

## Real Estate with an Upside



By **Brian Madigan LL.B.**

This is the best real estate to buy. You want to acquire something with a positive upside that is simply not just generally increasing with the market.

Consider a property that has some **income potential** in a downtown location. You should be able to rent out portions of the property and generate some reasonable returns.

A recent listing shows a property in downtown Toronto in the fashionable Cabbagetown community. It lists at \$499,000 and boasts of \$3,500 a month in rental income from tenants. This leaves the main floor available to the owner/occupier.

Now, you must be aware of the rules that relate to the regulation of the facility as a **rooming house**. Once you have 5 or more roomers, you need to acquire a license to operate a rooming house. Just under that number and you can have a single family dwelling with 4 roomers without requiring any registration or license, It would not be necessary to comply with any legislation other than that which applies to single-family dwellings.

An interesting comparison should be made with the property two doors to the south. It sold for \$550,000 two years ago. One little problem, it burned down and now it is simply a vacant lot. The owner has decided not to rebuild. Why? He sees the longer term development opportunity.

The lot is located on a major thoroughfare and would be quite suitable for high rise residential **condominium development** with a commercial mix of tenants on the first floor. You might wonder why the owner would draw this conclusion?

Basically, there are two reasons:

- 1) there are several 30 storey residential buildings directly across the street, and
- 2) within a one-half mile radius, there are 3 high rise residential condominium projects under construction right now.

So, the inevitable potential use for this property seems quite clear. When those 3 condos have been built and sold, where are the condo developers going to go? Some will obviously say, they will just go to the suburbs. But, that has not been the history in Toronto. Intensification of the downtown is the current planning strategy of choice.

So, the vacant lot and the property now listed with an income stream will both eventually be sold to a developer, not as a house and a vacant lot, but as lands suitable for high rise residential condominium development. The values will be significantly higher than their present uses would justify.

The market prices could easily be triple or quadruple their present values. So, if you had to evaluate a property, consider one with a potential for “up-zoning”. And, if you had to choose between the house with the income and the vacant lot, choose the house.

Whenever you are considering the acquisition of real estate, pay attention to the “upside”. What is the future potential? Would a zoning change be acceptable? Would it be reasonable? Would it be feasible? Would it be desirable?

Also, how soon might this take place? Is this a property that will be worth considerably more in the future than it is now? If you answer “yes”, then you should consider placing the property on your “buy” list.

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