

The Pre-Construction Condo: Leap of Faith or Wise Investment?

What buying a pre-construction condo involves. The pluses and minuses of a condo investment. The REal Experts Property Analyzer helps you make educated investment decisions.

Imagine pulling up to a red carpet in a chauffeured limousine, with elegant greeters ready to usher you, arm-in-arm, to a party being held in a sales centre that cost over \$1 million to construct, a sales centre that will soon be demolished to make way for a hip, urban living space for the crowd of party-goers who have come to celebrate their good fortune on this night. Alcohol flows, canapés are consumed, and you mix and mingle with people who are eager to buy, just like you. To the condo developer, you are “VIPs”—Very Important Purchasers.

Inside, hundreds of VIPs and real estate agents crowd around the architect’s renderings of the lavish new condominium. Eye-catching images of the building’s architecture are displayed, alongside illustrations of bikini-clad women enjoying the pool, and stunning, life-like depictions of the fantastic amenities (amenities that will seldom actually be used). The nattily dressed developer walks out to applause, and his attitude is like that of a preacher giving a sermon to his fold: “The market is strong across the city, prices are still going up and the population keeps growing. Our building is at the best location in the most up-and-coming neighbourhood.”

“Luxury finishes,” and “A view like no other” are the homilies of the day to grab the attention of purchasers and indoctrinate the crowd of enthusiastic real estate agents. These hovering and attentive agents are only too eager to spread the marketing maven’s gospel to their clients. Their incentive, of course, is the commissions they will earn.

All builders have a formula: an array of pretty renderings used to evoke an emotional response, presented at sales launches hosted within slickly designed sales centres. The formula is used to shift your focus from price to the “this could be yours” fantasy of how nice it would be to live in the builder’s version of urban paradise.

But to be a smart investor you cannot be swayed by the builder's dog-and-pony show. Doing your homework on both the macro and micro level of investing in a pre-construction condo is paramount. From understanding market conditions to itemizing the smaller details such as finishes, being an educated investor is the best way to equip yourself with the tools to make a sound, strategic decision.

There is a reason why builders invest heavily in the pretty pictures, stories and emotions: When you buy pre-construction condos you're not really buying real estate—something with bricks, mortar and wood, all the tangible things you can see and touch. Instead, you are buying a promise, and accepting a promise requires faith. Our experience has shown us that when people get caught up in the hype of buying a pre-construction condo, they are more susceptible to making irrational investment decisions. And when things go wrong, investors tend to point fingers at the developer, their agent or the government rather than take personal responsibility. The question, then, is: How can you ensure you make a wise investment decision when buying a pre-construction condo? That is the most important question we aim to answer in this book.

What Exactly Is a Condo?

Before determining if investing in a pre-construction condo is right for you, let's start with a basic question: what is a condo?

Almost any piece of real estate—any building, or even open land—can be a condominium, since the word “condominium” refers to a legal structure of ownership rather than to a particular type of building. Condominium ownership is made up of two parts:

1. the unit (the part of the property that is owned by the purchaser); and
2. the common elements (the part of the property that is shared among individual unit owners).

(Just to make the terminology clear, in British Columbia a condominium is a Strata Corporation; in Quebec, a Syndicate or Syndicate of owners; and in all other provinces, a Condominium Corporation.)

While fancy brochures focus on lifestyle and amenities, you must always bear in mind that when you purchase a condominium, you are also entering a world of regulations, obligations and restrictions that may impact the very lifestyle being advertised. Condominium governance is

comprised of: (1) by-laws, which govern the use of units and common elements, as well as the administration and regulation of the corporation, and (2) rules, which the condo board may make to govern the corporation's common elements and assets. Rules cover, among other things, the use of visitor parking, the scheduling of use of common elements and even fines for breaking any rules.

The following are some considerations to keep in mind when thinking about how condo living is different from owning a detached single-family home. These are important to keep in mind, whether you decide to buy a condo as an investment, or as your own home for the short or long term.

- Whether you are living in a townhouse or high-rise condominium, *noise levels* can become annoying. You will be living in close proximity to neighbours, and, if your unit is near any mechanical system, noise levels can be amplified.
- You will not have complete *independence* or the final say over alteration to your own space, how your building is maintained or how the common elements are used.

 TIP

Know the rules

In 2008, a condo owner in Ontario was sued by his condominium corporation after he installed hardwood flooring in his unit. The installation was deemed "annoying, disruptive and constituted a nuisance to other occupants in the building."¹

 TIP

Breaking the rules will cost you!

If a condo owner breaks a rule, the board could decide to levy a fine on that owner, and a provincial court action can be taken to back up its fine. There are few avenues for appeal. If the owner refuses to pay, the fine is added to his/her condo fees. If the amount remains unpaid, a caveat can be filed against the owner's property title, preventing sale until the debt is cleared.

- In a single-family home, your *lifestyle* is entirely up to you. Having a pet or firing up the barbeque is done without a second thought.

But you might not be able to enjoy these activities in a condo. You need to be mindful of your neighbours and abide by the condo by-laws.

- Having increased *security* in a condo building means that your guests won't be able to come and go as they please. Many buildings require guests to sign in.
- Some buildings restrict the *number of tenants* that can occupy an individual unit, while others may not have such restrictions.

Risks Associated with Buying Pre-Construction

Buying pre-construction real estate is really a leap of faith. As much as five years could pass from the time you sign the offer until you get the keys to your unit. Many “moving parts” could affect how long it takes, and how profitable your investment will be. Here are some examples:

- the state of the economy today and in the future
- legal changes
- strikes and work stoppages
- the availability (or not) of skilled labour
- builder reputation and construction quality
- changes to the neighbourhood
- legal risks
- taxes and fees
- zoning risks.

The State of the Economy Today and in the Future

If you buy a pre-construction condo today as an investment with the hope that the future value will be much higher, you're banking on the assumption that the economy will be healthy and keep growing. How can you forecast economic fundamentals in the future? While it might seem like an arduous task, using the REal Experts Property Analyzer will guide you and empower you to make the right decision.

TALES FROM THE TRENCHES

by Wade Graham, investor, Calgary

In 2006 we bought a condo in Calgary for \$170,000 and got a great tenant who rented it for \$1,400 a month. By 2008 that condo was worth \$280,000. From that success we bought another for \$400,000, thinking we could tap into the lucrative furnished rental market and rent the unit out for \$4,000 a month. After the recession started, the market was flooded with units at the same time. The condo's value went down substantially, and I could barely get a tenant to rent it at \$1,650. It just goes to show that the market takes care of us in the best of times and kicks the crap out of us at the worst. From this experience, we learned to study the economic fundamentals to have a long-term outlook.

Legal Changes

Above and beyond condo regulations and by-laws, changes to the law—from local by-laws right up to federal laws—can have a considerable impact on the future value of your condo, especially if these occur during the construction phase. Federally, laws on foreign ownership of real estate can change. Regionally, land-use policies can change (Ontario's Places to Grow Act, for instance, can make the surrounding area more valuable). Locally, property taxes can change, which may have a severe impact on the desirability of your property, if and when the time comes for you to sell.

TIP

Watch your taxes

In some locations, condominium hotels are a popular choice as an investment because they offer flexibility: If you don't plan on living in the unit, you can add it to the hotel pool to earn cash-flow. Be aware that city regulations may re-classify your property taxes from the cheaper residential rates to the more expensive commercial rates, which can harm your cash-flow and make future financing of the building more difficult, since lenders will demand a higher down payment.

Strikes and Work Stoppages

Prolonged strikes for trades or government can significantly delay the time it takes for your project to be completed. For example, the City of

Toronto union strike in 2009 caused permit delays and occupancy certificate delays.

The Availability (or Not) of Skilled Labour

The general quality of the local construction workforce can have an impact on your condo building, but even more important is availability. If there is a shortage of skilled trades, rising costs and delays are more likely.

Builder Reputation and Construction Quality

Look for a builder with a reputation for completing projects on time and with high-quality standards. That good reputation should be consistent across many projects. Keep in mind that builders that don't have their own construction team could have different trades with different construction managers, meaning that it can be difficult to judge quality from previous projects.

Construction quality is impossible to guarantee when buying pre-construction, which is why it presents a huge risk when buying. Since there is no way to see into the future, steps can be taken to mitigate risks—that means doing your due diligence, which we outline in this book.

Changes to the Neighbourhood

Neighbourhoods that are going through “gentrification” or renewal are in a process of great change. Perhaps the neighbourhood has had a high crime rate, or many of the amenities that draw people to a neighbourhood have been missing (parks, schools, shopping, mature trees), or there was a lot of noise from traffic or construction. These can all be turnoffs to end-users if the area hasn't fully transitioned by the time the building is complete.

Other things to consider in rapidly developing neighbourhoods is your potential view. It's possible that a new building will pop up and block your fantastic view. Zoning by-laws could change suddenly, with the effect of eliminating desirable neighbourhood features (such as restaurants and bars) or encourage undesirable characteristics (such as a new landfill site).

YOU SHOULD KNOW

Choosing the wrong building will affect your resale ability

When selecting a neighbourhood and condo building, it is extremely important to know your neighbours—not just the lovely young couple in the unit down the hall, but also the various “neighbours” down the street. Are there industrial activities being carried out on nearby properties? Or perhaps there is a large structure nearby or planned for the future that could block an otherwise lovely view.

Years ago, before construction was completed near Woodbine Beach in Toronto’s east end, potential buyers were told that the above-ground Olympic-sized D.D. Summerville pool complex that sat between new townhouses and the lake would be torn down within the not-too-distant future. Fast-forward almost 10 years and the pool still opens its doors each summer to thousands of laughing children—great for the kids, not so great for the property owners whose “lake view” is on permanent hold. This example shows that simply taking the word of your real estate agent or condo developer about things that are “likely” to happen can be dangerous. Although plans for things such as demolitions and new constructions may be well intentioned, until they are officially approved and/or underway, there is a question mark associated with them. It is vital that prospective buyers ask themselves what they can and cannot live with if nothing about their condo building or condo neighbourhood were to change in the short to medium term.

Legal Risks

Builders’ contracts are thick and complex documents, certainly more daunting than an agreement for the purchase and sale of a typical single-family home. It is imperative you hire an experienced lawyer to review your contracts, a lawyer who has represented clients who have purchased condos. It’s even better if the lawyer has represented investor-clients. (We’ll go into more depth about legal contracts in Chapter 5.)

Taxes and Fees

New-home buyers in provinces such as Ontario and B.C. got a bit of a shock when the Harmonized Sales Tax (HST) was introduced in 2010. New homes had previously been subject to the 5% Goods and Services Tax (GST), but with the introduction of the combined federal and provincial sales tax, new-home buyers were suddenly left to deal with a substantial

increase (12% in B.C., and 13% in Ontario) in the cost of buying a property, without anything in return. Since changes in taxes can be made at the whim of a local or provincial government, they must be taken into account.

Taxes can come in many forms. One form, charged by local governments, is development charges. Development charges can range from education levies and regional development levies to municipal levies, and can add a substantial amount to the cost of the property.

Along with taxes and development charges, closing fees are also higher with new condos than resale condos. Closing fees are normal with any real estate transaction, but newly built properties are subject to many more fees, including new-home warranty fees, paperwork fees, legal fees, utility hook-up fees, and more. Some charges, such as those for guest suites or superintendent suites, are buried in the condo maintenance clause.

What's worse, fees and taxes are constantly changing, hidden in the builder's contract, and very hard to calculate beforehand, and many cannot be financed by banks (meaning you have to be prepared to pay for them on top of your down payment).

Zoning Risks

Today, many developers start pre-selling their condos before zoning changes and approvals are given by the city. When a developer pre-sells a substantial number of the units in a building, they are able to get financing to complete their project fairly cheaply, which allows them to sell the units at an affordable price. This carries an inherent risk, though, since in some cases the city will reject a developer's plan. If this happens, any buyers will have their deposits returned (if the deposits have been held—as they should be—in trust by a lawyer and protected by a solid trust agreement).

In addition, zoning changes after a project is completed can significantly increase the operating costs of your condo. Different uses have different property tax rates—residential property tax rates are usually lower than hotel or business tax rates—so if the city assesses your property as a different class, it can change your residential rate to the higher hotel and business tax rate.



TALES FROM THE TRENCHES

A Flexible Strategy Is Best

by Mark Savel, realtor, Toronto

It's good to have a clear strategy and purpose for buying, but I also think one should be prepared to be flexible. A lot changes in the three- to five-year

period it takes for most condos to be built. As a golden rule for my investors, I always suggest purchasing a layout you'd be comfortable living in if need be. If you're an end-user, it's advisable to pick a location that can be easily rented out should your family grow and the unit no longer fit your needs. I've worked with all sorts of purchasers—flippers, end-users and investors. Typically, the best profit is seen from those who hold onto their units the longest!

Why Buying a Condo Has Its Rewards

Over the past 10 years, the popularity of buying pre-construction real estate has been well documented. Sometimes even an element of hysteria comes with the launch of a new development. While lining up to buy a condo in a wave of hysteria is not recommended (homework and due diligence are still required), there are some definite pluses to investing in a pre-construction condominium:

- profit potential
- staggered deposits
- ease of management and low maintenance costs
- proven demand for tenants
- an affordable “cottage” (urban getaway or low-stress vacation property)
- affordability and liquidity
- modern architecture
- modern amenities
- opportunity to decorate to your unique tastes
- new technologies and modern construction
- modern layouts

Profit Potential

When you buy your unit in today's dollars and prices, or at a discounted price, with a small investment you may stand to earn lots of profits tomorrow. If we look at the price growth in Toronto and Vancouver by examining the general price index of pre-sale condos, we see returns of as much as

400% for a unit purchased between 2001 and 2007. (See more on how you can profit from a condo investment in the next section.)

Staggered Deposits

As an investor, you are leveraging a small amount of capital initially and the rest of the capital to be invested is spread over time, so you're not putting down a substantial amount of money all at once.



TIP

Get familiar with the warranty

Ask whether your deposit is covered by a warranty program and know the exact amount that is covered (in some provinces, the warranty provider will not cover the entire amount or provide any coverage at all). In addition, you may be able to negotiate the deposit, depending on what stage the developer is at in sales.

Ensuring your property is covered by a warranty program will also give you, and the other owners, peace of mind that if issues crop up you and they are protected from any costs in the first few years. (We look at new-home warranties in some depth in Chapter 5.)

Ease of Management and Low Maintenance Costs

Condo buyers are more than willing to forego grass-cutting and snow-shovelling. With exterior maintenance taken care of by the property management company, condo owners get the benefits of convenience and fewer demands on their time.

Most of the costly items of maintaining a property are shared by multiple owners. The condo board should have an accurate and frequently reviewed plan for spending on maintenance and repairs. Most owners are not involved in the day-to-day grind of maintaining landscaping or dealing with major repairs directly. Other than minor suite issues, most condo owners have a turnkey property.

Proven Demand for Tenants

Renters will pay a premium to live in high-quality units with terrific amenities over living in purpose-built rental buildings that may be older and poorly maintained. All things being equal (location, amenities, etc.), tenants would prefer being in newer buildings rather than resale.

An Affordable "Cottage" (Urban Getaway or Low-stress Vacation Property)

Downtown cores of many cities across North America are being revitalized, offering many terrific attractions for families living in the suburbs. Restaurants, theatres, concerts, sporting events, museums and shopping are to be found within walking distance of many condo developments, and the added population density that condos bring has the effect of increasing the attractions available. Owning a condo makes perfect sense to families who have a more urban lifestyle and want to be "closer to the action"—there is also strong resale potential for well-located condos.

Affordability and Liquidity

Condos are usually built in urban centres where people can be close to transit, shopping, entertainment and work. We instinctively know that neighbourhoods that provide many opportunities for people to live, work, play and move around will always be in high demand by buyers. This is why people get excited about buying a condo; they know they can easily resell it if their circumstances change.

In addition, because of the smaller size of most condos compared to single-family homes, and the economies of scale, builders can offer many different pricing options to attract a large pool of buyers seeking an affordable place to live.

Modern Architecture

The visual, psychological and physical effects of living in a neighbourhood of architecturally stunning buildings are profound. Beautiful buildings, properly integrated into a neighbourhood, are anchors in a community. The look of buildings creates a sense of place and an identity for residents. Buildings with poor architecture can make a neighbourhood desolate, attracting crime and decay.

Modern Amenities

Condo developers have the benefit of using foresight when designing a great building. With amenities in particular, developers can look at previous buildings to see what works (pet facilities, basketball courts, video-game rooms) and what doesn't work (rock-climbing walls).

Amenities are one of the great benefits of owning a condo. How else can someone afford to have a squash court for their own? It would be better to share the costs with many owners who can also share the use.

Popular modern amenities include:

- theatre rooms
- multimedia rooms
- quiet study rooms
- shared TV and internet use rooms
- high-end coffee lounges
- swimming pools
- saunas
- health clubs
- exercise rooms
- pet-grooming facilities
- barbecues
- sun decks
- dance, yoga studios
- massage tables
- pedicure facilities
- enhanced security and concierges.

Opportunity to Decorate to Your Unique Tastes

Buying from floor plans gives you the unique opportunity to make changes that would be impossible or costly if performed after construction. Converting a three-bedroom suite into two larger bedrooms, or eliminating small balconies to give you more indoor space, are examples of what can be done to customize your living space.

In addition, buyers like to choose their own finishes and colours. Knowing that something is designed the way they want it on the first day they walk in will appeal to many buyers, who might otherwise spend \$15,000 or more on cosmetic renovations.

New Technologies and Modern Construction

Building codes and energy efficiency standards change over time, so when you purchase a new home, you are also buying a property that should be the most up-to-date in terms of plumbing, electrical, materials, energy efficiency and building practices.

Modern Layouts

Have that old crusty dining room in your home that no one uses? Well, you may if you bought a home built prior to the 1980s. Today's floor plans

feature more usable and fluid spaces that are more enjoyable and tuned to the modern family's lifestyle.

Open-concept floor plans, with spaces naturally separated according to use rather than with walls, allow for a condo to be smaller without feeling smaller.

Running the Numbers on a Condo

To analyze the investment potential in a fast-paced environment of condo sales, two different formulas for quick comparison should be used for the rentals, and a separate analysis must be done for the appreciation in prices during the pre-construction period to completion.

The first ratio is the Gross Rental Multiplier: $GRM = \text{Sales Price} / \text{Gross Monthly Rent}$.

Sales Price is the price you are buying the condo for plus your estimate for all closing adjustments (see also Chapter 5).

Gross Monthly Rent is the current gross monthly rent for the particular submarket. Use your local real estate board as your source for rental market information.

TIP

"Brand new" doesn't necessarily bring in more rent

Research provided by Toronto's leading researcher of the high rise condo market, Urbanation, found zero difference in index rents between projects registered in 2007, 2009 and 2010 in Toronto. The research suggests that as long as a condo has been built within a four-year window, tenants will not pay a premium for a newer building, all things being equal.

The next ratio is the Net Income Multiplier: $NIM = (\text{Sales Price} + \text{Closing Cost Estimate}) / \text{Net Income}$

Net income = Effective Gross Income – Operating Expenses

Effective Gross Income = Potential Gross income – Vacancy Allowance²

Operating Expenses = Maintenance/Condo fees + Property Taxes + Utilities + Repairs and Maintenance + Advertising costs for rentals

A gross number is a quick comparison with different condos and a net number includes differences in maintenance/condo-fee costs.

Appreciation Factor

Most of your investment return will come from the appreciation factor. Appreciation is a difficult number to get comfortable with and analysis of the supply and demand factors, the layout and floor plan must be done by you or your agent. The key for the appreciation factor is to focus on choosing a unit that will be highly demanded once the building is complete for the best price possible using the tools we've already outlined in the REal Experts Analyzer.

$$\frac{\text{Opening Index Price}}{((\text{New sold index price} + \text{Resale index price})/2)}$$

In Chapter 2, we'll learn more about "price aggressiveness." For now, it's enough to know that the more aggressive the price, the lower the potential for appreciation, unless the demand factors show the building to be exceptional. Naturally, based on the criteria given, buying a pre-construction condo cheaper than the current resale prices would be the best bet, but given the inflationary pressure on labour, materials and land costs, this may not be possible.

The biggest determining factor to any end-user is the monthly carrying cost of their home. A quick way to get an idea of what demand will be in the future is to do a comparison in carrying costs between your condo and its competition for potential end-users.

Carrying costs = Mortgage costs + Insurance + Property Taxes + Maintenance/Condo Fees

Mortgage costs = Mortgage at 80% (size of a standard deposit is 20%) Loan To Value and 25-year amortization with an estimated interest rate for when the building will be complete.

For example:

\$300,000 condo with a 20% deposit will require \$240,000 mortgage

\$240,000 mortgage with a 6% interest rate = \$1,546.32/month

Property tax estimate = \$300

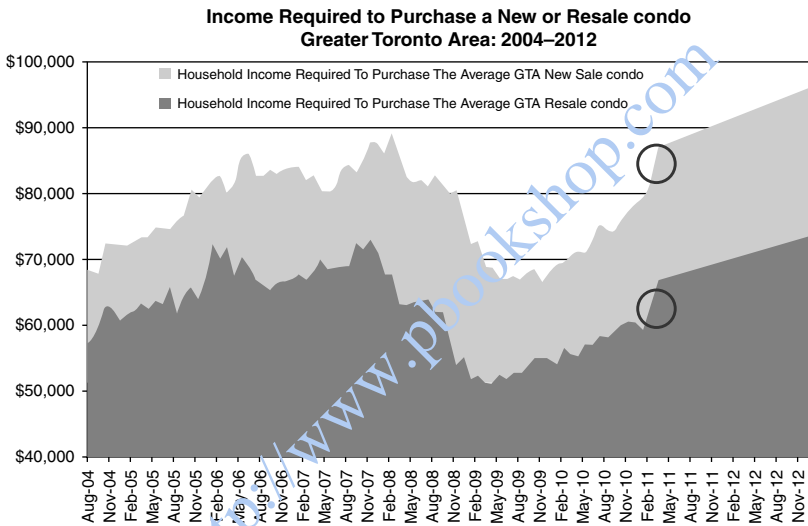
Maintenance fee estimate = \$300

Insurance = \$100

Total monthly carrying costs = \$2,200

CONDO A	CONDO B	HOUSE C
Carrying costs = \$2,200	Carrying costs = \$1,800	Carrying costs = \$3,000
Location: Avenue Infill in the battery district. Walk to the subway, dining, shops and entertainment	Location: Urban Renewal in the film district, easy access to streetcar and highway	Location: Quiet cul-de-sac subdivision in the inner suburbs. 5-minute walk to bus, close to highways and shopping mall
Size: 9' ceilings and 1 bedroom, 525 square feet	Size: 10' ceilings and 1 bedroom, 601 square feet	Size: 3 bedrooms, 1,600 square feet.
Amenities: 24-hour concierge, rooftop pool with cabana bar, private dining room	Amenities: Bicycle storage, party room, sauna and barbecue area	
Finishes:	Finishes:	Finishes:
Kitchen/laundry	Kitchen/Laundry	Kitchen/Laundry
5 matching appliances, granite counter tops, high-end custom cabinets	6 appliances (4 stainless steel and white washer/dryer), quartz counter top, basic European-style cabinetry	Original kitchen cabinets, 4 appliances of various ages
Flooring	Flooring	Flooring
Wide-plank engineered hardwood floors in living areas and carpet in bedroom	Laminated in living areas and carpet in bedroom	carpet in basement, hall and bedrooms; hardwood in living areas, vinyl in kitchen
Bathroom	Bathroom	Bathroom
Large porcelain tiles in bathrooms, stainless steel sinks, chrome faucets, oversized shower	Basic tiles and ceramic sink, 5-foot soaker tub	Recessed lighting, vanity, ceramic sink and tub
Special features: Individually controlled HVAC		Updates required: \$6,000

As prices, interest rates and condo fees increase, fewer and fewer people are able to afford a condo. When this occurs, price appreciation will occur more slowly, or not at all, as fewer buyers are available in the marketplace. The graph below, created by Barry Lyon and Associates, shows the income required for a family to qualify for a condo apartment mortgage. As indicated, if rates, prices and operating costs increase further, it will take close to \$100,000 in household income to afford the average Greater Toronto pre-construction condo in 2012. The average household income was \$80,343 as of the 2006 Census, meaning a large percentage of people within the city are already priced out of living in a new condo.



Notice the spike when mortgage rules changed the maximum amortization from 35 to 30 years.

The study was based on the following assumptions:

- 35% of gross income was used for qualifying.
- Covers average insurance, property taxes and utilities.
- Unlike the Royal Bank of Canada’s affordability index, maintenance fees are included.
- Mortgage payments were calculated based on Royal Bank of Canada’s interest forecasts.
- Mortgage payments were calculated using the maximum amortization rate insured by CMHC (note the spike after August 2010)

when CMHC shortened the maximum amortization from 35 to 30 years).

- Forecasted 2.5% annual appreciation rate for pricing with data collected from RealNet for new sale and Toronto Real Estate Board for resale.
- Historical data are adjusted for inflation.



TALES FROM THE TRENCHES

by Caitlin, condo purchaser, Toronto

I am 26 years old, straight out of my mom and dad's suburban house. As an up-and-coming single female, I purchased my first home at the DNA 2 development in downtown Toronto. It was a huge milestone and accomplishment in my life to start living on my own in downtown Toronto. Little did I know that my cute condo was also a gold-mine investment. I've been living here since 2006 and the resale value of my suite has gone up beyond my wildest expectations. If I sold today I could easily make a sweet \$170,000. Not many people my age can say that! I'm a happy homeowner and a smart real estate investor, as it turns out.



TALES FROM THE TRENCHES

The Importance of Buyer Confidence

by Andrew la Fleur, realtor, Toronto

I had a buyer for a two-bedroom, southwest corner unit at X2 (which has a view of the CN Tower). My buyer signed for the unit, then backed out during the 10 days because he just thought the price was too high and it could never go up from that point; he thought he'd never make his money back as no one would ever pay more. Prices for that unit went up about \$60K to \$70K in less than a year.

Spotting Problems Before You Buy

Those who have lived in an apartment or a condo know all too well that problems can be broken down into “the 5 Ps”: Pets, Parking, People, Personalities and Parties. Here's a guide to asking the questions that will help you spot problems with the 5 Ps before you buy. Using this checklist, together with the REal Experts Property Analyzer that follows, will help you gather all the information you need to determine if condo investing—or a particular condo—is for you.

Pets

- Do the condo by-laws created by the developer allow for pets? Is there a size/weight limit?
- Will you be able to bring your pet into the common outdoor space?
- Are there pet-friendly amenities?
- How well insulated are the walls? Will you hear a dog barking?
- How far will you have to travel to access services for your pet?
- Are there off-leash parks in the neighbourhood?
- Is there space for your pet to eat, sleep and get cleaned?

Parking

- Are there going to be any future developments that would eliminate parking spots (either street parking or parking lots) in the future?
- Can you secure a convenient spot in a good location?
- Are there safe-access parking facilities?
- How much extra are the maintenance fees for a parking spot?
- Does your chosen floor plan let you purchase a parking spot?
- Will adding a parking spot net you a good return?
- Are there enough spaces available for visitor parking?

People and Personalities

- Is the street noise loud at the floor height you're considering?
- Is the unit you're considering too close to elevators, garages, mechanical units and garbage chutes that can get noisy?
- Are the walls insulated enough that you won't hear your neighbours?
- Are there any restrictions on renting the unit out?
- What kind of security will the building have?
- Is there a 24-hour concierge?
- Is there space to entertain your guests? How much will it cost to use it?

- What type of public space is nearby? Who tends to use it?
- Where can you store your bike? Will they allow it in your unit?
- Are there good daycare facilities nearby? Do they have a waiting list?
- Is the condo close to good schools? A hospital?
- What will be at the ground floor? Will there be retail that you would use (e.g., bank, grocery stores, restaurants)? Is it confirmed?
- How will the condo share the facilities with the retail at grade? Do they have adequate delivery loading and unloading space? Will their operations cause a disturbance?
- Are you comfortable with the condo regulations?
- Is the heating individually controlled?
- Are there enough elevators?

Parties

- Is the unit too close to common elements? Is the hall near the unit you're considering used as a thoroughfare?
- Is the unit's outdoor space or window(s) too close to common space?
- How close is the unit to nearby buildings? Can your living room be easily seen?
- Is there a guest suite for visitors? How much will it cost to use on a per-use basis? What are the common monthly fees to be paid for it?
- Is the unit too close to bars, restaurants or nightclubs with loud music?
- Is the unit too close to sports stadiums and arenas? Will you be able to handle the traffic and the noise?
- What is the intended demographic of end-users (e.g., retired persons, young singles, families) for the building?
- Are there designated smoking spaces?
- Are the stairwells secure?

The REal Experts Property Analyzer

Hindsight is always 20/20. It's easy to see how pieces fit together after the fact. Since it's impossible to see into the future, having an effective

model of investing that enables you to do all the necessary due diligence is the next best thing. With a model for analyzing information you will put yourself in a position to earn high returns while investing in pre-construction condos and ensure that the decision you make will be free of any emotional bias.

To build a model for investing in pre-construction real estate, it's important that you be able to apply it in any city and in any neighbourhood, on any street. This is why our REal Experts Property Analyzer is a model built on strong, tried-and-true fundamentals. The more fundamentals a project has in its favour, the higher the probability for a substantial profit—and you do want to earn a high profit, right?

Furthermore, investing in pre-construction real estate requires a large financial investment. This large investment necessitates that you follow the REal Experts Property Analyzer to the letter—before you write the first cheque.

The REal Experts Property Analyzer is a checklist of questions you need to answer for any project you are looking at as an investment. Consider it your due-diligence checklist. It is exhaustive, but not exhausting: over time, you will be able to do this research quickly and you will become familiar with how other members of your team (for example, your realtor, mortgage broker, accountant and lawyer) can help you gather the information you need.

Market

- Is there anything limiting land supply for new housing (e.g., legislative barriers or natural barriers)?
- Are the costs of labour and/or materials increasing?
- Is credit for both buyers and developers easy to access?
- Are interest rates low or expected to go down?
- What kind of demand for condos is being seen in the resale market?
- Is the area creating jobs?
- Is the employment diverse? Is the diversity deep (e.g., lots of trade associations, head-office jobs, centres for excellence)?
- Is the area's population growing?
- Is population growth being concentrated by the municipality to encourage high-density development?
- Is the growth more than the construction capacity for the area?

- If condos are new to the market, are the monthly costs to own the condo lower than or comparable to the average cost to own a single-family home in the area?
- Does the area score high for quality of life?
- Is there a lot of international investment into the area?
- Is buyer confidence high? (Look at retail sales, MLS® transactions and new sale transactions as indicators.)

Neighbourhood

- Is the neighbourhood within 450 metres of a rail transit?
- Does the area score high on the “Walk Score”? (Check out www.walkscore.com)
- Is the area comfortable for pedestrians to walk? (Look for crosswalks, large sidewalks, good street lighting, lots of sunlight, low wind, bike lanes, slow traffic.)
- Does the area have more than one primary use (commercial, office and residential)?
- Does the neighbourhood have short blocks?
- Is the area an urban area with buildings of a variety of ages?
- Does the area have a sufficient population density?
- What are the demographics of the neighbourhood?
- Is this an area going through significant renewal or gentrification? Will it be unsafe for a time period? If so, how long could the renewal or gentrification process reasonably be expected to take?
- Are there any barriers (e.g., large wooded areas, rail lands, dead-end roads, large highways) preventing the area from gentrifying or becoming vibrant?

Site

- Is the site clear from any active uses (e.g., highways, railways, industrial buildings, manufacturing plants, landfills, sewage treatment plants)?

- Is the site close to any area that could be developed or that could hamper your view or your enjoyment?
- Are you buying in an early phase in a master-planned community or an urban renewal community?
- Is the proposed building actually part of the neighbourhood you want to live in or does the marketing material make it appear closer than it actually is?

Builder/Design Team

- Does the builder have the requisite experience?
- Is the builder active in trade associations (such as the Building Industry and Land Development Association) for the betterment of the industry for consumers, or active in its communities to build its brand? Does the builder care how its development impacts the neighbourhood?
- Does the builder have a reputation for providing high-quality finishes as its standard?
- Is the builder using up-to-date technologies? Will it build beyond minimum building code? Is it committed to building sustainable communities?
- Does the builder have a reputation for building quality homes? Are they responsible for the construction where you can more accurately gauge quality?
- Does the builder value customer service and after-sales service? Is it known for its communication and access? Are they proactive with their customer service?
- Is the builder “upfront”? Does it market its product transparently? Is it focused on building a brand rather than developing through shell companies? Is it known for not assessing extra fees after owners take possession?
- Does the builder keep its word and promises as measured by third parties (e.g., past customers, real estate agents, lawyers, property managers, new-home warranty sites, the Better Business Bureau, etc.)?
- Is the builder known to treat its customers with respect?

- Does the builder's finished product rent for a higher amount than the competition's?
- Is the design team experienced in projects of this type? What awards have they won?
- Are they part of any associations?
- Are they active in bettering their industry by giving lectures, sitting on design review panels, judging awards?
- Are they using up-to-date technologies (as seen in the features and finishes)?
- Does the design team have a reputation of not compromising on quality? Do they keep their word on quality?

Realtor

- Do they have real front-line access to a preferred project by a developer?
- Do they understand the contract? Can they advise you on clauses that are normal in the marketplace? Do they understand which closing adjustments are legit?
- Will they provide you with service after you sign the contract? Are they willing and able to help you sell your unit before construction is complete? Are they willing and able to be there for you during the pre-closing inspections? Will they give you updates as price changes and construction milestones are met?
- Have they actually experienced closing a transaction with a client with a particular developer? Each developer has a unique operating procedure; can your agent help you navigate this for you?
- Does the agent have experience in the rental market? Is the agent experienced in renting out units to high-quality tenants? Do they know the market rents in other buildings and do they know which buildings cater to a certain demographic?
- Is the agent capable of reading a floor plan and a floor plate (a plan that shows the unit's location on the floor of the building)? Are they capable of advising you on how saleable the unit will be in the future by understanding the nuances of the floor plan and location of the unit on the floor?

- Is the agent knowledgeable in their local market? Do they understand what unit types are valuable in your marketplace, have knowledge on the finishes, amenities and condo fees in other buildings, know what other sites will be built upon that will compete with your unit or impact the end-user's enjoyment?
- Is the realtor involved in trade associations or networking groups where they could gain insider knowledge about a builder's track record or understand new issues as they arise in the local marketplace?
- Do you trust that the agent has your best interests at heart? Can they give you references of past happy clients? Are they willing to negotiate on your behalf?

Building

- Are the maintenance fees comparable to other buildings?
- Have you considered “the 5 Ps” (Pets, Parking, Personalities, People and Parties)?
- Are the amenities in the building better than the amenities in other buildings?
- Is the architecture of the building pleasing?
- Does the building have quality outdoor space built in?
- Does the building fit well with the neighbourhood?
- Did the builder use durable, quality materials?
- If there is to be a retailer at the base, has the retailer been confirmed?

Unit

- Are the standard finishes in the building better than the finishes in other buildings?
- Are the finishes on display in the sales centre the standard finishes rather than the upgraded finishes?
- Does the suite allow for a lot of natural light?
- Is there an adequate number of ceiling light fixtures?

- Is there an adequate number of electrical outlets?
- Are the fan coil unit and breaker box placed in good locations?
- Is there an adequate amount of storage?
- Does the floor plan have lots of usable space?
- Does the floor plan allow for a lot of flexibility? (e.g., a den that could double as a bedroom, or two full baths)
- Will the view be breathtaking? Is there anything that could block the view in the future?
- Are there measures to ensure the unit will be comfortable to live in? (i.e., adequate ventilation, heating and cooling, humidity controls, insulation to protect from noise)
- Does the floor plan allow for maximum privacy? (e.g., two bathrooms; bedrooms placed at a maximal distance apart)
- Does the unit have 9-foot ceilings (or higher)?
- Have you ensured that no mechanical systems or ductwork will lower the ceilings in high-use areas (i.e., bedrooms, living room)?
- Is the unit located away from party rooms, mechanical systems, elevators, or anything else that would impact the end-user's enjoyment or privacy?

Contract and Disclosure Documents

- Have you chosen an experienced, knowledgeable and battle-tested lawyer?
- Has the lawyer completed the key information chart?
- How long do you have for the rescission (“cooling-off”) period?
- Is the deposit held in trust?
- Does the warranty program protect the deposit money?
- If so, what is the maximum?
- What is the interest rate to be paid?
- Are deposits for upgrades protected?
- What are your financial obligations?

- Are sales taxes included in the price?
- Are you eligible for any rebates?
- Did you cap your closing costs?
- What do the maintenance fees include?
- What's included in the fees (e.g., utilities)?
- What leases does the condo board have to take on?
- What purchase agreements or loans is the condo board obligated to take on?
- What is being leased in the unit and common areas?
- When do the lease agreements start (one year after closing)?
- What are the terms and financial obligations of the loans and leases?
- Has the reserve fund been funded? (applicable provinces)
- What are the builder's obligations toward the reserve fund?
- What is the likelihood that common expenses are too high or too low as compared to similar buildings in the area?
- Does your contract include room-size measurements and total square footage?
- Is a measured floor plan attached?
- Does the builder have the right to change size or layout?
- What provisions are in place to ensure what you are sold is what you get?
- What substitutions are possible (e.g., materials or colours)?
- Are all important items mentioned in the marketing material (including fixtures and appliances) also included in the contract?
- Is anything missing from the feature sheet? (The sheet is a list of maximum features, not minimum.)
- What are the ways the contract can be cancelled by the builder?
- Is the contract conditional on your ability to get financing?
- What conditions need to be satisfied before the condo registers?
- Under what conditions can you cancel your contract?

- When does the developer expect the condo be completed?
- How long can they extend the completion date?
- What conditions does the developer have to satisfy before they can start to build?
- How much are the occupancy costs expected to be and will the amenities be included?
- Do you have the right to pay more money on occupancy to reduce the interim occupancy fees (unpaid interest portion)?
- Can you assign the contract? If so, are there any conditions (such as 90% builder sales)?
- Is there an assignment fee?
- On assignment, do you remain responsible for performance of the original contract if the assignee defaults?
- Is there a prohibition on advertising/listing/marketing or Internet promotion even if you have permission to resell or lease?
- Do you need permission to lease your unit?
- Is your unit covered by a new-home warranty program by the builder? If not, is there one available?
- How long is the warranty? (e.g., 1, 2, 7 years)
- What is covered by the warranty program?
- What is not covered?
- Are there manufacturers' warranties for the different components?
- Are there any warnings about the location?
- Can the developer make changes to the community plan?
- What is the developer obligated to complete? (e.g., shared amenities or recreational areas)
- Are there any zoning issues you cannot object to?
- Can you object to any noise, dust, hydro lines, vibration and smell issues from nearby buildings now and in the future?
- Are there restrictions on the use of the condo (e.g., business)?
- Is there enough parking for residents and visitors?

- Are pets allowed?
- What kind of modifications are you allowed to make (e.g., hot tubs, satellite dishes, etc.)?
- What type of commercial uses are allowed for units at the base?

Investment Analysis

- Can you buy early in the sales process? If not, does the price (or other incentives) make it attractive as an investment?
- What are average rents for comparable units in the area?
- Have you investigated the cost of view premiums and floor premiums?
- Will the unit generate cash-flow?
- How do the Gross Rental Multiplier and Net Income Multiplier compare to competing units?
- Is the unit priced non-aggressively by the builder?
- How does the price compare to similar resale units in the neighbourhood?
- Is the unit in the affordability “hot zone,” to open it to a large pool of end-users?
- Have you done a break-even analysis to ensure the condo can create cash-flow if you have to rent it out and hold it for a period of time?
- Is the building backed by a powerful brand that would attract international investors?

There may be items in the checklist that you don't understand right now. Rest assured that each point will be discussed in greater detail and depth throughout this book, and you will come to see how each point is necessary for you to get the whole picture of the investment decision before you. The REal Experts Property Analyzer is a checklist that you will return to again and again as you make real-estate investment decisions.

Depending on your circumstances, the answers to some of these questions will have more weight in your decision-making process than others. To some, the number of questions will seem daunting. But asking the right questions causes the mind to focus and search for answers, which will help you become an expert in buying pre-construction condos. The search for answers will ensure you make a wise and successful investment.