



Primegate

A PERSONAL PRACTICE OF TARAN AUJLA

PRACTICE NOTE · INVESTMENT PROPERTY

Investment property in Ontario. What the numbers say, *and what they leave out.*

The questions I work through on every income property and small development file. Cap rate, rent roll, expenses, severance feasibility, hold period, and exit. The variables that decide whether a deal performs across the hold or unwinds at the wrong moment.

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Investment property looks straightforward at the listing stage. A cap rate. A gross yield. A summary of expenses. A unit count. A price.

Most of the deals that go badly look fine on the listing. The problem is rarely visible in the summary numbers. It is buried one layer down, in what the numbers concealed and what the buyer never went back to verify.

Below: the questions I work through on every income property and small development file. Not in order of importance. In order of when each one matters.

1. The cap rate. What's actually in it, and what's been left out.

A cap rate on a listing is a presentation, not a measurement. The capitalisation rate is a property's net operating income (NOI) divided by its purchase price, and it reflects the seller's view of both numbers. Both are negotiable in their own way.

What I look at:

- The vacancy assumption. Is it actual vacancy over the trailing twelve months, or a "market" vacancy figure the seller has chosen? In multi-residential, the difference between 2 percent and 5 percent is a meaningful swing in NOI.
- The management fee. Self-managed properties often show no management cost in the operating statement. Once a buyer takes possession and contracts management, the cap rate shifts.
- The capex reserve. A reserve for capital expenditures (roof, mechanical, parking surfaces, unit turnover) should sit in the expense column. On most listings it does not.
- The property tax line. After a sale, properties in Ontario can be reassessed by MPAC, the Municipal Property Assessment Corporation. The seller's tax bill may not be the buyer's tax bill.

A presented cap rate is the start of the conversation. It is not the answer.

2. The rent roll. Who's actually paying, and who hasn't.

A rent roll is a unit-by-unit list of tenants, lease terms, and stated rents. What it does not always show is who is actually paying, who is in arrears, who has filed an application with the Landlord and Tenant Board (LTB), and who is paying a rent that cannot be raised the way the buyer expects.

What I look at:

- Bank deposits over the trailing twelve months, matched against the rent roll. If the cash flow does not match the stated rent roll, the rent roll is wrong.
- The LTB file at each address, available through the Tribunals Ontario records, for active or recent applications.
- Tenancies that pre-date amendments to the Residential Tenancies Act (RTA), particularly long-tenured tenants in older buildings, where the gap between in-place rent and market rent is structural and not closable by rent increase.
- Cash-paying tenants without a written lease. Buyers sometimes inherit these without realising what they have inherited.

The rent roll is the asset. If the rent roll is wrong, the asset is wrong.

3. The expenses. The line items that get smoothed over.

Operating expenses on a listing are typically presented as a single ratio against gross income, sometimes as a list of categories. The categories that matter are the ones that get understated.

What I look at:

- Utilities. Whether the building is metered to the suite, metered to the building, or partially metered. Buildings with bulk metering have different expense profiles after a sale, and utilities back-bills can surface months after closing.

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- Insurance. Premiums for residential rental properties have moved meaningfully over the past several years. The seller's renewal premium is not necessarily the buyer's quoted premium.
 - Deferred maintenance. Roof age, mechanical age, parking surface condition, common-area condition. A building that has been "well maintained" by a long-term owner is often a building where major capex has been deferred to the next owner.
 - Property tax. Already noted, but worth its own line. Reassessment exposure on commercial and multi-residential is a separate diligence item.

The pro-forma is one version of the building. The trailing twelve-month actuals, with adjustments for what the buyer will inherit, are another.

4. Severance and infill feasibility. What makes a "developable" lot actually develop.

Land marketed as "ready for severance" or "infill potential" is sometimes ready, and sometimes a story. The difference is in five or six specific items that need to be confirmed before the offer firms up.

What I look at:

- The official plan and zoning at the lot. The municipal designation governs what can actually be built, regardless of how the lot is marketed.
- Servicing. Water, sanitary, storm, hydro. A lot that requires road frontage extension, a new servicing connection, or a sanitary upgrade can carry tens or hundreds of thousands of dollars in cost that does not appear on the listing.
- Frontage and lot dimension against the by-law minimums. Severance applications fail at this stage more often than buyers realise.
- The Committee of Adjustment (COA) timeline and history in the municipality. The COA is the local body that hears severance and minor variance applications. Some are predictable and timely. Others are not. The buyer's holding-cost math depends on the answer.

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- Neighbourhood opposition history. Adjacent severances that were appealed at the Ontario Land Tribunal (OLT), ratepayer associations active in the area, councillor positions on infill density. These do not stop a project but they affect timeline and cost.

A "developable" lot becomes a development site through process. The process is the deal.

5. The hold period. How long the deal actually has to work.

Most income property is bought with a hold period in mind, usually five to ten years. The deal has to perform across that horizon, not at the closing.

What I look at:

- The mortgage term and renewal. Where rate exposure sits at year three or year five, depending on amortisation and term selected at acquisition.
- The capex cycle. Roof at year seven, mechanical at year ten, parking at year fifteen. Whether the buyer's cash flow can carry the cycle without a refinance event.
- The lease maturity profile on a commercial or mixed-use property. If the major leases all expire within the first three years of ownership, the deal is a leasing deal, not a real estate deal. The buyer should know which one they are doing.
- Market timing for an exit. The intended exit point, and what cap rate the buyer is underwriting at exit. A property bought at a 4.5 cap and underwritten at the same exit cap is being bought at the same multiple it is being sold at. That is a return profile most investors would not write down on paper, but it is what their model assumes.

A hold-period view changes which deals look good and which deals look ordinary. Buyers without one tend to overpay at the entry point.

6. The exit. Who buys this in five years, and at what cap rate.

Every acquisition is a future disposition. The question that gets asked least often at the offer stage is the one that determines the deal's economic outcome: who is the buyer at the exit, and what are they likely to be willing to pay.

What I look at:

- The likely buyer pool at exit. Institutional, private high-net-worth, family office, syndicate, owner-occupier. Each pool prices the asset differently. A property that fits cleanly into one pool's criteria sells more reliably than one that does not.
- Cap rate trajectory. Whether the asset class has expanded or compressed in cap rate over the trailing five years, and what the directional read is on the next five. Cap rate movement can outweigh NOI growth on the return profile, in either direction.
- Asset improvability. Whether the building, the rent roll, or the expense structure can be repositioned during the hold to support an exit at a different multiple than the entry. This is the value-add thesis: a specific plan to lift NOI, compress operating cost, or convert use, in order to sell at a more favourable cap rate than the entry. It needs to be specific, not aspirational.
- Optionality. Whether the property carries a development right, a severance possibility, or an assembly value that becomes available at the exit. Properties with optionality price differently to a sophisticated buyer.

The exit is where the return is realised. The return is decided at the entry.

A note on what this practice does in this lane.

The work above sits at the start of the transaction. It is the diligence that decides whether the deal closes well, refinances well, holds well, and exits well. Most of it is not visible from the listing. Most of it is not negotiable after the offer is firm.

For investors and small developers working in the Ontario market, this is the part of the work that benefits most from a representative whose orientation is the transaction itself.

The practice is run with a deliberately limited active roster. New conversations are welcome.

This piece is a written observation from the practice. Not legal advice. Legal opinions stay with your lawyer.