Real property. Real leadership.

REALPAC / FPL Canadian Real Estate Sentiment Survey

Q1
2017

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Exhibits

The Real Property Association of Canada (REALPAC) and FPL Advisory Group are pleased to announce the results from the first quarter 2017 REALPAC / FPL Canadian Real Estate Sentiment Survey. The survey is the industry's most comprehensive measure of senior executives' confidence in the Canadian commercial real estate industry. This quarter, the survey captured the thoughts of a wide variety of industry leaders, including CEOs, presidents, board members, and other executives from a broad set of industry sectors, including owners & asset managers, financial services providers, and operators & related service providers. The quarterly survey measures executives' current and future outlook on three topics: (1) overall real estate conditions, (2) access to capital markets, and (3) real estate asset pricing. Survey respondents represent the retail, office, industrial, hotel, multi-family, residential, and seniors residential asset classes.

Topline Findings

- The Q1 index rose 2 points to 55; despite anticipation of a 'Trump effect' and lingering global concerns, low rates and an abundance of investor capital continue to drive real estate investment in Canada and major global markets
- Negative sentiment continues to hurt the Alberta market while increasing investor demand for real assets, together with a short supply of quality assets, outweighs concerns around real estate fundamentals
- Asset values are nearing highs in Toronto and Vancouver, and cap rates continue to compress as investors search out quality assets
- Debt is available across the spectrum; if traditional lenders balk then other banks, insurance companies, and alternative lenders will step up to finance any of the major asset classes
- While there continues to be an abundance of equity in the market, investors are becoming more selective around quality and location; institutional and foreign capital continues to flow into real estate

Data Collection

Data was collected during January 2017. In the pages that follow, survey responses are supplemented by excerpts from interviews conducted with senior executives from Canadian property developers and owners, institutional investors, asset managers, and other organizations.

The most comprehensive measurement of senior executives' confidence in the Canadian commercial real estate industry

Please direct all inquiries regarding this study to:

Mark Ross
Managing Director - Canada

Ferguson Partners Canada
The Exchange Tower
130 King Street West,
Suite 1800
Toronto, ON
M5X 1E3 Canada

t 416.865.3385
e mross@fergusonpartners.com
w fpladvisorygroup.com

Carolyn Lane
VP, Membership,
Marketing & Communications

REALPAC
77 King Street West, TD North Tower
Suite 4030, PO Box 147
Toronto, ON
M5K 1H1 Canada

t 416.642.2700 x223
e clane@realpac.ca
w realpac.ca

General Market Conditions

The Q1 index rose 2 points to 55; despite anticipation of a 'Trump effect' and lingering global concerns, low rates and an abundance of investor capital continue to drive real estate investment in Canada and major global markets

"There's an abundance of capital affecting pricing in most global markets; that is true for both equity and debt."

"The markets have been pretty good for a long time. Given the cost and the amount of capital out there, they will remain so."

"I would say that we are getting to the later stages in fundamentals. I think that the chances of a slowdown are real in the next couple of years. I don't know exactly when, but it is real, and it might depend on our friend, Mr. Trump."

"We had committed to a new mortgage at a 2.45 rate, then Trump gets elected and the rate was close to 4 upon closing 30 days later."

"The uncertainty of the political issues is having a real impact on bond yields. Hopefully we will find some stability that will remove some of the fears of the 'Trump effect'."

"The leasing fundamentals don't necessarily reflect the loftiness of the Canadian market. They were down again in 2016, and I anticipate will be down again in 2017."

"The BoC is not in a hurry to raise rates; the dollar is low and there is a ton of foreign capital interested in this market."

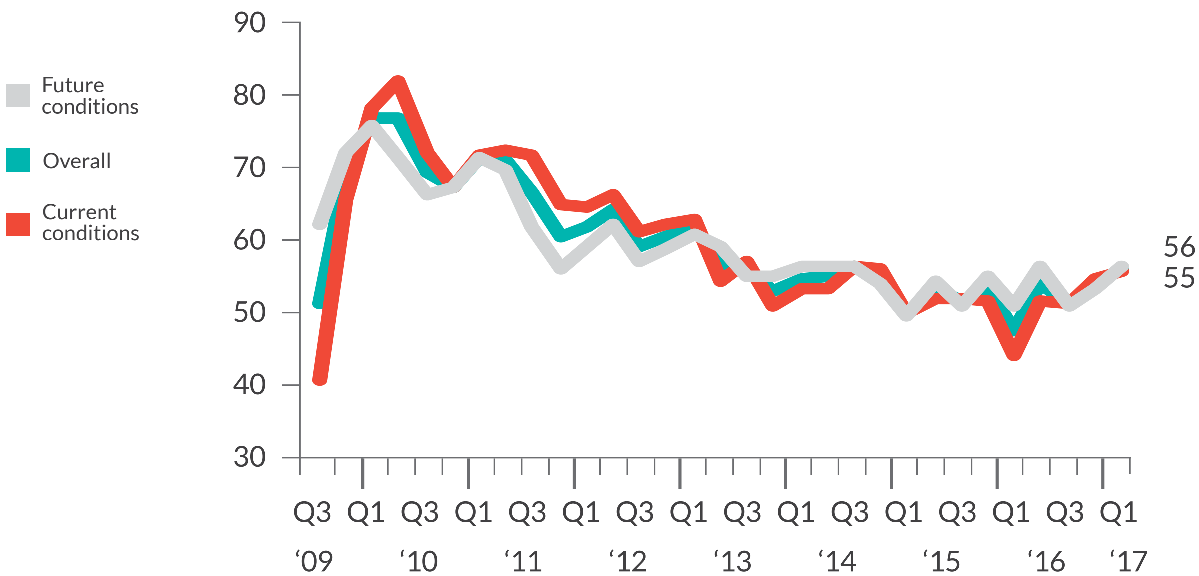
"Within the last 12 months, the rate on the Canadian 10-year bond is up, but cap rates are lower. There is my comment on the availability of equity and debt. The cap rates shouldn't be going down when the bond rates are going up."

"If you are the pension funds, institutional investors from overseas, or high net worth international buyers, you have money for real estate and you especially have money for Canadian real estate."

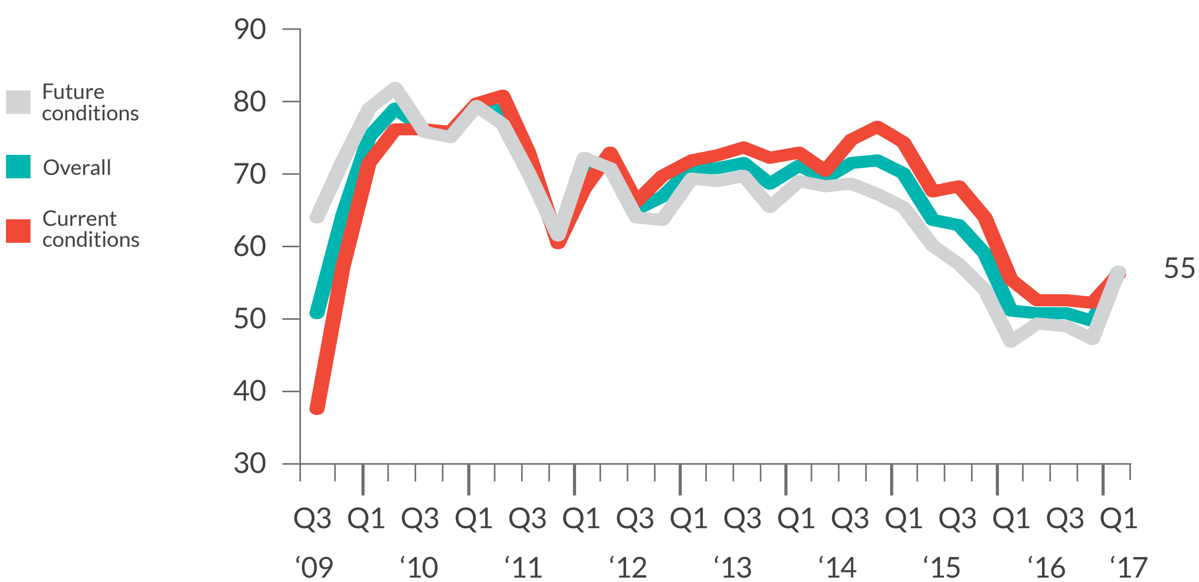
"The U.S. is tougher. You can get capital in the big markets if you are a company with a track record and good assets."

Exhibit 1:

REALPAC/FPL Canadian Real Estate Sentiment Index*



Real Estate Roundtable Sentiment Index (U.S.)*



*The REALPAC/FPL Canadian Real Estate Sentiment Index and The Real Estate Roundtable Sentiment Index, organized by FPL Advisory Group, are created using the same survey methodology, questions, and timing.

Key Real Estate Considerations

Negative sentiment continues to hurt the Alberta market while increasing investor demand for real assets, together with a short supply of quality assets, outweighs concerns around real estate fundamentals

"Alberta is different; there are still liquidity and deals, but it is with opportunistic buyers. In the rest of Canada, there is a market from domestic and international buyers if it is good commercial product."

"Real estate fundraising will continue to remain strong. Institutions have too much capital in bonds and need alternatives. Investors will continue to move out of bonds into real estate, mortgages and infrastructure."

"We are in the latter innings of the cycle. The outlook on a fundamental basis is being offset by the capital flows."

"Industrial coast-to-coast is strong, particularly in the newer vintage product."

"Retail is two worlds, fashion is an extremely tough marketplace and necessities are still very robust."

"There is a wholesale drop in rents in Calgary. With no demand, rent will find a new floor. There is no discipline in Calgary; retail in Montreal and Vancouver is strong. In Vancouver, too much money is chasing assets."

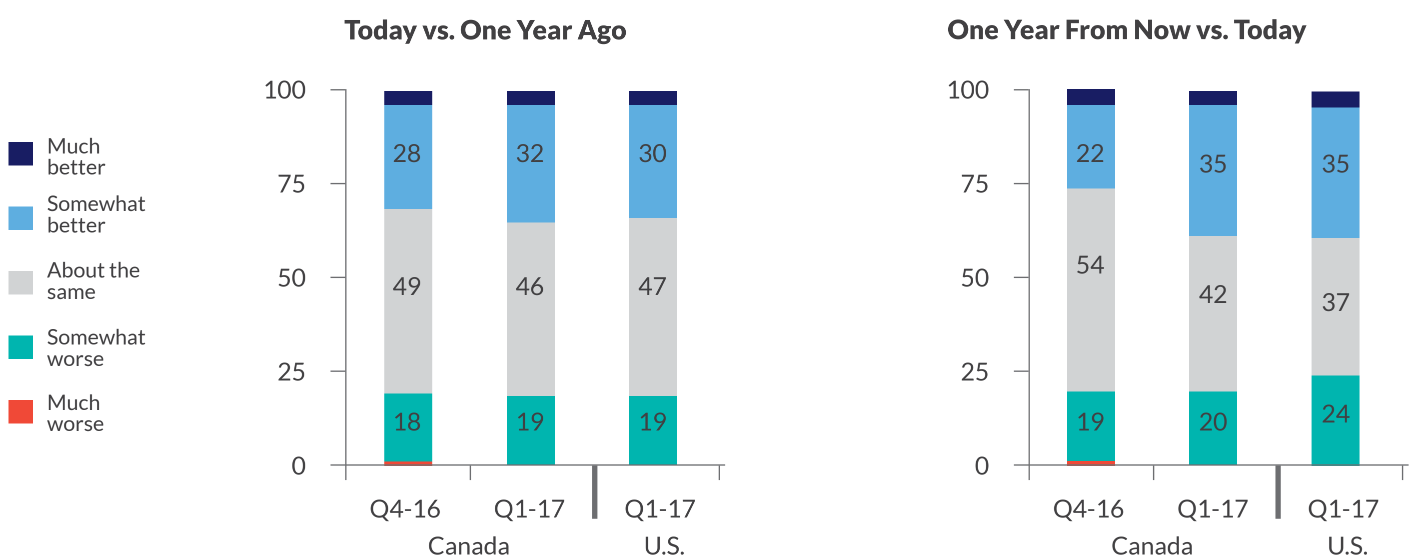
"Office in Calgary has massive vacancy, there is a huge amount of supply, and more supply coming up behind."

"There is talk of office conversions to multi-residential; there are several properties being evaluated right now."

"A number of major REITs are leaving as it has been a challenging Alberta office market."

"Ontario's market is tight with supply but heavy with demand. We are sellers of real estate. We are comfortable pursuing industrial - whether it is in Alberta, BC or Ontario. It's a tale of two regions. Vancouver good, Winnipeg to the East doing pretty well, then you have Alberta and to a lesser degree Saskatchewan...it's about the oil price being badly hit. If it wasn't for the darn oil price then Canada would be in pretty good shape."

Exhibit 2: **Perspectives on Real Estate Market Conditions (% of respondents)**



Asset Values

Asset values are nearing highs in Toronto and Vancouver, and cap rates continue to compress as investors search out quality assets

"We are at or near highs, particularly in Toronto and Vancouver, while Calgary is at or near lows."

"There are recent land transactions where you shake your head at the price, largely driven by foreign capital."

"The price of land is very strong in central and well-located nodes. There is still strong demand for suburban land but not as many people are showing up for the RFP."

"Higher asset values are really the result of supply and demand rather than fundamentals. Good assets include the necessities of life: food, booze, drugs and coffee."

"We have seen a gradual compression of cap rates over the past year. In the smaller markets, cap rates have been level year-over-year, in the mid-4 range for multi-residential. Where we have seen real change is in Toronto, properties that were low 4s like 4.15 may now be 3.80 to 3.75."

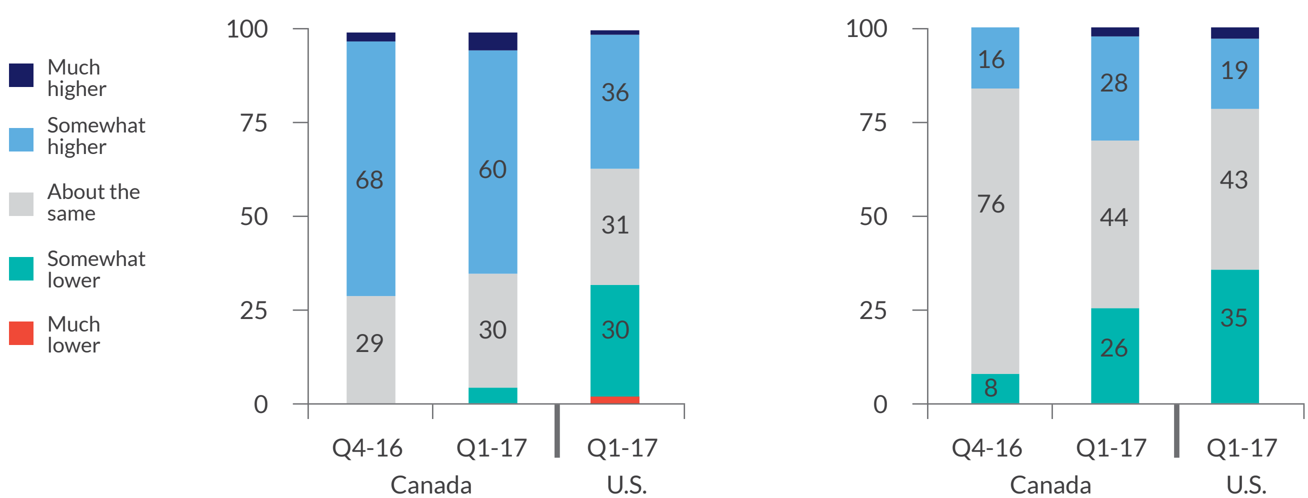
"Toronto and Vancouver are high. In the core markets, pricing is pretty frothy. I don't know how I could pay $700 a foot for a Class B office in downtown Toronto, which is way more than the replacement cost, when I can go to Mississauga and buy product for $200 a foot. One of them has to be wrong, maybe both, I just don't understand."

"A lot of guys in Alberta have not marked their books to clearing values. They have been very hesitant to change appraised values, but if guys need to sell for cash then there are bargains available."

"There is more money than product; when something of quality comes out then there is a lot of money chasing it, and the brokers are very adept at finding that guy who says: 'I don't care what it will cost, I will buy it.'"

"If it is good quality in any asset class then tomorrow's deal will be at a lower cap than today's deal - that is the momentum."

Exhibit 3: **Real Estate Asset Values (% of respondents)**



Debt Capital

Debt is available across the spectrum; if traditional lenders balk then other banks, insurance companies, and alternative lenders will step up to finance any of the major asset classes

"There is no shortage of debt for any asset class in Canada, except in Alberta, and that is retail, industrial, office or residential, A, B or C. If it is Class C, you will have to pay a higher coupon but it is available."

"It is different across markets. There is a slowdown in the CMBS market and a pickup with direct lenders like insurance companies and sovereign wealth funds. The risk appetite has gone up, they are moving up the leverage that they are prepared to take on. From 50%, we see 70-75% leverage from insurance companies. The banks are more selective in what they are prepared to be doing, and we are seeing others stepping into that hole."

"We have been actively refinancing a lot of our assets as there is a lot of debt capital available."

"Our mortgage guys are quite active if you have a good product."

"Well-capitalized projects get financed. Reputable residential developers with strong pre-sales can get debt."

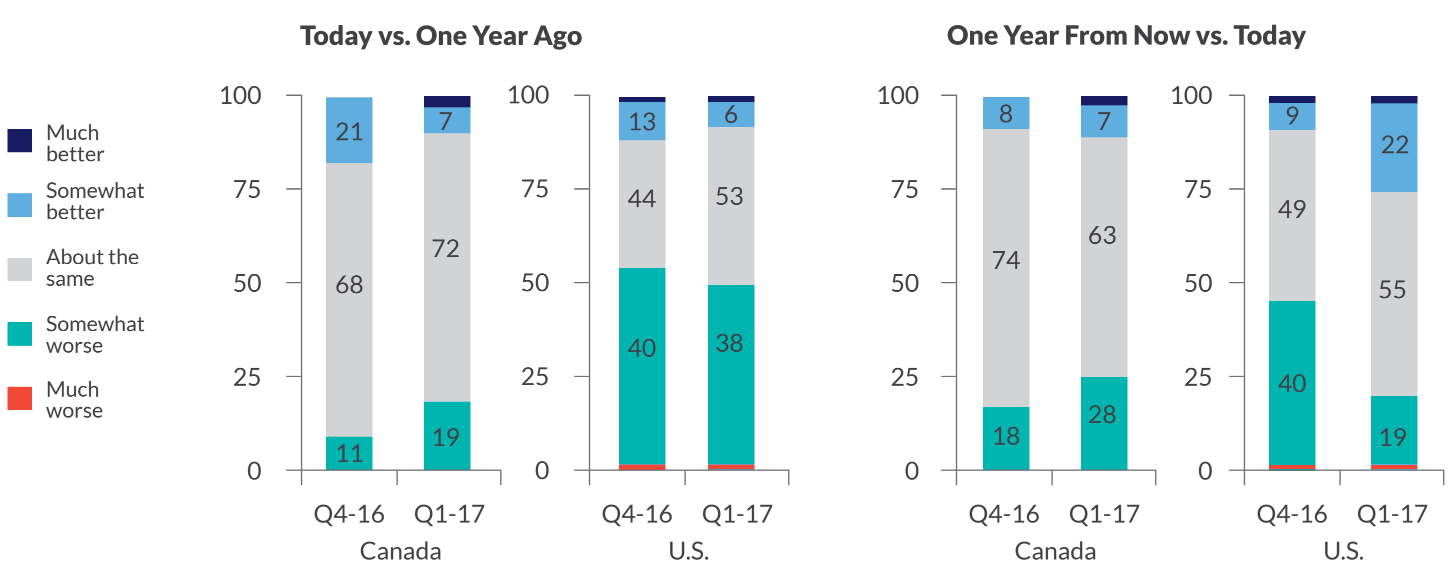
"There is a lot of credit available on the multi-residential side."

"I am hearing that there is a lot of debt and equity in the marketplace, but just not a lot of places to place it."

"There are some banks that don't want any exposure in Alberta so you have to go to the secondary lenders."

"Alberta is a separate story. The overshadow of the energy economy makes it more difficult to get debt unless you have a very covenanted asset. If you need a mortgage on an asset in Calgary then you are in big trouble."

Exhibit 4: **Availability of Debt Capital (% of respondents)**



Equity Capital

While there continues to be an abundance of equity in the market, investors are becoming more selective around quality and location; institutional and foreign capital continues to flow into real estate

"Our pension clients are growing and we are seeing lots of inflows right now. Retail investor interest in the REIT space is drying up with people's concerns around rate hikes so yield product will trade off; however, in institutional capital, pension fund and multi-employer, we are seeing growth."

"There is still a healthy appetite and institutional desire to own real estate. I haven't heard as much about foreign capital lately. It has quieted down from what I can see but I could be totally wrong."

"Equity is still strong, there are still bids for all assets. Even for assets with an issue, there are still bids."

"The availability of equity for good projects is very strong. For reputable developers with good projects, there is a lot of equity out there, particularly in this low interest rate environment."

"It is selective. Like good luck in Alberta right now."

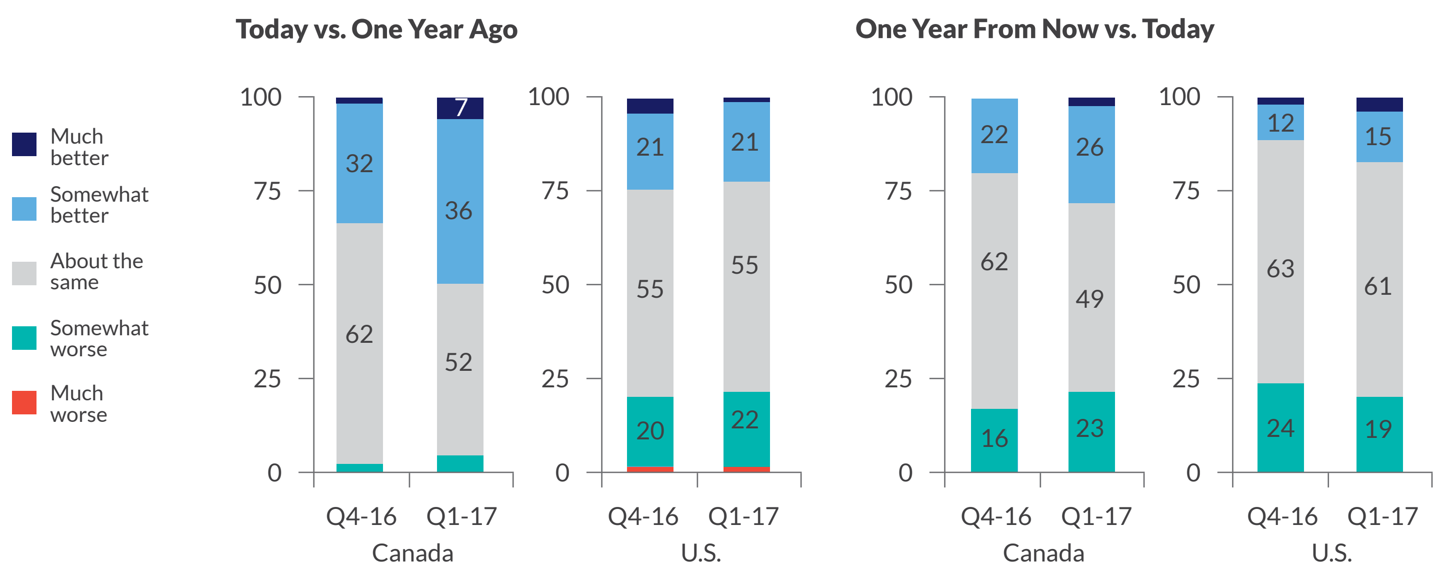
"I am hearing that there is more equity than can be placed, or is having a harder time getting placed."

"There is still equity available for small and medium caps for accretive acquisitions. If you have a strong balance sheet, there is lots of debt and equity available; if not, it is a different story."

"It is tougher for equity in smaller or challenged markets."

"Money is coming from domestic and international buyers. Asset prices are up across Canada, with the exception of Alberta."

Exhibit 5: **Availability of Equity Capital (% of respondents)**



Participants

(Please note that this is only a partial list. Not all survey participants elected to be listed.)

Adgar Investments & Development Inc.
Chris Tambakis

Alberta Investment Management Corporation (AIMCo)
Micheal Dal Bello

Aspen Properties
Scott Hutcheson

Automotive Properties REIT
Milton Lamb

Avison Young
Mark Rose

Bell Real Estate Services
Robert Struthers

Boardwalk REIT
Sam Kolias

Build Toronto Inc.
Bill Bryck

Canada Pension Plan Investment Board
Graeme Eadie

Canadian Mortgage Capital Corporation
Robert Goodall

Canderel
Richard Diamond

Concert Properties Ltd.
David Podmore

Crestwood Capital Partners Ltd.
Jeff Devins

Crown Realty Partners
Les Miller

CT REIT
Ken Silver

Dell Corporation Realty Ltd.
Michael Dell

Dorsay Development Corporation
Geoffrey Grayhurst

Fengate Capital Management Ltd.
John Bartkiw

Fiera Properties Ltd.
Stuart Lazier

Geoffrey L. Moore Realty, Inc.
Geoffrey Moore

Global Dimension Capital, Inc.
Neil Labatte

Grover, Elliott, & Co. Ltd.
Larry Dybvig

Hopewell Residential Management LP
Paul Taylor

Infrastructure Ontario
Toni Rossi

Ivanhoé Cambridge, Inc.
Mario Morroni

Kircher Research Associates Ltd.
Hermann Kircher

KPMG
Lorne Burns

LaSalle Investment Management
Greg Spafford

Manitoba Civil Service
Ian Cameron

Margolis Capital Commercial Mortgage Professionals
Ron Margolis

Menkes Developments Ltd.
Peter Menkes

Miya Consulting Inc.
Kevin Miyauchi

Morguard Investments Ltd.
Gordon Vollmer

Northam Realty Advisors Ltd.
Todd Copland

Northview Apartment REIT
Todd Cook

Nova Scotia Pension Services Corporation
Chris Taylor

Ontario Pension Board
Brian Whibbs

Partners REIT
Jane Domenico

PenEquity Realty Corporation
David Johnston

PIRET
Kevan Gorrie

PSP Investments
Neil Cunningham

PRO REIT
Jim Beckerleg

Pyxis Real Estate Equities Inc. c/o Edgecombe Realty Advisors Inc.
David Jubb

QuadReal Property Group
Remco Daal

Realstar Group
Wayne Squibb

Realtech Capital Group, Inc.
James McPherson

Slate Asset Management
Blair Welch

Strathallen Capital Corporation
Laetitia Pacaud

The Great-West Life Assurance Company
Ronald Findley

The Minto Group
Michael Waters

Triovest Realty Advisors
Vince Brown

REALPAC
77 King St West
TD North Tower
Suite 4030 PO Box 147
Toronto, ON
M5K 1H1

t 416.642.2700
tf 1.855.REALPAC (732.5722)
w realpac.ca

Ferguson Partners Canada
The Exchange Tower
130 King Street West
Suite 1800
Toronto, ON
M5X 1E3

t 416.865.3385
w fpladvisorygroup.com