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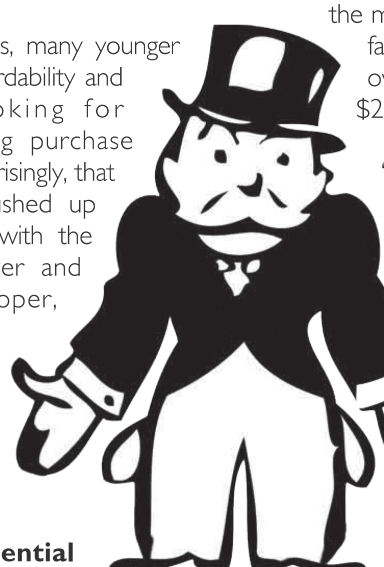
Can you afford a condo in Canada's largest cities? Royal LePage reports on price per square foot

According to Royal LePage, the median price per square foot of condominiums sold in the Greater Toronto Area (GTA) has risen 9.1 per cent (to $743/sq. ft.) compared to last year. Meanwhile, the correction in real estate prices continued in Greater Vancouver, as the median price per square foot of a condominium fell 8.3 per cent (to $764/sq. ft.).

"In Canada's largest cities, many younger buyers searching for affordability and baby boomers looking for maintenance-free living purchase condominiums. Not surprisingly, that strong demand has pushed up price per square foot, with the exception of Vancouver and Calgary," said Phil Soper, president and CEO, Royal LePage. "Buyers are adapting by purchasing smaller units, especially among those looking for entry-level properties."



Examining all residential housing types (aggregate) in the greater regions, the price per square foot in Greater Ottawa had the largest year-over-year increase in the country (9.6%) followed by the Greater Montreal Area (5.9%). Price per square foot in the Greater Toronto Area rose 2.0 per cent, driven by a 6.1 per cent increase in the city of Toronto. The housing markets in Greater Vancouver and Greater Calgary posted the most significant declines with the aggregate price per square foot, decreasing 11.3 per cent and 6.2 per cent, respectively.

The price per square foot in the city of Vancouver remains the highest in the country despite a recent price correction in the region's real estate market. Home buyers can expect to pay $1,044 per square foot for a condo and $1,279 per square foot for a single-family detached home.

Greater Ottawa

The median price per square foot of a condominium in Greater Ottawa experienced the most significant increase across all property types in all regions analyzed during the first seven months of the year, climbing by 17.9 per cent year-over-year to $395. Comparatively, the median price per square foot of a single-family detached home in Greater Ottawa over the same period rose 8.5 per cent to $265.

"Inventory levels in the Ottawa market continue to be very low for both condos and detached homes, contributing to price increases. Demand remains high and listings are selling quickly," said Kent Browne, broker and owner, Royal LePage TEAM Realty. "We are seeing significant interest in Ottawa's south and west ends from residents working in the nearby military and technology hubs."

Similar to the larger region, the city of Ottawa experienced healthy appreciation in both the condominium and single-family detached markets. During the first seven months of the year, the median price per square foot of a condominium in the region increased 4.2 per cent year-over-year to $444, while the median price per square foot of a single-family detached home increased 6.8 per cent year-over-year to $282.

The median living area of a condominium and single-family detached home in the city of Ottawa in the first seven months of 2019 was 889 and 1,942 square feet, respectively. In Greater Ottawa condominiums and single-family detached homes had a median size of 909 and 1,761 square feet, respectively.

Sizzling Summer Continues into August

Members of the Ottawa Real Estate Board (OREB) sold 1,731 residential properties in August 2019 compared with 1,581 in August 2018, an increase of 9.5%.

"August's ten percent increase in unit sales from 2018 is over twice the percentage increase experienced last year and three times higher than the previous August" reports OREB's President. "However, although the numbers are up, Ottawa continues to undergo issues with inventory as the limited supply persists

The average sale price of a residential-class property sold in August in the Ottawa area was $484,921, an increase of 11.8% over August 2018. The average sale price for a condominium-class property was $308,781 an increase of 11.5% from August 2018.

"Year to date average prices, which are more reliable indicators than monthly average prices, show steady, reasonable, and sustainable increases. We don't anticipate there will be a major correction in the foreseeable future," OREB's President maintains.

The $350,000 to $499,999 price range was the most prevalent price point in the residential market, accounting for 42% of August's transactions while 27% of residential sales were in the $500,000 to $749,999 range. The most active price point in the condominium market has increased again in 2019 to $250,000-$399,999, accounting for 50% of the units sold.

Call today for real estate advice and information!

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

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, 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.

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.

Over the past 30 years, “real” Canadian real estate prices have grown by about 2.5 per cent per year. This means real estate has grown nationally at 2.5 per in excess of inflation. But even the past 30 years in Canada may have been somewhat exceptional. Going back to 1890, real U.S. real estate prices have only grown by about 0.4 per cent per year, barely outpacing inflation.

Now, more than ever, Canadian real estate investors should focus on income over appreciation. Understanding how financing and taxation impact real estate investing can help a landlord better manage a real estate investment, but investors need to be particularly cautious about overestimating future price growth.

Jason Heath is a fee-only Certified Financial Planner (CFP) and income tax professional for Objective Financial Partners Inc. in Toronto.