

Deal Flow: Doing Business with a REIT in Today's Market

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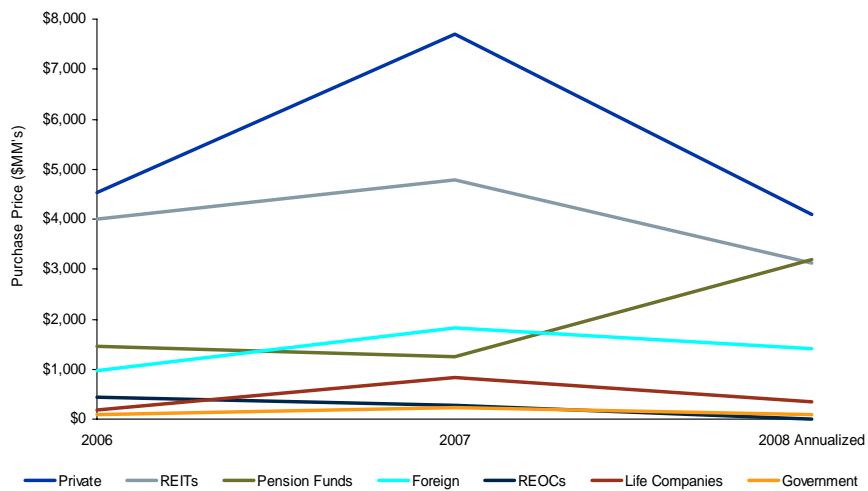
RealREIT
2008



Canadian Commercial Real Estate Transactions

Total Purchase Price for Transactions Greater Than \$10 million

Most purchaser types have shown a decrease from 2007 to 2008 (annualized basis) in total purchase price, except for Pension Funds, which have shown a significant increase of approximately \$1.9 billion over the period

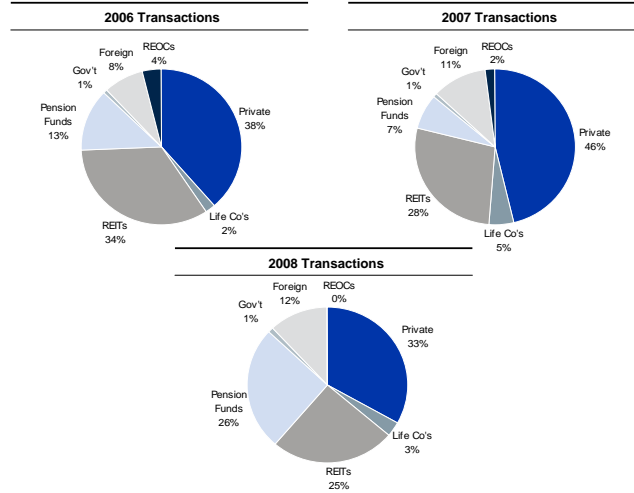


Source: RBC Capital Markets



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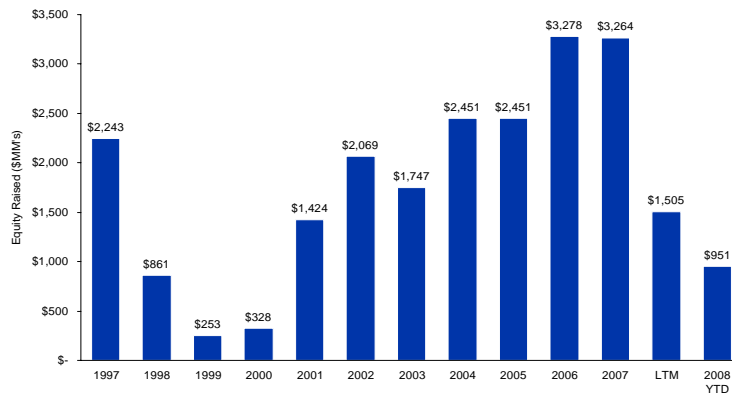


Source: RBC Capital Markets



Total Annual Equity Raised by Canadian REITs

Since 1997, TSX listed REITs have raised over \$22.8 billion of equity

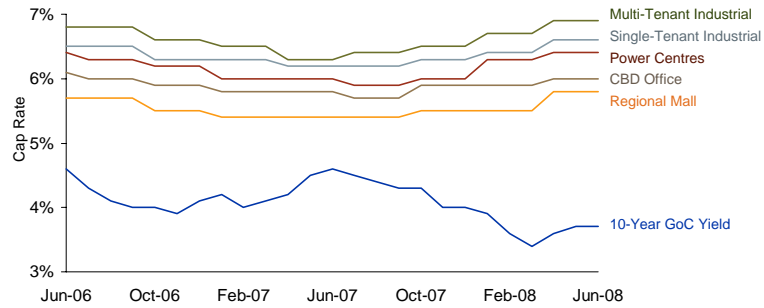


Source: RBC Capital Markets



Comparative Key Valuation Parameters

Class 'A' Cap Rate Trends Vs. 10-Year GoC Bond Yields



| June 30, 2006 | | June 30, 2007 | | June 30, 2008 | |
|---------------|------|---------------|------|---------------|------|
| GoC: | 4.6% | GoC: | 4.6% | GoC: | 3.7% |
| Power: | 6.4% | Power: | 6.0% | Power: | 6.4% |
| CBD: | 6.1% | CBD: | 5.8% | CBD: | 6.0% |
| Multi: | 6.8% | Multi: | 6.3% | Multi: | 6.9% |
| Single: | 6.5% | Single: | 6.2% | Single: | 6.6% |
| Reg: | 5.7% | Reg: | 5.4% | Reg: | 5.8% |

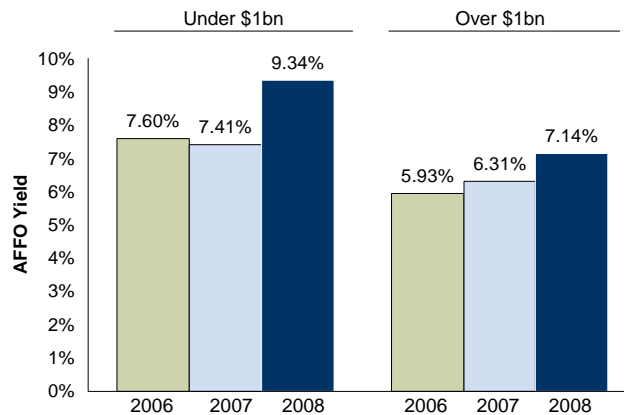


Source: Altus InSite Investment Trends Survey and RBC Capital Markets



Comparative AFFO Yields

Canadian REITs (by Market Cap)



Source: Thomson and RBC Capital Markets



Growth Through Acquisitions

Is it now harder for REITs to grow by making accretive acquisitions?

- Accretion is achieved by adding sufficient fully net income to overcome the cost of funding and operating the investment
- The purest measure of accretion is an increase in AFFO per unit after accounting for raising equity and debt at current prices
- Factors affecting accretion include:
 - Cap rate
 - Cost of debt
 - Cost of equity
 - Debt / Equity ratio
 - Transaction costs
 - Cap Ex
 - Incremental G&A



Growth Through Acquisitions

With many moving parts, it's not easy to determine whether accretive acquisitions are harder now versus peak in 2007

| | <u>HELPING</u> | <u>HURTING</u> |
|----------------------------|--|--|
| Cap Rates | <ul style="list-style-type: none"> ▪ Up +/- 25bp on Class A properties ▪ Up +/- 75-100bp on non-trophy properties | |
| Debt | <ul style="list-style-type: none"> ▪ GoC bond yields down <ul style="list-style-type: none"> ▸ 5 years – 140bp ▸ 10 years – 92bp | <ul style="list-style-type: none"> ▪ Spreads widened by 100+ bp ▪ LTV's down by +/- 10% ▪ Availability lower |
| Equity | | <ul style="list-style-type: none"> ▪ AFFO yields up <ul style="list-style-type: none"> ▸ Under \$1bn - +193bp ▸ Over \$1bn - +83bp |
| D/E Ratio | | <ul style="list-style-type: none"> ▪ Down +/- 5% for REITs |
| Transaction Cost | <ul style="list-style-type: none"> ▪ No Change | <ul style="list-style-type: none"> ▪ No Change |
| Cap Ex | <ul style="list-style-type: none"> ▪ No Change | <ul style="list-style-type: none"> ▪ No Change |
| Incremental G&A | <ul style="list-style-type: none"> ▪ No Change | <ul style="list-style-type: none"> ▪ No Change |



Accretion Example for a \$300 mm REIT

| | <u>2007</u> | <u>2008</u> |
|---|--------------------|--------------------|
| Cap Rate | 6.75% | 7.75% |
| Cost of Debt | 4.6% + 1.2% = 5.8% | 3.7% + 2.5% = 6.2% |
| Cost of Equity | 7.41% | 9.34% |
| Loan to Value | 65% | 55% |
| Accretion for a \$50 mm total acquisition cost | .18 ¢ / unit | -0.26 ¢ / unit |
| | OR | OR |
| <i>Assumptions:</i> | 0.25% | -0.36% |
| <ul style="list-style-type: none"> ▸ 4% of NOI in Cap Ex ▸ 30mm units outstanding ▸ No incremental G&A | | |



Accretion Example for a \$2B REIT

| | <u>2007</u> | <u>2008</u> |
|--|--------------------|--------------------|
| Cap Rate | 6.25% | 6.75% |
| Cost of Debt | 4.6% + 1.0% = 5.6% | 3.7% + 2.0% = 5.7% |
| Cost of Equity | 6.31% | 7.14% |
| Loan to Value | 65% | 55% |
| Accretion for a \$100 mm total acquisition cost | .07 ¢ / unit | .06 ¢ / unit |
| | OR | OR |
| <i>Assumptions:</i> | 0.12% | 0.10% |
| <ul style="list-style-type: none"> ▸ 4% of NOI in Cap Ex ▸ 200mm units outstanding ▸ No incremental G&A | | |



Results

- While it's now slightly harder for core REITs to make accretive acquisitions and harder for non-core REITs to make accretive acquisitions, the net changes are surprisingly small
 - The increase in cap rates has largely overcome the increase in equity costs
 - The increase in spreads has been mitigated by a drop in interest rates
- It is the change in sentiment that is affecting acquisitions
 - No longer a race to accumulate assets
 - No longer acceptable to make "flat" or dilutive acquisitions
 - Reluctant to buy in a falling market
 - Concerned about using up scarce liquidity unless acquisition is spectacular
 - Not sure if new debt or equity will be available
 - Want a war chest to take advantage of possibly more difficult markets