SPRING/SUMMER

REAL ESTATE AND CONSTRUCTION **NEWSLETTER 2018**

FULLER LANDAU LLP

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WELCOME TO OUR **NEWSLETTER!**

IN THIS EDITION

The political environment in Canada and the United States continues to present challenges locally, provincially, and federally as it relates to investment in our country. Our relationship with our largest trading partner south of the border is under strain as recent trade tariffs on steel and aluminum imposed on Canada by the United States will certainly have implications on future trading patterns. The Trump government's threats of unwinding NAFTA will only compound our future trading uncertainty. Also, major tax cuts in the US at the end of 2017 produced one of the biggest tax system overhauls in recent years. The balance of trade has wider spillover effects including currency exchange rate volatility and stability of our labour force in those industries that export goods. Just recently, the Province of Ontario had a major change in its leadership as the Liberals experienced a resounding defeat making way for a Conservative majority government.

While the future is uncertain, several demographic trends are anticipated, including:

- More modest population growth than experienced in past years;
- Immigration accounting for a predominant share of this expected growth;
- Concentration of this population growth in the GTA; and
- Slower core working-age growth being supplemented by non-standard forms of employment including part-time and short-term work.

The above trends will impact all levels of governments as they plan to deal with ageing infrastructure. Present plans include the Government of Canada increasing investment to $16 billion annually by 2025 with approximately $180 billion to be spent over the next 12 years starting in 2017/2018. {Source: www.liberal.ca}. Huge money indeed.

In our "Road to Success" article featuring the Keltbray Group, an award-winning engineering contractor from the United Kingdom, it is apparent that the need for specialized talent is required to support public-private investment in our transportation infrastructure. Keltbray and Aecon have partnered together for construction of light and heavy rail transit projects anticipated to be built over the coming years in Canada. Keltbray's involvement from the initial design stage through to the construction stage, all while doing it safely and protecting the environment, makes it a world leader.

In "An Interview with Jack Winberg, CEO of Rockport Group", Patricia Harris, Valuation and Litigation Support partner at Fuller Landau sits down with Jack to understand how, over the years, his organization has stayed true to taking a collaborative approach in working with local communities that need greater access to services and amenities, in addition to offering affordable housing as evident in their showcase Weston Common Development Project.

At the beginning of this year, the Canadian-US Tax Treaty served to increase the US estate tax exemption limit on Canadians holding worldwide assets up to $10 Million. In the article "US Tax Reform Considerations for Canadians Owning US-situs Property", our Cross-Border Tax partner, Jeffrey Brown, explores the recent changes around US tax reform and the impact on Canadians owning US real property.

We hope you enjoy this Spring/Summer edition of our Real Estate & Construction newsletter. Your feedback is always welcome, and we look forward to hearing from you!

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ROAD TO **SUCCESS**

KELTBRAY GROUP

Founded in 1976 as a groundworks and civil engineering contractor in the United Kingdom, Keltbray Group has since grown into a multi-discipline and award-winning specialist contractor with annual revenues in excess of £400 million, and a staff of more than 2,000 people. With specialist divisions for environmental management, demolition and deconstruction, asbestos management, reinforced concrete structures, civil engineering, and rail infrastructure, Keltbray has earned a first-rate reputation for its work on complex inner-city redevelopment projects.

In fact, the family-run operation has played an instrumental role in constructing and maintaining much of Britain's built environment, facilitating some of the largest and most iconic construction projects across the UK – including the new Olympic Stadium, regeneration of the Battersea Power Station, and nearly every major rail electrification project in the UK for the past 7 years.

Rather than resting on its laurels, Keltbray has set its sights on overseas expansion - and that's where Martin Brown enters the picture. Martin is the Managing Director of Keltbray's specialist Rail division, which has seen a significant uptick in growth over the past 5 years. Educated and trained as a tunneling and electrical engineer, with more than 25 years of experience in major civil engineering and electrification projects, Martin is now leading the charge on Keltbray's recent foray into Canada – the company's first major overseas project.

"Two years ago, we were partners in constructing a major rail electrification project on the Great Western Rail Line from Reading to Cardiff," explains Martin. "It was a highly complex project, but we completed it with great success. About two-thirds of the way through, however, part of the client's team left the UK to join Aecon in Canada. It was the relationship that we had built with the client that ultimately provided us with the opportunity to come to Canada."

Recently, the specialist team at Keltbray agreed to create a joint venture with Aecon to support construction of the light and heavy rail transit projects across Canada. The projected rail electrification works in Canada far outweigh the skilled workforce available; so, the Keltbray team will not only help construct the electrification projects but will also help

facilitate and train local people to undertake the current and future works within Canada. Keltbray has set an aggressive objective for training Canadian nationals to undertake their roles. Within 30 months, they expect that 80% of their labour force constructing the rail electrification projects will be comprised of Canadian nationals.

“We take on jobs that nobody else wants to do or nobody else can do,” says Martin. “Either because they are high risk, highly political, or highly complex environments.” With that in mind, Keltbray Group invests heavily in training their staff and ensuring they are properly equipped to operate within these complex environments. “We're very focused on our zero-accident goal,” continues Martin. “Health, safety, wellbeing, and training absolutely must go hand-in-hand. After all, a strong and healthy work force is what enables us to deliver on our promises to clients.”

Martin currently divides his time between Canada and the UK, and 8 of his employees from Keltbray's Electrification division have moved here full-time. They are in the process of assisting Aecon to plan and create the support framework for developing the rail electrical systems from the initial design. Following that, they'll progress into the construction phase with a big focus on efficiencies and protecting the environment (they use existing hydro power to build the tram systems). “Generally, the tunnels, track and supporting infrastructure will be constructed first and then the rail electrification system is constructed and energized,” explains Martin.

So, what's on the horizon for Keltbray Group?

“We'll continue to grow, expand, and diversify across the UK,” says Martin, “and we anticipate an expansion into Australia within the next 12 months. And of course, we're looking forward to continuing our relationships here in Canada by building trust and growing our business alongside Aecon. We've established a registered business here in Canada and have signed a consultancy agreement with Aecon to work together for the next 5 years.”

With historic levels of new investment in infrastructure, the Government of Canada is allocating significant resources for building and developing cities across the country. “It's an exciting time for Keltbray to make a contribution in Canada,” says Martin. We couldn't agree more.

TO LEARN MORE ABOUT KELTBRAY GROUP, VISIT WWW.KELTBRAY.COM.

AN INTERVIEW WITH JACK WINBERG, **CEO OF ROCKPORT GROUP**

Having recently celebrated its 60th anniversary, Rockport Group is a fully integrated real estate services provider that has played an integral role in the growth and development of the Greater Toronto Area. Handling all aspects of land acquisition, development, project and construction management, and income-producing property management, Rockport pioneered the condominium concept in Ontario, and has developed over 25,000 residential and retirement units. Recently, Rockport's involvement in the Weston Common Development Project has shown the benefits of collaboration with the community.

Patricia Harris, Valuation and Litigation Support Partner at Fuller Landau, sat down with Jack Winberg, CEO of Rockport Group and son of the company's original founder, for some insight on Rockport's history, current projects, and the real estate industry in general. Here's what he had to say:

Fuller Landau (FL): 60 years in business is a big milestone. How did Rockport Group get its start in the real estate industry?

Jack Winberg (JW): My father, Burt, started the company back in 1957, building single family homes in the then nascent Guildwood Village. Some of my earliest memories are of driving around construction sites with my father, meeting with project superintendents. My dad understood "affordability" in the old fashioned way. He used to say, "There are more people who can afford Volkswagens than Cadillacs." He always delivered the best quality at an affordable price, and the company has stayed true to that core value. In the late '60s, Ontario introduced Condominium Legislation, which prompted my father to sell all of the townhouses he was then building. That allowed him to deliver a less expensive home, turn money over faster, and build more. In the course of 15 years, my father built thousands of townhouse condominiums in Toronto.

FL: Did you join the company right out of school?

JW: After graduating from University, I went to law school while my father continued to grow the company and build out his legacy. I had the privilege of being mentored by some of the best legal minds in Canada. I specialized for several years in land use and development, before joining Rockport Group in the late '80s. It was an interesting time – I started at Rockport at the peak of market before it dove into the deepest recession we have had in now two generations.

FL: How did the recession of the early 90's affect the company, and your career in particular?

JW: I spent the first 5 or 6 years of my career at Rockport trying to hang on while sliding down a greased hill. It was a "trial by fire" experience for me. We survived, but I knew that we had to diversify our portfolio. We got into the self-storage business which experienced a huge demand as houses were getting smaller. We developed the land around one of our golf courses. We converted large vacant warehouses into industrial condominiums; we developed shopping centres; and we began to develop our interest in retirement homes. We made the strategic decision to get out of holding vacant land. From 1995 onward, there was nothing on our balance sheet that wasn't either income-producing or work in progress.

FL: And you continued to branch out, after the recession?

JW: After the recession, we built our first high-rise condominium, which allowed me to put into practice my expertise as a developer. As time went on, we moved into more intense development – common element Townhome communities and midrise buildings. A lot of the traditional builders wouldn't touch these projects because they were too complicated. Our next big move was to get into the retirement home business, which has since become a significant part of our portfolio. We currently partner with Amica.

FL: The Rockport Group has been involved in the Weston Common Project, which garnered a lot of attention in the press. Tell us more.

JW: This is a very exciting and interesting project for Rockport. A few years back, the City of Toronto developed a list of communities that need improvement and assistance. The Weston neighbourhood was at the top of the list with a higher unemployment rate than the city average, a scarcity of affordable housing, and a lack of access to services and amenities. It's an area of Toronto that hasn't had any sizable development for 40 years. There were hopes that the new UP Express and GO station would spur development; but that was just the start. A City-led charrette indicated that an artist-based community hub would help with the revitalization of the neighbourhood. Our contribution includes creative programming space, affordable live/work housing spaces for artists, a 370-unit condominium, and an outdoor area for the Weston Farmers Market and other public gatherings. We've worked closely with the City of Toronto; The Toronto Parking Authority, and Artscape to bring the plans to life. We've had all hands on deck for this project. It's slated to open later this year and has taken a remarkable effort to get done. We're proud of how it's come together. In fact, the project has become a potential business model for the other in-need communities on the City's list. We have to get better at producing affordable family housing in Toronto and making the most of our urban resources. This project is a huge leap in the right direction.

FL: To what do you attribute Rockport Group's success? What is the company's competitive advantage?

JW: I would definitely say that our size and nimbleness serve us well in the market. We have a great productive capacity with planners, builders, accountants, and property managers all on staff, making things work together. When we consider a property, we are able to bring to it a full range of development options, and we aren't married to a particular type of development. We are flexible and always open to new challenges. As the markets shift, this gives us the ability to always stay busy.

FL: What's in store for Rockport, going forward?

JW: As always, we continue to keep our eyes open for the changing landscape and any opportunities that may arise. We've never done the same thing twice and I don't think it's likely that we ever will. It's important to me that we keep the work interesting – that's key. Nobody in my office will ever tell me that they're bored. We are always looking for interesting opportunities to build the City.

TO LEARN MORE ABOUT ROCKPORT GROUP, VISIT WWW.ROCKPORTGROUP.NET.

BY PATRICIA HARRIS,
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US TAX REFORM CONSIDERATIONS FOR **CANADIANS OWNING US-SITUS PROPERTY**

Towards the end of 2017, US President Donald Trump signed off on the biggest overhaul of the US tax code in years. The final legislation, known as the "Tax Cuts & Jobs Act" includes several adverse provisions affecting American expatriates living in Canada. On the other hand, changes affecting the average Canadian owning US real property are largely neutral or beneficial. This article addresses some of the provisions affecting Canadians.

THE TAX TREATY EXEMPTION

Effective as of January 1 2018, the US estate tax exemption increased from $5.49 million to $10 million. For Canadians who own US property (i.e., US-situs assets), this is welcome news. Yes, the US estate tax can apply to Canadians as it applies to the value of US-situs assets such as real estate and even US-issued equities. For most Canadian decedents, US estate tax should apply only if the current value of their worldwide assets, as of the date of death, exceeds $10 million.

This result is achieved through operation of the Canada-US Tax Treaty ("Treaty"). Article XXIX-B of the Treaty provides a US estate tax exemption in the form of a "prorated unified credit" equal to the exemption amount times the applicable estate tax rate. This credit amount is prorated by the ratio of US assets owned over worldwide assets owned to arrive at the excluded amount.

Unbeknownst to many, the Treaty exemption only applies if an estate tax return is correctly filed on behalf of the deceased and makes reference to Article XXIX-B of the Treaty. Generally, an estate tax return is required if the deceased owned US-situs assets valued over $60,000, the filing threshold for which an estate tax return is required. The estate return is due nine months from the date of death. Failure to file an estate tax return can have draconian results. IRS can reduce the basis in estate property inherited to zero, adjusted only after a return is filed. Absent a return, suppose a Canadian inherits property that is sold shortly thereafter for $1 million. The inheritor would have a taxable gain of $1 million unless the estate filed an estate tax return. This rule also effectively bars depreciation deductions on income-producing properties.

INTEREST EXPENSE DEDUCTIONS

Tax reform also establishes a limitation on net business interest expense deductions. For a Canadian business that carries a lot of debt, the new limitation prohibits a deduction for interest expense in excess of 30% of the business' US adjusted taxable income. The limitation does not apply to a business with annual gross receipts of $25 million or less, computed over an average of three years.

ALTERNATIVE DEPRECIATION SYSTEM

Real estate investors can elect out of the interest expense limitation but doing so comes with other consequences. Making the election requires the use of the alternative depreciation system (ADS) to depreciate real property. Relative to other depreciation methods, ADS depreciates the cost of assets over a longer period of time, resulting in smaller annual deductions. The overall impact of making the election would enable the entity to claim more interest expense but less tax depreciation per year. (Additional tax reform revisions to ADS decreased the recovery period for residential rental property from 40 to 30 years).

All in all, changes pertaining to the interest expense limitation and to the ADS recovery period may provide some Canadians with tax relief, however it is likely to have little to no effect on the average Canadian owning a US winter residence.

Canadian residents seeking to acquire US property should consider various ownership options and the estate tax implications related to each. Estate tax can be lawfully managed. Of course, the considerations differ for Americans resident in Canada given US taxation is based on citizenship rather than residency. In any event, competent cross border tax advice is critical to avoid unexpected tax outcomes.

BY JEFFREY BROWN,
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FAST FACTS, TRENDS AND **RECENT NEWS**

RESIDENTIAL

In April 2018, the Toronto Real Estate Board (TREB) reported year-over-year decreases in average sale prices for all residential homes, other than condos which experienced modest price increases. Overall, this represents a marked change from last September, when average sales prices for all types of residential homes had increased from the year before.

RESIDENTIAL HOME SALES TRENDS[1] YEAR-OVER YEAR SUMMARY FOR THE MONTH OF APRIL

	AVERAGE PRICE		
	2018	2017	% CHANGE
DETACHED			
City of Toronto	$1,354,719	$1,578,542	-14.2%
All TREB Regions[2]	$1,030,103	$1,205,262	-14.5%
SEMI-DETACHED			
City of Toronto	$1,021,986	$1,104,047	-7.4%
All TREB Regions[2]	$792,385	$845,230	-6.3%
ATTACHED/ROW/TOWNHOUSE			
City of Toronto	$792,180	$793,129	-0.1%
All TREB Regions[2]	$645,172	$701,150	-8.0%
CONDOS			
City of Toronto	$601,211	$578,280	4.0%
All TREB Regions[2]	$559,343	$541,392	3.3%
ALL HOME TYPES[3]			
City of Toronto	$865,817	$943,947	-8.3%
All TREB Regions[2]	$804,584	$920,791	-12.6%

[1] Source: Toronto Real Estate Board Market Watch April 2018 and April 2017.
[2] All TREB regions include Halton, Peel, York, Durham, Dufferin, Simcoe and Toronto.
[3] Includes row homes, co-operatives, co-ownerships, detached condominiums and link properties.

SALES BY PRICE RANGE AND HOUSE TYPE[1] - ALL TREB REGIONS[2] - APRIL 30TH YEAR-TO-DATE

TREB also reports data on the number of sales by housing type and price range. Of noteworthy mention is the sharp decrease in number of sales for detached, semi-detached, and row/town homes valued over $700K. This is in stark contrast to the dramatic rise in number of sales for condos with the same value. In particular, the number of sales for condos valued over $1.75M increased by more than 500%.

	DETACHED			SEMI-DETACHED			ATTACHED/ROW/TOWN			CONDO		
PRICE RANGE	2018	2017	% CHANGE	2018	2017	% CHANGE	2018	2017	% CHANGE	2018	2017	% CHANGE
$0 to $99,999	2	-		-	-		-	-		5	-	
$100,000 to $199,999	5	3	66.7%	1	-	100.0%	-	-	0.0%	39	14	178.6%
$200,000 to $299,999	27	39	-30.8%	5	2	150.0%	-	1	-100.0%	274	105	161.0%
$300,000 to $399,999	143	138	3.6%	32	46	-30.4%	26	24	8.3%	1,616	253	538.7%
$400,000 to $499,999	489	462	5.8%	116	133	-12.8%	207	176	17.6%	2,125	533	298.7%
$500,000 to $599,999	858	1,006	-14.7%	316	288	9.7%	543	457	18.8%	1,419	533	166.2%
$600,000 to $699,999	1,286	1,491	-13.7%	683	645	5.9%	620	776	-20.1%	757	497	52.3%
$700,000 to $799,999	1,592	1,940	-17.9%	458	668	-31.4%	350	489	-28.4%	393	228	72.4%
$800,000 to $899,999	1,336	2,124	-37.1%	193	486	-60.3%	208	337	-38.3%	229	103	122.3%
$900,000 to $999,999	1,060	1,752	-39.5%	132	292	-54.8%	111	248	-55.2%	141	57	147.4%
$1,000,000 to $1,249,999	1,471	2,725	-46.0%	139	288	-51.7%	79	247	-68.0%	145	58	150.0%
$1,250,000 to $1,499,999	889	2,036	-56.3%	68	126	-46.0%	33	95	-65.3%	63	31	103.2%
$1,500,000 to $1,749,999	455	1,359	-66.5%	26	44	-40.9%	11	21	-47.6%	29	17	70.6%
$1,750,000 to $1,999,999	234	777	-69.9%	12	18	-33.3%	5	7	-28.6%	24	4	500.0%
$2,000,000 +	518	1,687	-69.3%	28	51	-45.1%	7	5	40.0%	39	6	550.0%

[1] Source: Toronto Real Estate Board Market Watch April 2018 and April 2017.
[2] All TREB regions include Halton, Peel, York, Durham, Dufferin, Simcoe and Toronto.

ECONOMIC INDICATORS		
	2018	**2017**
Q4 Real GDP Growth	1.7%	-2.6%
Toronto Employment Growth		
As at March 31	-3.2%	1.2%
Toronto Unemployment Rate		
As at March 31	5.8%	7.1%
Inflation (Yr/Yr CPI Growth)		
As at March 31	2.3%	-1.6%
Bank of Canada Overnight Rate		
As at April 30	1.25%	0.5%
Prime Rate		
As at April 30	3.45%	2.7%
Chartered Bank Fixed Mortgage Rates		
1 Year	3.34%	3.14%
3 Year	4.15%	3.39%
5 Year	5.14%	4.64%

Source: Toronto Real Estate Board Market Watch April 2018 and April 2017.

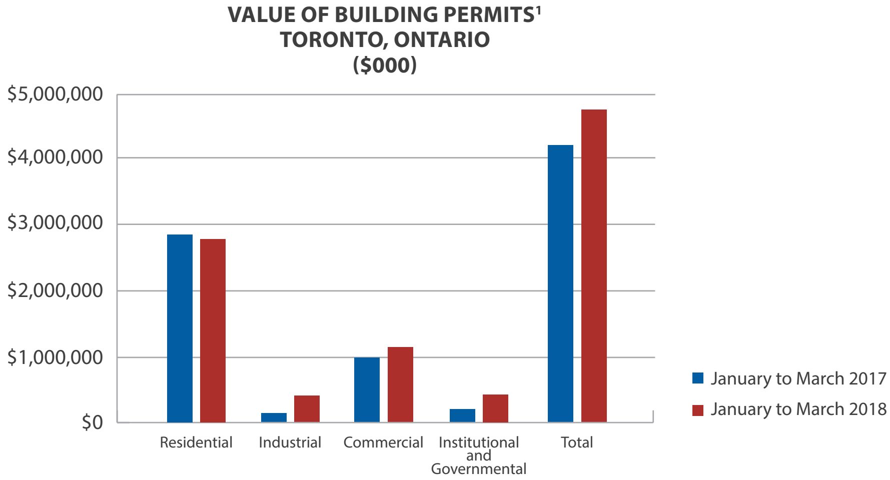
BUILDING PERMITS

According to Statistics Canada, the overall dollar value of building permits for the City of Toronto increased by almost 13% during the period January to March 2018, compared to the same 4-month period in 2017. The most significant increase came from industrial building permits (at an astonishing 174%). It is interesting to note that the number of residential building permits decreased by 2.57%, whereas in April of 2017, there had been a 14% year-over-year increase for residential permits.

[1] *Source: Statistics Canada, CANSIM table 026-0021*

BUILDING PERMITS - MARCH VALUE OF CONSTRUCTION (THOUSANDS OF DOLLARS)

	RESIDENTIAL	INDUSTRIAL	COMMERCIAL	INSTITUTIONAL AND GOVERNMENTAL	TOTAL
January to March 2017	$2,852,610	$141,515	$1,001,498	$200,643	$4,196,266
January to March 2018	$2,779,439	$387,758	$1,148,691	$425,085	$4,740,973
% change	-2.57% ($73,171)	174.00% $246,243	14.70% $147,193	111.86% $224,442	12.98% $544,707



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ABOUT FULLER LANDAU

Fuller Landau is a leading, mid-sized accounting, tax, and advisory firm with offices in Toronto and Hamilton, and a long-standing reputation for excellence behind our name. We work closely with our clients to build value, protect wealth, and generate sustainable results.

OUR REAL ESTATE AND CONSTRUCTION PRACTICE GROUP

We know that companies within the construction and real estate sector are subject to many challenges ranging from rising material costs, to cyclical demand, shortage of skilled labour, and shifts in the economy to name a few. The Fuller Landau team has hands-on experience providing practical insight and value-added service to companies just like yours.

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