LAND & DEVELOPMENT CONFERENCE

MAY 1, 2012
SESSION A3
CONSTRUCTION FINANCING FOR CONDOMINIUMS AND COMMERCIAL DEVELOPMENTS

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Panelists

Stelio Zupancich - Vice President, Real Estate, TD Commercial Banking

David Daum - Senior Vice President, Scotiabank

Scott Cameron - President, Cameron Stephens Mortgage Capital Ltd.

Robert Goodall - President, Canadian Mortgage Capital Corporation

Moderator

Daniel Marinovic – Vice President of Finance, First Gulf Corporation

2011 New Condominium Stats

- Q4 2011 the highest quarter on record (7,226 units sold)
- 28,190 units sold for the year – beating previous high in 2007 by 5,336 units or 24%. A 64% increase over 10 year average of 17,138 sales
- 28,447 new units brought to market in 128 projects – 42% increase over 2010
- 24,353 construction starts in 96 projects – 190% greater than 2009
- 2012 forecast – minimum 20,000 units

Commercial Market Trends

- Commercial market staying strong
- Office market:
  - National vacancy rate mid-7%
  - Downtown Toronto vacancy 5.3%
  - GTA : 18 office developments underway (3.0MM+ SF)
- Industrial market:
  - National vacancy rate under 5%
  - Tenant demand for larger DCs (Target / Home Depot)
- Investment market:
  - Robust
  - A lot of capital chasing very few deals

What to believe?

- “Strong fundamentals” versus “market bubble”?
- How do these trends translate into the market for condominium and commercial financing?

Capital Allocation Considerations

Opportunity

- Large pipeline
- Fewer participants

Risk

- Strong developers
- Good project structures
- Good credit structures

Macro

- Perception of overbuilding
- Perception that market is overpriced
- Executive concern
- Regulatory interest

Our Portfolio

- Existing relations → strong pipeline
- Project and single name limits → levels unchanged
- Credit structures → Have not changed parameters but have more leverage in negotiations
- Pricing → Spreads are widening → 25 to 50 bps in the last 3 months

Land Development Conference
May 1st 2012

Session A3 – Construction Financing for Condo and Commercial Development

- Cameron Stephens – a non bank lender.
- $400mm portfolio – all in Greater GTA
- Our business is 75% residential development and 25% commercial development, with an emphasis in suburban development as opposed to downtown development.
- Our pricing is from Prime + 1.5% to 15%, but we do the bulk of our deals between 6% and 8%, with a mix of institutional funds and private funds in each deal. Loan sizes range from $1mm to $40mm, with our typical deal at $10mm to $15mm.

- Banks continue to lend to their good customers, but new entrants into the business, even if well capitalized, have a harder time getting bank financing.
- Banks are slowly making loan conditions more conservative. This has been a gradual trend since 2009.

- The private lending world has benefited from the bank position. Private lenders as a group have grown in size and new entrants appear all the time.
- Some private lenders are more knowledgeable than others as it relates to risk/return.
- Also tremendous pressure to invest the cash. Therefore pricing does not always reflect proper risk/return.
- If the market backs up – private lenders will face redemption issues.

- High density condo sites are numerous, but rezoning takes time. While condo land has been pushed up in value, it could reverse quickly. 2009 could repeat itself, even for a short period of time and some deals would get hurt.
- Huge shortage of low rise land due to the greenbelt. Therefore low rise prices continue to increase. There are concerns about affordability in the suburbs in low rise product. Townhouse lots in Markham for example are now $11,000 PFF, making 20 foot townhouse retail for over $450k.

- Transportation issues abound in the GTA, but it is going to get worse.
- While we all say that we are conservative – privates and institutional lenders, there has been lots of cash, that have pushed prices up as developers and builder, continue to bid up prices, with financing in hand.

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PRIVATE MORTGAGE MARKET

- Atrium structure - MIC
- Focus more on residential
- Limited commercial construction loan opportunities
- Mostly 1st mortgages - 8% to 12% interest rates
- Average loan to value of 60%
- Prefer 416 for liquidity reasons (GTA - centric)
- Private mortgage debt rise to prominence

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HIGH RISE CONDOMINIUM MARKET

- Atrium has been active in high - rise sector
  - (i) land loans
  - (ii) secondary financing at time of construction
- Banks are becoming more conservative - political and economic reasons
- Private lenders role to expand
- Reasons to be Cautious
- Reasons to be Optimistic

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