



# Brian Madigan LL.B.

Sales Representative

## Real Estate Review

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### Toronto Land Taxes— Should You Buy In Mississauga?

As you have probably heard Toronto has imposed some new Land Transfer Taxes. Basically, they will be almost equal to the amount charged by the Province.



So, in effect it will cost almost twice as much by way of transfer taxes in Toronto as anywhere else in the Province.

Who pays? The quick legal answer is that the tax is payable upon registration of a conveyance by a purchaser. The amount escalates with the value of the transaction.

But, the question remains: will this bring a halt to Toronto's active resale housing market? Should purchasers suddenly flee to Mississauga?

Let's take a real life example. Assume two house purchases, each for \$600,000, one in the City of Toronto and the other in the City of Mississauga.

The Provincial land transfer tax on each home is \$8,475.00. Toronto charges an additional \$7,725.00 for a total of \$16,200.00. That difference applies right at the time of acquisition of the property.

However, we really have to go one step further. You have to recall that Mississauga's annual realty taxes are about 30% higher than Toronto's taxes.

To check this out, I found seven listings in Toronto's downtown. They paid average municipal taxes of \$3,494.00. I found 15 Mississauga listings and they pay an average of \$4,488.00, or \$994.00 more annually. So, it would take 7.77 years to use up the additional \$7,725.00 in saved land transfer taxes if you bought in Mississauga. After that, the Toronto property is less expensive.

The **rationalization** might be something along the following lines:

- 1) You have to pay more to buy into the Toronto area.
- 2) You are getting more services than the outlying areas including a subway system and the TTC. So, you have to pay for that upfront.
- 3) Once you are in, your actual property taxes will almost be \$1,000/year less than Mississauga's taxes.
- 4) In fact, by year eight, you will have saved money by purchasing in Toronto.
- 5) And, the historical real estate records will demonstrate that your property will be worth more than a similar one in Mississauga.

That's not really a great reason to bring the Toronto market to a halt.

If you are a Realtor® watch out for the series on RECO discipline case reviews published on my Blog.

### Waterfront Condos: Florida or Toronto?

Well, if you are talking about the weather, Florida for sure, but if you are looking at real estate as an investment, study the situation carefully. You might be surprised!



#### What about the half million dollar difference!

Florida's waterfront condo market has been skyrocketing for years, at least until recently. Toronto's market on the other hand has been steady, but progressive.

Five years ago, a waterfront condo on Daytona Beach would set you back \$500,000 (US). If you were a Canadian, that would be \$750,000 (CDN).

But, the world has changed. That same waterfront condo, now goes for \$350,000 (US), and with the Canadian dollar now at par, that means \$350,000 (CDN).

It is now a buyers market in Daytona, but really, not so, in Toronto.

The downtown Toronto condo market has gone up about 35.13% in five years. If you break that down, that's 7.03% annually.

So, if you had \$750,000 and put it into a Toronto condo five years ago, it would now be worth \$1,013,475.00 and you would have \$663,475 more in equity than buying the Daytona condo.

Or, let's say that you have that \$350,000.00 Toronto condo today. What did you pay for it 5 years ago? The answer is \$249,195.63!

So, if we roll back the clock five years, a \$249,195.63 Toronto condo and a \$750,000.00 Daytona condo, are both worth \$350,000 (CDN) today. That's a \$100,804.37 gain and a \$400,000.00 loss. But, no matter how you look at it, it's a **half million dollar difference!**

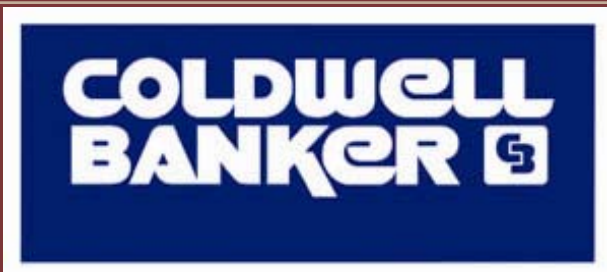
Well, that was certainly easy to figure out using a "rear-view mirror". Hind-sight is a wonderful tool. And, if you use binoculars, should you trade the Toronto condo for the Daytona condo today? One thing, for sure, you'll get better weather!

So, when you are considering the purchase of real estate:

- Consider the investment potential
- Know the local market and the trends
- Consider the purchasing power of the dollar
- Consider the direction of value of the currency
- Compare prices and shop carefully

#### Opportunities

Land for development, 10 acres	\$4.5 million
Ontario Winery	\$4.99 million
Newmarket Plaza	\$3.5 million
Retirement Home	\$2.8 million
Scarborough Plaza	\$2.0 million
Toronto Rooming House	\$499,000
Live/Work Building -Caledon East	\$490,000
Spa	\$199,000



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## Toronto Land Taxes: Entrance or Exit Taxes?

Toronto has imposed some new Land Transfer Taxes.

But who pays? The quick legal answer is that the tax is payable upon registration of a conveyance by a purchaser. The amount escalates with the value of the transaction.

However, the question still remains: who really pays? Is this an entrance or exit tax?

The **imposition** of the tax is upon the purchaser but the **incidence** of the tax may be somewhere else.

### Vendor's view

This is a new tax and if the purchaser wants to buy in Toronto, then he'll just have to pay it. I don't collect the tax, so it's got nothing to do with me.

### Purchaser's view

I only have so much money and now that Toronto has imposed a tax of up to 2% of the purchase price, then I'll just have to lower my purchase price by a similar amount, or go elsewhere.

### GST

You might still recall the imposition of the GST. That tax was imposed upon all transactions based upon the purchase price. Vendors were obligated to collect it and remit it to the government. Vendors could sell their products either including or excluding the GST. Now, virtually all vendors will sell their products with the GST to be added later. The economic reality was that some vendors were able to simply pass the GST on to their customers, while others were faced with the prospect of absorbing the GST or going out of business.

### Economic Reality

In all likelihood, the same result will follow here. For highly desirable areas that cannot be duplicated easily, purchasers will pay the Toronto Tax. In less desirable areas, vendors will have to lower their prices. The tax itself, at the high end, is only 2%, so in some other situations it may be split 50/50.

The real economic impact will not be measured for at least a year. Right now, it's all speculation.

### Transitional Issues

All transactions are exempt up to December 2007, no matter when they close. So, the market should speed up a bit in November and December which have traditionally been very weak months for real estate activity. That's phase 1. Phase 2 starts with the New Year. Deals signed 1 January 2008 and later must close before the end of February to be exempt from the tax. So, as you might imagine, there ought to be a number of transactions that take place then. Why wait and pay the tax? That doesn't make much sense.

Phase 3 is 1 March 2008 and later. Here, parties will be fully subject to the new Toronto Tax, but the interesting thing, is that the traditional start to the Spring market, which has been very strong for over a decade. Will buyers stop buying? Will sellers stop selling? Not very likely!

### Entrance or Exit Tax

In my opinion, like the GST, it will be a little bit of both at first, then eventually when the Toronto tax is fully operational and integrated into the economic reality of the marketplace, it will be an entrance tax.

In the short term however, in some cases it will be absorbed by the sellers which really isn't fair. But, then again, what tax is fair?

The **Toronto real estate market will continue to thrive** based upon:

- 1) Immigration and increased demand for housing
- 2) Increased numbers of household formations
- 3) Low interest rates
- 4) Close to full employment
- 5) A strong economy

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<http://OntarioRealEstateSource.blogspot.com>



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## The 5 Financial Reasons for Owning a Home

So, you think that you would like to buy some real estate! In particular, you would like to buy a house.

Let's summarize the principal financial advantages:

- use of rental income
- use of leverage
- forced savings
- appreciation in value
- tax free capital gain

### Use of Rental Income

Let's face it, you have to live somewhere. So, you will probably start out renting something. Here, you're just paying off someone else's mortgage. In the long run, they own the property, and you have nothing, but you paid for it. So, it makes sense to buy something, even if it's not quite as nice as what you could afford to rent. You just use the same money that you would otherwise have paid in rent.

This is basically free investment money, and it makes a lot of sense to use it.

If you're planning to rent, do so only over the short term, that's for a year or two. Clearly, if you plan to be in one place for three years or more then you should consider buying.

### Use of Leverage

Here is an opportunity to use "other people's money". Donald Trump loves this approach. Assuming you plan to get into the market but you think that the prices are a little high. This is typical, your parents and grandparents thought the same thing. What is your real opportunity cost? You were planning to buy a \$300,000 home. You have \$15,000 saved, but you decide to wait one year. What happens? If the market goes up 5%, that same house is now worth \$315,000 one year later. If you put your \$15,000 into a high yielding bank account you received \$750 in interest. And, it's fully taxable, so you only have \$375. That means that you had to save another \$14,625 somewhere else just to buy the same house.

However, if you bought the house last year, you would have used the bank's money to secure a first mortgage at favourable rates. This would enable you to participate in the increase in value and not fall behind. Your profits are based on the total investment in the property, yours and the bank's. The increase is based on the full \$300,000 asset.

One other way to look at it, is the 'cash on cash' return. Here, you invested only \$15,000 of your own money and you made an extra \$15,000. So, that basically means that you doubled your own money in one year.

On the other hand, if you passed on the property and without the principal of leverage working for you, you would have made \$750 on your money in the bank, and been left with \$375 after tax.

So, what's the difference? Basically, \$14,625 after one year, if you use leverage.

### Forced Savings

If you have a mortgage, it will fundamentally operate as a forced savings plan. Assuming that you obtain a 25 year amortized mortgage, you will pay both principal and interest in your payments. After 25 years, it's paid for! No more payments, you own the property.

So, in our example, after 25 years, you were forced to save \$285,000 just by having a mortgage. Remember, the first \$15,000 was your money, and the bank financed the balance. Your new asset results from the principal paydown provisions contained in your mortgage.

### Capital Appreciation

Property values go up over time, and so does everything else. Part is simply due to inflation and the devaluation of the dollar, and part is due to increased scarcity. Your plan by purchasing property is to:

- keep up with inflation, and
- participate in an equity increase due to the increased demand for your property in the future.

What might you expect? You know, there's 1,000 years of history to suggest that real estate values double every 20 years. That's about 5% every year. You have to remember that over a 20 year period, you will likely have at least 2 business cycles (maybe 3) and you will have experienced a boom, bust and recovery. However, all in all, you are still left with a doubling in value every 20 years.

While you really don't profit with the inflation protection, you can profit substantially if you purchase well-selected property. And, historically just about all properties seem to be in higher demand, not simply the very best ones. Unlike the stock market, it's hard to get a bad piece of property.

### Tax free Capital Gain

Our present system of taxation exempts a principal residence from the imposition of capital gains tax. So, our system is a little different from the United States where they can deduct mortgage interest yet they are taxable on the future gain. This is the system in place here for investment properties.

One of the most significant features and biggest advantages under our Canadian tax laws is the principal residence exemption. The moral here is that you should buy the biggest and best house that you can possibly afford.