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Industrial Land Expansion in Ontario

Written by: Adam Pitura CPA, CA

With new ESG ("Environmental Social Governance") regulations coming in the immediate future, whether you have a current lease or your lease is expiring, this will be at the forefront of your decision-making going forward.

The more pressing matter to many is the interest rate hikes from the Bank of Canada, soaring from 2.45% in January 2022 to 6.95% in July 2023. With the market tightening, many companies with large industrial leases will carry debt facilities to finance their inventory. If you have old stock sitting on your premises, it might make more sense to scrap the inventory rather than pay for space you don't need.

The Greater Toronto Area (GTA) as a whole has seen an increase in rental rates of 4% from Q4 2022 to Q1 2023; the year-over-year increase was 31%. Based on the momentum ratio, defined as the Buy %/Sell %, the industrial real estate asset class dominates the top five with single-tenant industrial, industrial land, and multi-tenant industrial. As expected, traditional "office space" has seen negative momentum, with the sale percentage outpacing the buy percentage.

For industries that require in-person labour, there is no work-from-home option. The industry that has begun to take centre stage is the third-party logistics industry. The health and success of the industry are key to Ontario's economy. For everyday consumer goods, the ability to have next-day, or sometimes, same-day delivery is core to many companies' operations. Securing a strong relationship with a reputable logistics company is vital.

Two of the four GTA zones caught our attention – Central and East.

Written by: Segal GCSE Tax Team

GTA Central - Scarborough, a hidden gem?

- Inventory – 259M SF
- Availability – 4.3M SF
- PSF cost - $18.60

GTA Central is an expanding market. Scarborough presents an opportunity for those looking to acquire space that is part of the GTA Central that is newly constructed. In construction currently, there is approximately 300,000 sf.

Scarborough's average asking net rental rate is $16.27,10.4% lower than the average $sf cost for GTA Central. Scarborough has location priority to Toronto and proximity to GTA East and markets outside the GTA.

Comparatively, Etobicoke has ~1M of industrial space under construction, which will be at or above the current average psf of $19.32 —making that a premium of an additional $3.05 psf (18.7% higher) for a proximity premium to Pearson and the US/CA border. For industries reliant on 3PL and international trade, this premium is likely to be a deciding factor.

Additionally, Scarborough is much more affordable for employees to live in, with an average home price of $650,000 compared to Etobicoke at $1,701,000.[1]

GTA East - Durham discount?

- Inventory – 57M SF
- Availability – 366K SF
- PSF cost - $15.60

The GTA East sector is home to the cheapest psf costs of any GTA market, caused by the build-up of traditional industrial spaces in the western parts of Ontario (focused on cross-border trade) and the priority placed on proximity to Toronto.

The (not so) secret factor that makes the GTA East so compelling is not the cheap cost but the area's future development. Specifically, the Seaton community currently under construction is projected to provide housing for 70,000 residents and will be located near hwy 407 and hwy 401.[2]

Kubota Canada (a multinational agricultural corporation) has already moved their Canadian headquarters to the Seaton community, and many other large organizations are also considering the move.
Only two of the 29 municipalities assigned housing targets by the Provincial government are currently on pace to meet or exceed those targets (Bradford and Pickering). Pickering is currently on pace to meet the targeted housing starts with 7% excess over the target set.[3]

Additionally, while the potential of the Pickering Airport is more speculative in nature as of August 2023, the airport is on life support after the Pickering City Council reneged on support for the project.[4]

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[1] https://www.cp24.com/news/these-are-the-most-affordable-ontario-cities-to-buy-a-house-in-2023-1.6437661?cache=yesclipId10406200text%2Fhtml%3Bcharset%3Dutf-80404%2F7.440806
[2] https://www.durham.ca/en/economic-development/resources/PDF/Durham-Region-Signature-Sites.pdf
[3] https://www.cbc.ca/news/canada/toronto/ontario-housing-construction-cities-report-card-1.6916180
[4] https://globalnews.ca/news/9679229/pickering-airport-opponents-hope-proposal-abandoned-after-50-years/

Unlocking Success: The Value of Business Valuations

Written by: Danny Loo, CPA, CA, CBV

In the dynamic world of business, understanding the value of your company is a critical step towards securing its future success. A business valuation serves as a compass, guiding you through strategic decisions and paving the way for growth and success. Whether you have immediate plans to sell or simply want to strengthen your business for the long haul, a professionally executed valuation offers invaluable insights and unlocks a multitude of benefits.

What is a business valuation, and why is it crucial for your business?
A business valuation is an assessment that estimates the fair market value of your company. It provides a guideline for the potential price your business could command if it were to be put up for sale. More than just a number, a proper valuation reveals the health of your company by identifying value drivers and gives you an indication of how potential buyers would perceive your business.

Why and when should you consider a business valuation?
Even if selling your business isn't on the horizon, a valuation can still be immensely valuable. It equips you with an action plan to address potential risks and capitalize on untapped opportunities that may have otherwise gone unnoticed. By understanding the value of your business, you can position yourself for maximum returns when the time comes to sell. Moreover, a valuation plays a crucial role in succession planning, shaping the timing and viability of the transition, while also being an essential component for tax, estate, and succession planning.

Let's explore a few situations in which a business valuation becomes relevant:

Raising capital through equity issuance: When a company aims to expand but debt financing may not be feasible, it may consider issuing common shares or preferred shares to investors to obtain capital.

Tax and estate planning: Effective tax planning requires an accurate business valuation. By having a precise understanding of your business's worth, you can consider family trusts and have the opportunity to utilize the lifetime capital gains tax exemptions of family members in the event of a sale.

Succession planning: Planning for the future is crucial, and a business valuation plays a critical role in successful succession planning. By understanding the true value of your business, you can develop a comprehensive succession strategy, ensuring a smooth transition of ownership and minimizing potential disruptions.

Business reorganization and restructuring: When introducing or parting ways with shareholders, it is essential to accurately value their shares. Conducting an independent assessment through a business valuation serves as a starting point to avoid conflicts and helps foster agreement among stakeholders.

Attracting and retaining key employees through stock options: To attract and retain valuable employees, offering stock options can be an enticing incentive. A valuation is crucial in establishing the share price for the stock option plan.

Gaining insight into your business's health: Periodically assessing your business's health is a best practice, regardless of imminent changes. A valuation acts as a diagnostic tool, identifying risks that may not be easily seen by the business owner. It also highlights opportunities and strengths, ensuring your business remains resilient and agile in the face of future challenges.

Whether you're preparing for the long-term or seeking ways to propel your business forward, a proper business valuation conducted by a Chartered Business Valuator (CBV) is your guiding compass on this journey. It will help you understand the potential of your business, unlock hidden value, and seize growth opportunities with the insights gained through a business valuation.

If you're wondering whether your business could benefit from a valuation, contact a CBV and they'll demonstrate why investing in your business's value is an investment in its long-term success.

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A Fair Share – Financial Implications of the End of a Relationship

Written by: Segal GCSE Tax Team

When a relationship ends, married or common-law partners often face financial and tax consequences of the marriage breakdown. One of the most difficult issues to deal with (aside from custody and support questions) is how assets should be divided, preferably in a manner satisfactory to each party.

This article deals with the tax implications of a division of assets under these circumstances. Other topics, such as tax issues related to custody and support arrangements, tax implications of a transfer of real property (including the family home) and shares of a private family corporation, will be discussed in separate articles.

Generally, family property division falls within a province's family law. Provincial family law legislation begins from a presumption of equal distribution, but permits spouses to contract out of the scheme in certain circumstances by using a co-habitation agreement (commonly known as a prenup) or a separation agreement. How spouses divide their property is often influenced by the tax consequences. Under the Family Law Act in Ontario, a domestic contract – which includes a prenup and a separation agreement – is valid if it is in writing, signed and witnessed. It is up to the individuals to determine tax consequences by consulting independent legal counsel and reviewing the financial disclosure provided.

Property owned by one spouse (spouse A) and transferred to the other spouse (spouse B) occurs automatically at cost if:

- Both spouses are Canadian residents when the property is transferred
- The spouses have not yet divorced
- If common-law partners they have not lived apart due to a breakdown in the relationship for at least 90 days, or
- If the transfer is to a former spouse, the transfer is pursuant to a settlement of rights arising from the marriage or relationship

The transfer will occur at cost even if spouse B pays fair market value consideration to spouse A. It is highly unlikely, therefore, that spouse B will not insist on the election discussed below under such circumstances. A transfer at cost will not result in any immediate tax consequences to spouse A. Spouse B will have the same cost base as spouse A as a result, and essentially, spouse A has transferred any future gain to spouse B (subject to comments below regarding the application of the attribution rules).

The partners may elect to transfer at fair market value under subsection 73(1) of the Income Tax Act (ITA) instead of cost. The election must be made in the return for the year of the transfer. As there is no specific form required, the election is often a paper document. Even if filed late, the election can still be made in the late-filed return.

Considerations as to whether to transfer the property at cost or fair market value will depend on several factors, including:

- Amount of capital gain triggered if the election is made
- Whether spouse B will pay any consideration for the property
- Spouse B's intention with respect to the property (sell or hold), and
- Timing of the sale

The principal consideration will be how the attribution rules affect the taxation of post-separation income and gains realized from the property.

The attribution rules apply normally when one spouse transfers property to another spouse at less than fair market value. Future income and gains would be taxed in the hands of the transferor spouse unless the spouses make a 73(1) election and fair market value consideration is paid. Special rules apply when the transfer of property happens due to separation or divorce.

There is no attribution of future income back to spouse A for payment relating to the period after separation. This rule applies automatically.

However, future gains realized by spouse B will still be attributed back to spouse A unless the spouses are divorced by that time. Therefore, married spouses should ensure they file a joint election to be excluded from the attribution rules under 74.5 of the ITA. This joint election may be filed with the transferor's return[3] of income for the year the property is sold or an earlier year.

If spouse B has no plans to dispose of the property, or if spouse A has sufficient losses carried forward to offset any capital gain realized on a transfer of property, a 73(1) election may not be necessary. However, a 74.5(3) election should still be made to ensure no attribution of future gains.

Failure to file one or both elections may result in unintended results for the spouses.

Each spouse should consider the tax implications of a property division with the assistance of tax and legal professionals.

Written by: Segal GCSE Tax Team

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