FREE GUIDE

Purchase Plus Improvements

How to buy a home that needs work and pay for the renovation with the same mortgage, including adding a rental suite that helps carry the payment.

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Landlord Mortgage · wealthymortgage.ca

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01 INTRODUCTION

What purchase plus improvements is

Purchase plus improvements lets you add the cost of renovations to your purchase and pay for both with one mortgage.

The renovation is added to the purchase price, and your down payment is based on the total. A $450,000 home plus a $40,000 renovation is treated as a $490,000 purchase, so at 5% down you’d put down $24,500 instead of $22,500.

On closing, the renovation money doesn’t go to you. It’s held in trust by your lawyer and released once the work is done and checked.

> WHY IT MATTERS
>
> The home that needs a new kitchen, a bathroom or a basement suite is often the one other buyers walk past. Purchase plus improvements lets you buy it and fix it, at a mortgage rate.

02 THE GUIDELINES

The key guidelines

ITEM	TYPICAL GUIDELINE
Occupancy	You have to live in the home. Investment purchases don’t qualify.
Minimum down payment	5% of the price plus the renovation (more on homes over $500,000)
Mortgage type	Insured with less than 20% down; conventional options with 20% or more
Maximum borrowing	95% for 1–2 units, 90% for 3–4 units
Renovation amount	Varies by lender and insurer; some allow up to $150,000 with approval
Contractor quote	Needed up front, with the application
Who does the work	A contractor, or you (you’re repaid for materials, not your own labour)
Time to finish	Usually around 120 days after closing

Guidelines vary by lender and insurer and change over time. Work that legally needs a licensed trade, like electrical, still needs one.

03 WHAT COUNTS

Adding a rental suite

A rental suite is a separate space where a tenant can live on their own. Lenders call it self-contained, and it needs all four of these:

A separate, locking entrance

A door straight from outside, or a lockable door off a shared entry or landing.

A kitchen

Somewhere the tenant can cook for themselves.

A full bathroom

With a shower or a tub.

A place to sleep

A bedroom, or an open bachelor (studio) layout.

A basement is the most common spot, but the same rules apply to any self-contained unit in a home you live in. Check local bylaws and the fire code before renting it out.

04 QUALIFYING

How the suite helps you qualify

Purchase plus improvements pays for the suite, and the suite's rent helps pay for the house. Even though the suite isn't built yet, lenders can count the expected rent when you qualify.

YOUR CREDIT SCORE	RENT COUNTED	NOTES
680 or higher	**Often 100%**	Added to your income
Under 680	**Often 50%**	Case by case

FAIR MARKET RENT REPORT

Because the suite doesn't exist yet, the lender orders a report to set the rent figure, usually for about **$150**. Build a few days for it into your offer conditions.

The result: you can often qualify for a higher price, and the rent lowers what you pay each month.

05 HOUSE HUNTING

What to look for when house hunting

A separate entrance is usually the biggest cost in building a suite, so a home that already has one can save thousands.

- **A side or back door with a landing.** If it leads both down to the basement and up to the main floor, a locking door at the top of the stairs can give the suite its own entrance.
- **A walkout or sliding door in the basement.** It can be the suite's entrance, as long as it locks.
- **An opening that's already there.** An old doorway or a large window well is a big head start.
- **A bathroom or rough-in plumbing downstairs.** A full bathroom is much cheaper with plumbing already in place.
- **An "almost suite."** A basement with a kitchen and sleeping area that's only missing a shower or a locking door can need very little work. Ceiling height and window sizes matter too, so have a contractor look early.

06 THE PROCESS

From pre-approval to payout

1. **Get pre-approved with the renovation in mind.**
   Know your price range with and without the work.
2. **Bring in a contractor early.**
   A rough cost helps you compare homes.
3. **Get a written quote before or during the conditional period.**
   It doesn't need to be exact, but it needs to show what the work will cost.
4. **Apply.**
   Send the quote and list of improvements, and ask for staged payments now if you'll need them.
5. **Appraisal (and a rent report for a suite).**
   The home is valued as it will be once the work is done.
6. **Close.**
   You close on the full amount, and the renovation money is held in trust.
7. **Do the work.**
   Keep every receipt and invoice, and take before and after photos.
8. **Get the money released.**
   Once the work is confirmed, your lawyer releases the holdback.

07 AFTER CLOSING

How the renovation money is released

What the lender needs depends on the size of the job. This is a typical setup:

RENOVATION AMOUNT	TO RELEASE THE MONEY
Under $20,000	Paid invoices plus before and after photos
$20,000 to $40,000	An inspection by an appraiser
Over $40,000	An inspection plus paid invoices; often released in stages as the work progresses

Staged payments usually have to be requested when the mortgage is approved. If you can't pay the contractor first, your lawyer may be able to pay them directly.

> **GOOD TO KNOW**
>
> Only the work in the approved quote is paid for. If the work isn't done, the money is usually applied to the mortgage instead, and charges may apply.

08 EXAMPLE

Example: a kitchen and flooring

Jordan and Casey find a $500,000 home that needs a new kitchen and flooring, quoted at $40,000. Their down payment is based on $540,000, so the minimum is $29,000. Their rate is 4.5% over 25 years.

	PURCHASE PLUS IMPROVEMENTS	HOME ONLY + SEPARATE LOAN
Mortgage, including insurance premium	about $531,400	about $489,800
Mortgage payment	$2,941	$2,711
$40,000 loan at 9.5% over 5 years	—	$840
Monthly total, first five years	**$2,941**	**$3,551**

That's about **$610 a month** less while the loan would have been running. Because the renovation is spread over 25 years, it costs more over time, which is why we also plan for extra payments once you're settled.

09 EXAMPLE

Example: an "almost suite"

Sam and Riley find a $575,000 home with a basement that already has a kitchen and a sleeping area, but is missing a shower and a locking entrance. They add $8,000 for a shower and a locking sliding door, which makes the unit self-contained, so $2,000 a month in rent can count toward qualifying.

	AMOUNT
Purchase price + improvements	$575,000 + $8,000
Down payment	$100,000

Mortgage, including insurance premium	about $496,500
Monthly payment (3.99%, 25 years)	about $2,609 (about $43 more than without the work)
Property taxes	about $350
Rent from the suite	- $2,000
Their monthly cost	**about $959**

For about $43 a month, a basement that didn't count turned into $2,000 a month of income. Because the job was under $20,000, the money was released with paid invoices and photos.

Illustrations, not real clients. Payments don't include utilities, insurance or maintenance.

10 FOR BUYERS AND REALTORS

Tips for a smooth deal

1. **Confirm the buyer will live there.** Purchase plus improvements is for homes you live in.
2. **Plan early.** Get the numbers with and without the renovation before the search starts.
3. **Line up a contractor from day one.** Get the written quote in before or during the conditional period.
4. **Spell out the work.** For a suite, the quote should cover the entrance, kitchen, full bathroom and sleeping area.
5. **Build in time for the appraisal and rent report.** Both can add a few days to conditions.
6. **Flag big jobs early.** Staged payments need to be arranged at approval.
7. **Keep everything.** Receipts, invoices and before and after photos are what get the money released.
8. **Set expectations on timing.** On smaller jobs, the buyer often pays first and is repaid from the holdback.

11 YOUR NEXT STEP

Let's run your numbers

Found a home with potential? Let's run the numbers with and without the renovation before the offer is written.

Book a free strategy call

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