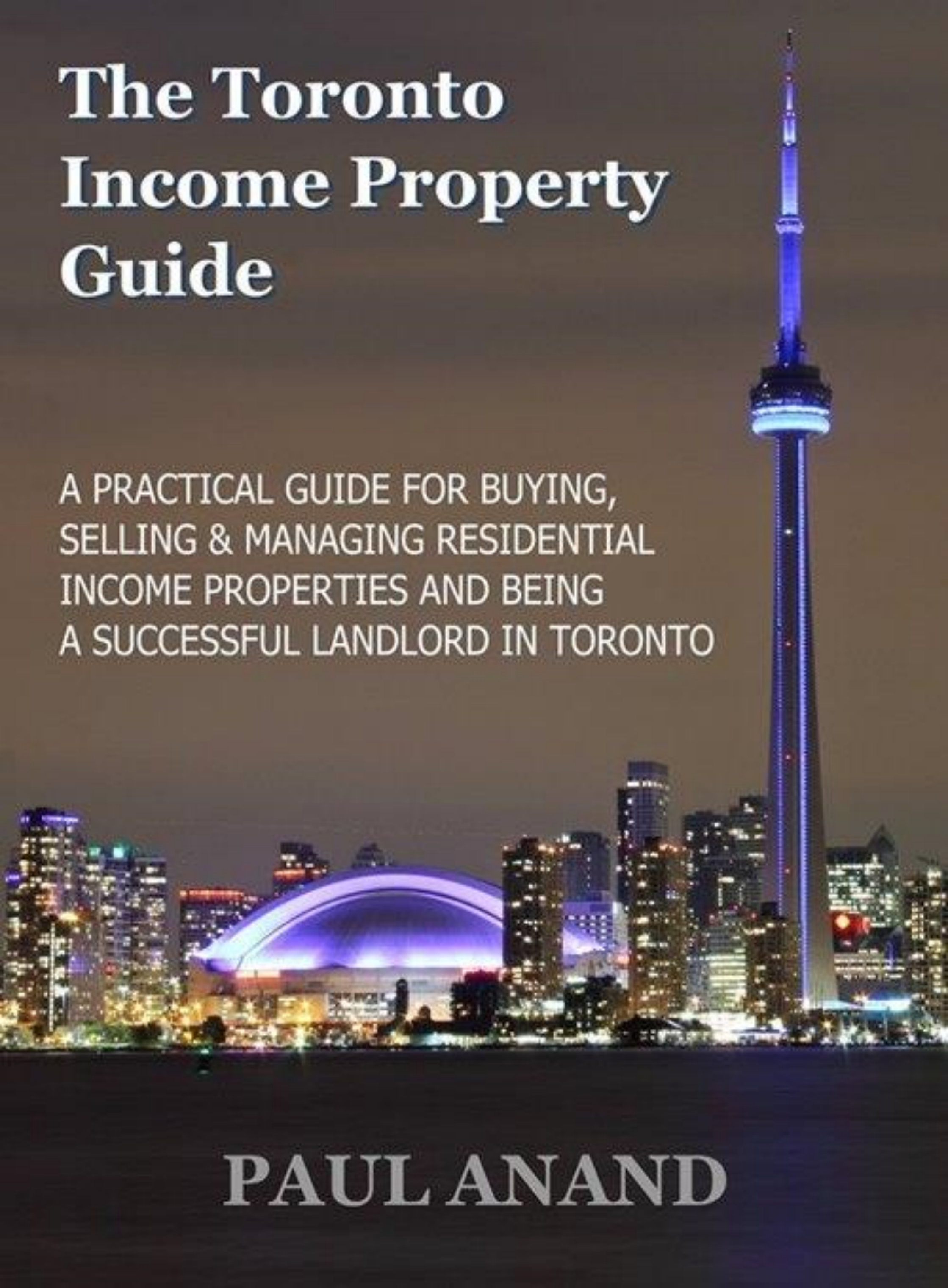
The Toronto Income Property Guide

A PRACTICAL GUIDE FOR BUYING, SELLING & MANAGING RESIDENTIAL INCOME PROPERTIES AND BEING A SUCCESSFUL LANDLORD IN TORONTO



PAUL ANAND

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An update to:

LIVE FOR

FREE

PAUL ANAND

Broker of Record

Plex Realty Corporation Brokerage

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Preface

Are you looking for a proven long-term income strategy where you can make money each month and see a potentially high tax-deductible return when you sell?

- Do you feel as if you may be spending too much each month on mortgage payments?
- Would you like to put more of this money back in your pocket every month?
- Do you want to exercise more control over your investments?
- Are you tired of the uncertainty of paper investments like stocks, bonds or mutual funds?

If you answered yes to these questions, perhaps the time has come for you to consider **buying a residential investment property.**

Naturally, we would all like to lessen the financial burden of putting a roof over our heads. If you want to live as inexpensively per month as possible and still own a high quality home, residential real estate investing may be for you. For the investor who is looking to broaden his or her portfolio or the owner who understands the utility of bringing in rental income to offset mortgage expenses, a duplex, triplex or multiplex can be a profitable and exciting approach to home ownership. Try and make it your goal to embrace these key concepts that will allow you to financially benefit from home ownership. Use this guide to learn how to free up cash flow each month and start your journey towards minimizing your monthly housing costs.

Author's Thoughts

Does it still make sense to be buying residential income properties? In a competitive sellers' market like the one we have been experiencing in Toronto over the past few years, this has become a very legitimate question. With multiple offers and people paying higher and higher prices, the fiscal returns are all but evaporating away. It seems like cap rate expectations are dropping lower each year to the point where they are almost becoming irrelevant.

The title of this book for the past decade was "Live for Free … to be free to live" Yes, quite a mouthful indeed. Given that it has become so challenging to break even each month in most Toronto neighbourhoods when buying income properties, I contemplated renaming this guide *Live for L*ess. I realize that this doesn't sound near as exciting, so I decided to simply call this new latest rewrite "A Practical Guide to Buying Residential Income Properties". Simple and to the point!

When I first wrote *Live for Free* in 1999, the Toronto real estate market was quite a bit different than it is today. The overall returns on investment properties were significantly higher. A 25% deposit for a residential duplex or triplex was the norm and all of our property analyses assumed this conventional first mortgage. With lower interest rates and population growth helping to fuel a booming real estate market over the past several years, especially in key areas of the GTA, the playing field has changed. You can now easily buy and qualify for a property with as little as 10% down. Prices have shot up to the point where often the return has melted away. The average price of a detached home in downtown Toronto is now over a million dollars. So can you really live for less and thereby justify owning an income property?

If you have decided that you are going to live in your income property, the answer is still a resounding yes. You have to live somewhere, so why not try to lessen the amount you pay each month by renting out a portion of your home? To live in an income property your comfort has to come first before all the offsetting gains to be made from rental income. I have seen it happen too many times before where clients are more concerned about the money the property is generating than whether it meets their personal living needs. I think that it is important that if you are getting into an owner occupied income property and becoming a landlord that you enjoy the experience. This becomes a whole lot easier to do if you do not begrudge your living situation.

If you are simply purchasing real estate as an investment, the answer is not so cut and dry. It all depends on what your investment goals are. How long is your time horizon? What other investment vehicles are out there and what kinds of returns do they offer? Over the long term with capital appreciation, owning rental properties in Toronto can make a lot of sense. Let your tenants pay down your mortgage each month and one day down the road you own the asset free and clear. What's not to like about that?

I have enjoyed buying and selling income properties in the Toronto marketplace over the past decade and have seen firsthand how well residential real estate investing can work. Many of my clients have had great experiences learning in the ins and outs of the income property market and some have even become real estate agents themselves. I have always maintained that if you are buying a home to live in and you don't need to occupy the whole thing, then income properties are a great option. If you can create great space for yourself and are getting good offsetting rents, then living for free, or at least living for less, is still something that you ought to be thinking about.

Paul Anand, *January 2015*

PART ONE: Before You Buy Your Income Property

CHAPTER ONE: To Buy or Not To Buy!

Before I got into the real estate business, I used to think that buying a house didn't make a lot of sense. My reasoning was simple. Back then the average monthly rent (not including utilities) of a two-bedroom apartment was at that time approximately a $1200 a month. To rent a two-bedroom in Toronto's Central core today might be more in the range of $1500 to $1800 a month. Even when the rental supply is depressed and vacancies are lower, there are always going to be apartments of some description available in this price range. You might have to hustle harder to find them, or you may not be able to negotiate a lower rent, but if you check Kijiji, Craig's List or your local Saturday paper there will always be places available to rent. Regardless, you usually shouldn't have to pay much more than $1500 per month for a clean, decent sized two-bedroom apartment in the downtown core.

Here's a bit of quick math. In order to have a net mortgage payment of approximately $1500 on any type of dwelling, based on a 3.5% mortgage rate with a 20% deposit, you would have to book a mortgage for around $300,000. Unless you are able to come up with a larger deposit, the highest price that you would likely be able to afford for your new home is about $375,000. Where and what you can buy becomes quite limited. In the downtown Toronto market, that will probably get you an entry level two-bedroom condo but not much else.

Now say you rent a complete two-bedroom house for $2500 a month. To buy the same house in downtown Toronto today could cost upwards of $600,000. The cost of the mortgage plus heat, hydro, water, insurance and maintenance would certainly exceed $2500 a month. If you're the landlord of this property, unless it is paid for or close to it, the cost of carrying the mortgage plus expenses is likely to be a lot more than what you can collect in rent. It becomes clear that the cost of owning a house can be significantly more than renting one. And that's before paying property tax, two land transfer taxes and all the other closing costs necessary to get your name onto the deed.

Renting often turns out to be less expensive than carrying a mortgage. A smaller two-bedroom bungalow in the GTA may cost $500,000. At a 3.5% borrowing cost with a conventional first mortgage (20% down) the house will carry for about $2400.00 per month, plus heat, hydro and other applicable expenses. The bulk of your monthly mortgage payment is interest to the bank. Your mortgage principal is only reduced by a very small amount with each monthly payment – or at least initially for the first few years when your payments are fixed. So at the end of your mortgage term, if you take the full amortization period to pay (most often 25 years), your $500,000 home may end up costing you as much as $825,000. In year one, you are paying over $13,000 in interest to your lender.

Many years ago, when I was still renting, I was able to rent an entire townhouse in a very nice neighbourhood for $1500 a month including heat and hydro. To buy that same townhouse for what it eventually sold for would have cost me approximately almost another $1000 a month to carry with a conventional first mortgage. Add to that utilities, maintenance fees, insurance and this property would have been almost double what it cost to rent. It just didn't make sense. By the way, that same townhouse today would sell for around twice what it sold for then.

In a past edition of the CMHC publication *Canadian Housing Markets*, a software program called "Buy or Rent Decision Model" was used to calculate whether a typical couple buying their first home would be farther ahead financially buying a $350000 home or renting the same house for $1,375 a month and investing half of the money saved. The calculations show that after the first year, the decision to rent would yield greater value. Whilst the value from owning will increase over a longer time period, it is still interesting that in the short term, renting makes more financial sense.

Many top financial services sites on the Internet have Buy vs. Rent Calculators that take out all the guesswork. It often takes more than just looking at your monthly mortgage payment to determine whether you should rent or buy your home. These calculators weed through all the fees, taxes and hidden costs and give you a thorough long term analysis so that you are armed with all the facts. Once again the numbers most often support that in the short term renting is more fiscally prudent. Owning real estate should be a long-term commitment to truly appreciate the financial benefits from owning. The alternative to purchasing a home is to continue to pay rent and, at the same time, discipline yourself to potentially save and invest in stocks, bonds, mutual funds or other investment vehicles.

The difference in your monthly payment between buying and renting a property is only one factor. You also have to be able to afford the down payment. Essentially, you can't buy a house in downtown Toronto without at least $40,000 for a deposit. That would be at the very low end – a more realistic amount would be $75,000 to $100,000 which would then allow you to consider properties priced up to a half million dollars. I don't agree with buying a house with no money down so that the bank finances the whole thing. Most of the time, a condition of their loan is that you put some of your own equity into the house as security. You'll also need additional cash upfront for closing costs. I believe that if you are unable to accumulate enough money to come up with a deposit, you'll likely continue to have a hard time coming up with your mortgage payment every month. Yet with that said though, CMHC has made it very possible to buy real estate without a sizable down payment. There are also a myriad of financing vehicles designed to make it easier for you to buy a home. The vast number of mortgage products available today gives consumers some very interesting options. There are many secondary lenders outside of the traditional banks looking to loan you money. There are 35 year amortizations designed to lower your payments. There are self-employed programs and cash-back incentives. And of course, we have been enjoying historically low interest rates. This has given incentive to many Canadians to stop renting and get into the real estate market.

If coming up with a large cash deposit isn't difficult enough, what about the other costs involved in buying a home? Land transfer taxes. Legal fees. Moving costs. Renovation costs if necessary. You may also have to pay a mover even if you rent, but you must pay the two land transfer taxes and any outstanding adjustments right up front. No matter how you slice it, it's going to cost you large to own a home in Toronto.

There's also the obvious difference between owning and renting once you have moved and settled in. What if something goes wrong? What if a pipe bursts or the heating system fails? If you just bought the house, take a deep breath and get out your chequebook again. But if you're renting, all you have to do is pick up the phone and call up your landlord. It's his or her problem, not yours. Do you remember the eighties movie "The Money Pit" with Tom Hanks. His character buys a dilapidated house with his wife and the second after they move in it starts to fall apart, starting from the stairway, to the bath falling through the roof to eventually the chimney falling into the house! Finally, they have to renovate the house before the frame collapses but the renovations also prove to be a disaster.

Aside from your principle and interest payments, there are property taxes, on-going maintenance costs, and insurance that you will also have to pay. Utility bills for heat, hydro, water and garbage pickup have been steadily increasing over the past few years and can easily cost hundreds of dollars a month. Most banks make property insurance mandatory so that they are covered in case of an accident. You then have to consider content insurance to cover your personal belongings and tenant legal liability insurance if you are going to have tenants. Then you have your cable, Internet, and home phone charges. It can all add up quite quickly.

Many homeowners tout pride of ownership as a reason to buy. I suppose it's a nice feeling to sit in your living room and say to yourself "Ah, I own all of this." But think about it. If you're renting and you want to improve your surroundings by doing a bit of work, what landlord in their right mind would say no to you? If one of my tenants approached me and said they would like to paint the bathroom, I wouldn't argue. In fact, I'd happily pay for the paint. And you know what: the bed that you sleep in at night is just as comfortable whether the walls around you are in your name or someone else's.

So why bother owning?

It seems to not make a lot of sense on the surface. Yet we all know that a large percentage of Canadians own their own homes. You also all know that the Toronto housing market has been on fire over the past few years, characterized by offer holdback dates followed by multiple offers and prices sometimes going several hundred thousand over the asking price. It has been largely a Sellers' market with most properties trading almost immediately without any financing or home inspection conditions. It seems everybody wants in.

It is clear that more people own than rent. The profitability of our major banks, based on the huge amount of mortgage interest collected, suggests that most of us haven't fully paid for our properties yet either. A lot of homeowners in Canada still have mortgages. I would expect that most owners' equity or net worth are tied into their homes. Most people's money only exists on paper as the difference between what their house is worth today if sold on the open market vs. what they still owe on it. In other words, the current market value less the outstanding mortgage is your equity in the property. This makes it somewhat difficult for you to become liquid fast if your money is tied to your home. You've probably heard the old saying, "house rich and cash poor". Many people fall into this home-buying trap. You scrimp and save to get your deposit together and then struggle month to month to make the mortgage payments. Most of your income goes towards making the monthly mortgage payment leaving little money for discretionary spending. Your home becomes a never-ending cash grab. Does it not just make sense to rent and not have to worry about any of this?

The answer to this question is that, yes!, over the long term owning real estate is better than renting and in fact, is a proven effective long-term investment strategy. Buying and properly maintaining and managing residential income properties is an even smarter approach to buying real estate and can be very profitable over time. There is a reason why the wealthiest Canadians all have significant real estate holdings.

In fact, of all the investments that are available to you, none offers the combination of benefits that you can get with residential real estate. They include the ability to generate monthly cash flow, principal reduction, capital gains benefits upon selling and the possibility of capital appreciation in the future. We have seen the widespread effects of capital appreciation over the past few years as property values in Toronto have dramatically increased. Buying income properties is a sound business proposition and a good way to ultimately plan for your retirement.

If you are buying real estate for investment only and are not going to live in the building, then your monthly income statement will be one of your primary considerations. You are essentially buying cash flow. The net income a property makes each month should ultimately determine what that building is worth. If you are losing money every month, then it is not a very smart investment. Yet, buildings routinely trade where the return is negligible, and sometimes close to nothing at all.

There are three scenarios where I can envision a buyer knowingly overpaying for a residential income property. The first is if the buyer is going to live in the building. In Toronto, a luxury duplex in Rosedale, Yorkville or Playter Estates may not generate a great cap rate (the percentage of return based on net rents), but it would be a very desirable place for most folks to live. Quite often, buying an income property allows folks to get into a neighbourhood that they might not be otherwise able to afford. A $2000 offset goes a long way to helping you cover all your costs each month. Owner's suite tend to be in better overall shape than tenant suites, and those buildings with a top-notch owner’s suite often sell very quickly.

The second reason why investors may sacrifice yearly returns is for perceived capital gains down the road. If a market improves over time many folks see increased equity in their real estate holdings. Consider what we have seen in Toronto over the past years. Some areas of town have seen properties almost double in value. Most people have made money and improved their net worth just by hanging on to their homes. I see this as quite a risky strategy since you can't be guaranteed of anything. While there have been some huge gains made in the Toronto market over the past few years, what if we don't see a run up like this again for another ten years? Many real estate experts expect prices to hold more than continue to increase at the rate we have become accustomed to. Betting on the market to improve is not investing, it is speculating. Unless you have a crystal ball, you can never be sure how your building will perform over time. With an income statement you know what you are getting every month.

The third reason why an investor may choose to buy an income property with little or no return is that they don't care about the money each month, but rather they are more interested in owning the building free and clear down the road. So long as the building covers itself each month, it's all good. If you have the deposit money sitting in a bank account not earning a lot of interest, then an income property becomes a good way to shift that money into something that will earn money for you over time. If your tenants are paying down your mortgage over time, then at some point in the future, you own the building out right and your tenants have paid for it. Your deposit is always safe in the property. Sometimes people move into their income properties later on in life long after the tenants have paid off a good portion of the building for you.

A last point is that maybe a low return property may be improved over time with cosmetic improvements to the suites. This would be clear justification for paying a little more for a building, but don't forget to add all your renovation costs to the price of the building when you are determining your future returns.

Let's take a hypothetical situation of a multi-unit building that only returns 3 or 4% today. An investor upon seeing it decides the price is too high relative to the rents and decides to wait for something better to come along. A second investor decides to buy it and start slowly cleaning up the suites to try and make modest gains in rent. Investor #1 a year later is still waiting and has determined, if anything, that the market has actually gotten worse. He continues to wait. Meanwhile Investor #2 has been able to increase his rents a bit and going into year three his return is starting to approach double digits. Moreover, the value of his building has increased from the capital improvements. Naturally he can't cash in on this gain, but he will at some point. The point is that waiting isn't always the smartest move. We only have a finite number of above-average income properties in Toronto, and they don't come up for sale that often. If one does and the returns are marginal but it is a great building or in a great spot, one could make a case for it.

It really makes the most sense to buy real estate when you consider an owner-occupied residential income property. How would you like for someone else to help pay down your mortgage, thereby allowing you to live for less each month? Now this type of home ownership can be quite desirable indeed. It certainly beats renting. Remember that the money that you pay in rent will never be returned to you. If you spend $2000 a month to rent, that's $24,000 that comes right off your net worth statement and is gone for good. Similarly, if you didn't have to pay all of your mortgage each month, think of the money you could save or have left over to do other things with. You could be on your way to profiting from your real estate, rather than just living in it and paying for it every month.

CHAPTER TWO: The Secret

The secret to successful real estate ownership is to purchase a residential income property where your monthly costs are offset by the income received from tenants. If you live in a house and rent out one or more of its apartments, you can eliminate or greatly minimize your monthly housing costs. Admittedly this type of home ownership isn't for everyone. Being a landlord is a big responsibility. Besides, who really needs the aggravation? There can be times when being a landlord can be quite trying. I've had radiators not work on bitterly cold nights. I have had mice turn up in my basement suite. I have had neighbours call to tell me that my tenants are making too much noise. As a landlord you have to respond to every tenant complaint, and fast. There are a lot of regulations that govern the landlord-tenant relationship in each Canadian province. In Ontario, we have the Residential Tenancies Act which every landlord should become very familiar with. As a landlord, you have to be dutiful to your tenants 24 hours a day.

I can tell you honestly, and maybe I have been really lucky, that having tenants isn't really that bad at all. Sure the odd thing like I just mentioned does come up, but not that often if your property is in a good state of repair. If you treat your tenants well and look after their concerns they will respect you. If you live in the same house as your tenants and have to go away for a night or two, it's nice to know that there is someone around to keep an eye on things. I've never really been disturbed by noise either. If you live in a single-family semi-detached home you're just as physically close to your neighbour as you may be to your tenant. If you screen your tenants carefully before they move in, and treat them well once they arrive, chances are that things will work out quite well.

Once you make the decision to be a landlord, the purchase of a house makes a lot more sense. So much so, that you really can't afford to not consider the benefits. There are a number of situations where buying an income property and renting out a portion of it is ideal:

Are you single? If you travel light, you can make moves without the concern of inconvenience for others.

Is this your first house and are you reasonably sure that this is not your final resting place, but simply a property to get you started? This could be an opportunity to purchase real estate that would be difficult to afford otherwise. Buying an income property before you buy your ultimate family dream home can give you a lot of flexibility and options down the road.

Are you retired and looking to put your savings into a vehicle that's safe and have your cost of living drastically reduced? Wouldn't it be nice to have a few hundred (or possibly thousand) dollars of positive cash flow each month?

Do you enjoy spending your hard-earned money on other things than mortgage interest to the bank? Remember, if you buy a house and live in the whole thing, you have to pay the entire mortgage each month on your own.

If you answered yes to any of these questions, then owning an income property may be right for you. Your days of renting may be coming to an end. There are many details that you have to be prepared for when you begin thinking about owner-occupied income properties. By being informed and learning as much as you can you will certainly maximize your chances for success.

I have consistently found that if you follow one simple rule that you will greatly improve your chances for success and be able to maximize the revenue that you are able to bring in.

Find a property with rental potential in an optimal location and make it as attractive as possible, outside and in!!

It's that simple. I know that this may sound obvious but I think that this is where most landlords often slip up. They don't clean up the premises or keep their buildings in tip-top shape to maximize their rental potential. What do you think of when you hear the words duplex, triplex or multiplex? Normally the image that comes to mind is of some tired looking, dilapidated house where the rich landlord lives far away in the nice part of town. The only time you ever see them is when something goes wrong or when they come around to collect the rent at the beginning of the month. You don't often think of a beautiful two or three story home where the landlord lives in a suite and rents out the other floor(s). There is a widespread opinion within the development industry – specifically builders and their associations that development economics are best for luxury rentals. As a result, any new purpose-built rental supply will generally have rents that are considerably higher than in the older rental stock. It is for this reason that I advocate doing everything within your means to bring your property to as high a standard as possible. If your suite is clean and tastefully finished or decorated, it will always attract more desirable tenants and command higher rents. Owner-occupied investment properties can be made into beautiful homes and can offer you a very high and enjoyable standard of living. They are also much easier to sell if they show nicely. In a hot Sellers' market like we have been experiencing in Toronto, you are pretty much guaranteed to sell regardless of condition, unless you really overprice your property. Buy why risk it? Just keeping your premises in tip-top shape all the time makes the most sense.

When something breaks down in your rental suite, fix it! Act as you would as if it were your own home. Do not expect your tenants to do your job for you. If a light bulb needs to be changed, then it is reasonable for the tenant to take care of that. But if the light fixture itself breaks, then that is your responsibility. Don't let a problem get worse by not tending to it. Where do you draw the line between landlord and tenants' obligations? If it is a quick, easy and inexpensive fix, see if your tenant can handle it. If not, be at the ready to deal with it yourself. Unless your tenant is a plumber, don't assume that they will be able to fix a leaky faucet. Unless you have it stipulated in your lease, don't assume that your tenant will maintain the exterior of your property. It is your responsibility as a landlord to provide "quiet enjoyment", meaning a clean and hassle-free rental suite for your tenants. If the tenant sees that you care, then they will too. They will be happier to cut your rent cheque each month and your overall experience of being a landlord will be that much more enjoyable and profitable.

Once you have made the decision to buy an income property, whether to live in or to fully rent out for investment, there are a number of steps that you should follow to maximize your chances for success. Over my many years of buying and selling duplexes, triplexes and multiplexes I have seen what works and more importantly what doesn't. Regardless of how hot the market may be or how difficult it may be to acquire an income property, you still have to approach your next real estate purchase in a diligent and efficient manner. I have devised my five-step plan for success based on what I have seen first-hand work very well for many landlords in the Toronto marketplace.

CHAPTER THREE: The 5-Step Plan

So where do you start on this journey to have someone else pay down your mortgage? There are several steps that I recommend that you follow. As I outline them, remember these ideas are based on how I have observed other people using their real estate to positively impact their financial situation. This is an effective strategy for people looking to free up capital to invest elsewhere. If you're looking to buy a building strictly for an investment in Toronto you have to work hard to find a property that gives you a great return. A residential income property can be a great investment when you live in the house. You have to live somewhere so why not turn that into something that can be profitable for you. Isn't it better to have your tenants pay your mortgage each month – slowly but surely reducing your overall debt on the property? Every month when you make your mortgage payment, the interest portion of it will never be seen again. This comes right off the bottom line of your net worth statement. Imagine being able to keep that same amount each month to spend on other things.

The information that I'm presenting here is not new. I didn't invent any of this. In fact, there isn't anything revolutionary about this at all. It's largely common sense and has certainly been written about many times before. It is also universal and not limited to the City of Toronto. The ideas that are presented will work for you in any real estate market at any time. This information should get you thinking positively to get out there and do something to improve your life situation. If you read my plan and put these words into action you can reap many rewards in the future. If more and more homeowners begin to look at their property as an investment rather than just a place to live, the overall market for income properties will improve, and your chances for success will increase. We all know that real estate in Toronto has been booming over the past few years and interest rates have hit all-time lows. The time is now, before interest rates start going back up to take advantage of a residential real estate investment.

Follow this step-by-step approach. Read over each step carefully. I'm assuming that by this point you have given some thought to buying an income property and are looking hard at how you can significantly reduce your cost of living. It doesn't have to be your first home. You just have to investigate further how possible it is for you, given you current life circumstances, to get into an investment property where you can live as inexpensively as possible each month.

Step One: Define your living needs & desires

The first step is to define what kind of home is right for you. Differentiate between what you must have (a need) vs. what would be nice to have (a desire). There are many questions that you will have to address. I will outline three but there definitely are others. Your real estate agent will likely be able to pose more for you to ponder once you have made the decision to start investigating residential income properties.

1. What part of town do you want to live in?

You should be as flexible as possible when choosing an area to look for an investment property. This is because there usually aren't too many good ones to choose from. You know that it will be difficult to start in the exclusive areas of town without a larger down payment. You probably don't want to live in a high crime area either. You have to take a long hard look at all the different neighbourhoods and make sure that you can see yourself living comfortably in the areas in which you choose to search. Most major Canadian cities offer a lot of choices. Determine if you'd prefer to be downtown or in the suburbs. You'll always be reasonably close to schools, shopping or places of worship. How important is it to be within walking distance to restaurants, coffee shops, or your gym or other conveniences? I don't think that it's prudent to start eliminating areas (unless they're simply too expensive) because you never know where the next opportunity may be.   A good buy could come up in any area of the city at any time. I recommend getting familiar with all the areas of your town. There are city guides available that will broaden your knowledge of your city's neighbourhoods. They give you crime statistics, demographical information, and detailed market information. This is all great information that will definitely help you wisely set your parameters. The more you know about your city and market trends, the better equipped you will be to make a smart buying decision. To learn more about different Toronto neighbourhoods or other cities that may be of interest to you, the best thing is to go online and start exploring.

2. What type of physical space do you want?

You will have to determine your spatial requirements. How many square feet do you need for your apartment? Do you need parking on the premises? How many bedrooms do you need? Do you need an office or working space? What kind of look or feel do you want your new suite to have? You are the only who can determine your own unique living requirements.

You also have to determine what kind of property configuration suits you best. There are many different kinds of residential investment properties. The most common are houses with basement apartments. From there we get into the "plexes" (duplex (2 rental suites), triplex (3 rental suites), fourplex (4 rental suites), multiplex, etc.) There are legal rooming houses and finally there are the large scale apartment buildings. Your first income property will likely be a duplex or triplex as this is most common and also the easiest for first time live-in investors to manage.

Mixed-use commercial properties or retail storefronts with apartment(s) above them can also be a viable investment option. In Toronto, most of these properties are on popular retail strips like Queen, Bloor, College and obviously Yonge St. There are also little strips like the Forest Hill Village, the shops on Bayview south of Eglinton or at the top of Coxwell in Leslieville. Many neighbourhoods have retail strips that offer every good and service imaginable. Some areas are more known for specialties – for instance restaurants on the Danforth, or on College in Little Italy. Most of the time these buildings fall under the I.C.I. umbrella (commercial rather than residential) even though there may be residential rental apartments above the main floor retail space.

The market for these mixed-use buildings has been similar to strictly residential properties over the past few years insofar as lower bottom-line returns and lesser cap rates. My advice is to make sure that if you buy a mixed-use building that your main floor retail tenant is on a long lease and that their business is strong, unless of course you have a business to operate out of the main floor yourself. Most of the properties derive the bulk of their income form the main floor lease and it would be difficult to immediately make up that rent if your anchor tenant vacates. It is much easier to find a residential tenant than a commercial one. Remember too that every user is going to want to build to suit, so that cost is likely cost you months of free rent. Also, most of these properties are on busy main streets, so keep that in mind if you intend to live in it.

Remember too that if a property has five or more self-contained residential suites or if most of the square footage is to be used for commercial purposes, then the property will likely fall under the commercial umbrella. The financing rules are different for commercial properties than residential. Borrowing rates are often higher and one usually requires a larger deposit. Also, there is no CMHC or Residential Tenancies Act in the commercial world.

Is it possible that a storefront with two units above it will be a better buy for you than a regular triplex? I think the bottom line is if a mixed-use building is achieving better rental numbers than a completely residential multiplex and has good lease(s) in place, then it should be considered seriously. I prefer all residential income properties just from a rentability point of view but remember that investment real estate is all about the returns. If cap rates start to get noticeably stronger on mixed-use buildings, more investors will turn in that direction. It hasn't happened yet in Toronto, but it may. If you've been thinking about opening another up-scale coffee bar in your neighbourhood then a mixed-use building may be ideal. Remember that over the long-term, owning is always better than renting.

When determining the right kind of income property to live in, figure out what suits you and the people who will live with you the best. If you have a family, perhaps a rooming house or commercial building may not be your best option. I said earlier that owning an income property works well if you're single. Here's why. I find that in order to do things right so that you are really cashing in on your home through the revenue stream that it has created for you, you need to be flexible. If you have a family, this whole exercise can be difficult. Not impossible - just difficult. You have to look at what conveniences you require (bath tub, dishwasher, garage, fireplace, etc.) It is your home after all, so make sure that you can be comfortable there. Now of course you can add things that are missing which leads directly to a third very important question when you are defining your parameters.

3. Do you want to renovate?

Home renovation is often a key factor when considering an owner-occupied investment property. If you are unfamiliar with this subject you need to seek out more information and learn as much about residential construction as possible. Your agent should be able to guide you through the maze of rules, regulations and the dos and don'ts of successful home improvements. If you find a desirable income property that is not turn key (already set up with independent units) you essentially have to look at whether it can be turned into an investment property without gutting the whole thing or doing major reconstruction. For example, if a house has a loft or a basement with a bathroom in it, is there enough space to do a conversion? Will the basement, if you add a kitchen and close it off, make a suitable separate dwelling unit? You have to determine whether a property is in a good state of repair and whether the potential return is worth the risk of renovations.

It is very important that you are cautious about renovating your home and that you plan and budget very carefully. If you are handy and can do most of the work on your house yourself you will save money and the hassle of dealing with contractors. It is imperative that you know your city by-laws and its rules and regulations for basement and accessory apartments as well as laws for additions or conversions. You need to know where your local municipal office to obtain building permits if necessary. You should also be intimately aware of the fire code in your region. Improper fire safety precautions are often identified as being a factor in fire related accidents. You may also determine that you would like your property to be fire-retrofitted. It is best to get expert advice prior to making any of these alterations. Some lenders prefer income properties to meet retrofit standards as a condition of their loan, but this is the exception and not the norm. Be careful and seek expert advice before contemplating an ambitious renovation project.

A carefully planned renovation will often pay itself and can add thousands of dollars to your resale value. Conventional real estate wisdom states that a single-family residence will always attract a higher price on the open market than an income producing property. I don't always agree with this. First of all there are very few duplexes or triplexes in Toronto that come up for sale that do not have some sort of upgrade potential. As the population ages they don't need as much space and could enjoy benefitting in a hot market by getting into an investment property and renovating it. There will always be need for houses like this. As the baby boomers retire, an opportunity exists for quality owner-occupied income properties on nice streets. If you're able to improve upon the property, it will allow you to attract higher rents and give you a better potential resale value. Doing a conversion can certainly be good for the calibre of your living space and also good for resale.

You will need to figure out your dollar recapture rate to determine how much to spend on your renovations. If you add a basement apartment and it costs you $40,000, how long before the rent that you bring in pays for it all? If you get $1000 a month in rent, that's $12,000 a year so it will take you just a little over three years to recapture your capital costs. If you cover your costs in under five years, then that is quite good. However, if take you seven or eight years to cover your renovation costs, then you may want to consider spending a little less initially. Remember that you will also be creating additional value in your property that you will cash in on if you sell. The same logic applies if you are updating an existing rental suite. If the current rent is $1200 a month, but with a new kitchen and bathroom the rent will only go up a couple hundred dollars a month based on market prices, then you probably don't want to spend a lot on the unit. If all it needs is a little paint and maybe a few lighting changes, then these changes will likely cost-justify in terms of increased rents.

You can't add more land in the nicer neighbourhoods of a city. The only thing that you can do to create additional value in existing properties is to fix them up. Many older homes that come up for sale that have income potential haven't been touched in decades. The easiest problems to correct are cosmetic. If the cost to renovate is offset by the potential gain when you sell, homes with such upgrade potential are excellent opportunities. Remember real estate's most important rule: Location, location and location. This applies to owner-occupied income properties - the stronger the location, the higher the rents and ultimate resale. If the land value is high, then the dwelling on it should be at that same level.

While living as inexpensively as possible each month is your ultimate goal, your home's resale value is definitely another factor to keep in mind. Say you buy a duplex for $500,000 and over time you sink

$50,000 into it to create a basement apartment or to upgrade some of the existing rooms. Now pretend that your life situation changes in a couple years and you decide to sell. The potential purchaser who looks at your home knows exactly what you paid for it when you bought it. This information is available through the Multiple Listing Service (MLS) so their agent will certainly let them know when they are determining what to offer you for it. They know you paid $500,000 but they have no idea how much you spent on the renovations. They have no before and after to go by. If the market has appreciated and the quality of the work that you had done is desirable, perhaps you can sell your home for upwards of $600,000 (or potentially more – there are so many variables that go into valuating a home). You can make a nice profit in addition to the fact that you have been living there for a reduced rent. This makes your home very attractive to the savvy homebuyer. Never discount capital appreciation or debt reduction when doing your analyses as these will be key components to your success. Remember too that if you sell your income property a portion of the proceeds are tax free if you lived in it.

Step Two: Establish your down payment & a comfortable monthly payment

Take a long hard look at your finances. How much money do you have to put down on your new property? Not everyone is in the same financial or age bracket so you have to figure out what is manageable given your current financial circumstances. Don't worry initially about how much you can afford each month. If you find the right income property, that monthly amount should turn out to be quite manageable. With the flexibility of financial products available on the market today, you can put down as little as 5% for a deposit. You need to determine how much cash to contribute to the down payment and clean-up costs (if necessary). How much do you have in your savings? How much equity do you have in your existing house? What else do you have tucked away? You are going to have to decide how much of your savings you are willing to invest. All of it? Half? It's difficult to advise you how much, because it varies from property to property and everyone's financial situation is unique. If you make the right choices, your money will be safe in the property. In other words, you will be investing in a home that maintains its value. It may not appreciate as much as we have seen over the past few years, but if you find the right property it may even give you a better than average return on this initial investment at some time in the future. There are always houses that have this potential, but quite often you have to look long and hard to find them. There are many successful real estate speculators and developers, who do this on a regular basis, waiting for the same property as you. Carefully determine what you can manage to put down. You are going to have to do this even if you plan to buy a single-family residence.

The second part of this is how much can you afford to pay each month? Ideally, you don't want to pay anything but admittedly this will be difficult for a really nice downtown space. The more tenants you have, the less you'll have to pay. Yet you may not want to live in a sixplex. Your mortgage payments, share of utilities, taxes, etc. will be reduced by your rental income but you'll have to determine what you are comfortable with for your net out-of-pocket housing cost each month.

Step Three: Engage a good, knowledgeable agent

There are many real estate agents out there but how many are familiar with investment properties?

A good agent will do the following for you:

Show you properties with income potential that are currently listed for sale

Have a good idea of whether a home that you are interested is properly priced

Help you determine your mortgage requirements

Draw up an offer and negotiate a good deal

A great real estate agent will:

Give you compelling statistics on the number and value of investment properties in a given area

Introduce you to lenders who understand the type of income property that you want to purchase

Introduce you to general contractors or tradesmen as may be required

Educate you on market capitalization rates and how it will apply to the income property that you are considering. Cap rates vary and for the shrewd investor are key for making purchase decisions. A cursory understanding of what they are and how they work is recommended.

Be able to properly analyze the numbers thereby determining a property's overall value

Draw up an offer and negotiate a strong deal

Also, make sure that you are made aware of CMHC guidelines for high ratio financing. It is very important that your realtor understands how lenders look at and evaluate tenant income. Your agent's broker (the office that they work for) can also be a valuable resource. Utilize the experience and varied skill sets of other agents at your agent's office to get as much benefit as possible. They are there to help you – so make good use of them. They can play a vital part and really increase your chances for success.

I have seen and been involved in the sale of hundreds of duplexes and triplexes over the past decade and make it a point to stay up on market rents. Being able to accurately assess rents is critical to determining the viability of an income property. Is the current rent under-market or is it unsustainable? If you make a mistake on guesstimating rents by even $100 per month on four suites, then your net return per month is going to considerably less than what you had hoped for. You are going to spend a lot of time and money on this purchase. Please make sure that your real estate agent has been involved with buying and selling income properties prior to meeting you.

Get as much information as possible on a property from your realtor before you even start going to look at houses. Ask questions and challenge your agent to find out the answers for you if they are unsure. It is imperative to get all your ducks in a row. This starts by choosing an agent who you feel comfortable with and who will give you all that you need to know in order to accomplish your goal.

Since the buyer's commission is usually paid for by the seller of the property, it makes no sense at all to not get experienced, quality buyer representation. Should you try to sell your income property by yourself without the help at all of an experienced real estate agent? I don't generally recommend it. The stats speak for themselves. FSBOs (For Sale By Owner) often end up selling on MLS with agents long after they were privately introduced to the market. Internet and discount brokerages help save you money but real estate agents are in the game every day and they know where the real buyers are. I also find that the general thinking is that when a property is for sale privately that there may be a price break, so it tends to mostly bring out buyers just looking to get a great deal.

Step Four: Establish a rapport with your lender

I can't overstate how important your relationship with your bank or mortgage broker is. If this is your first home, this is likely going to be the largest single purchase of your life thus far. You are going to be borrowing a large sum of money and likely will continue to do business with the lending institution or individual for years to come. Once you take a mortgage from a bank, they give you a chequing account, probably set you up with line of credit and offer you a whole host of other financial services. It may start with your mortgage and then lead to your RRSPs, etc. The point is to feel comfortable with who you're doing business with. Please don't lose sight of the fact that you are giving them your business, not the other way around. Banks sometimes make it seem like they're doing you the favour. They will make a lot of money from the mortgage interest that you pay them each month. Remember too that there are often penalties for discharging a mortgage before the end of term, so make sure that you are aware of your lender's policies. There is fierce competition out there for your mortgage business – shop around and compare offers from different lenders.

I also recommend using the services of mortgage brokers, who have connections to many different types of lenders. Like real estate agents, mortgage brokers only get paid when they do a deal so I find that they are always motivated and work a little harder. They have access to all the big banks but they also can get you financing from secondary and private lenders. The low interest rates and the strong sellers' market that the GTA has seen over the past few years have enticed many new money lenders to get into the market. As I said earlier, with all the mortgage options that are on the market today it is best to find a mortgage broker who can spend time to help you figure out which product is best for you.

Since you are going to be a landlord and will be generating income from the property that you purchase, this income will obviously help you meet your monthly mortgage obligations. Some banks when they are qualifying you for a mortgage factor in the rental income. Some only allow for a percentage of incoming rents in their calculations when determining your debt-coverage ratio (the relationship between net operating income and debt service). It is recommended that you secure a mortgage from a lender that has familiarity with residential income properties or investment real estate in general. Where possible try to deal with the decision maker directly. Quite often lending institutions have guidelines or minimum criteria that have to be met. When you submit your application it gets fed into a computer program and usually that's where the decision to lend gets made. Get to know your lender personally if possible and make sure that you are able to contact them whenever you need to. You are on a mission to make as smart an investment as possible - let your lender know this, be fair in your expectations and develop a bond that can lead to larger future business transactions.

Step Five: Develop a Plan of Attack

This is the stage where are ready to enter into your local real estate market and learn all that you can about all the income properties currently for sale. You have your down payment. You have determined all the pertinent parameters to start your search (what areas you're keen on, type of dwelling, willingness to renovate, etc.) You have signed a Buyer agreement with an agent who you feel comfortable with. You have shopped around and have been pre-qualified for a mortgage with a bank that knows you are looking for an income property. You now want to maximize your chances for not missing that one property that might be the "diamond in the rough". If you get there too late, it will be gone. In a hot market, great investment properties don't sit idle for too long. How can you ensure that you have done everything possible to find the perfect income, or potential income producing property? You should develop a more detailed plan of attack to search for the right property. You and your agent must be prudent insofar as uncovering all the stones that may lead to the perfect property. Your agent will be invaluable in looking up properties because they have access to local listings on MLS. There are a number of consumer sites where you can keep an eye on the market and new listings as well. Contemplate new and innovative ways to search for properties. Look for homes with more than one kitchen. Not all potential duplexes will be identified on the MLS as duplexes. Look for separate entrances that could lead to a potential basement apartment. Anything that will allow for the potential to produce an income property if it isn't as such already should be isolated. Put ads in newspapers outlining what you are searching for. Wherever possible, network with other investors or realtors to increase your pool of resources. Have your agent cold call property owners to see if they're interested in selling. Finding the right opportunity often takes lots of time and digging. You will be living in a nice suite, potentially rent free – or at least as close to rent free as possible. Devise and follow a critical path that maximizes your chances to find the best income property possible.

Work together with your agent to develop this plan of attack. Be in constant communication with them to make sure that your plan is being adequately carried out. Understand what they are doing on your behalf and challenge them daily - but don't rely on them solely to do all the work. Rental property investors often have to rely on the financial statements that sellers and their agents prepare. In most case, these statements contain lots of projections and best-case scenarios. Doing your part to be as informed as possible will make your agent's task much simpler. Just remember to be patient, and to develop your plan for finding the right income property and then stick to it.

Once you have decided to buy a duplex or triplex, whether to live in or just for investment, you have to decide what area or neighbourhood suits you best. In Toronto, most of the rental stock is south of Highway 401, with a large percentage of income properties located south of

Bloor Street. That doesn't mean that you can't triplexes at Finch or Steeles, it's just that most of them tend to be in the downtown central core. You can also go into Scarborough in the east and Etobicoke in the west, but again most of the inventory will turn up somewhere in between them.

The criteria for the ideal location are going to vary from one investor to another. Some folks like to have their properties close to where they live for easy access. Others like to go where they stand the best chance of finding tenants. The fact is that you can rent anywhere. The rental market is that good in Toronto. Some people like to choose areas that they think are going to have the best long-term upside. Again, recent history has shown us that all downtown areas are strong, with all of them seeing their average sale price increase. It was just reported recently that the average price of a detached house in Toronto has gone over a million dollars. That clearly demonstrates that pretty much all the downtown neighbourhoods are worthy of consideration.

In my experience there are a few specific locational factors that might help you in your quest to find the right location for your income property:

1. Proximity to the subway

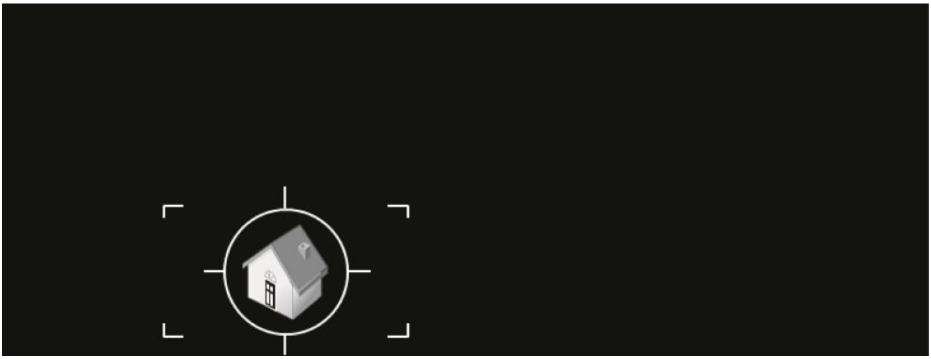
This is pretty obvious. A lot of people use the subway to get to work or to head downtown where car parking has gotten prohibitively expensive. While you are always going to be close to a bus or streetcar stop, there is an inherent benefit to being on the subway line. Note how development erupted in Toronto at Bayview & Sheppard once the subway was built. This makes areas like the Annex, Bloor West Village, the Danforth and other spots directly on the subway line one of your best options.

2. Proximity to the University or Downtown Colleges

One of the largest pools of renters is students. If your duplex or triplex is located within walking distance to U of T, George Brown or Humber College then it will always be very attractive as an investment. There are always students looking for rental accommodation close by.

3. Proximity to Coffee Shops, Pubs, Shopping, etc.

It is always desirable when your property is within walking distance to shops, restaurants, and other amenities that renters can enjoy. Remember that a lot of renters will not have a car so they will rely on public transportation or being able to walk to things. This is why retail streets like Queen (east and west of Yonge) or Gerrard/College will be always be good choices.



CHAPTER FOUR: The time is now!

Now that you're armed with a 5-step plan to increase your chances for finding the ultimate investment property, you have to ask yourself if this is the right time to be thinking about doing this. I say that the second rule of real estate is after location, location, location is timing, timing & timing. Are the market conditions favourable? Are mortgage rates still competitive? Is it a buyers' or sellers' market in your city? I firmly believe that it's always the right time for this kind of responsible financial planning. When is it not a good time to think about how you can improve your finances? Does the market suggest that in today's real estate market buying a residential income property is a good bet? Today the rental situation is highly competitive. In fact, many Canadian cities are experiencing all-time low vacancy rates. Also, given the fact that over time a real estate investment is likely to keep pace with or even outperform most other types of investment vehicles, you almost can't afford to not look at this type of opportunity closely. Prices in Toronto have risen sharply over the past few years, but duplexes and triplexes in prime neighbourhoods are still very much in demand. Cap rates may be lower than we have seen in the past but real estate values still continue to go up. If the market turns, income generating properties are always going to get hurt the least since they have the ability to at least partially fund themselves from the incoming rents.

When I was still renting plenty of people kept telling me that I should purchase my own home but for the reasons that I mentioned at the outset, I was hesitant. Suddenly, we were forced to move. I was fortunate enough to realize, as we were frantically searching for a house, that we really didn't need a lot of space. I then started investigating how owner-occupied income properties work and determined that it would work well for us. It also allowed us to purchase a house for $50,000 more than I was prepared to spend since we would be bringing in rental income. Owing a home then became a business venture for me.

As an entrepreneur you have to look for angles all the time. How can I make a little more money by doing things a little differently? What ideas can I put into play that could put me a little bit ahead of the game? What are the successful real estate investors doing that I could be doing? Or better yet, what are they doing that I could be doing better? Given that I have to live somewhere and it is going to cost me, whether I own or rent, what can I do to minimize the financial burden? If you are paying $2500 a month on your mortgage you may not have that same cash available to invest elsewhere. There is an opportunity cost to not being able to spend money in stocks, business ventures or even personal items for you. I consider discretionary spending on yourself and your family very important, because after all, that's why you're trying to get ahead. How many times have you seen people doing without or suffering because all of their after tax earnings are being plunked down on their mortgage? If all that you are left with after paying a large portion of your money to the government in income tax is going to your mortgage and you barely have enough left over for groceries and perhaps your car and gas, then you are probably not going to be too happy in your new home. Pride of ownership doesn't mean a thing if you're living paycheque to paycheque. The secret is to free up some of that capital, so that the squeeze isn't always quite so tight. This financial squeeze may never completely go away, but by being able to reduce your overhead (cost of living) you will be able to enjoy certain additional pleasures in life.

Being financially responsible should always be your goal because you work hard for your money. You have to work even harder to keep it. In this country most middle-income earners pay a lot of income tax. In Ontario, we have to pay a 13% HST on most of our purchases. If you have additional payroll deductions like benefits or union dues, your net pay is deflated further. You then have to allow for car payments, leisure spending and your cost to live. Clearly, there's not going to be a lot left to pay for your mortgage at month's end. This is why reducing that monthly obligation may be critical to your future financial success.

Sound financial planning alleviates some of the burden of today's high cost of living, especially if you live in an expensive city like Toronto. Traditionally real estate has been considered a good investment strategy. Having real estate holdings in your portfolio of assets is prudent since it is rare for a market to not appreciate over time. In the long run, the rate of return from good real estate investments is comparable to that available from investing in the stock market. A study by the University of Western Ontario was able to bear this fact out. Basing their report on data from four housing markets in Ontario, this study showed that "during a recent 30-year period, with all its economic ups and downs, housing produced a better return on investment than treasury bills, government bonds, the Toronto Stock Exchange 300 index, or gold." The two professors from the School of Business Administration at the University concluded their report by stating that "Overall, as an investment, residential housing in Ontario has a proven track record superior to that of other personal investments." There are pros – you can leverage to buy; limited land increases value; you can add value through renovation, etc. and cons – it's time intensive; carries greater risk; limits accessibility to your money, etc. – as there are with all investments.

Your best bet for real estate investing is to purchase residential income properties because people, always need a place to live. Residential housing is easier to learn, buy and manage than industrial or commercial properties. The Residential Tenancies Act sets out guidelines to help you through the landlording process. Most importantly, income properties allow you to generate positive cash flow. When you sell a stock or mutual funds investment that you hold outside a retirement account, you must pay tax on your profits. By contrast, you can avoid paying a portion of the capital gains taxes if you sell a rental property that is your principal residence. There is no other investment quite like a home that allows you to leverage your way in with a small down payment and then pay for the asset over the term of the mortgage as you enjoy living in it. And when interest rates are close to their lowest point ever, it really becomes a no-brainer. Capital gains from other investments are subject to tax, but not your home, or at least the portion of it that you occupied. There has been some talk at the federal level of doing away with capital gains taxes, but for the time being it still lives. Your accountant or financial advisor will be invaluable for giving you professional tax advice. The decisions that you make about your finances today will have a positive impact on your future if you invest wisely.

If you haven't thought about improving your financial status, now's the time to do so. You should always look for new ways to be more responsible with your money. Earning money is only half the battle. Keeping it and somehow growing it is the other half. If you have been thinking about a real estate purchase, and your set of circumstances slots you into the profile that I have outlined, then there may be opportunities in your city for you that you wouldn't want to miss out on.

Once you have made this decision to become fiscally responsible, it's time to start the process and barrel through any obstacles that may get in your way. You have to start your search to find the right house in the right part of town for the right amount of money that offers you an income-producing opportunity. One of the greatest teachers is experience. Look at as many income-producing properties as possible, so that you become familiar with the market in different areas of your town. The more duplexes, triplexes or regular homes with rental potential that you see, the more skilled you will become at finding the best opportunities. When you evaluate income properties, you need to put on your detective hat. If you're creative and inquisitive, you'll soon realize that this isn't a hard game to play. It is imperative that you give the purchase of your new property the time, care and attention it deserves. Suppose you decided to buy a car today. Would you go down to the car dealership and buy the first car you see without looking around or asking questions about the performance and roadworthiness of the vehicle? I would imagine that most prudent people choose a model that they like and then do quite a bit of research to ensure the best purchase possible. You want to be sure of what options you require and I'm sure you want to pay the lowest price possible. Figure that your house is likely going to cost at least ten times more than a car. For most people buying a new home is the most significant purchase they will ever make. You'll be rewarded with the money you save each month for taking the time to do the proper research.

One other very important point about good timing, is being at that point of readiness to move on a property right away if need be. You have to be ready to strike quickly when the right property hits the market. Since there are many smart business people like you waiting for the right property to come up, you have to move fast when it does. If the potential is good and the house is priced well, it will likely sell quite fast. Once you have finances in order, have your agent be ready to quickly write an offer if you have to.

I can go on telling you story after story of "the one that got away". I can also recount countless tales of sales of duplexes, triplexes and multiplexes that just defy conventional wisdom. There are often multiple offers on a hot investment property. Quite often, in order to have a shot at obtaining the property, potential buyers waive their financing or inspection clauses. Sellers love to see clean offers – no conditions with a quick closing. Anything that you can do to improve your chances for not missing out is important. Do not omit your financing clause if you don't have all your money lined up. I also recommend always getting a building inspection. No matter how much you may think you know about house systems or construction and building science in general, a professional opinion is always valuable. If you know that some other potential buyer is doing a pre-home inspection prior to the offer date, find out who their agent is. If that agent shows up with an offer on the day they're considering them then you know there aren't any real significant problems. Sometimes the seller will do an inspection of the property prior to putting it up for sale. Reading their report is helpful if you are unable to your own inspection.

Another popular strategy of smart vendors is to underprice the property to create a feeding frenzy of potential buyers. Just on the numbers alone, these properties should be priced higher. The seller wants to have as many people come through it as possible because they have been advised that the property is a "steal". I've seen this happen many times. When there are multiple offers, the house will often trade for well over the asking price. Be careful not to overpay no matter how much you like the property. There will always be another one. Sometimes the listing agent holds back the offer date to try and further stimulate interest. Please remember that if you find yourself in a multiple offer situation and you have to buy the property "clean" (with no conditions), then be sure of yourself because there is no turning back.

It essentially all boils down to one thing – being there at the right time with money in hand and ready to make an offer. Patience may not a virtue when it comes to buying an income property. Good things will not necessarily come to those who wait. In this business, you create your luck and timing by always being ready. When the right property comes up, move on it because if you don't someone else will. And if you miss the ideal home, don't despair because another will come up eventually. Just don't blow your timing because you hesitated. Strike fast! Some investors make offers on income properties without even walking through the inside. Ensure that you and your agent have established what you think the property is worth so that you feel comfortable with the final purchase price.

You now have the key ingredients to start the process of searching for an income property in your area. It is up to you to continue on a quest for more knowledge and information. Discuss your strategy with your agent and lender so that they completely understand your intentions. Explain how you want to create value from your home. Tell them that you understand and are comfortable with the prospect of having tenants. Do the math on each property to determine your net operating income and what your return on investment will be in the first year. Get the all the facts on each property that you are exposed to in order to make a smart and informed purchase decision. It's a great feeling to have your tenant help you pay down your mortgage each month. You'll appreciate your improved cash flow position immediately. This extra cash will allow you to investigate other investment opportunities. It will allow you to do more and squeak a little more out of life. Hopefully, once you reach your goals, you can reflect back on your first income property as one of the first catalysts to turn your financial picture around. By applying these principles you will have developed a disciplined approach to real estate that will serve you for many years to come.

PART TWO: After You Buy Your Income Property

CHAPTER FIVE: Being a successful landlord

Once you have purchased your income property, your journey has just begun. If you have inherited tenants, you have to make contact and let them know how to reach you at any time. Assure them that you care about their well-being and are there to make their stay as comfortable as possible. If you have to go out and find new tenants, then make sure that the premises are as clean as possible for prospective renters. I recommend using online classified sites like and Kijiji Craiglist to advertise your rental suite, but signs in windows or notices in local bulletin boards are a good way to attract potential tenants as well.

There has been a lot written about how to be a successful landlord, but most of it boils down to common sense. If you put yourself in your tenant's position then what you should be doing will become quite clear. If you treat the rental suite as if you were living in it yourself, I'm sure you will be an excellent landlord.

Here are a few other things to keep in mind to ensure your continued success as a landlord:

As I have said before, if something goes wrong at you rental suite, fix it! Right away. If you are not handy or unable to repair problems as they arise, hire a property manager. It is also very prudent to have a couple of handymen at your disposal should you require help in a pinch.

Keep your rents at market rates. Do not charge an excessive amount for your suite and you will always keep good tenants.

Read and understand the Residential Tenancies Act and know what your rights and obligations are under the Act. An informed landlord is a smart landlord.

Make sure that you have adequately assessed the existing rents and determined that they can be sustained. A realtor that focuses on income properties will be able to help with your analysis.

Have a home inspection before you purchase a property. This will allow you to remedy all the inherent problems with the property, no matter how big or small. I know this sounds straight-forward, but in multiple offer situations, buyers often forego this in order to get the deal.

Call the references and run credit checks on prospective tenants. Also, make sure that you meet them in person and get a "feel" for what they are like. If you think someone might be dodgy, do not rent to them just because they are the only people interested.

Draw up formal leases that contractually address every aspect of the tenancy. Do not do handshake deals. You can find many good lease templates online which you can adapt to suit your purposes.

Join the Landlords' Association in your neighbourhood. Joining an association will provide you with a wealth of experience as well as sample leases, copies of laws and regulations, and lists of decent lawyers, contractors and inspectors. Some associations may even allow you to join before you buy a rental property. Hire a good lawyer, insurance broker, lender and accountant. These professionals will be called upon from time to time and can be just as important as having a good income property agent.

Keep a slush fund in case something goes wrong. This is essentially money earmarked for unexpected expenses that are not covered by insurance. There is no set amount for an emergency fund, some say 10% of the value of the property, but anything is better than nothing. If you are getting current income from a property, you can pool that money into an emergency fund.

Keep visiting relevant real estate websites for the latest news and views as well as to keep abreast of current income properties for sale. It’s great to stay on top of the market and always have a sense of what your property may be worth. Since it is an investment, being able to unload it at the right time is often critical.

As a landlord, usually spring and fall are the times when you should be thinking about addressing any outstanding maintenance issues at your income property. A lot of properties need extra care going into the winter season. Also, remember to raccoon proof your property as best as you can. Toronto is prone to these critters and they have become very clever at finding places to nest in for the winter.

Here is a checklist of things that you should consider doing to keep your investment property in tip top shape:

1. Replace your furnace filter before you turn on the heat for the first time

2. Once you have turned off your air-conditioner, give the exterior unit a good cleaning and make sure that that no leaves have fallen into the fan area.

3. Inspect the roof visually from the ground if possible – if you have to go onto the roof, wear a safety harness or hire a contractor. Check the flashings around skylights, pipes and the chimney. Also, look for any loose or missing shingles.

4. Regularly clean gutters and downspouts. Make sure all drainage areas are unblocked by leaves and debris.

5. Clean windows and window tracks, and make sure weep holes are not blocked (including sliding door tracks – lubricate openers and track rollers with silicone spray).

6. Turn off the exterior water supply to prevent pipe freezing

7. Test all ground fault circuit interrupters in your washrooms, kitchens, outside receptacles and on the electrical panel

8. Check the batteries in your smoke and carbon monoxide detectors and ensure that all fire extinguishers are in good working order.

It is important to observe your heating obligations as the winter approaches. Sometimes tenants may disagree as to whether a building is too hot or cold. The temperatures are set under municipal bylaws. If the tenant is not the cause for the cold temperatures, such as by keeping windows open, or by setting a thermostat to a lower temperature, then the landlord has a responsibility to maintain a minimum temperature as set by the municipality. If the landlord is not meeting the minimums, a renter may put in a complaint to the city's Building and Inspections department or their local city councillor. In Toronto the temperature must be a minimum of 21C (70 Fahrenheit) from September 15 to June 1 according to Chapter 497-2 of the Toronto Municipal Code under bylaw 499-2000. There is usually only one thermometer in each income property, often located within one of the rental suites. I recommend that you set the temperature to the required setting and then ensure that the tenants in that suite do not change it.

Remember that if you keep your investment property in a good state of repair, you will be providing a much better experience for you tenants. Being a landlord is a privilege, not a right. Be smart and remain dutiful to your tenants and your income property experience will be a good one.

CHAPTER SIX: The Ontario Residential Tenancies Act

The relationship between a landlord and tenant is governed in Ontario by the Residential Tenancies Act. As a landlord you should become familiar with your rights and obligations under the Act. This applies to only residential dwellings and not to commercial leases. The rental unit is usually an apartment, a house, or a room in a rooming or boarding house. The Act also applies to care homes, retirement homes, and sites in a mobile home park. The Act does not apply if the tenant shares a kitchen or bathroom with the landlord. Here are some relevant statutes (condensed) of the Residential Tenancies Act which I believe all landlords should be familiar with:

The Landlord and Tenant Board (the Board) exists to resolve disputes between tenants and landlords. Either a landlord or a tenant can apply to the Board to mediate a dispute. The Board also provides landlords and tenants with information about the rights and responsibilities they have under the Act. In Toronto, the Board is located at 79 St. Clair Avenue Ease, just east of Yonge Street.

The landlord and tenant may sign a lease when a new tenancy is entered into, or they can have an oral agreement. The lease should not contain any clauses that contravene the Act. When a new tenancy is entered into, the landlord and tenant decide how much the rent will be for a rental unit and which services will be included in the rent (for example, parking, cable, heat, electricity). In most cases, the rent cannot be increased until at least 12 months after the tenant moved in.

The landlord can collect a rent deposit from a new tenant on or before the start of a new tenancy. Where the tenant pays rent by the month, the deposit cannot be more than one month’s rent; where the tenant pays rent by the week, the deposit cannot be more than one week’s rent. The rent deposit can only be used as the rent payment for the last month or week before the tenant moves out. It cannot be used for anything else, such as repairing damage to the rental unit.

The landlord is permitted to increase the rent each year only by the prescribed amount allowed by the province. The landlord must give at least 90-days' notice in writing of any rent increase. The proper forms for this notice (Form N1, N2 or N3) are available from the Board.

The landlord has to keep the rental property in a good state of repair. A landlord must obey all health, safety, housing and maintenance standards, as set out in any provincial laws or municipal bylaws. The suite must also conform to Ontario Fire Code. A tenant can apply to the Board if the landlord is not meeting their maintenance obligations. If the Board agrees that the landlord is not meeting their maintenance obligations, there are a number of remedies the Board can order. For example, the Board can order that the tenant does not have to pay some or all of the rent until the landlord does the repairs or that the landlord cannot increase the rent for the rental unit until any serious maintenance problems are fixed. The landlord cannot shut off or interfere with the supply of heat, electricity or water to a tenant's rental unit:

A landlord can enter a tenant's rental unit without written notice if:

- There is an emergency such as a fire,
- The tenant agrees to let the landlord in,

- The rental agreement requires the landlord to clean the unit – unless the agreement allows different hours for cleaning,
- The landlord or tenant has given a notice of termination, or they have an agreement to end the tenancy, and the landlord wants to show the unit to a potential new tenant (in this case,

although notice is not required, the landlord must try to tell the tenant before entering for this reason).

A landlord can enter the rental unit between 8 a.m. and 8 p.m., and only if they have given the tenant 24 hours written notice:

- To make repairs or do work in the unit,
- To carry out an inspection, where reasonable, in order to determine whether repairs are needed,
- To allow a potential mortgagee or insurer of the complex to view the unit,
- To allow a potential purchaser to view the rental unit (note: the Act also allows a registered real estate agent or broker to enter for this purpose if they have written authorization from the landlord),
- To allow an engineer, architect or other similar professional to make an inspection for a proposed conversion under the Condominium Act; or

The notice must include the reason why the landlord wants to enter the rental unit and must state what time, between 8 a.m. and 8 p.m., the landlord will enter the unit. If the landlord gives the tenant the correct notice, the landlord can enter even if the tenant is not at home.

The end of a lease does not mean a tenant has to move out. A new lease can be made or the landlord and tenant can agree to renew the lease for another fixed term period. Where the tenant stays on as a monthly or weekly tenant, all the rules of the former lease will still apply to the landlord and tenant. But the landlord can increase the rent each year by the amount allowed under the Act.

A tenant and landlord can agree to end a tenancy early. The parties can make an oral agreement to end the tenancy, but it is best to have a written agreement. A notice of termination does not have to be given by either the landlord or the tenant if there is an agreement to end the tenancy.

A landlord can end a tenancy only for the reasons allowed by the Act. The first step is for the landlord to give the tenant notice in writing that they want the tenant to move out. The proper forms a landlord must use for giving a notice to end the tenancy are available from the Board. If the tenant does not move out after receiving the notice, the landlord can ask the Board to end the tenancy by filing an application. The Board will decide if the tenancy should end after holding a hearing. Both the landlord and the tenant can come to the hearing and explain their side to a Member of the Board.

The Act allows a landlord to give a tenant notice if the tenant, the tenant's guest or someone else who lives in the rental unit either does something they should not do, or does not do something they should.

For example:

- Not paying the rent in full,
- Persistently paying the rent late,
- Causing damage to the rental property,
- Illegal activity,
- Affecting the safety of others,
- Disturbing the enjoyment of other tenants or the landlord,
- Allowing too many people to live in the rental unit ("overcrowding"),

There are some other reasons for eviction that are not related to what the tenant has done or not done. For example:

- The landlord wants the rental unit for their own use or for the use of an immediate family member or a caregiver,

- The landlord has agreed to sell the property and the purchaser wants all or part of the property for their own use or for the use of an immediate family member or a caregiver,
- The landlord plans major repairs or renovations that require a building permit and vacant possession,
- The landlord plans to demolish the rental property, in a care home that is occupied for the sole reason of receiving therapy or rehabilitation, the tenant's rehabilitation or therapy program has ended.

For more information on the Residential Tenancies Act, you can visit the Board's website at LTB.gov.on.ca or call them at 416-645-8080

PART THREE: After You Buy Your Income Property

CHAPTER SEVEN: Additional Landlord Advice & Resources

Legal vs. Non-Legal Suites & Fire Retrofit

One of the most common concerns that I experience in the field is the question of legal vs. non-legal apartments in residential income properties. The issue usually pertains to basement apartments in duplexes but it also comes into play when there are three, four, or more apartments in the property. It is a very tricky subject as I have to deal with the practical realities of the marketplace, namely that most accessory suites are not legal, yet they continue to be rented without issue or trouble from the City. The fact is there is a lot of misinformation floating around out there and most landlords have been renting out "illegal" apartments for years. By and large, if a single-family has been converted to units, it is not likely that all the suites will meet the eligibility requirements to be completely legal – especially if it doesn't meet the parking specifications. If a property was originally "purpose-built" as a duplex, triplex or fourplex, then the suites are usually all legal. That is why you will often see Sellers and their agents make no warranties or representations with respect to the zoning, use or legality of the self-contained units when an income property changes hands.

Most investors' primary concern is whether you can finance and insure a property with multiple units. Whether they are "legal" or not is secondary. Remember that all suites have to meet fire code for insurance purposes. In Toronto, we have a fire retrofit standard that is used for residential accessory apartments. Bear in mind, many apartments (especially in basements) do not meet retrofit code. Also, having a retrofit certificate does not automatically make your units legal either. In a city like Toronto, where the apartment vacancy rate is low and real estate values are high, many people rely on the rental income from a basement apartment to give them the edge they need to own a home. But what is a "legal" apartment? If the suites are not "legal", how can it be made "legal"? In the process of legalizing the apartment, will you be inviting 'trouble'? What if the City prescribes improvements that are prohibitively expensive? What if the City decides that you can't have an apartment? What does that mean for you and your existing tenants?

I recommend that if you are unsure about the status or "legality" of your suites or you would like to change the current status or zoning of your property that you contact the City and get further professional advice. Do not assume anything or take anything for granted. All of the answers are out there - you just have to acquire the knowledge, albeit perhaps with some legal assistance. Remember that you are never exempt from building or fire codes and that you are ultimately responsible for the continued smooth operation of your investment property. Do not cut corners, avoid getting the necessary permits or do any work to the property that may be unsafe. If you are relying on verbal declarations from a seller or his agent with regards to legality or retrofit prior to a purchase, I suggest you wait until you have all the information you need in writing, properly verified. If you are ever unsure about anything, please contact your lawyer before you firm up your purchase.

Separate Meters

Another recommendation is that, where possible, try and have separate hydro meters for each of your rental units. In some cases, this isn't possible without a major electrical overhaul. Tenants will tend to not waste energy when they are paying their hydro bills directly. This can save you money in the long term. If you cannot install separate meters in your property and you have to pay the hydro bills yourself, make sure that you are allowing for this in the rents. This also applies to gas, water and garbage removal. The on-going costs for utilities often increase greater than the allowable rent increases, so that can diminish your bottom line. When you can't raise rents, you should be keep an eye on your fixed and variable expenses to ensure that you are keeping them as low as possible.

Furnished vs. Unfurnished?

Another question that I often get asked from my clients is whether they should offer furniture in their rental suite. Generally a furnished apartment will rent for around 20 to 30% more than an unfurnished one. Most tenants have their own furniture but there are times where renters may prefer their apartment to be fully furnished. People from out of town or who are new to the city often prefer this.

Furnished rentals tend to be for shorter terms. Some renters may only need accommodation for a shorter period, so having a bed and couches and chairs is beneficial. Executive rentals tend to come furnished as well. Some companies may only need your suite for a few weeks, so furnishing it allows you to complete with hotels and other short-term accommodation providers. How much money should you spend on furniture for your rental suite if you decide to go that route? I would say that make sure that you buy pieces of high enough quality that it enhances the suite and is appropriate for the rent that you are charging. Remember that you will be spending more time managing the property since the renters will be coming and going more frequently. Allow for this in the short-term rents that you may be charging.

Property Management

One of the first decisions you will have to make is how involved do you intend to be with the on-going operation of your income property if you don't live in it. Does it make sense to hire a superintendent or property manager? You have to consider how much free time you have and whether the additional cost to hire someone is justifiable. Property managers can cost hundreds of dollars a month and sometimes that cost is the difference between an acceptable return or not. It is nice to have someone collect your rents and tend to the maintenance items but if you take care of that yourself your savings may be significant. If your property is out of town or far away then property management would make more sense. Also, if you have a lot of rental suites then hiring a property manager would be a smart move as well. The economics on a 12-plex will be more favourable to hiring a property manager then on a duplex for example. Sometimes property management companies charge a percentage of the overall gross rents. There are many options for you to explore if you decide to go down this road.

Pets

Another potential area of concern for landlords is with tenants and their pets. You can request no pets in your ads, but do you as a landlord have the right to request a tenant to get rid of their dog, cat or bunny rabbit? The short answer is no. It is only if the pet is dangerous, causes allergic reactions or causes problems for other tenants or the landlord, that a tenant must get rid of their pet or consider moving elsewhere as per a formal landlord application to terminate tenancy based on animals. Even if you signed a lease with a “no pets” clause, if the pet is not a problem for anybody you cannot enforce it; such no pet clauses are invalid under the law. Also remember that a tenant does not have to move or get rid of the pet unless you issue a written order to do so. I read a story recently about a snake getting loose in a downtown apartment building and causing all sorts of panic amongst residents – I think this would be one of the rare cases where you could request that the pet be removed and not be given any resistance.

More resources

There are some more excellent landlord resources available to you online and particularly on our website (plex.ca). A great place to start is your local municipal website. I also recommend that you take a look at the Canadian Landlord Association website for even more resources. There are numerous landlord self-help sites and many other landlord/tenant websites.

I have been writing a monthly newsletter for a long time, all of which are available at plex.ca. There's a lot of landlord information there along with a lot of commentary on the Toronto income property market conditions at the time of writing.

There is also some great landlord literature provided by CMHC. You can go to the Canada Mortgage and Housing Corporation’s Landlord page to gain access to the following valuable resources:

Understanding Private Rental Housing Investment in Canada

- A recent study of the nature and extent of private rental housing investments in Canada.

Adapting Low-Rise Residential Buildings

- A guide that helps landlords/property owners renovate buildings to create a barrier-free, three-storey walk-up apartment building. This guide was not designed to substitute for the National Building Code or local/municipal requirements.

Research Report: Aging Tenants in the Private Rental Market

- This research study discovered how home owners and landlords of private rental housing are addressing the changing needs of their aging tenants.

Cleaning Up your House After a Flood

- This small booklet explains how to examine, decontaminate and clean up a house after a flood. This is a useful resource for people who find themselves in this situation.

Clean-Up Procedures for Mold in Houses

- This small booklet explains the basics of mold and how to clean it up in beds and bedding, clothing, carpets, drapes, upholstered furniture, walls, ceilings, uncarpeted floors and other household items. This resource is quite useful for people who have allergies to molds or find themselves living in a moldy space.

Rental Repair and Renovation in Canada

- These key findings of the 1996 Statistics Canada study, Rental Repair and Renovation Expenditure Survey, were commissioned by CMHC.

Understanding Private Rental Housing Investment in Canada

- This highlights booklet provides fascinating tidbits of data, such as "Canada has about 4 million rental housing units, some 85% owned by the private sector". The reader can also find a few interesting tips, with "broad-strokes" insights into private rental housing in Canada.

Evictions: A Practical Guide to Residential Evictions in Ontario (2001)
Toronto CCH Canadian

- This guide takes a how-to, step-by-step approach to evictions. Complete with forms, this guide is current, making it extremely useful for Ontario landlords.

Additional Real Estate Investment Titles:

Real Estate Investing In Canada for Dummies (Douglas Gray & Peter Mitham)

Real Estate Investing in Canada (Don Campbell)

97 Tips for Canadian Real Estate Investors 2.0 (Don Campbell)

The Canadian Real Estate Action Plan (Peter Kinch)

Canadian Real Estate Investor Financing (Dalia Barsoum)

More Than Cash Flow: The Real Risks & Rewards of Profitable Real Estate Investing (Julia Broad)

The Canadian Landlord's Guide: Expert Advice for the Profitable Real Estate Investor

Landlording: a handy manual for scrupulous landlords and landladies who do it themselves, 9th edition

- This US publication has received rave reviews from readers, with the Chicago Tribune calling it "…the best property management book in the field." As U.S. landlord-tenant law varies from Canadian, landlords will find most useful the areas of the book that deal with practical matters as opposed to strictly legal issues.

CHAPTER EIGHT: Income Property Math

Proper financial analysis is critical to evaluating the benefits of a potential income-generating property. When you inherit tenants, the rents are already in place so those are the numbers you use in your analysis. When the suites are vacant, apply a conservative market rent. Make sure that your monthly expenses are cover all utilities, insurance and maintenance costs, excluding capital improvements that are written-off over a period of years.

The spreadsheet on the next page is a simplified tool that quickly allows you to calculate your closing costs as well as your monthly net income and overall cap rate. A minor change in rents or expenses will significantly affect your overall return so this is meant to give you a snapshot of the potential profitability with the anticipated rents.

Hypothetical Property

PURCHASE DETAILS		
	Purchase Price	**625,000**
	Mortgage Deposit - 20%	**125,000**
	Toronto Land Transfer Cost	8,225
	Ontario Land Transfer Cost	8,975
	Total Land Transfer Cost	**17,200**
	Legal Fees & Title Insurance	1,500
	Renovation Budget	**25,000**
	TOTAL CASH REQUIRED TO CLOSE	**168,700**
MONTHLY ANALYSIS		
Income	Basement Apartment	1,000
	Main Floor Apartment	1,500
	Second Floor Apartment	1,500
	TOTAL MONTHLY INCOME *(less 5% vacancy allowance)*	**3,800**
Expenses	Purchase Price	625,000
	Mortgage Amount	500,000
	Monthly Mortgage Payments - 3% *(approx.)*	2,365
	Monthly Property Taxes *(as provided)*	225
	Monthly Expenses *(estimated)*	650
	TOTAL ESTIMATED MONTHLY COSTS	**3,240**
	NET MONTHLY INCOME	**560**
	CAP RATE	**5.40%**

CHAPTER NINE: Income Property Glossary

A

Absentee Investor: One who puts money into real property with the intention of earning income or making a profit.

Adjusted Cost Base: The acquisition price of a property with adjustments for deductions and additions pursuant to the Income Tax Act most often used to determine capital gains arising from the sale of the property.

Agency: The relationship between principal and agent, wherein an agent is employed and authorized by the principal to represent the principal in business transactions with a third party.

Agent: One who is authorized by a principal to represent the principal in business transactions with a third party. In the real estate profession, it refers to a broker.

Agreement of Purchase and Sale: A contract by which one party agrees to sell and another agrees to purchase.

Agreement to Lease: A contract by which one party agrees to rent real estate to another party for a rental fee or other compensation.

Amortization: The number of years it would take to repay the entire amount of the mortgage loan.

Appraisal: The act or process of estimating value.

Appurtenance: Something that is outside the real property itself, but belongs to the land and is joined thereto. It adds to greater enjoyment of the land. A right-of-way is an appurtenance.

Assessed Value: A valuation placed upon property as a basis for municipal taxation.

Assessor: An official who has the responsibility of determining assessed value for tax purposes.

Assumption of Mortgage: The taking of title to property by a Purchaser wherein he assumes liability for an existing mortgage against a property and becomes personally liable for the payment of such mortgage debt.

B

Balance Due on Completion: The amount of money the purchaser will be required to pay to the vendor to complete the purchase, after all adjustments have been made.

Basis Point: When calculating a mortgage rate, the equivalent of 1/100ths of 1%

Building Codes: Regulations established by local governments providing for structural requirements for building.

Building Line: A line fixed at a certain distance from the front and/or sides of a lot, beyond which no building can project.

Building Permit: A document issued by the municipal authority certifying the blueprints for construction and allowing work to commence.

Bundle of Rights: A concept in which rights of possession, use, enjoyment, and disposition comprise the rights of ownership.

C

Capital Gain: a financial gain on the sale or exchange of investment real estate that meets criteria as set out in the Income Tax Act.

Capitalization Rate: the percentage of return on an investment when purchased free and clear on a cash basis.

Cash Flow: The income received during a specified period on rents or other fees, gross operating income, or the disposition proceeds of the investment at the point of sale

Charge: The name given to a mortgage document when title is registered under the Land Titles Act.

Chattel: Personal property that is tangible and moveable.

Closing: See Date of Completion.

Cloud on Title: Any encumbrance or claim that affects title to real property.

Commission: Remuneration paid to an agent on sale or lease of property, usually as a percentage of the amount involved.

Common Area: The area in a rental property that are shared by all or some of the tenants, such as elevators, hallways, foyers, etc.

Common Law: That part of the law formulated, developed and administered by the common law courts, based originally on common customs and mostly unwritten.

Compound Interest: Interest on both the original principal and on interest accrued.

Condominium: The fee ownership of a specified amount of space with tenancy-in-common ownership of portions used jointly with other owners (the common elements).

Consideration: Something of value given by a promisee to a promisor to make the promise binding.

Construction Lien: See Mechanics' Lien.

Contract: A contract is a legally binding agreement between two or more capable persons for consideration or value, to do or not to do some lawful and genuinely intended act. If for the sale of real estate, it must be in writing.

Contractor: an individual or firm used in performing work on construction projects.

Conveyance: The transfer of an interest in property from one person to another.

Covenant: An agreement contained in a deed and creating an obligation. It may be positive, stipulating the performance of some act. It may be negative or restrictive, forbidding the commission of some act.

Custodian: see Superintendent

D

Damages: Compensation or indemnity for loss owing for breach of contract, or a tort (civil wrong).

Date of Completion: The date specified in the agreement of purchase and sale, when the purchaser is to deliver the balance of money due and the vendor to deliver a duly executed deed and vacant possession of the property (unless otherwise agreed).

Debt Coverage Ratio: Used by lenders, the relationship between net operating income and debt service.

Debt Obligation: Any amount one person owes to another individual or institution.

Debt Service: The payment of mortgage payments.

Deed: An instrument in writing, duly executed and delivered, that conveys title or an interest in real property.

Deed Restriction: An imposed restriction in a deed for the purpose of limiting the use of the land.

Default: Failure to fulfill an obligation.

Deposit: Payment of money or other valuable consideration as pledge for fulfillment of contract.

Depreciation: A loss in value due to any cause, or more specifically the decline in the value of a real estate investment resulting from physical deterioration (ordinary wear and tear), and functional obsolescence.

Description: A legal identification of land or premises.

Developer: One who participates in the subdivision or improvement of land.

Duplex: A two-family dwelling or house.

E

Easement: A right enjoyed by one landowner over the land of another.

Encroachment: The unauthorized extension of the boundaries of land.

Encumbrance: Outstanding claim or lien recorded against property or any legal right to the use of the property by another person who is not the owner.

Equity: The interest an owner of real property has in its total assets after allowing for encumbrances and creditors' claims.

Equity Return: The percentage ratio between the equity in a property and the total of cash flows plus mortgage principal reduction.

Escheat: The reversion of property to the state in the event the owner thereof dies leaving no will and having no legally qualified heir to whom the property may pass by lawful descent.

Escrow: A neutral third party holds the documents and money involved in a real estate transaction and ensures that all conditions of a sale are met. Escrow also refers to a special account that a lender establishes to hold monthly installments from the borrower to cover property taxes and insurance.

Estate: An interest in land.

Exclusive Listing: The giving of the sole right to offer the described property for sale according to the terms of the agency agreement.

Extras: Chattels included in the sale.

F

Fee Simple: The highest estate or absolute right in real property.

Fixtures: Permanent improvements to property that may not be removed at the expiration of the term of lease or tenure.

Foreclosure: Remedial court action taken by a mortgagee, when default occurs on a mortgage, to cause forfeiture of the equity of redemption of the mortgagor.

G

Gross Debt Service (GDS) Ratio: Lender's allowable ratio of gross monthly payment to gross monthly income of mortgage applicant.

Gross Operating Income: the total income from an investment property based on 100% occupancy less vacancy and credit losses plus other all other income

H

Highest and Best Use: That use which allows an investment property to earn the maximum market rent

I

Income Property: Property that is used to generate income by renting or leasing all or a portion thereof.

Injunction: A judicial process or order requiring the person to whom it is directed to do, or refrain from doing, a particular thing.

Instrument: A form of written legal document.

Interest Rate: The percentage that is charged for the use of borrowed money.

Irrevocable: Incapable of being recalled or revoked; unchangeable, unalterable.

J

Joint Tenancy: Ownership of land by two or more persons whereby, on the death of one, the survivor or survivors take the whole estate.

L

Landlord: The person from whom another holds tenancy.

Lease: Contract between landlord (lessor) and tenant (lessee) for the occupation or use of the landlord's property by the tenant for a specified time and for a specified consideration (rental).

Legal Description: A written description by which property can be located, definitely.

Lessee: Tenant under a lease.

Lessor: The person who grants use of property under lease to a tenant (i.e. the landlord).

Leverage: The use of financing or other people's money to control large pieces of real property with a small amount of invested capital.

Lien: A right, given to a creditor, creating an interest in the real property until the debt is discharged.

Listing: An oral or written agreement between a property owner and a broker authorizing the broker to offer the owner's real property for sale or lease.

M

Market Value (Formal Definition): The highest price in terms of money, which the property will bring to a willing seller if exposed for sale on the open market allowing a reasonable time to find a willing purchaser, buying with the knowledge of all the uses to which it is adapted and for which it is legally capable of being used, and with neither party acting under necessity, compulsion or peculiar and special circumstances.

Mechanics' Lien (Construction Lien): A claim filed in the land registry office by an individual, or company, for labour or material, or both, supplied for the improvement of the property.

Metes and Bounds: A system of land description whereby all boundary lines are set forth by use of terminal points and angles - "mete" referring to a limit or limiting mark, and "bounds" referring to boundary lines.

Mill: One-tenth of one cent, a measure used to indicate the property tax rate, e.g. a tax rate of one mill per dollar is the same as 0.10 per cent of the assessed value.

Mortgage: A conveyance of property to a creditor as security for payment of a debt with a right of redemption upon payment of the debt.

Mortgagee: The one to whom property is conveyed as security for the payment of a debt; the lender or creditor.

Mortgagor: The one who gives the mortgage; the borrower or debtor.

Mortgage Commitment: A formal indication by a lending institution that it will grant a mortgage loan on property, in a certain specified amount and on certain specified terms.

Mortgage Principal: The amount of money that is to be repaid to a lender before interest payments.

Multiple Listing: An arrangement among brokers who are real estate board members, whereby each broker shares information regarding his listings with the other members, who may negotiate the transaction.

Multiplex: A multi-family dwelling or house.

N

Net Operating Income: Income derived from a real estate investment after deducting all fixed and variable expenses from gross operating income but before deducting annual debt service and tax liability.

O

Open Listing: A listing given to any number of brokers without liability to compensate any except the one who first acquires a buyer ready, willing and able to meet the terms of the listing, or secures the acceptance by the seller of a satisfactory offer; the sale of the property automatically terminates the listing.

Option: A right given by the owner of property to another (for valuable consideration) to buy certain property within a limited time at an agreed price.

Owner Occupied Investor: An investor who lives in a property that provides them with additional revenue.

P

Power of Attorney: Delegated written authority to a person to legally act on behalf of another.

Power of Sale: The right of a mortgagee to force sale of the property without judicial proceedings should default occur.

Prepayment Clause: A clause inserted in a mortgage, which gives the mortgagor the privilege of paying the mortgage debt in advance of the maturity date, on stipulated terms.

Principal: The employer of an agent or broker, who gives the agent or broker the authority to do some act for him.

Q

Quit Claim Deed: A general release of all claims or rights to a parcel of land.

R

Real Estate: "Real Estate" includes real property, leasehold and business whether with or without premises, fixtures, stock-in-trade, goods or chattels in connection with the operation of the business. (Real Estate and Business Brokers Act)

Real Estate Broker: A person who represents a principal in a real estate trade.

Real Property: The real estate, plus the rights that go with it.

Realtor: A registered word that may only be used by an active member of a real estate board affiliated with the Canadian Real Estate Association.

Residential Income Property: A non-commercial property that provides an investment opportunity, whether by living in a portion of it and leasing the remainder (owner-occupied) or by renting out the premises entirely (absentee investment)

Restrictive Covenant: A limitation placed upon the use of property, contained in the deed.

Return on Investment: The proceeds of an investment expressed as a percentage representing net income (including annual debt service) divided by initial capital invested

Reversion (Sale of Investment Property): the cash proceeds (cash flow) received from the sale of an investment property, involving the return of capital to the investor at the end of the investment period.

Right-of-Way: The right to pass over another's land, more or less frequently, according to the nature of the easement.

Risk: The uncertainty, chance, exposure, and vulnerability imposed on an investor with particular regard to any financial loss that may accrue from a real estate investment.

Running with the Land: A covenant is said to run with the land when it extends beyond the original parties to the agreement and binds all subsequent takers to either liability to perform it or the right to take advantage of it.

S

Salesperson: An employee of a broker authorized to trade in Real Estate (as defined within the Real Estate and Business Brokers Act). Also can be referred to as a Sales Representative.

Special Assessment: An assessment which is not customarily levied and which is made against those specific parcels of property directly benefiting there from.

Statement of Adjustments: A statement prepared by the solicitor for the vendor setting out, in balance sheet form, the credits to the vendor (e.g. purchase price, prepaid taxes, prepaid insurance, etc.) and the credits to the purchaser (e.g. deposits, arrears in taxes prior to the date of closing) and the balance due on closing, so that both the purchaser and the vendor will have a record, at the date of closing, of the financial breakdown of the transaction.

Sub-agent: An agent authorized by the listing agent to assist in transacting the affairs of the principal (with express or implied consent of principal).

Superintendent: A person responsible for the maintenance of a building.

Survey: The accurate mathematical measurement of land and buildings thereon, made with the aid of instruments.

Syndicate: An association of individuals formed for the purpose of owning, operating and managing large parcels of real property for the mutual benefit of all, and organized as a corporation, limited partnership or joint venture.

T

Tax Shelter: The tax write-off possible through the depreciation benefits available on investment real estate ownership.

Tenancy-in-Common: Ownership of land by two or more persons; unlike joint tenancy in that interest of deceased does not pass to the survivor, but is treated as an asset of the deceased's estate.

Tenant: One who occupies land or tenement under a landlord.

Term: In a mortgage "term" is the actual length of time for which the money is loaned.

Time is of the Essence: Requires punctual performance of a contract on closing date and is indicated by so stating as in an Agreement of Purchase and Sale.

Time Value of Money: The value of a future sum of money if it is paid today.

Title: The means of evidence by which the owner of land has lawful ownership thereof.

Triplex: A three-family dwelling or house.

Trust Account: An account separate and apart from one's personal monies, as required by law in the case of a broker.

V

Vacancy Rate: A snapshot indicator of a rental market calculated by dividing the amount of vacant space by the total inventory of existing space to arrive at a rate expressed as a percentage

Variable Rate Mortgage: A mortgage in which the interest rate fluctuates during the term and either payments or balance outstanding are adjusted accordingly.

Vacant Possession: The state whereby a property is conveyed to a new owner(s) without any tenants or inhabitants

Vendor: A seller of real property.

Vendor Take-back Mortgage: A vendor retains an interest, by way of a mortgage from the purchaser, for the balance of funds owing to the vendor upon closing.

Y

Yield Rate: The rate of return on capital realized from all future benefits arising out of ownership of an investment property.

Z

Zoning By-law: A by-law passed by a municipality and approved by the Ontario Municipal Board, prohibiting the use of land in certain areas for any purpose other than as set out in the by-law. In the Planning Act, it is called a Restricted Area By-law.

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Paul has helped hundreds of people buy and sell rental properties and has become synonymous in Toronto as being the "plex" guy, the one realtor you turn to when you want quality first hand assistance with buying, selling and renting income properties.

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