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**HEAR MORE ABOUT
THESE IMPORTANT
ISSUES ON THE
MAIN STAGE AND
IN CONCURRENT
SESSIONS AT THE
FORUM.**

CANADA'S BANK REGULATORS ARE MOVING QUICKLY TO IMPLEMENT PROPOSALS ESTABLISHED BY GLOBAL REGULATORS

- While we are all aware that the World Economic Forum has ranked Canada's banks as some of the safest in the world for the past 10 years. Canada's bank regulator said in early January 2018 that it will introduce new capital rules that will allow the banks to move with greater speed towards implementing proposals established by global regulators.
- Canada's biggest five banks -- Royal Bank of Canada, Toronto-Dominion Bank, Bank of Nova Scotia, Bank of Montreal and Canadian Imperial Bank of Commerce -- will be affected by the move.
- Global regulators agreed in December 2017 on a limit of how much banks could use their own models to calculate how much risk is on their books.
- The most impactful changes to global banking regulations are in capital and liquidity. The quality and quantity of capital has been increased, which in theory, should allow banks to help absorb losses. In tandem, new liquidity requirements have also been put in place to aid banks in meeting their financial obligations, especially in times of stress.
- In addition, the Capital Adequacy Requirements (CAR) Guideline demonstrate how Canadian regulators are phasing capital rules from the Basel III in Canada. Additional updates to CAR Guideline have also been made, and recently OSFI announced that they will hold a public consultation on the domestic implementation of the latest Basel III reforms during the spring of 2018.
- It seems that 2018 will hold several changes, the Basel Committee developed two minimum rules for liquidity -- the Liquidity Coverage Ratio (LCR) which offers a 30-day horizon, and the Net Stable Funding Ratio (NSFR) with a one year horizon. In January 2013 LCR requirements were confirmed and are being phased in between 2015 and 2019. In October 2014, NSFR requirements were issued and will be in force this year, 2018.

BLOCKCHAIN AND OTHER CRYPTO CURRENCIES -- FROM ABSTRACT CONVERSATIONS TO MARKET REALITIES

- The abstract conversation is an imaginary tale of how blockchain-based smart contracts could revolutionize commercial real estate. The reality of these conversations is that the world and technology are seeming to move at the speed of light and we should at least have crypto currencies on the radar. Blockchain is basically an online ledger that manages and records transactions. What makes it interesting is that the ledger is sent and accessible to anyone connected to the network.
- Blockchain technology can potentially transform any type of transaction with built in inefficiencies including core CRE operations such as property transactions, financing, leasing, and management transactions. Further, the technology of Blockchain can drive transparency and cost savings for owners and managers using traditional methods.

ARE HOUSING MARKETS AT THE TOP OF THE CYCLE IN TORONTO AND VANCOUVER?

- Questions are still circulating regarding the housing market in Toronto and Vancouver governmental regulations and banking changes have not seemed to slow the growth. That said, it is forecast that in 2018 more and more pressure will be focused on bringing these markets under control.
- As of January 1st 2018, the Office of the Superintendent of Financial Institutions has mandated that all homebuyers using traditional lenders to meet a "stress test" that can translate to hundreds of dollars per month on a typical mortgage and reducing the amount one can afford, unless they seek alternative lenders.

- Considering the above, we still need to be aware that Statistics Canada has recently reported that there will be some 2.5M people between the ages of 25 and 30 in 2018 ready and wanting to purchase a home, this number is way up from 150K, in the same age group, only 5 years ago. In addition, Canada has added somewhere between 200K -- 280K immigrants between 2004 and 2014 but with new liberal commitments that number increased to 296K in 2016 and was expected to finalize around 300K in 2017 with a target of 310K in 2018. Immigration will continue to push pricing up with increased demand, especially in large cities where new immigrants tend to settle.
- Understanding demand factors and supply issues, one must ask what measures will be taken to further cool these two key markets.

PENSION FUNDS ARE FORECAST TO KEEP INCREASING THEIR ALLOCATIONS AND ATTENTION TO THE REAL ESTATE SECTOR

- Historically low real interest rates, changing demographics, increased life expectancy and longer retirements combined with maturing plans are all encouraging pension funds to increase their risk profile and venture further into real estate and infrastructure assets. It has been suggested that in 2016, Canadian pension funds held \$188B of Real Estate assets up from \$32B in 2004. Some notable transactions include:
 - i. Ivanhoe Cambridge's sale of the Oakridge Centre shopping mall, Vancouver for C\$961M to QuadReal Property,
 - ii. Dream Office REIT's sale of a 50% interest in Scotia Plaza to AIMCo and KingSett Capital for \$750M,
 - iii. Cadillac Fairview's sale of a 50% non-managing interest in their Vancouver portfolio to the Ontario Pension Board and Workplace Safety and Insurance Board. This portfolio included Cadillac Fairview Pacific Centre and 12 Vancouver office properties.
- Increasingly, Canadian pension plans are also going aboard and adding non-domestic assets to their portfolios to diversify their exposure and chase yield. Examples of this include the joint venture transaction between Canada Pension Plan Investment Board, Singapore's GIC sovereign wealth fund and The Scion Group in an acquisition of a 24 assets student housing portfolio across the USA.
- In addition, smaller pension plans are making changes to consolidate to Alberta, British Columbia and Quebec already consolidate money management under individual provincial entities like the C\$95.7B Alberta Investment Management Corp., the C\$135.5B British Columbia Investment Management Corp., and Quebec's Caisse. In addition, there are independent plans that are joining up for example, the CAAT, a C\$9.4B Colleges of Applied Arts and Technology Pension Plan that merged with the C\$32M Youth Services Bureau of Ottawa Pension Plan January 4, 2018.
- Further adding fuel to the fire is the planned increase contribution to both the Canada Pension Plan and the C\$62.2B Quebec Pension Plan, Quebec City. Slated to start in, January 2019, employer and employee contributions to both plans will inch up by 1% each by 2025 to realize a combined 10.9% for the CPP and 11.9% for the QPP. Additionally, benefits will be one-third of pensionable earnings up from 25%.
- This increased pressure by pension funds and advisors to acquire assets will result in more creative purchases and partnerships in the market as a whole. As an example, the \$3.9B purchase of CREIT by Choice Properties REIT in 2018. As of February 15th 2018 the deal has now created the largest REIT in Canada with a diversified portfolio of 752 properties.
- Per Altus Group Limited \$15.6B of land and \$21.3B of improved property traded hands in the Canadian market in 2017 for a total of \$36.9B which was a new record significantly higher than previous years.

CERTIFICATION PROGRAMS AND DEBT UNDERWRITING

- When conversations turn to certification programs on individual assets, real estate lenders are not at the forefront of the topic. That said, over the past several years, it has slowly started to change. Sustainability programs, Wellness standards and Telecommunication infrastructures are deeply integrated into the value of properties in today's market.
- There has been research done by Gary Pivo and Xudong that examines commercial mortgage default risk and its relationship to sustainability features (including Energy Star and LEED). The research has a foundation of looking at some 22,000 loans from a CMBS pool and demonstrates that when keeping everything else consistent, commercial mortgage loans made on an asset with an Energy Star rating have an approximate 20% lower probability of defaulting. When isolating for only LEED the results are stronger with around a 30% lower rate of default. There is additional researching on pricing of debt, by Kok, Eichholtz, Holtermans and Yonder, for LEED assets and the initial findings show Energy Star and LEED rated commercial assets could realize more attractive pricing on mortgages with Energy Star having a decrease of some 30bp and LEED a decrease of some 50bp, respectively. In addition, their work also showed that REITs with a higher amount of green buildings could obtain lower bond spreads and higher credit ratings.
- An argument could be made for LEED factoring into underwriting, but what about Wellness, Telecommunication and more. As these certification programs keep coming up, how will the industry adopt and integrate them into their underwriting processes.

GROWTH OF INVESTMENT MANAGERS AS PENSION FUNDS LOOK FOR ALLOCATION AND FEET ON THE GROUND TO INVEST AND MANAGE THEIR CAPITAL

- Canadian pension plans are running into 2018 with the expectation that they will invest more into real estate and infrastructure, especially in Ontario where there has been some easing of funding rules that allow for more opportunity to take on risks.
- In 2017, the Ontario Legislature approved a new law that eliminated the requirement that defined benefit plans needed to base their funding criteria on the basis of solvency, or immediate termination basis, and going concern, or ongoing operations. Rather, pension plans that are more than 85% funded are now allowed to calculate annual funding on a going-concern basis. The Ontario Finance Ministry is looking to implement sometime in 2018. Ontario follows Quebec in this fashion following the 2016 change in which they dropped the solvency funding requirement for all Defined Benefit plans. Other Canadian provinces still maintain their dual funding requirements, although they are expected to follow Quebec and Ontario's lead over time.
- With a softening of the rules and a heightened need increase allocations, those plans without internal teams will continue to look at partners and managers to place their capital. Co-investing is also increasing, with the smaller and medium sized plans, as they become more open to risk profiles of different asset classes and more value add properties and projects.

CROWDFUNDING STILL ON THE RADAR AND GROWING

- Crowdfunding platforms in commercial and institutional real estate are still relatively new although some have been in the market for over 10 years. The impact of these platforms continues to lead and change expectations for individual investors across all income levels and the accessibility of larger deals. Some of the more notable platforms include:

- FUNDRISE – *Investor Type:* Accredited and non-accredited - *Minimum Investment:* \$500 *Date Formed and AUM:* Fundrise was founded in 2012 and has 18 assets worth \$1.4B. *Investment Type:* multifamily developments, office buildings, new construction homes, acquisition loans and construction loans
- REALTYMOGUL - *Investor Type:* Accredited and non-accredited - *Minimum Investment:* \$1,000 *Date Formed and AUM:* RealtyMogul was founded in 2012 and their portfolio is valued at over \$1B having financed over 350 properties. *Investment Type:* Real estate loans, shopping centres, self storage facilities and apartment buildings.
- PRODIGY NETWORK- *Investor Type:* Accredited - *Minimum Investment:* \$10,000 *Date Formed and AUM:* Prodigy Network was founded in 2003 and their portfolio is worth \$800M. *Investment Type:* multifamily, office, retail and hospitality projects.
- CROWDSTREET - *Investor Type:* Accredited *Minimum Investment:* \$10,000: *Date Formed and AUM:* CrowdStreet was founded in 2014 and has direct access to over \$5B in CRE property value having raised \$250m from some 35,000 investors. *Investment Type:*
- 1031 CROWDFUNDING - *Investor Type:* Accredited *Minimum Investment:* \$25,000: *Date Formed and AUM:* 1031 Crowdfunding was started in 2014 and have completed over \$2B in total real estate transactions. *Investment Type:* 1031 exchanges commercial real estate equity investments.

ARE INTEREST RATES GOING UP IN 2018?

- There have been expectations that with the growing economy there will be several interest rate rises in 2018. Equally with discussions about NAFTA some say rates should remain the same. Royal Bank economists say that they expect the Bank of Canada to increase the overnight rate by 1%-2% throughout the year. The impact of this increase will be felt across various asset classes and on the residential side disproportionately in Vancouver and Toronto where residential property owners have been stretching more to afford their homes.
- Bank of Canada Governor Stephen Poloz and his team on the Governing Council started 2018 by announcing that their benchmark lending rate will rise a quarter point to 1.25 percent following much speculation.
- As mentioned above although there are thoughts regarding the USA potentially pulling out of NAFTA, one of three scenarios will probably play out in 2018: two additional hikes; three hikes or finding the benchmark at 2 per cent by year-end.

ALTERNATIVE LENDERS ARE MAKING GAINS WITHIN THE CANADIAN MARKET DUE TO INCREASED REGULATION

- From the single family and condo market to commercial assets, as regulations tighten their requirements the door opens for alternative lenders to increase their market presence. Conversations are focused on the fact that new lending regulations for homebuyers, means that private lenders, mortgage investment corporations (MICs) and credit unions are seeing an uptick in activity that is expected to grow in 2018. These lenders are, for now, beyond the reach of the Office of the Superintendent of Financial Institutions' (OSFI) newly enacted tighter lending requirements. While some unregulated lenders are abiding by the new regulations many are not. Those that choose not to are anticipated to realize the benefit as borrowers are pushed to look at creative options regarding their debt structuring.

THE IDEAL CAPITAL STACK IN AN INVESTMENT IS IN DISCUSSION

- Before the savings-and-loan crisis of the 1980s real estate debt structuring was quite basic. A bank or insurance company would provide a balance sheet loan or an on the book loan for senior debt and the real estate sponsor would provide the remaining equity either from personal funds or syndicate via friends or partners. The rate of return was also relatively simple with only one amount that was achievable regardless of the risk of the deal. The equity side was limited to one large return everyone was aligned to achieve depending on if they were a GP or LP.
- In the current environment, real estate professionals speak in terms of the "capital stack." Drawing reference to the different layers of funds and the multiple strings attached with each level. Traditional stacks include, equity, mezzanine and senior debt. Different questions arise today regarding earned or not earned profit participation, what size that participation should be. Today that has changed, the debt component of the capital stack can be structured into different levels of risk as with the equity side.
- Minor changes to the structure of the deal can mean hundreds of thousands of dollars in profit or lost potential. That said with proper structuring everyone can come away with relative levels of satisfaction. By no means is it one size fits all and creative structuring continues to evolve as this complicated and intricate process is negotiated. Finally, when establishing joint venture partnerships, mezzanine or preferred equity structuring, provides those involved with a longer-term vision of deals that can be subject to buy-sell-hold conflicts during the term.
- Because of the important nature of the capital stack and the implications in total returns on the sponsors and partners involved, staying current and well versed in all the options available is paramount to realizing the maximum profits for each deal.

CANADIAN MULTI-RES TENANT RENTAL SURVEY

2018 Canadian Multi-Res Tenant Rental Survey

The 2018 Canadian Multi-Res Tenant Rental Survey will ask Canadian tenants to answer questions regarding preferences, lifestyle choices, operation issues, technology opportunities and satisfaction levels in their rental units.

A detailed Dashboard and Trend Report will be produced offering the market detailed and/or summary level information.

Interested in Purchasing

The Trend Report and Dashboard are tools that allows you and your team to conduct simple and complex analysis of the 2018 survey findings.

Simple Analysis

Filter by age, income, rental amount, number of dependents.

Complex Analysis

Filter by multiple demographic criteria in addition to any of the survey question responses. An example would be to filter by those that have dependents between the ages of 0-20 years old that pay over \$1,800 in rent, have pets and also ranked parking lots as essential would not rent without.

There are literally millions of combinations of questions that you can ask of the Dashboard, allowing you to define your ideal tenant and then see how they responded to a survey question.

For more information on purchasing the Trend Report, gaining access to the Dashboard or participating in the 2018 survey, please contact Sarah Segal, Director, Informa Canada at sarah.segal@informa.com

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