Investing in Real Estate: HOUSE OR APARTMENT?

MAXIM BAGINSKIY

REAL ESTATE BROKER/INVESTMENT ADVISOR

EMAIL: mbaginskiy@gmail.com

PHONE: (416) 832-8343, FAX: (416) 981-7710

WWW.REMLIS.CA

Right at Home Realty Brokerage Inc., 905-695-7888

For many years, I have been working with investment deals regarding buying real estate from the builder and clients often ask me the same question: Is it better to buy a house or an apartment? In this article, I will attempt to thoroughly outline all of the pros and cons of both options.

DETACHED HOUSES, TOWNHOUSES, THE SO-CALLED FREEHOLD – With these kinds of real estate, unlike with condominiums, VIP sales do not happen. Subsequently, the real estate will be purchased by the price of the builder without any discounts; however, you can try to be one of the first customers so that you can at least obtain a favourable lot. At this stage, you will leave a deposit and receive a contract that enables the house to become your property upon completion. Re-selling contracts of real estate in the category freehold is prohibited. Therefore, by the completion of construction, the customer essentially has one option – to obtain a mortgage and seal the deal. If the customer's financial status for any reason changes and they will no longer be able to obtain a mortgage and subsequently close the deal, they will face great loses. First of all, the deposit may be lost and second of all, additional charges of tens of thousands of dollars may apply. However, let's imagine a scenario where everything goes well and you are ready to close the deal. Inevitably, difficulties will occur. Generally, people investing in real estate already have their own property and as such, the second purchase is considered an investment. This means that you can expect a down payment of a minimum of 25%. Furthermore, qualifications for receiving a mortgage will rely solely on your income as the investment property at the moment of the deal is not rented; therefore, the profit from rent is not considered. In addition, you will have to pay the Land Transfer Tax and the so-called refundable part of HST (approximately 8% of the price of the real estate). This money will be returned to you in the first month or two after the real estate is rented; however, on the moment of closing the deal, you will have to pay this amount in addition to the down payment and Land Transfer Tax. You will not be able to sell the real estate for at least a year. If this occurs, the deal will automatically be transferred into the category "speculative sale" and you will be asked to return the refundable portion of HST that you have received. Finally, the rent itself in this situation does not look the best. The problem is that real estate in developed towns such as Richmond Hill, Vaughan, Markham, Aurora, etc., is expensive and the profit you receive from rent will not be enough to cover your house expenses (mortgage and property tax). In less developed areas, farther from Toronto, the situation is better. However, it is harder to find someone to rent to with an ideal credit history and renting to someone mediocre often leads to court and substantial financial loses. Furthermore, do not forget about the house's depreciation. Be prepared to spend a significant amount on renovations for the presale preparations after a year or two.

CONDOMINIUMS – In terms of investing purposes in this type of real estate, you will encounter advantages from the very beginning. First of all, on the VIP sales, you already have a significant discount. After the official opening of the project, the price will be completely different; hence, you have already earned profit. Besides favourable prices, VIP sales offer other benefits. For example, you will receive permission (generally, for free) to re-sell the contract. As a result, you have the opportunity to leave a deposit upon signing the contract and re-sell the contract after project completion. Furthermore, in this scenario, you do not have to obtain a mortgage or pay the Land Transfer Tax. Condominiums, unlike houses, have an Occupancy Day – a day when you are given the keys and may live in the unit or give it up for rent. Approximately after six months, there will be the Closing Day – the closing of the deal after which you become a rightful owner of the apartment. Re-selling the contract becomes a wonderful option for investors during this time. In addition, a very important factor is the security of the investment deal. If you were planning to close the deal and give the unit for rent but your situation changes, you have the opportunity to favourably re-sell the contract not only upon completion of construction, but also in the middle of the process. Another important moment is obtaining the mortgage if you decide to close the deal. Due to the fact that at the moment of closing the apartment is your property for around six months, it was no doubt given for rent. The rent prices in downtown Toronto are expensive enough to completely cover your expenses (payment for the apartment, yearly taxes, and maintenance fees) and still have left over profit. Subsequently, when qualifying for mortgage, the bank will take into account the profit from rent which will significantly ease obtaining the mortgage. Finally, there is the rent itself to consider. The demand for apartments in downtown Toronto is so high that you will always find the so-called AAA tenants and the tenants with a poor credit history will not even be considered. Also, do not forget that when selling the apartment, you will have to do renovations. In a house, this procedure can be quite expensive but in an apartment, it is usually sufficient to merely re-paint the walls.

In this article, I do not have space to provide mathematical calculations on investing in these types of real estate but I can conclusively say that currently, investing in downtown condo-apartments in the beginning stage of construction brings twice as much profit as an analogous deal with a freehold townhouse or detached house. Lastly, deals with condos are much safer and secure.

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