



Real Estate Talk:  
Income property / 6

## Description

# A look at promise to purchase conditions: Financing

By **Joseph Marovitch**

Updated September 21, 2022

Last week we discussed the four conditions that must be in the promise to purchase for an income property, to protect the buyer, and we focused on the third condition, the Inspection. Today we are going to discuss the fourth condition, **Financing**.

Four conditions that allow the buyer to verify the information:

1. First visit
2. Review of expenses, leases and any other financial documentation
3. Inspection
4. Financing

It is possible to purchase an income property in cash, however, few investors use their own money to finance an income property. There is an instance in which paying in cash can be of value. This is when the seller is prepared to reduce the price of the property further, causing the Cap Rate to increase. The buyer, after possession of the property, can apply for a mortgage if they choose to. Money should work for you and not the other way around.

... as time goes by and the property increases in value, the owners can borrow against the property to buy a second and then a third income property to increase their portfolio.

Money can be borrowed from your financial institution and used to purchase the income property. With a Cap Rate that allows for a profit after expenses, and after a period, the mortgage will reduce as the property pays for itself. As well, as time goes by and the property increases in value, the owners can borrow against the property to buy a



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second and then a third income property to increase their portfolio.

Acquiring a mortgage to finance an income property takes time and investment. Unlike a mortgage for an individual residence, an income property requires 15% to 30% down and can take up to 40 days or more to obtain from the bank. The bank will evaluate the property and determine the value based on a calculation by the CMHC (Canadian Mortgage and Housing Corporation). The CMHC is the government institution that insures all bank mortgage loans.

There are many rules in place the CMHC must use to determine the value of the property and how much the buyer is required to put down. One of the factors includes whether the buyer intends to live in the income property. If the buyer does not intend to live in one of the units, the buyer is then required to put down a minimum of 20% of the purchase price.

If there is an advantage for buyers, the buyer can save time and bypass the CMHC by putting down 20% or more of the property value and acquire a conventional mortgage not insured by a government-backed CMHC loan.

These days, the CMHC is backed up with loan requests for income property and acquiring a CMHC backed mortgage can take up to three months. By going with a conventional loan, the mortgage can be acquired in a month or less.

In setting the condition for financing, the offer must contain the following:

- The amount the buyer intends to borrow
- The maximum interest rate the buyer is prepared to accept
- The amount of years the mortgage shall be amortized over
- How many days the buyer requires to attain the mortgage

Should the buyer's financial institution approve a loan with the amount the buyer wants to borrow, at the interest rate or lower that the buyer requested, amortized over the period requested, and within the time period stated to attain the loan, then the condition is satisfied and the property is purchased.

'Unlike a mortgage for an individual residence, an income property requires 15% to 30% down and can take up to 40 days or more to obtain from the bank.'

Should the buyer's financial institution not approve the loan, or provide an interest rate that is higher than the buyer requested, or amortize the loan over a shorter period than requested, or not provide the loan within the time period required, the buyer can cancel the offer in writing, however, the seller has the option to insist the buyer apply at another financial institution at the seller's expense, which rarely occurs.

There are many other options possible other than cancelling the offer if the buyer is motivated. The buyer can accept the terms of the bank. If the loan is not approved, then the buyer may have to go to a private lender.

The information I provide in these articles is a summary. Should you have questions or comments, please refer to the comments section at the bottom of the page. As well, to view past articles, [click here](#).

Next article: **Income property /7 – Landlord's Obligations**

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## State of the market



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There is much concern in the real estate market due to rising interest rates and declining prices. What is not discussed as much is the see-saw effect. Rising interest rates bring down the inflation rate.

As the inflation rate declines, eventually so does the interest rate. Currently prices are falling due to higher than usual interest rates. This means **the buyer can buy a lower priced home but pay a high interest rate.**

'There is much concern in the real estate market due to rising interest rates and declining prices. What is not discussed as much is the see-saw effect.'

However, should the buyer wait until the interest rates drop, the effect will be rising property prices due to increased demand as interest rates decrease. Therefore, after interest rates decrease, **the buyer will then buy a higher priced house at a lower interest rate.**

It is like half a dozen of one and six of the other. Number projections must be crunched to determine what the best course of action is, however, we can only be certain about the present.

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**Joseph Marovitch** has worked in the service industry for over 30 years. His first career was working with families from Westmount and surrounding areas, hosting children between the ages of 6 to 16 as the owner and director of Camp Maromac, a sports and arts sleep away summer camp established in 1968. Using the same strengths caring for the families, such as reliability, integrity, honesty and a deep sense of protecting the interests of those he is responsible for, Joseph applies this to his present real estate broker career. Should you have questions please feel free to contact Joseph Marovitch at 514 825-8771, or [josephmarovitch@gmail.com](mailto:josephmarovitch@gmail.com)

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**Date Created**

September 2022