



**Canadian
Federation of
Apartment
Associations**

**Fédération
Canadienne Des
Associations
De Propriétaires
Immobiliers**



November 2006

National Outlook

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President's Update

By John Dickie, President, CFAA-FCAPI



Federal Tax Issues

CFAA continues to be in contact with Finance Minister Flaherty's office to promote a tax deferral on the proceeds of sales of rental property if a replacement property is purchased within one or two years. Some people call that a roll-over; others refer to it as a "like-kind exchange" or "tax deferral on re-investment in rental property".

CFAA is working with our member associations across Canada to take our tax reform message to MPs of all parties.

CFAA has worked with other like-minded national associations to develop a joint recommendation to the federal government. We will present our recommendation on the tax reform issue to the House of Commons Finance Committee.

CFAA is working with our member associations across Canada to take our tax reform message to MPs of all parties. CFAA is also seeking the endorsement of tenant groups and housing advocates for the proposed tax changes. We must take advantage of the current opportunity to achieve the tax reforms needed by the rental housing industry. See page 2 for more details.

Housing Issues

On October 3, B.C. announced the expansion of its housing allowance programs to apply to working families at an annual cost of \$40M.

(Continued on page 8)

Compte rendu du président

de John Dickie, président, FCAP-FCFAA

Les politiques fiscales au fédéral

La FCAP-FCFAA entretient des rapports étroits avec le bureau du ministre des Finances, Jim Flaherty, afin de promouvoir le report fiscal des recettes de ventes de propriétés de location, dans les cas où l'achat d'une propriété de remplacement aurait lieu dans l'année ou les deux années qui suivent. Pour certains, il s'agit de provisions de roulement, pour d'autres d'« échange de biens immeubles » ou d'« imposition différée sur le remploi ».

La FCAP-FCFAA a collaboré avec d'autres associations nationales qui partagent sa vision dans le but d'élaborer une recommandation commune à l'intention

du gouvernement fédéral. Nous présenterons au Comité des finances de la

Avec l'apport de nos associations membres partout au Canada, la FCAP-FCFAA transmet notre message portant sur les réformes fiscales aux députés de tous les partis.

Chambre des communes notre recommandation relative aux réformes fiscales.

Avec l'apport de nos associations membres partout au Canada, la FCAP-FCFAA transmet notre message portant sur les réformes fiscales aux députés de tous les partis. Nous cherchons aussi à obtenir l'appui d'associations de locataires

et de défenseurs du droit au logement pour les modifications fiscales proposées. Nous devons profiter de cette occasion pour que soient apportées les réformes fiscales nécessaires à l'industrie du logement locatif. Consultez la page 4 pour de plus amples renseignements.

Question de logement

Le 3 octobre dernier, la Colombie-Britannique a annoncé l'expansion de son programme d'allocations-logement au coût annuel de 40 millions de dollars et qui s'étendra maintenant aux familles qui travaillent. Celui-ci fait partie intégrante d'un plus vaste pro-

(suite à la page 5)

CFAA Seeks Tax Deferral on Sale and Reinvestment in Rental Property

By John Dickie, President, CFAA-FCAPI

One of CFAA's key objectives is to obtain tax reform to improve the position of the rental housing industry. As discussed in the August National Outlook, we have 6 tax reform goals. However, we have made one issue a priority.

CFAA's current primary goal is to obtain tax deferral on the sale of a rental property and reinvestment in another rental property. We seek the deferral of tax on the capital gain, and also the deferral of recapture of the capital cost allowance (CCA).

Other associations are also seeking that reform, including the Canadian Real Estate Association (CREA), REALpac, the Canadian Home Builders Association (CHBA) and the Quebec Real Estate Board. Why do we think the tax deferral is a good idea?

Currently, when a rental property is sold, the owner must pay tax on the recaptured CCA (at up to 50%) and on any capital gains (at up to 33%). Due to the tax impact an even trade of properties of the same value is not possible. The tax burden discourages sales and raises costs in the rental housing industry.

Tax Fairness - The current tax rules on rental properties create an uneven investment playing field between rental properties (whose owners cannot defer taxes on sale and reinvestment) and other types of capital property (whose owners can).

Some have argued that rental income is a passive form of income while investment in other forms of capital results in active income, which deserves preferential tax treatment. In truth, it is not clear that the active/passive distinction between rental property and other forms of

capital is realistic. Rental property must be managed, and often, significant services must be provided to tenants on an on-going basis.

In addition, rental property owners have the same re-investment needs as owners of other capital. We want to expand or downsize, or to reduce our investment in one type of property or increase it in another.

Rental property owners also have the same relocation needs as other property owners. In some ways, rental owners need more ability to relocate. Rental buildings are largely immobile. If a person moves across their province or across Canada, they can easily take their stocks and bonds with them. Businesses can relocate their equipment and their know-how. But the owners of rental property cannot move their investment. They have to sell one property and buy another.

Equity Between Renters and Owners — When producers of a product are heavily taxed, the price charged to consumers is increased. This is the case for most products, and rental property is no exception. Because rental property owners cannot defer taxes, they incur immediate tax costs on any property sales. Through the working of the rental housing market and the capital markets, those costs are passed on to renters.

Unlike renters, homeowners are able to enjoy the fruit of an investment in their house without paying tax on it; whereas if a person invests in another asset and earns income they must pay tax on that income before paying their rent. Renters have substantially less wealth than homeowners, but the current tax regime imposes a tax burden on renters, which

homeowners are spared.

Tax Changes or Grants - Improving the tax position of rental housing by permitting tax deferral is preferable to providing direct housing subsidies or grants. Direct subsidies tend to provide little increase in rental supply relative to the cost of the subsidy. Subsidized rental housing typically crowds out private developments, whether through discouraging new building or through demolitions. Construction subsidies are inefficient because they are inevitably distributed on a political basis, when the actual demand for development would probably call for a different use of resources. The housing markets in some cities may justify more new rental housing, while others justify more repairs or rehabilitation, or no investment at all.

In addition, applying for subsidies is complex and time-consuming, and therefore favours large companies with past experience. By contrast, permitting tax deferral helps operators of all sizes. Allowing tax deferral on sale and reinvestment makes investment in rental housing more attractive, and that will result in increased private investment. The temporary reduction in tax revenue resulting from tax deferral may well be offset by the increase in tax revenue associated with a greater number of units or higher rent obtained on improved units.

Permitting rental property owners to defer both the recapture of capital cost allowances and capital gains taxes would benefit both tenants and investors, and move the tax system toward greater equity and fairness. If you would like to help CFAA in its tax reform campaign, please email president@cfaa-fcapi.org.

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CFAA at the National Round Table on Homelessness

By John Dickie, President, CFAA-FCAPI

On Sept 13, 2006, CFAA President John Dickie represented CFAA at the Round Table on Homelessness

called by the Housing and Homelessness Branch (HHB) of the federal government to discuss the possible continuation of the National Housing Initiative (NHI).

The Round Table participants included about 25 representatives of the social service sector, 10 representatives of housing agencies, such as the BC Non-Profit Housing Association, and 5 academics.

Some 20 representatives of various government departments also attended as observers, including the Research Director of CMHC. Apart from the Calgary Homeless Foundation, CFAA was the only group in attendance which includes or consists of private rental housing providers.

John expressed CFAA's support for measures to alleviate the conditions of the homeless, and to deal with the root causes of homelessness, namely

addictions, mental health problems and intra-family abuse.

John also expressed CFAA's support for the Supported Communities Partnership Initiative (SCPI) under which social groups are drawn together in each community to create a plan to develop the missing but needed services in their community. Everyone in attendance supported SCPI.

In addition, many of those in attendance considered that the HHB should also seek joined-up thinking and action among the headquarters of federal departments whose issues relate to homelessness. Those departments include the immigration department, Correctional Services Canada and numerous other agencies and departments. CFAA believes that approach will add counter-productive bureaucracy and delays.

Some groups feel that SCPI and the NHI programs should address housing affordability. They consider the level of rents to be one of the root causes of

homelessness. CFAA disagrees. We and others consider that the homelessness funding should all be spent on prevention or direct assistance to the homeless, i.e. harm reduction, treatment, counselling programs, shelters and special needs housing, not on so-called affordable housing generally.

Homelessness has a negative effect on the rental housing industry because it creates a false public impression of the housing situation in our communities. Some members of the public see homeless people on the streets, and say that the cause is a shortage of affordable housing because "the rental market isn't working".

The homelessness issue, including its effect of the rental housing industry and the continuation of the national housing initiative, was addressed in the CFAA article distributed for the member association September and October newsletters. CFAA will be sending a letter endorsing NHI and SCPI.

Ateliers de gestion de l'énergie « Le gros bon \$ens »

Office de l'efficacité énergétique, oee.nrcan.gc.ca/industriel/formation-sensibilisation/index.cfm?attr=24



Depuis 1997, plus de 11 000 représentants d'organisations des secteurs industriel, commercial et institutionnel de partout au Canada se sont inscrits aux ateliers « Le gros bon \$ens » offerts par l'Office de l'efficacité énergétique de Ressources naturelles Canada. Les conseils en matière d'économie d'énergie fournis lors de ces ateliers ont permis à ces entreprises de profiter d'un certain nombre d'avantages, notamment :

- la réduction des coûts de production et d'exploitation
- une meilleure position concurrentielle

- la réduction des émissions de gaz à effet de serre
- l'augmentation de l'efficacité des activités d'exploitation
- un meilleur environnement de travail

En effet, les économies d'énergie à venir jusqu'à date approchent les 200 millions \$.

Le nombre de places est limité. Inscrivez-vous en ligne dès aujourd'hui!

L'Office de l'efficacité énergétique offre quatre ateliers « Le gros bon \$ens » d'une journée où vous pourrez apprendre à:

- réduire la consommation d'énergie et les coûts dans tous les secteurs de votre organisation
- développer des stratégies sûres

- éliminer les impondérables de la planification de la gestion de l'énergie
- optimiser la rentabilité de vos projets
- être plus concurrentiel tout en améliorant l'image de votre organisation

Quels sont les documents que vous obtiendrez?

Une reliure à anneaux de l'atelier avec des commentaires de diapo, des fiches de travail et des documents de référence pratiques parmi lesquels vous trouverez notamment un cédérom contenant d'autres documents de référence et des logiciels d'analyse faciles à utiliser.

Le report fiscal des recettes de ventes de propriétés à logements et du emploi

de John Dickie, président, FCAPI-CFAA

L'un des principaux objectifs de la FCAPI est d'obtenir une réforme fiscale afin d'améliorer la situation de l'industrie du logement locatif. Comme il en a été question dans le numéro du mois d'août du *National Outlook*, nous souhaitons atteindre six objectifs en matière de réforme fiscale. Toutefois, nous avons accordé la priorité à un seul de nos objectifs.

Pour la FCAPI, il s'agit d'obtenir le report fiscal des recettes de ventes d'une propriété à logements et du réinvestissement dans une autre propriété à logements. Nous souhaitons que l'imposition soit différée sur le gain en capital, ainsi que sur l'allocation du coût en capital récupérée.

D'autres associations souhaitent cette réforme, y compris l'Association canadienne de l'immeuble, l'Association des biens immobiliers du Canada, l'Association canadienne des constructeurs d'habitations, et la Fédération des Chambres immobilières du Québec. Pourquoi la FCAPI et toutes ces associations sont persuadées de la pertinence de ce report fiscal?

Actuellement, au moment de la vente d'une propriété, le propriétaire est imposé sur l'allocation du coût en capital récupérée et sur tout gain en capital (jusqu'à 33 %). Cet impôt rend impossible l'échange de propriétés à valeur

égale. Le fardeau fiscal nuit aux ventes et augmente les coûts dans l'industrie du logement locatif.

Équité fiscale

La réglementation fiscale actuelle concernant les propriétés à logements crée des inégalités, selon que l'on investit dans des propriétés à logements (dont les propriétaires ne peuvent reporter le versement des impôts sur la vente et le emploi) ou dans d'autres types de biens immobiliers (dont les propriétaires peuvent reporter le versement des impôts).

Certains soutiennent que le revenu de location représente un revenu hors exploitation, tandis que l'investissement dans d'autres types de biens est considéré comme un revenu tiré des actifs d'exploitation qui lui doit bénéficier d'un régime fiscal privilégié. En fait, lorsqu'il s'agit de propriétés à logements et d'autres formes de biens, la distinction entre actif et passif n'est peut-être pas réaliste. Les propriétés à logements doivent être gérées et, souvent, d'importants services doivent aussi être fournis aux locataires de façon courante.

En outre, les propriétaires d'immeubles à logements ont les mêmes besoins que les propriétaires d'autres types de biens. Nous souhaitons agrandir ou réduire nos investissements, ou encore diminuer notre investissement dans un

type de propriété ou l'augmenter dans un autre.

Les propriétaires d'immeubles à logements ont aussi les mêmes besoins en matière de relogement que d'autres propriétaires. D'une certaine façon, les propriétaires d'immeubles à logements ont davantage besoin de possibilités de relogement. Les immeubles à logements sont majoritairement fixes. Si une personne déménage à l'autre bout de la province ou du pays, elle peut facilement emporter ses titres de placement. Les entreprises peuvent déménager leur équipement et leur savoir-faire. Toutefois, les propriétaires d'immeubles à logements ne peuvent déplacer leurs investissements. Ils doivent vendre une propriété et en acheter une autre.

La parité entre locataires et propriétaires de maison

Quand les fabricants d'un produit sont lourdement imposés, le prix demandé aux consommateurs est augmenté. C'est le cas de la plupart des produits, et les propriétés à logements n'y font pas exception. Puisque les propriétaires d'immeubles à logements ne peuvent différer le versement des impôts, ils sont immédiatement imposés sur la vente de toute propriété. Par l'entremise du marché du logement locatif et

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Dollars to \$ense Energy Management Workshops

From the Office of Energy Efficiency, oee.nrcan.gc.ca/industrial/training-awareness/index.cfm?attr=24

Since 1997, over 11, 000 representatives of Industrial, Commercial and Institutional organizations from across Canada have enrolled in Dollars to \$ense workshops offered by Natural Resources Canada's Office of Energy Efficiency. The energy-saving tips they learned in these workshops have given their organizations and facilities a number of benefits:

- lower operating and production costs
- an improved competitive position
- reduced greenhouse gas emissions
- increased operational efficiency
- a better work environment

In fact, total energy savings to date approach \$200 million.

Space is limited. Register online today!

The Office of Energy Efficiency offers four one-day Dollars to \$ense workshops in which you'll learn how to:

- reduce energy consumption and cut costs across your organization
- discover no-risk strategies
- take the guesswork out of energy management planning
- optimize your business case
- be more competitive while enhanc-

ing your corporate image

What Tools Will You Get?

Workshop binder with slide notes, worksheets and practical reference materials including a CD-ROM containing further reference materials and easy-to-use analysis software tools.

For more information, go to oee.nrcan.gc.ca/industrial/training-awareness/index.cfm?attr=24



Housing Policy in Areas of Significant Growth (e.g. Alberta) —Positive Measures

CFAA Policy Statement, August 2006

In areas of rapid economic growth, sudden increases in the demand for housing can result in housing shortages, price increases and rent increases. This CFAA policy statement addresses that situation.

The most appropriate policy response is to allow the housing market to operate as freely as possible. Eliminating or reducing restrictions on housing supply will allow a rapid increase in supply. That will produce more housing, alleviating both the housing shortages and the price and rent increases.

An improved tax position for rental housing would result in more rental housing construction. Key changes would be allowing tax deferral on the capital gains and recapture on the sale of one rental property and purchase of a replacement property; and increasing the rate of Capital Cost Allowance, perhaps by front-end loading it as is done in a number of other countries.

Appropriate Government Measures to Facilitate Increased Supply

- Expedite land use, planning and building approvals for new construction
- Expedite land use, planning and building approvals for renovations and suite additions

- Allow accessory suites without planning approvals (either permanently or temporarily)
- Allow the rental of rooms in all zones (either permanently or temporarily)
- Allow employers to provide temporary accommodation in areas zoned non-residential
- Allow builders to sell new housing without full finishes
- Allow builders to sell houses with temporary accessory suites in new sub-divisions
- Ensure new roads and sewer and water services are expedited to allow new sub-divisions
- Make surplus government land available for new rental construction of all types
- Make surplus government buildings available for conversion to temporary or permanent housing or other facilities
- Facilitate the expansion or addition of mobile home parks
- Reduce the income taxes on rental property
 - ⇒ Allowing deferral of tax on capital gains and recapture

⇒ Allowing increased capital cost allowances

To Mitigate the Effect of the Increase in Demand

- Provide housing allowances to residents with low incomes, ensuring that the program design does not increase demand at the margin.

Conclusion

Many of the specific measures are the responsibility of the provincial or municipal governments. However, the federal government can help with

- Infrastructure funding
- Making federal government land or buildings available for redevelopment
- Reducing income taxes on rental property
- Providing funding for housing allowances

By the means listed, housing supply will increase, which will solve the dual problems of availability and price levels.

See www.cfaa-fcapi.org for a printable version of this policy statement and for CFAA's policy statement on Avoiding Counter Productive Measures (i.e. rent control and conversion controls).

Compte rendu du président, cont'u de page 1

gramme qui comprend le logement supervisé et d'autres projets. La FCAPI a diffusé un communiqué de presse louant cette expansion : vous le trouverez en page 6 (en anglais). Au Canada, il s'agit de la quatrième expansion d'importance de programmes d'allocations-logement en 18 mois.

La FCAPI entretient aussi des rapports réguliers avec le bureau du ministre Finley, responsable de la SCHL. Nous poursuivons nos efforts pour la suppression des restrictions restantes qui régissent l'utilisation de fonds fédéraux, soit dans le cadre de l'entente Canada-Ontario sur le logement abordable et d'autres ententes fédérales-

provinciales.

Le 26 septembre, les chefs des six associations membres de la FCAPI en Ontario (Federation of Rental-housing Providers of Ontario, Greater Toronto Apartment Association, London Property Management Association, Eastern Ontario Landlord Organization, Hamilton District Apartment Association, Waterloo Regional Apartment Management Association) se sont rencontrées à Toronto. Des fonctionnaires du ministère des Affaires municipales et du Logement nous ont informés du nouveau programme de logement abordable de l'Ontario. Ce programme exige le déménagement des locataires et fournit des subventions modestes

pour le loyer à remettre au propriétaire; il s'agit d'un programme de suppléments au loyer. Le faible taux d'occupation entraîne un manque de logements dans certains secteurs. À noter que ces problèmes n'ont pas lieu dans le cas d'allocations-logement transférables qui sont versées directement aux locataires. La FCAPI continuera à surveiller la situation dans le but de promouvoir les programmes d'allocations-logement partout au pays.

La FCAPI soutient aussi le renouvellement du projet fédéral pour contrer l'itinérance dans le cadre de l'initiative de partenariat en action communautaire (IPAC). Consultez la page 3 pour de plus amples renseignements (en anglais).

B.C. Government Announces Major Housing Strategy

By Al Kemp, CEO, Rental Owners and Managers Society of British Columbia

On October 3rd, Honourable Rich Coleman, BC's Minister responsible for Housing released a long-awaited housing strategy for BC. In the press conference announcing "Housing Matters BC," Coleman said the strategy is designed to help people with housing affordability or access problems now. The solution is not to build thousands of social housing units that would not only cost billions of dollars, but also take many years to bring into operation.

Consisting of six major components, ranging from help for the chronically homeless to modernizing and streamlining regulations, the component of most interest to our industry is the introduction of portable housing allowances for families. Both provincially and nationally through our membership in the Canadian Federation of Apartment Associations, we have been advocating for governments to provide financial assistance directly to low income renters as a much more effective

solution than attempting to build what cannot be built today, namely affordable housing.

As Rich Coleman said in his announcement, "There are 15,000 people on the waiting list for social housing. Where are they living today? They are living in private sector housing, but can't afford the rent and still adequately feed and clothe their families."

BC's portable housing allowance will be available to families earning less than \$20,000 (not on social assistance) and paying more than 30% of their income in rent. Fundamentally different from rent subsidies or rent supplements, the allowances will be deposited directly in the renter's bank account; landlords need never know their renters are receiving an allowance. That preserves tenant privacy and helps avoid rent increases. Several other program features ensure that the funds end up in tenants' pockets, not landlords'.

Aside from the obvious benefits to those receiving the allowances, the major benefit to our industry is that renters who are in tenuous financial circumstances will now have more security in knowing they can pay their rent and feed their families, without risking losing their homes because they cannot pay their rent. There are lots of good renters in low income situations – we always want to keep the good tenants, whatever their income level!

We were pleased to have been consulted by Rich Coleman as he developed this bold new approach and to have been invited to be part of his press conference on October 3rd, announcing the new strategy. We hope this will become the template that changes the approach to housing affordability across Canada. To learn more about Housing Matters BC, visit www.bchousing.org. CFAA's press release applauding the new B.C. Program is set out below.

CFAA Welcomes Expansion of B.C.'s Housing Allowance Program

CFAA news release, issued October 4, 2006

The Canadian Federation of Apartment Associations (CFAA) welcomes the expansion of BC's housing allowance program. BC Minister Responsible for Housing, Rich Coleman announced immediate assistance for 15,000 low-income families at an annual cost of \$40,000,000."

The CFAA commends the BC government for assisting low-income residents to access affordable housing in the existing private rental housing stock.

Portable housing allowances:

- use the existing economical housing stock, rather than newly built (and therefore expensive) housing;
- allow the assistance to help families immediately
- allow tenants to keep their housing assistance when they move to take a new job (which is very good for them and the economy);
- allow tenants to choose where to

live;

- achieve income mixing without the cost of subsidizing middle income tenants; and
- allow the available funding to be spread more equitably among more low income tenants.

Given the benefits of housing allowances, both taxpayers and those who care about the poor should be very pleased with the developments of the last 18 months:

- Saskatchewan brought in a housing allowance for low-income families and people with disabilities.
- British Columbia expanded its housing allowance program for seniors, doubling the money being invested to help 15,000 seniors.
- Manitoba has tripled the households eligible for allowances
- and now BC has again doubled its funding, and has again doubled the

households being helped by adding 15,000 low-income working families to the BC housing allowance program.

John Dickie, CFAA President, says, "BC's expansion of its housing allowance program to assist low-income working families is wonderful news. Now, what we need is a national housing allowance program to provide the benefits of housing allowances to low income Canadians wherever they choose to live across Canada."

Except for Canada, almost all countries with advanced economies have extensive housing allowance programs. The government of Canada should join the trend around the world, and in the provinces across Canada.

For more information on housing allowances, go to www.cfaa-fcapi.org.

Apartment Financing Strategies for Owners and Investors (Parts 3 of a 3 Part Series)

By Troy Barker, reproduced from the Calgary Apartment Association's "Rental Review"

Parts 1 and 2 of this series addressed conventional mortgage financing and CMHC insured mortgage financing.

Commercial mortgage backed securities (CMBS—also known as conduit lending) is another method of conventionally financing an apartment building.

What is conduit or securitized lending? A conduit loan groups individual mortgages into a pool. The mortgage pool is then sold to institutional investors, such as pension funds or financial institutions, who are looking to diversify the risk and increase the liquidity associated with mortgage lending. Typically, they are sold by major investment dealers across North America. Essentially, this is a way for large institutions to participate in the commercial mortgage market in Canada, without actually being a lender. The advantages to the borrower include things like:

- Conventional loans up to 80% loan to value
- Amortization periods up to 30 years
- Minimal processing fees
- Superb interest rates
- Usually no guarantees required
- Equity take-outs available
- All markets across Canada (min. population 10,000)
- Minimum loan generally \$1.5M

The CMBS mortgage market in Canada has grown significantly since it was introduced in the mid 1990s. Today, the CMBS mortgage market produces annual volumes in excess of \$2 billion. That figure is expected to grow as borrowers become more comfortable and familiar with this type of lending product.

Special situation financing can include a number of different transactions including condominium conversions, construction projects and apartments with a commercial area.

Condominium Conversions

Over the past few years, we have seen continued and growing activity in the condominium conversion arena. This is typically a very specialized area, and the players in this market are usually very experienced real estate investors.

From a lender's standpoint, extra consideration is usually given to the sponsorship of the loan, not to mention the marketability/viability of the project. Borrowers in this category must usually provide covenant or guarantees on these loans, and usually the loan terms provide for a floating rate facility (sometimes with interest only payments) and a shorter loan term, usually 9 months to 2 years.

Many lenders are able to provide conventional first mortgage financing to assist the borrower in acquiring the property. Fewer lenders are motivated to provide also the renovation financing to assist in upgrading the suites and common areas. Generally, borrowers should have the capital available to complete the suites and common area upgrades.

Construction Projects

Construction financing is an entire article on its own. I will try to touch on some important considerations for investors and borrowers. A borrower wanting to develop a multi-family condominium project has two main methods to finance – conventional or CMHC. Because it is not economically viable to construct new rental product in Calgary (at present), most if not all of the projects that you see being constructed are for condominium units.

Sponsorship and development experience are very important considerations for a lender. Whether the project is financed conventionally or via CMHC, the lender will usually require pre-sales, generally for up to 50% of the units. With CMHC financing, the advantage to the borrower is that the interest rate is significantly lower than conventional financing. On larger projects over \$10 million, this can amount to significant savings (even after

the CMHC fees and premiums are taken into account).

Personal and/or corporate guarantees are generally required for construction loans. Terms are usually 12 – 36 months, with a floating interest rate and interest only payments. Processing fees can vary, with conventional construction projects commanding fees in the 0.75% - 1.50% range, and CMHC projects having fees in the 0.10% - 0.20% range (of total loan amount).

Mixed Use – Apartments with Commercial

In many cases, an apartment building will have one or two floors of "commercial" space, which may be for retail uses or office uses. Most lenders do not have an issue with this.

However, it should be noted that the overall component of commercial use generally does affect the overall underwriting (i.e. – a lender will usually underwrite the project differently if the commercial component is a significant part of the whole project, versus a project where the commercial component is quite small or negligible).

What this usually means, is that projects with a larger commercial component may only be eligible for financing up to 65% or 70% loan to value, instead of the full 75% loan to value.

If the project is for CMHC financing, CMHC has a restriction which states that the commercial component may not exceed 20% of the entire project area. If the commercial component exceeds this figure, CMHC may not finance the project, in which case the borrower must finance conventionally.

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To read parts 1 and 2 of the series, see page 7 of the August 2006 edition of National Outlook at www.cfaa-fcapi.org/newsletter.html.

Le report fiscal (cont'u)

(suite de la page 4)

du marché des capitaux, ces coûts sont transmis aux locataires.

Contrairement aux locataires, les propriétaires de maison peuvent profiter de leur investissement sans être imposés, tandis qu'une personne qui investit dans d'autres actifs et en tire un revenu doit verser des impôts sur ce revenu avant de payer son loyer. Les locataires ont considérablement moins de richesse que les propriétaires de maison; cependant, le régime fiscal actuel impose un fardeau fiscal aux locataires, tandis que les propriétaires de maison sont épargnés.

Modifications fiscales ou subventions

L'amélioration de la situation fiscale de l'industrie du logement locatif par l'entremise du report fiscal serait préférable à l'octroi de subventions.

Les subventions directes ne permettent pas d'agrandir sensiblement le parc locatif en raison du coût même des subventions. Généralement, les logements subventionnés nuisent aux aménagements privés, qu'il s'agisse de la construction de nouveaux immeubles ou de démoli-

tion.

Les primes à la construction sont inefficaces parce qu'elles sont inévitablement remises sur une base partisane, tandis que la demande actuelle pour l'aménagement nécessiterait probablement une utilisation différente des ressources. Les marchés du logement dans certaines villes peuvent favoriser la

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construction de nouveaux logements; d'autres, davantage de réparations ou de réhabilitations, ou encore aucun investissement quelconque.

En outre, les demandes de subvention sont complexes et chronophages; les grandes entreprises ayant de l'expérience sont donc avantagées. En revanche, le report fiscal est favorable aux propriétaires de toute taille. Le report

fiscal sur la vente et le remploi rendra l'investissement dans le logement locatif plus attrayant, et cela entraînera une augmentation de l'investissement privé. La baisse temporaire des recettes fiscales découlant du report fiscal sera certainement compensée par l'augmentation des recettes fiscales en raison d'un nombre plus important de logements, ou encore de logements rénovés pour lesquels les loyers seront plus élevés.

En conclusion

Permettre aux propriétaires d'immeubles à logements de reporter le versement des allocations du coût en capital récupérées et des impôts sur les gains en capital profiterait tant aux locataires qu'aux investisseurs, et rendrait le système fiscal plus équitable et paritaire. Si vous souhaitez participer à la campagne pour la réforme fiscale de la FCAP, veuillez faire parvenir un courriel à president@cfaa-fcapi.org.

President's Update (cont'd)

(Continued from page 1)

This is a part of a broader program which includes supportive housing and various other initiatives. CFAA issued a news release welcoming the expansion, which is reproduced at page 6. This is the fourth major expansion of housing allowance programs across Canada in the last 18 months.

CFAA continues to be in regular contact with Minister Finley's office. (Minister Finley is the minister responsible for CMHC.) CFAA continues to seek the lifting of the remaining limits on the use

of federal money under the Canada-Ontario Affordable Housing agreement and the other Canada-provincial agreements.

On September 26, leaders of the six CFAA member associations in Ontario - FRPO, GTAA, LPMA, EOLO, HDAA and WRAMA - met in Toronto. Officials of the Ontario Ministry of Municipal Affairs and Housing briefed us on the new Ontario "Housing Allowance Program". The program requires tenants to move and provides modest rent subsidies which must be paid to landlords; and so, the program is really a rent supplement program. There are

take-up problems getting units in some areas. Such take-up problems do not exist with portable housing allowances which are paid to tenants. CFAA will continue to monitor the situation to promote portable housing allowances across Canada.

CFAA also supports the renewal of the federal initiative against homelessness, known as the Supported Communities Partnership Initiative (SCPI). See page 3 for more details.



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