

HST and Commercial Real Estate



On July 1, 2010, the Harmonized Sales Tax (HST) comes into effect in Ontario. PST and GST will be combined to create one value added tax known as HST. The HST rate in Ontario will be 13%, made up of the 5% federal portion replacing the GST, and the 8% provincial portion replacing the PST. The new tax will be administered and collected by the federal government, who will then remit the provincial portion to the Province of Ontario. Entities that have registration under GST, will automatically be registered under HST. In general terms, the rules that applied to collecting and deducting GST, will now apply to HST.

When it comes to purchasing commercial properties, there will be no substantial change from the rules that applied to GST. If ownership and possession of the property occurs after July 1, 2010, then HST will apply. As before, if the Buyer is registered with an HST number, then the Buyer can self-assess and claim the Input Tax Credit (ITC). This should result in no additional cash flow issues, since the ITC will be claimed at the time of filing.

Condominium Common Expense Fees for commercial properties will also be subject to HST. The owners of commercial condominiums, if HST registered, will be able to claim the ITCs on the condominium fees.

Professional services fees such as real estate commissions, legal fees, appraisal fees, etc., which were previously only subject to GST, will now be subject to HST. Again, HST registrants will be able to claim ITCs on professional services.

After June 30, 2010, all commercial leases will be subject to HST. It is recommended that Landlords insert proper clauses in their Leases in order to ensure payment of HST from their Tenants. HST registered Tenants will be able claim the ITC on rental payments. Certain Tenants which are HST exempt (ie: financial institutions), will not be able to claim ITCs on rental payments.

Owners of apartment buildings will not be able to claim ITCs on their operating expenses, which will affect the profitability of apartment buildings. HST is also not payable on the sale of a resale apartment building.

It is recommended that proper advice be obtained for issues relating to HST.

Bank of Canada increases overnight rate to 1/2%

On June 1, 2010, the Bank of Canada announced that it is increasing its target for the overnight rate by 1/4% to 1/2%. According to BoC, economic activity in Canada is unfolding as expected, with growth of 6.1% in the first quarter. CPI inflation was also in line with the Bank's projections in April. On a global basis, economic recovery is proceeding, but is increasingly uneven across countries, with strong momentum in the emerging economies and consolidation of the recovery in the U.S., Japan and other industrialized economies. Recent tensions in Europe are likely to result in higher borrowing costs and more rapid tightening of fiscal policies in some European countries. The next scheduled date for announcing the overnight target rate is July 20, 2010.



Selected Government of Canada Benchmark Bond Yields

2 Year	1.39%
3 Year	1.75%
5 Year	2.32%
7 Year	2.56%
10 Year	3.08%

Rates as of June 30, 2010
Source: Bank of Canada

Canadian Economic Indicators

	2008	2009	2010
Real GDP Change	0.4%	-2.5% F	3.6% F
CPI Change	2.4%	0.3%	2.1% F
Unemployment Rate	6.2%	8.3%	8.0% F
Housing Starts ('000 Units)	211.6	148.8	165.0 F
Home Price Change	-0.7%	5.0%	7.5% F

Source: TD Bank Financial Group
F= Forecast



COMMERCIAL

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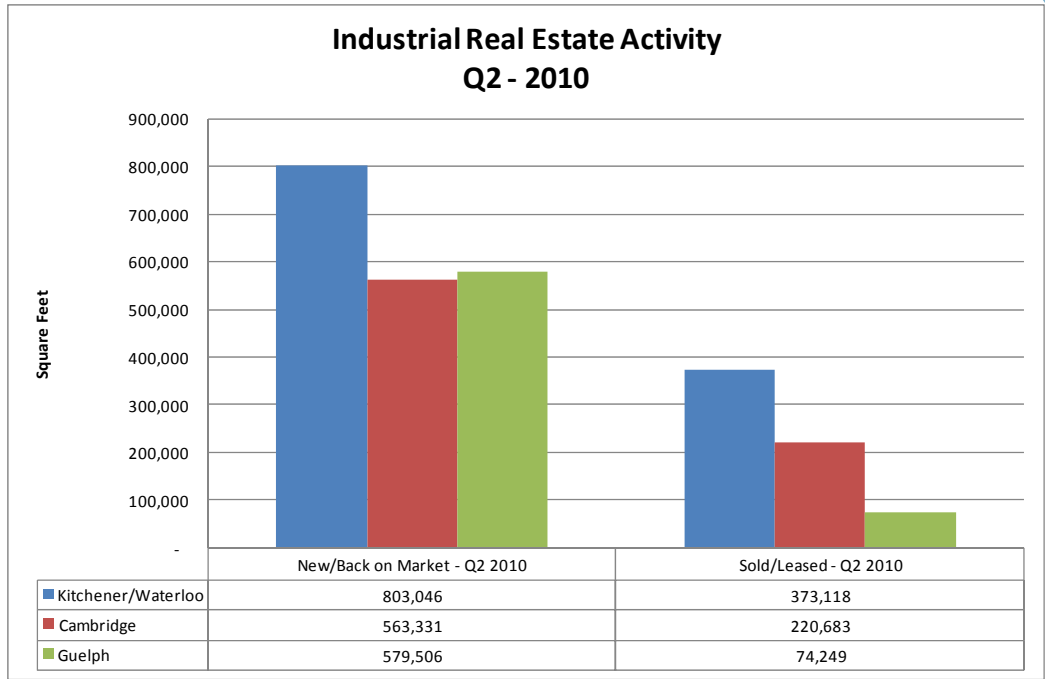
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Source: Kitchener/Waterloo Real Estate Board, Guelph & District Association of Realtors, Realtrack

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Industrial vacancy rates continued to increase in Q2-2010. We continue to see large industrial buildings sitting idle. Buildings such as Engel and Foseco (each in excess of 150,000 SF) in Guelph have been on the market for approximately two years, and have yet to trade. At June 30, 2010, there were approximately 250 industrial listings in the Region, comprising approximately 4.5 million square feet of available space. Rental rates and purchase prices have continued to decline since the highs of 2008, as the owners of industrial building are attempting to attract buyers and tenants. We believe industrial rental rates will remain soft for the foreseeable future. Demolition and rebuilding of some of the larger (especially older) industrial buildings may occur where owners are finding it difficult to attract buyers or tenants, enabling owners to take advantage of development charge credits.

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SIGNIFICANT Q2 2010 SALE TRANSACTIONS

BUILDING	SQ.FT.	DEAL PRICE	PSF
Kitchener	71,893	\$4,550,000.00	\$63.29
Kitchener	25,000	\$1,325,000.00	\$53.00
Guelph	20,086	\$1,140,000.00	\$56.76

Source: Kitchener/Waterloo Real Estate Board, Realtrack

FOR LEASE



Tork Road - Unit #5, Guelph
+/- 5,000 Sq.Ft.

FOR LEASE



7026 Wellington Rd. 124, Guelph-Eramosa
+/- 24,300 Sq.Ft.

FOR SALE



76 Dawson Rd., Guelph
+/- 30,800 Sq.Ft.