

## U.S. Equity Markets



As part of our February 10, 2016 Wealth Matters webcast, we heard from **Chip McKinley**, Senior Vice-President and Portfolio Manager of Cohen & Steers. His presentation, summarized on this page, provided an overview of the current global real estate environment. Please see the reverse for highlights of the other half of the webcast, in which Chris Thomson, Regional Vice-President, Wealth Planning at Assante Private Client, discussed vacation property planning strategies.

### Cohen & Steers

- Founded in 1986 by Martin Cohen and Robert Steers as a specialist active manager
- First manager of listed real estate securities as a strategy
- Headquartered in New York City with over 250 employees worldwide (London, Hong Kong, Tokyo, Seattle)
- Assets under management as of January 2016 of US\$51.4 billion

### Real Estate Investment Trust (REIT) investing

- We do not invest in buildings directly, we buy and sell the stocks of publically traded real estate companies (most of which are REITs)
- REITs engage primarily in the ownership of income-producing real estate, but can also engage in the development of real estate
- Generally, REITs must pay out at least 90% of taxable income in the form of dividends in order to avoid corporate taxes
- Offer the possibility of capital growth through underlying asset/income growth, development and acquisitions
- Advantages of REITs:
  - Attractive total returns and current income on par with equity markets
  - Liquidity – quick and cost-effective allocation changes
  - Daily market pricing – real-time valuation of assets
  - Diversification – exposure to a wide range of markets and sectors
  - Corporate governance – discipline of public market standards
  - Participation in local economic opportunities
  - Opportunity set to add value – wide range of available investments to potentially add value against the benchmark

### Global real estate outlook

- Economic growth stable overall but diverging; rates likely to remain low
- Demand for commercial property still growing and outpacing supply in most markets
- REIT cash flow growth remains durable and above long-term averages
- Recent volatility signals growing risks but also provides opportunities
- Discounts to net asset value (NAV) and dividend discount model (DDM) are available

### United States

- Economy is decelerating but it is still strong
- Major city centres have the best supply and demand dynamics
- Public and private pricing dislocations present opportunities
- Strongest growth in the next few months will be in apartments and self-storage

### Asia Pacific

- Slowing China impacting Hong Kong offices and retail; Tokyo offices in recovery
- Australia retail spending remains healthy, while office supply and demand weak

### Europe

- Healthy U.K. economy driving strong tenant and investor demand for London offices, retail and storage
- Continental Europe's economy is in recovery, leading to demand growth for most property types



# Vacation Property Planning

*Vacation property planning is an integral part of your retirement and estate plan. During the Wealth Matters webcast, **Chris Thomson**, Regional Vice-President, Wealth Planning at Assante Private Client, discussed some strategies to acquire and dispose of Canadian vacation properties and avoid conflict while doing so.*

## **Acquiring your vacation property**

⇒ Principal Residence Exemption (PRE)

- One of the main tax benefits in Canada, a principal residence is defined as a personal-use housing unit that is “ordinarily inhabited” in the year.
- If you own more than one property, you have to decide which property will hold this designation.
- If a residence is successfully deemed a principal residence, no capital gains tax is charged when the property is sold.
- Key to this planning is to make the principal residence designation at the appropriate time and on the appropriate property.

⇒ Principle Residence Trust (PRT)

- A trust established to hold ownership of the property, instead of holding it in your name.
- Can be useful as part of a creditor protection strategy, to establish usage guidelines, or to potentially avoid probate.

## **Transfer to the next generation**

⇒ Lifetime transfer options

- *Outright gift* – Realized gain is possible, but probate fees are eliminated and estate administration is simplified.
- *Gifting a joint interest in the property to one or more children* – Parents adding children directly to the deed itself. Allows greater sense of ownership and involvement in the property. Cost amount to children is the value of the interest.
- *Outright sale to one or more children* – Proceeds from sale can form part of retirement, but may trigger a taxable capital gain.
- *Transfer to a lifetime trust with the children as beneficiaries or residual (or eventual) beneficiaries* – Detailed trustee duties established with the trust. Transfer to the trust is taxable with limited exceptions.

⇒ Transfer at death

- *Outright transfer at death to one or more children* – Provision included in will. Deemed disposition on the death of the surviving spouse (if jointly held).
- *Sale of property by the estate* – Children given right of first refusal to purchase it. Favours children who are more financially secure but minimizes conflict. Mechanism included in will to determine purchase price.
- *Transfer to testamentary trust with children as beneficiaries* – Trust created by the will with neutral party in control as trustee.
- *Transfer to a time-limited trust or hybrid solution* – Funded by the estate, the children are given a set number of years to figure out ownership. If children cannot or do not agree and if no one exercises right of first refusal, the property is sold with proceeds added to residue.

## **Avoiding conflict**

If more than one owner exists, consider a trust agreement or maintenance and usage agreement to determine scheduling of use, funding of property taxes, repairs, maintenance and other expenses as well as how decisions relative to the property should be made.

## **Your Assante advisor is available to help**

If you have questions regarding how your vacation property should be accounted for, talk to your advisor for assistance.

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