

Rental suite can help you pay off that mortgage but 'it could be a nightmare'

Malcolm Morrison, The Canadian Press

TORONTO - Buying a house with a rental suite can be just the ticket to help you pay off your mortgage years earlier than it might have otherwise been possible.

But landlord beware: there are potential problems connected with getting financing, getting rid of tenants you really shouldn't have let in in the first place and zoning issues.

The idea of having someone pay several hundreds dollars a month towards your mortgage might also entice you into buying a house you really can't afford, and you could find yourself dangerously dependent on that rent money — experts will tell you this is a bad idea.

"I think leveraging yourself to a point where you are totally dependent on a tenancy and if you lose it, it could be extremely harsh on you," said David Scarr of Royal LePage Westside in Vancouver.

Scarr said he is seeing the rental suite option become more popular, as house prices have surged in the last couple of years while mortgage rates resided at historic lows. At the same time, there has been a ready supply of tenants looking to find something decent below \$1,000 a month.

"There's always been an extreme shortage of good available (rental) stock, especially when you get students going to university, want to be close to a bus line or young people starting out in the workforce," he said.

"They can't pay the standard — right now in downtown you're looking at a one-bedroom apartment probably for \$1,400 a month for about 550 square feet."

When you start number crunching to see if this makes financial sense, be aware that Canadian banks have toughened their standards for financing houses with a rental suite.

"Banks used to do a rent reduction, so that if you qualified to carry \$1800 a month, and the tenant was carrying \$500 and it was a legal unit, then they would take that amount off that you had qualified," explained Diane Speer, of ReMax in Toronto.

"Or they would take some of the income and then discount, like if you're getting \$13,000 a year from a unit, they might add that into your income or take a percentage thereof. That's constantly changing, too, the way they're looking at it."

"If it's an illegal suite, you won't get any break from the bank."

And that brings up the issue of zoning: many rental suits in homes can be illegal, meaning the municipality hasn't zoned a particular area for rental housing.

"There's always the issue of whether it's legal or not legal. Most of them are not legal," said Speer,

"But most neighbours will turn a blind eye because it's been a way of living for so long a while and affordable housing is available in the neighbourhood. The only time I've really seen issues with them is somebody moved in who has three cars or somebody moved in who is an issue."

Scarr agreed, adding that in Vancouver the blind eye is also turned very often since "the city is aware that they do not provide affordable housing stock so it's something that the city does not act upon unless the space is horrible."

"Generally speaking, we've turned a blind eye to unauthorized suites now for the last 15, 20 years," he said.

Having decided that you really don't mind sharing your house with a complete stranger, you will want to take extra care when holding auditions for your apartment and adopt more than a passing familiarity with provincial landlord-tenant legislation.

"A lot of people are so excited to get a tenant and get someone to pay that they're not doing a credit check or not making sure on the application that the apartment is being rented to one person and not a family of six," said Speer.

Speer observed that some of her clients will get in touch with the student housing office at local community colleges.

She has also done the landlord routine and said you just have to be smart about it.

"We were just always really cognizant of keeping the rent at an amount where we would get lots of applicants so that we could choose someone who we thought would be good, one person, a professional maybe who travelled, who wasn't around," said Speer,

"I think that if you don't have standards there or do any kind of qualification or screening, it could be a nightmare and I've seen a lot of people go through it."