Real property. Real leadership.

REALPAC

FPL Associates
Ferguson Partners

REALPAC / FPL Canadian Real Estate Sentiment Survey

Q1
2018

Table of Contents

Exhibits

REALPAC

FPL Associates Ferguson Partners

REALPAC (Real Property Association of Canada) and FPL Advisory Group are pleased to announce the results from the first quarter 2018 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 hit 55 from 54 in Q4 and 51 in Q3 2017, demonstrating continued investor confidence in real estate despite increasing interest rates and looming economic and geopolitical threats.
- Measured interest rate increases have had little impact as real estate fundamentals continue to be either strong or improving across markets and sectors, while retail investors stress that the bad news is overblown.
- Despite real concerns about peak asset values, investors continue to be surprised by higher pricing and cap rate compression, citing availability of capital, lack of quality supply, and ever-increasing interest in real estate as major drivers.
- Debt continues to be widely available in a highly competitive lending sector that includes the arrival of several new debt players in the market.
- Equity capital is coming from all directions, whether it be foreign investors, private equity, large institutions, or smaller institutions with increasing allocations to real estate.

Data Collection

Data was collected during January 2018. 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:

Gemma Burgess
Managing Director

Ferguson Partners
122 East 42nd Street
Suite 4100
New York, 10168
USA

t +1-646-779-6001
e gburgess@fergusonpartners.com
w fpl-global.com

Michelle Rutledge
Director

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

t 416.865.3385
e mross@fergusonpartners.com
w fpl-global.com

Kris Kolenc
Coordinator, Research & Sustainability

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

t 416.642.2700 x238
tf 1.855.REALPAC (732.5722)
e kkolenc@realpac.ca
w realpac.ca

General Market Conditions

The Q1 Index hit 55 from 54 in Q4 and 51 in Q3 2017, demonstrating continued investor confidence in real estate despite increasing interest rates, and looming economic and geopolitical threats.

"The market remains very strong. From a macro standpoint, there are a lot of green lights – strong GDP growth, high consumer confidence, low unemployment, narrowing debt spreads, strong capital flows to direct properties – all pointing to a solid real estate market. So where are we in the cycle?"

"NAFTA could have a meaningful impact on people's attitudes to investing in Canada."

"There's just too much capital in the market. Our investors' desire for real estate is a problem that we need to manage carefully."

"With prices so crazy high in the public markets, you are going to see even more money flowing into the real estate sector. Generally interest rates only rise when the economy is doing well, so offsetting that are better fundamentals with rent and occupancy growth."

"We're in a good market generally as most places have good supply and demand balance in office, industrial, multi-family, and retail. The economy is by and large strong. Alberta is on the mend. British Columbia and Ontario are strong."

"Fundamentals are as good as we have likely ever seen them. The discomfort around real estate decisions has never been greater given pricing. While capital is deep and fundamentals are great, investment committees are agonizing over every real estate deal."

"Real estate is still a very desirable asset class. More quality assets are coming to market as seen in recent announcements from RioCan, Cominar, and Ivanhoe Cambridge. Look at the PIRET/ Blackstone deal. Demand remains very high from the buy side so it seems to be in balance. While the general theme is that urban real estate assets are more highly valued than those in secondary or tertiary markets, our experience is that many of our assets in these other markets are performing the best in our portfolio."

"With the Dow over 26,000; infrastructure crazy high; bonds still pay nothing; by default real estate just looks great."

"The dangers of the housing market, major amendments to NAFTA, and consumer debt could each, on their own, have a material impact on the Canadian economy in 2018. It's not if, but when."

"If the pace of growth in the general economy keeps meeting or exceeding expectations, I predict that the Bank of Canada will accelerate its monetary tightening. Depending on how banks react to this tightening, such as reducing lending activity, this could lead to a slowdown in early 2019."

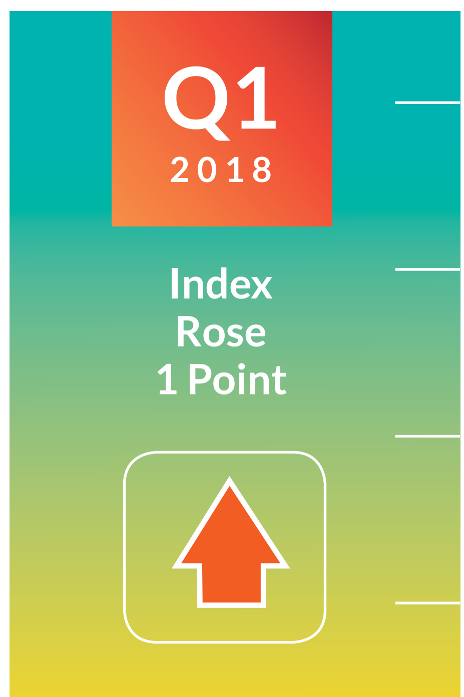
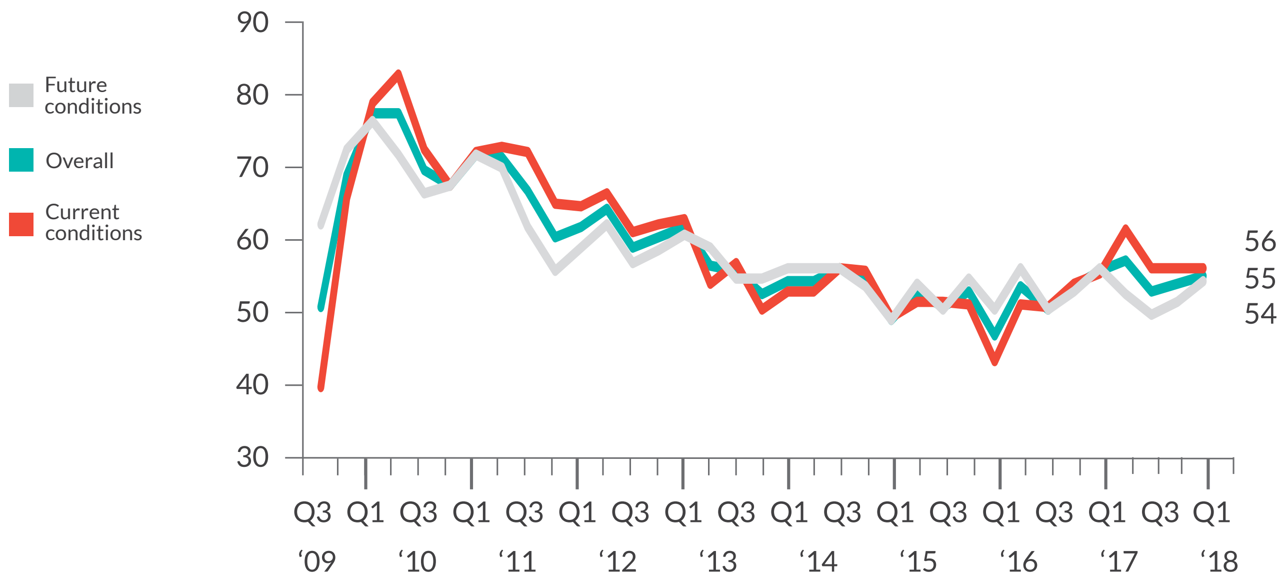
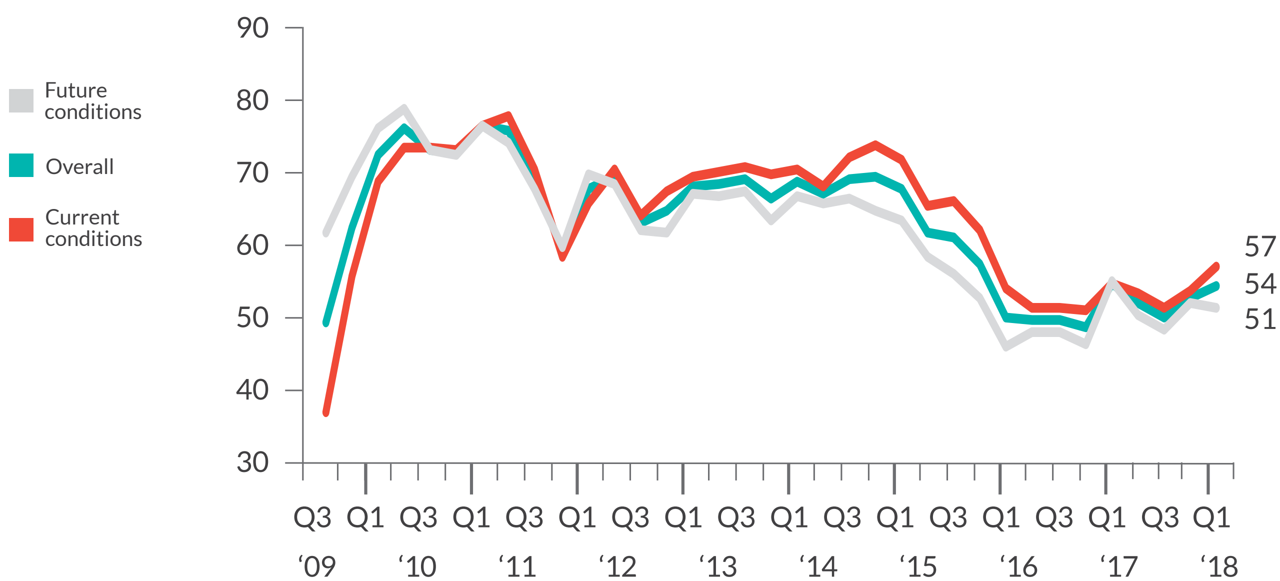


Exhibit 1:

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

Measured interest rate increases have had little impact as real estate fundamentals continue to be either strong or improving across markets and sectors, while retail investors stress that the bad news is overblown.

"Interest rates have nowhere to go but up, but we strongly believe that it will continue to be measured. Credit is available and interest rates will go up, but in a very moderated way."

"Office is very, very strong in central business districts in Toronto and Vancouver; they are a landlord's market. Vacancies in Toronto are at multi-generational lows. With strong job generation, these are happy, happy places. We are still waiting on good news in the office market in Montreal. Calgary has some signs of stabilizing, but it is way oversupplied in office product. We are hoping that, with the price of oil and the resurging Alberta economy, Calgary office will come back sooner than we thought."

"Toronto and Vancouver skew the market. There are products, investors, and capital available. What is unclear are the secondary markets like Ottawa and Halifax."

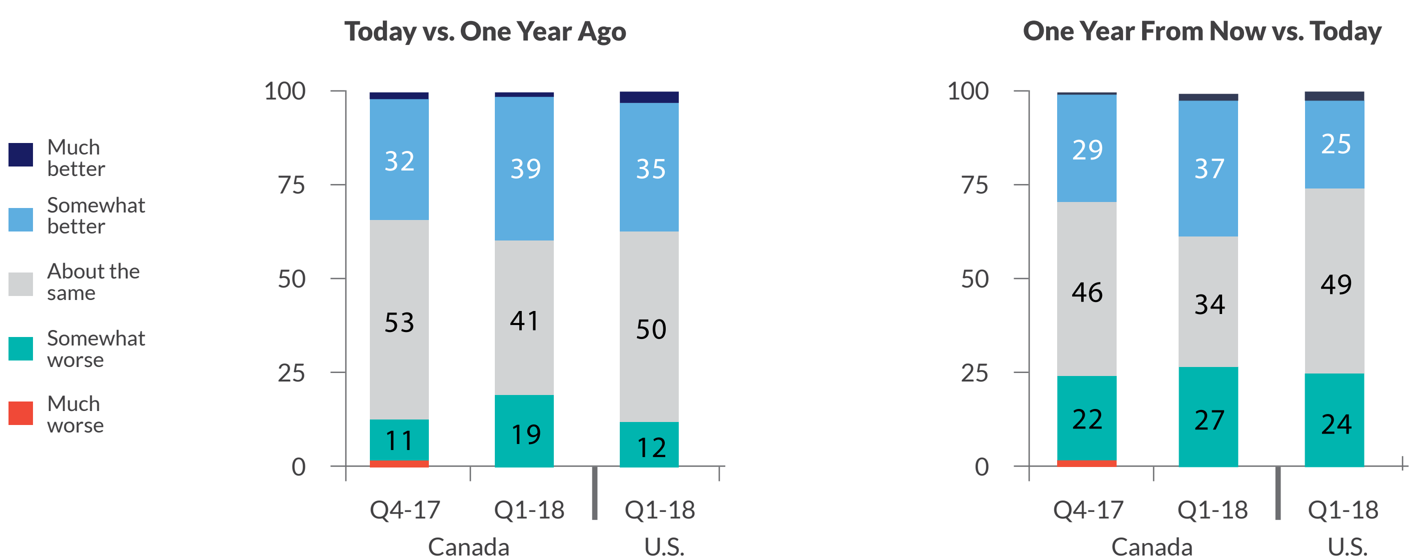
"The regional mall business has been surprisingly resilient. Despite what you read, we have had a decent year. Indicators for future performance say it's better than the headlines indicate. We will have real growth in rents and occupancy. The demise of Sears will be a multi-year conversion, just like Target. But the overall health of retailers generally seems to be good. 'A' malls are holding up nicely."

"In the 905 areas, the sticker shock of buying single family has resulted in much more townhouse, stacked home, and high-rise developments."

"In Calgary, oil prices have had a huge impact on office vacancies rates, which has spill on effects on the local housing market, retail, etc. Montreal looks like a value play in comparison to Vancouver and Toronto, but doesn't have the fundamentals of those two cities."

"There is incredible demand and increasing prices for development land in the Toronto and Vancouver cores; it's a frenzy in these markets."

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



Asset Values

Despite real concerns about peak asset values, investors continue to be surprised by higher pricing and cap rate compression, citing availability of capital, lack of quality supply, and ever-increasing interest in real estate as major drivers.

"A couple of asset classes have seen big lifts in 2017 - industrial has had a very big lift, multi-family has seen a decent lift, retail was relatively flat with a modest lift, office had a reasonable lift. But nothing was as strong as industrial, which was crazy."

"There has been some push back on pricing and assets that have been taken off the market. So we're definitely near the peak."

"It is a hugely competitive market. We're at peak valuations and it's hard to find good properties. Everyone seems to be chasing real estate right now so pricing is very strong, and I haven't seen it move at all."

"The perception is that, when rates increase, there will be a sell-off, which may take the REITs out of the acquisitions market and create a more balanced investment climate going forward. The private guys don't give a damn; they just want the REITs out of the market. Asset values are strong and will remain strong. Until we see material rate increases, we will see no changes."

"Asset pricing remains strong and the availability of quality assets remains low. Pricing is apparently not softening. I've got to believe that we are peakish in terms of pricing, but I would've said that a while ago. It feels peakish, but look at the stock market and you'll say it can't go any higher but it does, so why would real estate be any different from other asset classes."

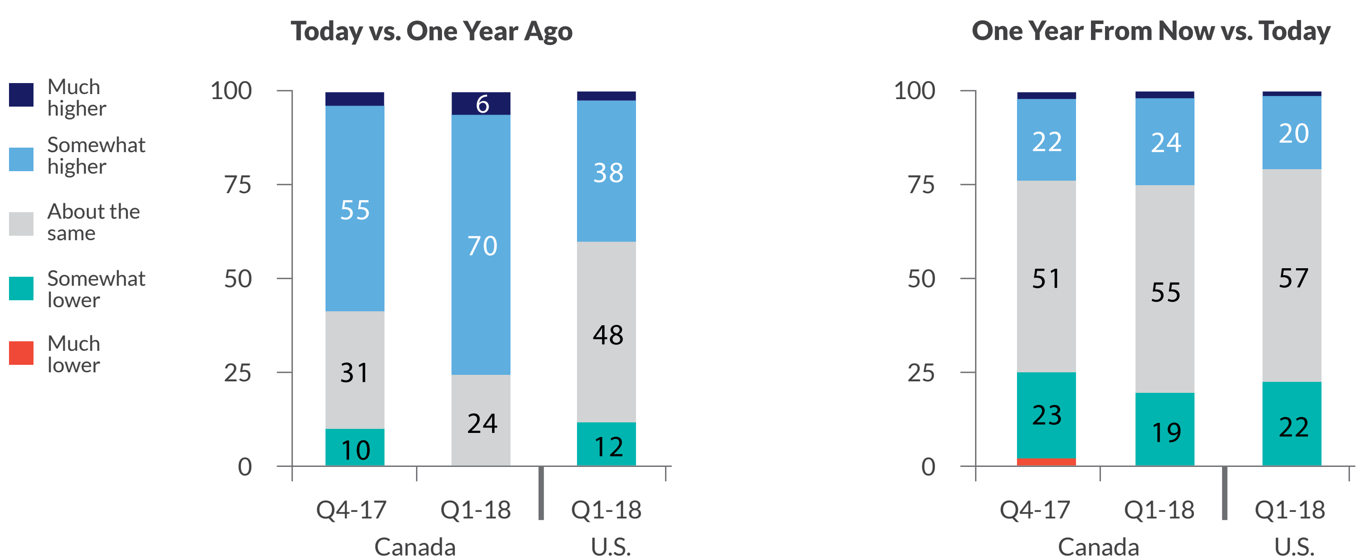
"We thought it was full priced two years ago and look where we are now."

"It is a different game now. What we all have to do is wrap our head around the fact that the old way of looking at real estate values doesn't work anymore; there is just too much money in the system to use the same old parameters and metrics to make decisions. If you need a long-term, stable cash flow to offset liabilities, real estate is looking as good as anything."

"The cap rate compression has got to be near the end now as we are seeing some of them come in at crazy low numbers."

"Every time I think we have hit peak, a new asset gets sold for a benchmark price."

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



Debt Capital

Debt continues to be widely available in a highly competitive lending sector that includes the arrival of several new debt players in the market.

"Conventional lender rates are creeping up, but there is no shortage of debt available."

"We are seeing so many debt funds being launched. A lot of pension funds are interested in debt funds and they are putting a lot of capital towards that."

"Debt is crazy available. There is definitely more debt available than equity, but both are accessible. H&R and Choice did gangbuster deals recently. And the mortgage guys are saying that there is more money than borrowers."

"Debt is strong and conviction is there. It does break down a little when you get to the much bigger deals. Everyone is saying: 'How many billion dollar deals do I want to take down?' We are having to club up some of the deals. Debt is coming from lifecos, banks, private equity, and some U.S. institutions."

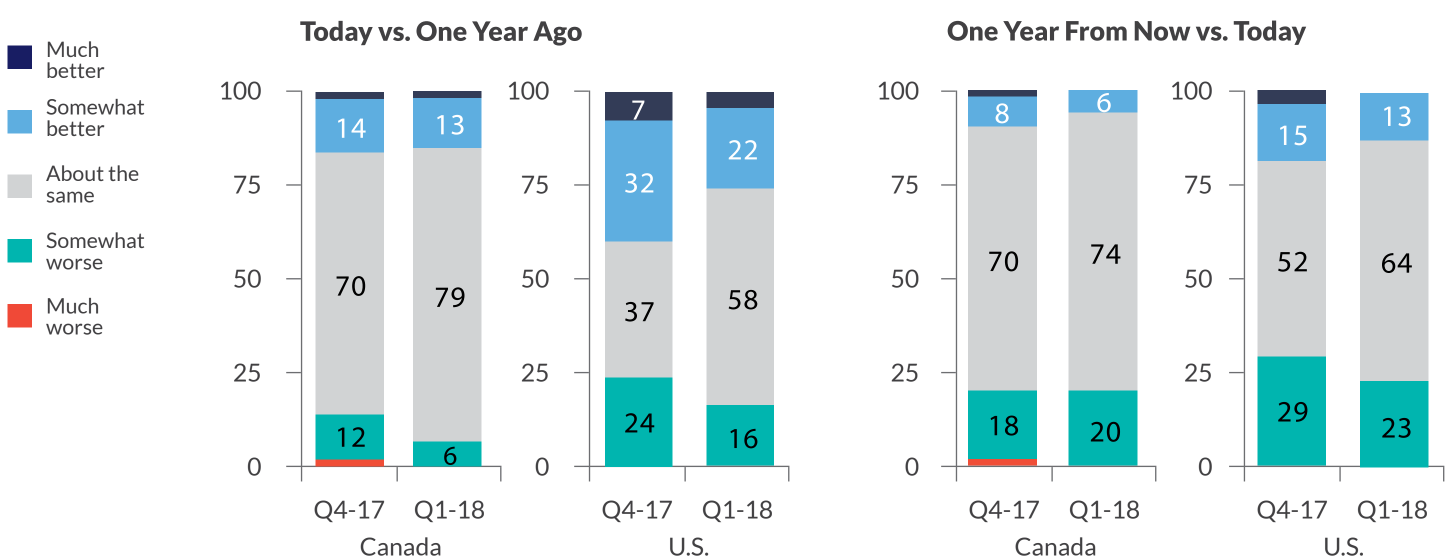
"We haven't seen any change from last quarter. There is lots of debt available from the traditional sources and they are aggressively chasing debt opportunities, which speaks to the continued health on the asset value side."

"The unsecured debenture market seems to be on fire. Offerings are completely oversubscribed. There are no new issue concessions."

"The mortgage market is reasonable. Our mortgage guys are seeing spreads a little tighter than they would like so it is strong. Our debentures issues have been oversubscribed in multiples."

"There is real appetite for debt with a strong demand in private lending, credit, and debt. The new regulations and challenges around reserves at the banks, both here and south of the border, are opening up niches in the stack that can be exploited by private equity."

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



Equity Capital

Equity capital is coming from all directions, whether it be foreign investors, private equity, large institutions, or smaller institutions with increasing allocations to real estate.

"Capital is as deep as ever. The Blackstone deal is a lightning rod, and will open the gates to more and different capital coming into Canada."

"It is a wall of private capital. There is so much dry powder on the sidelines. The smart money is being patient. But there is no shortage of capital in equity and debt."

"Equity for the public guys is definitely there, but it has to be well-priced."

"On a scale of 1 to 10, equity availably is at an 11. Foreign capital is still here, but the big Chinese institutions are neutral. What we are seeing is Korean and European capital, and now the biggest deal in Canadian history has just been instituted by U.S. capital."

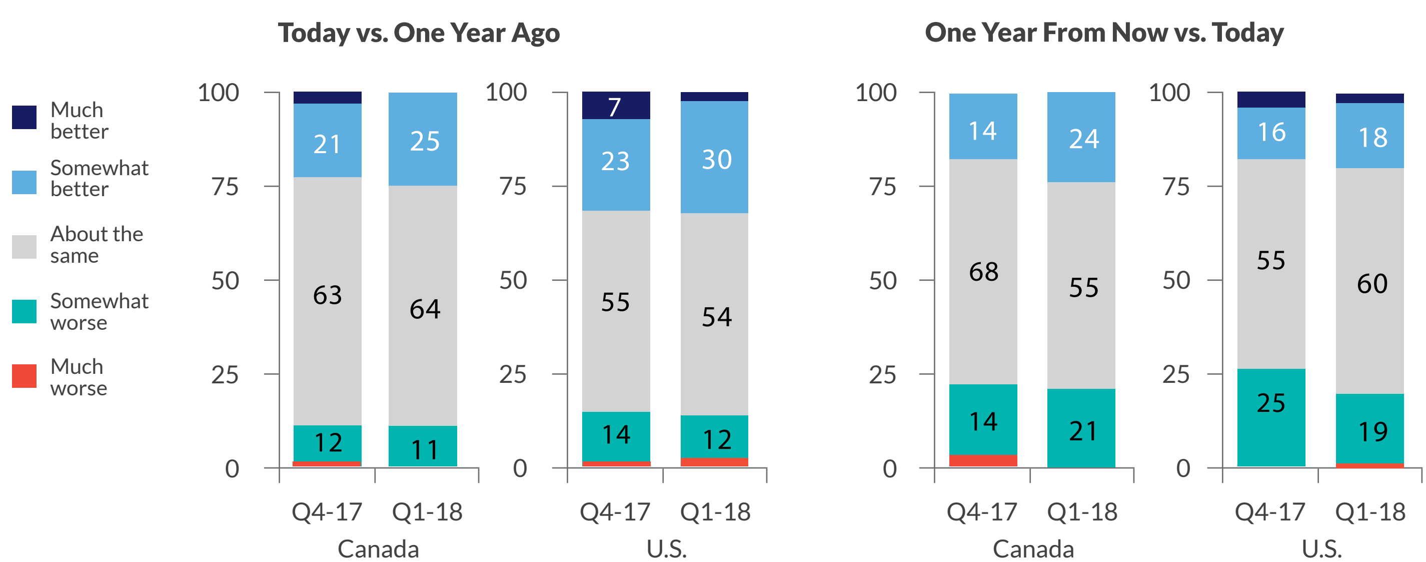
"Our problem is not raising equity, it is finding accretive acquisitions. The issue is not the availability of equity but the deployment."

"There are a ton of private guys out there willing to finance development deals."

"Despite the major pension funds reallocating more equity to international deals, there will still be no shortage of equity for deals in the Canadian market."

"There is plenty of equity available, but we are now seeing the institutional players increasingly focused on international markets because they can't achieve their yield targets here. So, while there is plenty of equity available in Canada, a lot of equity is flowing out of the country."

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.)

Alberta Investment Management Corp. (AIMCo)
Micheal Dal Bello

Aspen Properties
Scott Hutcheson

Avison Young
Mark Rose

Avison Young Investments
Amy Erixon

Bell Real Estate Services
Robert Struthers

Boardwalk REIT
Sam Kolias

Build Toronto Inc.
William "Bill" Bryck

Canadian Mortgage Capital Corp.
Robert Goodall

Canderel
Richard Diamond

CanFirst Capital Management
Allan Perez

CAPREIT
Mark Kenney

CBRE Limited
Peter Senst

Cogir
Mathieu Duguay

Concert Properties Ltd.
Andrew Tong

CT REIT
Louis Forbes

Dell Corp. Realty Ltd.
Michael Dell

Dorsay Development Corp.
Geoffrey Grayhurst

Fengate Real Asset Investments
John Bartkiw

Fiera Properties Ltd.
Peter Cuthbert

First Capital Realty Inc.
Kay Brekken

Forgestone Capital Management
Keith Jameson

Great-West Life
Jim Anderson

Grosvenor Americas Ltd.
Andrew Bibby

Grover, Elliott & Co. Ltd.
Larry Dybvig

HOOPP—Healthcare of Ontario Pension Plan
Stephen Taylor

Hopewell Residential Management LP
Paul Taylor

Integrated Asset Management
David Pappin

Investment Management Corp. of Ontario
Brian Whibbs

Ivanhoe Cambridge Inc.
Mario Morroni

KingSett Capital
Anna Kennedy

Kircher Research Associates Ltd.
Hermann Kircher

LaSalle Investment Management
Benjamin Abramov

Manitoba Civil Service
Ian Cameron

Miya Consulting Inc.
Kevin Miyauchi

Morguard REIT
George Schott

Nicola Crosby Real Estate Asset Management Ltd.
Paul Kevener

Northam Realty Advisors Ltd.
Peter Filardi & Patrick Handreke

Nova Scotia Pension Services Corporation
Chris Taylor

Partners REIT
Jane Domenico

PIRET
Kevan Gorrie & Teresa Neto

Realstar Group
Wayne Squibb

Realtech Capital Group Inc.
James McPherson

Revera Inc.
Gilbert Schiller

RioCan REIT
Edward Sonshine

Taurus Property Group
Bernie Bayer

The Cadillac Fairview Corporation Ltd.
Cathal O'Connor

The Minto Group
Michael Waters

Triovest Inc.
Prakash David

Vision Capital Corporation
Jeffrey Olin

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

FPL Associates
Ferguson Partners

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

t 416.865.3385
w fpl-global.com