

Turning Your Home Into a Rental Property: Lock the Value or Defer the Decision?

When you move out of your home and start renting the entire property, CRA generally considers this a **change in use**. At that time, you essentially have two choices.

Option 1 — Lock in the Current Value

You can report the change in use when your home becomes a rental.

Think of this as **locking in the property's value today**.

For example:

- You originally bought the home for **\$400,000**
- It is worth **\$700,000** when it becomes a rental
- You report the change in use and establish the **\$700,000 fair market value**
- That value generally becomes the new starting point for calculating the future rental-property capital gain.

The increase while the property was your principal residence may be protected by the **Principal Residence Exemption (PRE)**.

An appraisal is normally recommended to support the property's fair market value at the date of change.

Option 2 — Defer the Decision: File a 45(2) Election

Instead of locking in the property's value now, you can file a **subsection 45(2) election**.

Think of this as telling CRA:

“Don't treat my home as sold today. I want to defer the decision until I actually sell the property.”

There is no deemed disposition when the property becomes a rental. The election can also allow you to designate **up to four additional rental years** as principal-residence years, provided you meet the requirements.

During the taxation years covered by the 45(2) election, **do not claim CCA on the property**. This condition is also stated in the 45(2) election letter.

You Decide the PRE Years Later

Filing the 45(2) election does **not** mean that you are immediately claiming those future rental years as principal-residence years.

The election keeps the option open.

When you eventually sell the property, you determine which eligible years should be designated for the Principal Residence Exemption. This can be especially important if you purchased another home during the rental period because generally your family cannot designate two properties as its principal residence for the same year.

Simple Way to Remember It

Lock the Value

Establish today's FMV

Report the change in use

Future rental gain starts from the established FMV

Normal rental CCA rules can apply

Separates the home period from the rental period

Defer the Decision — 45(2)

No FMV reset now

File a 45(2) election

Capital gain/PRE determined later

No CCA while the election is in effect

Keeps additional PRE years potentially available

Which One Should You Choose?

There is no single answer for everyone. The better choice depends on the property's current value, future appreciation, whether you buy another home, how long you expect to rent the property, and whether you want to claim CCA.

The easiest way to think about the decision is:

Lock the value now, or keep your options open and decide later.