



# EDMONTON REAL ESTATE FORUM

Shaw Conference Centre • Thursday, May 12, 2016

## **A1: WHAT ARE THE SOURCES OF DEBT AND CAPITAL THINKING: THE OUTLOOK FOR AVAILABILITY, SPREADS, AND UNDERWRITING FOR THE EDMONTON MARKET**

### **Moderator:**

**Graham Garner**, CFO, Strategic Group

### **Panel:**

**Scott Coates**, Managing Director, KingSett Mortgage Corporation

**Chris Fowler**, CEO, Canadian Western Bank

**Alan Winer**, CEO & Co-Founder, The Harbour Group





**STRATEGIC**

May 2016 / GRAHAM GARNER

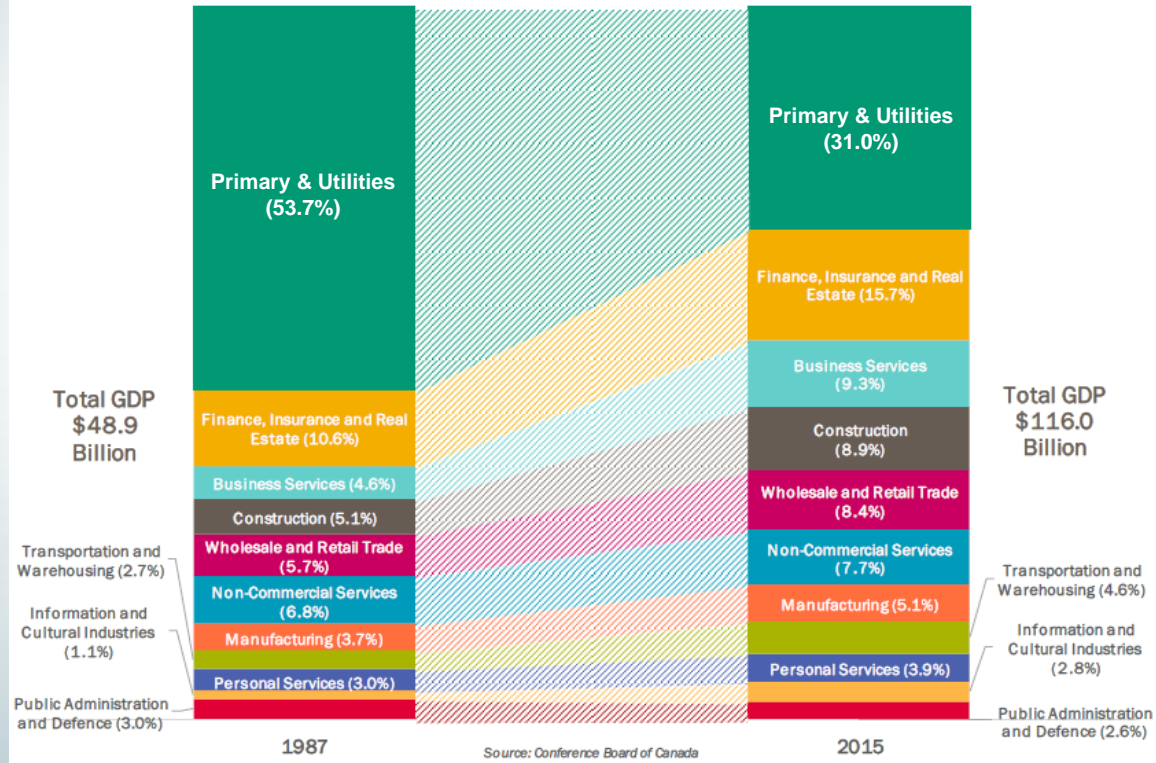
# Historic Office Vacancy



Downtown Calgary

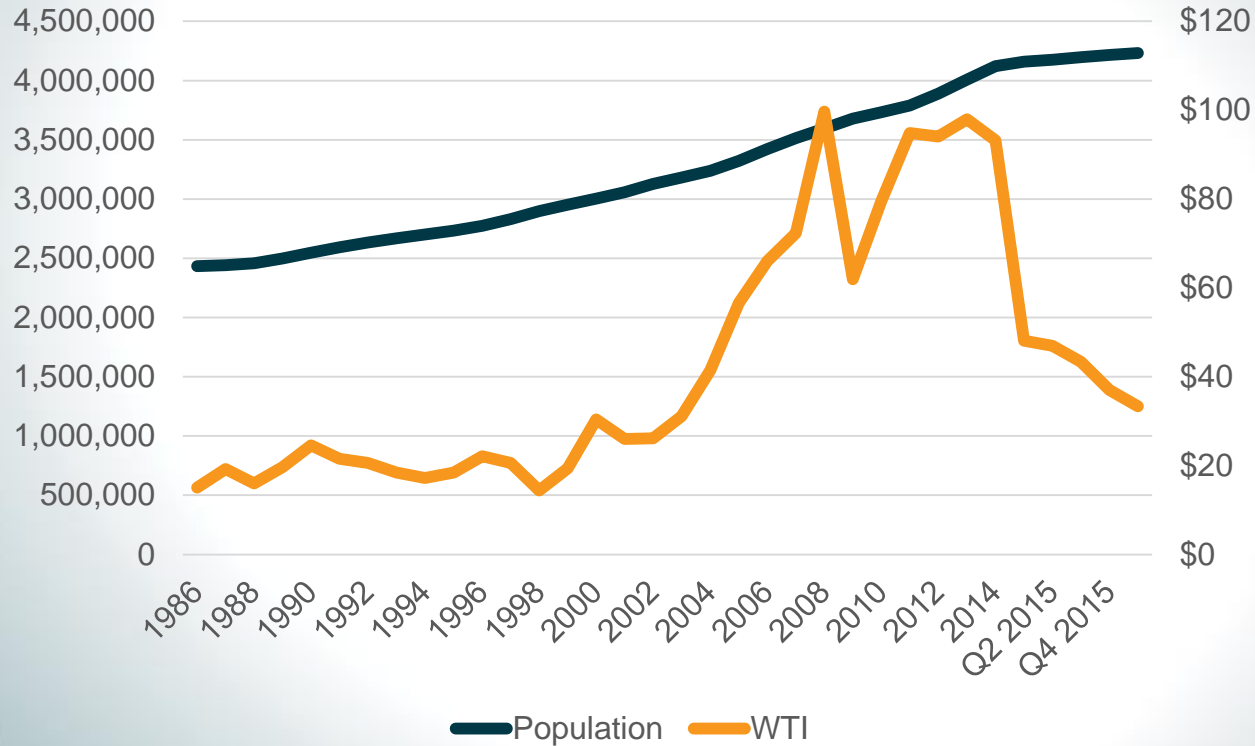


## Calgary GDP by Industry





# Alberta Population vs. WTI





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## Acquisition, Construction & Bridge

▪ <b>Location:</b>	Edmonton
▪ <b>Loan Type:</b>	First mortgage
▪ <b>Asset:</b>	Retail Complex
▪ <b>Purpose:</b>	Acquisition, Construction & Bridge
▪ <b>Total Loan Amount:</b>	\$13,050,000
▪ <b>LTV:</b>	72%
▪ <b>LTC:</b>	85%
▪ <b>Term:</b>	18 months
▪ <b>Rate:</b>	6.15% (interest only)
▪ <b>Funding:</b>	2 Tranches

A – Acquisition; B – Cost to Complete

- **Challenge 1:** Lease-up / Existing Tenant Risk
  - Solution 1: Well located asset with excellent frontage - would attract tenants; limited pre-leasing; LOI received from national tenants; existing rates below market
- **Challenge 2:** Construction Risk (tear down / re-build)
  - Solution 2: Tranche B funded on CTC; repeat Borrower with development experience
- **Challenge 3:** Loss of income during construction
  - Solution 3: IR was built into loan to cover debt service.



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## Acquisition of Multi-Family

- **Location:** Edmonton
- **Loan Type:** First mortgage
- **Purpose:** Acquisition
- **# of Units:** 11
- **Total Loan Amount:** \$1,090,000 (\$99,090/unit)
- **Purchase Price:** \$1,285,000 (\$116,818/unit)
- **LTP:** 85%
- **Term:** 12 months
- **Rate:** 4.85% (interest only)
- **Exit:** Conventional / CMHC refinancing

## Acquisition of Multi-Family

- **Location:** Camrose
- **Loan Type:** First mortgage
- **Purpose:** Acquisition
- **# of Units:** 96
- **Total Loan Amount:** \$8,500,000 (\$88,542/unit)
- **Purchase Price:** \$10,156,000 (\$105,792/unit)
- **LTP:** 84%
- **Term:** 18 months
- **Rate:** 6.10% (interest only)
- **Exit:** Conventional / CMHC refinancing





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Chris Fowler, President & CEO, Canadian Western Bank Group

- Multi Family Residential – phased townhomes
- \$11 million construction financing, including land
- Loan/Cost 76%; Loan/EMV 50%



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## Challenges:

- Marketing Risk
  - Staged development – advances limited until Borrower achieves pre-sales
  - Attractive entry level price point  $\leq$  \$325K/door
  - Very good location within developing YEG community - good access to amenities and transit
- Construction Risk
  - Proven and fully integrated developer/contractor with quality trades
  - Use of Quantity Surveyor to monitor advances
- Current Economic Risk
  - Borrower Group maintains a strong balance sheet and has managed through prior slowdowns
  - Access to capital evident – 24% upfront cash equity and 100% guarantee from Borrower Group
  - Works as a rental project, if required – interest coverage  $>$  1:1

<b>Location:</b>	<b>Edmonton</b>
<b>Property Type:</b>	<b>Purpose built 14-storey, 260-unit apartment building to be constructed</b>
<b>Loan Amount:</b>	<b>\$58,000,000 First Mortgage Construction Loan</b>
<b>Loan Exposure:</b>	<b>\$220,000 / door = \$375 pbsf</b>
<b>LTV Ratio:</b>	<b>80% (after lease-up)</b>
<b>DSC Ratio:</b>	<b>1.19x (after lease-up)</b>
<b>NOI / Debt:</b>	<b>6.4%</b>



## “ISSUES”

- Apartment construction is spec by nature ... no pre-leasing
- Needed to get comfortable with pro-forma apartment rents ... at high end of market
- Softening Alberta economy ... job losses and disposable income reduction
- Operating partner/sponsor contributed 2% cash equity to \$75 million budget
- Secured, subordinate debt (subordinate to KingSett investment) also to be part of capital stack
- A/B loan structure ... complicates realization process upon loan default

## SOLUTION / COMFORT

- KingSett provided \$15 million subordinate B-Note within first mortgage
- Notwithstanding top of market pro-forma rents in soft economy
- Recognized material land appraisal gain ... value created thru re-zoning
- Reputable third party contributed co-venture equity
- We like borrower, borrower’s partner, asset location and A-note lender

## EXIT

- Refinance upon stabilized leasing or sale of asset



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