

Edmonton Real Estate Forum

Outlook for the Debt Markets for 2011 & 2012

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Interim Construction

	Pre-Crisis	Crisis Period	Current Day
Interest Rate	Prime +0.50% to Prime +1.50%	Prime +1.75% to Prime +2.50%	Prime +0.75% to Prime +1.50%
Loan to Cost	75% to 85%	65% to 75%	70% to 85%
Pre-Sales	75% of authorized loan	100% of authorized loan	75% to 100% of authorized loan
Covenant Support	30% to 50% of authorized loan	50% to 100% of authorized loan	50% to 100% of authorized loan

Pre-Crisis

- Interest Rate: Prime +0.50% to Prime +1.50%
- Loan to Cost: 75% to 85%
- Pre-sales: 75% of authorized loan was typical, often fully sold out
- Covenant Support: 30% to 50% of authorized loan, depending on borrower risk assessment

Special Conditions or Market Factors:

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1. Both development costs and revenue potential were escalating
 2. Developers reluctant to leave “money on the table” and wanted to minimize pre-sale requirements
 3. For residential sub-divisions, builders were committing to acquire lot inventory with focus on specific sectors of the city and specific lot sizes

Crisis Period

- Interest Rate: Prime +1.75% to Prime +2.50%
- Loan to Cost: 65% to 75%
- Pre-sales: 100% of authorized loan.
- Covenant Support: 50% to 100% of authorized loan, where borrower history and risk assessment included increased due diligence on verification of covenant strength

Special Conditions or Market Factors:

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1. Excessive inventories minimized the number of developers who were looking to proceed with new developments
 2. Costs for construction decreased, but builders were not eager to commit to new supply
 3. For residential sub-divisions, multi-family sites within subdivisions were difficult to market and to value on a per acre basis and developers looked to re-zone the density of multi-family sites to accommodate the duplex or town home market opportunities
 4. Larger facilities were more likely to be looked at under a syndication arrangement as hold limits decreased

Current Day

- Interest Rate: Prime +0.75% to Prime +1.50%
- Loan to Cost: 70% to 85%
- Pre-sales: 75% to 100% of authorized loan
- Covenant Support: 50% to 100% of authorized loan, depending on borrower risk assessment

Special Conditions or Market Factors:

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1. History and ability to complete construction, product type and strength of the borrower remains focus along with location of product and consideration of inventory levels
 2. Good opportunities seen in duplex and townhomes as a starter product, fewer opportunities seen in larger or higher end product
 3. For residential subdivisions, continuing market concerns for high density parcels within a subdivision as market absorption remains slow