

**Update:- January 2015**

# **BUYING AN INVESTMENT PROPERTY**

1. **Why** the Region of Waterloo?
2. **Who** should own an investment property?
3. **What** type of investment property should you buy?
4. **Where** should you purchase an investment property?
5. **When** is the best time to buy?
6. **How** do I buy an investment property?
7. **THE FIGURES.....**
8. **Resources** Q & A's from some local professionals

**Finally..... WHAT IS THE DEFINITION OF A TENANT?** (Page 13)

**Seminar 1**

# 1. Why The Region of Waterloo?

The Region of Waterloo is a fantastic place to invest in real estate.

Our diversity offers protection from the many different effects of recession and drops in housing prices.

Our Region has strong migration and immigration.

The diversity in employment including, insurance, manufacturing, education, and technology, assures us of continuous growth.

For the full Rental Market Report for Kitchener-Cambridge-Waterloo, click here on the link below:-



Or type this url into your web browser:-

[http://www.cmhc-schl.gc.ca/odpub/esub/64399/64399\\_2014\\_A01.pdf](http://www.cmhc-schl.gc.ca/odpub/esub/64399/64399_2014_A01.pdf)

## A Startup World

**THE TOP 20 ENTREPRENEURIAL HOT SPOTS AROUND THE GLOBE**

Silicon Valley is still the king of the startup world, but it may not hold the crown for long. Over the last decade, cities worldwide have become successful startup incubators, creating new business ecosystems and exciting investment opportunities. From entrepreneurial activity to entrepreneurial spirit, the following 20 cities are the most active startup hubs in the world.

**THE TOP 20 STARTUP ECOSYSTEMS**

While the United States is home to 6 of the 10 top startup ecosystems, other areas of the world are also growing exponentially. As detailed in the Startup Ecosystem Report 2012, published by the Startup Genome in partnership with Telefónica Digital and researchers at Stanford University and the University of California, Berkeley, the following city rankings\* were calculated based on success in 3 key areas:

- STARTUP OUTPUT
- FUNDING
- PERFORMANCE
- ENTREPRENEURIAL MINDSET
- TRENDSSETTING
- SUPPORT
- TALENT
- DIFFERENTIATION

1 SILICON VALLEY	5 NEW YORK CITY	9 VANCOUVER	13 SAO PAULO	17 SINGAPORE
2 TEL AVIV	6 BOSTON	10 CHICAGO	14 MOSCOW	18 MELBOURNE
3 LOS ANGELES	7 LONDON	11 PARIS	15 BERLIN	19 BANGALORE
4 SEATTLE	8 TORONTO	12 SYDNEY	16 WATERLOO (CANADA)	20 SANTIAGO

**TOP 20 STARTUP ECOSYSTEMS AROUND THE GLOBE**

**THE SILICON VALLEY EFFECT**

Cities with the most startup founders who previously lived in Silicon Valley:

- Waterloo (Canada): 35%
- Singapore: 33%
- Toronto: 31%

## 2. WHO should own an investment property?

There are many types of investors out there. Simply put, anyone who wishes to diversify their personal wealth portfolio should consider real estate as an investment

Here are just a few scenarios...

1. **Parents with children leaving home and renting.** Why have your children pay someone else rent? There are many benefits to purchasing a property and renting it to your child. You know who is living there, and you don't have to worry about a bad landlord situation. You could even put aside a portion of the rent for your child toward a down payment on their own home one day. Why pay down someone else's principal, when you could pay down your own?
2. **Future empty nesters.** Why not purchase a potential future home now? Rent it out and then move into it when you are ready. If you change your mind, then you have just made money anyway! Lots of people are buying apartments now, as they look forward to the maintenance free lifestyle and traveling for long periods. Home prices are going up, especially if you see yourself in the Uptown Core area.
3. **Anyone currently renting who has enough income to service a mortgage.** Rental income from a tenant is often considered income. Why rent an apartment, when you could buy a duplex and rent out one unit? This is an easy way to make money to purchase another house. Even without selling the property, you can refinance and use the equity to purchase another home when your income increases. If all young adults started out early, they could retire in their 40s!
4. **Anyone who wishes to enhance their personal wealth portfolio.** If you are able to raise the down payment, you should be able to purchase an investment property.
5. **2<sup>nd</sup> Time Buyers.** Many 2<sup>nd</sup> time buyers look to sell their 1<sup>st</sup> purchase, which is usually a small property easy to rent. If you can arrange the financing, try to keep your 1<sup>st</sup> home as an investment property.
6. **Helping out a family member.** Whether you know of a parent, sibling, or other family member, buying a property to rent to your family is another investment opportunity.

### NOTE...

**NOT ALL INVESTMENT PROPERTIES ARE INCOME PRODUCING PROPERTIES. YOU MAY HAVE A SMALL SHORTFALL EACH MONTH. LOOK AT THIS SHORTFALL CONTRIBUTING MONTHLY INTO YOUR RRSP OR STOCKS. SOMETIMES YOU DON'T SEE THE RETURN ON YOUR INVESTMENT UNTIL YOU SELL.**



### 3. WHAT makes a good investment property?

There are many styles and types of investment properties. It all depends on the individual investor as to which property suits them best. From being an absent landlord in another city, to being completely hands on.

Here are some common investment properties in our Region:-

1. **Regular Freehold Residential Properties** – These can be single detached, semi detached and townhouse properties.
2. **Condominiums** – These are usually apartments and townhomes with common owned and maintained areas. These are great for easy “turn key” investment properties with no large maintenance lump costs.
3. **Multi Unit Properties** – These can be purpose built, or very often retrofitted over the years. Duplexes, triplexes, 18-plexes, etc...
4. **Student Lodging Houses/Buildings** – These are commonly retrofitted single/semi/apartment/townhome/multi-unit properties, or the purpose built larger buildings. These often yield a higher income, and do not usually fall under the jurisdiction of the Residential Tenancies Act. These are shorter tenancies with regular turn over.
5. **Mixed Use Properties** – These are usually purpose built residential and retail/commercial. These are becoming more popular with the intensification of certain neighbourhoods. Usually there is retail on the main level, and then residential above.
6. **Vacation/Resort Properties** – There is a huge range, however, common ones include cottages , condominiums and hotel condominiums.

#### NOTE:-

Many investors buy outside of their local market. There are some strong markets in St Catherines and Windsor which will yield better income than a lot of properties here.



## 4. WHERE should you buy?

The reason behind your investment purchase will dictate where you purchase.

For the pure investor looking to get into the investment property market, here are some safe criteria:

1. Good transit access
2. Good grocery or mall shopping access
3. Good school access
4. Close to Employment
5. Clean and tidy looking neighbourhood, low crime rate, etc...

Investors have a wonderful opportunity to purchase investment properties right now along the Future Light Rail Transit route.

Although location is the #1 factor for a successful investment, there are other factors that should be researched. Finding a property with features unique or giving value added perception. Some of these include:-

1. Parking
2. Character, charm, condition, value added features such as a deck, patio, etc..
3. Nearby zoning changes or developments
4. Construction of the property, esthetic attributes
5. Equity enhancement opportunities, can the property be enlarged for instance? A garage added?
6. If a single detached or semi, or townhome, try to look for the property that backs onto green space, or has no sidewalk to shovel, etc..

## 5. WHEN is the best time to buy?

# NOW!

Seriously, there hasn't been a better time. Interest rates are at an historic low.

There is always going to be "risk" involved in diversifying your wealth portfolio, however, real estate is a tangible asset, and even if the market falls, you are still earning income and paying the bills.

Some important questions to ask yourself if this is a good time to buy include:-

1. Do I have the down payment and closing costs?
2. Do I have time to find and manage tenants?
3. Do I have a good team of professionals in place?
4. Do I know why I want to buy? This is a very important question, until you know why you want to buy, you can't make a successful investment plan. It will directly impact your decision on what type of investment property you buy. You need to know why and your timing. 5 years, 10 years, etc....
5. What do you expect to get out of your investment?

**Build a team of professionals and resources . These may include:-**

1. Paralegal for tenancy issues
2. Credit and rental history records company
3. Insurance company
4. Property Manager or maintenance handyman/landscape/snow removal/electrician/plumber
5. An Independent Land Use Planner
6. Mortgage specialist
7. Accountant
8. Join a local Landlord Membership/Group

**MOST IMPORTANT..... A GOOD REALTOR AND A GOOD MORTGAGE ADVISOR**

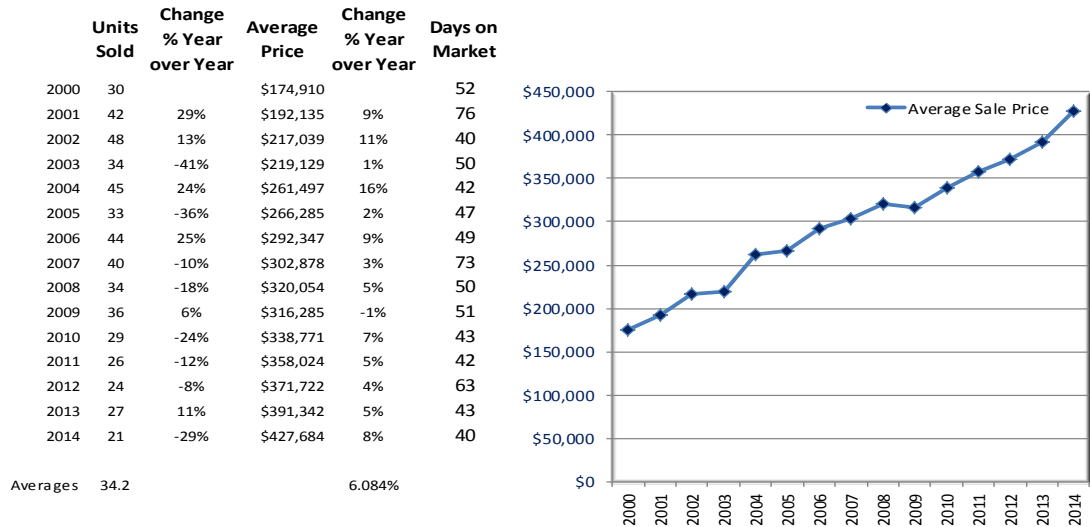
## 6. HOW do I buy a good investment property?

- STEP ONE            speak with a good mortgage specialist and apply for your pre-approval. You need to know your budget. It may be easier and less expensive than you think.
- STEP TWO            meet with a good realtor, preferably experienced in investment properties. Build a plan with your expectations and time frames. Study the market, look at as many properties as possible, and get to know the current market conditions.
- STEP THREE            Run the figures. Is it what you are looking for? (see page 8)
- STEP FOUR            know what you are buying! Do your homework and call the City planning for all paperwork, any outstanding deficiencies, occupancy permits, and more. Does the City confirm the current legal use of the property, does it comply with zoning and by-laws..... Your experienced realtor will guide you through this.
- STEP FIVE            when you have an accepted offer, start contacting your team of professionals, including a real estate lawyer.

# 7. THE FIGURES.....

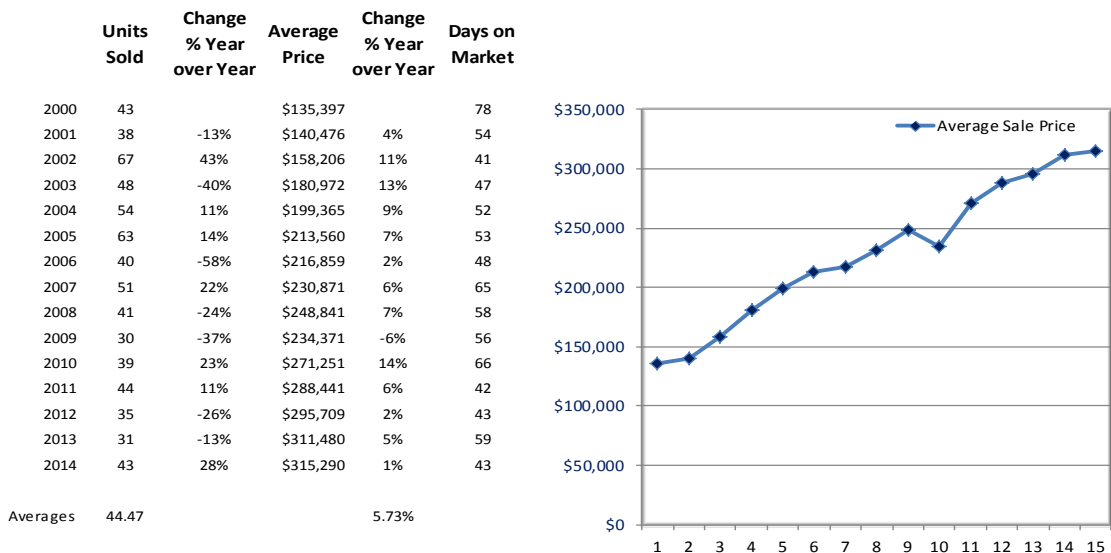
Kitchener –Waterloo has enjoyed continuous price growth in the smaller multi-unit market. I have market information for many other investment markets, however, these examples are for 3-unit and 2-unit properties. The growth in value has been steady for the past 14 years!!

## Triplexes only - excluding student properties



Prices have risen by  
**64%** in past 10 years  
**35%** in past 5 years

## Duplexes only - excluding student properties



Prices have risen by  
**58%** in past 10 years  
**35%** in past 5 years



# 7. THE FIGURES.....

How much would it cost you monthly to own an investment property, totally clear of debt, valued at approximately \$925,000 in 25 years time?

NOTHING! In fact, it would pay you!

## INVESTMENT PROPERTY SIMPLE FINANCIAL WORKSHEET

Stirling Ave, Kichener										
		<b>ASSUMPTIONS:</b>		Mortgage Amt \$ 292,000.00						
				Interest rate 3.00%						
				Term 25 Yrs						
				Monthly Pmt \$1,381.88						
				Down Payment/Investment Monthly Pmt \$101.75		4%				
<b>Income and Cash flow at a glance</b>										
Rental Income	\$ 30,600	\$2,550	Purchase Price	\$ 365,000	Expenses					
Other Income	\$ 600		Renovations Required	\$ -	Advertising	\$ -				
Vacancy Rate 4%	-\$ 1,224		Other Closing Costs	\$ 200	Gas/Water	\$ 2,400	Electricity	\$ 1,200	Property Taxes	\$ 3,500
Operating Expenses	-\$ 12,450		Lawyer Fees & LTT	\$ 4,174	Insurance	\$ 3,050	Grass/Snow	\$ 800	Property Management	\$ -
Net Operating Income (NOI)	\$ 17,526		Total Cost to Purchase	\$ 369,374	Water Heater	\$ 300	Water Softener	\$ 200	Maintenance	\$ 1,000
Debt Service - Mortgage	-\$ 16,583		Mortgage Amount	-\$ 292,000.00						
Debt Service - Investment	-\$ 1,221									
Cash Flow Before Taxes	-\$ 278	-\$23.13	Down Payment/Investment	\$ 77,374	Total Expenses	\$ 12,450				
CAP RATE (NOI/Purchase Price)	4.80%									

Rental Income Progression									
		<b>ASSUMPTIONS:</b>		Rent Increase 1.8%		Expenses Increase 1.5%			
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 10	YEAR 15	YEAR 20	YEAR 25
Potential Rental Income	\$ 30,600	\$ 31,151	\$ 31,712	\$ 32,282	\$ 32,863	\$ 35,930	\$ 39,282	\$ 42,947	\$ 46,954
Other Income	\$ 600	\$ 609	\$ 618	\$ 627	\$ 637	\$ 686	\$ 739	\$ 796	\$ 858
Vacancy Rate 4%	-\$ 1,224	-\$ 1,246	-\$ 1,268	-\$ 1,291	-\$ 1,315	-\$ 1,437	-\$ 1,571	-\$ 1,718	-\$ 1,878
Operating Expenses	-\$ 12,450	-\$ 12,637	-\$ 12,826	-\$ 13,019	-\$ 13,214	-\$ 14,235	-\$ 15,335	-\$ 16,521	-\$ 17,797
Net Operating Income (NOI)	\$ 17,526	\$ 17,877	\$ 18,235	\$ 18,600	\$ 18,972	\$ 20,943	\$ 23,114	\$ 25,504	\$ 28,136
Debt Service - Mortgage	-\$ 16,583	-\$ 16,583	-\$ 16,583	-\$ 16,583	-\$ 16,583	-\$ 16,583	-\$ 16,583	-\$ 16,583	-\$ 16,583
Debt Service - Investment	-\$ 1,221	-\$ 1,221	-\$ 1,221	-\$ 1,221	-\$ 1,221	-\$ 1,221	-\$ 1,221	-\$ 1,221	-\$ 1,221
Cash Flow Before Taxes	-\$ 278	\$ 73	\$ 431	\$ 796	\$ 1,168	\$ 3,140	\$ 5,311	\$ 7,701	\$ 10,332
Cash on Cash	-0.10%	0.03%	0.15%	0.27%	0.40%	1.08%	1.82%	2.64%	3.54%

## RETURN ON YOUR INVESTMENT CALCULATION SUMMARY

Return On Investment (ROI) Progression									
		<b>ASSUMPTIONS:</b>		Initial Investment \$ 77,374		Market Value Increase 4.00%			
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 10	YEAR 15	YEAR 20	YEAR 25
Property Value Increase	\$ 365,000	\$ 379,600	\$ 394,784	\$ 410,575	\$ 426,998	\$ 519,509	\$ 632,062	\$ 769,000	\$ 935,606
Mortgage Outstanding End of Year	\$284,014.65	\$275,787.95	\$267,312.60	\$258,581.08	\$249,585.64	\$200,362.05	\$143,236.06	\$76,939.02	\$0.00
Initial Investment	\$ 77,374	\$ 77,374	\$ 77,374	\$ 77,374	\$ 77,374	\$ 77,374	\$ 77,374	\$ 77,374	\$ 77,374
Equity	\$ 3,611	\$ 26,438	\$ 50,097	\$ 74,620	\$ 100,039	\$ 241,773	\$ 411,452	\$ 614,687	\$ 858,232
Cost To Sell (Realty Commission 5%)	\$ 18,250	\$ 18,980	\$ 19,739	\$ 20,529	\$ 21,350	\$ 25,975	\$ 31,603	\$ 38,450	\$ 46,780
Net Value of Investment before taxes	-\$ 14,639	\$ 7,458	\$ 30,358	\$ 54,092	\$ 78,689	\$ 215,797	\$ 379,849	\$ 576,237	\$ 811,452
Income Earned on Previous Years (Cumm)	-\$ 278	-\$ 204	\$ 227	\$ 1,023	\$ 2,191	\$ 13,870	\$ 35,998	\$ 69,629	\$ 115,926
Gross Value of Investment before taxes	-\$ 14,916	\$ 7,254	\$ 30,585	\$ 55,115	\$ 80,880	\$ 229,668	\$ 415,846	\$ 645,866	\$ 927,378
ROI before taxes	-19.28%	9.38%	39.53%	71.23%	104.53%	296.83%	537.45%	834.73%	1198.57%

This is a demonstration of a property that a client purchased at the end of 2013. There are many variables that could occur during the next 25 years.

## 7. THE FIGURES.....

Now take a look at the return on your investment . If you were to “cash in” your investment after the first year, you would lose money, mainly due to fees.

However, year 2 starts to show a 15% return on your investment, and year three, 39% return on your initial investment.

### RETURN ON YOUR INVESTMENT CALCULATION SUMMARY

Return On Investment (ROI) Progression		ASSUMPTIONS: Initial Investment \$ 78,150 Market Value Increase 3.00%									
	END OF	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 10	YEAR 15	YEAR 20	YEAR 25	
Property Value Increase		\$ 375,950	\$ 387,229	\$ 398,845	\$ 410,811	\$ 423,135	\$ 490,529	\$ 568,658	\$ 659,231	\$ 764,229	
Mortgage Outstanding		\$285,026.19	\$277,770.63	\$270,221.95	\$262,368.30	\$254,197.37	\$208,116.17	\$151,943.44	\$83,469.20	\$0.00	
Initial Investment		\$ 78,150	\$ 78,150	\$ 78,150	\$ 78,150	\$ 78,150	\$ 78,150	\$ 78,150	\$ 78,150	\$ 78,150	
Equity		\$ 12,774	\$ 31,308	\$ 50,473	\$ 70,292	\$ 90,788	\$ 204,263	\$ 338,565	\$ 497,611	\$ 686,079	
Cost To Sell (Realty Commission 5%)		\$ 18,798	\$ 19,361	\$ 19,942	\$ 20,541	\$ 21,157	\$ 24,526	\$ 28,433	\$ 32,962	\$ 38,211	
Net Value of Investment before taxes		-\$ 6,024	\$ 11,946	\$ 30,531	\$ 49,752	\$ 69,631	\$ 179,737	\$ 310,132	\$ 464,650	\$ 647,867	
Income Earned on Previous Years (Cumm)		-\$ 210	-\$ 55	\$ 470	\$ 1,373	\$ 2,660	\$ 18,895	\$ 38,417	\$ 73,592	\$ 121,856	
Gross Value of Investment before taxes		-\$ 6,233	\$ 11,892	\$ 31,001	\$ 51,125	\$ 72,291	\$ 198,632	\$ 348,549	\$ 538,242	\$ 769,724	
ROI before taxes		-7.98%	15.22%	39.67%	65.42%	92.50%	254.17%	446.00%	688.73%	984.93%	

### MORTGAGE CALCULATOR

1	\$292,000.00	\$18,431.76	\$11,457.95	\$6,973.81	\$285,026.19
2	\$285,026.19	\$18,431.76	\$11,176.20	\$7,255.56	\$277,770.63
3	\$277,770.63	\$18,431.76	\$10,883.08	\$7,548.68	\$270,221.95
4	\$270,221.95	\$18,431.76	\$10,578.11	\$7,853.65	\$262,368.30
5	\$262,368.30	\$18,431.76	\$10,260.83	\$8,170.93	\$254,197.37
10	\$218,076.49	\$18,431.76	\$8,471.44	\$9,960.32	\$208,116.17
15	\$164,085.02	\$18,431.76	\$6,290.18	\$12,141.58	\$151,943.44
20	\$98,269.72	\$18,431.76	\$3,631.24	\$14,800.52	\$83,469.20
25	\$18,041.24	\$18,431.25	\$390.01	\$18,041.24	\$0.00

This is a demonstration of a property that a client purchased at the end of 2013. There are many variables that could occur during the next 25 years.

## 7. THE FIGURES.....

### Financial Assumptions

This worksheet is an example of how a small investment property can appreciate.

We cannot predict the future, just look at the past based upon historical information. This information is available upon request.

The figures used in this financial spreadsheet are conservative as to give a scenario for a small investment property.

There are many different costs to be considered for different investment property styles. No 2 properties will be the same and the variables are too vast to go through in this presentation.

These spreadsheets can be used to compare investment properties.

Therefore, the following assumptions have been made:

- Mortgage rate of 3%, although in reality it is 2.8%

- Property Appreciation rate of 3%, although past 13 years show average of 6%

- Vacancy Rate of 4%, although in our local market actual figures are 2.3%

### What does “Return on Investment” mean?

Return on Investment – aka “ROI” is how much money you earn from the amount you invested.

The Purchase Price amount is often confused with the Investment amount.

When looking at investing in property, rather than say shares, the investment amount is the down payment and the closing costs, etc... Eg, how much it cost to purchase the investment (property). Not how much the investment is actually worth.

Therefore, when calculating the ROI, you divide the income earned by investment amount.

## Tips to being a successful Landlord

### Treat your tenants well. They are your business partners.

Welcome gifts with perhaps a bucket of cleaning supplies, a list of what you expect from them for garbage removal, common storage, etc...

Christmas gifts, on-time rental payment gift cards, etc....

Regular maintenance visits. Ensure no leaks, dangerous electrical, no dangerous activity such as blocking entrances, disconnecting smoke detectors, etc...

Document everything. Have tenants sign all letters and notices. Any complaint or late payment issues, type a letter and have the tenant sign that they understand and acknowledge they have received the correspondence.

Do not allow arrears, file for delinquency immediately.

Use good tenancy agreements.

Always process applications for new tenants with a good records website. (Rentcheckcorp.com is excellent)

Always call past and present landlords, find out if they have pets, payment habits, cleanliness, etc...

Always call past and present employers, do they have good regular income.

Do not rent to friends and family.

Know your tenant's rights and responsibilities, and your rights and responsibilities.

There are many more tips dependant upon the style of investment, these are a good few to follow.

# What is the Definition of a Tenant

## According to the Dictionary....

- ten·ant (t n nt)
- *n.*
- **1.** One that pays rent to use or occupy land, a building, or other property owned by another.
- **2.** A dweller in a place; an occupant.
- **3. Law** One who holds or possesses lands, tenements, or sometimes personal property by any kind of title.

## According to a Landlord....

- A partner in business who will open up the shop each morning and lock it up at night.
- They will look after security & inform you of potential problems in the business.
- They will often cut the grass, rake the leaves, shovel the snow, pay all the utilities.
- They will even pay all your mortgage payments and property taxes for you!
- Then, at the end of your partnership, they will relinquish all monetary interest in the business, and walk away leaving you with all the profits and the “business”.



# Partners – Mortgage Specialist

These are the **TOP 5** questions asked by potential property investors.

1. **How much do I need to put as a down payment on an investment property?**
  - Traditional 20% down payment
  - Student Property – up to 30% down payment
  - What if I have a family member occupying the home? Still 20% down?
  
2. **What if I want to build a home for investment?**
  - Builder Program – long, FIRM closings
  - Construction Draw Financing
  
3. **I found a fixer upper... how do I pay for the renovations?**
  - Purchase Plus Improvements
  - Purchase plus MAJOR renovation
  
4. **Can I finance a multi-unit property?**
  - Down payment
  - Up to 6 units
  - Rental income used to qualify?
  
5. **How do I use the equity for future investment purchases?**
  - **STRUCTURE IT RIGHT FROM THE BEGINNING!**
  - Homeline Plan



## Partners – Mortgage Specialist (contd...)

# HOLDING COMPANY

Some clients may want to take title to the investment property in the name of a Personal Holding company.\* This is permitted provided the company is not an operating company or a partnership and is limited to real estate holdings of this nature.

\* **Definition Of Personal Holding Company** a corporation, the shares of which are held by the applicant and immediate family members (meaning spouse, including common law or domestic partner, children (natural or adopted). The only revenue produced by the holding company is that which is generated from the assets held.

The lawyer/notary must be satisfied that the Holding Company is legally permitted to borrow money.

Personal guarantee(s) for 100% of the mortgage loan is required when the borrower is a corporate entity.

**RBC Mortgages**  
**Investing in Real Estate**  
Non-owner occupied residential property

Dan Simpson  
**RBC Mortgage Specialist**

 RBC Royal Bank



# Partners – Insurance

## Top 5 questions asked by new Landlords

1. How Do I Protect My Investment
2. Benefits to Managing Risk
3. Protect Yourself- Slip & Fall
4. Injury Awards in Canada
5. What's Your Risk Management Plan



# Partners – Accountant

## Common expenses deductible for tax

- Interest on financing costs
- Reasonable travel expenses if 2 or more properties owned
- On-going maintenance required annually
- Non-substantial repairs
- Advertising
- Insurance
- Management fees
- Property taxes
- Utilities
- Depreciation on capital items (building equipment, furniture)

## Common expenses not deductible for tax

- Principal portion of financing costs
- Personal expenses (travel from home to rental)
- Furniture/equipment is not deductible but can be depreciated
- Substantial repairs or betterments of the property are not deductible, but are allocated to the cost of the building
- Interest in certain situations (during a period of construction)

### Using Capitalization Rate ("Cap Rate") to Compare Rental property investments

- Great formula to assist in comparing different rental properties that you are looking to purchase
- formula is simply the annual net operating income (ANOI) divided by the cost of the property
- ANOI does not include any mortgage payments (neither interest nor principal repayments)
- the higher the cap rate, the better
- dividing the cap rate into 100 will provide the number of years that the investment will pay for itself
- also, determine what the property is worth to you if you know what cap rate is acceptable in the area and what the ANOI of the property is estimated at

#### Illustration

	Rental #1	<b>Rental #2</b>	Rental #3	Rental #4
ANOI	\$12,000	<b>\$15,250</b>	\$13,900	\$20,800
Asking price of property	\$123,000	<b>\$133,000</b>	\$140,000	\$200,000
Cap Rate	9.8%	<b>11.5%</b>	9.9%	10.4%
# of years to pay for itself	10.25	<b>8.72</b>	10.07	9.62

#### Best option

If we understand that a good cap rate is: 10.00% then the maximum you should pay is:

\$120,000	<b>\$152,500</b>	\$139,000	\$208,000
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# Partners – Accountant (contd...)

## Allocation of common costs related to the purchase of a rental property

- Land
- Building
- Legal fees
- Land transfer taxes

### Illustration

Purchase price	\$450,000
Land transfer tax	\$5,500
Legal fees	<u>\$1,500</u>
	<u>\$457,000</u>

### Allocation to land:

1/3 purchase price	\$150,000
Land transfer tax	\$5,500
1/3 of legal fees	<u>\$500</u>
	<u>\$156,000</u>

### Allocation to building:

2/3 purchase price	\$300,000
2/3 of legal fees	<u>\$1,000</u>
	<u>\$301,000</u>

## Taxation of Net rental income, appreciation value of property, recapture depreciation/terminal loss

### Data

Purchase of property in 2014

Land	\$156,000
Building	<u>\$301,000</u>
	<u>\$457,000</u>

Annual net income earned for each of 5 years

Net income before depreciation	\$30,000
Depreciation	<u>\$12,000</u> assume depreciation each year for the 5 years at the same amount
Net income before income tax	<u>\$18,000</u>

Property sold in 2019 for: a) \$575,000 with 5% real estate commission  
b) \$365,000 with 5% real estate commission

### Result: (A) For each of the 5 years of ownership

- annual net income of \$18,000 in each of the first 5 years is added to the income of the owner and taxed at their marginal tax rate

Individual with other income of:	Additional rental income	Total income	Tax owed on rental income	marginal tax rate
\$20,000	\$18,000	\$38,000	\$4,029	22.4%
\$50,000	\$18,000	\$68,000	\$5,607	31.2%
\$100,000	\$18,000	\$118,000	\$7,813	43.4%
\$200,000	\$18,000	\$218,000	\$8,503	47.2%

### (B)

In year of sale (2019)

#### (a) Sale for \$575,000

#### (b) Sale for \$365,000

	Land	Building		Land	Building
FMV	\$182,083	\$364,167	Cost	\$156,000	\$301,000
Cost	\$156,000	\$301,000	UCC	NA	\$241,000
UCC	N/A	\$241,000	FMV	\$115,583	\$231,167
Capital gain on land =		\$26,083	Capital loss on land =		-\$40,417
Capital gain on building =		\$63,167	Capital gain/loss on building =		N/A
Recaptured depreciation on building =		\$60,000	Terminal loss on building =		\$9,833



# Partners - Property Managers

One of the biggest decisions you'll make as a landlord is whether you should hire a property management company.

Many landlords manage properties on their own or with the help of an employee, such as a resident manager. But sometimes landlords need more help, and that's when a property management company may make sense.

## What Does a Property Management Company Do?

Management companies deal directly with prospects and tenants, saving you time and worry over marketing your rentals, collecting rent, handling maintenance and repair issues, responding to tenant complaints, and even pursuing evictions. Plus, a good management company brings its know-how and experience to your property, giving you the peace of mind that comes with knowing your investment is in good hands. Finally, a management company is an independent contractor, so you avoid the hassles of being an employer.

## When Should You Hire a Property Management Company?

1. You have lots of properties or rental units.
2. You don't live near your rental property
3. You're not interested in hands-on management.
4. Your time is limited
5. You can afford the cost
6. You're suddenly inundated with management tasks
7. You don't want to be an employer

## How much does a Property Manager Cost?

Generally, full property management costs are typically 6% a month for management and 1/2 a months rent to fill a property.

