

Title:

Investing in a Rental Property

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Real estate as an investment alternative.

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Over the last few years, relatively weak stock markets (compared to the late 90's) along with continued global economic uncertainty have changed the way many Canadians are investing their hard earned dollars. More and more Canadians are venturing into the rental property market, some swayed by the real estate appreciation that we've seen over the last few years. Others want to add real estate to their investment mix to better diversify their investment portfolios.

### Condos and Multi-Units

Approximately 25 per cent of the condominium units built in Canada will be used as rental apartments. Additional investment is occurring in multi-unit residential properties such as duplexes, triplexes, and fourplexes, as well as single-family detached housing. Canadians are looking to have the rent from these investments at least cover their costs and, over the long term, gain a reasonable return on their investment.

### Consider Your Mortgage and Financing Needs Carefully

Investors who consider adding real estate assets are often confused about their mortgage financing options. Since the Bank Act allows only up to 75 per cent of the value of a property to be in uninsured financing, many investors who put 15 per cent down use an insured mortgage for the difference. The cost of the insurance premium can be as high as 2.75 per cent, which can translate into a \$6200 cost on a \$225,000 mortgage. Even so, not all investors can meet the

strict requirements that go along with an insured mortgage on rental property.

These requirements include having a relatively high net worth and demonstrating that you can carry the mortgage payments in addition to your other debts without factoring in all of the rental income you will receive. This certainly doesn't leave room for many Canadians who want an investment property.

Another option if you have a good amount of equity in your principal residence is to take some of that equity out, typically through a line of credit, to get a big enough down payment that then may qualify you for a regular first mortgage.

#### Financing Made Easy

To simplify the process, you can also now consider those lenders who have mortgage products specifically designed for small investors who own or are purchasing a residential investment property. Canadian investors can now access up to \$500,000 without costly mortgage insurance premiums, or leveraging the equity in their principal home. Up to 85 per cent financing inclusive of applicable fees is available for single family units or up to a fourplex located in major urban centres. Properties on well and septic systems located in a town or subdivision can also qualify. Typically, 75 per cent financing is available for condominium units and all properties must generate a positive cash flow.

Perhaps now more Canadians can heed the wisdom offered by many financial professionals and diversify, diversify, diversify by including real estate in their investment portfolios.