

RETIREMENT Q&A

Is now a good time to invest in a rental property? Six things to consider

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Question from Anne Quan, 57, of Toronto: Would it be a prudent move to purchase a condo for future downsizing if I have 100 per cent equity in my home? The intent would be to rent it out until I have to move into it.



Over the last 25 years, Ms. Mizgala has helped clients make smart life and financial decisions as they transition to and through retirement

[Karin Mizgala](#) is a certified financial planner and the co-founder and chief executive officer of [Money Coaches Canada](#).

Real estate, especially in B.C., has certainly been the place to invest recently, where even Vancouver condo prices showed a year-over-year increase of 19 per cent as of February.

No one can predict whether this blistering pace of growth will continue, but here are six considerations when making your condo-purchase decision:

1. Down payment – Even with 100 per cent equity in your home, you will need to come up with the cash to buy the property outright or for a down payment of at least 20 per cent to avoid paying for mortgage default insurance.

2. Cash flow – Will the rental cash flow be sufficient to cover the monthly and annual condo costs? If not, you'll need to be prepared to cover the costs from your personal budget. Remember to factor in potential vacancy periods.

And it's not just mortgage payments that take a chunk out of your budget; there are ongoing maintenance, strata fees and property taxes, not to mention real estate, legal fees and other costs to consider.

3. Hassle factor – Are you ready to be a landlord? Late night phone calls to unplug the sink, complaints from unhappy neighbours, damage from careless renters. If you'd rather hire a professional, don't forget to include the cost of a property manager in your cash-flow projections.

4. Interest rates – Today's low cost of borrowing is a real boon to real estate investment, but be sure that you can afford a higher mortgage payment if rates increase at mortgage-renewal time.

5. Diversification – How heavily weighted will you be in real estate if you buy a condo? It's prudent to have assets in a mix of real estate, cash, stocks, bonds and mutual fund investments so your overall net worth isn't overly dependent on the ups and downs of one asset class. Target no more than 60 to 65 per cent in real estate, including your principal residence.

6. Taxes – You can only claim the principal residence capital gains exemption on one property. By owning two properties at the same time, there may be tax-reporting requirements and taxable capital gains (see the CRA website for more).

Having a clear goal and game plan for your future housing makes a lot of sense. Just be sure that you are making the real estate decision in the context of your overall financial plan and an honest assessment of how you want to spend your time and energy.