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CONDO CONVERSION: A GROWING TREND

As of 2006, the trend of converting apartment properties to condos has continually gained momentum. The low interest rate that has affected the apartment industry is driving the biggest condominium conversion boom in two decades. In markets across the country, condo developers are paying a premium to acquire and convert rental properties into condos.

The eighties saw a huge wave of condo conversions; however the trend had died by the early nineties. Early into the new millennium condo conversions came back. There were many factors that led to this revival but the main one was low interest rates. At these rates mortgage payments were often lower than rents and as a result those who were previously not eligible for home ownership could now purchase a condominium.

In recent years the condo industry has been booming in Canada with dozens of new towers being erected every year. Toronto is the center of this boom with approximately 17,000 new units being sold in 2005. This is more than double Miami where sales of 7,500 units placed them second. As limitations are now being placed on new development developers are being forced upward and consider more conversions rather than new construction. Strong areas of growth now are Kitchener-Waterloo and London.

In an effort to cash in on Saskatoon's growing housing shortage, the city received nine applications (a total of 386 units) to convert properties to condos in early August. This now brings the total number of conversion applications received by the city this year to 24 buildings, a total of 951 units that will be leaving the rental market.

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Industry Opinion Column

What is a Condo Conversion?

By
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Generally speaking, a condominium conversion is the process of converting an income property or other land held under one title into individual units for sale. Subject to any specific restrictions that are imposed by municipal or other approval authorities, any type of existing structure can be converted to a condominium. Condominium conversion is possible for all different types of properties, including multi-family residential buildings, co-operatives or co-ownerships, multi-family row dwellings, and industrial or commercial buildings which can be converted into individual housing units.

Why are Condo Conversions Popular?

Typically, the market for condo conversions occurs when the price of a single family homes increase beyond the reach of the first time buyer. Converted condominiums provide an excellent opportunity for many individuals to own their own property. Given the widespread availability of financing, this has severely affected the rental market as we know it. Other investors, both domestic and foreign, are ever increasingly interested in converted condominiums as an affordable means of acquiring property for investment purposes. Smaller investors who are disillusioned by the stock market are showing continued interest as well, purchasing several condominium units rather than a large, single-title property. Multiple types of investors, including developers and landlords/owners, wishing to capitalize on this market demand and maximize their return on investment in a difficult rental market decide to pursue condo conversions. In the United States, for instance, leading Apartment Companies and Apartment Reit Sectors are entering the conversion business themselves according to a recent New York Times Article. In fact, Credit Suisse First Boston has just finished marketing a bond to Institutional Investors that was backed by several billion dollars worth of mortgages for apartment building and other properties being transformed into condominiums.

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Since condo buyers are typically renters, condo conversions can benefit multi-family property owners by shrinking the supply of apartments.

However, the release of these upgraded, converted units back into the rental market can hurt multi-family property owners as it raises the standard above the current product; therefore creating stronger competition as renters will most likely prefer the upgraded suites.

Where to Find Us

Canadian Apartment Investor's Conference (Derek Lobo, Speaker),
Toronto, September 19/07

LPMA Trade Show, (Derek Lobo, Keynote Speaker), London, October 9/07

HDAA Industry Update Seminar, (Derek Lobo, Speaker), Hamilton, October 17/07

PM Expo (Derek Lobo, Speaker), Toronto, November 28-30/07

Upcoming Educational Events

*Residential Tenancies Act Refresher Breakfast (hosted by FRPO – www.frpo.org)

*Finance Seminar For Apartment Buildings (hosted by FRPO – www.frpo.org)

What are the Key Benefits of Condo Conversions?

Condominium conversions can result in significant tax benefits for a property owner because they allow a property owner to take advantage of the lower realty taxes for single-family property units as compared to multi-family units. For example, a multi-family property in Ontario can have taxes of up to 3.8 times the amount that would be paid on the same building if it were composed of a series of single-family condominium units rather than a single, multi-family unit property. Conversion also provides for greater estate planning flexibility for those smaller multi-family owners given the liquidity of the asset.

In addition, condominium conversions generally result in an increase in the value of the units if sold either to owners or investors. Some of this increase in value comes from the conversion itself, and some comes from minor upgrades to the units and common areas that may occur during the conversion process. In each conversion, it is necessary to offset the amount of the increase by any costs required to bring the building in line with various municipal standards (which normally have been met by virtue of being an apartment complex already); however the net increase can be a significant incentive for property owners considering conversion.

There is an advantage to developers/owners in considering conversion as well. In a market where construction costs are high, a conversion of an existing multi-family structure will often be much more cost-effective and much faster than building from scratch. Even current property owners can take advantage of these benefits; the comparatively fast process of conversion (6-9 months) often makes it possible to sell individual units when they are at or near peak price before changes in demand take effect.

Mark McMackin, a real estate lawyer with Ricketts, Harris LLP, has been engaged in this area with his team of Planning and Survey staff for over 10 years. If you would be interested in learning more about the potential of your building conversion, please contact Mark by phone at (416) 364-6211 ext. 214 or by email at mmcmackin@rickettsharris.com. You can also find more information on our law firm's website at www.condoconversions.ca.

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