Real Estate News

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Rosy economic outlook for Ottawa-Gatineau: report

Region ranks 4th among municipalities studied by Conference Board of Canada

Led by the federal government's hiring spree, Ottawa-Gatineau's economy is expected to grow by 2.3 per cent in 2017, according to an outlook recently published by the Conference Board of Canada.

"We're painting a pretty rosy picture for Ottawa-Gatineau this year. It's hard to know where to begin. There are so many good things that are happening in the economy," said Alan Arcand, associate director for the board's Centre for Municipal Studies.

The 2.3 per cent forecast growth in Ottawa-Gatineau's gross domestic product (GDP) in 2017 is enough to rank it fourth-highest among the 13 municipalities studied in the report, trailing only Toronto at 2.7 per cent, Vancouver and Edmonton, both at 2.4 per cent. As a whole, Canada's GDP is forecast to grow by two per cent. In 2016 Ottawa-Gatineau's GDP grew by 1.5 per cent.

1 in 5 jobs with federal government

The report credits much of the positive outlook to the federal government's continued hiring spree in Ottawa-Gatineau, which is expected to grow its workforce by 2.5 per cent in 2017.

However that means the region's fortunes are vulnerable because they rely largely on a single sector, and the whims of the Liberal government.

"One of the risks of Ottawa-Gatineau is that of all the cities we covered, it has one of the least diversified economies," said Arcand. "There's always the risk that if the government slams the brakes on spending, you will see much slower growth."

Since 2014, the federal government has added 20,000 jobs in the National Capital Region, solidifying its position as the area's largest employer, accounting for one in every five jobs.

"If you're concerned about diversification issues, the fact that the high-tech sector seems to be doing better, that's a positive sign," said Arcand.

Arcand points to plans by Ottawa's e-commerce company Shopify to triple its workforce at its downtown office from 750 to 2,100 by 2018, as well as Kanata's move to position itself as a cluster for the technology behind self-driving cars.

Canada 150 also boosting fortunes

The Ottawa Chamber of Commerce welcomed the report Thursday.

"Frankly I think it matches what the business community is telling us in our surveys, in our discussions with them. They certainly expect the economy to be robust," said Ian Faris, the chamber's president and CEO.

The good news for public sector and high-tech workers is also expected to boost Ottawa-Gatineau's retail sector, which the report predicts will see sales rise by four per cent in 2017, thanks also in part to the increase in tourists visiting the region for Canada 150 celebrations.

Condo sales lead the way for stellar performance in May

Members of the Ottawa Real Estate Board (OREB) sold 2,300 residential properties in May 2017 compared with 1,919 in May 2016, an increase of 19.9 percent.

"Not only was May 2017 the best May on record for unit sales, it also surpassed the record for highest unit sales in a single month ever; blowing the previous record out of the water by 315 units," said OREB's President. "One of the reasons for these stellar numbers can be attributed to the condo market, which has really helped strengthen the whole market over the past several months. This is quite evident in May, where units sold increased by 44.6 per cent over May 2016."

"Sales activity continued to trend towards a sellers' market, as evidenced by lower than normal inventory levels and listing averages for May, more multiple offer situations, and fewer days on market, but prices still remain relatively steady," OREB's President went on to explain. "If we were in a true sellers' market, we would expect to see a much higher spike in prices."

May's sales included 444 in the condominium property class and 1,856 in the residential property class. The average sale price of a residential-class property sold in May in the Ottawa area was $436,625, an increase of 7.4 percent over May 2016. The average sale price for a condominium-class property was $270,993, an increase of 2.3 percent over May 2016.

"The two most active price points in the residential market continue to be the $300,000 to $399,999 followed by the $400,000 to $499,999 range, combined accounting for 56.4 percent of the market. Within the condo market, the most active price point was between $150,000 and $249,999, accounting for 50.7 percent of the market," added OREB's President.

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Leaving the family cottage to children will cost you – or them

The gesture couldn't be more generous and loving.

Imagine a fairly wealthy elderly couple with a beautiful vacation home on the south shore of Nova Scotia (or in the Ottawa-Gatineau area, or Whistler, if you prefer). The couple and their children remember decades of summers on the beach.

The couple has decided to leave the cottage to their older son, since his children have also come to love it. The property, which the couple bought years ago for $200,000, is now worth four times that. Let's assume that the couple's other child, a younger daughter, doesn't plan to use the property as she starts her life in New York. She will be given a comparable inheritance, say $800,000.

Now the unhappy truth: Second homes, cottages and other vacation properties are taxable assets. Unlike a primary residence, the increase in value of a second home is taxed, so the son will receive a major tax hit. "We see it now particularly because there has been such an escalation of property values," said Suzana Popovic-Montag, a managing partner and specialist in estates and trusts at the Toronto law firm Hull & Hull LLP. "Many people, more than in the past, have a second property or vacation property, and it amounts to a substantial portion of their estate."
But what if the son, given the expense of raising his children, can't afford the huge capital gains tax on the cottage? The tax burden automatically falls to the estate, which could affect the daughter's inheritance. But what if she is desperately counting on her money to pay off her Manhattan condo?

It's something the elderly couple should consider and prepare for. "Whether you gift the property, or you sell the property [to your heirs], or you put it into joint tenancy, or you give it by will, you will have a capital gains hit for the owner of the property," Ms. Popovic-Montag said.

Jessica Lyle, an estate and trust lawyer at Sealy Cornish Coulthard in Dartmouth, N.S., said many of her older clients are wealthier than their children. "I've had clients who bought cottages in now-trendy areas, who got it for $1,500, 40 or 50 years ago, and now the property is worth $800,000 or $1-million. They are talking about an $800,000 capital gain, and suddenly the family has to come up with a few hundred thousands of dollars in cash. For some people, that's crazy," Ms. Lyle said.

Families need to provide their estate planners with a clear picture of their financials and the property's value, Ms. Lyle stressed, not just a plan of who should inherit what. "And when I have that, it allows me to start the emotional conversation, too," she said.

One strategy would be for the elderly parents to give the cottage to their adult son while the couple are still alive. The parents would pay the capital gains tax, which in this case would be about $200,000.

The son would then be responsible for the future capital gains, starting from the time he was given the cottage. Then, to make the inheritance equal for the son and daughter, the son would likely get less in the parents' will because he was already given the cottage.

Another method would be to add the son's name onto the title of the property. This is typically done using a bare trust. The adult child's name is added, but there's an understanding – preferably written down – that control rests with the parents. All decisions are theirs.

"The vast majority of Canadians who add kids onto the cottage, whether they realize it or not, are doing it in this bare trust capacity, because very few are then filing on their tax returns that they gifted [it]," Ms. Lyle said. "The bare trust idea then means that on death, the kids know that they have to deal with the cottage in accordance with the will," and pay the property tax accordingly.

Another strategy is to turn the cottage into the parents' principal residence. The mistake often made here is that the change isn't grandfathered. Capital gains still apply to the time the property served as a vacation home. The primary-residence exemption applies only to the length of time the cottage was their primary household.

"On their tax return, they're still going to have to show and account for whatever capital gain is owing for the 25 or 35 years when they owned the cottage at the same time as they owned their house. That sometimes stops the conversation [with clients] right in its tracks," said Ms. Lyle. Sometimes, though, a capital gains tax bill can be mitigated by other means. Kenneth Martin, a family and real estate lawyer in Moncton, noted that sometimes the tax deduction for those older than 65 (Line 301 on an income tax return) and other breaks, such as pension income-tax deductions, can go toward compensating for the capital gains hit. "Who cares about the capital gains? Those deductions may reduce or get rid of most of the gains," Mr. Martin said. "So, it depends on your situation."