



Commercial & Investment Real Estate Report

Capital Gains Tax and Commercial Real Estate

Tax implications are one of the largest concerns when considering buying or selling commercial real estate. Capital Gains and the repayment of depreciation can eat in to after tax profit of an investment property. Unlike in the United States, the only way that you can defer Capital Gains Tax in Canada is if the majority of your building is used for the operations of your business. In this case, you can exchange for another building as long as that building is also being used primarily for the operations of the same business.

Many Investors in Toronto are not eligible for this type of capital gains tax deferral so they must consider the impact of capital gains when disposing of Real Estate Investments. The reality is that Canada has no plans that I know of to change the rules on Capital Gains Tax. This tax along with any depreciation claimed on the property will have to be paid at some point. The capital gains tax, however, is not as onerous as some investors imagine.

What is Capital Gains Tax?

Capital Gains Tax simply means that only half of the profit (i.e. gain) on the sale of your real estate investment in Canada will be tax-

able. For example, if the profit (gain) is \$100,000 on a real estate sale in Canada, then only half of the gain (\$50,000) would be taxable at your marginal tax rate. How do you calculate the profit on real estate sales in Canada? It is a very simple formula: Net Sales Proceeds minus the Cost = Profit (Gain). The Net Sales Proceeds is equal to the selling price less legal fees paid to your lawyer and commissions paid to your Realtor. The Cost is computed as the original purchase price, which should be shown on your purchase and sale agreement when you first bought the property, plus land transfer tax, legal fees paid and the cost of any improvements made to the property.

Improvements vs. Repairs

When calculating the tax on real estate sales in Canada, you should consider improvements. Improvements increase the cost of your property and therefore reduce the gain and tax on sale. Improvements (also known as capital expenditures) are something that better the quality of the property or extend the property's life. For example, if you replaced the windows on your property, then that is an improvement because it has extended the life of your property.

Another example of an improvement would be replacing an old gas furnace with a high efficiency fur-

nace. Repairs are not improvements and they do not increase the cost of your property for tax purposes. Repairs include fixing leaky faucet or repairing a squeaky floor board. Repairs are, however, tax deductible as a current expense on your tax return.

Depreciation

When calculating tax on real estate sales in Canada you must factor in depreciation, also known as Capital Cost Allowance (CCA). Depreciation represents the wear-and-tear on your property and is tax deductible. When selling real estate in Canada, the CCA that you claim in the prior taxation years must be included in your taxable income. This is known as Recapture and must be claimed as taxable income in the year of sale.

There are ways to defer capital gains tax that I have used in the past to help cushion the impact on Sellers. Please give me a call for details. Taxes are a complex subject and each Investor will be impacted differently. Generally it is best to consult an accountant to assess tax implication before buying or selling.

Don Mulholland's Recent Transactions:



686 Richmond St. W

Asking Price: \$2,0,000

- N/E Corner at Tecumseh.
- Totally Reno'd Live/Work Bldg.
- Over 4,500 sf, 4 car pkg.



1000 Queen St. W.

Asking Price: \$2,695,000

- N/E Corner at Ossington.
- Approx. 2,500 sf on Main Flr.
- Flagship Retail or Development.



200-202 Bathurst St.

Sold Price: \$1,446,000

- Sold for 98% of asking price..
- Corner property near Queen W.
- Bought for redevelopment.



1269 Dundas St. W.

Asking Price: \$30 - \$60 psf

- At Dovercourt, Rebuilt to LEED.
- Mn Flr—A1 Retail w/18' ceilings.
- Lower lvl— perfect Yoga space!

If you would like to receive immediate notification of my listings and receive future newsletters electronically, please send me your email address.

Thinking of Selling...?

The market couldn't be better! Interest rates are low and demand is high - who know how long it's going to last...!?

Give me a call to arrange a free, no-obligation, evaluation of your property.

Lower West End of Toronto - Market Report

The final sales numbers are in for 2011 and it shows that last year was another busy year. The information below is just an indication of market activity and does not show other important information used to establish value such as capitalization rates, location, sale price per buildable square foot and per lot square foot.

Please contact me for a more in depth analysis of sales in your immediate area.

Street	year	# of sales	low	high	average sale price	average % asking price	average days/market
Queen St. W.	2008	4	\$998,800	\$1,750,000	\$1,204,500	90.25	115
	2009	3	\$4,500,000	\$7,250,000	\$5,866,667	100.33	46
	2010	10	\$655,000	\$5,900,000	\$2,305,300	97.3	78
	2011	17	\$675,000	\$2,045,000	\$1,248,611	96	38
Dundas St. W.	2008	8	\$350,000	\$2,888,888	\$860,711	94.88	82
	2009	1	\$1,175,000	\$1,175,000	\$1,175,000	90	83
	2010	6	\$628,500	\$2,063,000	\$1,111,583	91.33	140
	2011	6	\$400,000	\$1,388,888	\$883,796	93	57
College St.	2008	5	\$385,000	\$2,225,000	\$948,264	93	83
	2009	7	\$590,000	\$3,061,047	\$1,247,864	95.71	105
	2010	7	\$650,000	\$3,855,000	\$1,652,143	104.57	55
	2011	9	\$645,900	\$1,850,000	\$1,122,978	97.89	56

The chart above represents sales reported on MLS® by the Toronto Real Estate Board and Land Registry between Spadina and Dufferin. My spring issue will report sales between Dufferin and Landsdown. Sales prices vary by block. Many factors effect property values such as location, size, configuration, use, taxes, operating expenses and the condition of the property. Please call me for the latest information relevant to the pricing of your property.