



Kamps Realty Basement Suite Considerations



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By Eddie Kamps, CFA

Introduction

Legal suites were all the rage during the unprecedented real estate bull market of early 2022. Buyers wanted the extra income a basement suite provides whereas investors desired the additional cash flow and lower risk of having two tenants rather than a single lease for income. Calgary is home to tens of thousands of illegal or non-conforming suites. The City of Calgary launched a campaign several years ago to incentivize landlords to legalize and register them, with mixed results. Basement suites can be quite profitable and should be a strong consideration for most retail investors.

This publication will discuss key considerations for basement suites, addressing issues of legality and constructability. This does not apply to backyard or carriage suites.

Disclaimer – this publication was produced with my knowledge and with information as of October 1, 2022. Rules frequently change and any reader needs to check the rules and regulations governing basement suites by the City of Calgary. If there's any discrepancy between this and a City of Calgary resource, the latter shall prevail. I do not guarantee the information presented, but it is accurate to the best of my knowledge. Financial figures are rough estimates and not firm quotes. Call a qualified and reputable contractor for more information.

Rationale

Developing and legalizing a basement suite (also known as a secondary suite) can be enticing to investors. A property with two suites instead of one will bring in greater cash flow and will diversify the source rent from one tenancy to two. However, cash flow is not the sole reason for a suited property. A trusted residential appraiser I know stated that, all things being equal, a legalized suite compared to an illegal one is worth \$30,000 to \$40,000 more.

For an owner-occupied property, there are also many advantages. Having a relative stay in the basement and age-in-place provides the benefits of having family and a caregiver nearby. If renting one of the suites, the extra income will permit saving for the next property more quickly and the suited property can be kept as a solid, cash-flowing investment property.

Legality

There are two broad issues to examine pertaining to basement suites: legality and constructability. Legality refers to the Land Use Bylaw (LUB) and if an owner can develop a basement suite by the regulations established by the City of Calgary. The LUB stipulates the zoning for a parcel and what can and cannot be built on it as expressed through a land-use designation, such as R-1 and R-C2.

Land Use Designation

The land use designation is the first item to be examined. Most detached residential parcels will have a R-C1 or R-C2 zoning. The R stands for Residential use (as opposed to Commercial or Industrial), the numeric digit refers to how many self-contained suites the property can have, and the C denotes contextualized, or that the design of the house must conform to certain rules to maintain the character of the neighbourhood.

Each land use designation denotes what use is permitted or discretionary. Permitted means that an application is guaranteed approval as long as the proposal meets all of the bylaw rules whereas discretionary uses are approved at the discretion of the City. Plainly, a secondary suite (or basement suite) approval is guaranteed with a R-C2 lot but is not under a R-C1 lot.

New or Existing

The City of Calgary discriminates between new or existing secondary suites. This recognition between new and existing reflects the City's desire to legalize as many illegal suites as possible and bring them up to code. Although most of the requirements are the same between new and existing suites, there are fewer rules to legalize existing suites, such as the requirement to have two independent furnaces or heating systems in a new secondary suite as opposed to being able to have only one shared heating source in an existing secondary suite.

According to the City of Calgary, a suite may be considered existing and need to be legalized if all of the below are true:

- The suite includes a bathroom, cooking facilities and sleeping/living facilities
- The suite is accessible from outside without passing through the main dwelling unit (A shared stairwell is acceptable but each unit must have a private entrance)
- The suite was built prior to March 12, 2018
- The suite is located in the same building as the main residence and not a detached garage

Whether your suite is new or existing will save you the cost of a furnace.

Building Code

Secondary suites in the City of Calgary conform to the National Building Code – 2019 Alberta Edition. The list of requirements is on the City of Calgary website contained in the later 'References' section but are summarized as:

- Egress Windows - each bedroom must have at least one window that can be fully opened and used to escape during an emergency, such as a fire. The window must have an unobstructed opening of 0.35 m² (3.8 ft²) in area and no dimension less than 380 mm (15") and an existing window well must provide a minimum clearance of 550 mm (21.5") in front of the window
- Smoke and Fire Protection - the Building Code requires the installation of a smoke tight separation between the main residence and suite, meaning installing a minimum of ½" thick drywall on the ceiling and on both sides of wall studs that separate a suite from main residence and installing a minimum ½" thick drywall on the ceiling and on both sides of wall studs of the mechanical room. All drywall joints must be taped and filled with drywall compound to provide a smoke tight joint and any penetrations must be appropriately sealed. Interconnected smoke and CO alarms are also required
- Exterior Stairway – if an exterior stairway is the only means of egress from a secondary suite and that stairway is located near a door or window of the primary dwelling, that door or window must have wired glass or glass block or some other protection for the occupants of the secondary suite to have safe egress away from the building
- Heating and Ventilation – as noted earlier for existing suites, the use of a single heating and ventilation system to serve both the main dwelling and the secondary suite is acceptable

Constructability

Legality is the broad issue that defines what is and is not permissible, but constructability addresses what is practically feasible and profitable. Below is my mental checklist of what I look for when assessing the practicality of legalizing a secondary suite:

- Separate entrance – this is by far the most important as access and safe egress are critical issues. Without a logical delineation between suites and separate access, it can be extremely expensive to cut a stairwell in a foundation. Estimates during COVID averaged about \$10,000. It is best to purchase a property with existing, logical access than try to construct one. Look for a split staircase at the side or back door
- Layout – the layout of the secondary suite must be logical and flowing. This does not mean the design needs to be ornate or something out of a home design catalogue, but the space must be liveable. Ask yourself if you would live in the secondary suite after construction. If it's a no, then pass on the property or pursue a different approach for the space
- Ceilings – the building code requires ½" thick drywall and smoke tight separation between suites. Drop ceilings do not meet this requirement. This can either mean additional costs to bring it up to standard. However, if additional work is required like running plumbing or electrical lines, installing a new ceiling after the work is completed is an assumed cost
- Separate Laundry – although not required, each unit should have access to a washer and dryer as laundromats are becoming a relic of the past and tenants expect in-suite laundry. Shared laundry is perfectly acceptable as long as both sets of tenants can access the machines without compromising the security of their suite. If only one laundry room exists and a second is desired, the machines will require a new space in one of the suites, usually in a closet. A washer will need hot and cold water lines, a drain line, and a 110V outlet; a dryer requires venting and a 220V outlet. The total cost of installation, including the cost of the machines was approximately \$5000 for a recent project of mine
- Security – if the suites are separated by a shared door, the door should be solid-core or steel and not a standard, hollow interior door. I recently copied an interior hollow-core door and replaced it with a solid-core door by taking

the former to a lumber store for a cost of about \$300. A double lock where both tenants need to unlock the mechanism is required to ensure security

- Parking – a logical parking scheme is required to ensure that City requirements are met and that neighbours do not complain. Common sense reigns here

As a general rule, bungalows and raised bungalows are easier to put in a secondary suite as compared to splits, bi-levels, and two storeys.

New Builds

Secondary or basement suite planning is much easier in new builds as builders typically have plans for basement suites. Either the builder can develop the suite as a part of the purchase contract or it can be specified in the contract that the appropriate design is selected to make a later basement suite easier to develop. If you pursue the option of the builder not developing the basement, ensure that you specify the rough-ins for the utilities that the basement suite would require and at least a ceiling height of 9'. Also obtain an electronic copy of the builder's basement suite layout for when you want to develop it yourself.

References

Read my other publications for more information about the Calgary real estate market and home ownership:

- City of Calgary – Legalize an Existing Suite - <https://www.calgary.ca/pda/pd/home-building-and-renovations/legalize-an-existing-suite.html>

Publications

Read my other publications for more information about the Calgary real estate market and home ownership:

- Guide to Owning an Investment Property
- A Real Estate Strategy for First Time Home Buyers
- The Impact of the Green Line on Real Estate Values (2021)
- The Impact of the Calgary Event Centre on the Calgary Real Estate Market
- Kamps Realty – Economic Bulletin #5