

Warm Vacation Properties Wanted; will pay cash Cash-rich Canadians are buying up properties in the U.S. as prices plummet

Canadians flocking to warm US destinations to scoop up cheap real estate; mortgages not part of the plan

October 6, 2009
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Canadians are still heading south of the border to snap up warm-weather vacation homes, but, unlike other foreign buyers, many snowbirds are now skipping the mortgage process entirely and paying cash for their home away from home.

A distressed U.S. housing market and a strong loonie are luring winter-weary Canadians looking for a place to plant their money. "Cottages have become prohibitively expensive in Canada – a Florida condo is far more affordable," says Caroline Nalbantoglu, a financial planner with PWL Advisors Inc. in Montreal.



And while securing financing from American banks has become tougher, many Canadians are avoiding that process by dipping into their savings. "Most of my clients have bought without a mortgage, they paid with cash," Ms. Nalbantoglu says.

According to the U.S. [National Association of Realtors \(NAR\)](#), the number of Canadian buyers who used cash to pay for U.S. properties jumped to 81 per cent in 2009 from 47 per cent in 2007. Canadians were also twice as likely as any other foreign buyers to pay in cash. A recent report found that risk-averse Canadian households are sitting on up to \$1-trillion in cash and near-cash holdings.

"Canadians are clearly good savers," says Robert Keats, author of *The Border Guide: A Guide to Living, Working and Investing across the Border*, a financial tool for aspiring and existing snowbirds that has just come out in its 10th edition.

Mr. Keats believes that there has never been a better time for Canadians to buy south of the border. "These are the best buying prices I have ever seen," he says.

Other expenses, like golf or an evening out, are also getting cheaper, thanks to the stronger Canadian dollar. "Canadians are able to buy one-third more than they could have a few years ago," he says. "Everything from gas to food is cheaper."

Recent changes to the Canada-U.S. Tax Treaty also add up to another big plus for snowbirds, Mr. Keats said. The treaty, which he describes as one of the most important documents for the protection of Canadian financial assets in the U.S., helps prevent the double-taxation of Canadians.

The number of Canadian buyers eased to around 27,000 this year from 40,000 in the NAR's 2008 study, but remains well above 2007 levels, when exchange rates and housing costs were not as favourable. Canadians were the biggest international buyers of U.S. real estate in 2008 and 2009, ahead of the United Kingdom, Mexico, India and China.

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The Globe and Mail – October 6, 2009

So where and why are Canadian snowbirds buying? Balmy weather is clearly a driving factor, the NAR found, with Canadians most likely to nab properties in Florida and Arizona, followed by California and Texas. The majority – 60 per cent – plan to use the property as a vacation spot for family and friends while another 12 per cent termed it a residential rental property they see as an investment.

Richard Bazinet, an Arizona realtor who works in the Phoenix valley, estimates that 80 per cent of his buyers will hail from Canada between November and March, as has been the case for the past few years.

“Canadians are seen as more conservative and are better at managing their money,” he said, but that isn’t the only reason so many of them are making cash offers.

The financial crisis has led some American banks to change their mortgage guidelines. “Some banks ... will no longer lend money to foreigners,” Mr. Bazinet said.

Because Canadian banks will, in general, not provide mortgages on U.S. properties, Canadians who choose to get financing north of the border need to apply for a line of credit or raise the mortgage on their property in Canada. Consulting an expert with knowledge of both U.S. and Canadian tax, mortgage and estate planning laws is a good idea for those wanting to take the plunge.

A more arduous mortgage process is not dissuading clients of tax and financial planning expert Tannis Dawson, who works for Investors Group in Winnipeg. She is seeing increased interest in U.S. real estate from people ranging in age from their 30s to their 60s. “People feel prices in the U.S. cannot go any lower so this is a good rate of return on their money.”

One couple she works with just scooped up an ocean-front condo with a shared pool in Naples, Fla., for \$90,000 (U.S.). Two years ago, it was selling for \$234,000.

“People can either renovate their house here or buy a place down there at a real bargain,” Ms. Dawson said. “Some people might not use it all winter but they know that their family will, so that will help cover their costs.”

Ms. Nalbantoglu says most Canadians are not interesting in flipping the property and instead have long-term plans for their U.S. purchases. “My clients are buying there because they think this is the right time and they plan to use it down the road when they retire.”

While a U.S. vacation property “could possibly” turn out to be a good investment, Ms. Nalbantoglu warns clients that it can also be complex undertaking. “There are complications with buying in the U.S., so people need to be aware of things when it comes to owning and or renting a U.S. property. You have to really want to be warm to do this.”

Some things to look out for when buying a property in the U.S (next page)

Buying, renting, financing or selling a U.S. property? Here's what you need to know about this as well as tax, insurance, currency exchange and other financial planning issues:

Renting out a U.S. property

If you collect rental income from a U.S. property, you need to file a U.S. tax return. If you purchase a property with the intention of renting it out for all or part of the year, make sure it is in a good location with desirable amenities nearby: beaches, golf, ocean, restaurants, hospitals.

Buying a U.S. property

Know how to title your property and the implications of each type of ownership: fee simple, joint with its survivorship, joint as tenants in common, etc. Simply buying a place in the U.S. does not mean you need to file for U.S. taxes, only if you rent or sell.

Financing a U.S. property

If possible, secure financing with a U.S. financial institution. They will have better knowledge of U.S. mortgages and provide more options in terms of how long you can lock in for. (Royal Bank of Canada has U.S. operations in the snowbird hotspots of Florida and the Carolinas.)

Tax rules on a U.S. property

Recent changes to the Canada-U.S. Tax treaty prevent foreign owners from paying taxes twice. The tax treaty, one of the most important documents for the protection of Canadian financial assets in the U.S., overrides domestic Canadian and U.S. rules and can lower your overall tax bill.

Options for retirees

For Canadian who have retired, the U.S. has portfolio opportunities to earn as much interest income tax-free as possible. Also, the costs of living in many U.S. retirement areas are substantially lower than equivalent Canadian areas.

Exchanging currency

Exchange large sums at one time and ask for the spot rate rather than accepting the posted rate. Avoid using cash for the exchange. Shop around to at least three different institutions and when possible, use reputable currency brokers rather than banks.

Immigration, custom rules

Know how long you can legally stay in the U.S. as a visitor. If you wish to work in the U.S. or to stay more than six months get a proper visa. If you stay longer than six months, you will be required to file a U.S. tax return.

Medical coverage

Whether you are going to the U.S. for a two-week holiday or a six-month stint, make sure to get good travel insurance. When possible, take high-deductible plans. Prices rise substantially if you stay more than three months. Also, try to fill any prescriptions before you leave Canada.

Get your property covered

Look into what kind of insurance you will require. For instance, people buying in Florida will need to get hurricane and termite coverage, something they would never need to worry about in Canada.

Beware of condo fees

Canadians looking to buy condos should make sure that their complex is nearly full. If it is only partially full, you could get saddled with paying for all of the fees for things like the common areas, which can get expensive.

Seek good advice

Look for advisers that have both U.S. and Canadian professional qualifications and experience. Do background checks on the regulatory bodies in Canada and the U.S., as well as Internet searches.