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+ TOP 5 TRENDS IN COMMERCIAL REAL ESTATE

- The 3 biggest myths about investing in condos
- Checklist for a successful rent-to-own strategy
- The pros and cons of an RRSP mortgage

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THE 3 BIGGEST MYTHS ABOUT CONDO INVESTING

Surprised by investors' lack of interest in condos, expert **Matt Elkind** busts the top myths about investing in the market

It constantly shocks me that the vast majority of real estate investors disregard condominium investing because they believe the three biggest myths about the condo market. Every day, I work with investors who have made millions investing in condos and whose portfolios have outperformed benchmarks in every asset class, including stocks, multi-unit residential and commercial real estate. Best of all, when done well, investing in condos is actually much less work than freehold real estate.

MYTH 1: Condo returns aren't as high as freehold real estate

As a condo specialist who focuses on building portfolios of pre-construction condos, I can't tell you how often I hear this. But it simply isn't true. While I can only speculate on the origins, I suspect it has something to do with the shrinking size of condos.

When I started selling condos almost a decade ago, a nice-sized two-bedroom unit was more than 1,000 square feet, but most new projects today start at 650 square feet. When you use the metric of price per square foot, the returns are dramatically better.

Houses have actually gone the other way: They are getting bigger. In fact, a huge trend is to knock down modest bungalows and construct monster-sized two- or three-storey homes. The bottom line is that if an investor knows what they're doing and selects the right condo projects, they can make more than with any other real estate investment.

5 BENEFITS OF CONDOS VERSUS FREEHOLD PROPERTIES

1. Built-in capital appreciation
When a developer launches a project, they have to focus on selling to investors and building up the sales momentum for the project. They must price it low because they are selling a piece of paper that won't be ready for several years. As the building becomes a livable condo, an end-user can move in immediately or sell the unit easily on the MLS. Typically, returns for a pre-construction condo are higher than those of a constructed condo in the same area. You are essentially buying a unit in 2018 at 2015 prices.

2. Lowest price point
Investors who purchase the first units typically get the lowest price. Developers risk alienating their purchasers if they lower the price later. Developers that gradually increase their prices over the course of the project sales cycle will give investors confidence and will see them purchase again in the future. Typical price increases within several weeks after the initial launch can be anywhere between $5,000 and $50,000 and could continue to increase over the following years.

3. Cash-flow positive
While not all pre-construction condos present the greatest cash-flow-positive opportunities, many do. Similar to the built-in appreciation, you are buying in 2015 but renting in 2018. This can work out to several hundreds of dollars a month in additional income. We only recommend purchasing condos with positive cash flow.

4. Leverage
Low deposits typically start at 5% in the first six months or years, though in some cases, 5% is all that is required until closing. This is what will most dramatically increase an investor's return on investment, which is the most important measure of investment performance. Once the investor takes possession of the condo, he or she can use the equity to purchase other units and build up a portfolio.

5. Limited responsibilities
The best part about investing is a condo is that there is literally a fraction of the work when compared to a freehold property. Almost all maintenance-related issues are handled by the condominium corporation. The investor's main responsibilities are to find a tenant and take care of some very minor repairs.

Hiring a property manager to take care of a freehold property, including the walkway and major repairs like a roof, can be very expensive. Pre-construction condos are even better – the only thing an investor needs to do after purchase is pick the colours, and most developers have design consultants who will do that for you.

MYTH 2: There is a condo bubble

Even the Bank of Canada and finance ministers have contributed to this one, but the worst 'condo bubblers' are resale agents focused on selling houses. Without a shred of evidence, they will tell you that they're worried about the condo market, but there is a limited supply of land, and houses won't be affected.

The reality is that a downturn in the housing market will affect both freehold and condo properties. Over the course of my career, there has only been one brief correction in the real estate market, which affected the higher end of the market and neighbourhoods that were farther from the core of the city.

Condos are much more focused in core areas and can be 60% more affordable than freehold houses. Typically, the purchasers of $300,000 condos aren't employees with heavy bonuses. If the economy changes, they will still need a place to live, and condos will become an even more attractive option. It is the financial professional looking at a $2 million house who gets a margin call on top of losing his bonus and is struggling to make his $8,000/month mortgage payment who stops buying. The investor holding the condo can easily rent it, but there isn't the same rental demand at the high end of the market.

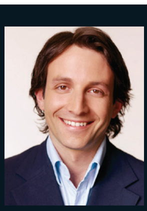
MYTH 3: You can't make money with condo maintenance fees

When I used to sell houses, I would always laugh when first-time buyers would say they didn't want to pay maintenance fees. I would always tell them, "You do pay maintenance fees; you just don't know what they are yet."

When looking at the cap rate on small, multi-unit residential investments, there are barely any maintenance costs, let alone reserve fund studies. But without funding the reserve fund account, by the time the building needs a new roof, the investor won't have saved up enough money to pay for it.

When I do a pro forma analysis on a condo unit using the maintenance fees, I am always pre-paying for future repairs. When you buy a regular income property, you get hit with a $10,000 bill when the roof needs replacement; with a condo, the money is already in the reserve fund.

Pre-construction condo investing offers the opportunity to earn higher returns with a fraction of the effort. Investors are very well compensated when they invest early in projects with high potential. Like anything else, you need to work with experts who know what they are doing and have access to the best projects and opportunities. Whether they're considering condos as a primary investment strategy or just a way to diversify a real estate portfolio, investors need to look past the myths to see a rich reality. ■



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