



See our information on second suites at www.landlordselfhelp.com

Having a secondary rental unit as an option in a house will enable homebuyers to manage a mortgage and will also increase its resale value. While the second suite zoning bylaws permits second suites in all single and semi-detached houses, certain conditions apply. Many have not been fully informed regarding these regulatory changes. Nor are they aware of the benefits and challenges that can be generated by creating a second suite. Ensuring that landlords are aware of what is required and that communities are made aware of the realities will ultimately benefit neighbourhoods. Toronto has produced an easy-to-read information kit that may help you. Educating yourself on the responsibilities and understanding the legalities and regulations required, as well as ensuring that you have good referencing when considering potential tenants will help make you better equipped to handle the experience.

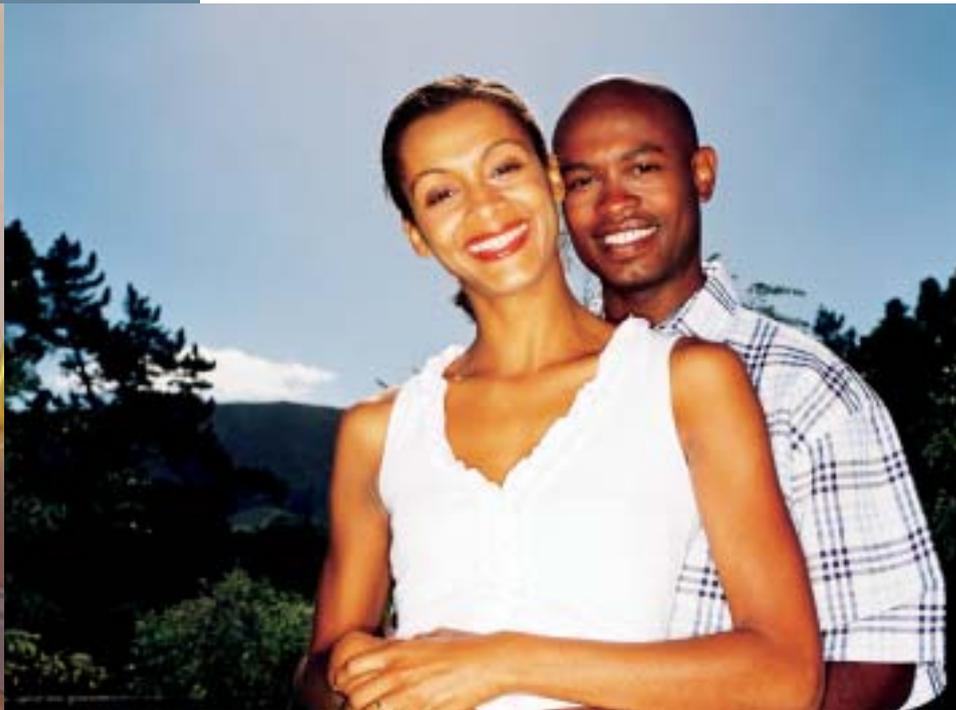


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Some images provided in partnership by CMHC.

The Gains & Benefits
of a
Second Suite



What is a second suite?

A second suite is a single self-contained, rental apartment in a detached or semi-detached house that has its own entrance and contains its own kitchen and bathroom. In some areas of Toronto, second suites have existed for many years, providing tenants with affordable rental accommodation in neighbourhood settings while generating rental income for homeowners.

Many second suites are basement apartments, but they can be installed on any floor of the house including the attic. They have also been called accessory apartments and in-law suites.



What are the gains and benefits of having a second suite?

The most obvious benefit to you as the owner of an authorized second suite is the financial gain. Whether you currently own a house or are thinking of buying one, operating a rental unit in the home can greatly subsidize the many costs of home ownership.

While the rental income received from a unit is the most immediate gain, other financial benefits include:

- ✓ Deductions available under the Income Tax Act.
- ✓ Increased property value and enhanced marketability of the property on resale.
- ✓ Access to increased mortgage financing.
- ✓ Increased ability to make higher monthly payments on your mortgage.

Beyond the financial incentives offered by an authorized second suite, many owners benefit by:

- ✓ Providing safe, affordable housing for a relative.
- ✓ Providing accommodation for a live-in caregiver.
- ✓ Increasing the potential for companionship, sense of security and help with routine tasks such as snow removal or garden maintenance.

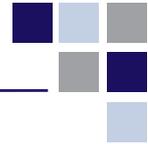


What about a row house?

A rental unit in a row house would qualify as an authorized second suite if it meets one of the following conditions:

- The row house be located in an area zoned for second suites before the existing bylaw came into effect (parts of the former Borough of East York, and former cities of Toronto and York.)
- The rental unit was created in Toronto between July 1994 and November 1995, during which time provincial legislation allowed second suites.

Basic Requirements for Second Suites



- The principle residence must be at least 5 years old.
- It must be a single or semi-detached house in Toronto.
- The exterior façade of the house should remain unchanged.
- The second suite must be smaller in size than the owner's unit.
- The property must meet parking requirements.





Building considerations

When creating a new second suite you may require some construction. This may involve minor alterations such as constructing or demolishing a partition, relocating stairs, or even installing windows and basement entrances. Whatever changes you are planning, your new suite must meet the requirements of the Ontario Building Code, city zoning and other laws that apply. Chances are you will need one or more building permits prior to starting renovations in your home.

The Buildings Division of Urban Development Services at the City of Toronto can give you information on all the requirements for a *new second suite*. They are also responsible for issuing building permits. Building permit applications for small projects and minor alterations are eligible for *Fast Track* processing. Applications can be processed on the spot if no other approvals are required and a homeowner has all of the proper documents. *Fast Track* is available at specified times and locations throughout the city.

Property and Safety concerns

There are many important considerations to ensure that any existing rental unit in your home is safe and habitable.

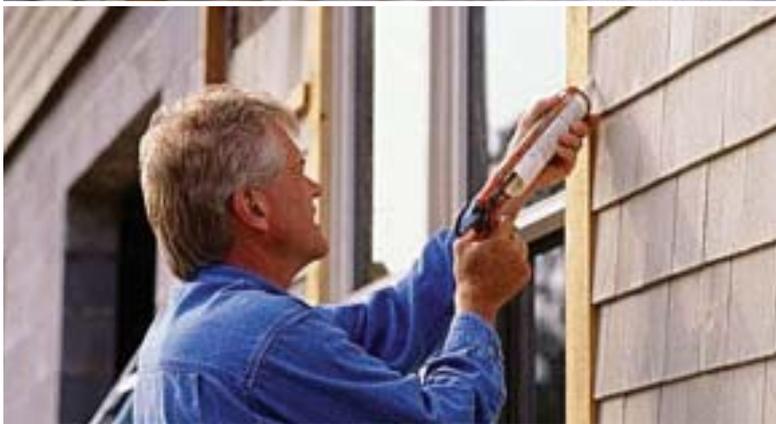
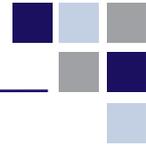
Having an authorized second suite ensures that your unit follows the basic principles of health and safety that are legislated by the city and the province. The Municipal Licensing and Standards Division of Urban Development Services at the City of Toronto can give you information on whether or not an *existing second suite* meets established codes. They are the first step to follow in making sure an existing unit is safe and has all that is required. They are responsible for reviewing property and occupanc standards such as lighting, ceiling heights, ventilation and room sizes.

Once the Municipal Licensing and Standards Division of Urban Development Services has cleared your rental unit you can then proceed to Fire services.

Fire services reviews life safety conditions. They will ensure your rental unit meets established standards of the Ontario Fire Code, and refer you to get clearance from the Ontario Electrical Safety Authority. In general they will review items such as exits, fire separations, smoke alarms and carbon monoxide detectors.

To become better equipped and fully understand details of a second suite you may require further assistance. You can get a better sense of what it means to have a second suite in a detailed homeowner kit that is available free of charge. For more information contact Access Toronto at 416 338-0338 or visit our web site www.landlordselfhelp.com for distribution points throughout the city.

Creating or Upgrading a Second Suite



One of the biggest dilemmas faced by homeowners looking to add a second suite is how to find a reliable, knowledgeable, trustworthy renovator. That is why the Greater Toronto Home Builders' Association's RenoMark program was launched in 2001.

The RenoMark symbol is granted to GTHBA member renovators who abide by GTHBA's existing Code of Ethics and the new RenoMark Code of Conduct.

As the homeowner, you are responsible for ensuring that all work done on your second suite is to legal requirements. When you hire a GTHBA renovator member, you are hiring someone who is committed to staying informed on the latest trends and regulations and who attends regular seminars and courses. These renovators have an extensive network in the building and renovating industry, including manufacturers, suppliers and experienced sub-trades. They offer a wealth of advice and they take care of details such as building permits and ensuring all sub-trades have Workers' Compensation.

They will provide you with a detailed work plan before the project begins to prevent any misunderstandings; give a full two year warranty; return phone calls within two business days; ensure a professional level of knowledge and experience; and maintain a safe and organized work site.

The standardized contracts, quotations, budget and specification sheets used by many GTHBA renovators have raised the bar in the industry. You will get details on what work is to be done, which materials will be used, timing and what to expect. A professional renovator always keeps homeowners informed on progress and timing of sub-trades, change orders and timeline variances.

For a list of renovators who qualify for the GTHBA's RenoMark and for information about the Code of Ethics, call 416-391-HOME, extension 3, or visit www.renomark.ca.

Benefits of an authorized suite

- ✓ **Peace of Mind** – *By having a second suite authorized you will know you did all that you could to make a safe healthy home for you and your tenant.*
- ✓ **Reduced Liability** – *Adequate insurance coverage can be obtained.*
- ✓ **Improved Relationships** – *A legal and safe second suite is likely to improve relationships with your tenants, your neighbours and with the city.*

Risks of an unauthorized suite

- ✗ **Increased Liability** – *The onus is on a homeowner to meet established standards for a second suite. If anything should happen, such as a fire, the homeowner would be held liable due to failure to meet requirements.*
- ✗ **Loss of Insurance Coverage** – *Having a rental unit in your home is a material change to your home. Non-disclosure of this change of use may in fact make your coverage null and void.*
- ✗ **Loss of Income** – *You are a landlord. You are obliged to maintain your second suite in good operating order. If this does not occur a tenant can apply for an abatement in rent. If you do not meet city codes means that you are breaking the law. You run the risk of being charged and can face a fine with a maximum penalty of \$25,000.*

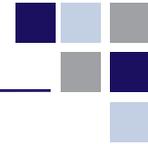
The Positive Impact of Renovations on the Value of our Home

The decision to create a second suite is often a response to affordability. Unfortunately the economics of conversion can be costly, at times it may make such a venture *appear* prohibitive. According to the findings of the Appraisal Institute of Canada in its national 1999 Renovations and Home Value Survey, some renovations will result in a higher average pay-back (or dollars returned) at the time of sale:

- Interior painting and decor (73%)
- Window/door replacement (57%)
- Kitchen (72%) & Bathroom (68%)
- Basement renovation(49%)
- New furnace or heating system (48%)
- Flooring upgrades (62%)

Real estate experts suggest that you avoid renovations which increase the value of your home significantly beyond that of other homes in your area, particularly if there are similar new homes nearby. If you do, you probably won't recover the full value of your renovation expenditures.

Some things to think about....



Insurance Considerations

If you decide to create a second suite for rental purposes you will need to enhance the type of insurance you carry. This will increase the amount of coverage and most likely your premiums will rise accordingly. However, the cost of coverage will vary depending on several factors, one of which is the location of the property.

A landlord shield policy is also available from some insurance companies. This protects landlords from loss of rent and often provides discounts if supervision, maintenance and security of the rental unit is provided by the landlord.

Not every insurance company will be able to provide the necessary additional insurance protection as part of your Homeowners Policy. You may want to call the Insurance Bureau of Canada to find a more suitable option. You can reach them at (416) 362.9528. If you have to find another insurer you may have difficulty if you have had claims or have outdated electrical, plumbing or heating systems.



If you decide to rent, means there is a change in the material use to your home. It is important to inform your insurance carrier. There are special insurance requirements for homeowner occupied dwellings with rental units. Before you start getting into construction of such a suite check with your insurance representative.

Benefits of an authorized suite

- ✓ **Decreased liability** – *There is additional liability exposure in having a tenant. Getting the right type of insurance policy will ensure that a homeowner is covered accordingly.*
- ✓ **Proper coverage** – *Any construction work done will increase the replacement value of your home. Getting the right insurance on the building should reflect this increase.*
- ✓ **Additional security** – *Your insurance company is required to rebuild to the same state if something should happen in which damage occurs.*

Risks of an unauthorized suite

- ✗ **Limited recovery of damage** – *An insurance policy is not responsible for rebuilding costs related to meeting current established standards. Your insurance company is only required to cover the costs of fixing your home back to the state that existed at the time your policy was made prior to any damage.*
- ✗ **Loss of coverage** – *Any undisclosed material changes made to a home could make your existing insurance agreement null and void.*

The Resale Benefit of a Second Suite

How will an authorized second suite benefit me on resale?

“A second suite can add value to your home. Many homebuyers look for homes with second suites since their income potential can make home-ownership more affordable.”

– *Toronto Real Estate Board*

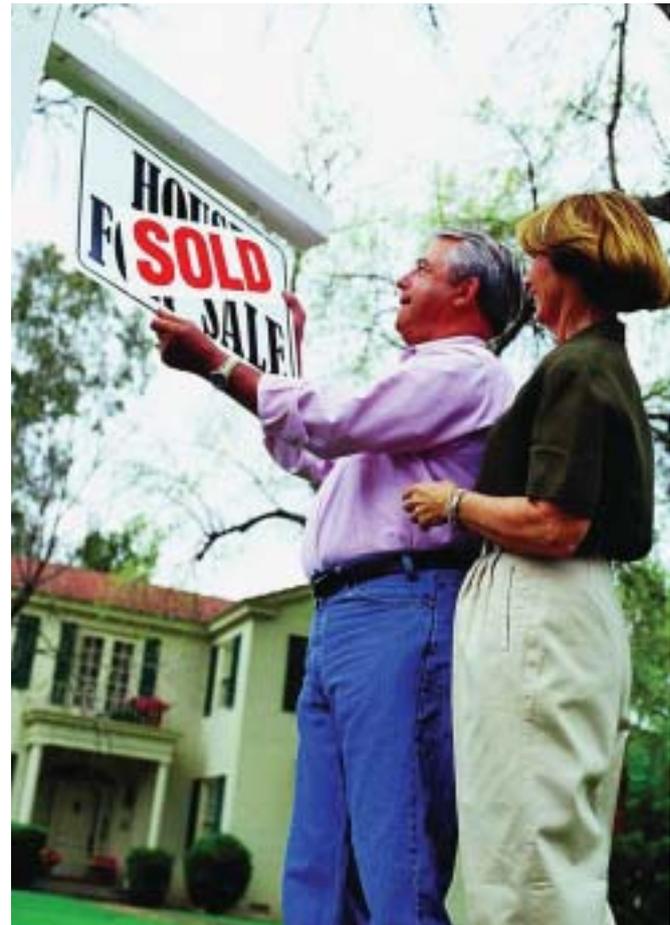
- ✓ Income potential of an existing rental unit will attract purchasers.
- ✓ Compliance with established health, safety and property standards will increase the marketability of the property.

The Impact on Property Tax

Won't my property taxes increase if I create a second suite?

Under Current Value Assessment (CVA), the assessed value of a home is based on its market value. According to the Ontario Provincial Assessment Corporation, the agency responsible for property assessment, a property's CVA does not usually go up unless there is an increase in the total property value of at least \$10,000 or 5%.

A typical second suite increases the value of a home by only 2%-5%, depending on the neighbourhood. Therefore, most second suites do not add enough value to meet this threshold. A major exception to this would be a second suite that is created with a building addition. This could significantly affect the total value and result in a property being reassessed.



Will my Homeowners policy cover property owned by a tenant?

No. It is in the best interests of both you and your tenant to see that the tenant obtains Tenants Insurance. This will cover personal property owned by the tenant as well as their legal obligations under the Liability section of the policy. Such policies include Fire Legal Liability coverage to ensure that damage done to your unit by certain specified perils would be repaired.

Financing Advantages of a Second Suite



Benefits of an authorized suite

- ✓ Eliminates lender reluctance.
- ✓ Enables a homebuyer to qualify for a larger mortgage loan.
- ✓ Reduces insurance concerns.

Risks of an unauthorized suite

- ✗ Creates difficulties in securing financing.
- ✗ Income from an unauthorized second suite is generally not considered when qualifying for a mortgage loan.
- ✗ Insurance policy could be deemed null and void. There is a potential for personal liability if insurer denies a claim.



There are many advantages to having an approved second suite when it comes to financing the purchase of a home or refinancing an existing home. Here are a few benefits you may realize :

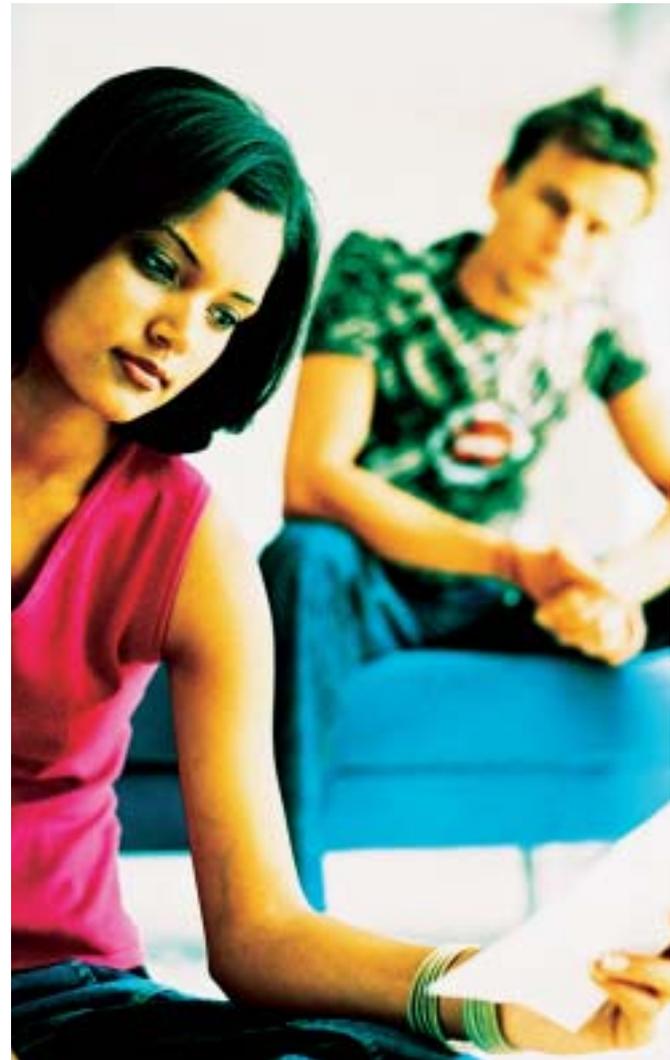
1. An approved second suite can satisfy a lender's concerns about the property conforming to zoning bylaws, building standards, and fire safety codes. Financial institutions are increasingly concerned about their liability related to unapproved uses of residential properties which they have an interest in by way of a residential mortgage loan. Unauthorized second suites are high on the list of potential concerns of financial institutions.

2. Having an approved second suite can often allow you to qualify for a larger mortgage loan. When you can confirm that your second suite conforms to all government regulations, most lenders will take the income generated from the suite into account when calculating the amount of money you can borrow. The higher your total income, the more money you can borrow.

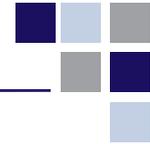
3. Having an approved second suite can eliminate concerns your property insurance provider may have about your home not conforming to building code and fire safety regulations. There are situations where your policy could be deemed null and void if an unapproved second suite exists. There is potentially a large personal liability that could arise in the event that your insurer denies a claim.

The cost of creating an approved second suite can be substantial. Even the cost of converting an unapproved suite into an approved suite can be more than many people have in savings. Fortunately, the ability to finance the cost of this work exists, often at very low interest rates and with very low monthly payments. Many financial institutions offer programs which will allow you to borrow up to 90% of your home's value (including any existing mortgages secured against

the home) to finance any worthwhile purpose. The cost of financing a \$15,000 renovation to create an approved second suite would typically carry for as little as \$100 per month. Since every situation is unique, you should consult with a mortgage specialist to determine the best strategy for your individual circumstances.



Being a Landlord



Benefits of an authorized suite

- ✓ The Tenant Protection Act allows you to set a new base level of rent with each new tenancy.
- ✓ New rental units are exempt from some rent control provisions of the Tenant Protection Act - thus allowing the owner to increase rent higher than the guideline provided proper notice is given and increases are once every 12 months.

Risks of an unauthorized suite

- ✗ Potential for tenant to seek a rent abatement where the unit fails to meet the prescribed municipal health, safety, maintenance and property standards.



Tenant Protection Act

The Tenant Protection Act provides a framework for tenancies. It is a provincial statute that governs most elements of rental relationships in Ontario. The Act defines rights and responsibilities for landlords and tenants and establishes recourse and remedies when the Act is not followed. The Tenant Protection Act also establishes the Ontario Rental Housing Tribunal, an administrative body created to mediate and rule on disputes and issues raised by landlords and tenants.

The Tenant Protection Act features several provisions specific to rent including:

Vacancy De-Control

In Ontario most elements of a residential rental agreement are governed by the Tenant Protection Act and therefore to rent control provisions; however, the legislation does include a concept called “vacancy de-control.” A new base rent is set each time the rental unit is vacated. Once the unit is rented, the tenancy is again subject to rent control provisions.

New Unit Exemptions

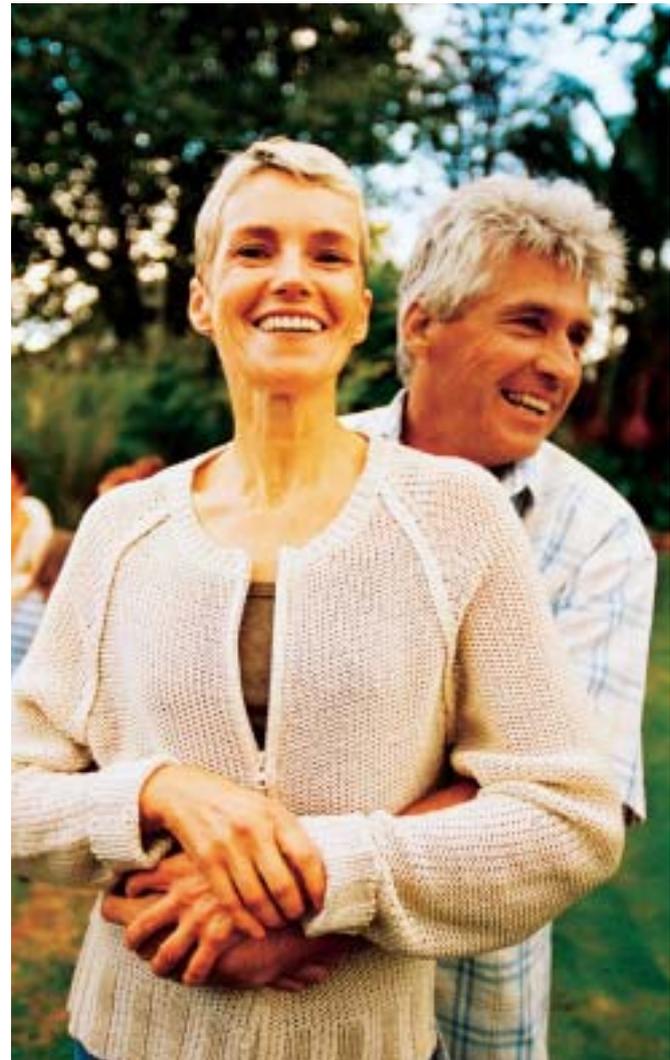
The Tenant Protection Act exempts newly created units from some elements of rent control. If the rental unit has been newly created, according to the Act, meaning no part of the unit was previously occupied as residential accommodation, then it is not subject to every twelve months by any amount provided they have followed the rules for increasing rent by giving 90 days notice on the prescribed form.

Rent Increases and Decreases by Agreement

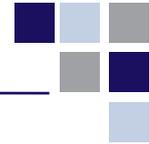
Landlords and tenants can mutually agree to rent increases or decreases when adding or removing a service or facility defined in the regulations without having to give notice or apply to the Ontario Rental Housing Tribunal.

Capital Improvements

Landlords and tenants may agree to an increase in rent above the guideline without having to seek approval from the Ontario Rental Housing Tribunal. As long as the proper form is used, such an increase is permitted in exchange for the landlord doing specific capital improvements, or providing a new or additional service for the tenant.



Income from a Second Suite



Is Rental Income Taxable?

Rental income from a second suite is considered taxable income and is reported on your personal income tax return on a calendar year basis.

How Much Can I Deduct From My Taxable Income?

The expenses you are allowed to deduct fall into two general categories:

- **Direct expenses** – these are expenses that can be directly attributed to the second suite and are incremental in nature (e.g. cost of installing or replacing a lock on a door of a second suite). These expenses are 100% tax deductible.
- **Indirect expenses** – these expenses are general in nature benefiting the entire property and would be incurred regardless of whether or not your home contained a second suite (i.e. annual exterior landscaping). The amount that can be claimed in this category is proportionate to the area of the second suite compared to the entire home. For example, if the total area of the home is 2,000 square feet and the second suite represents 500 square feet then 25% of Indirect Expenses can be claimed as a deduction from the rental income provided by the second suite.



What Type of Expenses Can I Deduct From My Rental Income?

The following is a list of some common expenses that can be deducted from your rental income:

- Property Taxes
- Insurance Premiums
- Advertising Costs
- Repair and Maintenance
- Mortgage Interest
- Accounting and office expenses
- Landscaping
- Interest paid on rent deposit

Can Capital Costs Be Deducted From Rental Income?

Capital costs are non-recurring expenditures, the benefits of which are long-term. (e.g. fridge, stove, washing machine, etc.) These costs relating to the second suite are claimed against your rental income over a period of years. The rate of which depends on the type of capital expenditure through capital costs allowance (CCA). The CCA rate depends on the type of capital expenditure.

Will I Need an Accountant to Prepare my Income Tax Return?

It is advisable to use the services of a professional tax accountant to prepare your personal tax return the first year you start building or renting out your second suite. The decisions you make on your first income tax return will impact taxes you pay in the future depending on your personal circumstances. Your accountant will explain and help you set-up a simple filing and bookkeeping system for the transactions related to the operation of your second suite.

