



What about a Cottage?

By Brian Madigan LL.B.

Come to think about it, why not the whole lake?

You might be interested in a rather excellent and new type of real estate investment opportunity.

As you know, cottages are getting very expensive. The most fashionable areas in southern Ontario are the three big lakes in Muskoka, Lake Joseph, Lake Rosseau and Lake Muskoka. But, do you know what the problem is there? Money! Pure and simply, money! Right now, you have to either be a Bank President or a hockey player to afford a cottage on one of those lakes. Many listings are well over two million dollars.

In surrounding areas, great properties are fetching well over a million dollars even on the smaller lakes.

So, why not consider a change of plan? Rather than one big cottage on a great lot that is going to cost you over two million dollars, why not buy 100? Ok, I know that they will not be the same, but you could make more money in the long run.

You are probably thinking that you would have to buy something 2 hours drive north of Timmins. No, not at all! There are locations in southern Ontario about that same distance from Toronto that provide excellent recreational investment opportunities.

A recent listing offers a parcel of 270 acres of property including a small lake. Crown lands provide some additional required privacy and for long range conservation purposes, these lands will remain under the ownership of the Province. The local municipality has not only permitted but encouraged some development since it would be good for the local economy.

So, here is the plan. Carve the property up into 100 one acre lots. That leaves 170 acres leftover for waterfront and shoreline, interior dedicated areas for access roads, visitor parking, nature trails, woodlots and beach. Also, there is no access to the lake other than through these lands. The next step, is to make the entire project a condominium. You might recall that the Condominium Act was recently amended so as to permit land lots. In effect, each owner will own their own one acre parcel of land, as well as an undivided 1/100th interest in the common areas which are represented by the 170 acres.

The cost of the lots is about \$30,000 each. That's not much for a one acre parcel of property. You will have to build your own cottage on your lands. But, the control lies with the condominium owners. They select a Board of Directors which will be charged

with the responsibility to approve the building plans. Obviously, there would be strict guidelines.

Now, all in all, you might think that I am proposing that you buy a lot, or maybe even two. No, I'm going to suggest that you consider purchasing the whole complex. It's only slightly more than a high end cottage in Muskoka anyways.

However, there are some significant differences. You can sell lots off, year after year at increasing prices. You can control the development because you own all the lots. As time goes by, this will change, but at the outset, all the decisions will be yours and yours alone.

Or, you might need nine friends! You would each invest \$300,000 and acquire 10 lots. You build on one lot and appropriate the use of the remaining nine. You remember the principal residence exemption rules under the Income Tax Act. You are automatically entitled to have one acre exempt, and you have to prove that you are using the rest. So, you now know where you have to locate the rest of your outbuildings. It's not unusual for an entire 10 acre parcel of property to be exempt. Here, you will need to ensure that you have proper tax advice.

Over the years, you can add more cottages, one per lot, and give them to your children and grandchildren. This entire condominium approach solves the estate planning dilemma of what to do with the cottage, if you have more than one child. And, if your estate is subject to tax at that time, your executor could sell a lot to pay the tax.

With this condominium approach, the subdivision of the lots is already done. Most estates are confronted with the issue of having to sell the family cottage in order to pay the taxes and divide up the estate.

This presents a rather interesting alternative to buying a big, luxurious cottage in Muskoka. Ever try, selling it off "piece by piece"? That's not going to happen.

So, save your money, buy 10 acres, all pre-divided, and ready to build, with some very interesting long term estate planning opportunities.

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