

Mortgage refinancing is a profitable option

# Huge advantage in investing?

Here are **7** tips  
from the experts!

**Multi-Prêts MR**

AGENCE HYPOTHÉCAIRE • MORTGAGE AGENCY

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# Financing The Purchase of Multi-Dwellings (plexes)

The acquisition of a rental property, hereinafter called “plex” or income property, and its financing are subject to very specific mortgage rules as regards the following: documentation, profitability, value of the collateral, cash flow from the building and, in the case of an investor with several properties, cash flow (liquidity) of his entire portfolio.

The lender will also assess other factors such as: the quality of the building “plex”, its location, its income and expense sheet, the environmental conditions and other circumstances. If required, he must also comply with CMHC standards.

Rely on our specialists to maximize your returns and your chances of getting the financing you need to achieve your investment goals with the best conditions. First, call **Multi-Prêt Hypothèques MR at 514-666-LOAN (5626)** and you will find the mortgage financing consultant that will guide you through the process. Your Multi-Prêt Hypothèques MR Consultant is on your side; he is your business partner. To avoid incurring unnecessary costs, put all the odds in your favour for a successful financing and make the purchasing of your income property an easy process!



## **Maximum Funding for a Plex: 85% of purchase price**

Basic condition: The return on investment must be positive. The lender will calculate the plex's profitability. The ratio or percentage varies depending on whether a loan is insured by CMHC or not.

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Even if the total amount of the property's rental income (amount of rent paid by tenants) is sufficient to cover the overheads of the rental property, including mortgage payments, the lender must ensure that the debt coverage ratios and return on investment are positive.

Process leading to the acceptance of a mortgage for a rental property

### **Calculating the profitability ratios of a plex:**

- ✳ **Building Management Fees:** 11 dwelling units or less: 3 to 4% of gross rental income More than 11 housing units: 5% of gross rental income (This standard applies even if you plan to manage the property yourself)
- ✳ **Maintenance Costs:** 6 dwelling units or less: \$100 per dwelling 7 to 11 Housing Units: \$140 per dwelling 12 units or more: \$240 per dwelling
- ✳ **Repair Costs:** Wood construction: \$450 per year per dwelling Concrete construction: \$600 per year per dwelling
- ✳ **Vacancies:** 3% of gross annual revenues

In cases where the profitability ratio is below the lenders' standards (insufficient), the lender will require the investor to increase his investment (down payment) in order to reduce the mortgage financing charge and increase the profitability ratio.

### **Mortgage Application Documents Required when Buying a Rental Property (plex)**

- ✓ Mortgage Application
- ✓ "Offer to Purchase" signed and accepted
- ✓ Original copies of leases and renewal notice for each apartment
- ✓ Building Financial Statements
- ✓ Income & Expenditure Statement

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- ✓ Financial Statements of entire real estate portfolio where appropriate
- ✓ Buyer's own financial statement
- ✓ Municipal and school property tax bills
- ✓ Photocopy of utility bills
- ✓ Photocopies of subcontractors' invoices (snow removal, grass cutting, etc.)
- ✓ Photocopy of heating cost invoices (if applicable)
- ✓ Any other records relating to plex expenditures
- ✓ On request:
  - ✓ Building Evaluation Report
  - ✓ Building Inspection Report
  - ✓ Environmental Study

Pursuant to this application, in its own time, Canada Mortgage & Housing Corporation (CMHC) will also conduct an inspection and evaluation of the building (plex) in question.

### **Expenses Related to the Loan Request**

All fees for appraisal, inspection, environmental study, etc., are payable by the borrower. Usually, additional fees will be charged for file preparation and study.

### **Lender's Letter of Commitment**

Before the client borrower (investor) incurs any further expenses for the completion of his file, a review and basic analysis will be made during the preliminary interview by the Multi-Prêt Hypothèques MR Consultant. When the file is completed and well documented, in agreement with our partner, the financial institution specialized in plex financing, a letter confirming the terms of the mortgage approval detailing the conditions, the rate, etc., will be forwarded to the borrower.

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## Financial Institution's (lender) Inspection

In most situations, the lender gives a mandate to a building inspector to inspect the general condition of the building.

## Building Evaluation

The lender will mandate a firm of professional evaluators to assess the value of the collateral; different techniques or approaches (reconstruction cost analysis, economic [income] method and comparable values in the market) will be used. The evaluator will also conduct an audit of the leases and study comparable sales of other similar buildings (plex) in the area.

This assessment will determine the total (maximum) amount of the mortgage the lender will be willing to invest, to the extent that all other conditions are met. As it is possible that the property is worth less than its acquisition cost, it is essential that the buyer, if he still wishes to acquire the income property and complete the financing, has sufficient financial reserves to increase his down payment.

## Assessment of Market Value by CMHC

As CMHC performs their own appraisals and use similar techniques to those used by the lender, the borrower will have to issue a check, payable to Canada Mortgage and Housing Corporation, showing an amount equal to \$150 per apartment.

## Environmental Study

1. **PHASE 1:** This step involves a visual inspection and a soil assessment in order to detect the presence of a spill: heating oil, gasoline from an underground reservoir, etc. Following the inspection of the land and the immediate surroundings of the income property, the inspector will review the documentation relating to the history of the building in the city archives. Generally, PHASE 1 should be sufficient. The costs involved for this phase are approximately \$1,200.
2. **PHASE 2:** If there is evidence of dumping of toxic wastes harmful to the environment, or the presence of a gasoline or heating oil tank in the immediate vicinity of the rental property, a soil test will HAVE to be performed to assess

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the degree of soil contamination. Costs for this analysis and eventual decontamination will vary according to the complexity of this study and the number of tests to be completed.

### **Conclusion**

Once the lender has completed his evaluation of the risk and he is satisfied with the deal, he will forward a "Letter of Commitment" or a "Mortgage Agreement" to the borrower, which will confirm the details of the financing granted. The borrower will then have to negotiate an Insurance Policy on his property and forward the documents to his notary.



Call us today at 514-666-LOAN (5626). Our Mortgage Financing experts will be happy to guide you in your efforts to obtain your financing.