

Business Case
January Meeting

Information below is as of Fall 2022
Update to date will be provided based on actual steps taken.
Chatham House Rules

Facts:

The Business

- Business owns a 30 unit townhouse style rental property on Vancouver Island (45 minutes north of Victoria)
- Estimated value \$6,000,000
- Company has debt of approximately \$3,500,000
- Business is cash flow positive and profitable
- Company has a life insurance policy (Joint-last) on Dad and 2nd wife
- Real estate market is hot on Vancouver Island – high demand for rentals
- R&M project and upgrades has recently started (typically as tenants turn over)

Founders

- Mom (late 60's and ok health) and Dad (late 70's and poor health) - 50/50 shareholders
- Mom and Dad have been divorced for over 20 years and do not speak
- Mom lives in Vancouver and has no involvement in the business
- Dad lives close to the property but has no involvement in the business
- Neither Mom or Dad receive any compensation from the business
- Dad likely has approx. 1 year to live (Cancer)
- Mom likely has 7-10 years (other health issues)

Family

- 4 adult children, 3 sons and 1 daughter (listed in order of age below – see diagram)
- Son 1 - lives near the property– “deadbeat” – not trusted by mom or dad to be involved in the business, barely able to work or hold a job.
- Daughter – lives in another province - director on behalf of mom, has POA over mom (not in force), good relationship with Dad
- Son 2 – runs the property right now (with his wife), lives on site for free. Is paid \$29,500/yr for management and oversight, wife is paid \$24,500 for property management assistance. Agreed to by dad, no discussion with siblings, total comp is in line with FMV if living arrangements were not free.
- Son 3 – lives in Victoria - financially successful, estranged from mom and dad and most siblings.

Succession

- Dad's will – shares will be split equally between 4 children. This may change to exclude Son 3 but no update completed yet.
- Mom's will – shares will be split equally between 3 children excluding Son 3. (formally cut out of the will). Son 1 does not get his share but it will be held in trust for his 2 children by Daughter.

Other information:

Son 2 also runs a construction company. Has used the family company asset base to help fund construction business – non-interest bearing loan. Dad approved all transactions, siblings are not aware. Loan is about \$1,000,000.

Under Son 2, value of the property has increased substantially, most is related to the real estate market but much can be attributed to his management and oversight. (ongoing repairs, pushed rents higher, better collections, eviction of certain tenants etc).

Plans to rezone the property which could serve to double the value to \$12,000,000

Mom and Dad built the property as a legacy for the kids to benefit from
4 Kids cannot get along though Son 2 and Daughter do get along very well.

Family Discussion potentials:

Cannot get all 6 in a room together only potential groups:

Dad, Son 1, Son 2 and Daughter

Mom, Son 2 and Daughter

Son 1, Son 2, Daughter

Further questions or information needed?

Mom and Dad (separately) want to know what to do:

- Manage tax liability
- Transition of ownership
- Deal with the kids
- Extract value from the company for personal living
-

Daughter and Son 2 are thinking it may be best to just sell the property as soon as the last of the two parents pass away and distribute the assets but this goes against mom and dad's initial thoughts and wishes of a legacy for the family. It also may not maximize the full value of the long term potential of the asset.