



Canadian
Federation of
Apartment
Associations

Fédération
canadienne des
associations
de propriétaires
immobiliers

CREA
CANADIAN REAL ESTATE ASSOCIATION

REALpac
Real Property
Association of Canada
Association des biens
immobiliers du Canada

Ottawa urged to encourage reinvestment in urban cores and rental housing

OTTAWA – January 31, 2008 – Three national associations whose members are central to the investment, management, purchase and sale of real property are calling on the federal government to change capital gains tax policy in the 2008 federal budget to encourage reinvestment. The members of the three associations generate hundreds of billions of dollars of economic activity annually.

The policy change proposed by The Canadian Real Estate Association (CREA), the Canadian Federation of Apartment Associations (CFAA) and the Real Property Association of Canada (REALpac) would support urban regeneration and expand rental housing in Canada by encouraging new investors, and by providing existing owners the opportunity to re-invest because of capital gains deferrals.

The three Associations have completed new research to support the proposal to allow the deferral of capital gains tax and recaptured capital cost allowance when an investment property is sold and the proceeds of the sale are reinvested in another property within a year.

The research shows that the first-year cost of implementing the proposal would be \$415 million, not taking into account offsets from increased economic activity. The group of taxpayers who would benefit most from the change would be those with net incomes of \$50,000 or less. The research also shows current tax policy creates a negative “lock-in effect” so investors hold onto old assets to avoid having to pay tax, rather than selling and reinvesting in new assets.

CREA Chief Executive Officer Pierre Beauchamp said the new research confirms the investment impact of the tax deferral proposal. “The deferral would trigger major economic activity that would far outweigh costs to the treasury in the long-term,” he said. “Small-scale investors typically renovate property and make related purchases when they reinvest.”

CFAA President John Dickie said the proposal would reduce the cost of rental housing and improve affordability and housing supply. “Tax policy has discouraged the private sector from building and maintaining rental housing,” he said. “Renters will benefit from a larger supply of units and lower rents.”

REALpac Chief Executive Officer Michael Brooks pointed out that the proposal is for a tax deferral rather than a tax reduction. “No capital gain is actually realized when one asset is sold and another of equal value is purchased,” he said. “The sale of an asset without reinvestment would continue to be taxable.”

The new research was completed by two leading academics: Dr. Thomas Wilson, Senior Advisor at the University of Toronto’s Institute for Policy Analysis, and Prof. James McKellar, Academic Director of the Real Property Program at York University’s Schulich School of Business.

Dr. Wilson used tabulations compiled by Statistics Canada with tax returns reporting capital gains for 2005. He conducted separate studies for capital gains tax and the recapture of capital cost allowance for individuals and corporations. The cost of lost tax revenues from individuals, small businesses and other corporations would be about \$258 million. The cost of deferring the recapture would be \$157 million, for a potential first-year total cost of \$415 million. These figures do not include offsetting benefits from spin-off activities that would grow over time.

Using the same data, Dr. Wilson found that about 66 per cent of those reporting real property gains in the 2005 taxation year had net incomes of \$50,000 or less. They realized capital gains of \$3.8 billion or about 57 per cent of the dollar value of all capital gains.

Prof. McKellar also looked into what is known as the “lock-in effect”. His analysis shows taxes applied to capital gains only at the time of sale can trap capital in inefficient investments when it could be used more productively elsewhere. Those most affected are small-scale investors, including owners of rental housing, who tend to retain real property holdings to avoid tax consequences. The lock-in effect can be readily seen in underutilized and often boarded-up buildings in deteriorating urban cores throughout the country.

The complete capital gains re-investment study is available in PDF format for download from the web site of The Canadian Real Estate Association (www.crea.ca).

The Canadian Real Estate Association (CREA) is one of Canada’s largest single industry associations, representing 94,000 REALTOR® members who are active in all phases of the real estate industry. The membership includes the Canadian Commercial Council, whose 6,000 members specialize in industrial, commercial and institutional properties.

The Canadian Federation of Apartment Associations (CFAA) represents the owners and managers of close to one million residential rental units in Canada through 17 organizations across Canada. CFAA is the sole national organization representing the interests of Canada’s \$37 billion rental housing industry, which houses almost four million Canadian households.

REALpac is Canada’s premier industry association for investment real property leaders. REALpac’s mission is to bring together the country’s real property investment leaders to collectively influence public policy, to educate government and the public, and to ensure stable and beneficial real estate capital and property markets in Canada. REALpac members currently own in excess of \$150 billion in real estate assets located in the major centres across Canada and include real estate investment trusts, publicly traded and large private companies, banks, brokerages, crown corporations, investment dealers, life companies, and pension funds.

Further information:

James Brennan
Director, External Relations, Canadian Real Estate Association
(613) 237-7111, Email: jbrennan@crea.ca

John Dickie
President, Canadian Federation of Apartment Associations
(613) 235-0101, Email: president@cfaa-fcapi.org

Chris Conway
Vice President, Government Relations, REALpac
(416) 642-2700, Email: cconway@realpac.ca
