

## Is a condo a good investment?

By Roma Luciw  
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*Young professionals and retirees should beware of steep maintenance and other costs that can erode their cash flow and limit their desired lifestyle, says Manulife's Kurt Rosentreter*

Condominiums seem like an attractive real estate option, but buyers who don't do their homework could quickly find themselves stuck with a volatile investment and buried under mounting maintenance and unexpected costs.

"Too many Canadians are being seduced by the pretty pictures and stories of easy lifestyle and they end up buying into a building that is a time bomb of costs ...," says Kurt Rosentreter, a senior financial adviser at Manulife Securities Inc.

In a controversial newsletter, Mr. Rosentreter lays out his position on how, from a financial perspective, condos often don't make good sense. He argues that far from being less expensive than a regular house, urban condos with high property taxes and steep monthly maintenance costs, not to mention unforeseen expenses such as fixing a broken pool valve, can carve a surprisingly big chunk from a person's budget.

Condo shoppers generally fall into three categories: young professionals looking for a cheaper entry-point into the red-hot Canadian housing market; retirees aiming to downsize from a big family home; and established investors who want to buy a unit and rent it out for profit.

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Although first-time, urban condo buyers are lured by short work commutes, minimal upkeep and amenities such as pools and exercise rooms, many still see a condo as a stepping stone to owning a house later in life, when they have a family, says Mr. Rosentreter.

The problem is that most young people don't have enough of a down payment - they should have saved at least 10 per cent - and haven't left themselves enough wiggle room in their cash flow to cover bills and unanticipated costs and to also live the life they desire, he said.

In addition, condo owners should not assume they will be able to sell their unit at a profit. Mr. Rosentreter believes that the "sheer number of new condos being built almost guarantees that in the event of a market correction, the condos will fall faster and deeper" than a townhome or a bricks-and-mortar house.

"I tell all my young professional clients that they should not buy a condo unless they plan to own it for 10 years and

have solid, sustainable cash flow," he said.

For a list of tips on how to buy a condo, click here [<http://www.theglobeandmail.com/globe-investor/personal-finance/condo-research-can-keep-you-from-a-time-bomb/article1347781>].

John Pasalis, the broker owner of Toronto-based Realosophy Realty Inc., says it depends on location. "Condos do appreciate and, depending on which neighbourhood you buy, it can be a great investment."

Adrian Mastracci, portfolio manager with KCM Wealth Management Inc. in Vancouver, says real estate is always a risky venture when taken with a short-term view. "You might not be able to sell it when you want to for what you want."

However, in big cities such as Vancouver and Toronto, skyrocketing housing prices have left people with little choice but to enter the real estate market through the condo segment, he says.

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The allure of condo living is another major driver in the decision-making process. "Generally people buy a condo because of a lifestyle it gives them but you can not buy it on emotion alone -you need the numbers to work too," Mr. Mastracci said.

For retirees on a fixed income, the numbers often don't add up for condo life, Mr. Rosentreter says. While the idea of moving into a smaller space where you don't have to shovel the driveway or clean the eaves troughs is appealing, retirees should think twice about committing their limited pension dollars to a rising array of maintenance and other costs that are needed to operate a multimillion-dollar building.

He cites an example of one client whose maintenance fees rose 15 per cent over the last five years to \$900 a month - as much as it could be rented for. Another client was hit with a special one-time assessment bill of \$12,500 as her share of fixing a crack in the underground parking garage.

Making a rental income from condos is also getting tougher, since Canada Revenue Agency is cracking down on landlords who repeatedly claim rental losses and deduct them against their regular income to trim their income tax bill, Mr. Rosentreter said. So unless you are putting down a large deposit and getting a small mortgage, a rental condo should not be claimed as a tax loss.

Condo buyers who rent out their unit and are not making 10 per cent or more might be better off with other forms of real estate investments, he added.

Before buying a condo unit, make sure that you, your lawyer and your accountant carefully review the building's status certificate to ensure it is being run well and is in good financial health. Find out how much is in the building's reserve fund; managed properly, the fund should have the money to cover major expenses such as cracked parking garages.

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