

Real Estate as an Investment

A home is a solid investment. Many homebuyers get so caught up in the excitement of buying a new home, they fail to appreciate the many advantages of investing in a home, thinking only of the cash they will make when and if they sell the home.

There are many reasons why real estate is a good investment. Here are a few reasons:

Capital Gains are Tax Free

For any home owner, the capital gains that accumulate and are realized on the sale of a principal residence are tax free – that means the entire profit becomes your money, 100%! By contrast, to match even a small appreciation of 6%, the return on a fixed-income investment, such as a GIC, would have to be as much as 12%. Investing in a home means the money you make is all yours.

Seize Investment Opportunities

Purchasing the right investment property can be a low risk investment for a potentially sizable gain. When buying an investment property, making a down payment of perhaps 10-20% is all that is needed to secure a new first mortgage, and then it is simply a matter of using the rental income to pay off the mortgage while the property steadily appreciates.

Taxable Benefits

There are many different ways of securing financing against your house and have that financing be a taxable benefit.

One example is if you were to place a line of credit secured against your home and you use that money to invest with either a financial planner in stocks, bonds, mutual funds, etc., the interest paid on that money borrowed can be used to offset income earned on those investments. Sometimes this line of credit can be in second position, not interfering with the original mortgage placed on the house that was required to purchase the house originally.

Another example is when you use money from a line of credit to purchase an investment property. This has two benefits: one is the same as above, where the interest paid on the money borrowed to purchase the investment can be used to offset income earned on the rental income. The second is that there are a number of expenses you can deduct such as insurance, interest, maintenance & repairs, management & administrative fees, motor vehicle expenses, legal, accounting, etc.

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