



## ARTICLES

### 10 Reasons to Become a Landlord and 40 Reasons Not To Rental Housing is not Passive Income

Obvious, and seemingly impelling, reasons to invest in the rental housing industry include:

1. Multi-residential investments are arguably the most stable, depression/recession-resistant, and relatively secure type of real estate investment you can make. Everyone needs a place to live. Not everyone needs a place to work. Buying a place to live is not possible for many young people and remains elusive for many adults too. Some adults choose the apartment living lifestyle for its freedom from housing-related issues.
2. Use tenants' money to pay your mortgage and build your equity. You can raise the rent each year (with restrictions) and adjust for current market rent rates when a property becomes vacant. Long-term investors buy real estate that generate positive cash flow and either hold it until the tenants have paid off the mortgage or until there's a compelling reason to dispose of the income stream in return for a lump sum; for example, to buy something bigger/better or to create a retirement annuity income stream.
3. Real estate assets can be leveraged to bargain for additional real estate investments. Unlike stocks, mutual funds, term deposits, etc. you do not have to pay for the whole real estate investment yourself. Tens of thousands of lenders will give you the extra money you need (mortgage) in exchange for receiving interest and the property as collateral



if you default on the scheduled payments. When the property's value has increased enough, some lenders will let you borrow against that value (your equity), which you can use as a down payment to buy another property.

4. Real estate is tangible and is more easily collateralized than most other types of investments. Ask ex-shareholders of Northern Telecom, Enron, Bre-X and other "blue chip" failures. Lenders generally offer a higher ratio of loan amount versus the value of a real estate property than they would offer on a portfolio of stocks, for example. The building and/or land will still exist if the worst should happen. Mainstream lenders also love the low-risk appeal of CMHC-insured rental housing properties and offer very attractive interest rates.
5. A modest increase in rental income and/or decrease in operational costs can have a significant positive impact on property value. For example, increasing net operating income (by reducing costs and/or increasing rent) by \$1,000 per year and applying a 6% capitalization rate (better-than-average in today's southern Ontario market) can add about \$16,650 to the value of a property, using the Income Approach. This does not include appreciation for other reasons such as high demand for, and low supply of, rental space, improvement in the neighbourhood, etc.

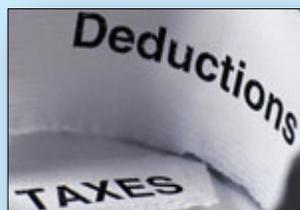




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6. Several current tax policies (RCCA, capital gain, etc.) discourage long-term owners from selling their rental housing properties because the proceeds of a sale may only equal the cash flow they would receive from keeping the property for a few years. Combine this with the discouraging rent control policies which make investors/developers unwilling to tie up their money in building a rental property. They may have to wait a decade or more for return of their investment, when they can build a condominium and get their money back—often with a huge profit—in just a few years. So what's good about that? Rental housing inventory is shrinking (see point 19 below), resulting in high investor demand and high sale prices for existing inventory (seller's market), and increases in average rent rates (low vacancy).
7. A well-maintained and fully-occupied rental property rarely depreciates unless they have been damaged by stigmatism or an eroding neighbourhood (eg. increase in crime).
8. If the very worst should happen, you still have a low (or no) cost place to live.
9. Legitimate and reasonable expenses reduce your taxable income including mortgage and credit card interest, depreciation, a reasonable salary with employment deductions, a percentage of your local travel expenses, relevant long distance travel (eg. trade show), portion of home office and workshop, etc.



10. Despite the perceived stereotype, there is an abundance of landlords who enjoy the satisfaction of helping provide good quality housing to self-sufficient people in need.

Many investors don't realize the financial and legislated responsibilities landlords must accept, especially in Ontario, arguably the most heavily regulated rental housing market in the world. No one reason will discourage you from becoming a rental housing baron or baroness, but just a few small mistakes could turn your dreams into a nightmare.

1. If you're not a people-person, hire an amiable but firm property manager or stay out of this business. Otherwise, you'll alienate your tenants and cause no end of misery for yourself.
2. If you're not a master of cash flow, again, stay out. You must plan ahead for everything from property taxes and insurance to major repairs. Maintenance costs come in big chunks. You may have nothing for a time and then suddenly get hit with a roof, boiler, or other major repair.
3. You'll have vacancy. You don't always achieve full rental income from your property. Lenders average vacancy at 3% to 5%. And, the less





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units you have, the greater the financial impact.

4. Bad legislation and inappropriate tax rules have created thin profit margins, especially for smaller operators, forcing them into nominal programs, thus eroding property quality, lowering tenant quality of life, and producing very little new rental housing stock.
5. Government and mainstream lenders have made it increasingly difficult to purchase rental housing, despite shrinking rental housing inventory and low vacancy rates.
6. Know the law or become a potential victim of it. If legal technicalities drive you crazy, stay away from rental housing. Among other things, you need a solid rental agreement and you must understand it completely.
7. You may inherit the previous landlord's problems. You have legal recourse for undisclosed latent defects, stigmatism, etc. but you may still end up financing the remedies until you can collect.
8. Be prepared for unpleasant life experiences like dealing with the passing away of a tenant, (by natural or unnatural causes), or dealing with tenants conducting illegal activities.
9. If the police or fire department kicks in a door or otherwise damages your property in the commission of their job, you pay for the repairs.



10. Tenants may call you at all hours of the night, sometimes for repairs, other times for emergencies, and still other times for domestic disputes.
11. You may have to be a mediator between neighbours who don't get along.
12. Government eliminated security deposits that would otherwise discourage tenants who disrespect or even trash your property, and you'll have a hard time collecting the cost of damages from tenants who have moved away.
13. Bad government policies and procedures created a new kind of sophisticated parasitic "professional tenant" whose goal is to continuously bilk landlords out of their rent.
14. You must visit your rental properties often. One landlord never checked up on his renters. The property was seized by police because it was used as a grow-op. The landlord did not get back possession because he was expected to have knowledge of this kind of obvious use and to report it.
15. Ontario government has put a 2.5% cap on annual rent increases. Landlords are already prevented from passing on many types of legitimate operational and capital costs. Getting no profit is a recipe for potential systemic industry failure, especially among less sophisticated and/or small operators who are not masters of their cash flow.





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16. LTB has imposed harsh rules on landlords for applications where any error requires the landlord to start the application over.
17. Ontario has the longest eviction proceedings process in Canada.
18. The *Ontario Landlord & Tenant Board* (LTB) spends \$28 million per year of taxpayer and landlord money, mostly on staff salaries, who spend two-thirds of their time processing landlord applications for tenants who refuse to pay their rent. Nine out of ten complaints are from landlords. According to the *Federation of Rental-housing Providers of Ontario*, a rent collection dispute costs the landlord about \$5,200.
19. According to the *Advocacy Centre for Tenants Ontario*
  - There were 39,070 fewer private rented units reported in the 2006 Census than in 2001.
  - Between 1995 and 2005, there were 13,061 fewer rental units in 21 Ontario municipalities
  - Rental Housing Tribunal received 509,827 eviction applications from landlords between 1998 and 2006. 84% were for non-payment of rent.
20. Be prepared for tenants who care about nothing except themselves, who look for every opportunity to make a quick buck at your expense, or who blame others for whatever is upsetting them.
21. Hoarders who violate the rights of their landlord and neighbours, and can create notable health and safety issues are nevertheless protected from eviction by the Human Rights Code.
22. Some municipalities have abused their power by taking the right to add a non-paying tenant's utility bill to the landlord's property tax. This is like holding police accountable for the crimes of the criminals they don't catch.
23. Capital Gains tax and Recoverable Capital Cost Allowance (depreciation) discourage longtime landlords from selling their property(s) to new investors, who statistically spend the most on building renovations.
24. Landlords cannot compile a list of bad tenants. In case resolutions, the LTB makes a landlord's name public but the tenant's name is hidden; an odd interpretation of privacy legislation.
25. The landlord is charged for a Fire Code violation committed by a tenant.
26. Statistically, tenants who have their utility bill included in their rent consume substantially more energy than those tenants who pay their own utility bills.
27. Government requires landlords to provide new tenants with one year of utility consumption history for a rental unit. Privacy Act prevents landlords from obtaining this information from





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utility companies if the previous tenant paid their own bill.

**28.** Government requires landlords to accommodate mentally-challenged tenants to the point of a landlord's "undue hardship," at the landlord's cost. Few landlords have the schooling to handle the irrationality of a mentally-challenged tenant. I am not aware of any courses or classes to help landlords meet this huge responsibility. As president of the Landlord's Association of Durham, I made a "Public Education Request" to the *Ontario Human Rights Commission* in April 2012. They declined.

**29.** Government expects landlords to foot the bill for damage and foul odours caused by pets. While there are legal recourses, the practical application of those recourses is onerous and often fruitless.

**30.** Your toughest challenges could come from the most unlikely places—your customers, all levels of government, and all political parties. The latter two pander to the large base of tenants, passing tenant-biased legislation in exchange for "easy votes", to the detriment of all landlords.

**31.** Landlords carry the stigmatic stereotype of the "rich landlord." Uninformed people believe that landlords "can afford" to carry the ever-increasing



financial burden heaped upon them by oppressive housing legislation. One mayor of a large Ontario city said that he has to find the money from somewhere and landlords can afford it.

**32.** You must know the Fire Code. Some updates can create unexpected capital costs such as installing bullhorns in every unit.

**33.** Finding reliable and honest trades people who perform acceptable quality work at a fair price AND have people skills that respect your good tenant relations can be a real challenge.

**34.** Municipal property taxes can take 15% to 20% of your rental income.

**35.** Some municipalities have cut back on the services they provide, such as garbage removal, but your property taxes continue to rise.

**36.** Government requires that the rent of a tenant switching from a single bulk meter to an individual meter be reduced by the amount of energy consumed over the previous twelve months. Therefore, the most energy-abusive tenants receive the greatest rent decreases while energy-conscious tenants are penalized.

**37.** Government limits landlords from passing on certain costs, and those costs that are permitted can't be more than 3% of the rental income above the rent increase guideline per year for a maximum of three years. This limits what a landlord can spend on improvements.



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38. Landlords are punished by the LTB process for working with a temporarily financially-distressed tenant. The LTB eviction process only begins when the landlord files an application, so the long LTB eviction process forces landlords to file as soon as the tenant fails to pay the rent.
39. Mainstream lenders will not finance rooming house-like properties, regardless of function, client base, or proven income stream.
40. Being a residential landlord is definitely not a passive income investment.

Treat your investment like a business, your tenants like valued customers, know your rights and those of your tenants, maintain tight control on your cash flow, count the pennies, act promptly in everything you do, surround yourself with high quality industry professionals, and you'll experience the success you've dreamed was possible, especially if you can expand your holdings. There are definite advantages in this business from economies of scale. **End**

*Chris Seepe is a commercial real estate broker, based in Toronto, Canada, dedicated to sharing his experience and knowledge in multi-residential (rental apartment) building investments. For more information or to contact him, visit [www.multiresidentialexpert.com](http://www.multiresidentialexpert.com)*

*I am a commercial realtor (broker), based in Toronto, Canada.*

*As an owner/operator I am also intimately aware of the issues, challenges, personal financial and estate planning considerations, rewards, and sense of accomplishment that come from managing the human relationships, business challenges and operational issues of owning a rental property.*

*I can help you do the same.*

*Christopher Seepe*

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