

The Dos and Don'ts of Buying a Rental Property

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If you're considering buying a rental property, and you're serious about becoming a landlord, it's worth looking at the entire picture – in other words, a thoughtful look at the pros and cons. In today's crazy real estate market, buying a rental property could be a viable investment option.

Assuming you have the investment capital, and the bottom line makes sense, you may well be on your way to becoming a landlord. Just ask yourself a few questions to be sure. Can you handle the mortgage? How's your capacity for financial risk? And - can you "weather" the ups and downs?

Keep these dos and don'ts tips in mind when buying a rental property

The notion of collecting rental income and always having cash flow is really a best-case scenario. And while every investor wishes for this, every landlord must also face the reality of problem tenants, late rental payments, and capital expenses that are both unexpected and significant. The best approach is to be well informed, covering all the bases, and always having a backup plan.

Do take advantage of tax deductions

Mortgage interest, realty taxes, and property insurance are all deductible against rental income. In the event of incurred losses, these can be deducted against other income. Depreciation is also deductible (allowing for wear and tear on the building). Finally, rental properties can be re-sold and proceeds invested in another rental property, but without the burden of paying capital gains.

Do look into different property types

When buying a rental property, it's well worthwhile to ascertain which type of property will deliver the best return on investment. A unit in a multi-family condo (or coop building) may be a good fit. An apartment in a university town might be ideal, especially if you have kids in need of student housing. Or you may want that vacation home on a lake, beach, or skiing community.

Do take your landlord duties seriously

Clearly, you're ready to collect rent and bank the deposit. But are you also ready for the basic responsibilities? You'll be managing the property – dealing with tenants – and accountable for problems and repairs. In short, landlord responsibility encompasses both the financial burdens and

the personal obligation that comes with satisfying tenant needs (sometimes demanding).

Do calculate the ROI on your property

Today, with sophisticated online technology, you could “run the numbers” on your rental or investment property in addition to the bank manager or real estate broker utilized in the closing process. Online mortgage calculators allow you to assess the “big picture” of your property investment with greater accuracy. In fact, you can input your down payment amount, your mortgage interest rate, and all of your projected costs into a worksheet with a “bottom line”.

Do understand tenant laws

When you’re buying a rental property, you’re essentially becoming a landlord. You should therefore be fully apprised of the Residential Tenancies Act of Ontario. Even with a property manager on hand (for day-to-day dealings), you’re still the one who is ultimately responsible. This is a time to be well informed and well prepared – it will pay off [when problems arise](#).

Don’t overlook some of the other important aspects

While owning an investment property might be an appealing achievement, don’t overlook some of the underlying aspects of ownership. Your investment capital is now tied up, so it’s better to be thinking about the long term, rather than the short term. Most every real estate expert will advise you that getting into the investment/rental market must be viewed as long term for any gains.

Don’t forget about the NRRP Rebate

If you’re buying a new condo and planning to rent it, you may qualify for the New Residential Rental Property Rebate (must be leased for minimum of a year). The [NRRP Rebate](#) is basically a tax refund from Canada Revenue Agency. Since the refund may take time to process, it’s highly recommended to apply immediately when the property has closed and a lease agreement signed.

Don’t overlook more financial outlay

Realistically, being a landlord can entail additional financial outlays beyond the original purchase. And although these expenses may be deductible, they still have to be paid. Indeed, there will always be some type of repairs and maintenance sots to endure. As well, there will inevitably be some emergencies - a plumbing issue, a water leak, broken hardware, or smoke/fire damage

Don’t underestimate the time involved

Being a landlord is time-consuming by any definition. It takes time to vet and choose prospective tenants. It takes time to get all the paperwork organized. It takes time arrange for maintenance work. And it takes time to deal with tenant needs. Yes – it's possible to hire a property manager to undertake all of the work, but then you have to ask yourself if it's worth it on the bottom line.

Don't buy (less expensive) in a bad area

It's no secret that you get what you pay for with real estate. What's most important is to do the necessary homework to ensure a good purchase. How's the neighborhood? Is there a growing population? Is there development planned? Is there proximity to amenities? Bottom line, the area should provide good potential investment growth, while allowing for good return short term.

Don't lose sight of the important details

Apart from the important financing aspects of every real estate transaction, there are a host of details not to be overlooked. A building inspection should be integral to a purchase. Building insurance and tenant insurance is indispensable. Even something like a fire safety certificate might be relevant. The fact is, nothing is ever too minor a detail to forget about or sideline.

If you're buying a rental property, make certain it's the right move

Buying an [investment property](#) is usually more complex than buying a principal residence. There are simply more considerations to make – from the type of building, to the type of tenancy, to the investment capacity. However, when the legwork is done, and all bases are covered, real estate can often present better prospects than other investments. If you're so inclined, investing in a real estate property can provide both short term investment benefits and long term payoffs.