



SOUTH OF 49

**THE CANADIAN GUIDE
TO BUYING RESIDENTIAL
REAL ESTATE IN
THE UNITED STATES**

PHILIP McKERNAN
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Acknowledgments

Writing a book was an enormous task and one that I have to say I completely underestimated. I also didn't fully appreciate, until the project was launched, the power of having the right people around to help shape the material and share the experience. Looking back, I must say this daunting task would not have been possible without some key people.

In the middle of writing the book, my wife Pauline and I had our first child, Charlie. As is the case with any newborn, they simply (or not so simply) arrive into your life and don't care about book deadlines, business, or if you get to the gym on any given day. While I did consider putting Charlie on eBay some nights (just kidding, Charlie!), his presence changed my life forever, and for the better.

While my wife was in labour, I was asked to do a television interview related to this book. While my son may never forgive me, Pauline insisted I keep the commitment. This is typical of Pauline, who has been a huge believer in me since we met. Her support for everything I do inspires me to take on projects outside my comfort zone. Pauline, you are my hero.

Speaking of mothers, I have to mention mine. I am a big believer in "we are who we meet," and I can't help but think

that many of the good traits I have come from her. The mentoring my father gave me has crafted my ability to attract great people into my life, which has led to this book being possible.

Mentors have played a huge part in my life, and here are just some of the amazing people I have met along an incredible journey so far: Trevor Garret, Anthony Clare, Les Hewitt, Keith Cunningham, Michael Vaughan, Shane Cradock, Robert McKernan, David McKernan, Stephen O'Reilly, and Don Campbell. Your belief has been my oxygen, and my hope is to make you all proud.

To my numerous clients and groups that I have had the pleasure to mentor: You are my fuel and you push me every day to be better than I was the day before.

In December 2007, I met Don Loney of John Wiley & Sons Canada, who, although I did not realize it at the time, was to have a huge impact on my life. He introduced himself after hearing me deliver a keynote speech at a real estate conference in Toronto, and he later suggested I consider writing a book. Since then, he has supported and trusted me personally, as well as my *South of 49* team. Thank you Don, for your belief in us.

A huge thanks also go out to my co-authors, Dan Sampson and Mike Cuning, who graciously accepted my invitation to participate in this project. They brought a fountain of knowledge to the book, some adventure, and a lot of laughs on the many trips we took to the U.S. while doing research.

Last but certainly not least, on behalf of the authors I would like to thank Brenda Bouw who helped us craft this book from an idea into what it is today. I'm not entirely sure if writing or patience is Brenda's greatest gift, but I know for

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Philip McKernan

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Introduction

Buying a home in the United States is a goal for many Canadians. Sitting by the pool or playing a round of golf in January while your neighbors back home are shoveling snow is, for many, the Canadian dream.

Statistics show that more and more Canadians are making that dream a reality. By mid-2008, nearly one quarter of all international homebuyers in the US were Canadians. This was not only a record, but also more than double the year before. According to the 2008 National Association of Realtors annual profile of international home buying activity in the US, the sun states of Florida and Arizona, not surprisingly, were the most popular locations for Canadian buyers, accounting for more than 60 per cent of their purchases. The survey also showed many Canadians paid cash for those homes.

House prices in the US are the cheapest they've been for some time, which is one of many factors inspiring Canadians to buy property there. Some are looking for a retirement home, while others are scouring the market for investment opportunities. The subprime mortgage mess has reduced prices by about 25 per cent in the US since the peak in 2006, and by more than 40 per cent in some states, in particular those sun destinations of Florida and Arizona which were overbuilt.

Foreclosures are so common in the US that, in true competitive American style, cities boast their top spots on the foreclosure capital standings.

While buying a sunbelt home is not new to Canadians—even before the housing market meltdown—more are inspired to buy when the Canadian dollar nears parity with the US dollar. And as home prices in Canada were reaching their peak, many homeowners took equity out of their Canadian properties to put towards buying a US place. Even after the Canadian economy and housing market began to feel their own pressures, the land rush south of the border continued, thanks to low property values and high foreclosure rates.

In fact, as long as there is winter in Canada, Canadians will continue to take the US property plunge. The purchases will also continue to be driven by demographics in the foreseeable future. As the Baby Boom generation ages, more and more are looking for retirement properties in vacation destinations for their families during the cold winter months. But instead of just renting a place, or going for long hotel stays, many are looking to buy something of their own.

The American housing crisis has also become an investment opportunity for Canadians not yet ready for retirement. The strategy: buy a home or condo to generate cash flow, and eventually sell it down the road when the market recovers.

Whether it's a lifestyle purchase or an investment, there are many factors about buying US property that many Canadian buyers understandably find confusing, or they overlook. Add to that the complexities of the new foreclosure-driven buyers' market, and buying a US property could be a recipe for disaster if you don't do your homework.

That's where *South of 49* comes in. This book is about more than just tax advice and buying tips. We take you through all

of the real-life considerations when buying down south, from travel time and immigration rules to making sure the home or condo you buy actually fits your investment goals. We will also help you answer one very important question when considering such a purchase: Why? Why should you buy a place and not just rent? Why should you buy in Florida instead of California, for example? The answers? It all depends. It depends on you, your individual circumstances and your goals. This book will help you think through these decisions before you make them.

While owning a home in the US may be the Canadian dream, it's also not for everyone. We aren't trying to discourage you from buying. Instead, we want to help you make the right choice. Buying a house in the US is a huge commitment. It's also a lot of work. Our goal is to get you to do your research first, and then consider carefully whether the investment is right for you.

Sound daunting? Don't worry; it will also be a lot of fun. That's because we plan to share this information through two very entertaining characters: Ted, the Textbook Emotionally Driven buyer, and his friend Sid, the Sophisticated Investor Dude. Ted and Sid, old university buddies with different goals, will show you, as a Canadian, the pros and cons of buying and owning your own piece of property in the US.

While Ted and Sid are fictional characters, most of their experiences are based on actual events. We, the authors, have a great deal of experience in buying and selling real estate in our professional lives. For this book in particular, we traveled to several US cities from coast to coast and visited dozens of homes for sale as part of our research. We also had long discussions with various players in the American housing market, from buyers and sellers to realtors, developers, inspectors and

everyone in between. We had a lot of fun, and we learned a ton. It's our pleasure to share our insights, experiences and overall adventure with you.

Philip McKernan

Dan Sampson

Mike Cunning

North Vancouver, May 2009

<http://www.pbookshop.com>



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Of Risk and Reward

We meet Ted and Sid, and Ted's real estate venture begins. Ted looked up from the Risk board game laid out on the table before him and directly into the eyes of his old friend, Sid. Ted knew what was next, as Sid flashed him that trademark winning smile that Ted has learned to recognize since they shared a university dorm room nearly 20 years earlier.

Sid threw up his arms in victory.

"Yes! The United States of America is mine!" Sid shouted after having moved his red armies into Ted's last remaining stronghold.

Sid then jumped up and began a victory dance across Ted's living room.

"That, Ted my friend, is what world domination looks like," Sid said as he continued his winning gyrations.

Ted tried his best to look disconsolate. Then he laughed. "Congratulations buddy," he said, accepting defeat in the latest round of the game that had become a tradition whenever the two got together.

"You won this time. But I, my friend, will own my own part of the US soon enough," Ted said. "For real. And if you don't stop that prancing around, I won't ever invite you over."

Sid stopped and looked at Ted, puzzled.

“All of this ocean air in Vancouver is making you talk funny,” Sid said. “Maybe you should come back to Toronto with me and start thinking straight again.”

Ted shook his head and smiled.

“Seriously, Sid. I’m about to own my own sweet little property in Phoenix, and when those Toronto winters get you down, maybe you can come visit—especially during hurricane season when you can’t see through your boarded-up windows at your Florida place.”

Sid sat down.

“Are you serious? When were you and Nancy in Phoenix? What property? Did her parents buy a place down there?”

“No,” said Ted. “We are buying a place, or maybe I should I say I am. Nancy isn’t too keen on putting any of her own money in it just yet, but I’ve got some inheritance money from years ago and maybe she’ll agree to invest in the place too once she sees it. I mean, it sounds great and . . .”

“Whoa!” Sid interrupted. “Hold on a minute Ted. What do you mean it *sounds* great? You haven’t seen it?”

“I don’t need to see it. I have the listing right here. And besides, there are tons of photos on the Internet, and a virtual tour,” Ted said as he pulled a sheet of paper out from a stack of magazines on the coffee table beside him. “I found it on the Internet and it sounds perfect. It’s so cheap; it’s practically a steal. The last owners bought it for \$325,000 in 2006 and now it’s for sale for \$185,000. It’s barely lived in—what could be wrong with it? Maybe I’ll have to finish the basement or something. At that price, I still win. I can’t even buy a garage in Vancouver that cheap!”

Sid grabbed the listing from Ted’s hands and started to read the description out loud: “Very nice home built in 2005. Bank owned. Priced to Sell! Barely lived in. Three thousand

square feet. This home features three bedrooms, two-and-a-half bathrooms, eat-in kitchen and dining room, living room. Close to park and rec centre. Needs a little elbow grease . . .”

Sid read the rest quietly under his breath.

“Ted, friend. I don’t know about this. ‘Needs a little elbow grease?’ Who gave this to you?”

“A realtor in Phoenix,” Ted said. “I saw an ad from him in the local paper. He sets it all up for you from down there. He sounds like a really good guy. You tell him what you want, you know, a pool or not, a garage, how close you want to be to the center of town or the golf club. He said this one is pretty close to the US Airways Centre where the Phoenix Suns play, which is right near Chase Field, where the Diamondbacks play baseball. And the price, Sid, *it’s soooo cheap*. Almost half what the owners paid for it! I can’t believe how much house prices have dropped down there. It’s the perfect time for me to buy!”

“Stop right there, Ted,” Sid said.

Ted noticed his friend’s smug smile had suddenly turned to a look of concern. He’d seen this face from Sid before—the last time was when he bought a boat on impulse. Sid recommended he try renting a boat a few times first, to gauge how often he would actually use it. Ted bought the boat anyway, and after the excitement of being captain of his own ship wore off, the boat seldom left the marina while the docking and service fees ate away at his wallet. He sold the boat after two summers for less than he paid for it. Sid’s concern scared him.

“Oh no,” Ted said sheepishly. “What have I done this time?”

“Not to worry my friend,” Sid said, his tone *almost* reassuring. “But, you haven’t put any money down on this yet

have you? Please tell me you haven't put any money down yet, Ted?"

"I have tied it up with a deposit—a thousand bucks—and conditions are removed on Tuesday," Ted said defensively.

Sid leaned forward and looked directly at his friend, who had since sunk into his chair.

"Listen, just do me one little favor, would you?" Sid asked.

Ted sighed, but kept listening.

"Just go down and see the place for yourself first," Sid advised. "Go this weekend. Take a couple days off and make it a long weekend if you can. If you love it, if it's really the place you've always dreamed of having as a vacation home, or investment, or whatever, then do it. But don't—and Ted I'm begging you here, as your friend—don't buy it without seeing it first. Please?"

Ted rubbed his eyes with the palms of his hands then shook his head, as if he had just been splashed with a bucket of cold water.

"All right Sid, if you insist. I'll go see it. But it's expensive to fly down there. And I have to get the time off work first, and . . ."

Sid interrupted again.

"Ted, it's not a set of golf clubs you're buying here. It's a house. If you're complaining about the price . . . By the way, what is the plan? Are you planning to rent this out or . . ."

"I know, I know, Sid. You're right," Ted cut in. "You are always right. Okay, I'll get down there and meet this realtor myself. But I'm telling you right now that this place is the one. You'll see. As for my plan, I don't know exactly. Maybe I'll rent it out to friends. It would be nice to live there

someday too. All I know is that if I don't buy now, I'll be kicking myself later."

Sid wasn't so sure Ted understood what he was getting into, but felt he had pushed his old friend enough for one night. Sid took another tack.

"I hope you are right, Ted," Sid said. "I can't wait for you to tell me 'I told you so.' And if you want, call me when you're down there, let me know how it looks or if you have any questions or anything."

"Yes, 'Dad,'" Ted said, laughing. "Now, can we change the subject?"

He then glared at Sid, like an eagle stalking its prey.

"How about another round of Risk then, eh pal? This time I'll show you who owns the US. Get your little army ready for General Ted!"

The two laughed as they set up the game. "You're always full of surprises," Sid said. "That's what makes you Ted, I guess. Hey, remember that boat you bought a few years ago and never used?"

"Just roll the damn dice," Ted said.

SID'S TIPS

- Never buy a property in the US, or anywhere for that matter, without seeing it in person first. Internet photos and realtors' brochures aren't remotely enough information on which to base a purchasing decision. You need to see the property for yourself, including talking to the neighbors and taking a tour of the neighborhood and the region. You need to compare your list of desired services and amenities against those available where you're looking.

- Don't put down a deposit unless you are clear about the terms and conditions, including asking whether you can get your money back if you change your mind and don't buy.
- Remember that listings are trying to sell you features of the home. They're marketing tools. Any mention of "needs elbow grease" or "handyman's special" is a red flag that the house needs a thorough inspection that may require more than just hiring a home inspector.
- Just because a house has fallen dramatically in price doesn't make it a good reason to buy. It could be the opposite. What looks like a "good deal" should never be the primary motivating factor in a purchasing decision.
- Have a plan. What do you intend to do with the property? Will you be the only occupant or do you plan to rent it out? Think about this before you even start looking at buying a property in the US.

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“*South of 49* is a must-read for anyone wanting to buy real estate in the United States. This groundbreaking book is jammed full of practical information that will ensure you avoid all the potential pitfalls.”

— Les Hewitt, author of *The Power of Focus*

“When buying real estate anywhere in the world, one must know all the facts and go in with eyes wide open. Before you even consider buying outside of Canada, know the realities by reading this book and learn from others’ mistakes.”

— Don R. Campbell, best-selling author of *Real Estate Investing in Canada*

“For any Canadian, buying real estate in the US can be the best decision you ever make, or the worst mistake you’ll never forget. Philip’s the real deal—an international investor who speaks from experience. This book will teach you how to make a great deal, reduce your risk and enjoy the journey along the way.”

— Greg Habstritt, founder of SimpleWealth

FROM THE INTRODUCTION:

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