



# Bargains down south

**There are several areas in the United States where Canadians or 'Snowbirds' fly to in flocks to purchase properties, including Arizona, Texas and Nevada. More than a year after the downturn, these areas are still top performers for a return and here we show you how to find a deal. *Suzanne Sharma* reports**



**A**s the economy begins to show signs of strength, many Canadian investors are loosening their purse strings, ready for their next great property purchase. Look no further, because Canada's southern neighbour still has plenty of bargains. In fact, in some states, prices are even lower today than they were one year ago and distressed properties continue to flood the market.

A National Association of Realtors (NAR) practitioner survey shows that foreclosure homes accounted for 31 per cent of transactions in August 2007, unchanged from figures in July 2009.

"The recent trend shows some improvement in most of the country, but with an expected rise in foreclosures over the next 12 months we need to maintain a healthy level of ready buyers to absorb the inventory," says Lawrence Yun, NAR chief economist.

The national median existing-home price for all housing types was US\$177,700 in August 2009, down 12.5 per cent from August 2008. Distressed properties continue to downwardly distort the median price because they generally sell for 15 to 20 per cent less than traditional homes.

In the southern states, prices are even lower than the national average, so there are plenty of opportunities still to be had. The median price in the south was US\$157,400 in August of this year, which is 11.0 per cent below a year ago. Existing home sales were down 3.1 per cent to an annual pace of 1.89 million in August 2009 but are 1.6 per cent above August 2008.

While the bargains might be aplenty, getting your financing in order is another issue all together. Numerous calls to brokers down south have unveiled that getting a mortgage from a lender is next to impossible in these hard times and this is because lending criteria has become very strict.

Lawrence E. Barker, executive director at Canadian Snowbird Association says that obtaining a mortgage if you're not paying cash could prove challenging. "Lenders today have tighter budgets. Many buyers are finding they won't accept their Canadian credit

## U.S. estate tax considerations

By Carol A. Fitzsimmons, Partner, Hodgson Russ LLP

A strong Canadian dollar and a weak U.S. real estate market make buying a U.S. vacation property attractive. What Canadians need to know, however, is that U.S. estate tax exposure (payable upon an individual's death) is a major factor to consider when making an investment in U.S. real property. U.S. estate tax is imposed on the value of property, not the appreciation in property as under the Canadian system, and U.S. estate tax rates reach 45 per cent. The U.S. estate tax is scheduled to be repealed for one year (2010), but it is likely the U.S. estate tax system will continue thereafter.

Assume, for example, an unmarried Canadian with worldwide assets of \$10M buys a U.S. property worth \$1M, and that is the value at his death in 2009. The U.S. estate tax would be more than \$200,000, whereas no Canadian tax would arise on that property. With proper planning, however, there may be options to reduce or eliminate U.S. estate tax exposure.

### 1. Plan With Exemptions/Credits

The credits under the Canada-U.S. Tax Treaty ("Treaty") may be sufficient to avoid - or at least reduce - U.S. estate tax. The most significant Treaty credits are based on the U.S. exemption amount (presently \$3.5M), but modified so that only that portion of the U.S. exemption amount represented by the ratio of the value of U.S. situs to worldwide situs assets is allowed. For example, if 10 per cent of the Canadian decedent's property is located in the U.S., the estate is entitled to an exemption of \$350,000. This exemption amount may be approximately doubled if the U.S. property is left to a surviving spouse and certain other requirements are met. It may also be advisable to create a testamentary trust for the surviving spouse to hold the U.S. real property. It is important that title to U.S. property not be held as "joint tenants with right of survivorship" or "husband and wife", as this can result in taxation in the estates of both spouses.

### 2. Own U.S. Real Property Through A Canadian Trust ("Residence Trust")

A trust with special terms that protect against U.S. estate tax exposure is required for this approach. The Residence Trust is created by one spouse who funds it with the cash to purchase the U.S. real property, for the benefit of the other spouse. This provides estate tax protection for the settler and beneficiaries, and also avoids probate. There may be downsides in the event of a divorce or death of the beneficiary spouse, but there are ways to mitigate such issues. This approach may not be viable if the property is to be mortgaged.

### 3. Life Insurance

Planning for exposure to U.S. estate tax with life insurance may seem simple but there are disadvantages. One is the ongoing cost to maintain the life insurance. Another is that the value of the life insurance may increase estate tax (as the value of the non-U.S. estate increases, the available exemption decreases) unless a properly drafted life insurance trust is used to own the policy. Furthermore, to avoid the U.S. real property from being subject to estate tax at each spouse's death, a testamentary trust should be created, as discussed above. This approach does not avoid the necessity of filing a U.S. estate tax return nor is probate eliminated.

Source: Collins Barrow Toronto LLP, Hodgson Russ LLP



Phoenix, Arizona



### Sale price in select cities (single-family)

Metropolitan area	Q2 2009	Q2 2008	% change
Austin, TX	\$194,000	\$194,200	-0.1%
Dallas, TX	\$150,700	\$151,000	-0.2%
Houston, TX	\$157,400	\$153,400	2.6%
Phoenix, AZ	\$131,100	\$205,100	-36.1%
Tucson, AZ	\$174,100	\$215,900	-19.4%
Las Vegas, NV	\$141,800	\$235,300	-39.7%
Reno, NV	\$192,100	\$274,400	-30.0%

\*All prices in U.S. dollars

Source: National Association of Realtors

### Sale price in select cities (condo)

Metropolitan area	Q2 2009	Q2 2008	% change
Austin, TX	\$156,700	\$175,300	-10.6%
Dallas, TX	\$137,800	\$136,900	0.7%
Houston, TX	\$137,600	\$141,400	-2.7%
Phoenix, AZ	\$104,100	\$182,500	-43.0%
Tucson, AZ	\$102,500	\$143,300	-28.5%
Las Vegas, NV	\$66,400	\$144,800	-54.1%
Reno, NV	\$103,100	\$161,100	-36.0%

\*All prices in U.S. dollars

Source: National Association of Realtors

bureau or social security numbers.”

According to Freddie Mac, the national average for a 30-year, conventional, fixed-rate U.S. mortgage fell to 5.19 per cent in August 2009, from 5.22 percent in July; the rate was 6.48 per cent in August 2008.

So, while rates are still dropping, the odds of Canadians getting approved are very rare. Several mortgage experts state Canadian buyers typically purchase U.S. property in cash, take out a line of credit or a second mortgage on their home. The point is to assure you have

the funds before you find that bargain and place your bid. (To read more on this and better understand what options exist, see page 52.)

Also, be sure to factor in the exchange rate. Ongoing costs will continue to vary when you swap your loonies for \$1 bills. In September 2009, the exchange rate was CA\$1 equals US\$0.93. In September 2008, the exchange rate was CA\$1 equals US\$0.96. That might not sound like much of a change, but it adds up when you factor in taxes, property management and miscellaneous carrying costs that are in the thousands.

“Be sure to utilize the services of a lawyer or accountant that specializes in cross-border transactions,” says Arun Mehta, President-CEO, Broker of Record, Richmond Realty Group Inc., Markham, Ont.

Mehta suggests asking questions such as: who is responsible for closing the real estate transaction; what are the costs of title insurance; how is a title transferred; in what ways can a title be held; what are the closing costs associated with the purchase; when are property taxes paid; are real estate property taxes higher for a non-resident; upon the sale of the property, are there tax consequences such as withholding tax?

So, if you’ve got the cash handy and feel you’re fully prepared to head south, we’ve done the legwork and found that cities in Arizona, Nevada and Texas could prove fruitful.

### Arizona

Phoenix is the capital of Arizona, with a metro population over four million, making it the fifth most populous city in the U.S., and is the most visited city in the state. The economy is based on several Fortune 1000 companies, such as Allied Waste, electronics corporation Avnet, Apollo Group, mining company Freeport-McMoRan and PetSmart.

The property market is still experiencing great drops in prices. The cost of a single-family home in the second quarter 2009 declined 36.1 per cent to US\$131,100 from the same period in 2008. Condos were also discounted by 43 per cent in the second quarter 2009 to \$104,100.



Arizona: Phoenix, Scottsdale, Surprise, Fountain Hills & Surrounding Areas

# Acquire Realty

## The Future team



### Scottsdale Homes

Heated Saltwater Pool and Spa, 4 bedroom / 5 bath, 4,284 Square Feet, Built in 2005, Guard Gated Area of Troon, Large cul-de-sac lot

**List Price: \$939,900**

Previously Sold for \$1,575,000 in 2007

**BANK OWNED FROM ARIZONA MULTIPLE LISTINGS**

### Investment Homes with Tenants in Place



23785 W Hadley St, Buckeye, 1,681 square feet, 3 bedroom / 2 bath / built in 2004, Leased for \$850 per month

**List Price: \$99,900**

(\$59/SqFt)

Priced at \$240,000 in 2006

### Vacation Homes (Gated Community Homes with Pools)

Gated Single Level Home in Dreaming Summit, 5513 N 131st Dr, Litchfield Park 3,749 Square feet, Built in 2002, 5 bedroom / 3.5 bath / Pool / Spa, LIKE NEW INSIDE, HUGE BBQ AREA, OVERSIZED LOT

**List Price: \$399,000**

Sold at Trustees Sale for \$656,919 in 2008



1582 S 220th Ave, Buckeye, 2,109 square feet, 4 bedroom / 2.5 bath / built in 2006, Leased for \$925 per month

**List Price: \$109,900**

(\$52/SqFt)

Sold for \$241,331 in 2006

Gated Basement Home in Wigwam Creek, 4722 N 128th Dr, Litchfield Park, 4,221 Square feet, 5 bedroom / 3 bath / Large Pool, Built in 2002, LIKE NEW INSIDE, CORNER LOT, BACKING TO A PARK

**List Price: \$399,000**



634 E Dekalb Ln, Phoenix, 1,649 square feet, 4 bedroom / 2.5 bath / built in 2007, Leased for \$1,050 per month

**List Price: \$114,900**

(\$69/SqFt)

Sold for \$195,000 in 2007



25664 W Lynne Ln, Buckeye, 3,306 Square feet, 5 bedroom / 3 bath / Loft / Den / Built in 2006, LIKE NEW INSIDE, NEW CARPET, NEW STAGGERED TILE, NEW PAINT, UPGRADED GRANITE COUNTERTOPS AND CHERRY CABINETS, DOUBLE STAINLESS OVENS AND APPLIANCES.

LARGE COVERED PATIO IN BACK. Leased for \$1,135 per month

**List Price: \$157,500** (\$48/SqFt). Sold for \$273,900 in 2006

## ACQUIRE REALTY

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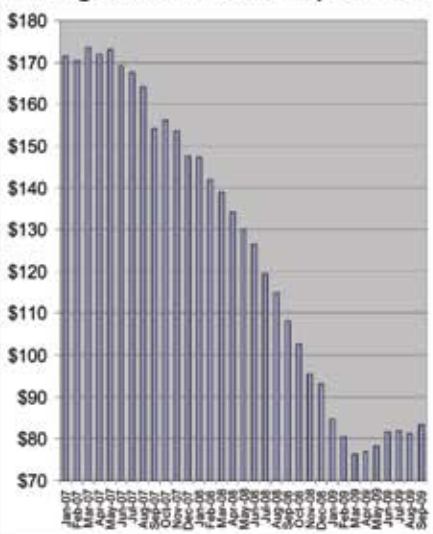
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"However you choose to invest, Acquire Realty is here to assist you with your real estate goals. So wait no longer and contact Acquire Realty to start your investment portfolio TODAY!"

### Average Sales Price Per Square Foot



"Now is the time to buy as the Canadian dollar is strong and prices remain low. Trends show that values have now hit bottom and are starting to climb steadily."

Statistics gathered from ARMLS

### Featured Properties



6116 N Florence Ave, Litchfield Park, 2,543 Square feet, 4 bedroom / 3 bath / Pool / Spa, Built in 2002, LIKE NEW INSIDE, FRESHLY PAINTED

**List Price: \$179,000**

Previously Sold for \$359,000 in 2006



17278 W Morning Glory St, Goodyear, 3,579 Square feet, 5 bedroom / 3 bath / Loft / Pool / Spa, Built in 2006, TURN KEY CONDITION, GRANITE COUNTERTOPS, TOO MANY FEATURES TO LIST, RV GATE, COMMUNITY POOL

**List Price: \$279,000**

Popular Canyon Trails Neighborhood



### Golf Course Lot Home

95 S 227th Ln, Buckeye, Located on the Sundance Golf Course, 1,831 square feet / 4 beds / 2 baths / Huge Loft

**List Price: \$109,000** (\$59/SqFt)

Previously sold for \$264,900 in 2005



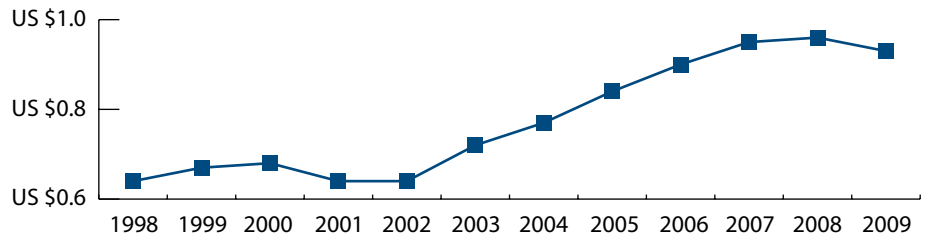


Dave Futcher, local Realtor at Acquire Realty in Phoenix, says the peak was in June 2007 when the average price per square foot (psf) was US\$175. Since then prices steadily dropped until they bottomed in April of this year to US\$75 psf. However, by September 2009 the average price psf was US\$88, with increases on a monthly basis. This suggests that buyers may want to get in now because rock bottom prices aren't going to last forever.

"Sales are picking up and it is unbelievable how many bidding wars are occurring on foreclosed property because we're at such greatly reduced prices," says Futcher. "You can still find homes in the US\$55 psf range. Interest from Canadians is at its height and about 25 per cent of the market is foreign investors."

About 100 new bank-owned foreclosures appear on the market everyday. However, for each property

**\$ Canadian - US exchange rate (C\$1 = US\$1)**



Source: Bank of Canada

there can be numerous potential buyers. Futcher advises any Canadian interested in investing in Phoenix should be ready to make lots of offers.

"Don't spread yourself too thin and get your heart set on just one property because properties are going fast and chances are you won't get it," he says. "Look at 15 properties, make offers on 10 and don't be afraid to make lowball bids."

For investors with deeper pockets interested in buying for the long term, or for their own personal vacation property, Futcher suggests purchasing in

the prestigious bedroom communities of Scottsdale or Fountain Hills, located on the outskirts of Phoenix. These areas have properties that at the peak were in the million dollar range and now it's easy to find large scale units at half that price.

However, there are still a number of Canadians picking up homes for cheap, renovating and selling again, and Futcher says this is probably the best for a quicker return.

He gives an example of a recent Canadian buyer who purchased a house built in 2007 with a swimming

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## Tips when buying U.S.

Due to the ongoing strength of the Canadian dollar, many feel it may be a great time to purchase property down south. Here are a few things that can help you buy smart.

- Make sure the location is ideal as locations can vary dramatically.
- If buying properties with condo fees make sure you are diligent on the financial condition of the condo development because values are down dramatically.
- Do your homework and create a team that can assist you such as a lawyer and accountant that specializes in cross-border transactions.
- Select a Canadian bank that provides financing to Canadian purchasers buying U.S. real estate and, more importantly, be sure to find an agent that has serviced Canadians.

*Source: Arun Mehta, President-CEO, Broker of Record, Richmond Realty Group Inc., Markham, Ont.*

pool on a 2,500 sq. ft. lot. The purchase price was US\$101,000 and the investor spent US\$38,000 in repairs, which were completed over 60 days. The final sale price was US\$185,000 and the investor walked away with about US\$30,000 in profit.

If flipping is not your style and you'd rather buy-hold-rent, Futcher advises purchasing in the outer bedroom communities of Phoenix, such as

Surprise or Maricopa.

"These areas produce top returns because at the peak of the market, there was lots of new construction so homes are in good shape, and also a lot of foreclosures are occurring there because people who bought at the peak can't afford their properties anymore."

One example is a listing for a 3,300 sq. ft., five-bedroom, three-bathroom home built in 2005. It's priced at US\$169,000 but would've gone for about US\$320,000 at the peak. This property could be rented for about US\$1,200 per month.

The need for rentals is high right now due to all the foreclosed property. "Local residents still need a place to live so those that are being foreclosed on are turning to renting," Futcher says.

Another example is a 1,720 sq. ft. unit for US\$65,000, which could accumulate up to US\$900 in monthly rent, after about US\$4,000 in renovations.

"The thing to remember when buying foreclosed property," says Futcher, "is you will probably need to spend some money renovating it no matter what your end goal. This is because people that lose their houses don't always care for it before they move out."

Futcher adds that there isn't much new construction going up. "Builders are at a standstill until prices hit about US\$130 psf, and that's still awhile away."

## Nevada

Las Vegas, visited by thousands of tourists worldwide, is home to countless

Houston, Texas



casinos and resorts. Real estate values in this entertainment capital have plummeted in the double digits this last year. The price of a single-family home in the second quarter 2009 dropped to US\$140,800, from US\$235,300 a year ago. Similarly, condos experienced the greatest decline of 54.1 per cent, with an average price of US\$66,400.

Michael Klinger, real estate salesperson at Platinum Real Estate Professionals in Las Vegas, says there are plenty of bargains to be had.

"Right now is a good time for Canadians to invest because we're down about 60 to 70 per cent of what values were two to three years ago," he says. "There are spectacular deals right now especially in the higher end market."

He suggests those looking for vacation properties for personal use should take advantage of the reduced pricing and purchase a single-family home on a large-scale lot, which can be bought under \$300,000 if you've got the cash.

However, investors looking to make a profit can do so by purchasing a three-bedroom, two-bathroom single-family home under US\$100,000 anywhere in the city, and renting it for US\$700 per month.

For a more covert investment location, look to Mesquite, Nevada, which is located about 120 km

Las Vegas, Nevada



Single-family homes listed  
as low as \$65,000



northeast of Las Vegas, or about an hour-and-a-half drive. Mesquite is home to a growing retiree population, as well as several golf and casino resorts, and has a permanent population of 20,000. Recently, a half-billion dollar sports complex project by Desert Falls International has been approved.

Over the last six months, property values have declined by about eight per cent. Brandon Park, Realtor for Bowler Realty says it's definitely a good time for Canadians to invest, especially if they can get a favourable exchange rate.

"Most of the bargains that are found are what people could have bought a condo for two years ago," he says.

"Now they can purchase a larger single-family home with a garage for the same price. They get a bigger home, a bigger yard, a bigger garage."

The average price in Mesquite for a single-family home is about US\$230,000, but it's possible to find properties for much cheaper than that. At the peak, homes were priced at about US\$200 psf and now it's possible to find units under US\$100 psf. The average rental rate for a three-bedroom, two-bathroom home is US\$1,000.

Park advises getting a good property manager, calling at least three companies and interviewing each potential candidate. Property management fees can cost up to 30 per cent of gross rental income.

## Texas

Though not experiencing the double-digit price declines that other states are still undergoing, Texas still offers some hot buys for investors. Houston, the largest city in the state, is home to over five million people including the metro population.

The average price of a single-family home is US\$157,400, slightly higher than the US\$153,400 it was last year. Condos, on the other hand, dropped 2.7 per cent in price to US\$137,600.

However, investors are able to find bargains of all sorts, according to Jim Collins, local sales agent at VIP Realty. "There are foreclosure properties still coming on the market today for under US\$100,000," he says.

A quick search of properties on the Houston Association of Realtors website shows thousands of properties listed under that price mark.

In September 2009, a three-bedroom, one-and-a-half-bathroom single-family home with one-car garage was listed for US\$65,500 in the Chateau Forest subdivision, which is in the northern part of the city. Another three-bedroom property, this one with two bathrooms and two-car garage was listed for US\$95,000 in the Heather Glen neighbourhood.

These properties would rent for about US\$650 to US\$750 per month.

"I'd advise any Canadian investor to arrange financing beforehand because they probably won't get much from brokers down here," says Collins. "If you've got your financing in order, then it's a great time to buy." 🏠

## BUYER BEWARE!

In our last issue, we detailed what areas in Florida are top buying opportunities, including Pensacola and Port St. Joe, which are still experiencing price drops in the double digits. The median price of a home in Pensacola is US\$149,900, and it's easy to find vacation property in Port St. Joe under the US\$300,000 mark.

Just remember that though property in Florida might be cheap, Canadian buyers are often penalized when tax season rolls around because there is no state income tax, so as a result there are higher property taxes.

Permanent Florida residents are given exclusive tax breaks, including an automatic US\$50,000 reduction on the assessed value of their principal residence, and annual property tax increases are capped at three per cent on the assessed value

of the home.

However, non-Florida residents have been known to pay property taxes that are three times greater than those of permanent residents living nearby. Michael MacKenzie, research and communications officer at the Canadian Snowbird Association, says he knows of non-Florida residents paying \$9,000 in annual property taxes, while their Florida-resident neighbour is paying just \$3,000.

According to the Canadian Snowbird Association, the same is not true when buying in other states and each has its own set of tax stipulations and guidelines. It's important to ask your accountant, who should specialize in buying U.S. property, about certain tax implications that you could accrue when buying out-of-country.