

VALUATION CASE STUDY

HST HELP

The Challenge

Canada Revenue Agency (CRA) requires apartment developers to “self assess” for HST/GST on the basis of a deemed disposition at “Fair Market Value” on the “first occupied date”. Sounds simple: establish the Fair Market Value of the property on the date the first unit was occupied. But what happens if part of the building comprises commercial space and some of the apartments are destined to be rented short term using Airbnb, Bookings.com or similar platforms? The taxpayer turned to Turner Drake for advice.

Turner Drake’s Approach

This was a mixed use building containing 91 apartment units and 14,200 ft.² of commercial space. The self supply provisions of the Excise Tax Act only applied to the residential component available for long term lease (≥ 60 days). For mixed use properties, the residential and commercial components had to be treated as two different properties under the Excise Tax Act. However because the real estate comprised a single (fee simple) interest it was our view that the property interest had to be valued in its entirety, then apportioned between its constituent parts to meet the requirements of the Excise Tax Act. In other words, since there was only one legal interest the constituent physical residential and commercial components could not be sold separately. We therefore calculated the anticipated net operating income from each of the two sources (residential long term and commercial/residential short term) and converted each into a capital value utilising capitalisation rates which reflected the different risk profile inherent in each income stream and the additional uncertainty in estimating income and expenses for a property which had no established operating history. The resultant capital values were then reduced by the anticipated rental loss and incentives during lease up. In addition HST was deducted from the residential (long term) component to calculate the self supply assessment (Fair Market Value) figure.

Winning Results

Turner Drake furnished our client with a comprehensive Valuation Report, with a detailed logic path to the Fair Market Value conclusion anchored by market data, for deployment in their negotiations with Canada Revenue Agency.

