

CHOOSING THE BEST INVESTMENT OPTIONS



Buying a condo as a rental investment can be good strategy if you find the right unit at the right price.

Investors own about 23 per cent of the condominiums in the Lower Mainland with the level approaching 30 per cent in downtown Vancouver, according to Canada Mortgage and Housing Corp.

Investors buy condominiums for both rental income and equity appreciation, but how do you know which property is the best investment?

We asked mortgage broker and investor Kyle Green of Mortgage Alliance in Vancouver to look at three recently listed condominiums, asked him how an investor would evaluate them.

First of all, Green shared a “rule of thumb” guide to purchasing an investment condo. “Divide the monthly rent by the asking price,” Green explained, “if the result is .005 or less, the property will likely not produce a positive cash flow.” (This assumes the property is purchased with a 20 per cent down-payment at today’s low interest rates on five-year terms.)

For example, if the condo is rented at \$2,000 per month and priced at \$300,000, it works out to .006, which means the rental income would likely just cover the mortgage and other expenses, resulting in positive cash flow.

Also, to compare rents in an area - and confirm whether the unit is being rented at market value - you can sign onto the free www.rentometer.com service that compares rents in any Metro Vancouver neighbourhood.

The three sample properties are:

- A - 1 bedroom, 490 square foot, condo in Coal Harbour, which is rented for \$1,580 per month, with \$156 per month in strata fees, and priced at \$385,000.

- B - 2 bedroom, 720 square foot condo in New Westminister rented at \$1,150 per month with strata fees of \$324 per month, priced at \$188,000; and

- C - 1 bedroom 630 square foot condo in Dunbar/Point Grey, rented at \$1,100 per month with strata

fees of \$291 per month, priced at \$299,000.

Green said the A unit is small, while the rent appears too low for the area and could be raised. The strata fees are also low, suggesting it is a new building and that the strata fees would likely increase. Add in annual taxes of \$1,264, and this unit would not likely produce a positive cash flow unless the rent could be raised substantially.

The B property, even with annual taxes of \$1194, could generate enough income to just cover the cost of ownership, Green said,

The C property would not prove positive cash flow, especially when annual taxes of \$1,120 per month are factored in, Green said. “Either the price would have to be reduced or the rent raised.”

Green advised that investors should also check that rentals are allowed in a condo building under its current strata regulations.

Your local Realtor can offer more detailed advice on buying an investment condo.