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The Rental Property Game

And Some Advice to Keep You Winning

Over the past eighteen months, the housing market has rocketed to stratospheric heights, hit a seemingly impenetrable ceiling, and then fell out of the sky at a rate not seen since the recession. The Financial Post reports Toronto home sales dropped a full 40% in August! With that kind of fluctuation, buyers are keeping their loonies stowed safely under the mattress and opting instead to rent until the market stabilizes. In this buyer's market, those looking for an investment property might snatch one up for a palatable price. It seems it's a good time to be a landlord! If that's the direction you want to take, then let me pass on a few things you'll need to know before you set off down that road.

Pinch yourself awake if you think that stepping into the landlord vs. tenant arena means all you need to do is buy a property, fill it with tenants, and then sit back while someone else pays your mortgage. Rental income is not *passive* income! Be prepared to actively manage your property *and* your tenants.

The property

As with any real estate investment, the key is location, location, location. You, as a wise investor, will not only consider a property's location today but 10 to 15 years down the road. What are the projections for the neighbourhood? What sustains the area today? Is that likely to change over time? Are you buying a future slum or an investment that will spark a bidding war in the years to come? With a traditional mortgage, you will be paying only the interest for at least a decade. Since you won't realize your investment's full potential until you start chipping away at the principle, you'd better buckle in for the long haul!

Every property needs a certain amount of upkeep. Sadly, the majority of renters won't treat a rental property like the owner would and so a healthy repairs budget is a must. Regular maintenance, code compliance, and by-law conformity all have the potential to cost more than you anticipate. Do your homework and prepare for the unforeseen.

The tenant

Finding the 'right' tenant is far more important than you might think. Professional squatters are peppered throughout the industry. These people are charming and polite and present themselves like perfect tenants. They can provide glowing referrals, and are quick with cash for the first month's rent. Once in, however, their true Hyde comes out. Overdue rent will trickle in drips and drabs along with promises of amends until the payments finally stop. It will take several months for you to serve notice, file documents, and arrange for the eviction, and they will do what they can to delay that process. Even when an eviction is approved, many jurisdictions refuse to allow evictions in the winter months. It could be a year or more before you are finally able to get them out to find that they have trashed your investment property.

That scenario is not uncommon. You MUST conduct a thorough check of your potential renters! Get in your car and physically check references, rental histories, and employment. Complacency in choosing your tenant can be very expensive; in money, time, and stress!

Condos

If you're looking to buy a condominium, be aware that some condo boards do not allow subletting. That policy will surely punch a huge hole in your rental property investment plans! Do your research and investigate. Make sure there is a written policy in place, or you can include that allowance in your purchase agreement.

Be aware that condo fees may outpace the market value of rental units. If that happens, more of the monthly rent will go to the condo corps–not you.

A final thought

As an investment, rental properties are no guarantee. Rent increases cannot exceed 4% yearly, however, operational costs are uncapped. As well, approximately 20% of your annual profit will go to tax (depending on your marginal tax rate). Be hyper-aware of your margins. Running a rental property at a loss means that you are using your own cash. And that's not good.

Recommendations

✓ Before committing to a rental condo, townhouse, multiplex, or single detached, seek the assistance of a professional in that area of Landlord/Tenant law. Go in with eyes wide open!

✓ Develop a thorough and effective interview and screening process for tenants. Make it a standard. If an applicant can't meet the standard, move on.

✓ Work out a 10-year statement of cash flows. An experienced realtor or mortgage broker should be able to help. Attached is a sample Excel template for your use.

✓ Open a separate bank account for your rental property.

✓ Use the attached T-776 as a guideline for collecting rental expenses and revenues.

✓ If you decide to go ahead with a purchase, I will require:
- The purchase agreement
- Breakdown of the rental property (value of land, value of the unit, value of appliances in the unit)

When you are ready, book an appointment with me to review your statement of cash flows, interview process, and impact to your personal income tax. By doing some of the work yourself, you will save quite a bit on fees and will expedite the process.

Good luck and remember: ***"An investment in knowledge pays the best interest."*** **–Benjamin Franklin**

Resources:
City of Barrie: http://bit.ly/2xPgzYW
Ontario Landlords Association: http://ontariolandlords.org/
Landlord and Tenant Board: http://www.sjto.gov.on.ca/ltb/
Canada Mortgage and Housing Corporation: http://bit.ly/2dusClo

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Date: ___ /___ / ______
DD/MM/YYYY

Address: ___________________________
____
____

Name: ___________________________

It will soon be time to prepare your _____ tax return. Providing complete and accurate information will allow us to prepare your tax return timely and efficiently. With this in mind, we have attached a checklist and questionnaire to assist you gathering the required items.

Your STATEMENT OF REAL ESTATE RENTALS

Please enter applicable amounts below and note any questions.

Complete a checklist for each rental property. DO NOT COMBINE.

Please provide copy of purchase or sale agreement as applicable.

Your Name: ____

Fiscal Period From: ______ /______ /________ To: ______ /______ /________

DD / MM / YYYY DD / MM / YYYY

Was this the final year of your rental operation?: _____Y/N

Address of property: ____
____
____
____

Business GST/HST registration #: ______________________RT______________

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Income

________________	Number of units
$___________.______	Gross Rent

Expense

___________.______	Advertising and Promotion (business cards, samples, flyers, awards, media)
___________.______	Insurance, including mortgage insurance
___________.______	Interest, mortgage or line of credit (do not include principle repayments)
___________.______	Office expenses
___________.______	Legal, accounting, and other professional fees
___________.______	Management and administration fees, property management fees
___________.______	Maintenance and repairs, provide a detailed list; some costs may be capital
___________.______	Property taxes
___________.______	Travel (taxi, bus, per Km reimbursement)
___________.______	Utilities (Heat, Hydro, water heater rental, propane, firewood, Internet, telephone)

Motor Vehicle Expenses (if multiple rental units are owned)

________________	Motor Vehicle - Make
________________	Motor Vehicle - Model
___________YYYY	Motor Vehicle - Year
___ / ___ / _____ DD/MM/YYYY	Motor Vehicle - Date acquired (provide purchase agreement)
___________Km	Motor Vehicle - Total Km driven in tax year
___________Km	Motor Vehicle - Business Use Km (For each business trip, keep a log listing the following: date, destination, purpose, number of kilometres.)
___________Km	Motor Vehicle - Personal Use Km
___________.______	Motor Vehicle - Employer reimbursements for personal vehicle use

____________.______ Motor Vehicle - Fuel

____________.______ Motor Vehicle - Maintenance & repairs, (oil changes, car washes, etc.)

____________.______ Motor Vehicle - Insurance / Roadside Assistance

____________.______ Motor Vehicle - License & Registration

____________.______ Motor Vehicle - Interest on vehicle loan (provide loan agreement)

____________.______ Motor Vehicle - Leasing costs (provide lease agreement)

Assets Purchased

____________.______ Appliances

____________.______ Furniture

____________.______ Land

____________.______ Building

Signature: ________________________________

Date: ________________________________

Signing date DD/MM/YYYY

Please return completed form to:
Debbie Sitzer Professional Corporation, 9 - 250 Bayview Drive, Barrie, ON L4N 4Y8
Alternatively, scan and e-mail it to debbie@debbiesitzer.com

GUIDELINES

GENERAL

Definition: A cash flow projection is a forecast of cash funds a business anticipates receiving and paying out throughout the course of a given span of time, and the anticipated cash position at specific times during the period being projected. [For the purpose of this projection, cash funds are defined as cash, checks, or money order, paid out or received.]

Objective: The purpose of preparing a cash flow projection is to determine shortages or excesses in cash from that necessary to operate the business during the time for which the projection is prepared. If cash shortages are revealed in the project, financial plans **must** be altered to provide more cash until a proper cash flow balance is obtained. For example, more owner cash, loans, increased selling prices of products, or less credit sales to customers will provide more cash to the business. Ways to reduce the amount of cash paid out includes having less inventory, reducing purchases of equipment or other fixed assets, or eliminating some operating expenses. If excesses of cash are revealed, it might indicated excessive borrowing or idle money that could be "put to work." The objective is to **finally** develop a plan which, if followed, will provide a well-managed flow of cash.

The Spreadsheet: The cash flow projection worksheet in this file provides a systematic method of recording estimates of cash receipts and expenditures, which can be compared with actual receipts and expenditures as they become known. The entries listed in the spreadsheet will not necessarily apply to every business, and some entries may not be included which would be pertinent to specific businesses. It is suggested, therefore, that you adapt the spreadsheet to the particular business for which the projection is being made, with appropriate changes in the entries as required. Before structure established, it is necessary to know or to estimate various important factors of the business, for example:
What are the direct costs of the product or services per unit?
What are the monthly or yearly costs of the operation?
What is the sales price per unit of the product or service? Determine that the pricing structure provides this business with reasonable breakeven goals [including a reasonable net profit] when conservative sales goals are met.
What are the available sources of cash, other than income from sales; for example, loans, equity capital, rent, or other

Procedure: Most of the entries for the cash flow spreadsheet are self-explanatory; however, the following suggestions are offered to simplify the procedure:
(A) Suggest even dollars be used rather than showing cents.
(B) If this is a new business, or an existing business undergoing significant changes or alterations, the cash flow part of the column marked "Pre-start-up Position" should be completed. [Fill in appropriate blanks only.] Costs involved here are, for example, rent, telephone, and utilities deposits before the business is actually open. Other items might be equipment purchases, alterations, the owner's cash injection, and cash from loans received before actual operations begin.
(C) Next fill in the pre-start-up position of the essential operating data [non-cash flow information], where applicable.

(D) Complete the spreadsheet using the suggestions for each entry, provided in the partial spreadsheet on the next worksheet.

CHECKING

In order to insure that the figures are properly calculated and balanced, they must be checked. Several methods may be used, but the following four checks are suggested as a minimum:

CHECK #1: Item #1 [Beginning Cash on Hand – 1st Month] plus Item #3 [total Cash Receipts – Total Column] minus Item #6 [Total Cash Paid Out – Total Column] should be equal to Item # 7 [Cash Position at End of 12th Month].   In other words, Item #1 + Item #3 - Item #6 = Item #7.

CHECK #2: Item A [Sales Volume – Total Column] plus Item B [Accounts Receivable – Pre-start-up Position] minus Item 2(a) [Cash Sales – Total Column] minus Item 2(b) [Accounts Receivable Collection – Total Column] minus Item C [Bad Debt – Total Column] should be equal to Item B [Accounts Receivable at End of 12th Month]. In other words, Item A + Item B [pre-start-up] - Item 2(a) - Item 2(b) - Item 2(c) = Item B [at 12th month].

CHECK #3: The horizontal total of Item #6 [Total Cash Paid Out] is equal to the vertical total of all items under Item #5 [5(a) through 5(w)] in the total column at the right of the form.

CHECK #4: The horizontal total of Item #3 [Total Cash Receipts] is equal to the vertical total of all items under #2 [2(a) through 2(c)] in the total column at the right of the form.

ANALYZE the relationship between the cash flow and the projected profit during the period in question. The estimated profit is the **difference** between the estimated change in assets and the estimated change in liabilities before such things as any owner withdrawal, appreciation of assets, change in investments, etc. [The change may be positive or negative.] This can be obtained as follows:

The **change in assets** before owner's withdrawal, appreciation of assets, change in investments, etc., can be computed by adding the following:
(1) Item #7 [Cash Position – End of Last Month] minus Item #1 [Cash on Hand at the Beginning of the First Month].
(2) Item #5 (t) [Capital Purchases – Total Column] minus Item F [depreciation – Total Column].
(3) Item B [Accounts Receivable – End of 12th Month] minus Item B [Accounts Receivable – Pre-start-up Position].
(4) Item D [Inventory on Hand – End of Month] minus Item D [Inventory on Hand – Pre-start-up position].
(5) Item #5 (w) [Owner's withdrawal – Total Column] or dividends, minus such things as an increase in investment.
(6) Item #5 (v) [Reserve and/or Escrow – Total Column].

The **change in liabilities** [before items noted in "change in assets"] can be computed by adding the following:

(1) Item 2(c) [Loans – Total Column] minus 5(s) [Loan Principal Payment – Total Column].
(2) Item E [Accounts Payable – End of 12th Month] minus E [Accounts Payable – Pre-start-up Position].

ANALYSIS

A. The cash position at the end of each month should be adequate to meet the cash requirements for the following month. If too little cash, then additional cash will have to be injected or cash paid out must be reduced. If there is too much cash on hand, this money is not working for your business.
B. The cash flow projection, the profit and loss projection, the breakeven analysis, and good cost control information are tools which, if used properly, will be useful in making decisions that can increase profits to insure success.
C. The projection becomes more useful when the estimated information can be compared with actual information as it develops. It is important to follow through and complete the actual columns as the information becomes available. Utilize the cash flow projection to assist in setting new goals and planning operations for more profit. A suggested way to do this is to enter actual cash receipt amounts and cash paid out amounts in the "Actual" spreadsheet included in this file.

Monthly Cash Flow Projection
Explanation of Data to Enter

1. CASH ON HAND	
[Beginning of month]	Cash on hand same as (7), Cash Position Previous Month
2. CASH RECEIPTS	
(a) Cash Sales	All cash sales. Omit credit sales unless cash is actually received.
(b) Collections from Credit Accounts	Amount to be expected from all credit accounts.
(c) Loan or Other Cash Injection	Indicate here all cash injections not shown in 2(a) or 2(b) above. See "A" of "Analysis" on Guidelines worksheet.
3. TOTAL CASH RECEIPTS	
[2a + 2b + 2c=3]	Self-explanatory
4. TOTAL CASH AVAILABLE	
[Before cash out] (1 + 3)	Self-explanatory
5. CASH PAID OUT	
(a) Purchases (Merchandise)	Merchandise for resale or for use in product [paid for in current month]
(b) Gross Wages (excludes withdrawals	Base pay plus overtime [if any]
(c) Payroll Expenses (Taxes, etc.)	Include paid vacations, paid sick leave, health insurance, unemployment insurance, etc.[this might be 10 to 45% of 5(b)
(d) Outside Services	This could include outside labor and/or materials for specialized overflow work, including subcontracting
(e) Supplies (Office and operating)	Items purchased for use in the business [not for resale]
(f) Repairs and Maintenance	Include periodic large expenditures such as painting, decorating, repair of broken equipment
(g) Advertising	This amount should be adequate to maintain sales volume – include telephone book yellow page cost
(h) Auto, Delivery, and Travel	If personal vehicle is used, charge in this column – include parking
(i) Accounting and Legal	Outside services, including, for example, bookkeeping and tax return preparation
(j) Rent	Real estate only [See 5(p) for other rentals]
(k) Telephone	Self-explanatory
(l) Utilities	Water, heat, light, and/or power
(m) Insurance	Coverages on business property and products, e.g., fire, liability; also workers' compensation, fidelity, etc. Exclude "executive life [include in "5w"]
(n) Taxes (Real Estate, etc.)	Plus inventory tax – sales tax – excise tax, if applicable
(o) Interest	Remember to add interest on loan as it is injected [See 2(c) above]
(p) Other Expenses [Specify each]	Unexpected expenditures may be included here as a safety factor
	Equipment expenses during the month should be included here [Non-capital equipment]
	When equipment is rented or leased, record payments here
(q) Miscellaneous [Unspecified]	Small expenditures for which separate accounts would not be practical
(r) Subtotal	This subtotal indicates cash out for operating costs
(s) Loan Principal Payment	Include payment on all loans, including vehicle and equipment purchases on time payment
(t) Capital Purchases [Specify]	Non-expensed [depreciable] expenditures such as equipment, building, vehicle purchases, and leasehold improvements
(u) Other Start-up Costs	Expenses incurred prior to first month projection and paid after the "start-up" position
(v) Reserve and/or Escrow [Specify]	Example: insurance, tax, or equipment escrow to reduce impact of large periodic payments
(w) Owner's Withdrawal	Should include payment for such things as owner's income tax, social security, health insurance, "executive" life insurance premiums, etc.
6. TOTAL CASH PAID OUT	
[Total 5a thru 5w]	Self-explanatory
7. CASH POSITION	
[End of month] (4 minus 6)	Enter this amount in (1) Cash on Hand following month – See "A" of "Analysis"

ESSENTIAL OPERATING DATA [Non-cash flow information]	This is basic information necessary for proper planning and for proper cash flow projection. In conjunction with this data, the cash flow can be evolved and shown in the above form.
A. Sales Volume [Dollars]	This is a very important figure and should be estimated carefully, taking into account size of facility and employee output as well as realistic anticipated sales [Actual sales performed – not orders received]
B. Accounts Receivable [End of Month]	Previous unpaid credit sales plus current month's credit sales, less amounts received current month [deduct "C" below]
C. Bad Debt [End of Month]	Bad debts should be subtracted from (B) in the month anticipated
D. Inventory on Hand [End of Month]	Last month's inventory plus merchandise received and/or manufactured current month minus amount sold current month
E. Accounts Payable [End of Month]	Previous month's payable plus current month's payable minus amount paid during month
F. Depreciation	Established by your accountant, or value of all your equipment divided by useful life [in months] as allowed by Internal Revenue Service

Monthly Cash Flow Projection
Enter Company Name Here
Enter Date Here

	Pre-Startup	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	**TOTAL**
1. CASH ON HAND														
[Beginning of month]		-	-	-	-	-	-	-	-	-	-	-	-	
2. CASH RECEIPTS														
(a) Cash Sales														-
(b) Collections from Credit Accounts														-
(c) Loan or Other Cash Injection														-
3. TOTAL CASH RECEIPTS														
[2a + 2b + 2c=3]	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. TOTAL CASH AVAILABLE														
[Before cash out] (1 + 3)	-	-	-	-	-	-	-	-	-	-	-	-	-	
5. CASH PAID OUT														
(a) Purchases (Merchandise)														-
(b) Gross Wages (excludes withdrawals)														-
(c) Payroll Expenses (Taxes, etc.)														-
(d) Outside Services														-
(e) Supplies (Office and operating)														-
(f) Repairs and Maintenance														-
(g) Advertising														-
(h) Auto, Delivery, and Travel														-
(i) Accounting and Legal														-
(j) Rent														-
(k) Telephone														-
(l) Utilities														-
(m) Insurance														-
(n) Taxes (Real Estate, etc.)														-
(o) Interest														-
(p) Other Expenses [Specify each]														-
														-
(q) Miscellaneous [Unspecified]														-
(r) Subtotal	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(s) Loan Principal Payment														-
(t) Capital Purchases [Specify]														-
(u) Other Start-up Costs														-
(v) Reserve and/or Escrow [Specify]														-
(w) Owner's Withdrawal														-
6. TOTAL CASH PAID OUT														
[Total 5a thru 5w]	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7. CASH POSITION														
[End of month] (4 minus 6)	-	-	-	-	-	-	-	-	-	-	-	-	-	
ESSENTIAL OPERATING DATA														
[Non-cash flow information]														
A. Sales Volume [Dollars]														-
B. Accounts Receivable [End of Month]														
C. Bad Debt [End of Month]														-
D. Inventory on Hand [End of Month]														
E. Accounts Payable [End of Month]														
F. Depreciation														-

Monthly Real Estate Rental Cash Flow Projection
(Property Address)
(Enter Dates Here)

	Pre-Startup	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	**TOTAL**
1. CASH ON HAND														
[Beginning of month]		-	-	-	-	-	-	-	-	-	-	-	-	
2. CASH RECEIPTS														
(a) Rents														-
(b) Other related revenue														-
(c) Loan or Other Cash Injection														-
3. TOTAL CASH RECEIPTS														
[2a + 2b + 2c=3]	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. TOTAL CASH AVAILABLE														
[Before cash out] (1 + 3)	-	-	-	-	-	-	-	-	-	-	-	-	-	
5. CASH PAID OUT														
Labour Related														
(a) Propery Management Fees														-
(b) Gross Wages														-
(c) Employer EI and CPP														
(d) WSIB Expense														
(e) Vacation Pay														
(f) EHT														
TOTAL LABOUR RELATED	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operational Expenses														
(a) Advertising														-
(b) Insurance														-
(c) Interest														-
(d) Repairs and Maintenance														-
(e) Motor vehicle expenses														-
(f) Office Expenses														-
(g) Auto, Delivery, and Travel														-
(h) Accounting/Legal Fees														-
(i) Property Tax														-
(j) Utilities														-
(k) Condo Fees														-
(l) Other Expenses [Specify each]														-
														-
														-
(m) Miscellaneous [Unspecified]														-
														-
														-
														-
TOTAL OPERATIONAL		-	-	-	-	-	-	-	-	-	-	-	-	-
(s) Loan Principal Payment														-
(t) Capital Purchases [Specify]														-
														-
														-
														-
(u) Other Start-up Costs														-
(v) Reserve and/or Escrow [Specify]														-
(w) Owner's Withdrawal														-
TOTAL CAPITAL														

6. TOTAL CASH PAID OUT		-	-	-	-	-	-	-	-	-	-	-	-	-
7. CASH POSITION End of Month	-	-	-	-	-	-	-	-	-	-	-	-	-	