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REALPAC

FPL Associates Ferguson Partners

REALPAC / FPL Canadian Real Estate Sentiment Survey

Q4 2017

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Exhibits

REALPAC (Real Property Association of Canada) and FPL are pleased to announce the results from the fourth 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 Q4 Index rose 1 point after a 4 point drop in Q3; investors seem more comfortable with continued demand and higher asset values despite interest rate increases.
- Strong demand for income producing properties in major urban markets has led investors to increasingly focus on development, alternative asset classes, and international opportunities.
- With cap rates in Toronto and Vancouver hitting record lows, the pricing of development lands in these markets has skyrocketed while asset values in other major markets are stable despite increasing interest rates.
- The debt markets remain wide open for business but caution is seeping into the enthusiasm, particularly around more speculative plays.
- There is no shortage of equity available in the public and private markets as domestic and international investors continue to seek Canadian real estate assets.

Data Collection

Data was collected during October 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

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General Market Conditions

The Q4 Index rose 1 point after a 4 point drop in Q3; investors seem more comfortable with continued demand and higher asset values despite interest rate increases.

“As much as people complain about the high real estate pricing, they complain more about the stock market and a potential downdraft in the bond market from higher interest rates. On a relative basis, there is a sense that real assets have substantial value.”

“Conditions are very solid. Investment values are driven by interest rates and particularly income. Although rates have risen and spreads have decreased, it’s minor. Income has risen significantly, impacting values in a positive way.”

“The real estate market has its pockets and its challenges. You have to go by asset class and city to get a true sense of where things are. Toronto office is still tight; Calgary will continue to be challenged for a long time. Some market participants think that the A class stuff will be a 5-year period of recovery while the B class will be closer to 10. Who knows, maybe in the midst of all that, some of the B class gets converted to different uses.”

“Retail is challenged in certain circumstances; the Sears headlines are disruptive, but that has been a slow moving car accident for a long period of time.”

“Industrial is very strong with ecommerce and fulfillment. Everybody views it as the shiny asset class, but it’s hard to come by.”

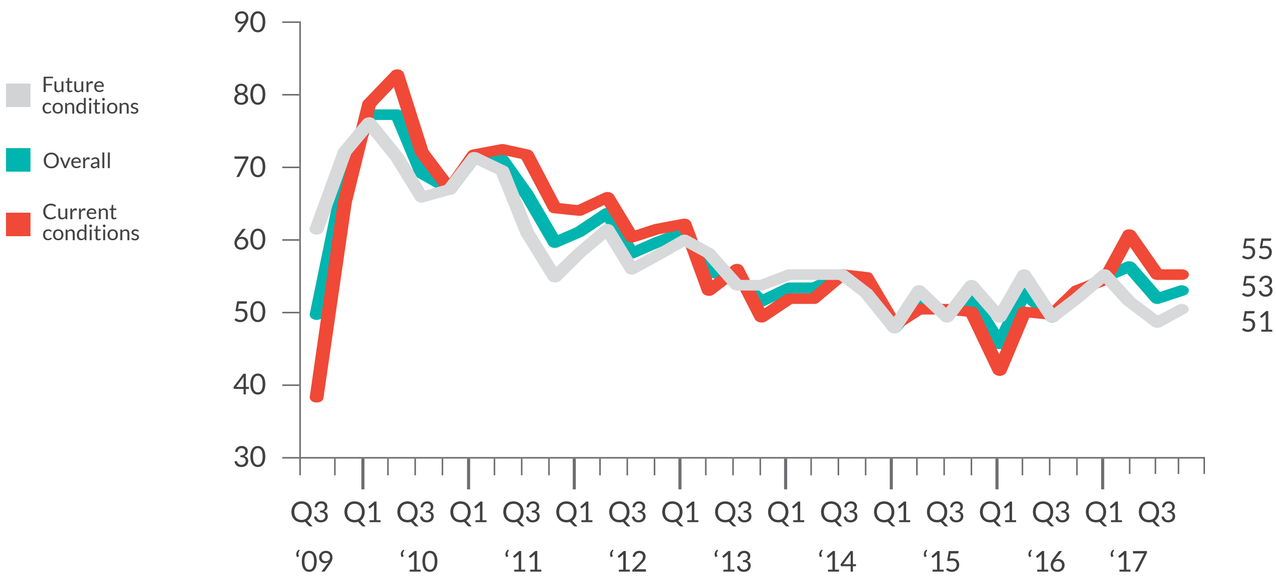
“We are fully priced in the apartment market in Canada. Cap rates in the major markets are at historic lows. Minor increases in long-term financing have had no effect on cap rates as they continue to compress in all the markets across the country.”

“My acquisitions guys keep telling me how difficult it is to get deals done but, at the end of the year, they still hit their numbers.”

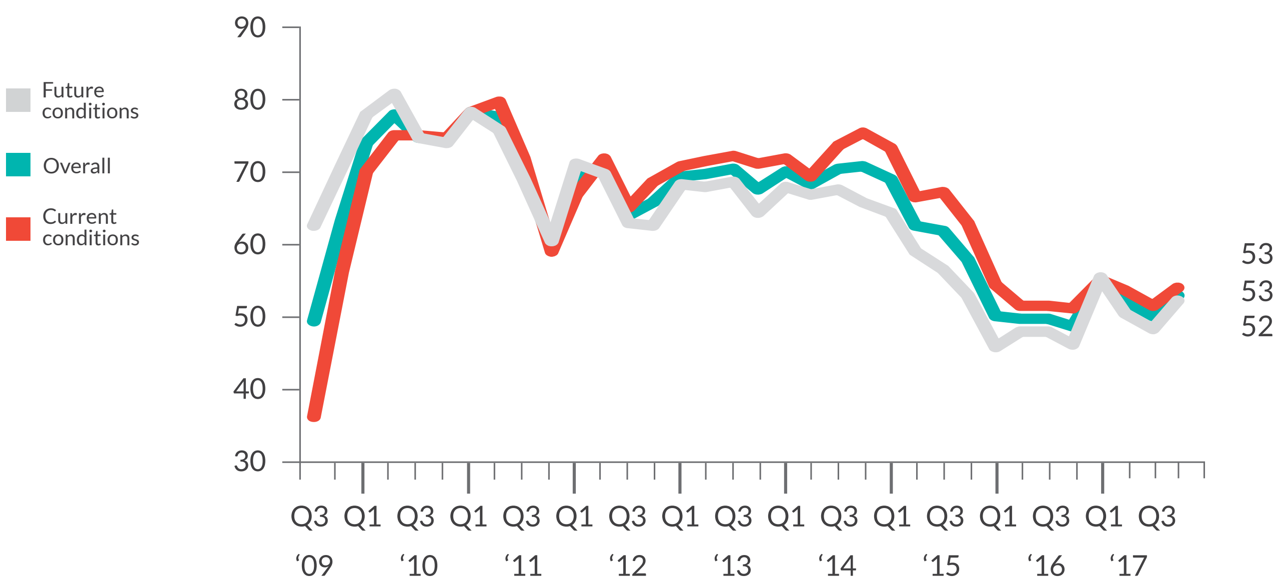
“Conditions are dramatically different depending on where you are in Canada and what asset class you own. For example, the Calgary office market continues to be tough but Calgary industrial is strong.”

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, are created using the same survey methodology, questions, and timing.

Key Real Estate Considerations

Strong demand for income producing properties in major urban markets has led investors to increasingly focus on development, alternative asset classes, and international opportunities.

"We are looking outside of Canada in the U.S. and Europe as we see more reasonably priced assets in international markets."

"We are looking at different asset classes like timber and agriculture."

"The biggest change is the price for development land. With so much capital unable to buy income producing properties, more firms are moving into development, which is pushing land pricing to such extraordinary limits that they are pricing out risk."

"You have to be abreast of all the markets in Canada. Toronto and Vancouver are expensive, but we have had some great success recently in Montreal and you still need to be looking at other cities like Ottawa and Halifax."

"Everything is well-priced so you need to work harder and do things differently to get higher returns."

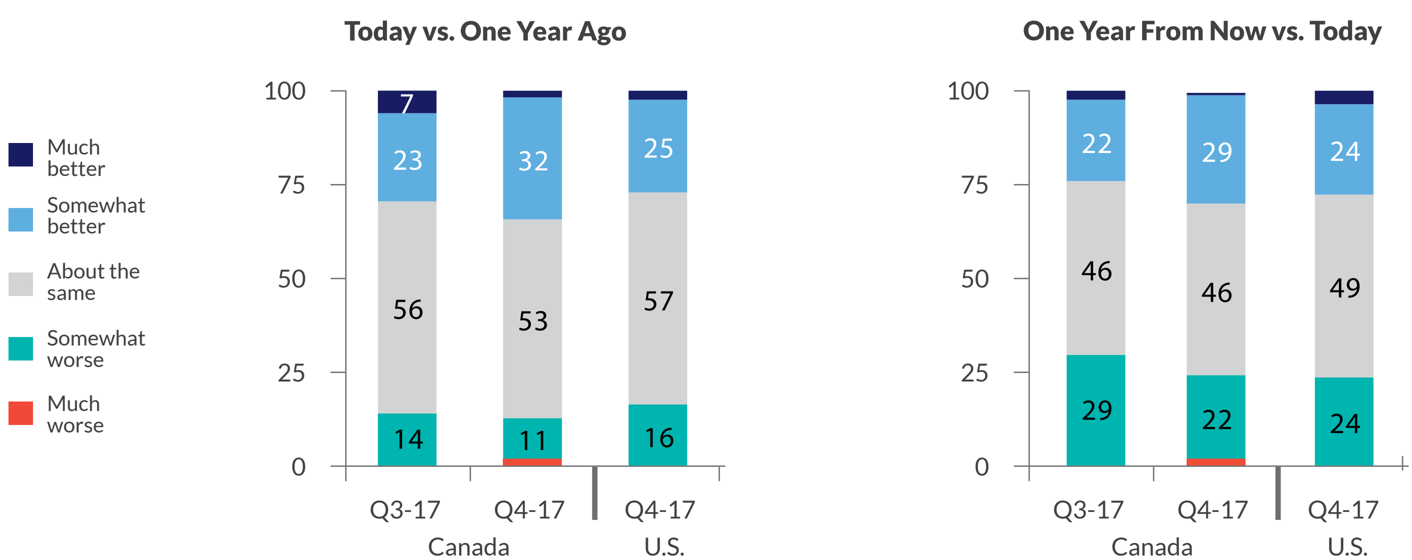
"The domestic market is the same as last quarter. The deals that I have seen are well-priced and you still have to sharpen your pencil to buy stuff so that is why a lot of people are preferring to develop it."

"The Amazon effect has pushed people to the top 5-6 urban markets in Canada. That bifurcation is too far at this point. Toronto and Vancouver have too much demand so some other markets that have solid underpinnings are not getting much attention. The pension funds, the REIT sector, and the non-private buyers are avoiding those markets so I am seeing a huge gap between the primary and secondary markets. That gap will increase over the next 6-9 months as the recent sale process announcements work through the system and come out for pricing."

"Liquidity is strong, but I also believe that we are late in the cycle. Outside of Calgary conditions are exceptionally healthy, but there are lots of headwinds in the economy generally so how that plays out remains to be seen."

"We have had a trend back downtown, which has been happening for 20-30 years, along with consolidation of the largest capital players in the major cities. But there is still plenty of liquidity in the suburbs and secondary cities."

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



Asset Values

With cap rates in Toronto and Vancouver hitting record lows, the pricing of development lands in these markets has skyrocketed while asset values in other major markets are stable despite increasing interest rates.

"Pricing remains high and perhaps surprisingly high given the change in Canada 10-year bond rates, which are up significantly but have yet to affect pricing of A grade assets. We are seeing a differentiation between A and B assets."

"The class A assets are trading at ridiculously low cap rates and other stuff that gets forced to move is at much wider cap rates so the polarized market is still in place."

"It's fully priced this quarter; it was fully priced last quarter; it has been fully priced for some time."

"Toronto and Vancouver are the headline story, and cap rate compression in all the other major Canadian markets are the secondary stories. Montreal is the next Canadian growth story; it is going to return to being a world class city."

"Land prices have increased significantly in the GTA but I am not sure that the market has priced in these accelerated land prices yet. Plus construction costs are also very lofty. How those metrics play out is a question that is still to be addressed."

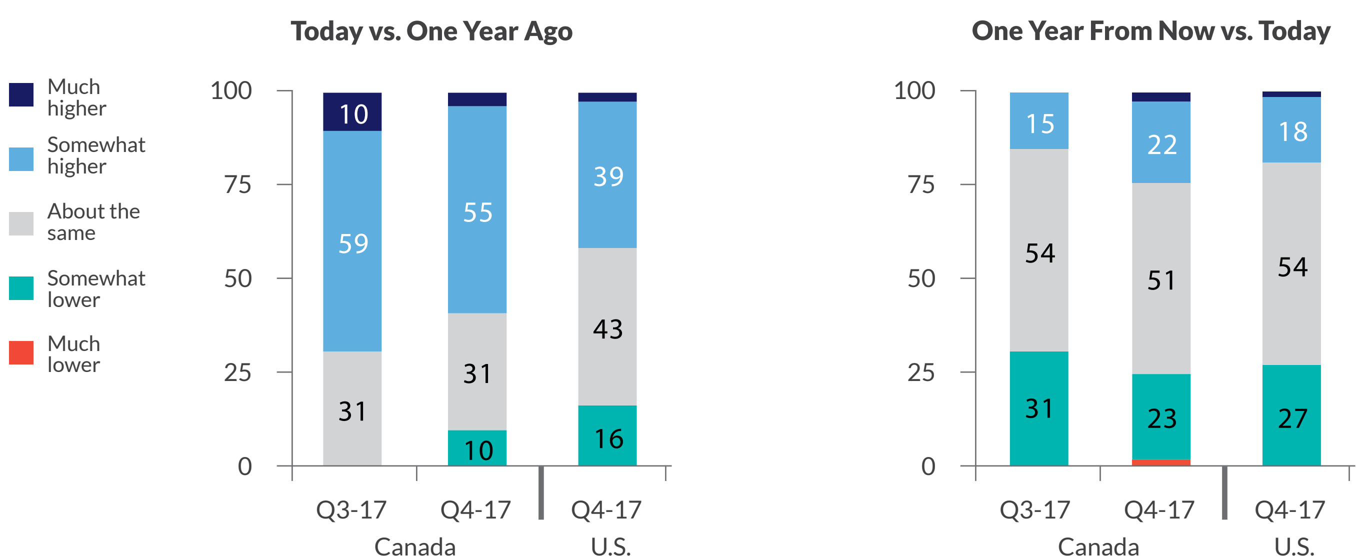
"Asset values are even more aggressive as A grade real estate continues to attract tons of capital and continues to compress cap rates for the better quality assets."

"There continues to be pressure with cap rates coming down and asset values going up pretty much across the board on all asset classes."

"There is a supply and demand bid ask gap in Calgary, and the rest of the markets are still continuing to set records. I don't think it is dramatically different from this time last year or even the year before as there is still a lot of capital chasing properties."

"Prices for high rise residential density in Toronto has skyrocketed in the last 3 years; it has easily doubled."

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



Debt Capital

The debt markets remain wide open for business but caution is seeping into the enthusiasm, particularly around more speculative plays.

"There are a lot of new lenders out there and the traditional players are being more careful."

"The traditional lenders are being more cautious on their underwriting. There is high availability of capital, but caution with anything that is speculative. We are seeing that in their loan-to-value ratios. Although spreads are still competitive."

"The banks and life companies are still looking to lend. The unsecured bond market is still active, but spreads for BBB, low rated issuers are much more expensive than in the past."

"We have a large mortgage book and our guys have to really work hard to get it out there."

"There is an abundance of debt from both traditional and secondary sources. Although mezzanine and project money is expensive, companies are still borrowing and using it."

"Debt markets are still strong. As long as you have reasonable underlying security, you have good availability and spreads."

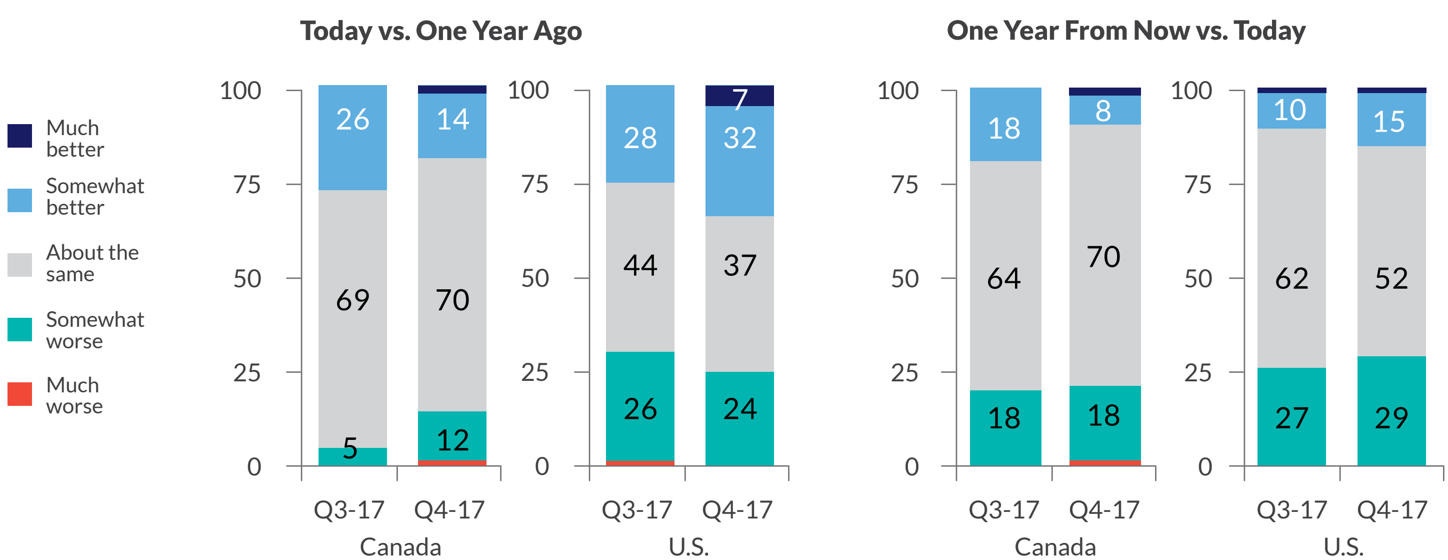
"There is no restriction in the Canadian market and, in the U.S., there's a ton of debt for A grade assets but if you don't tick off all 10 boxes there's no debt."

"What is building in the U.S. and U.K. are debt funds that are filling the slack of where the institutions stop. There is a fair bit of it, but it is more expensive. So debt availability is good but coming from alternative sources such as private equity funds."

"There is ample debt at very attractive rates and accretive financing is the key."

"For the right product the lenders are aggressive. We do both unsecured and secured and in both cases there is a lot of demand."

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



Equity Capital

There is no shortage of equity available in the public and private markets as domestic and international investors continue to seek Canadian real estate assets.

"The big pension funds still have lots of capital. Yes, they are using a lot of it to go abroad, but there is still a lot of pension fund money that wants hard assets, and they want to meet their allocation targets of 10-15%."

"As an asset class, we are in a very good spot. It still behaves well and people still want it. Keep it coming."

"Equity is available and the capital markets are open. There is strong investor confidence."

"There is lots of equity around and lots of people interested in investing. Domestic capital is plentiful, particularly from the fund and pension fund side. There is a shift in foreign capital as I am not seeing the Chinese as much but the Germans are back."

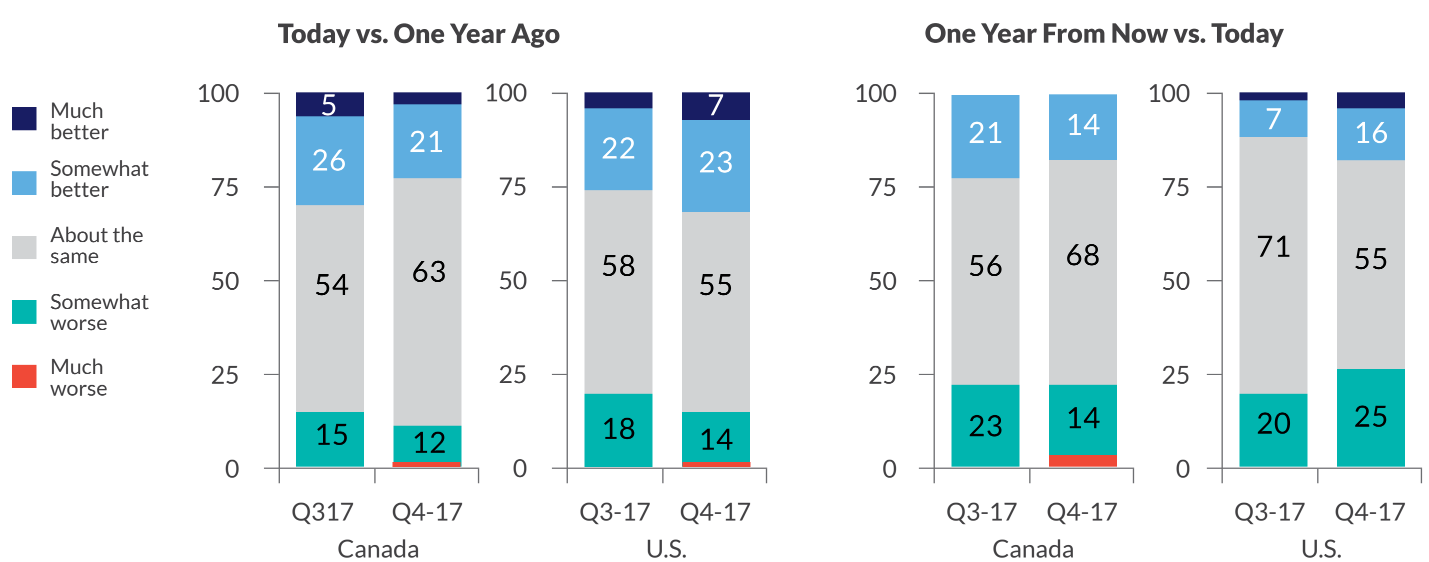
"Abundant. As much as Canadian investors look outside Canada, there is no shortage of foreign capital looking to come here. They love Canada's stability even if there is no massive growth. They also look at currency and they see a cheap dollar in relative terms so it is as much a currency play as anything else."

"If you are significantly exposed to the major markets and you are not facing significant CAPX, there is good equity out there, very good equity. On the public side the REIT story is the haves and have nots. There are groups trading at or near NAV with good access to capital, and others that are trading below that don't have access. There is not a lot in the middle."

"It has been relatively easy to tap the equity markets when you look at it relative to other years. We have moved past the peak activity years in the markets but we are seeing some big ticket deals get done, which is a sign of continuing demand."

"There is plenty of equity, everyone has capital. There have been a couple of new issues recently that were over-subscribed. On the private side there is just so much money in the system, just a lot of money."

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



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