

3.2.6 FACTORS DETERMINING THE IDEAL HOLDING PERIOD

The holding period refers to the length of time a property is held before it is sold. Four factors influence the holding period:

- 1. Capital Cost Allowance (CCA).** The depreciation of a building (CCA) starts anew with each owner. The first year it is 2%, then 4% per year on the declining balance. This means that, as time goes by, you can shelter less and less of the income from taxes.
- 2. Mortgage Amortization.** In the life of a mortgage, little principal is repaid at the beginning, but a lot of interest is paid. The inverse is true towards the end of the mortgage amortization period. This has an impact on taxes since only the interest from a property income can be deducted as an expense.
- 3. Repairs.** If the building acquired is new, or in excellent condition, you can assume that you will not have any major replacements (asphalt, heating and air-conditioning systems, roof) for 10, 15, or 20 years. However, there will come a time when these replacements will have to be made, which explains why the Canadian Revenue Agency (CRA) allows the 4% yearly deduction for CCA. Of course, these capital expenditures increase the capital base in the property.
- 4. Need for Cash.** If you need cash, you will sell, right? Not necessarily. You may be able to refinance, increasing your LTV ratio (see Chapter 11) and still hold onto the property. Many sophisticated investors will refinance before the end of the term of the existing financing. This frees up cash to be used elsewhere and one does not pay income tax on this refinance money.

A general rule for your investment program should be to avoid selling any property. This rule can be broken if (low) returns show that the property should not have been bought in the first place or if the property now commands a very low cap rate due to unusual appreciation, disequilibrium in the market, or timing in the real estate cycle. And, it could happen that you come across the “deal of a lifetime” and must sell one property to free up the cash to acquire a better property.

This excerpt has been taken from *Commercial Real Estate Investing in Canada: The Complete Reference for Real Estate Investors and Professionals*, © 2007 by Pierre and Claude Boiron. Published in 2007 by Wiley Canada.

If you purchase a copy of the book from this website, you will receive a free subscription to the Real Estate Mentor newsletter.