

Condominium Conversion

By Brian Madigan



Here's a real opportunity and it's simple enough. You take an ordinary apartment building and convert it to a condominium.

Why would you want to convert a building? Because, it's worth one and a half to two times what it was worth before. There are, of course, some costs and expenses.

Generally, governments are trying to encourage home ownership. That is certainly the mandate of Canada Mortgage and Housing Corporation (CMHC). The difficulty today is that the price of the average home in most urban centres has increased so much in recent years, that first time homebuyers can't afford them. So, that's where condominiums come in. They solve the affordability factor and permit more tenants to break the rental cycle and purchase their first properties.

However, there is a problem. Most municipalities need to have rental stock. So, they must protect it. The first issue will be timing. If the vacancy rate in a municipality is over 2%, 2 ½, in some cases, then they will be amenable to a conversion application. The second issue is lower cost rental units.

The City of Toronto, for example, protects apartments that rent for less than \$ 1,333.00/ month without additional perks such as parking. This must be for shelter, hydro and water. You may have to look closely at the rent rolls to make this determination. In fact, any units which rent for less than \$ 889.00/ month are automatically protected. Over \$ 1,333.00/ month, you will usually be permitted, and between those two figures you will have to negotiate with the City.

There is another side benefit which drives the conversion. The Municipal Property Assessment Corporation (MPAC) treats two fully occupied, identical buildings differently if one is a condominium and the other is a rental. While variances fluctuate from one municipality to the next, the taxes can be as much as three times more for a rental property. This is due to the assessment and the tax rate imposed by the municipality. For a tenanted building, MPAC uses a gross income multiplier to come up with the value. For condominiums, it will be the sum total of the market values for all the

individual units. There is no cross-checking to ensure fairness, just two different methods, leading to two different results. This matter has been appealed to the Courts, and they have upheld the higher assessments for rental properties.

So, if you own an apartment building you might even consider converting it, just to save taxes. Don't worry about selling, just keep renting out the units and the taxes you save will go right to your bottom line.

There might be a "catch". The rents in Ontario are subject to rent controls. So, if the Landlord saves money on the municipal taxes, he may be obligated to pass on the savings to the tenants. This really depends upon whether the tenants are closely following the application process.

Another matter to consider will be financing. In most cases, the first mortgagee will not want to have its mortgage fractionalized. In other words, if the lender had one mortgage on the entire property, then they don't want it broken up into 100 units. Nevertheless, for a price, most lenders will agree or you will need to re-finance.

The reasons to justify the conversion are quite simple:

- 1) you reduce your property tax,
- 2) you maintain your income throughout the process,
- 3) you have increased flexibility with your building (you can rent or sell),
- 4) you achieve the highest price for your property.

This higher value will be beneficial in either the sale or mortgaging of your property.

At the outset, you will need to gather together your team of experts, including a lawyer, surveyor, realtor, tax consultant and accountant. You will have to clarify the rental income and carefully examine the rent rolls. If your timing is right and your building is not on the protected list of affordable rental units, then you should review the Official Plan and meet with the local municipal councillor and the Planning Department. Thereafter, you should hold a meeting with the tenants and keep them well-informed throughout the process. If you decide to sell, these same people will be your most likely customers. You might consider offering an attractive second mortgage as an inducement to purchase.

If it still looks like a "go-ahead", then you will have to spend some money on a surveyor. You should try to obtain the original architectural drawings

for the building. These will be quite helpful and you can make your application for conversion using them. Naturally, if you are successful, then you will have to retain a surveyor to certify all the boundaries of the land, the building, the units and the common elements. You are creating real estate in the sky, so the boundaries need to be precise.

You will have to the property transferred into the Land Titles system if it is not there already. Qualified Land Titles is not sufficient. You must make a first application for registration including a reference plan. Generally, this will be a condition of approval, just like the complete condominium survey.

Once you have received approval from the municipality, you are ready to proceed with registration of the Condominium. The entire process can be as short as nine months or as long as two years. The trick is to keep the file moving.

What about the reserve fund? If you don't decide to sell right away, then you don't need to fund it, and your administrative costs are at an absolute minimum while you own all the units.

There is another important consideration before undertaking the conversion process and that is, the marketplace. In 2005, in the GTA 17,693 condominiums were sold and their percentage of new home sales is increasing. In 2000, they represented 26% of the marketplace and by 2005, they accounted for 35% of new home sales.

Some municipalities are better than others for the conversion application and process. Location is quite relevant to your decision to acquire a property suitable for conversion.

Brian Madigan LL.B., Realtor is an author and commentator on real estate matters, Coldwell Banker Innovators Realty, Brokerage 905-796-8888, BRMadigan@rogers.com or visit www.OntarioRealEstateSource.com