

# **Edmonton Real Estate Forum**

## **Outlook for the Debt Markets for 2011 & 2012**

**Chris Fowler**

**Executive Vice President**


# Interim Construction

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