

# All calculations regarding selling to tenant owned associations

Daniel Wallenås, 2011-03-30

## Background

When calculating the sale to tenant owned associations there are many calculations. I will introduce you to them.

There are calculations about

- living cost change
- discount to the market of condominiums
- calculating extra tax consequences

## Living cost change

When calculating the living cost change, the present rent is compared to the cost for a condominium holder after the purchase.

A great impact of the living cost change is the assumed interest rate in the calculation; usually both the condominium holder and tenant owned association have a lot on loan.

The cost after the purchase is the rent to the tenant owned association and the interest cost for the deposit. Because of tax reasons thirty percent of the interest cost for private persons is paid back by the tax authorities.

The property location is also important. At a better location the tenants are willing to accept higher living cost changes than elsewhere.

## Calculating how much the tenant owned association can borrow from the bank

In order to estimate the living cost change it is important to estimate the amount that the tenant owned association can borrow from the bank. The bank looks at what the selling price would be if the tenant owned association went bankrupt. In Sweden the bank has the right to take over the property in case

the borrower can not pay back it's debts. That means that all apartment holders will be tenants of the bank and will pay the same rent as if they had a private property owner. In reality the banks lend as much money to a tenant owned association as a private owner. The banks usually lend money to 75 percent of their estimation of the existing value.

## **The discount to the market of condominiums**

The discount to the market is an important tool in making the tenant eager to buy. The discount is usually more than twenty percent.

In Sweden, information about sold condominiums is stored in a register when brokers of condominiums are involved. The brokers have co-operation in gathering this information. The register is called "Värderingsdata". Värderingsdata stores information about the address, the name of the tenant owned association, the day of transaction, the price, the living area, the floor space, and the rent to the tenant owned association. It is internet-based and every search costs money. Värderingsdata is commonly used to estimate the market value of condominium.

### **Split the total deposit between the tenants**

The total deposit is paid by those tenants that chose to accept the offer. The total deposit is part of the tenant owned association's total investment. The total deposit is divided according to every apartment's proportion in comparison to the total condominium value. Often the proportion is the same as the rents proportion to the total rent. That is so because the rent in Sweden reflects the standard of the apartment. Where the location within the building has an impact, the proportion needs to be changed so that the difference to the market will be about the same for all the apartments. It is the broker that divides the deposit in proportion to the total deposit of all apartments.

Usually the broker contacts the broker of condominiums in order to estimate the proportion between the deposits of all the condominiums. The broker of condominiums looks at some of the apartments to develop better knowledge. With the knowledge of the market and knowledge of the specific apartments, it is easier to do a split. From the tenant's perspective, they like it when there is a condominium broker that says that they can sell the apartment to the market value of X and that the offered deposit is Y percent discount to the market. Because they have visited different apartments they can say that the offered deposit in general is a discount of Y percent to apartments.

### **Brokers fee**

In order to calculate the total cost for the tenant owned association, the tenant owned association's fee to the broker needs to be calculated. The fee to the tenant owned association is normally one percent of the price of the property.

### **Stamp duty**

The normal method of selling to a tenant owned association is to sell the property owning company. The stamp duty will be 1.5 percent of the highest of the taxed value and the taxed assessment value. The stamp duty is part of the tenant owned association's total investment.

### **Mortgage deed**

The banks demand mortgage deeds on their loan. The tax to get mortgage deeds is two percent of new mortgage. This is also a part of the total investment of the tenant owned association.

## **Calculating if the tenant owned association and the condominium holders will get extra tax consequences**

The objective of a tenant owned association is that it should mainly consist of condominiums held by private individuals. In order to achieve this, the Swedish government puts extra tax on those tenant owned associations and condominium holders' where the proportion of private condominium holders is less than 60 percent of the total.

When calculating the proportion, the assumed income from the apartments will be looked at, what was the rent before for the tenant owned association bought the property. All other income, such as commercial contracts and parking will be looked at considering what the market rent is.

At the end of every year, the tax authority will check if the proportion is higher than 60 percent. If the proportion is less than 60 percent the extra tax will be described in three ways below.

When selling a condominium with a profit, the sales tax will be 30 percent instead of 22 percent in normal cases.

The difference between the rent that a tenant pays and the rent that a condominium holder pays to the tenant owned association has to be declared in the annual declaration. The consequence will be a shown in the example below.

The rent to the landlord was 1,000 Euro per month before the tenant owned association bought the property. Afterwards the rent to the tenant owned association is 600 Euro per month for the condominium holder. The condominium holders then has to declare 400 Euro per month,  $1,000 - 600$ , to the tax authority as earned income. If the condominium holder has a good salary from their work, the tax is 50 percent of the earned money. That means 200 Euro extra tax per month.

If a condominium holder wants to rent their apartment to another person, they can do a standard deduction when calculating the tax of 18,000 SEK per apartment per year, if there is no tax consequences. If there is a tax consequences on the tenant owned association the standard deduction is not allowed. The tax is 30 percent of the profit. The value of the standard deduction is 5,400 SEK per year,  $18,000 * 0,3$ .

## **Example of calculation**

Akelius has developed a model to calculate an appropriate selling price to tenant owned associations. Due to its size the model will be presented in two pictures. In Picture 1, information is given about the different sizes of apartments. Information is given about the number of apartments, its square meter and the market value of the condominium. Further on the right, the total rent for the condominium holders is compared to the present rent.

In Picture 1 there is also information about present income and assumed interest rates. At the bottom are more aspects that need to be taken into consideration such as amortisation, proportion of condominium holders compared to total apartments and assumptions for costs, how much the tenant owned association can borrow in comparison to market value and the tax reduction of interest rates for private individuals.

Object number:		32293		Name of property							
Information aptm	No	Sqm	Average		Offered	Offered	Rent to TOA per	New total rent,	Present rent,	Discount	
			size	SEK/sqm	price,	price per					
				SEK/sqm	SEK/sqm	apartment	month, SEK	SEK/sqm	SEK/sqm		
1 Room and kitchen	0	0	0	0	0	0	0	0	0	0%	
2 Room and kitchen	87	5 172	59	16 000	11 200	665 821	3 963	1 153	1 150	0%	
3 Room and kitchen	42	4 106	98	13 000	9 100	889 633	6 517	1 087	1 150	-6%	
4 Room and kitchen	0	0	0	0	0	0	0	0	0	0%	
5 Room and kitchen	0	0	0	0	0	0	0	0	0	0%	
6 Room and kitchen	0	0	0	0	0	0	0	0	0	0%	
7 Room and kitchen	0	0	0	0	0	0	0	0	0	0%	
<b>Total</b>	<b>129</b>	<b>9 278</b>	<b>72</b>	<b>14 672</b>	<b>10 271</b>	<b>738 690</b>	<b>4 795</b>	<b>1 124</b>	<b>1 150</b>	<b>-2%</b>	

Interest rates	Proportion	Interest	SEK	Proportion	Sqm	SEK/sqm	
3 months	33,3%	3,65%	Apartment	10 669 700	91%	9 278	1 150
2 years			Commercial	1 000 000	9%	2 000	500
3 years	33,3%	4,70%	Parking	0	0%		
5 years	33,4%	5,75%	Other	0	0%		
<b>Total</b>	<b>100,0%</b>	<b>4,70%</b>	<b>Total</b>	<b>11 669 700</b>	<b>100%</b>	<b>11 278</b>	<b>1 035</b>
Interest normalisation		-0,20%					
<b>Used interest rate</b>		<b>4,50%</b>					

	%	SEK	SEK/sqm
Amortisation, of the tenant owned association	0,50%	490 000	43
Proportion tax reduction of the interest rate	30%		
Proportion condominium holders of total apartment	65%		
Proportion deposit total investment	54%		
Proportion tenant owned association	46%		
Proportion loan compared to market value	70%		

	SEK	SEK/sqm
Care taking	563 900	50
Running maintenance	281 950	25
Planned maintenance	563 900	50
Economic administration	100 000	9

### Picture 1. Calculation model part 1

In Picture 2 the discount to the market is set. There the offered price is shown at the bottom and the different parts of the estimated total cost for the tenant owned association. It is also shown how the total costs is divided into deposits from condominium holders and loans from the bank and the seller. In Pictures 2 general value about the property is also shown.

#### Discount to market value and living cost change

Discount to market value	30,00%	
Resulting living cost change	-2,30%	10,32%
	kr	kr/kvm
Booked value	135 000 000	11 970
Declaration value	135 000 000	11 970
Market value	140 000 000	12 414
Taxed value	121 363 000	10 761
Value of loan to tenant owned association	98 000 000	8 689
Mortgage deed	80 000 000	7 093

	SEK	Proportion	Interest rate
Deposits from condominium holders	61 939 150	35%	4,50%
Loan from bank to tenant owned association	98 000 000	56%	4,50%
Loan from seller to tenant owned association	10,32%	16 000 000	9%
<b>Total cost tenant owned association</b>	<b>175 939 150</b>	<b>100%</b>	
Legal ratification	1,50%	-2 025 000	
Mortgage cost	2,00%	-360 000	
Fund for reperation	-1 500	-16 917 000	
Cost to broker	1,0%	-1 550 863	SEK/sqm
<b>Selling price</b>	<b>155 086 287</b>	<b>13 751</b>	

### Picture 2. Calculation model part 2

The cash flow of the calculation is shown in Picture 3 below. The tenant owned association is a non profit making organisation, the assumed cash flow will be 0. The rent from the condominium holders is the residual.

### Cash flow for the tenant owned association

	kr	kr/kvm
Rent from condominium holders:	4 824 384	800
Rent from tenants:	3 734 395	1 150
Rent commercial contracts:	1 000 000	500
Rent parking:	0	0
<b>Total income:</b>	<b>9 558 779</b>	<b>848</b>
Water:	-269 000	-24
Heating:	-700 000	-62
Electricity:	-800 000	-71
Garbage:	-244 000	-22
<b>Bound costs:</b>	<b>-2 013 000</b>	<b>-178</b>
Property insurance:	-40 000	-4
Cable-tv:	-70 000	-6
Care taking:	-563 900	-50
Property tax:	-225 000	-20
<b>Property tax and operational costs:</b>	<b>-898 900</b>	<b>-80</b>
Costs for running maintainance:	-281 950	-25
Cost for planned maintainance:	-563 900	-50
<b>Costs of maintenance:</b>	<b>-845 850</b>	<b>-75</b>
<b>Economic administration:</b>	<b>-100 000</b>	<b>-9</b>
Interests costs:	-5 211 029	-462
Amortisation :	-490 000	-43
<b>Interest costs and amortization:</b>	<b>-5 701 029</b>	<b>-506</b>
<b>Total costs:</b>	<b>-9 558 779</b>	<b>-848</b>
<b>Cash flow tenant owned association:</b>	<b>0</b>	<b>0</b>

Picture 3. Cash flow