Real Estate Monthly

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Hot Market in a Scorching July

Members of the Ottawa Real Estate Board sold 1,842 residential properties in July through the Board's Multiple Listing Service® System, compared with 1,605 in July 2018, an increase of 14.8 per cent. July's sales included 1,382 in the residential-property class, up 12.3 per cent from a year ago, and 460 in the condominium-property category, a rise of 23 per cent from July 2018. The five-year average for July unit sales is 1,579.

“Typically, after the busy spring, July tends to be a slower month as people take vacations and spend more time with their families, but there was no slow down this past month,” observes the President of the Ottawa Real Estate Board (OREB). “In fact, we recorded the highest number of July sales in 15 years.”

“Also, for the first time in 2019, there was an upsurge in new listings which has slightly improved housing inventory. Although this is encouraging news, it is not enough to keep up with demand. In order to bring about a more balanced market, there needs to be at least a three-month supply of listings. Currently, Ottawa is closer to a one-month supply,” he adds.

“In this type of market, it is vital that Sellers utilize the experience and advice of a REALTOR® to maximize your property's potential — and if you are a Buyer, to guide you through the complexities this intricate market presents,” OREB's President recommends.

July's average sale price for a condominium-class property was $299,665, an increase of 6.8 per cent from last year while the average sale price of a residential-class property was $487,308, an increase of 10.4 per cent from a year ago.

“Residential house prices continue to increase; however, these are reasonable gains and are not creating a bubble by any stretch,” OREB's President maintains. “Condo prices have now recovered, and the oversupply in that sector no longer exists. Ottawa has a healthy condo market and with major developments coming online in the future, we expect these too will be absorbed in due course.”

The $350,000 to $499,999 price range was the most prevalent price point in the residential market, accounting for 42 per cent of July's transactions while 28 per cent of residential sales were in the $500,000 to $749,999 range. The most active price point in the condominium market, $225,000-$349,999, accounts for 52 per cent of the units sold.

When asked about how the upcoming federal election might affect the real estate market, OREB's President emphasizes, “We continue to believe the stress test is negatively impacting our housing market and look forward to hearing about how the various parties intend on addressing this contentious issue as the election approaches.”

In addition to residential sales, OREB Members assisted clients with renting 1,619 properties since the beginning of the year.

Not intended to solicit properties currently listed for sale.

What you need to know if you're making the leap from land owner to landlord

Here are some tips on financing, taxation and what you can expect from future price growth

If you are considering adding a rental property to your portfolio, there are a number of financial planning factors to keep in mind. Home ownership rates in Canada have stayed relatively constant over the past 20 years, hitting a low of 64 per cent in 1999 and a high of 68 per cent in 2013.

But recently released figures from StatsCan's 2018 Canadian Housing Statistics Program, which found that 38 per cent of Toronto condominiums are not owner occupied, suggest that at least for certain cities and property types, an increasing number of Canadians are making the leap from land owner to landlord.

If you are considering adding a rental property to your portfolio, there are a number of financial planning factors to keep in mind.

One common misunderstanding with rental property debt relates to tax deductibility. Just because a mortgage or line of credit is secured by a rental property, that alone does not make the interest tax deductible. It is the use of the borrowed funds that dictates tax deductibility.

As a result, refinancing a rental property and using the money for personal purposes means the interest on the additional debt is not tax deductible.

Likewise, if a debt is incurred on your principal residence to use toward a rental property — say, a downpayment — the fact that the debt is not secured by the rental property does not negate tax deductibility. If the borrowed money is used for the rental property, the interest is tax deductible against the rental property income even if the debt is not on that particular property.

Commonly missed deductions for rental property investors include accounting fees, which are not generally tax deductible on most personal tax returns.

Travel expenses can also be deducted. According to the Canada Revenue Agency (CRA), "You can deduct travel expenses you incur to collect rents, supervise repairs, and manage your properties. Travelling expenses include the cost of getting to your rental property, but do not include board and lodging."

Mistaken expenses that are commonly claimed that are not tax deductible tend to relate to repairs and renovations. The CRA distinguishes between current and capital expenses. A current expense is a tax deductible expense that is generally a modest cost that reoccurs frequently, restores a property to its original condition, or is a replacement that is part of the ordinary maintenance of a property.

Capital expenses tend to have a more lasting nature and improve a property beyond its original condition. Generally, if the expense is considerable relative to the value of the property or might otherwise be considered a "renovation," the expense may not be tax deductible. Replacing a separate asset within a property — like an appliance — is considered a capital expense.

Capital expenses are instead added to the adjusted cost base of a rental property and reduce the eventual capital gain on sale. They are also added to the undepreciated capital cost and can potentially be claimed over time as capital cost allowance (depreciation) to the extent a taxpayer has net rental income for the year. Capital cost allowance cannot be claimed to create or increase a net rental loss.

Real estate investors often wonder if they should set up a corporation to own their rental properties. Generally, the answer is no, except in certain circumstances.

One situation is if an incorporated business owner wants to use corporate savings to buy a rental property, as either an investment, or to use in the course of their business. Using a corporation for the property can reduce the personal tax otherwise payable to withdraw corporate cash, include that withdrawal in personal income, and then use after-tax personal funds to buy the real estate.

Another instance when a corporation may be appropriate is if an investor is buying a commercial property, where the liability risk may be higher than a typical residential property.

A final tax consideration for real estate investors relates to flipping a property. The CRA is paying much closer attention to investors who buy and sell a property soon thereafter. If an investor's intention does not appear to be to earn rental income, but rather, to earn a profit from buying and selling, an investor risks paying twice as much tax on that profit.

Rental property proceeds are generally taxable as capital gains, 50 per cent of which are tax free. But a property that is flipped can be subject to taxation as business income, which is fully taxable.