

Investors seek real estate for income

By Nick Williams, CA

(NC) — Many investors these days are looking to buy income properties in their bid to make money — a good idea, but one that has its own special considerations.

The first is the potential risk. Although real estate does tend to appreciate over time, there have been sudden reversals in the market. Because there is a potential for such declines, investors should avoid putting their entire wealth into income properties. That's especially important if you feel you may need to get your money out in a hurry some day. Housing is not a liquid investment: you cannot turn it into cash on short notice.

Many people who invest in income property for the first time take out high ratio mortgages. Typical is the investor who takes out a first and second mortgage on the income property, uses the equity in his own home as security and finances the balance through secured or unsecured bank loans. This is a very risky way of getting into the market. You could end up losing your home. Instead, save until you can put 25 per cent



down and finance the rest with a conventional mortgage.

Before you choose your income property, carefully consider just what it is you want. Will it be a residential, commercial or a retail property? Assuming you choose residential: do you want a condominium, or a large residence such as a triplex where you can live in one part and rent the others.

Determine your needs. Then get a professional real estate person — someone who is well-versed in the income property market — involved in your search.

Here's a checklist you should review when you've found an income property that appeals to you: Is it rented? Are the rents legal under any applicable rent control legislation? Is the unit zoned for multiple occupancy? Is the existing tenant acceptable to you? Is it in good repair? Have a professional house inspection performed.

If all of these items check out, have your chartered accountant forecast the net income for tax purposes — your rental income minus the cost of paying the mortgage, insurance, realty taxes, utilities, maintenance, cost of short-term vacancies. He will then draw up a cashflow projection, so you'll know what your carrying costs will be.

For CA's advice on TV — see Your Wealth, available on broadcast channels in Ontario and on satellite across Canada, or see Money in the Bank, on your community cable channel.

Moneycare is general financial advice by Canada's chartered accountants. Nick Williams is with Touche Ross, Chartered Accountants.



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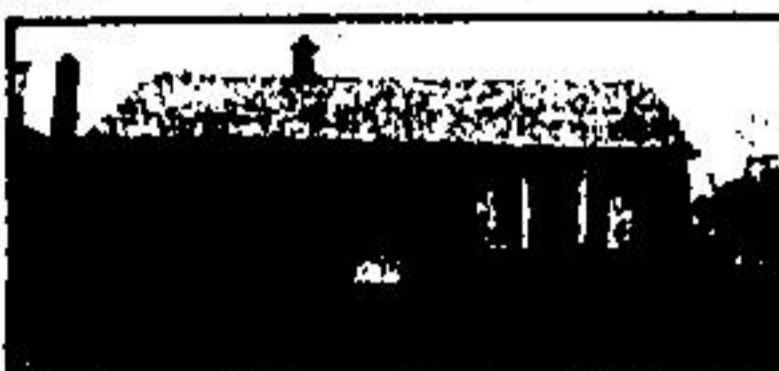
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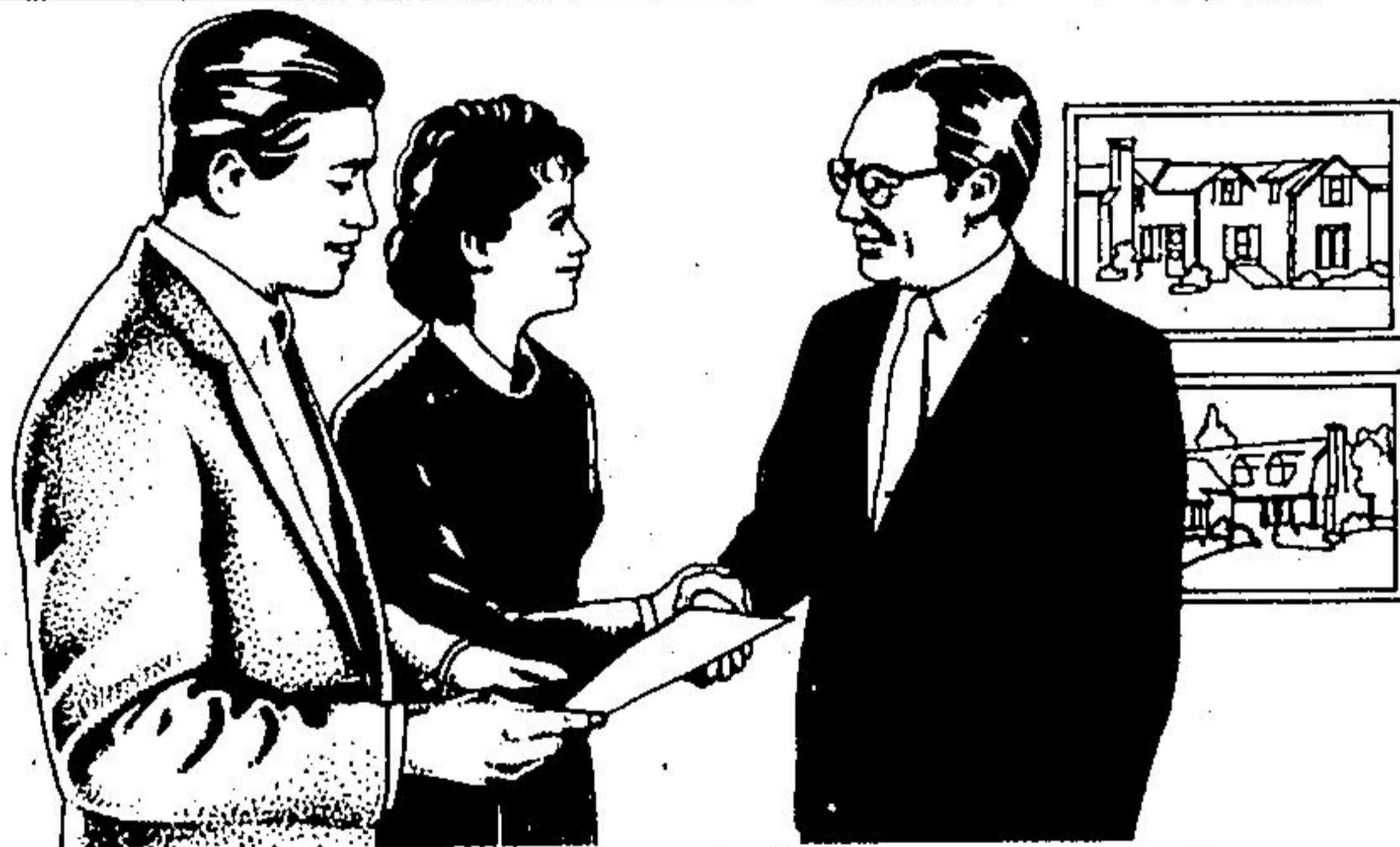


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