Halton Region
Research Report on Multi-Residential Tax Policies

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Executive Summary

Renters have substantially lower income levels than homeowners. They also spend disproportionally more on living expenses and are experiencing a lack of affordable housing choices in a deteriorating rental market in Halton Region. Taxation is one of the factors contributing to this. For these reasons, this report has been prepared to analyze the impacts of taxes on rental housing, and outline a policy framework and recommendations to improve affordability, fairness and stimulate new supply of rental housing.

The Region of Halton recently developed a Comprehensive Housing Strategy that recommended that the Region continue to research and review the tools and incentives that are most effective in producing new assisted and affordable housing ,and in maintaining the existing supply. With this action the Report indicated that the Region would calculate the financial impact on the municipality of reducing the multi-residential tax ratio to one to equalize the burden between residential and multi-residential properties. It also recommended that the Region establish standards to prevent the demolition or conversion of rental housing, and that land transfer tax be eliminated on assisted housing developments. This report provides a follow up to the tax policy actions identified in the Comprehensive Housing Strategy.

The report relies primarily on existing research reports as the basis for the review of multi-residential tax policy and utilizes a pro forma of a sample 50 unit rental housing development in Halton to illustrate the implications of the tax policies on investment in rental housing and the rent for tenants.

Based on the review of multi-residential tax policies, the report found a number of municipal, as well as federal and provincial tax policies that could be adjusted to considerably increase the attractiveness of rental housing investment and encourage economic activity in this sector.

At the municipal level the main objective of changes to multi-residential tax policies would be to improve fairness among owners and renters. In comparison to changes in federal and provincial tax policies, it is easier to ensure that reductions to property taxes are passed on to the tenants since, while it is often overlooked, tenants indirectly pay property taxes through their landlords as part of their rent payments, and landlords are required to pass on property tax reductions if the change is greater than 2.49%. Moreover, any changes to federal and provincial tax policies may take years to implement and take effect. Therefore in the short term, it is essential that changes take place at the municipal level, so that some improvement is realized in the rental housing tax environment.

To address the issue of fairness it is recommended that the Region:

- Reduce existing Multi-Residential as well as New Multi-Residential tax ratios to 1.0.

The effect of equalizing the tax ratio may have a much needed positive effect on renters who are already at substantially lower income levels than home owners, spend disproportionally more on living expenses, and are experiencing a lack of affordable housing choices in an already deteriorating rental market in Halton Region.

The local economy is also affected by the lack of affordable housing choices in Halton Region. Lack of choices leads lower income households to seek living accommodations in other areas and lower paying jobs may become unfilled, which causes problems for businesses in the area that rely on lower paid labour. A lack of affordable housing choices means that individuals less likely to live and work in the same community, which possibly results in increased traffic, the need for increased transportation and other outcomes that could negatively affect the Region.

The recommended actions related to federal and provincial tax policy are as follows:

Advocate to the Federal government to:

- Provide a full GST rebate on new rental housing construction and a rebate or exemption on the GST related to the ongoing operating costs of the rental housing.
- Increase the CCA rate back to the 1988 rate of 5% and allow all investors (not just Principal Business Corporations) to use the CCA deduction against income from sources other than real estate rental income.
- Allow a deferral of capital gains tax if the proceeds from the sale of one residential property are re-invested into another residential property of equal or greater value.
- Allow soft costs of rental housing developments to be deducted from income in first year rather than having them capitalized.
- Treat income from rental properties as active business income and allow eligible investors to qualify for the small business deduction for taxation purposes.
- Advocate to the Federal government to implement a Low Income Housing Tax Credit.

Advocate to the Provincial government to:

- Fully rebate Provincial Sales Tax for all new rental housing construction.
- Eliminate Land Transfer Tax if the acquired land or design-build arrangement is for the sole purpose of a rental housing project.

A national and provincial affordable housing strategy and program is needed to support and enhance the effectiveness of local incentives. Until that occurs, municipalities can provide incentives, such as equalization of the property tax ratio, to support and encourage affordable housing and increase choices along the housing continuum.

1.0 Introduction

1.1 Background

The Region of Halton recently developed a Comprehensive Housing Strategy which recommended that the Region reduce the multi-residential tax ratio to one to equalize the burden between residential and multi-residential properties. It also recommended that the Region establish standards to prevent the demolition or conversion of rental housing, and that land transfer tax be eliminated on assisted housing developments. The purpose of this report is to follow up on the actions identified in the Comprehensive Housing Strategy.

The Region of Halton has retained the services of SHS Consulting to conduct research into multi-residential tax policy and analyze the potential impacts of changes to tax policy, as well as to propose a policy framework and recommendations related to improved affordability, increased fairness and stimuli for new supply of multi-residential housing. The objectives of this report are as follows:

- To undertake multi residential tax policy research that identifies and measures the impact of tax policy at the Federal, Provincial and Municipal levels
- To provide a policy framework and tools to assist the Region in achieving multi residential tax fairness and an increase in the multi residential housing stock
- To incorporate existing Halton tax policies and programs into the tax policy framework, as appropriate
- To measure the impact of current multi residential tax policy on Halton low income households and identify the impact of changes to tax policy to those households.
- To support the Sustainable Halton process, Halton's Fairness Campaign and the Comprehensive Housing Strategy.

1.2 Approach

This report is organized into three key sections.

The first component of the report looks at the policy context of rental housing including a brief historical background on rental housing development and maintenance of rental housing in the national and provincial contexts, and in Halton Region in particular. It then provides a brief profile of renters in Halton Region. The first section also introduces the Regional and Provincial policy context and direction for the development of this report from the Region's Comprehensive Housing Strategy.

The second component of the report provides a review of multi-residential tax policy at the municipal, provincial, and federal levels, primarily based on existing research reports. The tax policy review also includes a comparison of Halton's tax ratios to the tax ratios of other Greater-Toronto-Hamilton-Area municipalities. An analysis of the implications for fairness and investment is provided, and a pro forma of a sample 50 unit rental housing development in Halton is used to illustrate the implications of the tax policies on investment in rental housing. Changes to the tax treatment of rental housing at all three levels of government are proposed based on the analysis. This section also includes an analysis of the impacts of the multi-residential tax policies on tenant households, specifically low income households.

The final section of the report summarizes the findings of the research and analysis and proposes recommendations related to increased fairness and stimuli for new multi-residential housing supply.

1.3 Definitions

Below are a number of definitions of terms used throughout the report.

Affordable Housing

> Housing with market price or rent that is affordable to households of low and moderate income, spending 30% of their gross household income without government subsidies.
>
> Such households would be able to afford, at the low end, at least three out of ten rental properties on the market and, at the high end, ownership housing with sufficient income left, after housing expenses, to sustain a basic standard of living.
>
> Households with annual gross incomes between $40,000 and $77,400 can afford rents between $1,000 and $1,925/month or to purchase a home between $128,000 and $245,000. (This definition is derived from Halton Region's Official Plan.)

Assisted Housing

> Housing that is available to low and moderate-income households for rent or purchase where part of the housing cost is subsidized through a government program.
>
> Households with incomes less than $40,000/year can afford rents less than $1,000/month or to purchase a home at less than $128,000. (This definition is derived from Halton Region's Official Plan.)

Canada Mortgage and Housing Corporation (CMHC)

Federal agency responsible for administration of the National Housing Act. This includes the mortgage insurance program and transfer of funds for social housing subsidies.

Capital Costs

Total costs incurred in order to bring a project to operable status. These costs may include purchase price of land, construction material, equipment, labour used during construction, etc.

Complete Communities

Complete communities meet people's needs for daily living throughout an entire lifetime by providing convenient access to an appropriate mix of jobs, local services, a full range of housing, and community infrastructure including affordable housing, schools, recreation and open space for their residents. Convenient access to public transportation and options for safe, non-motorized travel is also provided (*Places to Grow*, 2006).

Debt Coverage Ratio

An Accounting/Finance term that is a measure of how readily a company (in the case of this paper, a rental property) can meet interest and principal payments with income earned from operations.

Depreciation

An Accounting/Finance term used to describe a reduction in the value of an asset such as a building over a period of time. Such a reduction can be attributed to usage, passage of time, wear and tear, or other factor. Depreciation is an expense item on an income statement, which affects net income (profit) for the period.

Income Decile

Decile is a statistical measure used to divide population into ten equal parts. Each Income Decile will represent X% of households which fall below certain income level or 100-X% of households that fall above certain income level where X is the decile number. A 3rd decile of $25,000 would mean that 30% of households have income below $25,000 and 70% of households have income above $25,000.

Market Housing

Permanent housing that is rented or owned without government funding. Households with an annual gross income over $77,000 could afford rents over $1,925/month or homes priced over $245,000. (This definition is derived from Halton Region's Official Plan.)

Multi-residential Housing

While the general term is used, the main focus of this report is purpose-built multi-residential rental housing with seven or more self contained units, as opposed to multi-residential housing with another form of ownership structure such as condominium. Unless otherwise stated, in this report, multi-residential housing refers to purpose-built rental housing with seven or more self contained units, as multi-residential housing with fewer than seven units are taxed under the single-residential class.

Multi-residential Tax Ratio

A proportionate representation of tax rates between multi-residential and residential property classes. The ratio indicates the tax burden borne by multi-residential property class within the municipality. The single residential ratio is provincially mandated to be 1.0. A multi-residential tax ratio of 2.0 implies that multi-residential tax rate is twice as large as residential tax rate.

Places to Grow (Provincial Growth Plan)

Released on November 24, 2005, the Provincial Growth Plan entitled, "Places to Grow – Better Choices, Brighter Future" was issued by the Minister of Public Infrastructure and Renewal under the authority of the Places to Grow Act (2005). The proposed Plan provides a framework for implementing the Province's vision for managing growth in the Greater Golden Horseshoe area to 2031. It expresses the Province's interests and directions on issues ranging from the distribution of population, household and employment forecasts to where and how to grow; and from the infrastructure needed to support growth to the protection of heritage and natural resources.

Property Valuation

A process of assessing property value using one or more valuation methods. Most common and acceptable valuation technique in real estate industry has been used throughout this paper which divides annual Net Operating Income of a property by Capitalization Rate (Cap Rate). It should be noted that this definition differs from the valuation used for determining municipal property taxes.

Provincial Policy Statement

Provincial statement of its intention/desires regarding certain matters in the development of housing as well as other matters.

Rent-Geared-to-Income (RGI)

Housing subsidy provided to qualified households where households are charged a rent that is set in relation to their income.
Households are generally charged 30% of their gross household income in rent.

Residential Intensification

An increase in the number of dwelling units per hectare.

Return on Equity (ROE)

Investment performance measure which shows the return to an equity holder. Mathematically this can be shown as Profit (or Net Income) divided by Equity in the investment. Profit will include charges such as depreciation, and is different from Net Operating Income of a rental property. Equity stake (ownership) in a real estate property will generally increase every year because portion of the mortgage payment will be used to pay down the principal.

Return on Investment (ROI)

Investment performance measure which shows the return to all stakeholders (equity and debt holders). Mathematically this can be calculated as Net Operating Income divided by Capital Costs. Unless otherwise specified, the return represents a before income tax figure.

a) **Before Tax Return on Investment (ROI)**
   Reported as a before income tax figure.

b) **After Tax Return on Investment (ROI)**
   Reported as an after income tax figure.

2.0 Policy Context, Rental Housing Supply and Demand

2.1 Halton's Comprehensive Housing Strategy

As mentioned above, the direction for this report comes from the actions identified in Halton's Comprehensive Housing Strategy. An overview of strategic directions and actions related to tax policy are provided below.

The first Strategic Direction: *Promoting Healthy Communities*, identifies as an action:

> *To continue to advocate to senior governments for the timely implementation of a Canadian Housing Framework that addresses housing needs across the continuum* (Action 1.1).

The potential changes to federal government tax policies identified in the Comprehensive Housing Strategy include: GST rebates on construction, capital gains provisions to leverage additional housing development, capital cost allowance rules, permitting small landlords to be treated as small businesses, and policies that would create tax credits for investors in rental housing.

The potential changes to provincial tax policies identified include: removal of GTA pooling (Halton paid almost $40 million per year to the City of Toronto for assisted housing and income and employment costs- monies that could be used in Halton Region to alleviate housing and social service needs)[1], and elimination of the land transfer tax on assisted housing developments.

One of the actions (Action 2.8) under the second Strategic Direction, *Encouraging and Protecting Affordable Housing*, is

> *To establish standards to prevent the demolition, or conversion, of rental housing to other uses.*

Because condominiums are taxed at the residential rate and rental buildings are taxed at a higher multi-residential rate, condominium investment may be more profitable, and there may be an incentive to convert rental properties into condominiums. One of the ways of encouraging the protection of rental housing is to reduce the multi-residential tax ratio closer to 1.

The third strategic direction, *Encouraging and Protecting Assisted Housing*, identifies the action:

[1] It should be noted that the GTA pooling policy is being eliminated.

To continue to research and review the tools and incentives that are most effective in producing new assisted and affordable housing, and in maintaining the existing supply (Action 3.10).

One of the potential tools and incentives identified is to reduce the multi-residential tax ratio to one and equalize the burden between residential and multi-residential properties. The Comprehensive Housing Strategy states that with this action the Region will research the effectiveness of this incentive in creating new, and maintaining existing, rental housing, and the impact of this incentive on the municipality (i.e. effect on all other tax classes).

Each of these actions is explored further in the following sections.

2.2 Provincial Policy Initiatives

There are a number of provincial policy initiatives that call for the provision of a variety of housing types and tenure to meet the housing needs of all residents. The following is an overview of four key provincial policy documents and their goals related to rental housing. The objective of the section is to identify the policy rationale for provincial government changes to multi-residential tax policy.

Provincial Policy Statement

The *Provincial Policy Statement* provides guidance to municipalities in the development of local official plan policies related to housing. The Policy Statement requires that municipalities provide an appropriate range of housing types and densities by establishing and implementing minimum targets for the provision of housing which is affordable to low and moderate income households, and permitting and facilitating all forms of housing required to meet the social, health and well-being requirements of current and future residents (including special needs requirements) and all forms of residential intensification and redevelopment. It also requires that municipalities promote densities for new housing which efficiently use land, resources, and infrastructure.

Places to Grow

Places to Grow is a framework prepared under the Places to Grow Act, 2005, which outlines Ontario's vision for growth in the Greater Golden Horseshoe to 2031. Places to Grow requires that the Region, in collaboration with Local Municipalities, set housing targets and policies to provide a range of housing types and densities to meet the needs of all residents. Incentives such as property tax reductions will be essential in order to meet the affordability targets established as part of the Places to Grow requirements. The *Places to Grow* policies also place emphasis on "complete communities" which includes in its definition as communities having the right mix of housing, including affordable housing, to accommodate people in all stages of life and to meet daily needs.

Poverty Reduction Strategy

The Government of Ontario launched a new *Poverty Reduction Strategy* in December of 2008 which sets out a target for reducing poverty in the province. The focus of the Strategy is primarily to reduce childhood poverty, but it also strengthens the commitment to housing as an important element in poverty reduction. The Strategy seeks to improve opportunities for people who are too often denied them. It challenges government to focus resources where they will have the greatest impact.

Strategy for Affordable Housing

The provincial government is also in the process of developing a long-term strategy for affordable housing that will be closely aligned with the poverty reduction plan. The plan will include a mix of non-profit, co-operative housing and creative financial options.

These provincial policy initiatives emphasize the need for the creation of a range of housing options including affordable housing, with rental housing being one of most affordable housing options. An important way that the provincial government can support these policies and influence the production of affordable housing is through changes to its multi-residential tax policies such as Provincial Sales Tax, Land Transfer Tax, and making the provincial bands of fairness of property tax ratios a compulsory requirement.

2.3 Role of Rental Housing

Rental housing fulfils a number of roles in the housing market. For single individuals and non-family households it can provide a flexible form of accommodation that supports an active and mobile lifestyle. For seniors unable to cope with the day-to-day upkeep of detached homes, rental housing offers relief from the burden of maintenance and repair and greater potential for social interaction with neighbours. For persons with physical disabilities, modest unit sizes, elevators, the lack of stairs and other advantages can often better meet their needs than detached homes. For students who face a temporary living situation in a new community, short-term rental housing presents an ideal option. For recent migrants and immigrants, rental housing is often a first step in making Halton their new home.

Beyond catering to these lifestyle choices, however, perhaps the main role of rental housing in any community is its affordability relative to most forms of home ownership. Rental dwellings in most cases tend to require lower monthly payments than the principal, interest, taxes, utilities and maintenance costs associated with home ownership. There is also no need to pay down payments (other than first and last month's rent), legal and closing fees, land transfer tax and other costs associated with the purchase of a home.

An adequate supply of rental housing is also an important aspect of encouraging a thriving economy. It allows individuals to live and work in the same community and helps contribute to a sufficient labour pool for companies operating in the community. Rental housing also contributes to the economy both through jobs created in the production of new rental housing, and in ongoing employment of people serving the rental housing industry such as individuals involved in the maintenance of rental housing, janitorial staff, individuals involved in repairs including elevator repair persons and plumbers, and people managing the rental units.

For these and related reasons, it is critical that all communities provide a sufficient range of rental housing to meet the needs of the local population and expand the supply as the need grows. It is also important that this supply consist primarily of permanent, purpose-built rental housing in order to ensure the stability and security of tenants and that a considerable portion of this rental housing be affordable to households of low and moderate income who have few other housing options.

2.3.1 *Summary of Rental Housing Supply*

Canada has experienced a dramatic decline in rental housing development since the tax reforms in the early 1970s. Little new rental housing construction has been taking place, especially in recent years. Last year, only 14,928 rental apartment units were completed in Canada (CMHC, 2008). The annual amount of new rental housing construction in Ontario has declined from an average of 37,000 units (private and government assisted) in the early 1970s to less than 2,000 units (private sector constructed) over the past few years.

According to the government/industry/labour Housing Supply Working Group's 2001 report, in the next 20 years, new private rental construction needs to increase dramatically every year to meet Canada Mortgage and Housing Corporation's estimated requirement, which is approximately 45,000 new rental housing units across Canada and 16,000 new rental units in Ontario alone. (Housing Supply Working Group, 2001). A more recent study done by the Ontario Non-Profit Housing Association in 2006 presents similar findings[2]. It estimates that 10,000-12,000 purpose-built rental units would be required on annual basis in Ontario to meet current and future needs.

[2] Ontario Non-Profit Housing Association (ONPHA). 2006. *Where's Home? 2006; A picture of Housing Needs in Ontario.*

There were 1,385,245 units of rental housing stock in Ontario as of 2006, or 35.9% of the total housing stock. In Halton Region there were approximately 26,640 units of rental housing, which accounts for 25.2% of the total housing stock. The total supply of rental housing in Halton has decreased by approximately 3,000 units between 1996 and 2006. Conversions of rental housing to condominiums have contributed to a portion of the decline in rental housing. For example, the City of Burlington has received 10 applications for the conversion of rental housing to condominiums since the repeal of the Tenant Protection Act (1998) representing a total of 291 lost rental units (the City of Burlington has recently put a by-law in place to limit the number of conversions of rental housing to condominiums).

In addition, the low vacancy rates for rental housing across the entire Region, (1.4% as of October 2008), suggest that the availability of rental housing compared to demand is low. In terms of assisted housing (also referred to as social housing or public housing), there are 5,357 social housing units in the Region, but another approximately 2,114 households (1,888 eligible applicants and 226 applicants under review) are on the waiting list for social housing (as of December 31, 2008). Overall, the Halton Region 2008 Annual Housing report identifies a shortfall of 300-800 units of affordable housing and a further shortage of 300-800 units of assisted housing. Further details on the supply of rental housing in Halton are provided in Appendix A.

No single factor is entirely responsible for the serious decline in new rental production over the past forty years. However, that tax environment has a large impact on the economics of rental investment and is one of the important factors in private sector investment in rental housing (Housing Supply Working Group, 2001).

2.3.2 *Summary of Rental Housing Demand*

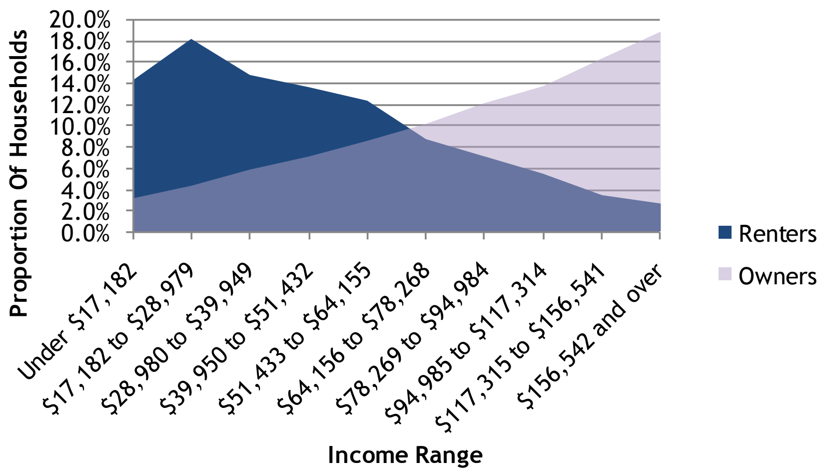
A profile of renters shows that rental housing serves a variety of needs in the housing market. Though, rental housing needs in Halton Region are only partially met by the existing supply.

According to Statistics Canada, in 2006, Halton Region had 156,640 households. Of the total households, 26,640 were renters and 129,995 were owners. Of the 26,640 renter households, 40.3% were one person households and another 32.0% were two person households. This suggests that the vast majority of the demand for rental housing comes from small households as compared to families and/or more than two individuals.

In terms of age demographics, a very large proportion of household maintainers under the age of 25 rely on rental housing (71%). In contrast, individuals over the age of 25 tend to switch towards home ownership with as much as 88.1% of individuals in the 55-64 years of age category being homeowners. The tendency towards homeownership again declines in later stages of life, when the homeownership rate falls to 75.1% of households led by persons 75+ years of age category.

Average and median incomes of Halton households that rent are only half as much as the average and median income levels of households that own their homes. As shown in Figure 1 below, renters have incomes in the lower income ranges, while homeowners are in the upper income ranges.

Figure 1: Proportion of Households (of that Tenure) by GTA-H Income Deciles, 2005



Source: Statistics Canada, Census, Custom Tabulations, 2006

Moreover, the proportion of households that rent their home and spend more than 30% of their income on housing is significantly higher than the proportion of households that own their home and spend more than 30% of their income on housing. Of all the households that own their home, only 19.3% spend more than 30% of their income on housing. In contrast, 43% of households that rent their home spend more than 30% of their income on housing.

Given the average rents data from CMHC, renter households that fall into the first three income deciles (30% of all renter households) cannot afford to pay market rents for any type of apartment. Renter households that fall into the 4th decile can only afford to pay market rent on a bachelor type of apartment. For further details on the local municipalities, please see Appendix B.

These findings clearly point to the need for more affordable rental housing and the need to protect the supply of existing rental housing.

3.0 Multi-Residential Tax Policy

3.1 Municipal Tax Policy – Opportunity to Achieve Fairness for Renters

Changes to municipal tax policies are an important opportunity to improve fairness among renters and owners. Because it is easier to ensure that changes to tax policies at the municipal level are passed on to tenants (the *Residential Tenancies Act* requires that the municipality must inform private market tenants that their rent is being reduced if property taxes change by more than 2.4% on a particular property), tenants in applicable units would directly receive an immediate benefit as a result of equalization of the property tax ratio to one. Therefore this section is focused on the issue of fairness of the tax policies indirectly to tenants.

3.1.1 *Halton's Multi-Residential Tax Ratio*

In many municipalities, including the Region of Halton, multi-residential properties are taxed at a higher rate than residential properties. In Halton, the tax ratio for multi-residential properties as compared to residential properties was 2.2619 in 2008, and 2.0000 for new multi-residential properties (building permit issued on or after January 1, 2003). The multi-residential property class applies to properties with seven or more residential units, but does not include condominiums, co-operatives, and life lease buildings, which are included in the residential class. This difference in the tax treatment of multi-residential properties as compared to residential properties is largely a result of historic differences in the assessment treatment of apartment buildings versus single family dwellings as initiated by the province with the introduction of the current value assessment in 1998.

3.1.2 *Other Municipalities' Multi-Residential Property Tax Policies*

Halton Region has a higher multi-residential tax ratio than many of the other municipalities in the Greater-Toronto-Hamilton-Area (GTA-H), with the exception of Toronto and Hamilton (both of which began with higher tax ratios when the current value assessment practice commenced in 1998). The tax ratios between 2000 and 2008 are shown in Table 1 below for each of the municipalities in the GTA-H. Halton Region is the only municipality to have a tax ratio above 1.0 for the New Multi-Residential class.

Over the past nine years, many municipalities have lowered their Multi-Residential tax ratio significantly. York Region is an example of a municipality that has reduced its tax ratio by 52% between 2000 and 2008 to achieve parity with Residential class at 1.0. Also notable, the City of Toronto has reduced its tax ratio by 34%, and Durham Region has decreased its ratio by 31%. In comparison, during the same time period, Halton Region lowered its Multi-

Residential tax ratio by only 7%, with a one-time reduction from 2.4439 to 2.2619 in 2001. Many of the other municipalities have used a multi-phase strategy in moving towards fairness in tax rates of multi-residential properties.

Table 1: Multi-Residential Tax Ratios in the Greater-Toronto-Area-Hamilton Municipalities, 2000-2008

		2000	2001	2002	2003	2004	2005	2006	2007	2008	% Change
Halton Region	Multi Res	2.4439	2.2619	2.2619	2.2619	2.2619	2.2619	2.2619	2.2619	2.2619	-7%
	New Multi Res				2.0000	2.0000	2.0000	2.0000	2.0000	2.0000	
York Region	Multi Res	2.0875	1.6500	1.3000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	-52%
	New Multi Res		1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	
City of Toronto	Multi Res	5.2350	4.1740	4.0010	3.9870	3.7890	3.7070	3.6350	3.5463	3.4700	-34%
	New Multi Res							1.0000	1.0000	1.0000	
Durham Region	Multi Res	2.7100	2.4900	2.4000	2.2629	2.1274	2.0750	1.9188		1.8665	-31%
	New Multi Res									N/A	
Peel Region *Brampton & Caledon*	Multi Res	1.7336	1.7336	1.7336	1.7050	1.7050	1.7050	1.7050	1.7050	1.7788	3%
	New Multi Res									N/A	
Mississauga	Multi Res	1.7336	1.7336	1.7336	1.7050	1.6322	1.6322	1.7788	1.7788	1.7050	-2%
	New Multi Res									N/A	
City of Hamilton	Multi Res	2.9900	2.9900	2.8300		2.7400	2.7400	2.7400	2.7400	2.7400	-8%
	New Multi Res							1.0000	1.0000	1.0000	

3.1.3 *Higher Multi-Residential Taxes an Unintended Incentive for Condominium Conversion*

As mentioned above, there have been a number of conversions of rental buildings into condominiums. A possible incentive for doing so may be that rental buildings are taxed at a higher multi-residential rate than condominiums at the residential rate, which may make condominium investment more profitable. Also, many condos are already rented out, creating in effect a two-tier system with rented condos taxed at the residential rate and purpose-built rental taxed at the multi-residential rate. Given the limited supply of rental housing and the significant need for rental housing, it is important that the existing rental housing be protected from conversion into condominiums. One of the ways of encouraging the protection of rental housing is to reduce the multi-residential tax ratio closer to one.

3.1.4 *Fairness of the Multi-Residential Tax Ratio*

The issue of the higher tax rate on the multi-residential property class is an issue of fairness, given that rental apartment buildings are one of the most affordable forms of accommodation, yet these buildings are taxed at a higher rate than condominiums and single-family dwellings. Renters indirectly bear a higher burden of the property taxes than owners. The Province has indicated that the range of fair tax ratios for the multi-residential class is 1.0 to 1.1.

The range of fairness represents the ultimate destination point for the multi-residential property class. Marcel Beaubien's (MPP) review of property tax classes (2002) recommended that municipalities be required to fully implement the elimination of the multi-residential property class as early as January 1, 2006.

This report argues that property tax ratios should be (at least) neutral between rental and owner-occupied housing, and primary purpose built rental housing (i.e. large rental-only buildings) and secondary rental housing (rented single family houses, duplexes, as well as rented condominium apartments). To establish whether property taxes are neutral it must be determined whether property taxes are viewed as a tax on consumption or as a tax on an asset (i.e. capital tax). Over time the view on property tax policy has shifted towards a taxation both as a consumption item and as an asset (capital tax).

If property taxes are viewed as a tax on consumption only, then comparing primary purpose built rental buildings to similar condominiums is a relatively effective measure of determining whether the property taxes are equivalent, though a number of items should be considered in the comparison. These considerations should include the fact that condos are typically built to a different standard, have different amenities, services, etc. and the level of repairs, maintenance, cleanliness, etc. can be very different. Likewise, condo conversions typically include substantial transaction costs in conversion and include substantial expenditures to upgrade the common areas and units. In addition, a reserve fund for capital repair needs has to be established. (It should also be noted that the average rent for condominium units is approximately $400 per month higher than purpose built rental units).

However, if property taxes are viewed as a tax on an asset, then primary purpose built rental buildings and similarly valued/priced condominiums should have the same tax rate. It should be noted, however, that there are a number of reasons that physically similar primary purpose built rental housing and condominiums have different prices/values. Research has found that an investor purchasing only one or a few units pays far more per unit than an investor buying an apartment building (Steele, 2007). Two of the reasons for the difference in price are that there are no economies of scale in the transaction process with a single unit, and there is two markets for single units- the rental market or the homeownership market. A single unit, such as a condominium would fetch the higher of the prices bid by an investor of rental housing or a homeowner, whereas a primary rental housing investor has no choice but to sell to another investor. Additionally, Sarker and Steele (2005) have found that expectations for capital gain differ considerably between primary purpose built rental buildings and secondary rental housing. While there are next to no expectations of capital gains in the former, investors expect slightly more than 2% annual real capital gains in Toronto for single units (secondary rental housing/ condominiums, etc.) (Sarker and Steele 2005).

For this reason, property tax rates should be lower for primary purpose built rental buildings (multi-residential housing) than single residential housing.

On a related matter, there has been discussion as to whether equity between the multi-residential and residential classes would be achieved if the tax ratios were equalized given that multi-residential properties are assessed using a different methodology than residential properties[3]. To determine whether equalizing the property tax ratios would generate equity, a study was undertaken in 2003[4], and updated in 2005, to calculate the existing tax burden (amount of tax paid) for similar type properties within the multi-residential and residential classes. One of the underlying assumptions of this approach is that property taxes are viewed as a tax on consumption, i.e. that two households consuming similar housing, regardless or tenure should pay similar property taxes, as opposed to a tax on consumption and a tax on an asset. This study considered the differences in assessed values for multi-residential properties and comparable condominiums in Halton Region. At that time, it was concluded that a multi-residential tax ratio of 1.80 would generate dollar parity in the tax burden of similar residential properties. For 2005 the ratio was 1.8693 and for 2006 the ratio was 2.0000, indicating that over time equity is being achieved between the two classes. However, based on the view that property taxes should be both a tax on a consumption item and a capital tax, dollar parity in the tax burden would not be achieved at this ratio (it would be lower when considering the property as an asset in addition to a consumption item). In addition, as mentioned above, there should also be a number of considerations made for the differences between multi-residential properties and condominiums when using a direct comparison approach. In conclusion, this does not suggest that the tax ratios for multi-residential properties should be equal to residential properties, but the difference between the ratios should be less than it currently is.

3.1.5 *Impacts of Decreasing the Multi-Residential Tax Ratio*

One of the ways to improve fairness to renters is to reduce the multi-residential tax ratio and the burden on multi-residential properties, though a reduction in the multi-residential tax ratio must be considered in context with the effects of such a reduction on other property classes. On a new 50 unit

[3] The value for a property in the residential class is determined by analyzing actual sales prices to estimate the value of a similar property (the sales approach), while multi-residential properties are assessed using an income capitalization approach (the income approach) in which the market value is equal to the present value of the future benefits (income less expenses). It should be noted, however, that the income approach does utilize actual sales data to come up with the capitalization rate or discount rate used in determining the present value. Because there are limited sales of comparable properties, an income approach is used instead of a sales approach. It may also be that the income approach is used because it is a more accurate approach.

[4] Commissioner of Corporate Services, Halton Region. April, 2003. *CS-39-03 – 2003 Tax Policies*.

development similar to the existing rental units in the Region, property taxes at the new multi-residential tax rate would be $1,549 per unit. Equalizing the multi-residential and residential taxes on this development impacts profit by $33,124, or $662 per unit (see top half of Table 2 on the following page). This is equivalent to a decrease in capital costs by $324,745 or $6,495 per unit. The impact on Return on Equity is also significant, at 1.17%.

On a rental housing development with an assessed value of $159,906 per unit, which is closer to the value of typical new rental housing developments, property taxes would be $2,500 per unit at the new multi-residential tax rate. Equalizing the multi-residential and residential taxes on this development impacts profit by $62,500, or $1,250 per unit (see bottom half of Table 2 below). This is equivalent to a decrease in capital costs by $612,745 or $12,255 per unit. The impact on Return on Equity is also significant, at 1.13%.

Under the *Residential Tenancies Act* if there is a significant reduction in property taxes (over 2.49%) the municipality has to inform tenants that their rent is being reduced, the percentage of the reduction and the date it is effective. However, the requirement to reduce rents does not apply to non-profit housing or housing constructed since 1998. Tenants do not need the permission of the landlord to reduce their rents.

The *Residential Tenancies Act* calculates the change in rent to be the tax decrease percentage times 20% for a building of 7 units or more, or a tax decrease percentage times 15% for a building of 6 units or fewer. If taxes are different from this percentage of rent revenue the landlord could apply to the Landlord and Tenant Board to vary the amount of the rent reduction so that the rent reduction equals the tax reduction received by the residential complex. If the multi-residential tax ratio on existing developments was reduced to one, equal to the single residential ratio, the tax decrease percentage would be 56%, so rents on a building of 7 units or more would be reduced by 11.2%, and on a building of 6 units or fewer rents would be reduced by 8.4%. For example, if rents were charged at CMHC Average Market rent levels in a building of 7 or more units, rents on a one bedroom unit would decrease by $106.74, and on a two bedroom unit would decrease by $126.22 (unless the landlord applied for a smaller rent reduction because taxes are a different from this percentage of their rent revenue[5]).

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[5] In our sample pro forma where rents are charged at CHMC average market rents, property taxes at the multi-residential rate for existing developments are equivalent to 13.82% of rents, so the landlord could apply to have rents reduced by 7.74%, or $73.76 on a one bedroom unit and $87.23 on a two bedroom unit.

Table 2: Impact of Equalizing the Multi-Residential and Residential Tax Rates on the Investment and Affordability of Rental Housing in a Sample Development

Building Typical of Existing Rental Building in the Region (Property Taxes of $1,549 per unit at New Development MR tax ratio)				
	New Development (MR tax ratio of 2.0)		**Existing Development (MR tax ratio of 2.26)**	
	Total Impact	**Per Unit Impact**	**Total Impact**	**Per Unit Impact**
Equivalent Impact to Capital Cost	$324,745	$6,495	$409,795	$8,196
Impact to Profit	$33,124	$662	$41,799	$836
Impact to Valuation of the Property	N/A	N/A	N/A	N/A
Impact to Return on Investment (ROI)	0.23%	0.23%	0.30%	0.30%
Impact to Before Tax Return on Equity (ROE)	1.17%	1.17%	1.47%	1.47%
Impact to After Tax Return on Equity (ROE)	0.60%	0.60%	0.76%	0.76%
Impact on Rent (per unit/month)*	-	$65	-	$80
Building Typical of New Higher Rent Rental Buildings (Property Taxes of $2,500 per unit at New Development MR tax ratio)				
	New Development (MR tax ratio of 2.0)		**Existing Development (MR tax ratio of 2.26)**	
	Total Impact	**Per Unit Impact**	**Total Impact**	**Per Unit Impact**
Equivalent Impact to Capital Cost	$612,745	$12,255	$773,223	$15,464
Impact to Profit	$62,500	$1,250	$78,869	$1,577
Impact to Valuation of the Property	N/A	N/A	N/A	N/A
Impact to Return on Investment (ROI)	0.45%	0.45%	0.58%	0.58%
Impact to Before Tax Return on Equity (ROE)	2.20%	2.20%	2.78%	2.78%
Impact to After Tax Return on Equity (ROE)	1.13%	1.13%	1.43%	1.43%
Impact on Rent (per unit/month)*	-	$103	-	$131

Source: SHS Consulting Calculations

* Blended average of one and two bedroom units. Calculated using the *Residential Tenancies Act* formula, and assuming the landlord would apply to the Landlord and Tenant Board to have the rent reduction amount calculated based on the costs of that specific complex.

A reduction in the multi-residential tax ratio for new multi-residential housing would have little impact on current revenues for the Region or on the other property tax classes, because there is currently only one property falling in this tax class, and therefore it would be an effective way to encourage new rental housing supply at the municipal level. A reduction in the multi-residential tax ratio for existing rental dwellings should be considered in context with effects of such a reduction on the other property classes.

3.1.6 *Effects of Changes on Other Tax Classes*

A reduction in the multi-residential tax ratio to create equity would result in corresponding shifts of the tax burden to other property classes, most specifically the residential class. Halton Region's "Multi-Year Tax Policy Strategy" recommended the inclusion in the annual tax policy report of an analysis of reductions to the multi-residential tax ratio to achieve equity with residential properties, subject to the constraint of an acceptable offsetting impact on residential properties.

An analysis of a reduction of the multi-residential tax ratio from 2.2619 to 1.0000 was conducted as part of the 2009 tax policy report. The dollar and percentage impacts on the various tax classes are shown in Table 3 and Table 4 on the following page. The change would result in a shift of tax burden to the residential class, in the amount of $11.64 Million, and the tax burden for multi-residential properties would decrease by $15.23 Million or 46.24%. However, the impact of this ratio change on the residential taxpayer would be an increase of only $21 per $100,000 of assessment. The reduction in the multi-residential ratio would result in a reduction of approximately $413 per $100,000 of assessment for the multi-residential tax payer.

Table 3: Dollar Impacts of Changing the Multi-Residential Tax Ratio, Existing Properties to 1.0000

	Burlington	Halton Hills	Milton	Oakville	Region
Residential	5,102,969	956,804	970,545	4,605,160	11,635,478
Multi-Residential	(8,284,948)	(797,904)	(768,319)	(5,374,090)	(15,225,261)
Commercial	1,234,061	103,843	226,291	852,529	2,416,724
Industrial	569,516	81,021	123,811	347,207	1,121,555
Pipelines	17,624	1,907	7,738	9,729	36,998
Farm	3,496	4,793	4,279	1,301	13,869
Managed Forests	87	126	407	17	637
Total	(1,357,195)	350,590	564,752	441,853	0

Source: Region of Halton, Appendix C to CS-19-09

Table 4: Percentage Impacts of Changing the Multi-Residential Tax Ratio, Existing Properties to 1.0000

	Burlington	Halton Hills	Milton	Oakville	Region
Residential	2.76%	1.57%	1.50%	1.91%	2.11%
Multi-Residential	-46.12%	-46.19%	-45.70%	-46.52%	-46.24%
Commercial	1.76%	0.97%	0.89%	1.19%	1.36%
Industrial	1.83%	1.05%	0.97%	1.16%	1.38%
Pipelines	1.35%	0.77%	0.68%	0.93%	0.99%
Farm	2.60%	1.53%	1.46%	1.94%	1.72%
Managed Forests	2.96%	1.68%	1.54%	2.54%	1.69%
Total	**-0.44%**	**0.43%**	**0.53%**	**0.12%**	**0.00%**

Source: Region of Halton, Appendix C to CS-18-08

Key Issue: Higher tax rates on the multi-residential property class is an issue of fairness, given that rental apartment buildings are one of the most affordable forms of accommodation, and renters have significantly lower incomes than owners, yet these buildings are taxed at a higher rate than condominiums and single-family dwellings.

Recommendation: Reduce existing Multi-Residential as well as New Multi-Residential tax ratios to within the provincial band of fairness (1.0 - 1.1). This change could be phased in similarly to how it has been done in other municipalities such as Niagara Region.

3.1.7 *Property Tax Deferrals for Senior and Homeowners with Disabilities*

The Region is required to provide a mandatory program for low-income seniors and homeowners with disabilities to address the concern that property tax increases may cause undue financial hardship on these property owners, though the Region is able to determine the eligibility criteria.

The Region's tax deferral criteria for 2009 is as follows:

- Property must be the applicant's principle residence
- The accumulated value of the deferral cannot exceed 75% of the current value assessment of the property
- The Combined Family Income of eligible persons shall not exceed $40,500
- For deferrals for persons with disabilities, at least one spouse must qualify for disability benefits under government programs including, but not limited to, Ontario Disability Support Program (ODSP), Canada Pension Plan Disability Benefit, and/or private insurer plans, or provide proof of eligibility for the Disability Tax Credit
- The amount of the deferral shall be registered on title

- The amount of the deferral shall become payable in full upon title change or if the applicant (or his or her spouse) no longer resides at the property as a principal residence

In addition to the option for property tax deferral, the 2008 Provincial Budget introduced a tax grant for low and moderate income seniors of up to $250 in 2009 to help offset their property taxes. The local municipalities of Burlington, Halton Hills and Oakville also have a tax grant for low income seniors. (The Region has set criteria for cost sharing this tax grant, and Halton Hills' program meets the criteria for cost sharing by the Region.)

The option for deferral and grants on property taxes is a significant benefit to low income senior and homeowners with disabilities. Senior and renters with disabilities, on the other hand, are not eligible for such deferrals which is an inequity in the system.

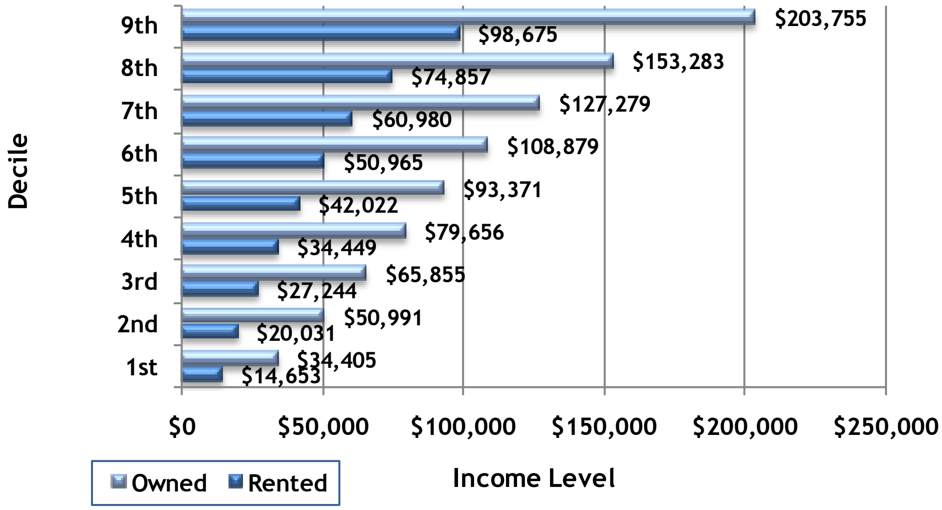
The difficulty in arranging a property tax deferral with landlords and ensuring that the benefits are passed on to the tenant, points to an additional reason to lower the tax ratio on multi-residential properties.

Key Issue: Tenants on fixed incomes are equally as vulnerable to financial hardship due to property tax increases as owners, yet are not eligible for deferrals of property tax increases, similar to their homeowner counterparts.

3.1.8 *Impact of Changes to Municipal Tax Policies on Low Income Households*

Figure 2 on the following page reiterates the importance of achieving equity within multi-residential and residential classes. Residents of Halton Region who rent their homes earn substantially less than those who own their homes. Each of the income deciles of renters is less than half of the income deciles of those who own their homes. Therefore renters are least able to pay a higher property tax rate than owners. For details on income levels by local municipality see Appendix C Table 5.

Figure 2: Household Income Deciles by Tenure, Halton Region, 2006



Source: Statistics Canada, Custom Tabulations, 2006

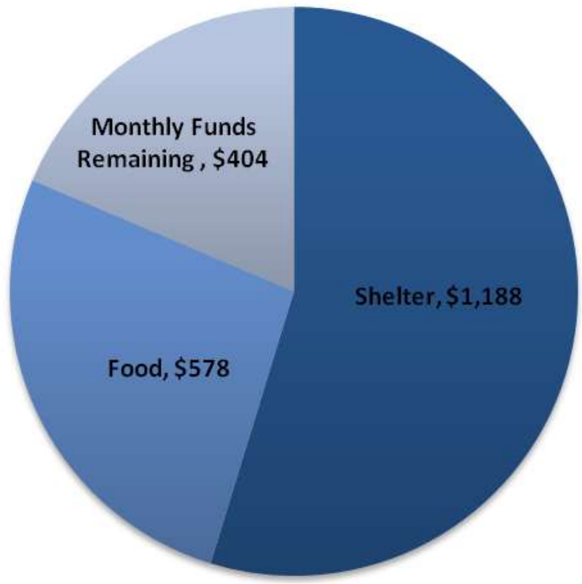
If the impacts of the municipal tax policies were fully passed on to tenant households, changes to the municipal tax policies as recommended could impact rents by approximately $80 per unit per month on an existing unit and by $65 per unit per month on a new rental unit. This could be a material benefit to low income households.

Below we assess the benefit of proposed changes to tax policies on a family of four with a minimum wage earner. To do so, we have made a number of assumptions:

- Minimum wage earner working full-time, full-year
- Shelter costs are based on the Average Market Rent for a 3 bedroom unit in Halton in 2008.
- Food costs are estimated based on Monitoring the Cost of a Nutritious Food Basket Protocol, Ontario Ministry of Health June 1998. Halton data collected June 2008.
- Monthly remaining funds is the balance for other basic needs e.g. heat, hydro, telephone, transportation, child care, household and personal care items, clothing, etc.

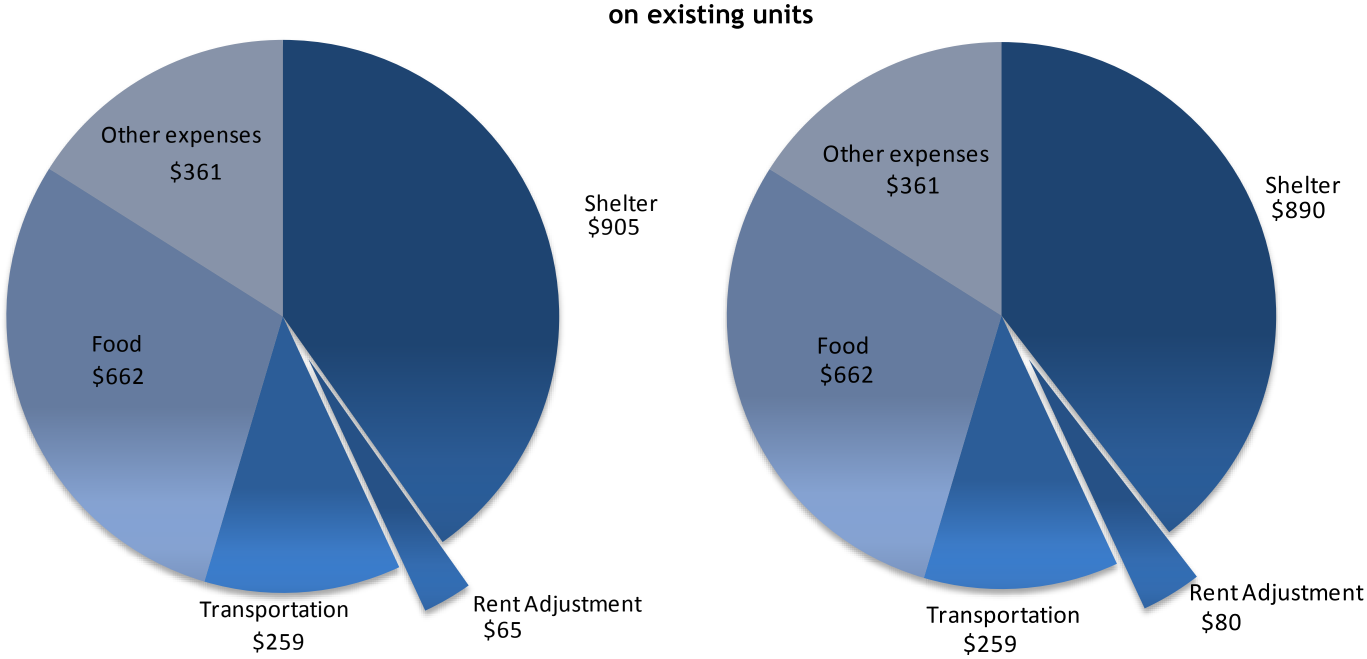
Based on the assumptions above, the figure below represents the financial scenario for a family of four, with a minimum wage earner in Halton Region in 2008.

Figure 3: Monthly Financial Scenario, Family of Four, Minimum Wage Earner



For a low income household such as a household with one minimum wage earner, shelter comprises a significant proportion of income. Food is also considered to be a major expense as a proportion of total expenses. Any changes to rents would have a substantial benefit to low income households. This is reflected in Figure 4 below.

Figure 4: Monthly Financial Scenario After Rent Adjustments of $65 on new units and $80 on existing units



If shelter costs were reduced by the estimated $65 per unit per month on a new unit and by $80 per unit per month on an existing rental unit, this money could be used for other necessities. A $65 increase towards the remaining funds on monthly basis represents a 16.1% increase. Similarly, an $80 increase towards the remaining funds represents a 19.8% increase.

Another important benefit of reduced rents, is the ability to afford larger apartment units. Appendix B Table 1 lists affordable rents and actual rents in Halton Region. A household that falls into the 4^{th} Income Decile could consider rents for bachelor units as the only affordable choice. A small rent adjustment of $65 per month would mean that rents for 1 bedroom units would become affordable as well.

3.2 Federal and Provincial Tax Policy – Opportunity to Strengthen the Rental Housing Sector

Many of the multi-residential tax policies of the senior governments contribute to the poor investment climate for developing rental housing. Enhancing the investment climate for rental housing can only be truly accomplished through policy changes from senior levels of government. As discussed in Halton Region's Comprehensive Housing Strategy, the federal government plays an important role in influencing the production and maintenance of rental housing. The Comprehensive Housing Strategy identifies the need for a National Housing Framework, which as part of the Framework, should include changes to tax policies. Likewise, as mentioned previously, there are a number of provincial policy initiatives that emphasize the need for the creation of a range of housing options including affordable housing. Changes in tax policies should be made at the provincial level in order to support these policies and influence the production of rental housing.

A review of the existing senior government multi-residential tax policies is provided below, including a discussion of the impacts of the tax policies on investment in rental housing and potential opportunities for changes the tax policies to help strengthen the rental housing sector. The analysis of the impacts on investment of the housing utilizes a sample hypothetical 50 unit rental apartment in Halton Region to demonstrate the impacts. Further details on the assumptions related to both the built form and the costs of the building are provided in Appendix C.

The analysis throughout this section of the report discusses the potential impacts to landlords of various tax policies, and also provides, for illustration purposes, the potential impacts to rents of tenants if the full impacts were passed on to the tenant. The distribution of the impacts between tenants and landlords are likely to be shared somewhat between landlord and tenant, although it is difficult to ensure that reductions to senior government taxes would be passed on to the tenants. As such, the main benefit of the proposed changes to the tax policies is to strengthen the rental housing sector and encourage the creation of new rental housing.

3.2.1 *Federal Tax Policy*

3.2.1.1 Goods and Services Tax (GST) and GST Rebate on New Construction

GST is a federal taxation practice that drives up the cost of producing rental housing, and is one of the factors which has discouraged private sector investment in rental housing. On January 1, 1991, a 7% Goods and Services Tax (GST) came into effect and applied to the full cost of new rental housing. This replaced the Manufacturers' Sales Tax, which only applied to building materials. In 2000, a rebate of 36% of the GST was extended to new rental housing construction. It should be noted, however, that non-profit affordable rental housing projects can be eligible for a GST rebate of 50%. The change to tax policy in 2000 that allowed the partial rebate on the GST on new rental housing construction is a move towards encouraging more rental construction. However, developers still pay more in tax than they would have with the federal manufacturer's tax. With the partial rebate and today's GST rate of 5%, the effective GST rate is 3.2%.

This tax treatment of rental housing is contrasted with the treatment of investors in new commercial rental projects (e.g. office buildings and shopping centres), which effectively do not pay GST because they can claim offsetting GST inputs. In this regard, rental housing is treated differently from other types of real estate investments and is looked upon less favourably.

Using a sample hypothetical development of a 50 unit rental building in Halton Region (see Appendix D Table 1 for assumptions) with a total capital cost of $10,760,000, the effective GST after the partial rebate would be $267,000, or approximately $5,300 per unit (see Table 5 on the following page). This tax has a relatively significant impact on investment, decreasing profit by $27,200, or $546 per unit, and impacting the overall Return on Equity by 0.96%. From the tenant's perspective, assuming the full costs are passed on to the tenant, GST increases the rent by $45 per unit per month.[6]

Table 5: Impact of the Effective Portion of GST on the Investment and Affordability of Rental Housing in a Sample Development

	Total Impact	Per Unit Impact
Impact to Capital Cost	$267,413	$5,348
Impact to Profit	$27,276	$546
Impact to Valuation of the Property	N/A	N/A
Impact to Return on Investment (ROI)	0.19%	0.19%
Impact to Before Tax Return on Equity (ROE)	0.96%	0.96%
Impact to After Tax Return on Equity (ROE)	0.49%	0.49%
Impact on Rent (per unit/month)	-	$45

Source: SHS Consulting Calculations
Note: Calculations assume an equity contribution equal to 25% of the project cost. Other assumptions are provided in Appendix D Table 1.

[6] Throughout this section of the report figures have been provided on the impacts of the tax policies to the tenant for illustration purposes, though the impacts are likely to be somewhat shared among landlords and landowners prior to development, and tenants. Because there are no mechanisms for ensuring reductions to federal and provincial taxes are passed on to tenants, for the purposes of this report it has been assumed that the majority of the benefits will accrue to the landlord/developer of the rental housing.

Fully rebating the GST on new rental housing would lower the total cost as well as the equity and mortgage financing required, making the investment more attractive. A full rebate would be an effective, fair and practical way to help reduce the cost of new rental housing.

The impact of GST on investment performance and rent in an ongoing rental project (operational phase), though less than in the construction phase, also has an impact on profits and rents. Operating costs such as maintenance related expenses, utilities and insurance expenses, and management fees, are all affected by GST. The decrease in annual profit is about $4,747 which translates to $95 per unit. This increases monthly rent by $8 per unit and the overall impact on ROE is about 0.17%.

The table below summarizes the effects of GST in an ongoing rental project with the same assumptions as the hypothetical 50 unit development project mentioned previously.

Table 6: Impact of GST on Operating Costs in an Ongoing Rental Project in a Sample Development

	Total Impact	Per Unit Impact
Impact to Capital Cost	N/A	N/A
Impact to Annual Profit	$4,747	$95
Impact to Valuation of the Property	$79,100	$1,582
Impact to Return on Investment (ROI)	0.05%	0.05%
Impact to Before Tax Return on Equity (ROE)	0.17%	0.17%
Impact to After Tax Return on Equity (ROE)	0.09%	0.09%
Impact on Rent (per unit/month)	-	$8

Source: SHS Consulting Calculations

Fully rebating the GST on operating costs in a rental housing project is an additional way of encouraging investors to participate in such projects by increasing potential ROE.

Key Issue: GST on new rental housing and ongoing operating costs of existing rental housing increase the total costs as well as the equity and mortgage financing required, negatively impacting the attractiveness of rental housing investment. GST is charged on all capital costs related to the building as opposed to only the cost of building materials, thereby making GST costs higher than they previously were with Manufacturers' Sales Tax. A full rebate would be an effective way to help reduce the cost of new and existing rental housing and help stimulate the creation of new rental housing.

Recommendation: Advocate to the Federal government to provide a full GST rebate on new rental housing construction and GST rebate or GST exemption on operating costs in an ongoing rental housing project.

3.2.1.2 Capital Cost Allowance (CCA)

Capital Cost Allowance is depreciation for tax purposes. Prior to the 1972 tax reform, all types of rental investors could use the CCA deduction to reduce their total income for tax purposes. Since the reform, only Principal Business Corporations (i.e. companies that are in the real estate business) and life insurance companies are allowed to use CCA deduction against income from other sources.

Further adjustments to the CCA rules followed in 1988 when the actual rate of 5% was reduced to 4% and a half-year rule meant that 2% would be applied in the first year of operations. This meant that a lower CCA value must be applied as deduction against income and higher taxes would have to be paid in early years.

All types of investors should be treated fairly and be allowed to use the CCA deduction against income from sources outside real estate. Although Principal Business Corporations are the main type of investor for new developments because of their expertise in the area, they are by no means the only investor, and a fair treatment across the broad spectrum of investors could have a positive result in encouraging new rental housing supply.

Increasing the rate back to 5% (2.5% in the first year) would allow projects to be more profitable in the early stages. For the sample 50 unit development, increasing the CCA from 4% to 5% would result in an average increase in the after tax profit of $32,451, or $649 per unit, in each of the first ten years. If the analysis is extended to twenty five years, the average increase in the after tax profit in each of those years would be $17,449 or $349 per unit (see Table 7 below, further details on the calculations are provided in Appendix E Table 1). The difference in after tax Return on Equity of a one percent higher CCA rate is 1.14%. This is an important change that would encourage investors to take on the risks that come with new developments.

Assuming that the after tax impacts on profit are passed on to tenants in the short run, the average impact on rent in the first ten years would be $54 per unit per month, and in the first twenty five years would be $29 per unit per month. It should be noted, however, that in the long run there is a diminishing impact on after tax profits (profits would be lower in later years), and therefore there would be a lesser impact on rents to tenants in the long run.

Table 7: Average Impact of a CCA of 5% Versus 4% in the First Ten/Twenty Five Years on the Investment and Affordability of Rental Housing in a Sample Development

	10 Year Analysis		25 Year Analysis	
	Total Impact	Per Unit Impact	Total Impact	Per Unit Impact
Impact to Total Capital Cost	N/A	N/A	N/A	N/A
Impact to Before Tax Profit	N/A	N/A	N/A	N/A
Impact to After Tax Profit (Average of First X years)	$32,451	$649	$17,449	$349
Impact to Valuation of the Property	N/A	N/A	N/A	N/A
Impact to Return on Investment (ROI)	N/A	N/A	N/A	N/A
Impact to Before Tax Return on Equity (ROE)	N/A	N/A	N/A	N/A
Impact to After Tax Return on Equity (ROE)	1.14%	1.14%	0.61%	0.61%
Impact on Rent (per unit/month) (Average of First 10 and 25 years)	-	$54	-	$29

Source: SHS Consulting Calculations
Note: This analysis provides an average of the first ten/twenty five years of the development. However, over the long term the impact on after tax profits diminishes, and thus there would be a lesser impact on rents.

One of the positive aspects of a change to the CCA rate from the government perspective is that the change would not lower the amount of taxes collected by government since depreciation is recaptured when real estate property is sold.

Key Issue: Capital Cost Allowances were reduced from 5% to 4% per year in 1988, and can no longer be used against income from other sources unless the investor is a Principal Business Corporation. This reduces the after tax returns on new rental housing in early years when the projects are the least stable, and when investors require the largest returns. An increase in the CCA and allowance of CCA deductions against income from other sources would encourage investment in new rental housing.

Recommendation: Advocate to the Federal government to increase the CCA rate back to the 1988 rate of 5% and allow all investors (not just Principal Business Corporations) to use CCA deductions against income from sources other than real estate rental income.

3.2.1.3 Capital Gains

In the 1972 tax reform, capital gains tax was introduced and effectively any sale of a rental building became subject to such tax. Upon a sale of rental property, the owner must pay a tax on recaptured Capital Cost Allowance (CCA) and on any nominal capital gains. Several studies suggest that a deferral of capital gains similar to that in the United States should be considered by the Canadian government. Under the U.S. rules, capital gains and CCA can be deferred if another property of equal or greater value is purchased.

There are numerous benefits of implementing a deferral of taxes on capital gains. First, long term investors can rebalance their portfolios according to their goals without worrying about potential tax implications. This not only improves the liquidity in the rental housing market, but also encourages investment in refurbishment of existing stock and new supply.

Taxes on capital gains can be significant. In the sample 50 unit development, if the property was held for a period of 10 years, and increased in value at an annual rate of 5%, the capital gains taxes would be $3,259,866 or $65,197 per unit (see Appendix E Table 2 for details). By requiring rental property owners to incur such a tax immediately, instead of allowing it to be deferred, property owners are not encouraged to reinvest in rental housing.

While it is difficult to calculate the impact of this tax on tenants because it is a one-time tax on the sale of the property, in the long run for funds reinvested into rental housing, at least a portion of the costs are passed on to the tenants as higher rents.

Key Issue: Capital gains taxes are payable on the sale of all rental properties, with no opportunities for deferral if the funds are reinvested in rental housing, as is the case in the United States. An opportunity for deferral of capital gains taxes would help encourage reinvestment in rental housing.

Recommendation: Advocate to the Federal government to allow a deferral of capital gains tax if the proceeds from the sale of one residential property are re-invested into another residential property of equal or greater value.

3.2.1.4 Deductibility of Soft Costs

Soft costs are expenditures incurred by the owner in the construction of a new rental property such as professional fees, municipal fees, financing costs, and property taxes. Prior to 1979, certain types of soft costs were immediately deductible from rental investors' income in determining income for tax purposes. In 1979, rather than allow deduction of all eligible soft costs as an expense in the first year, certain deductions were restricted to the year in which they occurred. In 1981, the types of soft costs allowed were restricted for non-principal business corporations. Subsequently, in 1988, the application of similar requirements concerning the capitalization of soft cost began to the phased in for principal business corporations. Since 1992, all investors in rental properties must capitalize soft costs incurred in the construction or renovation of rental project. Currently, only a few soft costs incurred during construction can be deducted from income when calculating tax such as landscaping costs, promotional expense, site investigation cost, and mortgage insurance fees (Housing Supply Working Group, 2002).

For the sample development, soft costs are $2,345,379, or $46,908 per unit. The tax implications in year one of being able to deduct soft costs from other income as opposed to capitalizing soft costs is $1,142,200 or $22,844 per unit assuming a corporate tax rate of 48.7%. This would be a very attractive benefit for rental housing investments, as it would result in higher after-tax returns in the first year.

As with capital cost allowance, the benefits to the investors would be in the early years of the development, when the risks are the highest. The short term benefits would vary depending on the time frame considered. For example, for a ten year period, the average annual impacts to profit would be $77,519, $1,550 per unit in the sample development (as shown in Table 8 below). Over a twenty five year period, the average annual impacts to profit would be $16,809, or $336 per unit. The average annual Return on Equity would improve by 2.7% over the ten year period, or 0.6% over the twenty five year period. In the long run there is no impact on after tax profits or Return on Equity (profits and Return on Equity would be lower in later years).

Table 8: Impact of Deductibility of Soft Costs on the Investment and Affordability of Rental Housing in a Sample Development Over A Ten/Twenty Five Year Period

	10 Year Analysis		25 Year Analysis	
	Total Impact	**Per Unit Impact**	**Total Impact**	**Per Unit Impact**
Impact to Total Capital Cost	N/A	N/A	N/A	N/A
Impact to Before Tax Profit	N/A	N/A	N/A	N/A
Impact to After Tax Profit (Assuming a tax rate of 48.7%)	$77,519	$1,550	$16,809	$336
Impact to Valuation of the Property	N/A	N/A	N/A	N/A
Impact to Return on Investment (ROI)	N/A	N/A	N/A	N/A
Impact to Before Tax Return on Equity (ROE)	N/A	N/A	N/A	N/A
Impact to After Tax Return on Equity (ROE)	2.7%	2.7%	0.6%	0.6%
Impact on Rent (per unit/month)	-	$129	-	$28

Source: SHS Consulting Calculations

Note: This analysis provides an average over the first ten/twenty five years of the development (assuming the development is not sold during that period). However, over the long term there is a diminishing impact on after tax profits, and thus there would be a lesser impact on rents.
Further details on the above calculations are provided in Appendix E Table 3 and Appendix E Table 4

A change in tax policy to allow soft costs to be deducted from income in the first year could have a positive impact on rents in the short run, though there would be fewer impacts on rents in the long run. The short-run impacts to tenants are difficult to quantify, but if, for example, the first ten years of the development was considered in isolation, and it was assumed that all of the benefits were distributed to tenants in the first ten (twenty five) years, the impact on rents would be $129 ($28) per unit per month. The impact would decrease the longer the time period considered.

Key Issue: Soft costs must be capitalized and are no longer immediately deductible from rental investors' income, reducing project returns in early years when risks and expectations for returns are the highest. Allowing soft costs to be deducted immediately from income would be an attractive benefit to help increase the investor pool in rental housing and help stimulate rental housing development.

Recommendation: Advocate to the Federal government to allow soft costs for rental housing developments to be deducted from income in first year rather than having them capitalized.

3.2.1.5 Designation of Rental Housing as a Passive Investment

A significant portion of the entire rental housing stock is owned by small corporate rental investors. However, small landlords do not enjoy as favourable tax treatment as other small businesses, because under the *Income Tax Act*, investing in rental development is "passive", similar to ownership of stock or bond. Unlike hotel, motel, or farm ownership which are considered "active" investments, rental properties are ineligible for the small business deduction. An active small business with income up to $400,000 can take advantage of this tax deduction. Moreover, an active small business has a total life time capital gains deduction of $500,000 and an option to defer capital gains if another property is bought for the same or similar business.

Allowing small landlords to qualify for the same tax treatment would mean a fair treatment of different businesses that operate in similar environments. It would also encourage them to participate in new rental housing developments since the after-tax returns from rental properties would look more attractive given the deduction.

Treating rental income of small landlords as active income would impact profits in the sample development by $68,580, or $1,372 per unit. The after tax Return on Equity would be 2.42% higher with this treatment. If the savings were passed on to tenants, rents could be decreased by $114 per unit (see Table 9 below).

Table 9: Impact of a Treating Rental Corporations As Small Business with Active Income on the Investment and Affordability of Rental Housing in a Sample Development

	Total Impact	Per Unit Impact
Impact to Total Capital Cost	N/A	N/A
Impact to Before Tax Profit	N/A	N/A
Impact to After Tax Profit	$68,580	$1,371
Impact to Valuation of the Property	N/A	N/A
Impact to Return on Investment (ROI)	N/A	N/A
Impact to Before Tax Return on Equity (ROE)	N/A	N/A
Impact to After Tax Return on Equity (ROE)	2.42%	2.42%
Impact on Rent (per unit/month)	-	$114

Source: SHS Consulting Calculations
Further details on the calculations are provided in Appendix E Table 5

Key Issue: Rental housing income is considered passive investment income and is taxed at a higher rate than other business income, and small landlords do not qualify for the small business deduction that active small businesses qualify for. Treating rental housing income as active business income would encourage new rental housing developments since the after-tax returns from rental properties would look more attractive.

Recommendation: Advocate to the Federal government to treat income from rental properties as active business income and allow eligible investors to qualify for the small business deduction for taxation purposes.

3.2.2 *Low Income Housing Tax Credit*

A Low Income Housing Tax Credit (LIHTC) can be an effective tool for the federal government to encourage the private sector to participate in the development of affordable rental housing. Since the inception of the tax credit program in the United States in 1986, more than 1.5 million rental units have been built or rehabilitated (Ontario's Housing Industry, 2008). It is the largest program in the U.S. for stimulating the housing supply side, with an annual budget of nearly $3 billion.

Low Income Housing Tax Credits are allocated to developers who are involved in affordable housing projects. The amount of tax credit is directly related to the number of units charging affordable rents in a given housing project. These credits are then sold to investors at a discount and the proceeds are used to finance a part of the total capital cost of the proposed project. From investors' point of view, the tax credit is a benefit spread over 10 years; therefore the purchase price is at a discount of the face value of these tax credits.

The U.S. program dictates that the project shall supply below market rents for at least 30 years, which is a clear step towards achieving affordable housing (Housing Supply Working Group, 2001). What makes the program so successful is partially due to other measures the U.S. government has put in place to provide affordable housing to its citizens. Most notable is the shelter subsidy which provides additional support to low income households. Without additional programs, LIHTC's effectiveness would be questionable.

The table below highlights the major differences between a housing project that utilizes a Low Income Housing Tax Credit similar to the program in the United States versus the Base Case housing project Scenario. The required rent that the developer must achieve has been assumed to be 20% less than average market rent, a difference of $938 per unit per month as compared to the Base Case Scenario.

From the perspective of an investor, the key measure is Return on Equity (ROE). Compared to the Base Case scenario, before tax ROE is 2.42% higher and after tax ROE is 1.24% higher. The major positive difference for an individual renting a unit in a property which utilizes a Low Income Tax Credit is the amount of rent they have to pay (as mentioned above, rent is $938 less than in the Base Case Scenario).

Table 10: Impact of Low Income Housing Tax Credit on the Investment and Affordability of Rental Housing in a Sample Development

	LIHTC Project	Base Case Project	Difference
Total Project Costs	$10,541,637	$10,760,268	-$218,631
Equity Contribution	$874,924	$2,838,931	-$1,964,007
LIHTC Contribution	$6,375,000	$0	$6,375,000
Mortgage Financing	$3,141,294	$7,770,918	-$4,629,624
GST Rebate	$150,420	$150,420	$0
Average Rent (per unit/month)	$832	$1,770	-$938
Net Annual Revenue	$493,824	$1,039,484	-$545,660
Operating Costs	$165,807	$229,869	-$64,063
Net Operating Income	$328,017	$809,615	-$481,597
Debt Service	$241,178	$596,625	-$355,447
Annual Profit	$86,839	$212,990	-$126,150
Debt Coverage Ratio (DCR)	1.36	1.36	
ROE (Before Tax)	9.93%	7.50%	2.42%
ROE (After Tax)	5.09%	3.85%	1.24%
ROI	3.11%	7.52%	-4.41%
Property Value	$5,466,953	$13,493,576	-$8,026,622

Source: SHS Consulting Calculations

Return on Investment (ROI) and property value are both lower by 4.41% and $8,026,622 respectively. The dramatic change is due to a much lower Net Operating Income which is a function of greatly reduced rent and slightly reduced operating costs. Although debt service is greatly reduced, annual profit is still lower by $126,150 compared to base case, again due to much lower rents.

Further details on the calculation and assumption are provided below. Some assumptions have been based on information from the U.S. Department of

Housing and Urban Development on the U.S. Low Income Housing Tax Credit program.

Table 11: LIHTC Maximum Contribution Calculation

Total Project Cost	$10,541,637
Less: Land Value	$1,071,725
Eligible Basis	**$9,469,912**
Credit Rate for New Construction[1]	9%
Annual Credit	**$852,292**
Duration of Tax Credits	10 years
Total Amount of Housing Tax Credits	**$8,522,921**
Discount on Tax Credits[2]	75%
Maximum LIHTC Equity Contribution	**$6,392,191**

1. 9% Credit Rate is applied to new construction and substantial rehabilitation projects that are not subsidized by the Federal government. 4% Credit Rate is applied to acquisition of existing buildings and Federally subsidized new construction or rehabilitation.

2. Discount represents an incentive for a tax payer to take advantage of future benefits of tax credits in the next ten years.

Source: SHS Consulting Calculations

Focus Consulting has done preliminary research on implementing such a program in Canada. In their report titled *Suggestions on the Design of Low Income Housing Tax Credit for Canada* (2006), it is argued that such a system, if implemented correctly, can be more efficient than a direct grant subsidy because it reduces the costs of administration. However, the effectiveness is still very dependent on the overall investment environment in Canada, which is currently unfavourable (low returns for associated type of risk) for any type of investor interested in pursuing ventures in affordable housing. In contrast, tax policies in the U.S. are more favourable even without LIHTC. For instance, capital gains tax in the U.S. is deferrable upon reinvestment of proceeds in new housing development projects.

Key Issue: The current investment climate for private sector investment in affordable rental housing is poor. A Low Income Housing Tax Credit (LIHTC) can be an effective tool for the federal government to encourage the private sector to participate in the development of affordable rental housing.

Recommendation: Advocate to the Federal government to implement a Low Income Housing Tax Credit.

3.2.3 *Provincial Tax Policy*

3.2.3.1 Provincial Sales Tax (PST) and PST Rebate on New Construction

PST is another tax that drives up the cost of housing, and discourages investment in rental housing. PST is calculated at a rate of 8% on items such as hard construction costs and mortgage insurance fees. Currently, only charitable organizations are eligible for a 50% rebate on PST related to the fixed portions of the building (i.e. hard construction costs, not including appliances).

A simple and effective way to encourage more rental housing construction would be to fully rebate the PST for all new rental housing construction. On the sample 50 unit development PST amounts to $521,034 or $10,421 per unit (see Table 12 below). This impacts annual profits by $56,145, or $1,063 per unit, and Return on Equity by 1.87%. Assuming that the impacts on profit are passed on to tenants, the impact on rent would be $89 per unit per month.

Table 12: Impact of PST on the Investment and Affordability of Rental Housing in a Sample Development

	Total Impact	Per Unit Impact
Impact to Total Capital Cost	$521,034	$10,421
Impact to Profit	$53,145	$1,063
Impact to Valuation of the Property	N/A	N/A
Impact to Return on Investment (ROI)	0.38%	0.38%
Impact to Before Tax Return on Equity (ROE)	1.87%	1.87%
Impact to After Tax Return on Equity (ROE)	0.96%	0.96%
Impact on Rent (per unit/month)	-	$89

Source: SHS Consulting Calculations

Key Issue: PST on new rental housing increases the total costs of the housing as well as the equity and mortgage financing required, negatively impacting the attractiveness of rental housing investment. A full rebate would be an effective way to help reduce the cost of new rental housing and help stimulate the creation of new rental housing.

Recommendation: Advocate to the Provincial government to provide a full rebate on Provincial Sales Tax for all new rental housing construction.

3.2.3.2 Land Transfer Tax

Currently, any land purchase whether or not it includes buildings on it must be accompanied by a land transfer tax. Land transfer tax is levied by the province and is calculated at a rate of .5% on the first $55,000, 1% on amounts between $55,000 and $250,000, 1.5% on amounts between $250,000 and $400,000, plus 2% for amounts greater than $400,000. The land transfer tax does not contribute as significantly to the costs of developing rental housing as some of the other multi-residential taxes, but in situations such as design-build arrangements where the completed building is transferred to the new owner along with the land and therefore the land transfer tax is applicable on both the land and the building, the costs can be quite significant.

In the sample development where the land transfer tax is assumed to apply to the land only, the total land transfer tax on the $1,000,000 piece of land is $16,475, or $330 per unit. This tax translates into a $1,680, or $34 per unit, impact on profits, and a 0.06% impact on Return on Equity. The impact on rents is relatively low at $3 per unit per month. However, when land transfer tax is applied to land and building (sample development, 50 units) with a total value of $9,404,927, the total tax paid is $192,574, or $3,851 per unit. This tax translates into a $19,643, or $393 per unit, impact on profits, and a 0.69% impact on Return on Equity. The impact on rents is also substantial, at $33 per unit per month. (see Table 13 below).

Table 13: Impact of Land Transfer Tax on the Investment and Affordability of Rental Housing in a Sample Development (Tax on the Land Only)

	Land Transfer Tax Charged on Land Only		Land Transfer Tax Charged on Land & Building	
	Total Impact	**Per Unit Impact**	**Total Impact**	**Per Unit Impact**
Impact to Total Capital Cost	$16,475	$330	$192,574	$3,851
Impact to Profit	$1,680	$34	$19,643	$393
Impact to Valuation of the Property	N/A	N/A	N/A	N/A
Impact to Return on Investment (ROI)	0.01%	0.01%	0.14%	0.14%
Impact to Before Tax Return on Equity (ROE)	0.06%	0.06%	0.69%	0.69%
Impact to After Tax Return on Equity (ROE)	0.03%	0.03%	0.35%	0.35%
Impact on Rent (per unit/month)	-	$3	-	$33

Source: SHS Consulting Calculations

Key Issue: Land transfer taxes are a contributor to the total costs of new rental housing as well as the equity and mortgage financing required, negatively impacting the attractiveness of rental housing investment. A full rebate would help contribute to lowering the cost of new rental housing and contribute to a stimulus for new rental housing production.

Recommendation: Advocate to the Provincial government to eliminate Land Transfer Tax if the acquired land or design-build arrangement is for the sole purpose of a rental housing project.

None of the changes to the tax policies mentioned above are sufficient on their own to stimulate the development of rental housing. Changes to each individual tax policy would incrementally contribute to stimulating the development of rental housing, and collectively these changes may have an impact on rental housing development. Tax changes should be done as part of a National Housing Framework and the provincial Affordable Housing Strategy.

3.2.4 *Impact of Changes to Federal and Provincial Tax Policies on Strengthening the Rental Housing Sector*

Table 14 on the following page provides a summary of the impact of the tax policies discussed above on the performance of rental housing investments. The cumulative impact on after tax Return on Equity of the various tax policies is quite significant, ranging between 5.11% and 8.06% depending on the time period considered. Before tax Return on Equity is impacted by between 2.89% and 3.52%. Modifying the tax policies as recommended could have considerable impacts on the attractiveness of rental housing investment.

Table 14: Impact of Various Tax Policies on Performance of Investment in a Sample Development

	Impact on Investment Performance		
	Before Tax Return on Equity (ROE)	*After Tax Return on Equity (ROE)*	*Return on Investment (ROI)*
Federal			
Full GST Rebate	0.96%	0.49%	0.19%
CCA Rate Increase to 5% from 4% -10 year analysis -25 year analysis	 N/A N/A	 1.14% 0.61%	 N/A N/A
Deferral of Capital Gains	*Difficult to quantify*		
Deductibility of Soft Costs in First Year As Opposed to Capitalization -10 year analysis -25 year analysis	 N/A N/A	 2.7% 0.6%	 N/A N/A
Treat Rental Income as Active Business Income (Small Business Deduction)	N/A	2.42%	N/A
Provincial			
Full PST Rebate	1.87%	0.96%	0.38%
Land Transfer Tax Rebate -Land only scenario -Land & Building scenario	 0.06% 0.69%	 0.03% 0.35%	 0.01% 0.14%
Total Impact of All Tax Policies	**2.89-3.52%**	**5.11% - 8.06%**	**0.58% - 0.71%**

Source: SHS Consulting Calculations
Note: The effect on ROE is representative of first year only. The equity stake in the investment increase every year as the outstanding mortgage balance is reduced, therefore ROE diminishes in future years.

3.3 Impact of Changes to Tax Policies as a Stimulus of Rental Production

Interviews with three local developers/investors identified that a reduction in taxes associated with rental housing construction and/or ongoing operating expenses would most likely have a positive impact on stimulating rental production, especially if more than one tax reduction is implemented. The builders/developers indicated that the minimum return on equity required for the long term investor to develop rental housing is in the 10% to 15% range in the short term, depending on the level of risk involved. (If purchasing an existing building, the required return on equity would be approximately 7.5%). This implies that if a range of tax policy reductions were implemented, rental housing production would be viable at the higher end of rent levels. The builders/developers indicated that tax policy changes and other fee waivers or grants would be required to produce rental housing affordable to low income households. The builders/developers also indicated that the situation in Halton is especially difficult for rental housing investors because of the high cost of land in relation to the rents that could be charged. Similarly, financing requirements, including required equity investment, are becoming more difficult due to the current economic climate. Consequently, reductions in a range of taxes associated with both the construction and operating expenses would be welcomed by developers and rental housing investors. While it cannot be concluded that changes to one or more tax policies would be sufficient to stimulate rental production, one conclusion from the discussions with the local developers is that taxes are one of the items that developers consider in deciding to develop new rental housing.

The hypothetical pro forma used for the analysis in this report calculates that without changes to tax policies or other incentives, the rents required for a new rental housing development to be financially viable are $1,622 per month for a one bedroom and $1,918 per month for a two bedroom. These rents are towards the mid-to-upper end of the rent range that is considered to be Affordable Housing in Halton Region. Further, these rents are higher than the average rents for condominium units in the Region ($1,395), and may be higher than what is demanded for rental housing. Therefore, the developer may not be enticed to develop rental housing without changes to tax policies or other incentives.

As an example of a tax policy that could be changed, reducing the new multi-residential tax ratio from 2.0 to 1.0 on a rental housing development with an assessed value of $159,906 per unit could reduce rents by $104 per unit per month, bringing rents to $1,518 for a one bedroom and $1,814 for a two bedroom, which may still be higher than the rents that would generate sufficient demand and entice rental housing production. This again shows that a change to one tax policy alone isn't sufficient, and changes to tax policies should be done in combination to act as a sufficient stimulus for new rental housing development.

4.0 **Summary of Recommendations**

Recent development patterns show that new supply of rental housing in Halton Region is not keeping up with needs, and many of the multi-residential tax policies of the senior governments contribute to the poor investment climate for developing rental housing. Enhancing the investment climate for rental housing can only be truly accomplished through policy changes from senior levels of government. There are a number of changes that could be made to tax policy at the federal and provincial levels to increase stimuli for new multi-residential housing supply and encourage a thriving economy.

At the municipal level the main objective of changes to multi-residential tax policies would be to improve fairness between owners and renters, given that it is easier to ensure that reductions to property taxes are passed on to the tenants. In addition, Halton has had a relatively tight rental market for a number of years, and moving forward, this will help renters beyond those who would remain in their unit after a property tax reduction continue to benefit from lower property taxes. However, it is possible that the market may adjust in the future, and some of the future benefits of a reduction in the multi-residential tax ratio may flow to landlords. In this situation much of the funds are likely to be reinvested in the business of rental housing, similar to what would occur in cases of reduced income taxes for businesses in general.

To address the issue of fairness it is recommended at the Regional level to:

- Reduce existing Multi-Residential as well as New Multi-Residential tax ratios to within the provincial band of fairness (1.0 - 1.1).

The following is a summary of provincial and federal tax policy recommendations:

Advocate to the Provincial government to:

- Fully rebate Provincial Sales Tax for all new rental housing construction.
- Eliminate Land Transfer Tax if the acquired land or design-build arrangement is for the sole purpose of a rental housing project.

Advocate to the Federal government to:

- Provide a full GST rebate on new rental housing construction and GST rebate or exemption on operating costs in ongoing rental projects.
- Increase the CCA rate back to the 1988 rate of 5% and allow all investors (not just Principal Business Corporations) to use the CCA deduction against income from sources other than real estate rental income.

- Allow a deferral of capital gains tax if the proceeds from the sale of one residential property are re-invested into another residential property of equal or greater value.
- Allow soft costs of rental housing developments to be deducted from income in first year rather than having them capitalized.
- Treat income from rental properties as active business income and allow eligible investors to qualify for the small business deduction for taxation purposes.
- Advocate to the Federal government to implement a Low Income Housing Tax Credit.

A national and provincial affordable housing strategy and program is needed to support and enhance the effectiveness of local incentives. Until that occurs, municipalities can provide incentives, such as equalization of the property tax ratio, to support and encourage affordable housing and increase choices along the housing continuum.

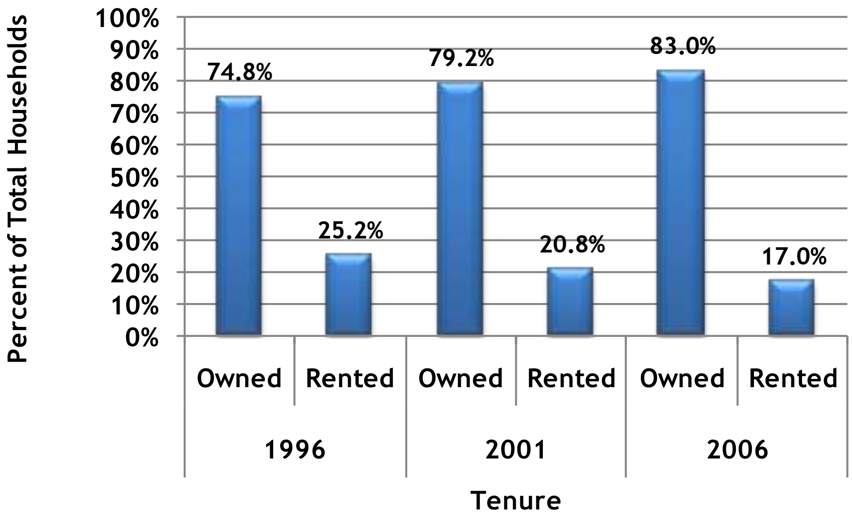
List of Appendices

Appendix A: Supply of Rental Housing in Halton

This appendix provides an overview of the supply of rental housing in Halton Region.

The homeownership rate in Halton Region and each of its local municipalities has been increasing since 1996. In 2006, Milton had the highest homeownership rate at 88.1%, followed by Halton Hills at 86%, Oakville at 84.1%, and Burlington at 79.6%. The data shows that throughout the period of 1996 to 2006, the number of households renting their living space has decreased not just in relative terms, but in absolute terms as well. (See Appendix C Table 1 for details on individual municipalities).

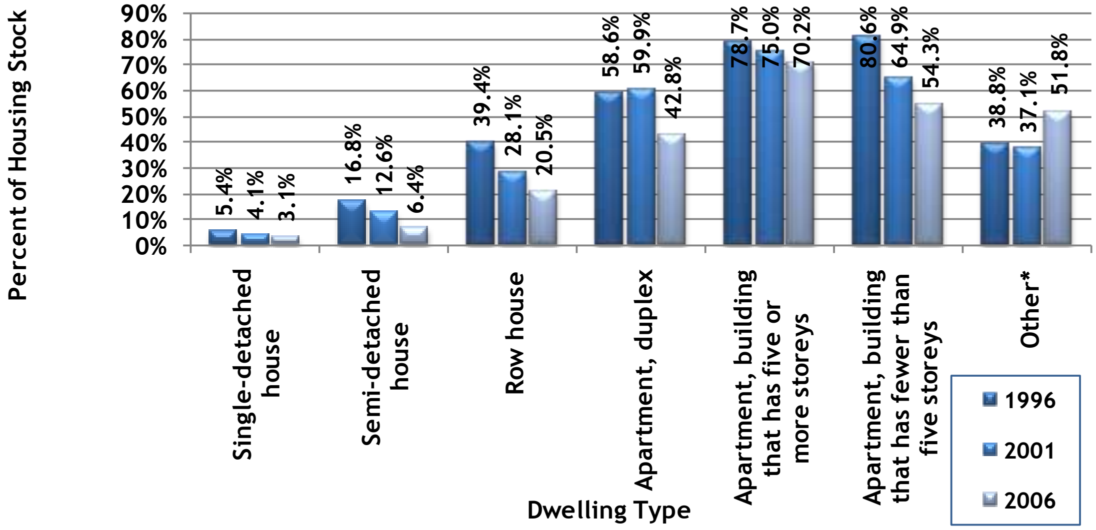
Appendix A Figure 1: Trends in Tenure in Halton Region, 1996-2006



Source: Statistics Canada, Custom Tabulations, 1996, 2001, 2006

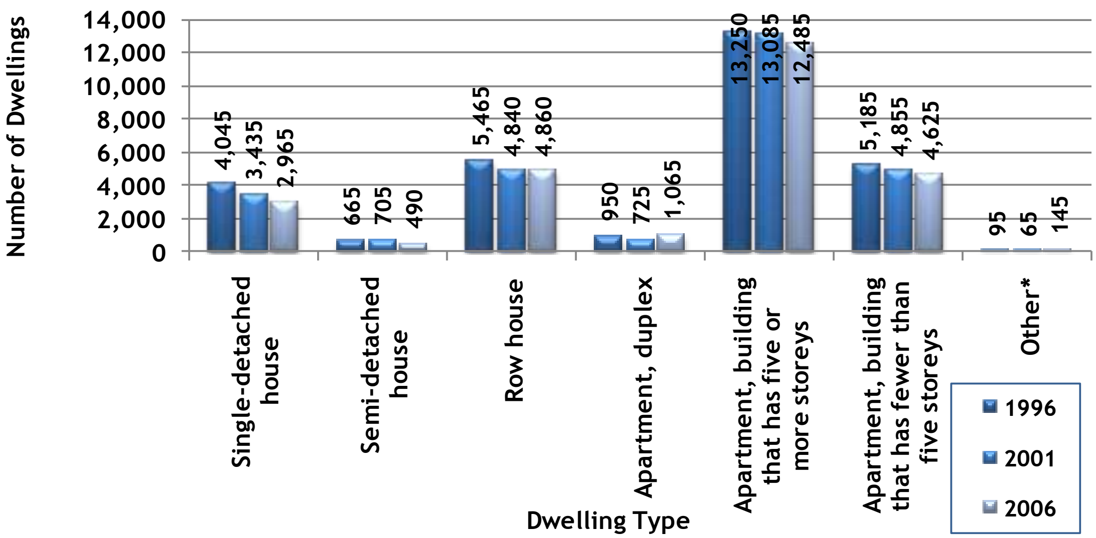
Rental housing's contribution to the total housing stock declined between 1996 and 2006 in all of its major categories by dwelling type. The percentage of high-rise apartments that were rented decreased from 76.4% in 1996 to 70.2% in 2006. A much more significant drop can be observed for low-rise apartments available for rent, only 54.3% in 2006 compared to 80.6% in 1996. These changes are largely a result of construction of condominium apartments which are largely owner occupied. Single-detached and semi-detached houses continue to show significant ownership rates, only 3.1% and 6.4% are rented in 2006 respectively, compared to 5.4% and 16.8% in 1996. (See Appendix C Table 2 for details on individual municipalities).

Appendix A Figure 2: Rental Housing as a Proportion of Total Housing Stock by Dwelling Type, Halton Region, 1996-2006



Source: Statistics Canada, Custom Tabulations, 1996, 2001, 2006

Appendix A Figure 3: Rental Housing Stock by Dwelling Type (Absolute Numbers), Halton Region, 1996-2006



Source: Statistics Canada, Custom Tabulations, 1996, 2001, 2006

The overall vacancy rate in Halton Region has been declining since 2004 and reached 1.4% in 2008. The drop is especially significant for 1-bedroom and 2-bedroom apartments which saw vacancy rates as low as 1.3% and 1.4% respectively in 2008, compared to 3.4% and 2.5% in 2004.

Appendix A Table 1: Vacancy Rates by Municipality by Unit Type, Halton Region, 2002-2008

Oakville

Unit Type	2002	2003	2004	2005	2006	2007	2008
Bachelor	3.6%	2.3%	**	**	0.0%	1.4%	5.9%
1 Bedroom	2.2%	2.8%	3.8%	1.5%	1.8%	1.3%	1.0%
2 Bedroom	2.5%	2.5%	2.7%	1.9%	0.8%	2.6%	1.0%
3+ Bedroom	0.7%	1.7%	**	0.6%	1.2%	2.6%	0.0%
Overall rate	2.3%	2.5%	3.0%	1.8%	1.1%	2.1%	1.1%

Burlington

Unit Type	2002	2003	2004	2005	2006	2007	2008
Bachelor	**	0.0%	**	**	**	0.0%	1.0%
1 Bedroom	0.6%	0.5%	1.3%	2.5%	2.1%	1.6%	1.0%
2 Bedroom	0.5%	0.7%	1.3%	1.3%	1.9%	1.9%	1.7%
3+ Bedroom	1.1%	0.4%	2.1%	1.9%	3.3%	1.2%	**
Overall rate	0.6%	0.6%	1.4%	1.8%	2.1%	1.7%	1.4%

Milton

Unit Type	2002	2003	2004	2005	2006	2007	2008
Bachelor	**	2.8%	0.0%	**	**	**	13.5%
1 Bedroom	1.5%	2.3%	2.5%	1.3%	1.8%	1.4%	3.7%
2 Bedroom	1.3%	1.0%	1.9%	1.1%	0.9%	1.3%	1.5%
3+ Bedroom	**	**	0.0%	1.6%	2.6%	0.0%	0.0%
Overall rate	1.5%	1.4%	2.0%	1.4%	1.8%	1.6%	2.5%

Halton Hills

Unit Type	2002	2003	2004	2005	2006	2007	2008
Bachelor	**	2.8%	**	10.1%	**	**	13.5%
1 Bedroom	1.5%	2.3%	2.5%	1.3%	1.8%	1.4%	3.7%
2 Bedroom	1.3%	1.0%	1.9%	1.1%	0.9%	1.3%	1.5%
3+ Bedroom	**	**	0.0%	1.6%	2.6%	0.0%	0.0%
Overall rate	1.5%	1.4%	2.0%	1.4%	1.8%	1.6%	2.5%

Halton Region

Unit Type	2002	2003	2004	2005	2006	2007	2008
Bachelor	0.0%	2.3%	0.0%	9.7%	0.0%	2.1%	3.8%
1 Bedroom	0.0%	2.7%	3.4%	2.0%	2.0%	1.5%	1.3%
2 Bedroom	0.0%	2.1%	2.5%	1.5%	1.4%	2.1%	1.4%
3+ Bedroom	0.0%	1.8%	0.0%	1.8%	2.6%	1.5%	1.0%
Overall rate	0.0%	2.2%	2.7%	1.8%	1.8%	1.8%	1.4%

Source: CMHC Rental Market Report, 2002-2008

As of February 2008, Halton Region's social housing portfolio comprised of 5,357 units, 70.2% of which were Rent-Geared-to-Income (RGI). The most significant proportion of social housing units are 1-bedroom, followed by 3-bedroom and 2-bedroom. This pattern can be observed for the individual municipalities as well with the exception of Oakville, which has more 2-bedroom units available than 3-bedroom. RGI units represent 73.2% and 74.1% of all social housing units in Oakville and Burlington respectively. However, smaller proportions of RGI units exist in Milton and Halton Hills, at 52.5% and 59.8% respectively.

Appendix A Table 2: Social Housing Portfolio by Municipality by Unit Size, Halton Region, 2008

	Bachelor	1 Bedroom	2 Bedroom	3 Bedroom	4+ Bedroom	Bed/Sit	Other	Total	RGI %	RGI #
Oakville	1	827	706	525	85	190	22	2,356	73.2%	1,725
Burlington	0	832	417	587	55	19	0	1,910	74.1%	1,416
Milton	0	171	102	103	37	21	0	434	52.5%	228
Halton Hills	0	308	71	112	4	160	2	657	59.8%	393
Halton Region	1	2,138	1,296	1,327	181	390*	24	5,357	70.2%	3,762

Source: Halton Social Housing Database, February 2008
*Includes data for Halton Women's Place, Support and Housing Halton , and Summit House, which serve the entire Region

In the time period 2004 to 2007 there has been an increase in the number of households on the social housing waiting list, from 2,053 to 2,264. The number of eligible applicants grew from 1,615 to 1,906 suggesting an insufficient supply of social housing to meet demands. According to the annual report on the Waiting List for Social Housing (2007), 78% of current applications were received within the last three years; this suggests that significant number of applicants drop off of the waiting list without being housed.

Appendix A Table 3: Social Housing Waiting List, Halton Region, 2004-2007

	2004	2005	2006	2007
Eligible Applicants	1,615	1,605	1,791	1,906
Under Review	438	562	291	358
Total	2,053	2,167	2,082	2,264

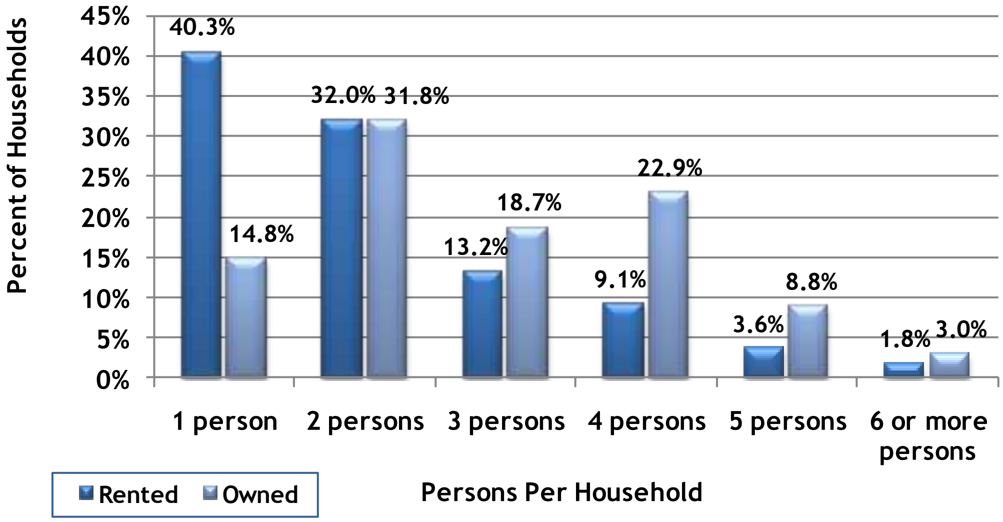
Source: Report SS-11-08 re: "Annual Update on the Waiting List for Social Housing", Halton Region, 2008

Appendix B: Need/Demand for Rental Housing in Halton

The following section provides a brief overview of the demand for rental housing in Halton Region.

In 2006, Halton Region consisted of 156,640 dwellings where 26,640 of them were rented and 130,000 were owned. Of the 26,640 rented dwellings, 40.3% were rented by 1 person and 32.0% were rented by 2 persons. This suggests that there is a great demand for smaller rental units that house 1 or 2 persons as compared to units that house families and/or more than two individuals. This kind of pattern can be observed across all of Halton's local municipalities where 1 or 2 person households occupied between 60% and 70% of all rented dwellings. (See Appendix C Table 3 for details on individual municipalities).

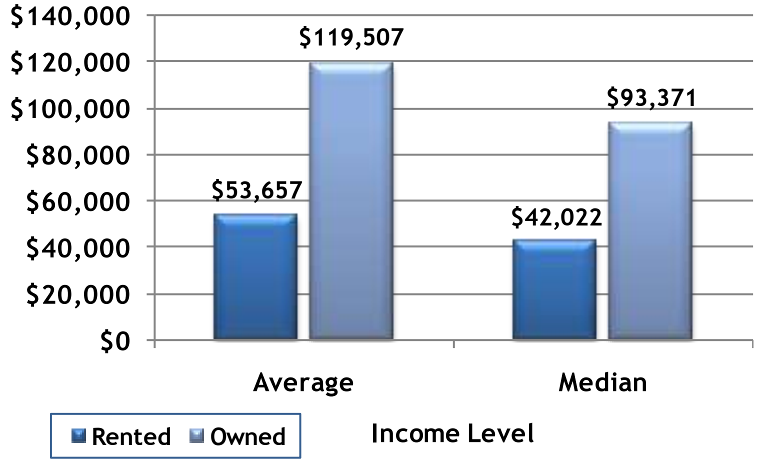
Appendix B Figure 1: Rented vs. Owned Housing as a Proportion of Total Housing by Household Size, Halton Region, 2006



Source: Statistics Canada, Custom Tabulations, 2006

Average income level is very similar in all of Halton's municipalities with the exception of Oakville which shows higher income levels. For the year 2006, Oakville has an average income level of $58,508 for renter households and $139,968 for owner households. This is greater than the average income for the entire Halton Region, which is $53,657 for renter households and $119,507 for owner households. Average and median income for owner households are more than twice the average and median income for renter households in Halton Region. (See Appendix C Table 4 for details on individual municipalities).

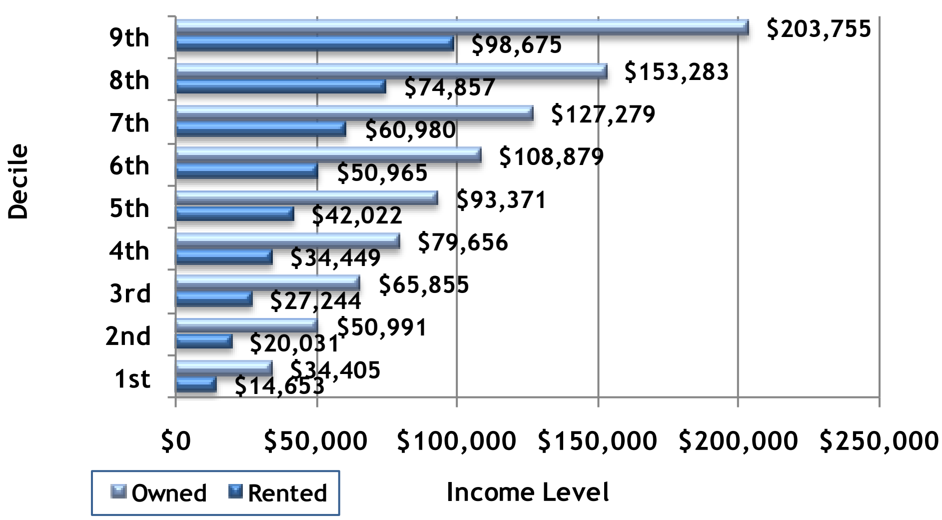
Appendix B Figure 2: Average and Median Income by Tenure, Halton Region, 2006



Source: Statistics Canada, Custom Tabulations, 2006

In 2006, household income for Halton Region ranged dramatically between renters and owners in every level income decile. Homeowners earned at least twice as much as home renters at every single income decile. Renters in the 1st income decile (10% of renters with the lowest income) earned a maximum of $14,653, compared to $34,405 for homeowners in the 1st income decile. Half of renters earned a maximum of $42,022 in 2006, whereas half of the homeowners earned a maximum $93,371. (See Appendix C Table 5 and Appendix C Table 4 for details on individual municipalities).

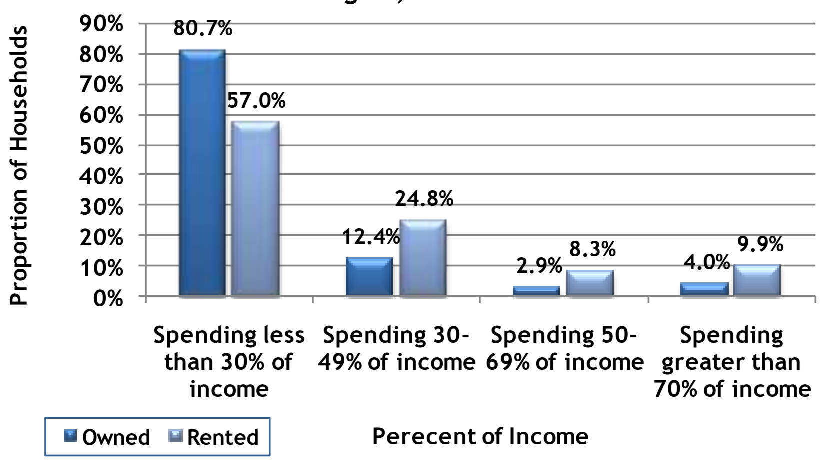
Appendix B Figure 3: Household Income Deciles by Tenure, Halton Region, 2006



Source: Statistics Canada, Custom Tabulations, 2006

The proportion of households that rent their home and spend less than 30% of their income on housing is significantly less than the proportion of households that own their home and spend less than 30% of their income on housing. Of all the households that own their home, only 19.3% spend more than 30% of their income on housing. In contrast, of all the households that rent their home, 43% spend more than 30% of their income on housing. Almost 10% of the households that rent spend greater than 70% of their income on housing, compared to households that own, at only 4.0%. These findings represent the entire Halton Region in 2006 but very similar patterns can be observed in each of the local municipalities as well. (See Appendix C Table 6 for details on individual municipalities).

Appendix B Figure 4: Proportion of Household Income Spent on Housing by Tenure, Halton Region, 2006



Source: Statistics Canada, Custom Tabulations, 2006

Given the average rent data from CMHC, renter households that fall into the first three income deciles clearly cannot afford to pay the market rent. Households that are in the 4th income decile are only capable of affording rent of a bachelor apartment. Households in the 5th decile can afford to pay rent for most types of apartments with the exception of apartments with 3 or more bedrooms. Households that are in the 6th or higher income decile can afford to rent any type of apartment at an average market rent.

A similar conclusion can be derived for Oakville and Burlington municipalities. However, Milton and Halton Hills municipalities experienced lower average market rents in 2006, therefore households in the first two income deciles could not afford to pay an average market rent for any type of apartment. Households in the 3rd and 4th income decile could afford to pay only for a bachelor apartment. Households in the 5th decile could afford any type of apartment except for one with 3 or more bedrooms. Households that are in the 6th or higher income decile can afford to rent any type of apartment at an average market rent.

Appendix B Table 1: Comparison of Average Rents to Affordable Rents by Income Decile, Halton Region and its Local Municipalities, 2006

Oakville

Income Decile	Renters' Income	Affordable Rent	CMHC Average Market Rents in Oakville			
			Bachelor	1 Bedroom	2 Bedrooms	3+ Bedrooms
			$761	$953	$1,127	$1,305
1st	$13,574	$339	Not Affordable	Not Affordable	Not Affordable	Not Affordable
2nd	$19,071	$477	Not Affordable	Not Affordable	Not Affordable	Not Affordable
3rd	$26,708	$668	Not Affordable	Not Affordable	Not Affordable	Not Affordable
4th	$34,321	$858	Affordable	Not Affordable	Not Affordable	Not Affordable
5th	$42,353	$1,059	Affordable	Affordable	Not Affordable	Not Affordable
6th	$52,294	$1,307	Affordable	Affordable	Affordable	Affordable
7th	$63,381	$1,585	Affordable	Affordable	Affordable	Affordable
8th	$80,069	$2,002	Affordable	Affordable	Affordable	Affordable
9th	$108,822	$2,721	Affordable	Affordable	Affordable	Affordable

Burlington

Income Decile	Renters' Income	Affordable Rent	CMHC Average Market Rents in Burlington			
			Bachelor	1 Bedroom	2 Bedrooms	3+ Bedrooms
			$834	$890	$981	$1,130
1st	$15,329	$383	Not Affordable	Not Affordable	Not Affordable	Not Affordable
2nd	$20,561	$514	Not Affordable	Not Affordable	Not Affordable	Not Affordable
3rd	$27,615	$690	Not Affordable	Not Affordable	Not Affordable	Not Affordable
4th	$34,448	$861	Affordable	Not Affordable	Not Affordable	Not Affordable
5th	$41,255	$1,031	Affordable	Affordable	Affordable	Not Affordable
6th	$49,389	$1,235	Affordable	Affordable	Affordable	Affordable
7th	$59,878	$1,497	Affordable	Affordable	Affordable	Affordable
8th	$71,518	$1,788	Affordable	Affordable	Affordable	Affordable
9th	$92,124	$2,303	Affordable	Affordable	Affordable	Affordable

Milton

Income Decile	Renters' Income	Affordable Rent	CMHC Average Market Rents in Milton			
			Bachelor	1 Bedroom	2 Bedrooms	3+ Bedrooms
			$630	$853	$980	$1,213
1st	$15,899	$397	Not Affordable	Not Affordable	Not Affordable	Not Affordable
2nd	$20,485	$512	Not Affordable	Not Affordable	Not Affordable	Not Affordable
3rd	$28,231	$706	Affordable	Not Affordable	Not Affordable	Not Affordable
4th	$35,556	$889	Affordable	Affordable	Not Affordable	Not Affordable
5th	$45,145	$1,129	Affordable	Affordable	Affordable	Not Affordable
7th	$65,930	$1,648	Affordable	Affordable	Affordable	Affordable
7th	$65,930	$1,648	Affordable	Affordable	Affordable	Affordable
8th	$83,668	$2,092	Affordable	Affordable	Affordable	Affordable
9th	$103,934	$2,595	Affordable	Affordable	Affordable	Affordable

Halton Hills

Income Decile	Renters' Income	Affordable Rent	CMHC Average Market Rents in Halton Hills			
			Bachelor	1 Bedroom	2 Bedrooms	3+ Bedrooms
			$630	$853	$980	$1,213
1st	$15,290	$382	Not Affordable	Not Affordable	Not Affordable	Not Affordable
2nd	$19,735	$493	Not Affordable	Not Affordable	Not Affordable	Not Affordable
3rd	$27,022	$676	Affordable	Not Affordable	Not Affordable	Not Affordable
4th	$33,562	$839	Affordable	Not Affordable	Not Affordable	Not Affordable
5th	$42,413	$1,060	Affordable	Affordable	Affordable	Not Affordable
6th	$50,808	$1,270	Affordable	Affordable	Affordable	Affordable
7th	$58,740	$1,469	Affordable	Affordable	Affordable	Affordable
8th	$73,414	$1,835	Affordable	Affordable	Affordable	Affordable
9th	$92,226	$2,306	Affordable	Affordable	Affordable	Affordable

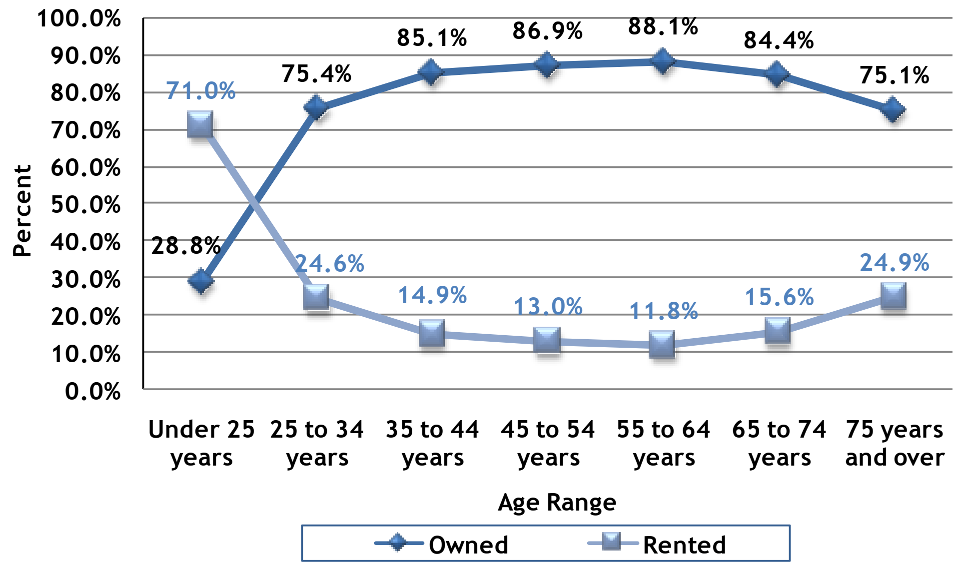
Halton Region

Income Decile	Renters' Income	Affordable Rent	CMHC Average Market Rents in Halton Region			
			Bachelor	1 Bedroom	2 Bedrooms	3+ Bedrooms
			$772	$903	$1,027	$1,188
1st	$14,653	$366	Not Affordable	Not Affordable	Not Affordable	Not Affordable
2nd	$20,031	$501	Not Affordable	Not Affordable	Not Affordable	Not Affordable
3rd	$27,244	$681	Not Affordable	Not Affordable	Not Affordable	Not Affordable
4th	$34,449	$861	Affordable	Not Affordable	Not Affordable	Not Affordable
5th	$42,022	$1,051	Affordable	Affordable	Affordable	Not Affordable
6th	$50,965	$1,274	Affordable	Affordable	Affordable	Affordable
7th	$60,980	$1,525	Affordable	Affordable	Affordable	Affordable
8th	$74,857	$1,871	Affordable	Affordable	Affordable	Affordable
9th	$98,675	$2,467	Affordable	Affordable	Affordable	Affordable

Source: Statistics Canada, Custom Tabulations, 2006. CMHC, Rental Market Report, Fall 2008. SHS Consulting Calculations

A very large proportion of household maintainers under the age of 25 rely on rental housing (71%). In contrast, individuals over the age of 25 tend to switch towards home ownership with as much as 88.1% of individuals in the 55-64 years of age category being homeowners. The tendency towards homeownership again declines in later stages of life, when the homeownership rate falls to 75.1% of households led by persons 75+ years of age category. (See Appendix C Table 7 for details on individual municipalities).

Appendix B Figure 5: Tenure by Age of Household Maintainer, Halton Region, 2006



Source: Statistics Canada, Census 2006

In 2006, SHS Consulting prepared a report for Halton Region (Sustainable Halton – Housing Directions), recommending housing targets for Halton Region. According to the findings and recommendations, the Region should aim for 15% to 45% of total housing constructed to be rental housing and 55% to 90% to be ownership housing. A significant proportion of rental units should be in a form of assisted and affordable housing (15% to 35% of total housing). Yet according to census data the proportion of rental housing has been declining since 1996, and as of 2006 it is at 17% (See Appendix A Figure 1). Housing Targets are being updated as part of the Joint Municipal Housing Statement process.

Overall, average rents in Halton Region have been fairly stable since 2003. Rents for Bachelor apartment increased from $703 to $772 from 2002 to 2008. Rents for 1-bedroom apartment also increased in the same period, from $844 to $903. On the contrary, rents for 2-bedroom apartments fell from $1,036 to $1,027 between 2003 and 2008. Rents for 3+ bedroom apartments fell significantly in that time period, from $1,257 to $1,188. This may suggest that there is a higher demand for smaller apartment units, pushing their prices up, and a lower demand for large apartment units, pushing those prices down.

Appendix B Table 2: Average Rents by Unit Type, Halton Region and its Local Municipalities, 2002-2008

Oakville

Unit Type	2002	2003	2004	2005	2006	2007	2008
Bachelor	$703	$703	**	$731	$728	$755	$761
1 Bedroom	$898	$917	$918	$905	$924	$951	$953
2 Bedrooms	$1,047	$1,060	$1,083	$1,068	$1,084	$1,103	$1,127
3+ Bedrooms	$1,251	$1,257	**	$1,239	$1,266	$1,280	$1,305
Total	$1,001	$1,030	$1,038	$1,023	$1,051	$1,057	$1,078

Burlington

Unit Type	2002	2003	2004	2005	2006	2007	2008
Bachelor	**	**	**	$667	$724	$704	$834
1 Bedroom	**	**	$821	$837	$852	$880	$890
2 Bedrooms	**	**	$939	$936	$963	$998	$981
3+ Bedrooms	**	**	$1,126	$1,116	$1,109	$1,199	$1,130
Total				$921	$937	$975	$960

Milton

Unit Type	2002	2003	2004	2005	2006	2007	2008
Bachelor	**	$558	**	$614	$609	$630	$630
1 Bedroom	$790	$780	$806	$798	$828	$845	$853
2 Bedrooms	$892	$962	$931	$946	$964	$983	$980
3+ Bedrooms	**	**	$1,043	$1,162	$1,161	$1,190	$1,213
Total	$848	$898	$881	$895	$918	$932	$931

Halton Hills

Unit Type	2002	2003	2004	2005	2006	2007	2008
Bachelor	**	$558	**	$614	$609	$630	$630
1 Bedroom	$790	$780	$806	$798	$828	$845	$853
2 Bedrooms	$892	$962	$931	$946	$964	$983	$980
3+ Bedrooms	**	**	$1,043	$1,162	$1,161	$1,190	$1,213
Total	$848	$898	$881	$895	$918	$932	$931

Halton Region

Unit Type	2002	2003	2004	2005	2006	2007	2008
Bachelor	$703	$669		$614	$704	$721	$772
1 Bedroom	$844	$879	$885	$853	$869	$898	$903
2 Bedrooms		$1,036	$1,046	$980	$1,004	$1,030	$1,027
3+ Bedrooms		$1,257	$1,043	$1,120	$1,164	$1,224	$1,188
Total		$997	$999	$951	$971	$997	$992

Source: CMHC Rental Market Report, 2003-2007

The average rent for a condominium unit in Halton Region went up by 9.8% from $1,270 in 2007 to $1,395 in 2008. Rents for condominium units were approximately $400 higher than rents for apartment units in 2008.

Appendix B Table 3: Rents for Rental Condominiums by Unit Size, Halton Region, 2007-2008

	Bachelor	1 Bedroom	2 Bedrooms	3+ Bedrooms	Total
2008	**	**	**	**	$1,395
2007	**	$1,100	$1,342	**	$1,270

Source: CMHC Rental Market Report, 2008

Appendix C: Data Tables

Appendix C Table 1: Trends in Tenure in Halton Region, 1996-2006

	1996			2001			2006		
Region	Owned	Rented	Total	Owned	Rented	Total	Owned	Rented	Total
Oakville	32,955	9,950	42,905	39,800	9,295	49,095	47,495	8,970	56,465
	76.8%	23.2%	100.0%	81.1%	18.9%	100.0%	84.1%	15.9%	100.0%
Burlington	35,770	14,430	50,200	43,725	13,480	57,205	50,275	12,870	63,145
	71.3%	28.7%	100.0%	76.4%	23.6%	100.0%	79.6%	20.4%	100.0%
Milton	7,980	2,325	10,305	8,295	2,200	10,495	16,140	2,180	18,320
	77.4%	22.6%	100.0%	79.0%	21.0%	100.0%	88.1%	11.9%	100.0%
Halton Hills	11,175	2,940	14,115	13,450	2,745	16,195	16,085	2,620	18,705
	79.2%	20.8%	100.0%	83.1%	16.9%	100.0%	86.0%	14.0%	100.0%
Halton Region	87,880	29,645	117,525	105,270	27,720	132,990	129,995	26,640	156,635
	74.8%	25.2%	100.0%	79.2%	20.8%	100.0%	83.0%	17.0%	100.0%

Source: Statistics Canada, Custom Tabulations, 1996, 2001, 2006

Appendix C Table 2: Rental Housing Stock by Dwelling Type, Halton Region and its Local Municipalities, 1996-2006

Oakville

	1996			2001			2006		
Region	Rented	%	Total Tenure	Rented	%	Total Tenure	Rented	%	Total Tenure
Single-detached house	1,455	5.2%	27,855	1,320	4.1%	32,410	1,090	3.0%	36,415
Semi-detached house	240	16.2%	1,480	200	9.8%	2,040	170	7.1%	2,410
Row house	1,710	34.4%	4,965	1,610	26.9%	5,980	1,600	20.1%	7,955
Apartment, duplex	290	61.7%	470	115	35.4%	325	330	40.7%	810
Apartment, building that has five or more storeys	4,720	76.4%	6,175	4,740	73.7%	6,435	4,545	70.2%	6,475
Apartment, building that has fewer than five storeys	1,515	77.9%	1,945	1,290	68.4%	1,885	1,190	50.9%	2,340
Other*	15	75.0%	20	20	100.0%	20	40	66.7%	60
Total	9,945	23.2%	42,910	9,295	18.9%	49,095	8,965	15.9%	56,465

Burlington

	1996			2001			2006		
Region	Rented	%	Total Tenure	Rented	%	Total Tenure	Rented	%	Total Tenure
Single-detached house	1,390	4.8%	29,230	915	2.9%	31,990	830	2.4%	34,115
Semi-detached house	170	11.0%	1,540	305	11.8%	2,580	170	6.7%	2,520
Row house	3,110	44.8%	6,940	2,740	30.3%	9,035	2,695	23.2%	11,620
Apartment, duplex	235	51.6%	455	245	66.2%	370	360	44.7%	805
Apartment, building that has five or more storeys	7,255	80.9%	8,965	7,055	76.1%	9,265	6,590	69.2%	9,525
Apartment, building that has fewer than five storeys	2,240	75.9%	2,950	2,200	55.8%	3,945	2,205	49.1%	4,490
Other*	30	25.0%	120	10	40.0%	25	20	26.7%	75
Total	14,430	28.7%	50,200	13,470	23.5%	57,210	12,870	20.4%	63,150

Milton

	1996			2001			2006		
Region	Rented	%	Total Tenure	Rented	%	Total Tenure	Rented	%	Total Tenure
Single-detached house	550	7.6%	7,230	480	6.6%	7,265	520	4.4%	11,860
Semi-detached house	60	14.0%	430	45	12.2%	370	90	4.6%	1,970
Row house	395	39.7%	995	270	24.8%	1,090	350	12.8%	2,725
Apartment, duplex	160	66.7%	240	175	83.3%	210	85	35.4%	240
Apartment, building that has five or more storeys	770	79.0%	975	825	80.5%	1,025	805	77.8%	1,035
Apartment, building that has fewer than five storeys	375	97.4%	385	390	86.7%	450	320	70.3%	455
Other*	15	33.3%	45	20	25.0%	80	15	42.9%	35
Total	2,325	22.6%	10,300	2,205	21.0%	10,490	2,185	11.9%	18,320

Halton Hills

	1996			2001			2006		
Region	Rented	%	Total Tenure	Rented	%	Total Tenure	Rented	%	Total Tenure
Single-detached house	650	6.3%	10,240	715	5.9%	12,190	525	3.8%	13,780
Semi-detached house	190	38.0%	500	145	24.6%	590	60	7.6%	790
Row house	245	25.0%	980	225	19.8%	1,135	215	15.4%	1,395
Apartment, duplex	260	56.5%	460	190	63.3%	300	290	45.7%	635
Apartment, building that has five or more storeys	505	69.2%	730	465	63.7%	730	545	71.7%	760
Apartment, building that has fewer than five storeys	1,050	91.3%	1,150	975	81.6%	1,195	910	73.7%	1,235
Other*	40	61.5%	65	10	22.2%	45	70	63.6%	110
Total	2,940	20.8%	14,125	2,725	16.8%	16,185	2,615	14.0%	18,705

Halton Region

	1996			2001			2006		
Region	Rented	%	Total Tenure	Rented	%	Total Tenure	Rented	%	Total Tenure
Single-detached house	4,045	5.4%	74,560	3,435	4.1%	83,855	2,965	3.1%	96,180
Semi-detached house	665	16.8%	3,950	705	12.6%	5,580	490	6.4%	7,685
Row house	5,465	39.4%	13,880	4,840	28.1%	17,240	4,860	20.5%	23,690
Apartment, duplex	950	58.6%	1,620	725	59.9%	1,210	1,065	42.8%	2,490
Apartment, building that has five or more storeys	13,250	78.7%	16,840	13,085	75.0%	17,450	12,485	70.2%	17,795
Apartment, building that has fewer than five storeys	5,185	80.6%	6,430	4,855	64.9%	7,475	4,625	54.3%	8,525
Other*	95	38.8%	245	65	37.1%	175	145	51.8%	280
Total	29,655	25.2%	117,525	27,710	20.8%	132,985	26,635	17.0%	156,645

Source: Statistics Canada, Custom Tabulations, 1996, 2001, 2006

Note: *Other figures include other single-attached house, mobile home, and movable dwellings

Appendix C Table 3: Renters Households by Household Size, Halton Region and its Local Municipalities, 2006

Oakville

	1 person	2 persons	3 persons	4 persons	5 persons	6 or more persons	Total
Rented	3,440	2,755	1,280	910	355	230	8,970
	38.4%	30.7%	14.3%	10.1%	4.0%	2.6%	100.0%
Owned	6,270	13,690	8,955	12,105	4,795	1,675	47,490
	13.2%	28.8%	18.9%	25.5%	10.1%	3.5%	100.0%
Total Tenure	9,710	16,440	10,235	13,025	5,150	1,910	56,470

Burlington

	1 person	2 persons	3 persons	4 persons	5 persons	6 or more persons	Total
Rented	5,495	4,265	1,595	995	400	125	12,875
	42.7%	33.1%	12.4%	7.7%	3.1%	1.0%	100.0%
Owned	9,150	17,505	8,660	10,125	3,710	1,120	50,270
	18.2%	34.8%	17.2%	20.1%	7.4%	2.2%	100.0%
Total Tenure	14,645	21,775	10,255	11,120	4,110	1,245	63,150

Milton

	1 person	2 persons	3 persons	4 persons	5 persons	6 or more persons	Total
Rented	750	725	300	240	100	75	2,190
	34.2%	33.1%	13.7%	11.0%	4.6%	3.4%	100.0%
Owned	1,860	5,230	3,515	3,575	1,420	540	16,140
	11.5%	32.4%	21.8%	22.1%	8.8%	3.3%	100.0%
Total Tenure	2,610	5,955	3,815	3,815	1,520	615	18,330

Halton Hills

	1 person	2 persons	3 persons	4 persons	5 persons	6 or more persons	Total
Rented	1,060	770	350	285	110	40	2,615
	40.5%	29.4%	13.4%	10.9%	4.2%	1.5%	100.0%
Owned	1,935	4,920	3,125	4,020	1,535	555	16,090
	12.0%	30.6%	19.4%	25.0%	9.5%	3.4%	100.0%
Total Tenure	2,995	5,690	3,475	4,305	1,650	595	18,710

Halton Region

	1 person	2 persons	3 persons	4 persons	5 persons	6 or more persons	Total
Rented	10,745	8,515	3,515	2,435	960	470	26,640
	40.3%	32.0%	13.2%	9.1%	3.6%	1.8%	100.0%
Owned	19,215	41,345	24,255	29,830	11,460	3,890	129,995
	14.8%	31.8%	18.7%	22.9%	8.8%	3.0%	100.0%
Total Tenure	29,960	49,855	27,775	32,265	12,425	4,360	156,640

Source: Statistics Canada, Custom Tabulations, 2006

Appendix C Table 4: Average and Median Household Income By Tenure, Halton Region and its Local Municipalities, 2006

	Rented		Owned		Total	
Region	Average	Median	Average	Median	Average	Median
Oakville	$58,508	$42,353	$139,968	$104,008	$127,029	$92,591
Burlington	$51,337	$41,255	$107,549	$86,184	$96,091	$75,087
Milton	$53,587	$45,145	$104,058	$91,443	$98,044	$86,737
Halton Hills	$48,506	$42,413	$111,976	$93,813	$103,084	$85,615
Halton Region	$53,657	$42,022	$119,507	$93,371	$108,306	$83,605

Source: Statistics Canada, Custom Tabulations, 2006

Appendix C Table 5: Household Income Deciles by Tenure, Halton Region and its Local Municipalities, 2006

Oakville

Tenure	1st	2nd	3rd	4th	5th	6th	7th	8th	9th
Rented	$13,574	$19,071	$26,708	$34,321	$42,353	$52,294	$63,381	$80,069	$108,822
Owned	$35,759	$54,083	$71,203	$86,911	$104,008	$122,431	$145,112	$177,233	$246,141
Total	$27,047	$43,458	$59,933	$75,838	$92,591	$111,377	$134,172	$165,230	$231,545

Burlington

Tenure	1st	2nd	3rd	4th	5th	6th	7th	8th	9th
Rented	$15,329	$20,561	$27,615	$34,448	$41,255	$49,389	$59,878	$71,518	$92,124
Owned	$31,809	$46,885	$60,145	$72,848	$86,184	$100,470	$117,750	$140,764	$181,727
Total	$24,527	$37,760	$50,019	$62,216	$75,087	$89,831	$106,622	$129,770	$170,524

Milton

Tenure	1st	2nd	3rd	4th	5th	6th	7th	8th	9th
Rented	$15,899	$20,485	$28,231	$35,556	$45,145	$53,454	$65,930	$83,668	$103,934
Owned	$38,081	$54,604	$67,663	$80,006	$91,443	$103,665	$118,763	$137,624	$171,817
Total	$31,652	$48,413	$61,567	$74,404	$86,737	$99,349	$113,661	$132,750	$166,387

Halton Hills

Tenure	1st	2nd	3rd	4th	5th	6th	7th	8th	9th
Rented	$15,290	$19,735	$27,022	$33,562	$42,413	$50,808	$58,740	$73,414	$92,226
Owned	$35,104	$53,049	$68,577	$80,827	$93,813	$106,375	$121,843	$143,902	$179,559
Total	$27,222	$43,992	$59,207	$72,817	$85,615	$99,803	$114,621	$136,360	$171,850

Halton Region

Tenure	1st	2nd	3rd	4th	5th	6th	7th	8th	9th
Rented	$14,653	$20,031	$27,244	$34,449	$42,022	$50,965	$60,980	$74,857	$98,675
Owned	$34,405	$50,991	$65,855	$79,656	$93,371	$108,879	$127,279	$153,283	$203,755
Total	$26,333	$41,226	$55,280	$69,444	$83,605	$99,132	$117,725	$142,951	$189,743

Source: Statistics Canada, Custom Tabulations, 2006

Appendix C Table 6: Proportion of Household Income Spent on Housing by Tenure, Halton Region and its Municipalities, 2006

Oakville

	Owned	%	Rented	%	Total Number of Households
Spending less than 30% of income	38,230	80.5%	4,915	54.8%	43,150
Spending 30-49% of income	5,540	11.7%	2,220	24.7%	7,755
Spending 50-69% of income	1,500	3.2%	720	8.0%	2,215
Spending greater than 70% of income	2,220	4.7%	1,115	12.4%	3,335
Total	47,490	100.0%	8,970	100.0%	56,455

Burlington

	Owned	%	Rented	%	Total Number of Households
Spending less than 30% of income	40,970	81.5%	7,460	57.9%	48,425
Spending 30-49% of income	5,945	11.8%	3,235	25.1%	9,185
Spending 50-69% of income	1,450	2.9%	1,120	8.7%	2,575
Spending greater than 70% of income	1,905	3.8%	1,060	8.2%	2,965
Total	50,270	100.0%	12,875	100.0%	63,150

Milton

	Owned	%	Rented	%	Total Number of Households
Spending less than 30% of income	12,630	78.3%	1,270	58.1%	13,900
Spending 30-49% of income	2,445	15.1%	490	22.4%	2,935
Spending 50-69% of income	495	3.1%	190	8.7%	685
Spending greater than 70% of income	570	3.5%	235	10.8%	805
Total	16,140	100.0%	2,185	100.0%	18,325

Halton Hills

	Owned	%	Rented	%	Total Number of Households
Spending less than 30% of income	13,110	81.5%	1,530	58.5%	14,645
Spending 30-49% of income	2,150	13.4%	675	25.8%	2,830
Spending 50-69% of income	330	2.1%	185	7.1%	520
Spending greater than 70% of income	490	3.0%	225	8.6%	710
Total	16,080	100.0%	2,615	100.0%	18,705

Halton Region

	Owned	%	Rented	%	Total Number of Households
Spending less than 30% of income	104,945	80.7%	15,180	57.0%	120,120
Spending 30-49% of income	16,085	12.4%	6,620	24.8%	22,705
Spending 50-69% of income	3,785	2.9%	2,215	8.3%	5,995
Spending greater than 70% of income	5,190	4.0%	2,635	9.9%	7,820
Total	130,005	100.0%	26,650	100.0%	156,640

Source: Statistics Canada, Custom Tabulations, 2006

Appendix C Table 7: Tenure by Age of Household Maintainer, Halton Region and its Local Municipalities, 2006

Oakville					
	Owned		Rented		Total
	#	%	#	%	#
Under 25 years	160	21.3%	595	79.3%	750
25 to 34 years	4,695	73.8%	1,660	26.1%	6,360
35 to 44 years	12,465	86.5%	1,940	13.5%	14,405
45 to 54 years	12,975	87.7%	1,815	12.3%	14,790
55 to 64 years	8,370	88.7%	1,070	11.3%	9,440
65 to 74 years	5,100	86.2%	815	13.8%	5,915
75 years and over	3,830	77.8%	1,090	22.2%	4,920
Total	**47,595**	**84.1%**	**8,985**	**15.9%**	**56,580**
Burlington					
	Owned		Rented		Total
	#	%	#	%	#
Under 25 years	255	27.7%	665	72.3%	920
25 to 34 years	5,780	69.2%	2,570	30.8%	8,350
35 to 44 years	11,470	81.8%	2,555	18.2%	14,030
45 to 54 years	11,575	84.2%	2,170	15.8%	13,740
55 to 64 years	9,300	86.4%	1,465	13.6%	10,760
65 to 74 years	6,500	82.6%	1,370	17.4%	7,870
75 years and over	5,450	71.9%	2,125	28.1%	7,575
Total	**50,330**	**79.6%**	**12,925**	**20.4%**	**63,260**
Milton					
	Owned		Rented		Total
	#	%	#	%	#
Under 25 years	125	56.8%	100	45.5%	220
25 to 34 years	3,835	90.0%	425	10.0%	4,260
35 to 44 years	4,090	88.0%	560	12.0%	4,650
45 to 54 years	3,540	89.6%	405	10.3%	3,950
55 to 64 years	2,715	91.6%	250	8.4%	2,965
65 to 74 years	1,120	85.2%	195	14.8%	1,315
75 years and over	830	75.1%	275	24.9%	1,105
Total	**16,260**	**88.1%**	**2,200**	**11.9%**	**18,465**

Halton Hills					
	Owned		Rented		Total
	#	%	#	%	#
Under 25 years	65	34.2%	125	65.8%	190
25 to 34 years	1,745	75.1%	580	24.9%	2,325
35 to 44 years	4,735	87.8%	660	12.2%	5,395
45 to 54 years	4,165	90.2%	450	9.8%	4,615
55 to 64 years	2,670	89.6%	310	10.4%	2,980
65 to 74 years	1,570	85.8%	260	14.2%	1,830
75 years and over	1,200	82.8%	255	17.6%	1,450
Total	**16,145**	**85.9%**	**2,640**	**14.1%**	**18,785**
Halton Region					
	Owned		Rented		Total
	#	%	#	%	#
Under 25 years	600	28.8%	1,480	71.0%	2,085
25 to 34 years	16,060	75.4%	5,230	24.6%	21,290
35 to 44 years	32,760	85.1%	5,720	14.9%	38,485
45 to 54 years	32,250	86.9%	4,840	13.0%	37,095
55 to 64 years	23,050	88.1%	3,095	11.8%	26,150
65 to 74 years	14,295	84.4%	2,640	15.6%	16,930
75 years and over	11,305	75.1%	3,740	24.9%	15,050
Total	**130,330**	**83.0%**	**26,750**	**17.0%**	**157,085**

Source: Statistics Canada, Custom Tabulations, 2006

Appendix D: Sample 50 Unit Development

The impacts of various tax policies can be illustrated by outlining the typical costs of a hypothetical rental apartment project, in this case a 50 unit apartment building in Oakville.

The costs used are hypothetical, and for illustration purposes only, as precise development costs vary from project to project depending on a wide range of variables such as land costs, servicing, unit sizes, unit finishes, etc. However, the chosen costs have been carefully considered based on recent experiences, information provided from local developers and regional staff, and reasonable assumptions.

The Base Case scenario building has 25 one-bedroom units of 550 ft^2, and 25 two-bedroom units of 750 ft^2, representing a total floor area of 37,375 ft^2 which includes common areas.

The per-square foot hard construction costs of $160/ft^2 are considered representative of typical projects of this nature. The scenario also assumes all parking spaces are surface parking. Finally, the land costs were estimated at $20,000 per unit.

The capital costs of this hypothetical project are shown below.

Appendix D Table 1: Sample 50 Unit Development

CAPITAL COSTS	Total Cost	Per Unit Cost	% of Rent & Parking Revenue
Soft Costs (includes GST)			
Building Soft Costs (e.g. architect, development consultant/project manager, planning, quantity surveyor)	753,640	15,073	3.90%
Site Soft Costs (e.g. appraisal, surveys, geotechnical assessment)	26,250	525	0.14%
Legal and Organization Costs (e.g. legal fees, capital cost audit)	54,600	1,092	0.28%
Financing Costs (e.g. interest during construction, mortgage insurance fees)	293,725	5,874	1.52%
Building Permit Fees	34,618	692	0.18%
Site Plan Application Fees	21,555	431	0.11%
Parkland Dedication Fees	50,000	1,000	0.26%
Development Charges	889,626	17,793	4.60%
School Board Levies	106,900	2,138	0.55%
Hydro Connection Fees	15,000	300	0.08%
Municipal Fees and Charges (e.g. building permit fees, site plan fees, parkland dedication, development	1,117,699	22,354	5.78%

charges, school board levies, hydro connection fees)			
Bank Application Fees	17,704	354	0.09%
Property Taxes During Construction	20,322	406	0.11%
Contingency on Soft Costs	61,440	1,229	0.32%
Sub-Total Soft Costs	**2,345,379**	**46,908**	**12.14%**
Hard Costs			
Construction Costs, including site servicing ($160 per square foot for 37,375 total square feet)	5,980,000	119,600	30.95%
Appliances (fridge & stove)	50,000	1,000	0.26%
Furniture & Equipment	15,000	300	0.08%
Contingency & Escalation (5% of construction cost)	453,375	9,068	2.35%
Taxes (PST & GST)	844,789	16,896	4.37%
Land Value (including land transfer tax, legal fees, GST)	1,071,725	21,435	5.55%
Sub-Total Hard Costs	**8,414,889**	**168,298**	**43.55%**
Total Project Costs	**10,760,268**	**215,205**	**55.69%**
CONTRIBUTIONS			
Equity Contribution	2,838,931	56,779	
GST Rebate	150,420	3,008	
Total Contributions	**2,989,350**	**59,787**	
Mortgage Financing			
Mortgage Interest Rate	6.0%		
Mortgage Annual Mortgage Payments (based on 25 year amortization period)	596,625	11,932	
Total Mortgage Amount	**7,770,918**	**155,418**	
ANNUAL OPERATING REVENUE			
Total Gross Annual Rental Revenue	1,061,736	21,235	
Parking Income	9,600	192	
Minus Vacancy Allowance (3% of rental revenue from units)	31,852	637	2.97%
Net Rental & Parking Revenue	**1,039,484**	**20,790**	
ANNUAL OPERATING COSTS			
Maintenance – Wages, Materials Services	30,000	600	2.80%
Utilities & Insurance	30,000	600	2.80%
Property Tax*	77,435	1,549*	7.23%
Management Fee	49,581	992	4.63%
Reserve for Capital Repairs & Replacement	42,853	857	4.00%
Sub-Total Operating Costs	**229,869**	**4,597**	**21.46%**
Mortgage Payments	596,625	11,932	**55.69%**
Total Annual Operating Costs	**826,494**	**16,530**	**77.15%**
Annual Profit/Loss	212,990	4,260	**19.88%**
Debt Coverage Ratio	1.36	1.36	
Return on Investment	7.52%	7.52%	
Return on Equity	7.50%	7.50%	
Property Value (using a 6% cap rate)	13,493,576	269,872	

*Note: The property tax figure used in the pro forma is based on the average property taxes of existing similarly sized rental buildings in Oakville. However, if the property was assessed at the value calculated using a 6% cap rate, the property taxes would be approximately $5,384 per unit.

Revenue assumptions for the hypothetical apartment building call for rents at about 1.70 times higher than CMHC average market rents in order for the project to be financially viable. Specifically, one bedroom rents of $1,622 per month and two bedroom rents of $1,918 were assumed. In addition, parking revenue of $25 month for 32 spaces was assumed.

Expense assumptions are as follows: annual maintenance costs of $600/unit, utilities costs at $300 per unit for the common portions of the development, property taxes of $1,549 per unit, management fee of 4.7% of project revenue, capital reserve of 4% of project revenue and vacancies and bad debt expenses at 3% of rental revenue.

Totalling the above costs, as well as the CMHC requirement of ensuring a debt-coverage ratio (DCR) of 1.20 as required by the loan insurance guidelines for multi-unit properties, the Base Case project would not be viable without significantly higher than market rents.

Alternative Scenario

While most of the assumptions discussed in Base Case remain the same, the Alternative Scenario considers rents at CMHC Average Market Rents. Specifically, one bedroom rents of $953 per month and two bedroom rents of $1,127 were assumed. In this case, an additional and substantial amount of equity contribution and/or government funding of $3,534,326 or $70,687 per unit is required to keep the DCR ratio unchanged.

The capital costs of the same hypothetical project under the Alternative Scenario are shown below.

Appendix D Table 2: Sample 50 Unit Development – Alternative Scenario

CAPITAL COSTS	**Total Cost**	**Per Unit Cost**	**% of Rent & Parking Revenue**
Soft Costs (includes GST)			
Building Soft Costs (e.g. architect, development consultant/project manager, planning, quantity surveyor)	753,640	15,073	3.50%
Site Soft Costs (e.g. appraisal, surveys, geotechnical assessment)	26,250	525	0.12%
Legal and Organization Costs (e.g. legal fees, capital cost audit)	54,600	1,092	0.25%
Financing Costs (e.g. interest during construction, mortgage insurance fees)	108,116	2,162	0.50%
Building Permit Fees	34,618	692	0.16%
Site Plan Application Fees	21,555	431	0.10%
Parkland Dedication Fees	50,000	1,000	0.23%
Development Charges	889,626	17,793	4.13%

School Board Levies	106,900	2,138	0.50%
Hydro Connection Fees	15,000	300	0.07%
Municipal Fees and Charges (e.g. building permit fees, site plan fees, parkland dedication, development charges, school board levies, hydro connection fees)	1,117,699	22,354	5.19%
Bank Application Fees	17,704	354	0.08%
Property Taxes During Construction	20,322	406	0.09%
Contingency on Soft Costs	61,440	1,229	0.29%
Sub-Total Soft Costs	**2,159,770**	**43,195**	**15.21%**
Hard Costs			
Construction Costs, including site servicing ($160 per square foot for 37,375 total square feet)	5,980,000	119,600	27.76%
Appliances (fridge & stove)	50,000	1,000	0.23%
Furniture & Equipment	15,000	300	0.07%
Contingency & Escalation (5% of construction cost)	453,375	9,068	2.10%
Taxes (PST & GST)	844,789	16,896	3.92%
Land Value (including land transfer tax, legal fees, GST)	1,071,725	21,435	4.97%
Sub-Total Hard Costs	**8,414,889**	**168,298**	**39.06%**
Total Project Costs	**10,574,659**	**211,493**	**54.28%**
CONTRIBUTIONS			
Equity Contribution	2,838,931	56,779	
GST Rebate	150,420	3,008	
Additional Equity and/or Government Funding	3,534,326	70,687	
Total Contributions	**6,523,677**	**130,474**	
Mortgage Financing			
Mortgage Interest Rate	6.0%		
Mortgage Annual Mortgage Payments (based on 25 year amortization period)	311,021	6,220	
Total Mortgage Amount	**4,050,982**	**81,020**	
ANNUAL OPERATING REVENUE			
Total Gross Annual Rental Revenue	624,000	12,480	
Parking Income	9,600	192	
Minus Vacancy Allowance (3% of rental revenue from units)	18,720	374	2.95%
Net Rental & Parking Revenue	**614,880**	**12,298**	
ANNUAL OPERATING COSTS			
Maintenance – Wages, Materials Services	30,000	600	4.73%
Utilities & Insurance	30,000	600	4.73%
Property Tax*	77,435	1,549*	12.22%
Management Fee	29,140	583	4.60%
Reserve for Capital Repairs & Replacement	25,344	507	4.00%
Sub-Total Operating Costs	**191,918**	**3,838**	**30.29%**
Mortgage Payments	325,237	6,505	**49.09%**
Total Annual Operating Costs	**502,939**	**10,059**	**79.38%**
Annual Profit/Loss	111,941	2,239	**17.67%**
Debt Coverage Ratio	1.36	1.36	

Return on Investment	4.00%	4.00%	
Return on Equity	3.94%	3.94%	
Property Value (using a 6% cap rate)	7,049,357	140,987	

*Note: The property tax figure used in the pro forma is based on the average property taxes of existing similarly sized rental buildings in Oakville. However, if the property was assessed at the value calculated using a 6% cap rate, the property taxes would be approximately $2,813 per unit.

The major difference between the two scenarios is in the investment performance ratios. The Alternative Scenario produced a lower Return on Equity, Return on Investment, and Property Value by 3.56%, 3.52%, and $6,444,219 respectively. The total annual revenue from rent fell from $1,061,736 to $624,000 or from $21,235 to $12,480 per unit per year. Total operating costs fell as well, however the net effect is still negative. Annual profit per unit dropped by $2,021 to $2,239 in the Alternative Scenario.

Appendix E: Calculations

Capital Cost Allowance

Appendix E Table 1: Depreciation and Impact on Taxes and After Tax Profits in the First Ten/Twenty Five Years of Applying a CCA of 5% Versus 4% on the Investment and Affordability of Rental Housing in a Sample Development

CCA Rate		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Accumulated After Year 10
5%	Depreciation	$242,214	$472,316	$448,701	$426,266	$404,952	$437,219	$416,430	$395,609	$375,828	$357,037	$3,976,571
	Impact on Taxes* /After Tax Profit	$117,958	$230,018	$218,517	$207,591	$197,212	$212,926	$202,801	$192,661	$183,028	$173,877	$1,936,590
4%	Depreciation	$193,771	$379,791	$364,599	$350,015	$336,015	$364,586	$350,860	$336,825	$323,352	$310,418	$3,310,232
	Impact on Taxes* /After Tax Profit	$94,366	$184,958	$177,560	$170,457	$163,639	$177,553	$170,869	$164,034	$157,473	$151,174	$1,612,083
Difference between 5% and 4%	Depreciation	$48,443	$92,526	$84,101	$76,250	$68,938	$72,634	$65,570	$58,783	$52,476	$46,619	$666,339
	Impact on Taxes* /After Tax Profit	$23,592	$45,060	$40,957	$37,134	$33,573	$35,373	$31,933	$28,627	$25,556	$22,703	$324,507
CCA Rate		**Year 11**	**Year 12**	**Year 13**	**Year 14**	**Year 15**	**Year 16**	**Year 17**	**Year 18**	**Year 19**	**Year 20**	**Year 21**
5%	Depreciation	$339,185	$322,226	$306,114	$290,809	$276,268	$262,455	$249,332	$236,865	$225,022	$213,771	$203,082
	Impact on Taxes* /After Tax Profit	$165,183	$156,924	$149,078	$141,624	$134,543	$127,815	$121,425	$115,353	$109,586	$104,106	$98,901
4%	Depreciation	$298,001	$286,081	$274,638	$263,653	$253,106	$242,982	$233,263	$223,932	$214,975	$206,376	$198,121
	Impact on Taxes* /After Tax Profit	$145,127	$139,322	$133,749	$128,399	$123,263	$118,332	$113,599	$109,055	$104,693	$100,505	$96,485
Difference between 5% and 4%	Depreciation	$41,183	$36,144	$31,476	$27,156	$23,162	$19,473	$16,069	$12,933	$10,047	$7,395	$4,961
	Impact on Taxes* /After Tax Profit	$20,056	$17,602	$15,329	$13,225	$11,280	$9,483	$7,826	$6,298	$4,893	$3,601	$2,416
CCA Rate		**Year 22**	**Year 23**	**Year 24**	**Year 25**	**Accumulated After Year 25**						
5%	Depreciation	$192,928	$183,282	$174,118	$165,412	$7,617,441						
	Impact on Taxes* /After Tax Profit	$93,956	$89,258	$84,795	$80,556	$3,709,694						
4%	Depreciation	$190,196	$182,588	$175,285	$168,273	$6,721,705						
	Impact on Taxes* /After Tax Profit	$92,626	$88,921	$85,364	$81,949	$3,273,470						
Difference between 5% and 4%	Depreciation	$2,732	$694	-$1,167	-$2,861	$895,736						
	Impact on Taxes* /After Tax Profit	$1,331	$338	-$568	-$1,394	$436,223						

Source: SHS Consulting Calculations

*The analysis assumes the 2009 tax rate of 48.7% on investment income of a private corporation

Calculations: Depreciation: (total capital cost of $10,760,268 - land cost of $1,071,725 – accumulated depreciation)*CCA rate

Impact on Taxes /After Tax Profit: Depreciation * Tax rate of 48.7%

Capital Gains Tax

Appendix E Table 2: Capital Gains Tax on a Sample Development Held for 10 Years with an Annual Increase in Value of 5%

Calculation of Capital Gain	
Proceeds From Sale (assumed increased in value by 5% per year for 10 years)	$17,527,343
Minus: Capital Cost (i.e. purchase price)	$10,760,268
Capital Gain	**$6,767,075**
Taxable Capital Gain (1/2)	**$3,383,537**
Calculation of Recapture of CCA	
Capital Cost (i.e. purchase price)	$10,760,268
CCA for 10 Years (rate of 4%)	$3,310,232
UCC after 10 Years (capital cost - land cost - CCA for 10 years)	$6,378,311
Recapture of CCA	**$3,310,232**
Total Taxes Payable (assuming a tax rate of 48.7%)	**$3,259,866**
Per Unit Taxes Payable	**$65,197**

Source: SHS Consulting Calculations

Soft Cost Deduction

Appendix E Table 3: Depreciation and Impact on Taxes and After Tax Profits in the First Ten/Twenty Five Years in the Case Where Soft Costs Are Capitalized in a Sample Development

CCA Rate		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Total First 10 Years
4%	Depreciation of the Soft Cost Portion of the Development	$46,908	$91,939	$88,261	$84,731	$81,342	$78,088	$74,964	$71,966	$69,087	$66,324	$753,609
	Impact on Taxes /After Tax Profit	$22,844	$44,774	$42,983	$41,264	$39,613	$38,029	$36,508	$35,047	$33,645	$32,300	$367,008

CCA Rate		Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20	Year 21
4%	Depreciation of the Soft Cost Portion of the Development	$63,671	$61,124	$58,679	$56,332	$54,079	$51,915	$49,839	$47,845	$45,931	$44,094	$42,330
	Impact on Taxes /After Tax Profit	$31,008	$29,767	$28,577	$27,434	$26,336	$25,283	$24,271	$23,301	$22,369	$21,474	$20,615

CCA Rate		Year 22	Year 23	Year 24	Year 25	Total First 25 Years
4%	Depreciation of the Soft Cost Portion of the Development	$40,637	$39,012	$37,451	$35,953	$1,482,503
	Impact on Taxes /After Tax Profit	$19,790	$18,999	$18,239	$17,509	$721,979

Source: SHS Consulting Calculations

*The analysis assumes the 2009 tax rate of 48.7% on investment income of a private corporation

Calculations: Depreciation: (total capital cost of $10,760,268 - land cost of $1,071,725 – accumulated depreciation)*CCA rate

Impact on Taxes /After Tax Profit: Depreciation * Tax rate of 48.7%

Appendix E Table 4: Comparison of the Impact on Taxes and After Tax Profits in the First Ten/Twenty Five Years In The Case Where Soft Costs Are Capitalized in a Sample Development Versus When Soft Costs Are Deducted in Year One

Time Period		Year One In Case Where Soft Cost is Deducted	Total First Ten Years In Case Where Soft Cost is Capitalized	Total Difference Between Case Where Soft Costs Deducted in Year One and Case Where Soft Costs Capitalized	Average Annual Difference Between Case Where Soft Costs Deducted in Year One and Case Where Soft Costs Capitalized
First Ten Years	Negative Income (Losses)	$2,345,379	$753,609	$1,591,770	$159,177
	Impact on Taxes / After Tax Profits	$1,142,200	$367,008	$775,192	$77,519
First Twenty Five Years	Negative Income (Losses)	$2,345,379	$1,482,503	$862,877	$34,515
	Impact on Taxes / After Tax Profits	$1,142,200	$721,979	$420,221	$16,809

Source: SHS Consulting Calculations

Active Income for a Small Business versus Passive Income

Appendix E Table 5: Taxes for a Rental Corporation for a Sample Development When Treated As Small Business with Active Income Versus Taxes When Treated as Passive Investment Income

Profit	$212,990
Tax As a Passive Investment (48.7%)	$103,726
Tax As a Small Business (16.5% on the first $400,000)	$35,143
Difference	$68,583

Source: SHS Consulting Calculations

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