HOW TO HELP YOUR CHILD TO BUY THEIR FIRST PROPERTY

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Prices for apartments in Toronto continue to rise, and all factors indicate that growth will continue. The apartment segment became the most popular after the introduction of new mortgage rules, which greatly tightened credit conditions, and detached houses and townhouses became unaffordable for many.

On the one hand, the rapid growth of prices for condominiums is in the hands of investors earning from buying apartments "Off Plan". On the other hand, there's nothing good for an ordinary buyer, especially a first-time buyer. We are clearly repeating the scenario of many cities, where the owners of apartments form a small part of the population, and the rest are forced to be content with rent. It is already difficult for our children to purchase their first property, and in the future, it will become even more difficult, since the percentage of property value is constantly increasing, and there is no chance that this trend will change. Unfortunately, the expensive real estate is condemned for all world's mega-cities.

Many parents are thinking about how to help children buy their first property, which will be a great start for a child when entering adult life. I constantly encounter similar questions, and this is the picture that emerges from conversations with my clients.

Almost everyone has some kind of retirement savings, but most parents realize that they will need these savings in the future. So they are not ready to make a down payment for a child to buy a real estate. In addition, only a few know how to do this, because, according to Canadian law, you can only be a real estate owner from the age of 18. At the same time, the majority of parents' pension savings are in conservative investment deposits like RRSP or TFSA, which bring no more than 5% of annual income, and sometimes they simply lie dead on ordinary bank accounts. Let's consider the option of how we can use this money to help your child buy property and not spend their retirement savings.

Let's say, your child is about 14-years-old, which means he or she can be an official owner of the property in 4 years. In this case, buying an apartment at the developing stage would be an ideal option. And do not try to buy an apartment for children where, in your opinion, they will be comfortable living in the future. Remember: you do not buy an apartment for children for their future residence - you just give a start. Eventually, they will be able to sell their property and buy the one that suits them best. To be more exact, they will be able to refinance it and buy the property with the money, while leaving this one as their first rental property. Accordingly, it is important to buy property in the area where infrastructure is rapidly growing, transport accessibility is developing, and so on. In other words, choose the area that guarantees the rise of real estate prices, regardless of the overall state of the market.

There are plenty of such areas in Toronto and its suburbs. That is to say, there are options for almost any budget. As a guideline, let's take a property worth 500 thousand dollars, just for the convenience of calculation. In reality, the price may be lower. To buy such a property at the stage of excavation, you usually need 15% of the cost, that is, 75,000 dollars, which you will have to make in three or four equal payments for about a year and a half. Building a house now takes around 4 years.

If your 75,000 continued to lie in a conservative investment such as RRSP, then in 4 years they would have turned into 90,000. In this article, I'm not going to describe how to temporarily transfer savings from RRSP to cash in order to buy a property and then return them back. I'll just say that there are quite a lot of ways. So, if you are buying real estate under construction with this money, then at the end of construction you return $90,000 to yourself, and your child gets an apartment.

Also, an important factor is that it is not necessary for your child to immediately move to this apartment. You can continue living together while renting out the new property. According to the new regulation, as the only property, this place is not going to be taxed in case of selling, even if the child has not moved there.

The scheme is simple: an apartment bought for $500,000 at the stage of construction on your name costs 631,500 by the end of construction (6% price increase per year). And these calculations are very modest. We usually choose projects that are more expensive, and this apartment should cost at least 660,000, but let's take the most conservative scenario.

Next, you make the resale of the contract on the name of your child. In this case, the resale will be tax-free: you just need to know how to arrange it. The child who buys for the first time receives a mortgage from the price of the assortment with a 5% down payment.

Accordingly, the bank will approve a loan of 600,000. You just have to pay

500,000 - 75,000 deposit + 8,500 to the developer. Closing a deal for first-time buyers = 433,500. Probably, you will have to be a guarantor of this loan for some period of time, since the child has not enough credit history and income.

However, this moment is usually not scary for parents. By the time you are closing the transaction, you receive $166,500 from the bank. This money is the difference between the issued loan and money that you owe to the developer and of which you return your 75,000 plus an increase of 5% annually, 90,000 pension money. After that, you still have 76,500 profits that you can keep by paying taxes, but we recommend returning them back to increase the down payment for the child's apartment. So your child will receive an apartment with a smaller loan and without compulsory insurance, which is necessary to pay in case of down-deposit at 5%.

The result of this whole procedure is very simple: your pension money is returned back to the bank with the same interest that would have increased if you had not taken them from there. The child received an apartment, where he or she can move, or rent for some time, paying a loan at the expense of tenants.

Finally, the apartment can be sold, and it will be a tax-free sale, and the money will be the starting money for the purchase of the future property in the area that is convenient for the child. It is worth noting that the same scheme can work without using RRSP and other pension plans, but simply by issuing credit line for real estate, which, as a rule, is already available to the parents. In this case, everything is even easier. You do not use your own money or pay any interest, and the child gets the first property, which already has about 20% of his own money.

We are waiting for you at our monthly seminars and just for a consultation. To sign up for a consultation, call 416-832-8343