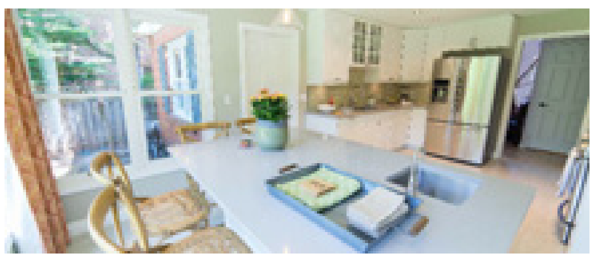
special section

Mortgages



HOW TO PICK A CONTRACTOR

It pays to do your research, **M5**

> FOR RENT

Play landlord to make ends meet

Consider making portion of home an apartment to help pay mortgage

TIM FRASER FOR THE TORONTO STAR

Homeowner and landlord Nancy Wolf upgraded her east end Toronto home to accommodate two apartments in addition to her own living space. She now rents the main floor and basement, collecting enough rent to cover her mortgage payments.

CAMILLA CORNELL
SPECIAL TO THE STAR

Just a few years out from retirement, Nancy Wolf took on a sizeable mortgage for a lovely Victorian home in Toronto's Riverdale neighbourhood.

"Some people would say I'm crazy," says Wolf. Her ace in the hole? She was able to divide the house into three separate apartments.

Wolf took the upper two floors of the three-storey building. With the $1,700 she gets for the one-bedroom main floor apartment and the $1,300 for the two-bedroom basement apartment, her mortgage is paid. Wolf is not alone in her decision to become a landlord. All over the city, homeowners are using the proceeds from rental units to offset their plus-sized mortgages.

"In some cases," says Susan Asquith, an agent with Bosley Real Estate Ltd., mortgage companies and banks will include part of the rent — maybe 60 per cent or so — in your income when deciding how much mortgage you can get.

"You're living in less space," she concedes, "but having access to a bit of income is really helpful, especially to a first-time homeowner. Even a tiny little studio apartment will get you $650 a month."

For her part, Wolf chose a home close to a park and right on the streetcar line, figuring those would be selling points for potential tenants. She also set aside $40,000 to upgrade the apartments in her home.

"I want to give my tenants what I would want and that is no junky appliances, broken flooring or holes punched in walls," she says.

Wolf put in new halogen lighting, good-quality laminate floors and stainless steel appliances.

"It's probably going to be three years before I recoup what I spent and make money from the unit," she says. "You have to look at it as a long-term investment."

RENTING continued on **M4**

> VACATION SPOT

Add a cottage to your real estate repertoire

Mike Bayer and his wife, Andrea, purchased their cottage on Lake Ontario in 2010. The couple has been able to rent it out to generate extra income.

Consider the options and beware of the risks when seeking a mortgage on a recreational property

CAMILLA CORNELL
SPECIAL TO THE STAR

When Mike Bayer purchased Seabreeze, his two-bedroom cottage on Lake Ontario in 2010, he was well aware he might have to do some dancing to get financing.

Bayer was in his 20s at the time, but as a rental agent and through his blog (cottageblogger.com), he'd been in the vacation rental business for several years.

Bayer, now 34, knew from experience that lenders often view recreational homes as inherently more risky, which is why the down payment and interest rate for a vacation property can be higher than for a permanent residence.

As Janine Weis, a mortgage agent with Mortgage Intelligence in London, Ont., explains it: "The feeling is, if borrowers get into some financial difficulties, they will place more importance on paying the mortgage on their primary residence."

In addition, Weis says, under slow market conditions, cottages can take longer to sell, so lenders may fear that their interests aren't protected.

If you're considering buying a cottage, says Maureen Reid, a branch manager with Meridian Credit Union in Penetanguishene, Ont., you should probably visit your financial institution first to find out how much you can afford and get some pointers on what to look for.

"There are different types of financing based on the type of cottage you're going to purchase," says Reid.

As do most lenders, for instance, Meridian differentiates between cottages that have plenty of amenities and are easily accessible, usable year-round and more centrally located, often with other cottages around (Type A) and cottages that are more remote and rustic, perhaps only accessible by boat and usable only in the summer (Type B).

Since Type A properties have features similar to a residential home, "folks might get the same rate they would on their home mortgage," says Reid.

COTTAGES continued on **M4**

> FINANCIAL FITNESS

SHUTTERSTOCK

Almost half of new homeowners say they entered the real estate market because it was a wise financial decision.

First-time homebuyers prepped for ownership

VAWN HIMMELSBACH
SPECIAL TO THE STAR

While millennials are often depicted as slackers living in their parents' basement, playing video games and taking selfies, first-time homebuyers are, in fact, making responsible financial decisions when entering Canada's housing market, according to a new study released by Genworth Canada.

"We wanted to focus on the first-time buyer because they really are the engine of growth in the economy," said David MacDonald, group vice-president of financial services with Environics Research Group, which conducted the research on behalf of Genworth Canada. The findings were presented at a recent seminar in Toronto.

The study surveyed 1,800 first-time buyers across Canada — 77 per cent of whom are millennials.

FIRST TIME continued on **M4**

> RENEWAL

PEYMAN SOHEILI FOR THE TORONTO STAR

Alyssa Richard, left, Toronto-based founder of the online comparison tool RateHub.ca, advises homeowners to do their research comparing options from various mortgage lenders.

Hedge your bets when it's time to renew

Ask tough questions, compare rates and read the fine print before signing new mortgage

BRENT JOLLY
SPECIAL TO THE STAR

No one likes homework, but when it comes to mortgage renewal, doing a little research pays off.

"Not completing the proper leg-work will do a major disservice to your wallet," says Robert McLister, founder of RateSpy.com, an online Canadian mortgage comparison site based out of Mississauga. "The more intelligence you can gather, the more likely your chances are of finding the best deal."

In addition to taking time to compare rates from various financial institutions, McLister recommends searching for the right professional to help guide you through the renewal process.

For one thing, he points out, mortgage products are not one-size-fits-all. For example, many deep-discount products have terms and conditions that could prevent borrowers from acquiring a future line of credit or limit pre-payment privileges.

David Fleming, a Toronto-based sales representative with Bosley Real Estate, says consumers should also know that just because a product has a low rate doesn't mean it offers the best deal over the long term.

He also advises knowing whether your mortgage is portable or what, if any, break fees you would have to pay. "Not properly examining these small details could be financially crippling to consumers, taking out their entire return," he says.

With the recent announcement that Bank of Montreal and TD Bank are lowering their five-year fixed mortgage rate to 2.79 per cent, Fleming believes consumers should consider locking in now.

"Don't get greedy," he cautions. "It is ludicrous how low the rates are right now. Still, there are some consumers who are sticking to a variable mortgage rate because they think there is still money to be made. That's a big gamble."

> "The more intelligence you can gather, the more likely your chances are of finding the best deal."
>
> **ROBERT MCLISTER**
> RATESPY.COM

Given the current low-interest environment, Jim Murphy, president and chief operating officer for the Canadian Association of Accredited Mortgage Professionals (CAAMP), says Canadians should see this period as an opportunity to pay down their mortgage more quickly, rather than to take on a larger mortgage that puts an unnecessary strain on household finances.

"Consumers should always be mindful of their own personal financial situation," says Murphy. "Overall, we believe that Canadians are behaving prudently."

Alyssa Richard, the Toronto-based founder of online comparison tool RateHub.ca, says homeowners with existing mortgages need to ask themselves, as well as their mortgage provider, some tough questions.

Such as? Richard suggests you think about whether you plan on staying in the same house for several decades or will you want to sell in the shorter term?

Also, she says when renewing a mortgage, clients should ask their provider to compare and contrast different policies they have compiled during their research.

One of your key questions should be, "These are the rates I'm seeing online, how is what you are quoting me different?"

Richard is also a strong proponent of doing your homework before signing anything. In her experience, too many clients take a *laissez-faire* attitude to their mortgage and assume their current financial institution is offering up the best deal.

A 2011 survey by Manulife backs her up. The study revealed two out of three Canadians surveyed simply stay with their current mortgage provider and do not try to negotiate a better deal when up for renewal.

"Go out and get multiple quotes," advises Richard. "Don't just automatically sign the renewal letter."

> TOP TIPS

- Do your homework and compare rates.
- Consult a mortgage professional for help.
- Read the fine print — know about hidden fees.
- Find the product that fits your lifestyle.
- Ask yourself the right questions.
- Don't just sign — negotiate.

> JOINT VENTURE

Team up as a first-time buyer

Real estate partnerships offer an unconventional approach for getting into the market

VAWN HIMMELSBACH
SPECIAL TO THE STAR

A $1-million home is the new normal in Toronto — and that means the prospect of buying a house can be daunting, to say the least, for first-time buyers.

The average price of a detached home has crossed the seven-figure threshold, reaching $1,040,018, according to the Toronto Real Estate Board. And housing prices are expected to increase an additional 4 per cent this year, according to ReMax's annual Housing Market Outlook Report.

That could be why we're starting to see less-conventional approaches to buying property.

According to a 2014 survey by TD, four in 10 Canadians believe buying a house with friends or family members is a good way to get into the housing market, whether buying a primary residence or vacation home.

"It's actually becoming more and more common," says Michelle Snow, associate vice-president of retail products at TD.

Snow also knows this from personal experience: She bought her first home with a friend, since they both felt owning a home was more economical than renting. They hired a lawyer and came up with a legal agreement that covered how long they would own the house together and what would happen if one person wanted to sell and the other didn't.

"It sparked those conversations," said Snow. "It makes you approach it more like a business than an emotional decision."

They each came to the table with 50 per cent of the down payment and committed to paying 50 per cent of the mortgage.

"We took it even further and opened up a joint account and managed our expenses out of that joint account," explains Snow. That ensured one person wouldn't feel as though she was contributing more to household expenses, even if it was just $10 on paper towels.

> "Purchasing a detached home . . . is too expensive for people just getting into the market . . . "
>
> **JENNIFER FAZARI**
> ROYAL LEPAGE

They had agreed to own the house together for five years, but her friend decided to sell her half after three years, since she needed the equity to pay for her MBA.

"So she carried the weight of finding somebody else to take her half of the mortgage," says Snow.

"Your mortgage specialist can help navigate some of those conversations," she adds. This is particularly important if you're not splitting the costs 50/50; that makes things more complicated, especially when it comes time to sell and equity has been built.

Jeff Cody, a mortgage broker and spokesman for the Independent Mortgage Brokers Association of Ontario, says he often sees parents help out an adult child with a down payment or mortgage. They might split the mortgage, "gift" the child a down payment or rent out part of the house to help cover costs.

"The other thing I've seen is where a couple of friends buy a duplex so each person has their own unit," says Cody. But, if they're splitting the mortgage and one person doesn't pay his half, the bank can go after the other person for payment. That's why it's important to draw up a legal agreement separate from the purchase agreement, he said.

Jennifer Fazari, a sales rep with Royal Lepage, says she's noticed more people who are not close family looking to invest jointly.

"I don't think most of them could do it on their own," she says. "Purchasing a detached home with parking is too expensive for people just getting into the market in the city."

A lawyer can help with the technicalities of the joint purchase.

Although splitting a mortgage can get complicated, it's an option for those who can't afford to purchase property on their own — especially if they have to come up with a 20-per-cent down payment.

"First-time buyers are having a hard time getting into the market," said Cody. "It's very hard to do it on your own."

AARON HARRIS FOR THE TORONTO STAR

Michelle Snow, of TD's retail products, bought a house with a friend. She recommends a legal agreement to make it "more like a business than an emotional decision."

> JOINT VENTURE TIPS AND TACTICS

If you're looking to buy property with a friend or family member, there are a few things to keep in mind before signing your name on the dotted line.

TD's Michelle Snow recommends:

- Decide on a budget and how much you're willing to put toward a down payment.
- Discuss how monthly mortgage payments will be made after the purchase.
- Come to an agreement on the key characteristics you're looking for in a property, which will usually involve some compromise.
- Decide how taxes, insurance, utilities, repairs and maintenance fees fit into the overall budget. Consider opening a joint account.
- Decide how long you will own the property together (it probably won't be forever) and what will happen if one person wants to sell and the other doesn't.
- Hire a lawyer and make sure these points are covered in a legally binding contract.

> TACKLE DEBT

Helpful hints to take sting out of a mortgage

Daily ways for homeowners to save their pennies and make lump-sum prepayments

CAMILLA CORNELL
SPECIAL TO THE STAR

My husband and I paid off our 25-year mortgage in about half the time.

I know what you're thinking — no, we're not rich. In fact, we're both self-employed (as a journalist and a software developer). But the fear that comes with not being able to rely on a steady paycheque was definitely a motivator. And we had one highly successful technique: We took advantage of the opportunity to put down an extra lump sum on our mortgage of up to 10 per cent a year.

The beauty of making lump-sum prepayments is that you're not wedded to a steady mortgage payment that is higher than you may be able to handle. As freelancers, my husband and I didn't want to risk getting behind in our payments. Instead, we made minimum payments and then slapped down as much or as little money as we managed to put aside during the year.

For some, this is the main disadvantage of lump-sum prepayments: If you're not locked into those additional savings, somehow that money just seems to melt away. In fact, according to a Canadian Mortgage and Housing Corporation (CMHC) survey a few years back, about 75 per cent of recent homebuyers fully intend to pay their mortgage off sooner, but only about a third of them ever make a lump-sum payment.

The first step in ensuring you're one of the successful ones is to ask whether your mortgage gives you the option. Most will let you make annual prepayments of up to 10 or 20 per cent of the principal without charging extra fees. But some no-frills mortgages limit the option to pay off your debt early.

The next (and most difficult) step: free up cash. Here are a few tips to help you get there:

Do it yourself

Unless you're buying a brand-new home, there's a good chance it will need some work — in fact, the CMHC found 55 per cent of new homeowners were likely to undertake major repairs or improvements to their house costing $5,000 or more within the first five years after purchase.

Hubby and I took on a range of tasks ourselves, from removing a whopping seven layers of wallpaper from our walls, to painting, decorating and even installing the dishwasher. Sample savings: $5,000-plus for painting a 1,600-square-foot home; $150-plus to install a dishwasher.

Put it off until you can afford it

Hit up parents, grandparents and friends for hand-me-down must-haves like beds, couches and chairs. And hold off purchasing the rest until you can buy what you want. Our dining room was sans table and chairs for a good eight years. Sample savings: $10,000 or more.

Take a strategic approach to grocery shopping

At the risk of stating the obvious — you're a homeowner now and you need to watch your pennies. My approach to grocery shopping is to peruse the flyers, come up with a menu plan based on the specials, and then pick up everything I need to prepare dinners for the week (so I'm not popping into expensive convenience stores in a pinch). Double the quantity and stick a second portion in the freezer. Instead of buying expensive convenience food or (worse) eating out, you'll have your own frozen prepared meals that are cheaper and healthier. Sample savings: $60 per week or almost $3,000 per year.

Get to the points

I've never been a coupon clipper — too much organization required. But I love grocery and pharmacy rewards plans that allow you to accumulate points and use them for everyday purchases you'd likely make anyway. Just make sure you're buying only things you need and you get them on sale. Sample savings: Conservatively $500-plus per year.

Talk to your service providers regularly

Here's a little secret: Your Internet and cellphone providers can give you a discount. But they're not going to do it unless you push for it. They'll offer you a great rate to sign up and then adjust that rate higher over time. They see you as a captive audience; and it's your job to disabuse them of that notion. Hubby and I bundle services to give us more bargaining power and we never lock in for a certain term. Then we call every few months with the latest offer from a competitor in hand.

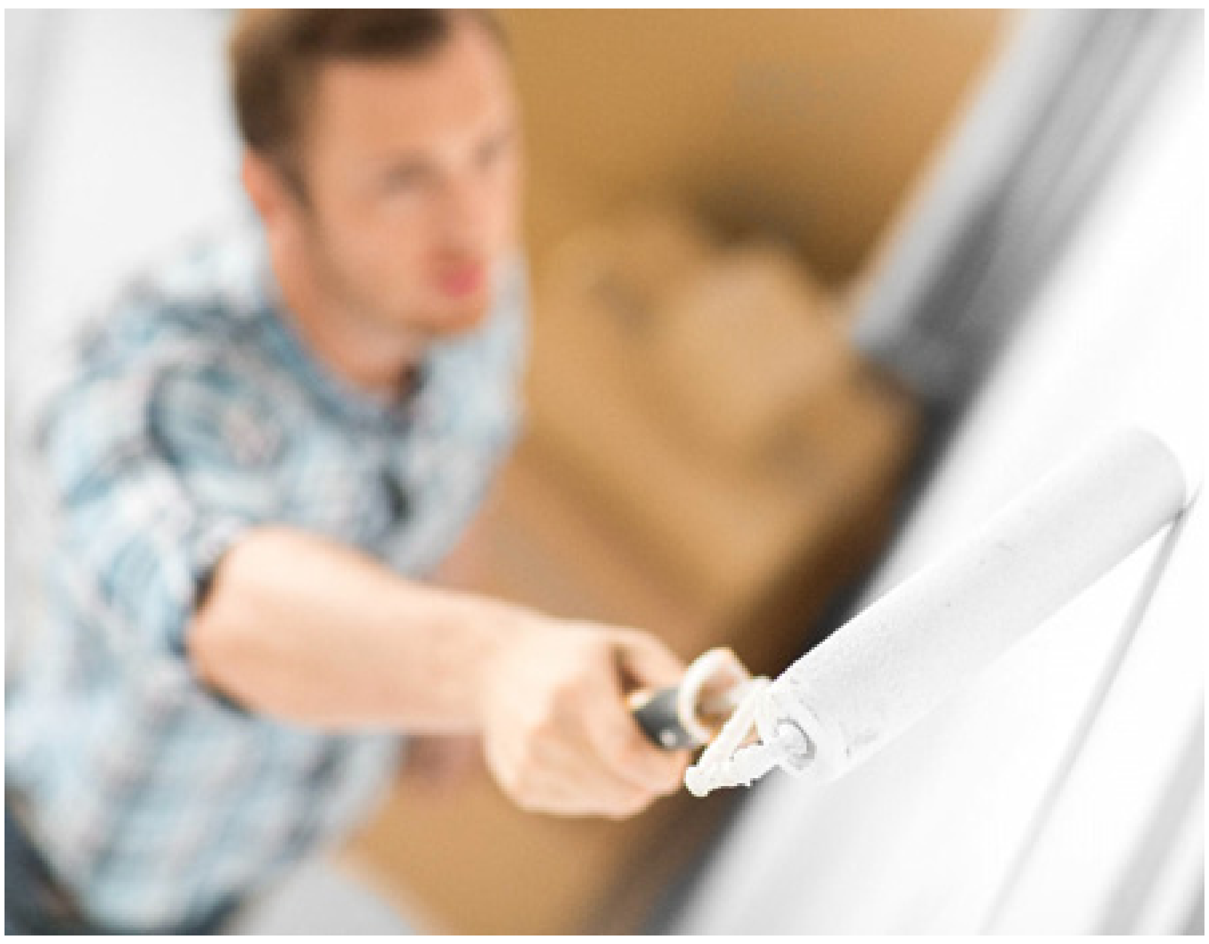
"Give me a reason not to leave you," is my husband's classic line. Often the overall bill comes down by as much as a third. Sample savings: $60 per month or $700-plus per year.

Opt for a staycation

By the time you factor in accommodation, dining out and potentially airfare, vacations cost a bundle. And we already live in a world-class city. When's the last time you explored it? Stay home and take advantage of all the free things Toronto has to offer, from the High Park zoo to the Toronto Islands, the Beach's breezy boardwalk, the tempting stalls of the St. Lawrence Market and a host of summer festivals (the Busker Festival is one of my faves). You can even treat yourself to a couple of nice dinners out and still pocket plenty of cash. Sample savings: $1,500 minimum for a week's vacation.

Sock it away

There's no point getting in the savings habit if you're immediately going to spend that money on something else. Stick it in a special account dedicated to mortgage prepayment.



SHUTTERSTOCK
As a homeowner, taking on DIY projects can save you money that can be put toward paying down your mortgage.

TIM FRASER FOR THE TORONTO STAR

When looking for real estate, homeowner and landlord Nancy Wolf settled on a house close to transit and a park, knowing these would be selling points to potential renters.

Invest in renovations to attract renters

RENTING from M1

Asquith agrees with this approach.

"The more beautiful the space you're creating, the more rent you'll get and the higher the quality of tenant you'll attract," she says. "That's particularly important when you're living in the house with them."

A nice kitchen and bathroom help, she says. And applying a fresh coat of paint and adding little touches such as new lighting, drawer pulls and hardware is a good use of your hard-earned dollars.

When seeking a home with rental potential, Asquith suggests looking for good bones. "If it's a basement apartment — and many of them are in the city — it should have decent ceiling height," she says.

"If you have to dig down, that's going to cost you $50,000-plus."

Windows are important too, since no one wants to live in a dark and dingy space. And a separate entrance is a definite money-saver.

"If you have to put that in yourself, you're looking at $12,000 to $15,000," Asquith says. Finally, if you're able to offer tenants laundry facilities or a parking spot, you'll get more rental income, and a main-floor apartment will generally net more than a basement.

Apart from accessibility to public transit, Asquith suggests seeking a home within walking distance of shops and restaurants.

"You can rent something for huge money right on Queen St. in the Beach," she says, "or close to the Danforth or Queen St. W."

If you can find a legal apartment that's a bonus, says Asquith, but they're rare in Toronto. "Honestly, other than highrise rental buildings, I think I've only seen two in the 35 years I've been a real estate agent," she says.

> "The more beautiful the space you're creating, the more rent you'll get and the higher the quality of tenant you'll attract."
>
> **SUSAN ASQUITH**
> BOSLEY REAL ESTATE LTD.

"It involves getting the apartment checked over by the fire department and Toronto Hydro. The regulations are really stiff and most people don't bother."

Instead, the vast number of basement rental units fall under the category of "legal non-conforming." Asquith admits if you have a problem tenant that can get you in trouble, "but the city isn't really on the hunt for illegal apartments since most of them are."

Despite the benefits, being a landlord isn't for everybody. Your tenant could fall on hard times and you'll have difficulty collecting rent. Your tenant may use too much hydro because they don't really care about the bills.

"I think you have to treat it like a business and not get into their personal lives too much," says Asquith. Alternatively, move your friends in, she suggests.

"If you really know them well," she points out, "they're not going to take advantage of you."

As for Wolf, she fully understands there are pitfalls associated with renting out part of her property — she has already had a run-in with a tenant over hydro bills. And while her tenants' apartments are already renovated, she's still waiting to renovate her own space.

But, she says, once she has recouped the cost of redoing her tenants' space she can proceed to redo her own. And in the long run, the income she generates from her home will supplement her pension in retirement.

"I'll have a beautiful space to live in and I won't be so stressed financially that I won't be able to travel and do the things I want to do," she says. "It's a means to an end, as opposed to being house poor."

The Bayers hardly ever take a week at their cottage near Lake Ontario because it's usually booked by renters.

Interest rates higher on rec realty

COTTAGES from M1

Type B properties would require a whole different kind of financing.

"Then you need to get a personal loan with open terms and loan rates," Reid says. "So the interest rates are higher — at 5 per cent and above."

What's more, she says, while as a rule of thumb you'd require 20-per-cent down to buy a Type A property, the guidelines on a remote property would require you to put down more like 35 per cent.

"But if we have a strong applicant there may be exceptions," Reid explains.

"We look at the big picture, and what it really comes down to is the applicant's net-worth statement. What can they afford?"

Reid suggests seeking financing in the area you intend to buy a cottage, noting local lenders are more likely to understand the market and may be more amenable to offering the cash you need.

Bayer's solution was to call a mortgage broker because they have access to a wide range of lenders.

"She worked wonders to get us a really great rate," he says, "as well as a relatively low down payment."

Bayer always saw the cottage as a way to generate rental income. But, in the five years since he and his wife bought, they've become victims of their own success.

"It's so totally booked now that every time we use it, it costs us $1,700 for the week, even in September," says Bayer. The consequence: With two toddlers underfoot, the Bayers almost never take a week at their own cottage.

First-timers see home as a good investment

FIRST TIME from M1

"Just as boomers before them changed every facet of the marketplace, millennials are doing the same thing," MacDonald said.

The typical first-time buyer is well educated and employed, and typically consults with a mortgage professional to purchase a home within financial reach, according to the Genworth study.

First-time buyers tend to have higher incomes than the general population (31 per cent have household incomes above $100,000). And they tend to work full time, have post-secondary education and are married or in a relationship.

About half of first-time buyers say they were motivated to buy a home because they believe it's a wise financial decision. Three in 10 say they disliked renting or wanted to buy before prices increase further.

The typical first-time buyer is also conscious of the need to manage their debt burden. Fifty-seven per cent say they've avoided taking on additional debt since buying their home, while 36 per cent have doubled-up or increased their bi-weekly mortgage payments, or made a larger, one-time lump sum payment.

But it's not all good news, said MacDonald.

Nine per cent of first-time buyers say they've had to delay or suspend mortgage payments since buying their home, and 11 per cent say they've had to delay or default on other bill payments.

Four in 10 are concerned about making ends meet month to month, with worries about the loss of a job, rising interest rates or unexpected household repairs.

The key takeaway, though, is that most millennials are confident about their financial fitness, said MacDonald. They're taking steps to pay off their mortgage more quickly, and half of the survey respondents say that, not only are they able to pay their bills, but they're also able to save money.

"First-time buyers who've gone through the process are feeling very confident," he said, "and this bodes well for the real estate market in Canada."

> BY THE NUMBERS

Although the median price paid nationally is $293,000, there are significant regional variations across Canada.

This amount is highest in Toronto ($425,000) and Vancouver ($420,000), and lowest in the Atlantic region ($185,000).

These price variances explain the higher proportion of condo and townhome purchases in Toronto, Vancouver and Montreal, where these properties are the most affordable way to enter home ownership, according to the Genworth study. Condos are the most popular option in Vancouver (47%), Montreal (40%) and Toronto (39%), while in Atlantic Canada, fully detached homes account for 71 per cent of all first-time home purchases.

> EXPERTISE

What to expect when you're renovating

Is a reno part of your budget? Tips to find the best contractor for the job

TARA NOLAN
SPECIAL TO THE STAR

When shopping for a contractor, experts recommend finding one who understands your home from top to bottom and is skilled enough to tie in the new work with the existing framework. Be wary of contractors asking for too much money up front, though.

On the field, former CFL player Sebastian Clovis was a defensive back who won a Grey Cup with his team. Off the field, he is an independent contractor who has also helped Do-It-Yourself homeowners in distress on HGTV's *Tackle My Reno*.

"My role is to revive their excitement about the project and help them get the work done by providing coaching and guidance," he explains.

Here are Clovis's tips for finding and hiring a reputable contractor for your own reno project.

How do you recommend that a homeowner search for a reputable contractor?
Your first instinct might be to go to Google and type in "contractors," but the best contractors rely on their reputation and word-of-mouth referrals. Ask your friends and family. Your real estate agent and home inspector can often give you a nod in the right direction, as well.

A home renovation is one of the biggest investments you'll ever make, so you absolutely need to get quotes from as many contractors as you can.

What are some questions you should ask a contractor?
When looking for a contractor, you should ask for a portfolio, which displays a licence, insurance, photos of work done and a list of references. You should also ask questions, such as: how long have you been in the business? What do you specialize in? Have you done this particular type of renovation before?

Should you interview a contractor in person?
Always, always interview them in person. As much as a portfolio speaks volumes about a contractor, you also need to get a sense of who they are and whether or not they are someone that you can work with.

Any red flags one should watch out for?
You want to look out for contractors who ask for large sums of money up front — good contractors never ask for more than 10 per cent. If someone asks for half up front, I don't care which way you turn, just turn around and run.

How do you know what type of contractor should be hired for a job?
You want a contractor who deals with home renovations as opposed to new builds.

In new home construction, you have to understand the home from top to bottom and work from a clean palette. With renovations, you have to understand the home from top to bottom and be skilled enough to tie in new work to an already existing frame.

Do you have tips for negotiating a contract?
Once a contractor locks in the price, it's because he has worked through the project and the price will be firm. By arguing the price, you will either drive that renovator away, or he will start slashing away at quality of product and workmanship to make up for it.

On the other hand, if the contractor is willing to drop the price too easily, it's a red flag that something is not right and you should walk away.

What does a good contract include?
A contract should include the quote broken down in absolute detail including the final cost, when payments are due and, of course, the start and finish date.

What is the most common problem that you have had to fix for homeowners who have gone the DIY route?
It's not a mistake, but very often DIYers start out with a ton of energy and vigour to do a project. As they work through it and are presented with various problems, they lose steam and give up. So, very often, it's about me picking up where they've left off.

Be sure to get multiple quotes recommends contractor and HGTV host Sebastian Clovis.

> LOCALE, LOCALE, LOCALE

Homebuyer dilemma: Urbs or the burbs?

There are many factors to weigh when deciding upon suburban or downtown living

JENNIFER BARRY
SPECIAL TO THE STAR

CARLOS OSORIO/TORONTO STAR

Those choosing city life, residing in neighbourhoods such as Toronto's Liberty Village, shown here, over suburbia are fuelling the real estate market, according to a report by PricewaterhouseCoopers and the Urban Land Institute.

For homebuyers looking to jump onto Toronto's pricey property ladder, deciding between white picket fences or downtown convenience is all about trade-offs.

The age-old suburb-versus-downtown dilemma involves weighing key factors — final sale price, commute times, access to amenities, space — and making a decision that fits your lifestyle.

That's according to Jeanhy Shim, president of Housing Lab Toronto, an independent housing research company.

"With a budget of $400,000, you can find a place to live anywhere in the GTA, it just depends how small you are willing to go," she says.

"You can find something bigger in Etobicoke or Mississauga, but if you work in Toronto, then you need a car and will have to pay at least $1,000 a month to service it," Shim points out. "So, maybe you're willing to take a place that's smaller downtown. Those are the trade-offs people need to think about."

There's no question that one of the most-pertinent elements of the decision-making process is the time it takes you to get to work.

Toronto's commuting times — among the worst in North America — are driving more and more people to choose less space over the rat race.

A recent report by PricewaterhouseCoopers and the Urban Land Institute found that homeowners choosing the convenience of city life over suburbia are fuelling the real estate market.

Frank Magliocco, a partner at PricewaterhouseCoopers Canada, says among the factors behind this trend is an increased awareness of the environmental costs associated with urban sprawl, as well as the cost in time and money of lengthy commutes.

Apart from that, says Shaun Hildebrand, senior vice-president of Urbanation, what is keeping people downtown is the variety of amenities suburbs cannot offer, such as independently owned shops that count on a rotating clientele and stores that open past 6 p.m.

"We're seeing a commendable set of civic-engagement strategies launched by chief planner Jennifer Keesmaat's office to make Toronto a better place to live, work and play," Hildebrand says. "Although the results of these initiatives won't be immediately realized, it's catalyzing conversations about what makes this city great and how it can be greater still."

This coveted downtown lifestyle — close to work and rapid transit — simply isn't affordable for everyone, though.

Especially for those looking to buy a house rather than a condo.

Data from real estate research firm RealNet Canada shows the gap between the price of a new house and a new condo in the GTA has soared to almost $300,000.

So maybe the issue isn't just downtown versus the suburbs, but condo versus house, suggests Shim.

"The house versus condo gap has been growing," she says. "A condo in the city is in the $400,000 range; for a detached new house, the average is now well over $700,000 to $800,000."

As of last month, the average price of a detached house in Toronto is a record $1 million.

As for outside Toronto?

"Resale homes in the 905 area are surprisingly higher than you'd think," says Shim. "I remember a time in Brampton when you could buy a house for $250,000, now it's not unusual to see prices such as $700,000 to $800,000.

A report from the Pembina Institute and RBC, published in January, speaks to the dilemmas buyers face.

Location Matters features four Toronto-area homebuyers, showing that families are often priced out of preferred neighbourhoods and instead settle on car-dependent areas where they can afford a single-family home.

> ". . . More and more families are living in condos because they are putting more value on time and don't want to be stressed out after a long commute home . . ."
>
> JEANHY SHIM
> HOUSING LAB TORONTO PRESIDENT

But, the study concluded that these seemingly less-expensive homes can actually cost more when commuting expenses are factored into the equation.

So, where does all that leave a potential buyer seeking the best solution at a reasonable price point?

Perhaps in the market for a compromise. Maybe if you can't live in downtown Toronto, there's another nearby "downtown" with the same amenities, employment, critical mass and transit.

"Even the 905 areas are realizing the benefits of, and desire for, urban living," says Hildebrand.

"The city of Vaughan has plans for a downtown being built centring its anticipated TTC subway station and the city of Markham is facilitating the development of higher, denser buildings along Hwy. 7 to take full advantage of its bus rapid transit nearing completion."

In the end, prospective buyers should decide based on their individual needs, Shim says.

"The younger generation puts value on different things. They don't need a house or a yard," she says. "Family attitudes are changing, too, more and more families are living in condos because they are putting more value on time and don't want to be stressed out after a long commute home.

"We tend to commoditize real estate and forgot really, it's about understanding people and finding what's right for them."

> INVESTMENT

SHUTTERSTOCK

There are pros and cons to consider before buying an investment property and renting it out.

Rent or sell? Find out which is best for you

Investment homes can be good source of extra cash

TANYA ENBERG
SPECIAL TO THE STAR

You meet someone, fall in love and before long, you're talking property.

If you both own a home, you may find yourself asking: What should be done with a spare house?

My husband and I faced this question when we decided to purchase a home together.

I already owned a house I was emotionally attached to, though it didn't offer the space we needed.

We debated pitching a "For Sale" sign on the lawn, but ultimately turned it into a rental.

Whether you wish to list or generate extra income, both carry pros and cons, says sales rep Brendan Powell with the Brel Team.

"If you can afford to hold the property and own your primary residence, then you can potentially benefit from the gain in value over time," says Powell.

"What better way to have control over that part of your investments than managing your own property?"

On the flip side, "selling your property locks in whatever return you've made since you bought and frees that cash up for you to use somewhere else."

> "Real estate allows you to buy an asset without paying the full price, via a mortgage. It's hard to find that with other investments."
>
> MATHIEU YUILL
> REAL ESTATE INVESTOR

Certainly holding property sounds appealing, but managing it can get gritty. When Bowmanville-based Lesley Rodrigues met her husband, she was renting out her Pickering townhouse.

"When my tenant decided to leave, we moved into it together," she recalls. "After a while, we bought a bigger place, so I rented the townhouse out again."

Last year, a bad tenant prompted them to sell. Cheques were bouncing and the house was getting ruined.

"The place just looked worse and worse," says Rodrigues. "The dog had destroyed the laminate flooring as well as the front and back doors."

Meanwhile, she had to refinish the damaged bathrooms, install new carpets and repaint.

Mathieu Yuill, a real estate investor since 2004, believes the benefits outweigh the risks.

"There is a lot you can do to increase the value of your property unlike other investments," he says.

"Real estate allows you to buy an asset without paying the full price, via a mortgage," says Yuill. "It's hard to find that with other investments."

Still, some might not anticipate the work involved, including unexpected tenant and maintenance issues.

"Owning an income property is a job," says Powell. "Even the best tenants will eventually leave and it costs time and/or money to find new ones."

Yuill says a strong landlord-tenant relationship is essential for success.

"A lot a lot of landlords think they can 'set it and forget it,' " he says.

"Your tenants are going to help you build cash flow, equity and value — you need to treat them well to achieve this."

> CONSIDER THIS

Ensure a property is attractive to renters: Consider size, location and supply and demand

Income properties accrue capital gains: Any gain in value from that day onward is taxable

> WARNING SIGNS

Buying a house? Take note

STEPHANIE ORFORD
SPECIAL TO THE STAR


SHUTTERSTOCK

Understanding what you can afford and analyzing your needs must be considered when entering the market.

If you are reaching the cusp of financial stability and considering buying your first home — you may not be through the woods yet.

Home buying can be rewarding, but there are some necessary dos and don'ts, and not all of them are obvious, says Darcy Mcleod, president of the Real Estate Board of Greater Vancouver.

Here are some key steps and pitfalls to watch out for on the way to owning your first home.

Understand what you can afford

First-time homebuyers will sometimes go out looking at homes before they understand the total costs of buying and owning a home, says Mcleod.

"They'll fall in love with something and find out that they can't afford it, and then the places that they can afford just don't measure up," he says.

"Make sure you have your financial ducks in a row."

The antidote is to get preapproved for a mortgage from your lender — a financial institution or mortgage broker.

Also consider the ongoing costs including mortgage payments, property taxes, insurance, utility costs, strata payments and maintenance. Research them all and do the math before you commit.

Analyze your needs

"A mistake a lot of people make is they look at all the shiny pictures on the Internet without thinking of what's truly important in a home," Mcleod says.

This pitfall can waste a lot of time and energy if you're looking at homes that don't suit your lifestyle needs.

Don't be a starry-eyed idealist

The average first-time homebuyer stays in their home for about five to seven years — not for a lifetime. When you're looking for a place, if you aim for the absolutely-perfect-forever home, you're probably imposing too many barriers on yourself, says Mcleod.

Don't offend the seller with a lowball offer

"The tendency to want to get a really good deal on something can sometimes cause you to get less of a good deal," Mcleod says.

"If you're buying a resale home, you have to understand the seller will have some emotional attachment to the home. Your realtor can help you establish what a reasonable value for the home is."

What to expect when you're inspecting

Before you make an offer, you need to know what costs could rear their ugly heads down the road. Get a good home inspector to help give you the downlow. For a condo, that means making sure whole-building components such as plumbing and heating are in good condition.

Detached homes come with a Pandora's box of issues to watch for — corroded oil tanks buried in the back yard, leaky poly-B plumbing pipes in some '80s homes, incorrectly installed aluminum wiring that can pose a fire hazard.

> RETIREMENT

Waiting on an inheritance may backfire

More Canadian homeowners are carrying mortgage debt into their retirement years

VAWN HIMMELSBACH
SPECIAL TO THE STAR

SHUTTERSTOCK
As people live longer, they require more savings, inevitably impacting the size of inheritance they have to pass on to their children or even their grandchildren.

More Canadians are still paying off their mortgage when they retire or relying on their home equity to fund that retirement. That means children or grandchildren expecting an inheritance to help pay off their own debts might be playing a dangerous game.

More than half of Canadian homeowners plan to carry their mortgage debt into their retirement years, according to a 2012 report from BMO Retirement Institute.

And almost 20 per cent of homeowners anticipate having to leverage the value of their home equity to supplement their retirement income, according to a 2014 poll by Manulife Bank of Canada.

That means they might not have much of a legacy to leave their children or grandchildren. And they might be left with even more debt if interest rates go up or the value of their home falls (which is happening in Alberta, thanks to plummeting oil prices).

There's no harm in having an expectation of an inheritance to fund the achievement of certain financial goals, whether that's home ownership or retirement, said Chris Buttigieg, senior manager of wealth planning strategy at BMO.

But that should be built into a financial plan.

"You've also got to be prudent and plan for the other scenario," he says.

We're an aging society, but we're living a lot longer, Buttigieg points out. "If people are living longer they're going to need their savings to last longer, so that's going to impact the size of an inheritance," he says.

As people age, there's also a higher prevalence of health issues, so unforeseen expenditures such as long-term care could also impact the size of an inheritance.

In 2006, 1.5 million Canadians were relying on an inheritance to fund their retirement, according to BMO. They expected to receive, on average, about $150,000 in cash and $150,000 in non-cash assets, such as a property. In reality, they received around $56,000.

Buttigieg says relying on an inheritance is like buying a lottery ticket.

"With an inheritance, there are unknowns, such as the timing of when an inheritance may be received," he says. "And a bigger question mark is the actual monetary value, whether there will be anything at all."

There are several factors affecting the size of an inheritance: market volatility, interest rates, inflation and taxes.

Say, for example, a couple bought a cottage in Muskoka 50 years ago for $20,000 and it's now worth $500,000. If the couple wants to pass on that cottage to their children, they may not realize their children will be responsible for paying the tax on a $500,000 piece of property — which may substantially cut into the inheritance they were expecting.

Aside from market forces, different generations have different ideas on how they want to spend their retirement income — and how much of it they want to pass on.

The "Great Generation" survived the Great Depression and two world wars, so they're used to hardship and typically have been frugal with their money, says Buttigieg. They're more likely to have a pension and more likely to leave an inheritance to their children.

But the boomers are different. They're leaving their 9-to-5 careers to do some consulting, volunteering or travelling. And they're looking to spend at least some of that retirement money on their own pursuits — and the kids will get whatever is left over.

Boomers are also loaded with debt, says Les Kotzer, a Toronto-based wills and estates lawyer, and author of four books on the subject. And the generations after them are going to have financial issues because they're also spenders.

> "This generation doesn't cut coupons like their parents did, so this generation has a lot of debt."
>
> LES KOTZER
> WILLS AND ESTATES LAWYER

"This generation doesn't cut coupons like their parents did, so this generation has a lot of debt," says Kotzer.

"There's a lot of money coming down, and as these parents pass, you start to get these phone calls: 'Where's my money?' "

Indeed, BMO found about one trillion dollars will change hands from the Great Generation to boomers in the next two decades. More is at stake and that means we're seeing more inheritance squabbles end up in the courts.

Kotzer says some family members are "waiters" in the sense they're waiting for their inheritance so they can pay off their own debts. But problems can arise when they're so reliant on an inheritance — or feel entitled to Mom and Dad's money as if it's their own — that it causes family rifts.

"The fact is that some people view inheritance as a mattress to fall back on," says Kotzer.

Having an up-to-date will and appointing a power of attorney are crucial. But it's also important for parents to have an open dialogue with their children to avoid misgivings and misunderstandings, says Buttigieg.

"It's one of those tough-to-talk-about conversations," he says.

But when it comes to inheritances, there's often a lot of assumptions and speculation, so it's better to get everything out in the open and come up with a solid financial game plan.