

# Smart Moves

with **Kaushansky Brown**  
Passion • Knowledge • Integrity

Your Community Real Estate News

 Spring 2011

## Market Watch

Greater Toronto REALTORS® reported 9,262 transactions through the Toronto MLS® system in March 2011, representing the second best March result on record. The number of transactions was 11% lower than the record result reported in March 2010.

"The strong home sales reported in March and throughout the first quarter of 2011 have been based on a solid affordability picture and improving economic conditions in the GTA and country-wide," said Toronto Real Estate Board (TREB) President Bill Johnston.

The average selling price for March 2011 was up 5% year-over-

year to \$456,147. The strongest average annual price growth was reported for condominium apartments and semi-detached houses, at approximately 7% for both home types.

"Market conditions were tighter in March compared to last year. With more competition between buyers, we have seen a strong but sustainable rate of price growth," said Jason Mercer, TREB's Senior Manager of Market Analysis.

April saw 9,041 sales and while this result was down 17% compared to April 2010 when sales spiked to a new record of 10,898, this was still in line with the average April sales levels

reported over the previous five years.

Tighter conditions (ie, less inventory) resulted in the average April selling price growing by 9% annually to \$477,407.

Mr. Mercer also commented that "The number of listings has been below expectations so far this year. Increased competition between home buyers has led to an accelerating annual rate of price growth," and that "The strong price growth experienced in April should result in more listings and more balanced market conditions."

## Updates From Our Office

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### What Have We Done Lately?

Our big news coming out of Keller Williams annual international conference in Anaheim, California was the announcement that Irene and I were named the Top Earning Team for Keller Williams offices across Canada.

As of the end of April 2011, we've sold 15 properties for a dollar volume of just under \$8.5 million. We truly appreciate your referrals for buyers and sellers, big and small and look forward to serving others you know into the spring and summer months.

### Keller Williams Luxury Homes Division

Irene and I have just been granted membership in this elite division that highlights Luxury Home listings from Keller Williams offices around the world. Stay tuned to see how this will benefit you, our clients!



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## Inflation Talk

By John Panagakos, Principal Broker at The Mortgage Centre

*April 25th, 2011 There has been a lot of talk about high inflation rates lately (Bloomberg), and I think everyone is feeling the pinch.*

*There have been questions floating around about how best to curb inflation rates, and the most common way to do so is to raise Bank of Canada's overnight rate.*

*This rate is most often used to curb short-term inflation, and Variable-Mortgage rates move whenever it does. More recently the Prime lending rate – or overnight rate - has been at historically low levels to stimulate the economy and encourage spending.*

*Economists have been calling for an inevitable increase in the Prime/Overnight rate as the economy becomes more stable.*

*There is some debate as to whether this will happen sooner than later, but for the time being the*

*variable mortgage rates are providing consumers with considerable savings over the fixed rate.*

*Fixed mortgage rates are based on longer-term inflation predictions. If there is an expectation that rates should rise in the future, then the end result is higher rates for fixed-rate mortgage products.*

*While inflation is the key to determining interest rates in the future, there is always a difference of opinion among experts as to whether it's about to surge upwards or remain the same for a long period of time.*

*What we're seeing reflected today is speculation that inflation will continue to rise, hence a recent increase in the fixed mortgage rates.*

*Currently, there is a 2% disparity between fixed rates (4.24% – 5 year average) and the variable rate (2.25% – 5 year average). This spread means considerable savings for variable-rate mortgage holders that are able to*

*stomach the prospect of market volatility.*

*We don't like to give one-size-fits-all advice, because everything to do with personal finance and mortgage solutions is subjective.*

*What we will suggest is taking advantage of the low variable rates by increasing your mortgage payments so that your principal is getting paid as quickly as possible.*

*This way, when rates do rise you have already adjusted to the higher payment amount, and you have also built up a considerable amount of equity for that I inflationary day!*

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## Sheltering Income: Easing the Tax Hit for Investment Property Owners

**With information from **DIANNE MALEY:****

***The Globe and Mail, Wednesday, Apr. 20, 2011***

*Whether it's a duplex, a cottage or a Florida getaway, a second property can be a rewarding investment over time.*

*But if you're not careful, it can prove taxing as well. A little planning goes a long way.*

*The following are some common mistakes financial planners see in their practice, as well as some tips for minimizing the tax hit.*

*If you borrow money to buy or repair a rental property, make sure you arrange things so that the interest on the loan is tax deductible.*

*That means keeping mortgages and lines of credit for the rental property completely separate from loans taken out to buy or improve your principal residence, which are not tax deductible.*

*"You can't un-mix money," says Warren Baldwin, regional vice-president of financial planning firm T.E. Wealth in Toronto.*

*Say you have a \$100,000 mortgage*

*on your home and want another \$200,000 for a down payment on a condo to rent out.*

*Instead of raising the mortgage on your principal residence, take out a second mortgage from the same lender – at the same rate as the first – for the down payment.*

*That way, the source and use of the money is crystal clear if and when the Canada Revenue Agency comes knocking.*

*The same applies for a line of credit. If the kitchens in both your*

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home and rental property need renovating, take out two separate lines of credit, Mr. Baldwin says.

A windfall can also trip people up, he says. Say you inherit \$300,000 or win the lottery and you want to buy an income property.

If you already have a mortgage of roughly the same amount on your principal residence, rather than using the windfall to buy the rental, pay off your mortgage instead, Mr. Baldwin says.

Then borrow the money to buy the rental property, making the interest deductible against income.

### **The Family Cottage**

After decades of bringing pleasure to a family, the waterfront cottage can end up as a great source of strife if you don't plan properly for the capital gains tax that will be payable when you die (assuming it is not your principal residence).

Say you bought a cottage for \$25,000 that is now worth \$1-million. Your heirs will be facing a \$975,000 capital gain on which the tax hit will be about 23 percent, says Ted Rechtshaffen, president and chief executive officer of TriDelta Financial in Toronto.

If one or another of your children is unable or unwilling to kick in their share of the tax, the others may be forced to sell against their wishes, he says.

Mr. Rechtshaffen offers two possible solutions: permanent life insurance to cover the capital gains tax, or selling the cottage to the children earlier on while the price gain is still manageable.

In the latter case, say your \$25,000 cottage has risen in value to \$300,000 by the time you retire, and

your income is lower because you are no longer working.

The capital gain at that point would be \$275,000, and if you and your spouse are joint owners, you can split the tax bill evenly.

"You can actually plan out when you're going to take the capital gains hit," Mr. Rechtshaffen says.

### **Condo in the U.S. Sunbelt**

Don't expect to rent out your Florida condo for a month or two and deduct a year's worth of interest and other expenses, Mr. Baldwin cautions.

The CRA requires that the expenses be pro-rated, allowing you to deduct them only for those months when income was earned. And don't try to deduct the cost of your flight down there for tax purposes.

If you earn income in the United States, it is to your advantage to file a tax return on a net rental basis with the U.S. Internal Revenue Service, says Terry Ritchie, financial planner at Transition Financial Advisers in Calgary and co-author of *The Canadian Snowbird in America*.

If you don't file, you will have to pay a 30 per cent withholding tax to the IRS on your gross rents.

When it comes time to sell, the IRS withholds 10 per cent of gross proceeds if the amount is more than \$300,000, or if you do not use the property more than half of the time as a principal residence.

This amount can exceed any capital gains tax you might have to pay, Mr. Ritchie notes.

Suppose you sell a house worth \$750,000, triggering a withholding tax of \$75,000, but you only had a \$50,000 capital gain. The capital

gains tax rate in the United States is 15 percent, which in this example would be \$7,500.

"That's a lot less than \$75,000," Mr. Ritchie says. In this case, you can file Form 8288B with the IRS requesting that the agency lower the withholding tax to the amount of capital gains tax actually payable, he says.

As well, the IRS requires that you depreciate a U.S. rental property, which could result in a higher capital gain when you eventually sell because the depreciation lowers the cost base of the property.

The good news: Canadians can claim a foreign tax credit on their filing with the Canada Revenue Agency for any taxes paid in the United States. But perhaps the biggest mistake some people make with rental property is not tax-related at all, Mr. Baldwin says.

Being a landlord can be far more difficult than many people anticipate, especially when it comes to dealing with problem tenants.

"The biggest mistake is thinking it is going to be an easy skate."



