

Financing Vacant Land



How do I finance Rural Property?

1. Financing a property with an existing home

When there is a home on the property, it falls under conventional mortgages the same as any other residential property. The bank may require some additional task to be completed before closing, based on the services and amenities that may be present on a rural property. Current financial policies are applied including any CMHC requirements and minimum down payments.

2. Financing raw or vacant land

Vacant and raw land is considered by lenders to be risky since you are not directly attached to the land, compared to a residential mortgage where you can be at risk of losing your home if you miss your mortgage payments. Depending on the type of land, you will need to make a down payment of at least 30% to 50%. Raw land will require a higher down payment, have higher interest rates, and will be harder to get a loan for. You may need to go through a Private Lender or Mortgage Broker.

Another option is Vendor-Take-Back mortgaging, where the Seller of the property accepts your down payment and then finances the balance, but registers a legal mortgage/lien on the property and accepts regular mortgage payments from the Buyer.

Vacant or raw land can only be financed up to 50 %

3. Construction Loans

When a construction Loan is obtained, the first draw will be required to pay off any outstanding mortgages on the land, as the land MUST be owned outright before construction can begin,

When you're ready to build on your vacant land, the mortgage type you would seek is considered a Construction loan.

Construction loans allow you to finance custom builds.

You do not receive the total mortgage value up front, you receive 4 payments at construction milestones.

Rates for construction loans are generally higher than conventional mortgage rates.

Construction loans are meant to be a short-term way for you to finance your new home construction, with funds disbursed in stages of construction.

Construction Draw Schedule

Draw Number	Milestone	Draw % of Total
First Draw (If Land Not Owned)	Purchasing Vacant Land	65%-75% of land cost
First Draw (If Land Already Owned)	Excavation and Foundation	15%
Second Draw	Roof Finished	40%
Third Draw	Plumbing, Wiring, and Drywall	65%
Fourth Draw	Interior Finished	85%
Fifth Draw	Construction Complete	100%

You still have to make monthly payments on your construction loan, even if construction is ongoing and your home is not occupied. Some lenders only require monthly interest-only payments during construction. You will be required to make principal and interest payments once construction is complete.

Purchasing a home that needs improvement

You can purchase a home that needs improvement by using an improvement loan which gives you an additional amount on top of the homes purchase price in order to pay for minor improvements. You will only receive the improvement funds once you have completed the improvements as they are not paid up front.

When financing Rural property our best advice would be to use a Mortgage Broker they can shop the A lenders, B lenders and even private lenders all on one credit report, maintaining the integrity of your credit score and giving you the greatest flexibility of lenders and options.



Tiffany Miller & Suzanne Miller
905-251-4689 905-252-6610
Tiffany@itsmillertime.ca * suzanne@itsmillertime.ca www.ItsMillerTime.ca *Selling York Region for 35 Yrs*

Realtors®
exp
REALTY
BROKERAGE

Not intended to solicit Properties currently under contract