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White Paper - Real Estate Investing and Flip Mortgages
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Preamble:
In light of the proposed anti-flipping tax rule by the British Columbia government, Calvert Home Mortgage Investment Corporation (CHMIC) reiterates its stance on additional taxation within the real estate market. The proposed measure aims to deter speculative behaviour and curb short-term buying and selling practices in the interest of making housing more affordable. However, we believe these taxation measures will result in the opposite effect.

CHMIC acknowledges the government's intention to target activities that undermine the housing market's stability and supports measures that ensure fair taxation for real estate transactions. However, we express concerns regarding the potential implications of the proposed tax rule on housing supply and affordability.

The essence of our disagreement lies in the belief that the proposed tax changes may inadvertently hinder real estate investment activities, impacting the economy, communities, and the overall housing market dynamics. There is a risk of damage to the housing supply and Real Estate Investors who contribute positively to the real estate ecosystem.

Our ideal Real Estate Investor client is committed to short-term property ownership, focusing on value addition to homes, the revitalization of communities, and strategic sales. Imposing additional taxes on this segment will not effectively address the supply crisis; it will hinder it and contribute further to affordability challenges. By definition, flippers tend to turn around properties in 6-12 months, whereas this new taxation applies to any properties sold within 2 years of purchase. This proposed tax could encourage people to hold on to their properties for longer to avoid the tax, causing a further decrease in inventory available.

In response to the ongoing discussion surrounding the proposed anti-flipping tax, this white paper examines the role of Real Estate Investors, commonly called "flippers," in driving economic activity, fostering community development, and promoting sustainable housing initiatives.

CHMIC believes that government policies should prioritize solutions that address the underlying factors contributing to housing affordability and supply constraints. While new taxes may serve as a short-term deterrent, long-term solutions require collaborative efforts to promote investment, innovation, and responsible stewardship of the housing market.

As advocates for a vibrant and inclusive real estate sector, CHMIC remains committed to facilitating access to financing for investors who contribute positively to the housing ecosystem while promoting sustainable and equitable development practices.

Why “Flipping” is Good for the Market

The process of “flipping” real estate plays a crucial role in the housing market, particularly in revitalizing older or distressed properties. Real Estate Investors undertake renovations to enhance the value of these homes, catering to buyers seeking move-in-ready residences.

As homes typically require updates every couple of decades, older properties present prime opportunities for flipping. Moreover, properties needing significant repairs or upgrades often struggle to attract buyers. Many buyers prefer properties that have already undergone major renovations due to a lack of desire or financial constraints preventing them from tackling extensive projects. Flippers approach these challenges by undertaking substantial renovations, breathing new life into such properties, and increasing their market appeal.

Here’s a look at the age of housing in Ontario and the percentage of those homes that need either minor or major repairs.

Age of Home	Number of Homes (Rounded)	% Need Minor Repairs	% Need Major Repairs
1945 or older	632,000	35.9%	12.7%
1945-1960	660,000	31%	9.2%
1961-1970	649,000	28.5%	8.2%
1971-1980	800,000	27.1%	6.9%
1981-1990	709,000	25.5%	4.6%
1991-2000	622,000	22.3%	3.3%
2001-2005	396,000	20.7%	2.1%
2006-2010	368,000	10.5%	1.2%
2011-2016	330,000	4.7%	0.8%

Source: CMHC, adapted from Statistics Canada (National Household Survey)

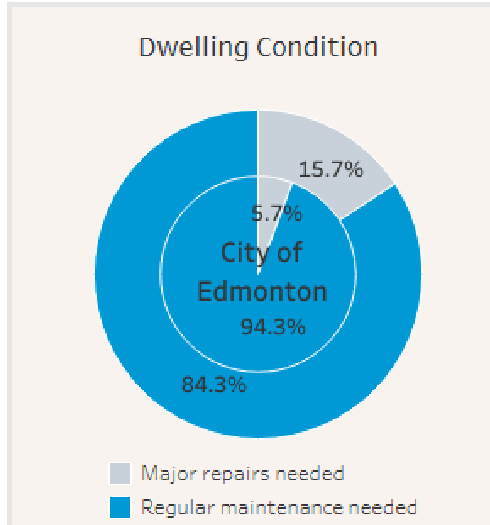
Here’s a look at the age of housing in Alberta and the percentage of those homes that need either minor or major repairs.

Age of Home	Number of Homes (Rounded)	% Need Minor Repairs	% Need Major Repairs
1945 or older	52,445	36%	17.2%
1945-1960	125,335	35.5%	11.3%
1961-1970	148,155	31.8%	8.7%
1971-1980	291,350	32.5%	8.0%
1981-1990	193,365	30.2%	6.1%
1991-2000	216,410	25.5%	3.8%
2001-2005	157,415	18.3%	2.2%
2006-2010	180,645	11.8%	1.6%
2011-2016	162,555	4.7%	0.8%

Source: CMHC, adapted from Statistics Canada (National Household Survey)

In the Alberta market, data from Calgary and Edmonton further breaks down those properties that need major work.

Calgary		
	Number	Per cent
Occupied private dwellings	**466,730**	**100%**
Regular maintenance or minor repairs needed	**446,630**	**96%**
Major repairs needed	**20,105**	**4%**



Many home buyers want turn-key properties to avoid the work of repairs and renovations. But the reality is that they often can't afford the renovations on top of the mortgage they get for their home.

Here's an example:

A home buyer needs additional cash to pay for renovations. That's true even with a "purchase-plus" mortgage that provides some additional money for post-purchase renovations, which are subject to a number of regulations.

A $400,000 house that needs $80,000 of work with a 5 percent down payment of $20,000 would mean the purchaser needs $100,000 cash plus closing costs. On the other hand, a turn-key home listed at $480,000 only requires $24,000 cash plus closing costs. Although the monthly mortgage payments would be slightly higher, this is a difference of $76,000 in cash up front, which the average home buyer doesn't have lying around.

Those home buyers who may not have the capital to complete renovations would be able to qualify for a mortgage on that same renovated house in which the investor took on the cost of renovations. A renovated home may also be more affordable than a new home in a new neighbourhood. Therefore, Real Estate Investors serve the market by providing finished properties for those who can't complete renovations independently but still want to live in a nice, comfortable home with quality finishes.

Many other home buyers don't *want* to fix up an older home. In 2023, the National Association of Realtors reported that 45% of recent home buyers who purchased new homes sought to avoid renovations and issues with plumbing or electricity, while only 7% preferred to tackle a fixer-upper themselves.

There is also a misconception that “flipping” drives up prices. However, Real Estate Investors are careful to price houses comparable to others in the neighbourhood to ensure they can make a sale. Flippers and those who fix up to rent do **NOT** want their renovated properties to be much more expensive than the surrounding ones. It’s a principle of success when it comes to flipping that the new property needs to fit in the affordable range of the rest of the neighbourhood, and the same is true of a rental.

Flippers can’t get more than the market will pay and are not doing anything to get a higher house price than those homeowners who list a similar house for sale.

Why Flips and BRRRs (Buy, Renovate, Rent, Refinance) are Important to Communities

Real Estate Investors add value to neighbourhoods by rehabilitating run-down properties that may contribute to crime rates and lack of neighbourhood appeal. Property investors are important to the market because they renovate and resell older homes or those that have been damaged. Renovating these properties revitalizes communities that might otherwise be left run down. It also makes streets more desirable, increasing the value of the surrounding properties. These flips provide renovated homes at different price levels, making housing affordable for everyone. These actions Real Estate Investors help increase the housing stock. The process also rejuvenates older neighbourhoods, and redevelopment is a natural part of a community’s life cycle.

Regarding BRRR (Buy, Renovate, Rent, Refinance) transactions, Real Estate Investors provide quality, affordable renting options in neighbourhoods by fixing up old properties and making them desirable for tenants.

Governments could consider rezoning or incentivizing developers and flippers rather than penalizing them. These types of policies could accommodate population growth by redeveloping wide land parcels with single-family homes into multi-family homes like duplexes, townhomes, and multi-storied buildings. This would help make it more affordable for people to live in established communities and find different types of homes in their neighbourhoods as their needs change.

Making it easier to add dwellings to properties during renovations can also add housing options of different sizes and price ranges. One example is adding a basement suite, or a laneway or garden suite during a renovation, which provides housing for two families where there was once only one dwelling. These could be for family members to live in or be used as a rental unit.

The Government of Ontario prioritized this in its Housing Supply Action Plan called “More Homes, More Choice.” Public input stated that affordability was a top criterion when looking for a home. The report concluded that one of the government’s priorities was to: *“Make it easier for homeowners to create residential units above garages, in basements and in laneways.”*

While it’s true that investors make money when they flip a property, they also serve an important need in communities: they renovate existing homes to meet buyers' desire for move-in-ready housing. Most home buyers want to purchase a finished property, and many people may not want to take on renovations on their own.

Zolo outlined recent data and trends in home buyer preferences indicate a continued emphasis on certain features that often require renovation in older properties:

1. A main floor bathroom
2. An updated kitchen
3. Outdoor spaces like a patio, deck, or outdoor space

In studies like the Canadian Home Buyer Preference National Study, completed for the Canadian Home Builders' Association in 2023, results showed that home buyers listed walk-in closets in the primary suite, kitchen islands, and energy-efficient appliances as the top three "must-haves." Other priorities like high-efficiency windows further underscore the need to renovate old homes.

New home construction can't keep pace with demand, making renovated "flipped" homes available *and* attractive to buyers. While new neighbourhoods may be built, the existing communities should not be ignored, or they will risk further deterioration.

Precondo published these Canada Real Estate Statistics:

- In 2019, 148,663 new homes were completed across Canada: 82,273 were condos (55%), and 38,766 were single detached homes (26%), the rest being townhomes and semi-detached.
- Canada's population grew by an estimated 531,497 people from 2018 to 2019, making Canada the fastest growing among the G7 countries.
- Ontario's population grew by 248,000 in 2019. In the same year, 50,549 new homes were built in the province.
- Ontario's population is projected to increase from 14.5 million (2019) to 19.8 million in 2046 (27 years).

Buy, Renovate, Rent, and Refinance (BRRR) projects also serve a need. Precondo also reports on low vacancy rates:

- Residential apartment vacancy rates are at all-time lows in Canada, averaging 2.3%, down from 3.5% in 2015.
- British Columbia has the lowest vacancy rate in Canada at 1.5%.
- Quebec has the second lowest vacancy rate in Canada at 1.8%.
- Ontario has the third lowest vacancy rate in Canada at 2%.

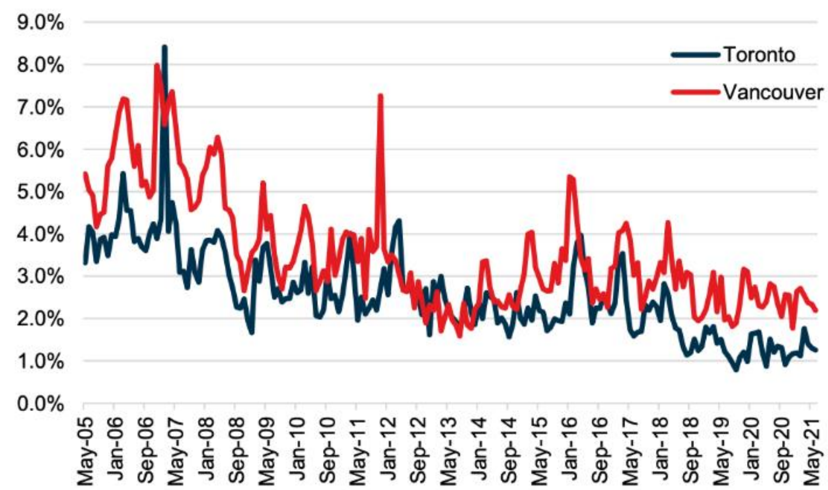
One thing that hasn't changed since 2019 is that Canada remains the fastest growing country in the G7, as Statistics Canada published, "Canada's population was estimated at 40,528,296 on October 1, 2023, an increase of 430,635 people (+1.1%) from July 1. This was the highest population growth rate in any quarter since the second quarter of 1957 (+1.2%), when Canada's population grew by 198,000 people… The population grew in all provinces and territories, except in the Northwest Territories (-0.5%)."

Flipped properties can provide additional housing that may be more affordable than new housing. Flippers can manage renovations more easily and quickly than individual home buyers. Real Estate Investors have access to contractors regularly or manage the renovations independently. They may also be able to purchase items in bulk, like flooring or kitchen cabinets. They want to renovate quickly to sell the property or rent it out. That benefits the market by adding inventory since low supply is an issue for buyers and renters in many areas.

How Flips and BRRRs Benefit the Economy

A January 2022 report by the National Bank of Canada Financial Markets concludes that an anti-flipping tax is unlikely to impact housing markets. The report investigated a tax that would require residential properties to be held for at least 12 months. It showed that such activity – deemed by the government as “flipping” – makes up less than 2% of transactions in the two largest real estate markets of Toronto and Vancouver.

Figure 13: Share of home sales purchased and then sold within 12 months, or “flipping”, makes up ~1% and ~2% of home sales in Toronto and Vancouver, respectively.



Source: Teranet, NBF

The reality is that price increases have been linked to a “too much demand (population growth) and not enough supply (new buildings)” that has driven up demand in some markets and resulted in higher prices for the available properties. The issue is supply, not flipping or renovating properties to sell.

With the intent of addressing housing affordability concerns by stabilizing prices, the recently proposed BC house flipping tax could result in Real Estate Investors holding properties for up to two years to minimize or ensure no additional tax on income earned from the sale, unless they are eligible for exemption.

The BC government indicates, “Exemptions will be provided for those who add to the housing supply or engage in construction and real estate development.” The specific details for this exemption have yet to be released. A recent article from Canadian Mortgage Trends suggests exemptions for new construction and rental home construction. We hope policymakers see investing in Flip/BRRRs, where Real Estate Investors improve the property’s marketability and/or density, as an exemption.

Real Estate Investors already pay taxes on their investments, whether they are flips to sell or rent. That could be in the form of business income or capital gains taxes. That makes an additional “anti-flipping tax” counterproductive and unlikely to address rising prices due to decreased supply.

CMHC's Supply Gap Estimates Report states: "If current rates of new construction continue, the housing stock will increase to close to 19 million housing units by 2030. To restore affordability, we project Canada will need an additional 3.5 million units. Two-thirds of the 3.5 million housing unit gap is in Ontario and British Columbia, where housing markets are least affordable." It also highlights that "challenges remain for low-income households in accessing housing that is affordable across Canada."

Governments should consider policies that accommodate population growth by redeveloping wide land parcels with single-family homes into multi-family homes like duplexes, townhomes, and multi-storied buildings. This would help make it more affordable for people to live in established communities and find different types of homes in their neighbourhoods as their needs change. Additionally, using the BRRR method, Real Estate Investors provide quality, affordable renting options in neighbourhoods by fixing up old properties and making them desirable for tenants.

In the United States, the National Association of Realtors® estimates that one job is generated for every two home sales and that each home sale contributes about $60,000 to the economy or Gross Domestic Product (GDP). The benefits are similar in the Canadian context.

Here are just a few ways that flipping supports the economy:

- Creates jobs for tradespeople, realtors, and lawyers – all of whom pay taxes.
- Products are purchased for renovations, supporting local businesses.
- Adds to the tax base, from income tax paid by those in employment to capital gains taxes to property taxes. Some of this tax base would not exist if renovations were done by the homeowner instead of a Real Estate Investor.

How Flipping Helps Support Green Initiatives

Besides adding affordable turn-key housing, the investment in revitalizing communities through renovation and redevelopment reduces urban sprawl. The development of basement suites in existing dwellings, for example, can also reduce urban sprawl. That means reduced investment in infrastructure and a lower carbon footprint while still allowing cities to grow.

Focusing only on new development leads to urban sprawl, which requires governments of all levels to fund infrastructure to support the surrounding suburbs.

The pressure to spend includes building roads and freeways, adding plumbing, sewer, and electrical infrastructure, increasing transit and emergency services, and increasing maintenance like snow removal. Tax-sheltered institutes such as schools must also be built, while the existing infrastructure in established communities is underutilized, creating waste and inefficiencies.

These challenges create competition for monetary resources, significantly stressing government budgets. This, in turn, gets passed on to citizens through higher taxes.

Urban sprawl also increases the carbon footprint in our cities, leading to more roadways, longer commute times, less efficient public transit, and commuters who are less likely to walk or bike to work. That goes against the green mandate supported by politicians and the people who elect them.

Limiting and lowering emissions is central to election platforms and government mandates. In fact, the federal Minister of Environment and Climate Change was mandated in late 2021 to "bring forward an updated Emissions Reduction Plan to achieve a 40 to 45 percent reduction in emissions by 2030 from 2005 levels."

The housing shortage and climate issues are linked. Building more new homes in new neighbourhoods creates "climate change-related challenges, like preventing unchecked urban sprawl from eating into existing greenspace and necessitating the construction of more highways, which, in turn, perpetuates the need for more cars, trucks, and SUVs."

The Ontario Professional Planners Institute cites the former (and final, after the office was eliminated) Environmental Commissioner of Ontario, who reported in 2019 that "the largest source of Ontario's energy use and greenhouse gas emissions (climate pollution): urban sprawl." So, urban sprawl can work against the goal of lowered emissions and a reduced carbon footprint.

The benefits of limiting urban sprawl are not new. In 2009, a study commonly called the "Cost of Growth" study was commissioned for the City of Calgary. It looked at two scenarios for development: the "Dispersed Scenario," which reflected the trends at the time, and a new Recommended Direction, which recommended "intensifying jobs and population in specific areas of the city and linking them with high-quality transit services." The report looked at infrastructure such as transportation (roads and transit), water and sewer services, police, fire, parks, recreation centres, and schools.

Among the report's key findings:

- The land required for Plan It Calgary's Recommended Direction is 25% smaller than the Dispersed Scenario (which reflects current policy and trends).
- The cost to build Recommended Direction is 33% less expensive than the Dispersed Scenario.
- The Recommended Direction would be less expensive to operate and maintain over the next 60 years than the Dispersed Scenario.

Revitalization can play a key role in easing the housing shortage, supporting green initiatives, and reducing urban sprawl. A 2021 study by Scotiabank reports that "Canada has the lowest number of housing units per 1,000 residents of any G7 country." It goes on to say: "The principal challenge facing the housing market—and the underlying cause for rising prices and diminished affordability—is the substantial insufficiency of supply relative to demand."

New development alone will not solve the problem, and taxing those who renovate existing properties will work against the goal of increasing supply. Reusing existing buildings should be a priority in tandem with new development, according to Hannah Teicher, a researcher at the University of Victoria's Pacific Institute for Climate Solutions.

In an interview with CBC News, Teicher says that renovating existing buildings can add new housing while minimizing future emissions. She cites her research on embodied carbon, which she describes as the carbon footprint from the materials already used in a home or building from their extraction, processing, manufacturing, and transportation.

> "The first priority needs to be maximizing and reusing the existing building stock… If we retrofit (old) buildings, then we preserve all the embodied carbon that was already sunk into them."

The Scotiabank report concludes that the “sustainable solution is not rooted in the interest rate or macroprudential space but rather in a determined effort to remove obstacles that limit housing supply.”
Real Estate Investors help add supply to the market when completing renovations. That includes adding more housing options on the same plot of land in the form of basement suites, garage suites, garden suites, or laneway homes or by turning existing properties into duplexes, triplexes, or fourplexes. Instead of discouraging investors from renovating, government policies that enable such development would go a long way toward addressing the housing shortage.

Options like adding a suite to an existing property are good for the environment and provide opportunities for more affordable housing. Other benefits include allowing people to stay in their community and “age in place” or allowing families to stay connected when parents or children move into the new unit.

Government reports have even stated that such options must be added to the housing market. A report commissioned by the City of Toronto’s planning division and completed in 2020 concluded that the city needed to enable more variety in housing that can be built in the city’s neighbourhoods. This “missing middle” is seen as “one solution among a range of initiatives to increase housing choice and access.”
The “missing middle” housing types include:

- a broader range of low-rise residential building types
- single- and multi-unit housing types such as semi-detached houses, duplexes, fourplexes, and stacked townhouses
- accessory dwelling units, such as laneway suites and garden suites
- low-rise apartments

Adding and renovating these types of properties is a big strategy among Real Estate Investors, and these “flippers” are the ones who take on such work when doing renovations. This ensures the additional suites are safe for residents with renovations done properly and to building codes.

Government policies instead discourage such expansion to the housing supply. Frank Clayton, a senior research fellow at the Centre for Urban Research and Land Development at Ryerson University, authored a report called *Missing Middle Housing*. The report responded to the city planning document and delved into the reasons for the limited production of housing units relative to demand.

He concluded that there are two main issues. One is that city planning protects neighbourhoods from “densification,” or adding housing. The other is the ward system of municipal governance in which the city’s politicians respond to local concerns rather than what’s best for the entire city or region. He stated in 2019 that Toronto could add 300,000 to 400,000 secondary or additional suites to its current single- and semi-detached house stock, which cities like Montreal and Vancouver have done.

There seem to be better solutions than identifying policies restricting housing supply, like an anti-flipping tax or an anti-speculation tax. These will instead slow down the revitalization of properties by hampering smaller “flippers.” If those who renovate to sell are restricted to one property a year, the system favours larger developers who will continue with the pace of urban sprawl.

Housing becomes more affordable when renovation and revitalization are supported, not hindered.

Alternative Lenders Support the Real Estate Market
Alternative lenders like Calvert Home Mortgage Investment Corporation provide a valuable service to the real estate market by loaning the money necessary to support Real Estate Investors with flips and/or rentals.

Traditional lenders like banks and credit unions often will not entertain lending on these properties due to the poor condition and risk factors. An alternative lender fills a gap by offering these short-term loans, providing the resources to allow real estate investors to purchase, renovate, and sell or rent homes and other buildings.

Who We Are
Calvert Home Mortgage is a trusted short-term mortgage lender in Alberta and Ontario. We provide short-term mortgage lending options powered by financial expertise, attentive care, and a responsive, collaborative team.

What We Offer
We are more than an alternative lender. We are your partner in business. Your success is our success, and this approach has been the foundation of our business since 1975.