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REAL ESTATE FORUM

SPRING 2018 / ISSUE 77

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George Przybylowski
Vice President
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As Canada continues to deal with a late spring thaw, insiders are forecasting a growing season fuelled by well performing economies. That's music to the ears of the commercial real estate sectors in Montréal, Vancouver and Edmonton, and many are heaving a collective sigh of relief.

I can't think of a better way to get exceptional planting, fertilizing and nurturing advice than from a trio of forums designed to give real estate stakeholders a high-yield crop!

Each city's conference is designed to capitalize on this increasing optimism by providing intel on the best growth practices.

Unearthing opportunities in an uncertain marketplace is one of the reasons why the Canadian Real Estate Forums are so highly valued. They each deliver a fast-paced program examining key issues and challenges, and provide information on how these can be managed and overcome. Let's not forget the outstanding networking opportunities too!

The forums are geared to real estate investors, developers, asset managers, brokers and other professionals that are active in every facet of investment in real estate.

On March 28, the Montréal REF chaired by Yves-André Godon, Senior Vice President of the Montréal Region for Bentall Kennedy. Some 75 well respected speakers will discuss a myriad of topics including: how the city has become the top market for foreign investors; leasing, development and investment perspectives; the ongoing evolution of the office market; trends in the multi-residential market; and the ever growing industrial sector.

Amid rising housing prices, Montréal is forecasted to have a strong market due to it's growing economy (a projected at 1.9% in 2018) and the lowest unemployment rate the city has seen in decades. A PwC survey ranked the city as the No. 3 market to watch in Canada, after Vancouver and Toronto.

As the largest annual conference on real estate investment and management issues in the region, the 25th anniversary edition of the Vancouver Forum will be chaired by Jennifer Podmore Russell, Senior Vice President, Rennie Group on April 25. The program will examine the continued strength of this highly attractive city; how is it coping with its housing affordability Vancouver challenges; the record low vacancy rates amid high demand in the industrial and office markets; and the continued shortage of developable land.

Ending 2017 with a 3.9% hike in GDP, Edmonton is on track to have more modest economic gains this year, as oil prices remain below pre-recession levels and are expected to continue their gradual incline in the years ahead. The city's unemployment rate has dropped a little to 7.4% this year. The Edmonton Forum on May 10 will be chaired by Kevin McKee, CEO of Pangman Development Corp. The program will focus on how the city is recovering its previous vibrant growth and the significant revitalization of the downtown core.

Even with the oil challenges in Alberta, the province overtook B.C. for the top spot for leading growth in Canada in 2017, with an impressive 4.1% GDP rate. To what extent is Alberta's economy on the trend to resurgence?

Needless to say, the best growth strategy is a knowledge-based one, making this trifecta a necessity for any stakeholder in the real estate sector. We look forward to welcoming you at all three events! ■

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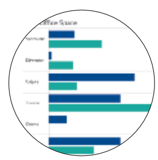

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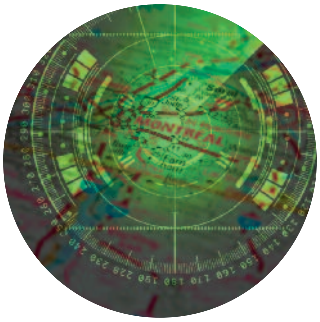

THE ALTUS REPORT
CONTINUED EVOLUTION OF THE INDUSTRIAL MARKET

By Raymond Wong
Vice President, Data Operations
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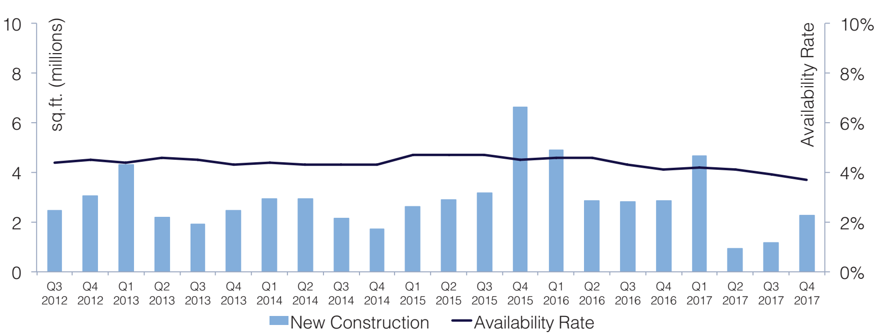
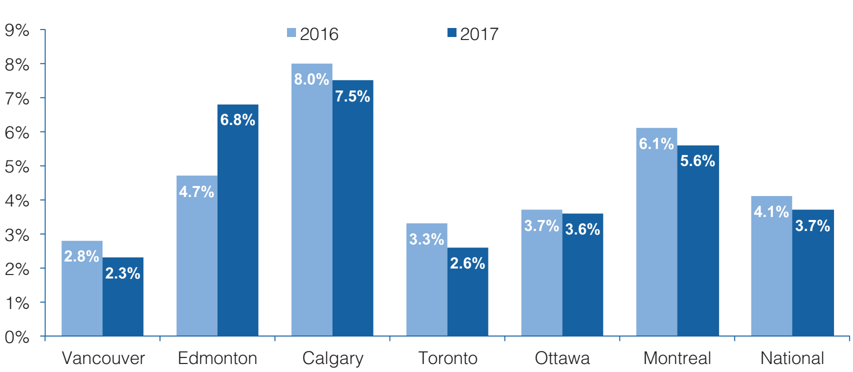
Altus Group

National Industrial Demand Driven by Growth in E-Commerce



Source: Altus Group

Industrial Availability Rates Remain Tight in Vancouver

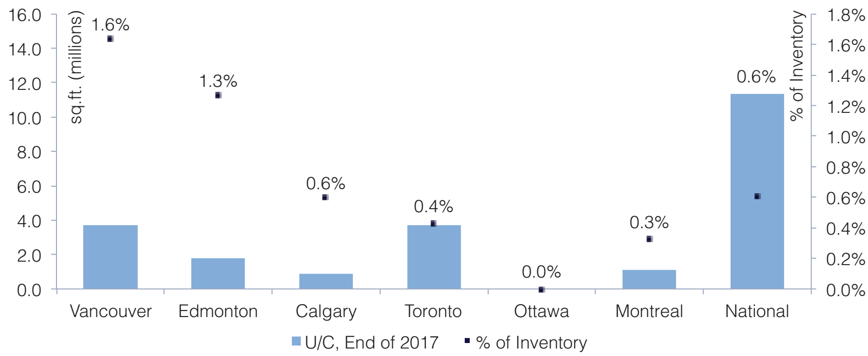


Source: Altus Group

E-Commerce Remains the Dominant Influencer

The industrial warehouse and distribution concept has not changed but the methods of moving and processing goods have. The sizes of industrial building have gotten larger and the clear heights are higher, but the biggest changes have occurred on the inside. E-commerce has necessitated the transformation of industrial building focusing on the need to optimize costs and to move product as quickly and efficiently as possible. Traditionally, warehouse distribution was focused on manual labour; the focus today is on automation - robotic pickers taking items to a central location for packaging. The increased use of data analytics, a predictive inventory system, prioritizes where items are stacked and located in the warehouse. For example, winter coats are moved from the back to the front of the racks in the fall and winter months, for easier and quicker movement of goods that are in high demand. The automated racking systems are constantly making self-adjustments to maximize efficiencies and to increase speed in moving product. Today the modern warehouse/distribution building consists of as many technical support and programmers as warehouse workers. Amazon's new 600,000 SF fulfillment centre in Balzac Alberta will service Western Canada and hire 750 full time workers to receive, unload, retrieve and pack items.

Industrial Under Construction, as % of Inventory, Remains Low



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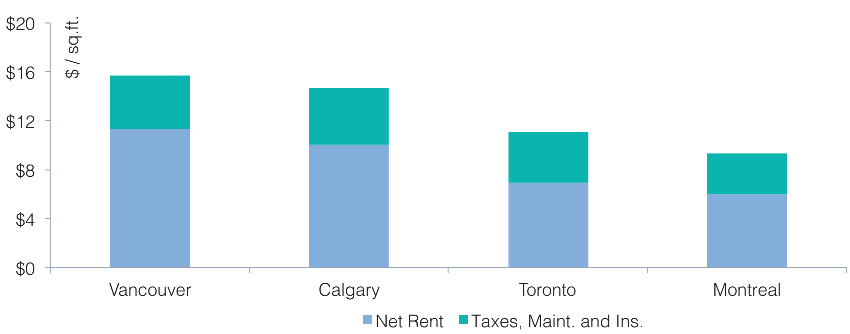
Industrial Rental Rates Continue to Creep Up



Source: Altus Group

The company will also hire support staff such as facility technicians and human resources. The same evolution is occurring in the manufacturing sector with increased dependence on automation creating more and higher paying employment compared to traditional warehouse/distribution buildings. Below is a list of trends that will continue to cause the industrial sector to evolve:

- Continued efficient racking and picking systems – especially with the advancement of artificial intelligence (AI).
- 3-D printing- reducing shipping costs and delivery on an as-needed basis.
- Delivery route planning – by monitoring driving patterns and times, drivers can adjust to the shortest and fastest routes for the delivery of goods.
- Driverless trucks - companies will be less restricted, trucks can be on the road longer, without the required rest and sleep time. Warehouses can be located further away from the urban market and still deliver within the given timeframe.

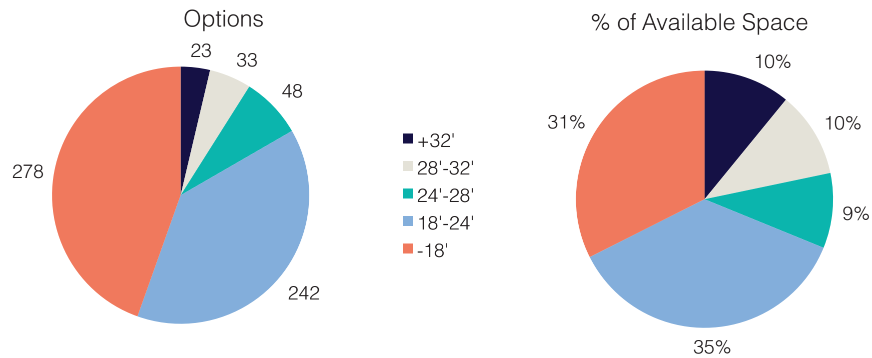
Strong Demand Limited Supply

The demand for fulfillment centres continues to drive the need for new and existing space. The distribution logistics sector continues to dominate demand for space, especially as the retailers such as Walmart and Loblaws continue to adjust their e-commerce strategy to compete amongst themselves and Amazon. As traditional retailers focus on e-commerce, online operatives focus on new brick and mortar locations to augment their omni channel strategies.

Total new industrial supply reached 9.1 million SF in 2017, but represents only 0.51% of the industrial inventory nationally. This was not enough to meet the growing demand for space and continued to push availability levels lower and rental rates higher. The tightness in availability rates is most evident in Vancouver and Toronto, pushing rental rates and land prices to record levels. The Canadian industrial market performed very well this year as the availability rate fell to a 9-year low of 3.7%. Toronto and Vancouver lead both Canada and the US with availability rates falling to historic lows of 2.3% and 2.6%, respectively. The issue in Vancouver is the limited industrial lands available to build; much of the vacant land is protected with an agricultural designation. Toronto is dealing with increasing land costs as industrial owners compete with residential and commercial developers for vacant sites. Montréal industrial demand continues to grow, especially with the new supply in the South Shore area - IKEA and Costco alone make up 1.5 million SF of new supply. Montréal's industrial availability rate is now under 6%, causing an interest in new modern speculative warehouse construction.

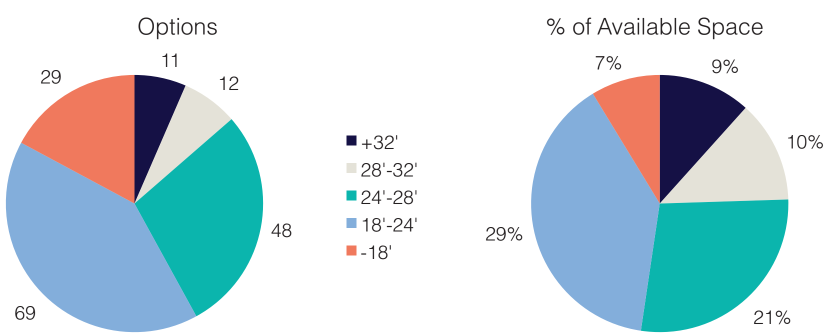
National annual absorption has reached a high of 17.1 million SF as demand continues to remain strong across a majority of Canadian markets, limited only by lack of available space. The manufacturing sector continues to be cautiously optimistic with the ongoing NAFTA discussions. Canada's success in this sector continues to be dependent on the growth in the US economy, but with the steady growth in the global markets, the manufacturing sector is expected to remain stable and will be further aided with the relatively low Canadian dollar.

Greater Toronto Area Options by Clear Height



Source: Altus Group

Greater Vancouver Market Area Options by Clear Height



Source: Altus Group

Average Rental Rates Continue to Increase

Average rental rates increased to almost $8.50 PSF in 2017 from about $8.00 PSF in 2016. The increase was higher for newer industrial buildings due to the lack of space available for lease. Below is a chart highlighting rental rates across Canada. The rental rates are even higher for newly built industrial buildings based on scarce supply and relatively low construction activity. Vancouver and Calgary continue to have the highest rental rates while Toronto and Montréal have the lowest at roughly $7.00 PSF and $6.00 PSF respectfully. The challenge with the industrial space that is available is the lack of modern high clear buildings. Of the available space in Toronto and Vancouver, available product over 32' clear make up roughly 10% of the market, further fueling the need for new space and driving rental rates for these types of buildings higher. The majority, approximately over 60%, of the available space in the GTA is less than 24' creating challenges for some tenants that require higher clear height for efficiency space capacity requirements.

Lack of Investment Product

Industrial investment activity started off strong with the announcement by Blackstone and Ivanhoé Cambridge's purchase of the PIRET portfolio for $3.8 billion in January. The acquisition highlighted the confidence in the industrial sector with the low availability rate, continued growth in e-commerce and increases in rental rates. Overall investment activity in Canada increased by 37% in 2017 compared to 2016. The majority of the increase was land sales, followed by office, multi-family and industrial. Industrial sales activity made up 13% of the total national sales activity in 2017. Cap rates are in the 4% to 5% range and have flattened overall but have increased slightly in the secondary and tertiary markets. The challenge is the lack of industrial product available for sale. Buyers continue to be institutional investors with the larger transactions along with a fair amount of interest from the end-users. Investor demand will remain active in 2018. Despite the likelihood of increasing interest rates, capital remains abundant - the challenge is finding product for sale. ■

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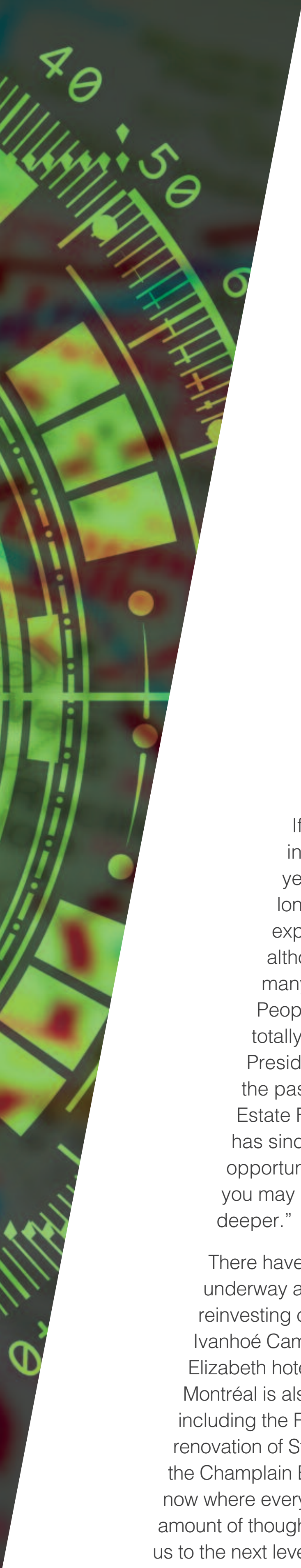

MONTRÉAL: ON INVESTORS' RADAR

Yves-André Godon
Senior Vice President, Montréal Region
Bentall Kennedy

If Montréal has become more interesting to investors and developers in the last two years, Yves-André Godon says it's no longer by default. "Vancouver is too expensive, Calgary is in a downturn, and although Toronto is firing on all cylinders, many investors already have property there. People were looking at Montréal but weren't totally convinced," says the Senior Vice President, Montréal Region Bentall Kennedy. In the past year, however, he says that the Real Estate Forum helped change the tone. Montréal has since emerged as "an outright city that has opportunities, with the only exception perhaps that you may have to look a little harder or dig a little bit deeper."

There have been interesting developments, both underway and planned. Landlords are also reinvesting capital in major assets – projects such as Ivanhoé Cambridge's renovation of the Queen Elizabeth hotel and its revitalization of Place Ville Marie. Montréal is also seeing large infrastructure projects, including the Réseau Express Métropolitain (REM), the renovation of Ste-Catherine Street, and the rebuilding of the Champlain Bridge. "I think we're in a dynamic right now where everything is being done with a tremendous amount of thought, but also a common willingness to bring us to the next level," Godon says. "The Champlain bridge is being done to improve access and egress off the island. It was planned to incorporate a lane for the REM, a game-changing infrastructure project. It's a game changer in terms of how people commute in the future, and also in terms of how the development on and off the island is going to happen. The last time we did something similar was 50 years ago when the metro was built."

Looking toward the future, Godon says that current renovations point to everything being geared towards improving service. The traditional food court model, for example, is evolving toward "a willingness to provide quality and experiential luncheon fare," he says. And the planned work on Ste-Catherine aims to provide pedestrian friendly, reduced-car access. "When you look at what's going on in and around Montréal, and the coming to the likes of WeWork, everything is happening to reflect how the younger generation want to work and where they want to live," Godon says. "For all of us trying to deal with those changes, we have to think very differently and in terms of how we evolve as opposed to how we simply renovate."

Vancouver developers have repositioned a lot of C class buildings to B or sometimes A, or simply torn them down and started over. Godon would like to see similar activity in Montréal. "And I hope that if we get to that, the balance between office, residential or mixed use is a proper balance," he says, adding that about a decade ago Vancouver realized it had gone from one extreme to the other. Godon doesn't see that as a big concern here. "I don't think Montréal moves as fast as Vancouver or Toronto," he says, "so I think there is a chance that we'll adapt along the way."

■ *Michelle Morra*

MONTRÉAL GETTING READY TO TAKE CENTRE STAGE FOR CANADIAN INVESTMENT OPPORTUNITIES

Armand Des Rosiers
Managing Director
RBC Capital Markets
Real Estate Group

When it comes to investment opportunities, all the stars are aligned for the province of Québec - and especially Montréal.

"Out-of-province and foreign investors are all recognizing that Montréal's moment has finally arrived," says Armand Des Rosiers, Managing Director at RBC Capital Markets Real Estate Group.

"We are seeing an unemployment rate at the lowest it's been in 40 years; we actually have a labour shortage. We're seeing an influx in millennials coming to Montréal to pursue opportunities in the artificial intelligence hub we have created here. At the same time, the province's public finances are in order; we have a provincial surplus, and several investors are telling me we have the best provincial government in the entire country.

"Credit spreads for the province of Québec are lower than the province of Ontario – I have never seen that in my career.

"All this to say that investors feel good about Montréal, and see growth, political stability and sound economic policies. For those who are already here, they're looking to increase their presence even further."

Des Rosiers is fielding bids from American investors as well as interest from several European countries including France and Germany. He recently concluded a transaction for the sale of a partial interest in the Bell Media Tower on McGill College Ave, to a French investor.

"It was his first purchase in Canada, in partnership with two Canadian investors who are already in this market – so he felt very comfortable," says Des Rosiers.

"Investing along with local investors, while also having the benefit of local management capabilities, is a very nice way to make an entry into the market. We will see more and more of that in the future."

While European investors prefer stabilized core properties, Americans are more willing to buy value added opportunities, says Des Rosiers, who notes that cap rates for a quality product with growth in downtown Montréal are just below five per cent.

"It's difficult to find opportunities in Canada since it is such a small market, but they like its stability.

"Montréal is now seen as a market that out-of-province investors have to consider along with Toronto and Vancouver."

■ *Barbara Balfour*

IMMIGRATION AND JOB CREATION TO SUSTAIN GROWTH

Mario Lefebvre
Vice President, Research –
Global Real Estate Markets
Ivanhoé Cambridge

Despite coming off one of its hottest years in recent memory, Montréal is well-positioned to capitalize on its strengths – and its shifting demographics – to sustain steady growth.

Sound population growth coupled with bright industrial prospect is a great combination that makes continued growth quite sustainable. Montréal's prospects remain very bright indeed."

"GDP growth was three percent in 2017," observed Mario Lefebvre, Vice President, Research - Global Real Estate Markets at Ivanhoé Cambridge. "The unemployment rate is lower than I can recall. Are we going to grow every year like that? No. But we can hope for a potential economic growth in the vicinity of two percent – pretty much in line with what we see in other developed countries."

Montréal's burgeoning technology sector will play an important part in keeping the growth going, he anticipates.

"One of the brightest lights in the future firmament is artificial intelligence," he said. "Montréal is a leader in that field, as well as in other advanced technologies. It is yet another economic indicator which points in the right direction."

Those prospects are also built on recently restored public finances and pending infrastructure projects that promise to inject more investment into the city.

Although the replacement of the Champlain Bridge is nearing completion, the provincial government pension fund is about to begin construction of a new, $6 billion automated commuter train network similar to Vancouver's wildly popular SkyTrain service.

In addition, after years of Québec government austerity, the provincial government is now in a position to go from being a drag on the economy to becoming a participant in its growth.

"It has cleaned its fiscal house," he credited. "I'm not saying that Québec should go crazy and spend madly, but there is now sufficient margin for maneuver for the public sector to supplement the private sector's success."

All of that augurs well for Montréal's commercial real estate market.

"One forecast by American real estate intelligence analysts Costar projects that Montréal office properties will sustain the highest rates of unlevered return during the next five years – six percent! That's a pretty significant statement about Montréal's prospects."

The Canadian government's newfound commitment to increase immigration will also refresh an otherwise rapidly aging labour market.

"Montréal is great at welcoming immigrants to Canada," Lefebvre concluded. "Prime Minister Trudeau wants to increase the influx to 400,000 a year. Sound population growth coupled with bright industrial prospect is a great combination that makes continued growth quite sustainable. Montréal's prospects remain very bright indeed."

■ *Robert Frank*

TECH, RESIDENTIAL, OFFICE TO DRIVE DOWNTOWN GROWTH

Daniel Peritz
Senior Vice President
Canderel

There's never been as good a time to live in Montréal as today, the good times look likely to keep rolling, observed Canderel Senior Vice President Daniel Peritz.

"I've lived here all my life and I have rarely seen a period when Montréal has looked as good as it does today," he declared. "We're lined up for some very good things in Montréal during the next five years."

"Artificial intelligence (AI) is changing the dynamic of our city along with other high-tech industries," he noted. "The arrival of new AI-based and related research companies will fuel demand for offices – though perhaps not for traditional office towers."

"People are discovering what a wonderful city this is to live in: Low crime rates and great quality of life are attracting them to come and get educated here and work here," Peritz said. "It's gratifying to see our employment numbers look so encouraging. We seem to be on a very good trend."

Has Montréal peaked, though? Peritz thinks that ample opportunities still abound for its downtown core, particularly in light of growth prospects for technology firms here.

"Artificial intelligence (AI) is changing the dynamic of our city along with other high-tech industries," he noted. "The arrival of new AI-based and related research companies will fuel demand for offices – though perhaps not for traditional office towers."

Meantime, the advent of online sales will shift Montréal's retail real estate scene, Peritz predicted.

"There will be some rethinking of retail distribution because of how the city works and how the city works," he forecast. "It will be shaped by how people's patterns of retail purchases evolve."

Peritz also expects that the flight from the suburbs to the city core will continue.

"There will be continued residential development downtown, which is becoming the place to be," he asserted. "The real opportunities will be in residential and office properties."

The wild card is whether government will undertake the measures that will be needed to perpetuate Montréal's virtuous circle.

"Different levels of government see an opportunity to increase taxation when they witness such tremendous growth, Peritz said. "There is some concern that that might hamper growth."

He suggested that government authorities would gain more taking the same cut of a much bigger pie than by increasing rates.

"If you let Montréal continue to flourish without taxing it, you're going to have a bigger tax base that you can use," Peritz concluded. "No one can argue that there are a lot of big projects that Montréal needs to address. My concern is that hiking taxes might dampen the enthusiasm for the attractiveness of Montréal."

■ *Robert Frank*

ROBOCABS TO REVOLUTIONIZE REAL ESTATE

Jean Rickli
Senior Advisor, Sales and Operations, Real Estate, Strategic Planning
J.C. Williams Group

Imagine a city without cars: 20th century cars, that is. The kind that require a driver.

That shift is closer at hand than most people realize, cautioned Jean Rickli, and will roil longstanding real estate tenets.

"Investors don't necessarily understand or grasp the swiftness with which this change will hit us," underscored J.C. Williams Group's Senior Advisor, Sales and Operations, Real Estate, Strategic Planning. "The timeframe that we're looking at is 5-10 years. Ford and General Motors are looking to offer a Level 5, 100 percent automated car by 2023-2025. We understand that they are already in mass-production."

"Say goodbye to shopping mall surface ratios that allocate 70 percent of the area to cars"

The imminent advent of robocabs will be a boon to urban dwellers who will no longer have to sink substation precious personal capital into purchasing, maintaining and insuring a car.

"You'll be able to order a lift from point a to point b and, after the autonomous vehicle drops you at your destination, it will head off to pick up someone else," Rickli predicted. "No more need to park."

The technology will upend current real estate doctrine, which allocates ample area for parking.

"That changes everything," he said. "Say goodbye to shopping mall surface ratios that allocate 70 per cent of the area to cars. The dynamics of self-driving cars means that they'll only need to keep about ten per cent of that space for drop-off zones and deliveries. Landlords will have lots of takeback space that they can repurpose for mixed use like entertainment, convention and commercial centres, rental and condominiums."

Downtown office towers face a different equation.

"You won't have to dig a subsurface parking lot," Rickli forecast. "That will reduce costs from a building perspective, but landlords will lose revenue. They will probably use the first floor as a drop-off area, as more and more people turn to autonomous vehicles."

Time to sharpen pencils is now

Property owners who plan for a 10-, 15- or 20-year timelines need to wrap their heads around the implications without delay, he urged.

Malls, he said, have lots of options at their disposal.

"Anything that malls like Carrefour Laval and Yorkdale do inside and in the vicinity will be popular," he predicted, "but the B and C malls need to identify what they need."

Downtown office towers are different.

"They're not about to go away," Rickli reassured, "but the value of those assets will certainly need some adjustment."

Municipal tax revenue will also take a significant hit when cities witness a dramatic drop in parking revenue.

"Urban planners need to consider what to do with all the freed-up space," he recommended.

■ *Robert Frank*

MONTRÉAL POISED TO GO FROM "GREAT" TO "FANTASTIC"

Claude Sirois
President – Retail
Ivanhoé Cambridge

There's no question that Montréal is already thriving. The city's economy hasn't revved so fast in recent memory. That has drawn an influx of individuals and the retailers who serve them, many of them from abroad.

"We're seeing a lot of activity," reported Ivanhoé Cambridge Retail President Claude Sirois. "Retailers are expressing a lot of interest in Montréal shopping centres. Canada attracted 30 new brands in 2016 and some fifty more in 2017. The Canadian market continues to generate a lot of interest from foreign operators and retailers, and Montréal is no exception."

While Québec in general and Montréal in particular is not necessarily the first place where retailers entering the Canadian market typically set up, eventually they come here to complete their nationwide network.

"We're gradually seeing a stronger and sustained trend toward setting up shop in Montréal," he affirmed, "both in the city core as well as in the surrounding region."

Montréal remains a mecca for discriminating fashion shoppers, but retail remains robust in other areas of activity here, as well.

"It's exciting because of the wide variety of categories," Sirois said. "Yes, there is fashion, but there is so much more."

"I'm quite, quite optimistic because Montréal is gaining a great reputation for a broad range of reasons," he continued. "For years now, a new parallel has been drawn anointing Montréal as 'the new booming metropolis.' With good reason."

The best is nonetheless yet to come, Sirois averred. Montréal continues to boom despite the challenges of accommodating several massive, multibillion dollar infrastructure projects in parallel. Several downtown highways are already ripped up; the Champlain Bridge will soon be replaced; and the provincial government's pension fund is about to dig tunnels for a brand new, driverless commuter train network similar to Vancouver's wildly popular SkyTrain service. Amidst all these disruptions, next year Montréal's will take another daring step: It plans to rip up its main shopping thoroughfare, an undertaking that will disrupt downtown until 2020.

"Downtown Montréal could temporarily be destabilized by development on Ste-Catherine Street," Sirois acknowledged. "We're not in an environment to develop and stabilize and so forth. But these are long-term investments that would create an interesting window of opportunity"

"Will it hurt? Yes, in the short term," Sirois candidly conceded. "But the city has mobilized lots of mitigation measures to make the transition as painless as possible. Once it's complete, Montréal will go from being great to being fantastic. The new Ste-Catherine Street will be an extraordinary, signature statement. It will become an icon for Montréal, one which will lure ever-more people to its city core."

■ *Robert Frank*

SENIORS HOUSING UNSTOPPABLE IN QUÉBEC

Michel Bouchard
Vice President Real Estate
Le Groupe Maurice

The seniors housing market is different in Québec than in the rest of Canada. Compared to other provinces, where meals and services add considerably to rental costs, the Québec model is more à la carte – seniors select and pay for only the services they want. Another key difference is the price of rent itself. Not only are rental apartments in general less expensive in Québec, but the province offers a tax credit for seniors, reducing their rent to the tune of about $300.

Le Groupe Maurice aims to offer "the best product for the best affordability of our residents." What exactly that means is a continual work in progress according to the company's Vice President Real Estate, Michel Bouchard.

"Usually around age 75, people are looking to break the isolation they have," Bouchard says. "A lot of people are alone and need to socialize. They need to meet people, talk to people, and they also want security. As you get older, sometimes you lose a bit of your autonomy and you want to make sure that someone is looking after you if something were to happen health-wise."

Groupe Maurice residences are highly secure, with access cards for the building and 24/7 surveillance cameras. Bouchard says the company is always looking for new services to offer, new ways to be state-of-the-art. "The product we're building today is significantly different from our earlier buildings in terms of space, natural lighting, and services offered," he says. "And it keeps on evolving as the baby boomers come to the age of moving to these types of residences. We want to continue to meet the demand."

Asked if the current pace of seniors housing is sustainable, Bouchard has no doubt. "The latest reports say that the 75-plus segment of the population will keep on increasing until 2035 or even 2040," he says. "And while there's a lot of construction going on, everything we have built still doesn't satisfy the demand. I've been working in real estate on several types of products – from retail to office to everything else – and in my mind this segment is undergoing the largest growth of all."

■ *Michelle Morra*

LENDERS LIKE MONTRÉAL

Alison Chave
Vice President & National Practice Lead, Debt Capital Markets, JLL

Droves of investors are beating a path to Montréal to take advantage of its still attractive capitalization rates, strong economy and increasing rents. Following them are many lenders who are new to the Montréal market.

"Montréal is attractive to investors from a yield standpoint compared to Toronto and Vancouver," indicated Alison K. Chave, Vice President and National Practice Lead, Debt Capital Markets at JLL. With the effects of the energy downturn still dampening the Western Canada market, and Vancouver prices sky-high, lenders are looking farther afield to Québec.

"Some domestic lenders are coming to Québec for the first time," she said. "They want to diversify and place funds that hitherto would have been invested in Alberta. The financing of 1350 René-Levesque by Aimco is a prime example.

Foreign capital which had never before considered Québec is also arriving. Concerns about politics, language and civil law have largely vanished." She cited the example of a recent deal with an American lender who initially had cold feet. "Once they realized that states like Louisiana also abide by the civil code, they were comfortable," Chave recounted. "It wasn't an issue at all."

"Gone are the days where lenders were asking a premium for doing business in Québec. "First, the real estate industry is consolidating – the top investors are larger and less numerous – and don't expect to, and won't, pay more for loans in Québec. Second, the arrival of lenders who, until now, didn't have a presence in Québec, has increased competition. Lastly, with such a long cycle creating a largely default-free Canadian market, and a stellar economic performance in the Province, the credit default rate for loans in Québec is no longer different from the rest of Canada," she observed.

Climbing the risk ladder

All this chasing of capital has had the effect of decreasing spreads for the top deals, pushing even traditional lenders scurrying up the risk curve in a quest for better yield.

"We're seeing more capital hunting fewer transactions," she reported. "Lenders are stretching more in an effort to keep volumes up, with some going to newer or riskier classes like data centres and land, which was big last year. Hotels are a great example - Five years ago, you might have seen three to four lenders to hotels in Canada. Now, there are more than fifteen."

Also, little known outside the industry but trending right now is the influx of private debt capital to Québec. These lenders can't get enough of the higher risk bridge loans and second mortgages and are willing to partner with the traditional lenders in some cases; traditional lenders keep their relationships with borrowers and private lenders get higher cost capital out the door.

"Lenders are no longer afraid of Québec," Chave concluded.

■ *Robert Frank*

MIXED-USE PROJECTS THE WAY OF THE FUTURE

Terry Fraser-Reid
Vice President Development - Eastern Canada Portfolio The Cadillac Fairview Corporation Limited

From residential and retail to hotels and workspaces, and all the combinations in between - there's more interest than ever in mixed-use projects in Montréal.

In fact, sales couldn't be better for one of the city's biggest such projects right now - the newly launched Tour des Canadiens 3 condominium development. A joint venture between developers Cadillac Fairview, Canderel and the Club de hockey Canadien, it's the third condo tower to be built in the new downtown neighbourhood of Quad Windsor.

"I think it's a good story for us, but also for Montréal and the downtown core in particular," says Terry Fraser-Reid, Vice President of development for the Eastern Canada portfolio for The Cadillac Fairview Corporation Limited.

"We're also pursuing the development of 750 Peel, which will include 1.1 million square feet of primarily workspace, as well as amenities to support it. In addition, we have 600 Peel, just to the south of Saint-Jacques Street, which will have the opportunity for 1.5 million square feet of development."

As more of what is considered work is taking place in offices rather than within industrial areas, it's become easier than in decades past to locate residences nearby or even adjacent to a work place, he says.

But for tenants thinking about a new home, their biggest opportunity is all about timing. "Montréal doesn't have a lot of recent experience with anchor tenancy deals and associated timelines because of the limited amount of recent new construction," says Fraser-Reid, who adds that early discussion with the developer is key to a successful deal.

For those pursuing the development of mixed- use space, Fraser-Reid advises retaining lawyers and notaries with extensive experience in subdivision and co-property ownership structures.

"Your focus needs to be on how the risks and responsibilities are allocated between co-ownership entities not only during the development period, but also equally during the operations thereafter.

"If those aren't equally addressed before anything is signed, you could have problems going through development, operationally or with liquidity of your assets.

"And lastly, my advice would be to learn from the mistakes of others – a decent database search on mixed-use projects – in your market and elsewhere - and the legal issues that might have arisen from them can glean a lot of lessons learned at the front end of your project."

■ *Michelle Morra*

DECODING MILLENNIALS

Yves Devin
Adjunct Professor
HEC Montréal & President
Groupe Conseil Devin Inc.

Recruitment has changed. In the past the process was fairly one-sided, whereby job-seekers were interviewed by head-hunters and HR people. While that of course still happens today, the millennial being recruited has just as many questions – *Why do you want me in this company? What will be my key responsibilities? Is there a chance for me to be promoted? What technology will I be using?*

Some companies might find it hard to adapt to this new mentality, but Yves Devin, Adjunct Professor, HEC Montréal suggests it's well worthwhile. "[Millennials] are the ones that will usually be the first ones to propose new ways to do things, and to teach the older people new technologies." That, he says, is why a proper environment that appeals to this demographic "will be a very, very good asset."

"They need for you to say they're doing a good job. They also want to work with their peers, not alone."

How to make millennial workers happy? In many ways they're just like boomers. They want to be involved and know what's going on. They want to be part of the process and have a say. "But they need a lot of recognition on a daily basis – more so than boomers," Devin says. "They need for you to say they're doing a good job. They also want to work with their peers, not alone."

Besides teaching, Devin coaches businesses in his role of President, Groupe Conseil Devin Inc., where one of his many goals is to help improve communication between different generations of workers. The companies that succeed best, he says, tend to communicate best with all employees about what they are responsible for, and whom they are accountable to. "It's very funny to find out that most don't take the time to make it clear."

While Millennials prefer to use technology for everything, Devin says, they need to learn that actually talking to the more senior workers can be a valuable experience. Helping one generation work with another, teaching them to share their knowledge and values, is a specialty of Devin's. "I'm very proud to say that we have a lot of success with this, not only with succession planning but with all aspects of business," he says.

■ *Michelle Morra*

EMERGING TECHNOLOGIES: A COMPLEMENT TO OUR NEEDS AS SOCIAL BEINGS

Julie Martineau
President of Real Estate Services
Oberfeld Snowcap

Automated vehicles will have a significant impact on retail – and it will happen much sooner than we realize, says Julie Martineau, President of Real Estate Services at Oberfeld Snowcap. Savvy developers are already planning for them. "This technology is exciting because it's really giving autonomy to several generations. Owning a car is not a priority for millennials. They would rather spend money on experiences than goods, and these autonomous vehicles will give them much more mobility. For the older generation it rhymes with maintaining independence and a quality of life. When my grandmother lost the use of her car that was basically the end of her life. Retailers and landlord will also benefit. Customers will be able to reach their destination with ease and not be frustrated with parking and property owners can intensify their sites.

Virtual reality is another emerging technology that retailers are incorporating. As an example, retailers are now incorporating digital mirrors on their website. This now adds to the customer's experience. It is important to note that this is not to the detriment of the brick and mortar store. It still has an important role to play in today's retailer's omni-channeling.

"Having said that, not every technology is affordable for every retailer. Amazon Go, which just opened in Seattle, is very exciting, but it has the necessary budgets to spend on technologies that for a lot of retailers just don't make economic sense."

However, wi-fi access in stores and malls is an absolute must. "You can't afford not to have it," says Martineau, who also stresses the importance of proper marketing. This is especially relevant for temporary pop-up stores, which are becoming increasingly popular in Montréal. "There's definitely a stigma out there a shop might be open for two months during Christmas, and when it closes, people think, 'Oh, it didn't work out. That location is not good.'

"If you're going to do pop-ups, make sure you communicate it to the public appropriately. More and more shopping centres are taking premises that are dedicated to pop-up concepts and are successfully advertising it as such. The premises don't change - the merchandise within changes which creates excitement and new discoveries.

Multi-use projects are more and more popular in urban areas. It's exciting because it brings people at the site at different time of the day, making it interesting for retailers.

"Yes, we go online to communicate and shop, but in the end, we're still social beings. We need to create places where we will partake in new experiences together."

■ *Barbara Balfour*

PROPERTIES PIVOTAL TO ATTRACT AND RETAIN TECH TALENT

Bernard Poliquin
Senior Vice President
- Office Québec
Ivanhoé Cambridge

"Technology firms thrive in trendy, collaborative workspaces It fosters an exciting synergy where startups occupy the same sites as large financial institutions – who are also in the midst of redefining their workplace strategies."

Today's corporations no longer see their premises merely as places to park their staff. As they increasingly rely upon top-notch brainpower to preserve their competitive edge, those firms now look at more than mere price considerations when they choose where to locate. They also opt for office space that will enhance their ability to attract, train and retain top talent.

"Financial terms remain paramount in renewal and relocation decisions," acknowledged Bernard Poliquin, Senior Vice President, office, Québec, Ivanhoé Cambridge. "Nonetheless, fresh new talent is increasingly scarce and in high demand. Owners who understand that need will be well-positioned to retain their best tenants and to draw first-rate new ones to their properties."

Montréal has thrived through a computer- and online-gaming boom during the past decade. Emerging technology, advertising, media and information firms (TAMI) have also helped to redefine the city core. Now, the stage is being set for Montréal to take a leadership role in another burgeoning technology: artificial intelligence.

"Those firms prosper in trendy, collaborative workspaces," Poliquin said. "It fosters an exciting synergy where startups occupy the same sites as large financial institutions – who are also in the midst of redefining their workplace strategies."

Montréal a model for modern cities

Ivanhoé Cambridge has itself committed to invest in a billion-dollar upgrade to its most emblematic downtown Montréal assets: the Fairmont Queen Elizabeth Hotel, its Eaton Centre and the iconic Place Ville Marie, to revamp those properties for the 21st century and ensure that they will continue to respond to current and emerging tenants needs here, well into the future.

He also cited Ivanhoé Cambridge's new *Maison Manuvie*, already 83 percent leased when it opened, Nov. 27.

"It's designed to promote healthy lifestyles and active mobility," Poliquin explained. "For example, it's the first multitenant commercial building in Montréal to provide a dedicated, street-level entrance for cyclists and a 120-bike storage facility, complete with showers and ventilated lockers."

Ivanhoé Cambridge combined its attention to workplace living conditions with leading-edge smart-building and environment-friendly technology. It paid close attention to thermal comfort, air quality, energy efficiency and power and systems redundancy in a flexible occupancy setting that permits tenants to make the most efficient use of their space.

Technology is a big part of Ivanhoé Cambridge's strategy, thus to be the first property owner to certify WiredScore its Montréal office portfolio. Solidifying itself as a leader in the industry, as first to market with a Wired Platinum certification for Maison Manuvie in Montréal, the first office property to be Wired certified in Québec. This is also the case for Ivanhoé Cambridge's CIBC Square in Toronto, the first office building to achieve pre-certified Wired Platinum certification within Canada, and DUO is the first building in Paris to be pre-certified.

"Properties like these also serve as a laboratory to showcase what we can accomplish in other cities, elsewhere in the world, where we have similar central business district investments," he concluded.

■ *Robert Frank*

SMALL MARKET, SMART GROWTH HIGH TECH COMPANIES AND URBAN INTENSIFICATION – NOT GOVERNMENT – SPURS QUÉBEC CITY TO NEW HEIGHTS

By Marie-France Benoit
Senior Director
Altus Group

While the Government and insurance companies remain the dominant employers in Québec's provincial capital, recent development activity points to new demand drivers from a wider variety of space users.

The pace of development of traditional, speculative office space has slowed over the last two years. Less new space combined with 2017's growth in occupied area caused total availability rates to drop from 9.5% last year to 8.5% in Q1 2018. If developers are taking comfort in the market tightening, they remain cautious since many occupiers are using less but better space with each move and/or reconfiguration of space.

On the other hand, the region's rapidly evolving hi-tech sector has demonstrated an appetite for more space, especially more personalized, state-of-the-art facilities that can bring under one roof head office, back office, labs, R&D, light manufacturing and shipping activities. Leading biotech and optic-photonic leaders such as Optel Vision, Thales and GlaxoSmithKline (GSK) and others have been expanding in their current home, the Québec Metro High Tech Park. With the creation in 2016 of *Espace d'innovation Michelet*, a new high tech focused industrial park, multinationals ABB, Olympus NDT Canada and Eddyfi Technologies have opted to relocate to new built-to-suit facilities, increasing their local footprint by 30% to 60%. Creaform, the original founder of the Crocs shoes, have doubled in size in their new Built-to-Suit facilities in Lévis' *Innoparc*.

Two large projects have also been confirmed in 2018: Phase 1 of Endoceutics' 450,000 square sq. ft. complex in the suburb of Ancienne-Lorette, where its new medication 'Intrarosa', often referred to as the Viagra for women, will be produced. Another leader of the region's biotech ecosystem, Medicago (a division of Mitsubishi Tanabe Pharma), has confirmed its new 475,000 sq. ft. head office and research facilities project will break ground this year with delivery expected by 2020. Medicago will occupy all of the new high tech industrial park D'Estimauville recently developed by the city on an under-used formerly industrial parcel of land.

Looking actively on developing more parks to accommodate growth of hi-tech manufacturers thru densification, the City of Québec recently purchased from Groupe Dallaire a 3.5 million sq. ft. land parcel along Henri-IV Highway. Simons' new distribution and logistics warehouse is already confirmed for 500,000 sq.ft. of this new site. Another large site of 3 million sq. ft.is being developed in Sainte-Foy, this time by private local developer Immeubles Roussin. Nathalie Roussin, president of Immeubles Roussin: 'We are creating a logistic hub in the effervescent and strategic sector of the new IKEA store. The site will provide spaces that meet the requirements of hi-tech manufacturers and distribution centres, which have become scarce on the tight industrial market'

Mixed-use and higher density projects get traction

Like many other larger markets, Québec City is focused on higher-density and mixed-used redevelopment.

In central areas such as Lebourgneuf, Limoilou and Sainte-Foy, new high-rise apartment and condo buildings have been advancing rapidly. For the first time in more than five years, housing starts for condo units are rebounding, as the unsold units have been largely absorbed. On the leasing side, the number of new apartments under-construction has reached a record high 4000 units in 2017, more than double the annual averages seen in the 2012-2014 period.

'The demand for quality on the leasing market is quite strong' explains Nathalie Roussin, of Immeubles Roussin, one of Québec City's leading multi-residential owners and developers. 'There is an important segment of the clientele that wants to rent as opposed to own, but want the same quality. Although we have tenants of all ages and walks of life, the aging boomers certainly demand a wider range of services, which we can only offer in large complex. That's what we have been developing'

The region's booming seniors housing market also contributes significantly to the urban intensification trend. Québec-based developer *Immostar* is including a seniors housing component in its redevelopment of Mail Cap-Rouge, an enclosed community mall. On the south side of Laurier Boulevard, Groupe Maurice purchased a block of bungalows in 2015 which have since been demolished and replaced by its new 420-unit Senior Housing complex Ékla.

Laurier Boulevard's intensification will reach new heights with the development of Groupe Dallaire's $650M mixed-use project *Le Phare*. Designed by Chicago-based Architects *Gensler*, the 2 million sq. ft. multi-phase mixed-used project will include office, hotel, retail, entertainment facilities and apartments. Its 250 metre-high central tower, the tallest east of Toronto, will certainly become the icon of the Old-Capital's promising shift towards more urban intensification. ■

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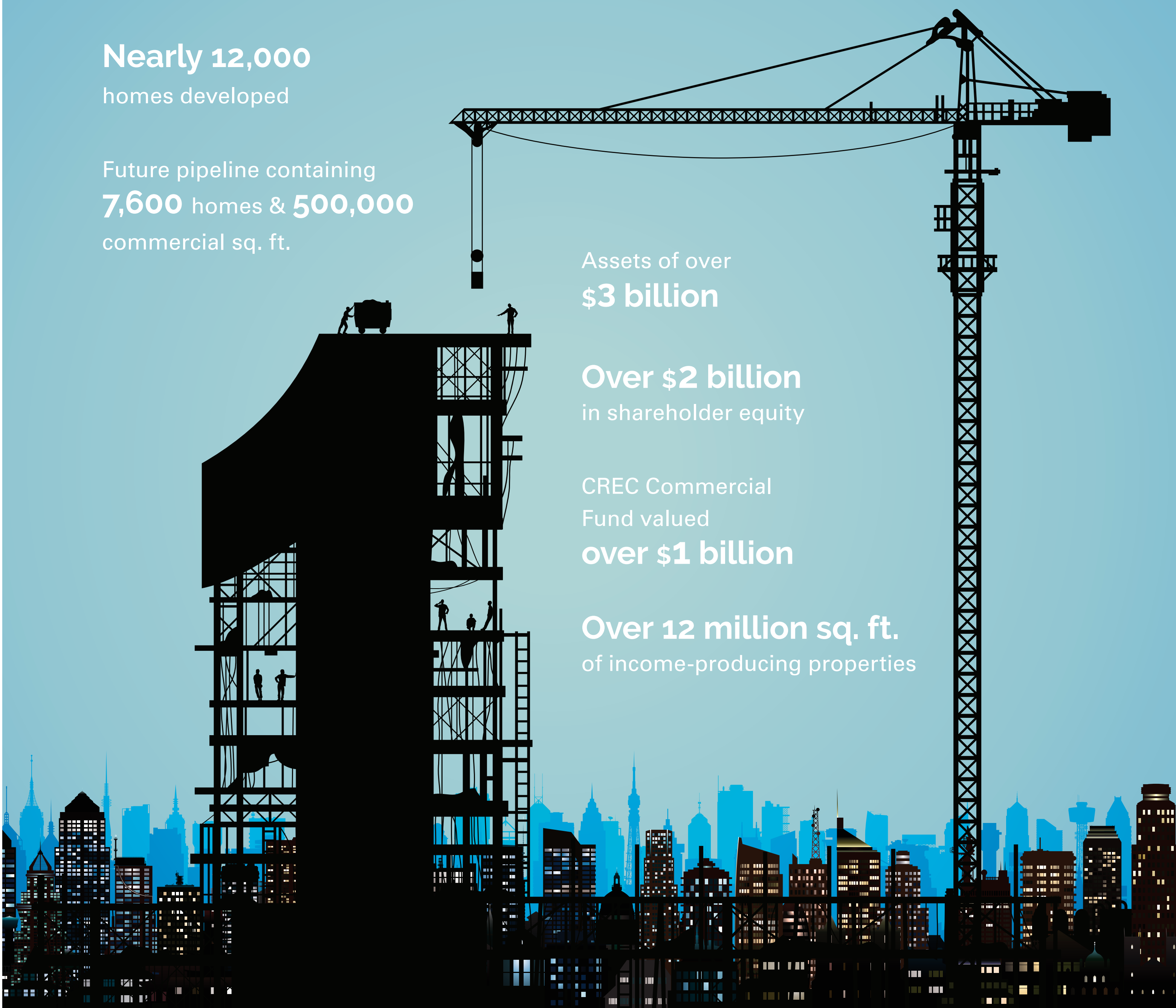

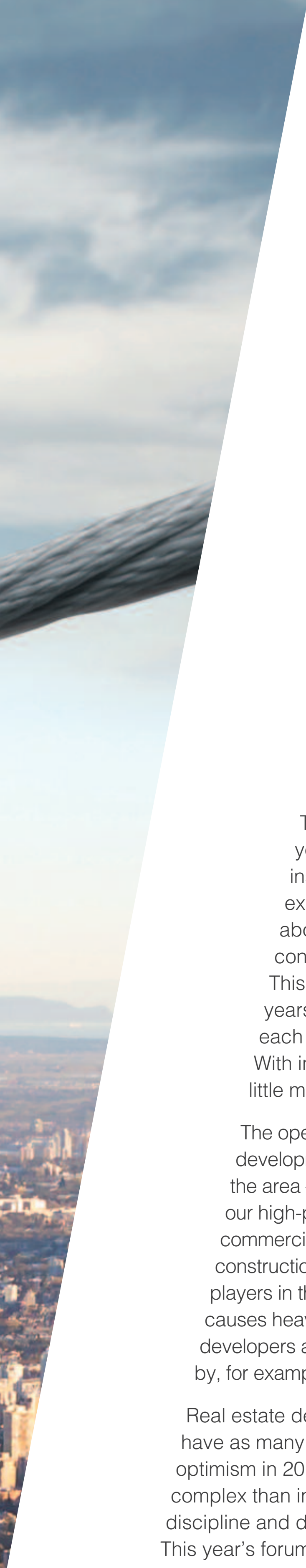

VANCOUVER: BALANCE OPTIMISM WITH CAUTION

Jennifer Podmore Russell
Senior Vice President
Rennie Group

The Vancouver market, particularly if you're looking for A-quality assets or on the institutional side, is very competitive and expensive. For awhile now we've talked about so-called "market highs" and yet we continue to shatter them. Where to find relief? This is definitely going to be one of those years where discipline or a lack thereof in each of the players will determine success. With interest rates rising, investors are taking a little more time to do their due diligence.

The opening up of the Falls Creek area for development brings much needed land supply into the area – a shortage of land being one reason for our high-priced market. Whether it's on the commercial, residential or institutional side, construction is now one of the most significant of players in the Vancouver region. Unfortunately, this causes heavy constraints on labour, which is why developers are starting to rethink their building systems by, for example, doing more prefabrication off site.

Real estate developers and investors in Vancouver have as many reasons for caution as they have for optimism in 2018 and 2019. The market is a little more complex than in previous years and requires much more discipline and diligence on the part of all industry players. This year's forum reflects that complexity in the diversity of the panelists and in the panel topics that we have selected. We have focused on the impact that changing governments, changing policy and regulations, and infrastructure announcements are having on value as well as demand. Our sessions reflect the diversity of the players, not only those groups that have been active in the market for years or even decades, but also the new players that are starting to arrive either internationally or from other parts of Canada for the first time.

As we start looking into 2019, an important area for discussion is the residential market and how the industry will cater to demand. Without adequately adding to the amount of housing supply – and with demand unchanged – affordability will continue to be a challenge. Rental development, in terms of what developers are looking to build in the different areas of metro Vancouver, continues to evolve.

Our forum will also explore what's driving demand for office and industrial. On the industrial side, we'll look at the impact of e-retailers and a stronger push on distribution and logistic space, as well as a shrinking land supply. On the office side, our aim is to understand who the tenants are today and tomorrow and some of their expectations regarding space, quality or location. With prominent tech names taking up considerable space, including Microsoft and WeWork, two things are happening: they are displacing the traditional tenants or competing with traditional, service-oriented tenants; and they're changing the demographics of office buildings and the office community in a big way.

Make the most of your Forum by taking in the wisdom and experience of your industry peers while adding your own to the mix. Enjoy.

■ *Michelle Morra*

VANCOUVER MARKET: THE DOUBLE EDGE SWORD

Avtar Bains
President
Premise Properties

Vancouver is a market that people hope for, but never imagine they'll actually get, says Avtar Bains, President of Premise Properties.

With every asset class performing "brilliantly", he says, those lucky enough to own real estate in greater Vancouver are the benefactors of increased valuation, liquidity and demand.

"The flip side is, if you want to enter the real estate market you are subject to aggressive pricing, intense competition and limited opportunity," says Bains.

"It's a double-edged sword. If you own real estate, you are happy, happy, happy. If you're trying to own real estate, it is difficult to build a portfolio. It's why so many people have been forced to migrate into the development world if they want to own or build long-term assets."

While Bains sees opportunities in both the industrial and residential sectors, any kind of development comes with its own unique set of challenges. Land - particularly well-located land - is scarce and the bureaucratic process is getting increasingly difficult to navigate, he says.

"With many different laws and bylaws, it really does take a professional skill set to navigate many of the municipal jurisdictions in the Lower Mainland. It's taking longer to get from A to B and it's an expensive process"

The greatest concern to keep in mind is the sustainability of the real estate market and

"It's a double-edged sword. If you own real estate, you are happy, happy, happy. If you're trying to own real estate, it is difficult to build a portfolio."

whether there will be a pull-back. "I think the greatest concern would be interest rates, and the second greatest concern is the perception of obtaining value in real estate markets outside of Vancouver. Because it's so expensive here, people may migrate to other parts of Canada or North America to invest," says Bains.

The recent increase in offshore tax by the BC government from 15 to 20 per cent, as well as the increased jurisdiction of geography for the Vancouver area to include Fraser Valley, the capital regional district of Victoria, and the Okanagan will cause a definite pause in activity. However, it's too early to tell what the effect will be on liquidity, valuation and demand, says Bains.

"Will we continue to see development anyway? The answer is yes."

■ *Barbara Balfour*

INDUSTRIAL LAND SHORTAGE: VANCOUVER'S NEW ELEPHANT IN THE ROOM

Brent Sawychyn
Principal
PC Urban Properties Corp

With vacancy rates at less than one per cent in metro Vancouver, the industrial market is incredibly tight and showing signs of speculation not unlike residential land.

"This is particularly true for industrial properties that are closer to the core," says Brent Sawychyn, Principal of the PC Urban Properties Corp. "For instance, Mount Pleasant, the traditional area of industrial development near the Expo site, has seen a rampant price run up in the last two years. We're also seeing industrial lands in east Vancouver, just off Main Street and Clark Street, escalating in price.

"Property close to the core is now trading on price based on its full FSR density. People are paying $150 to $200 per square foot based on a three-FSR for industrial land. We have no supply, no new product becoming available. And not a lot of sites to build on."

The elephant in the room is no longer the shortage of affordable housing in Vancouver but the looming crisis of affordability of employment-generating lands, says Sawychyn.

"Apart from the fact that a lot of people want to live here, we also have the largest port in Canada and the fourth largest in North America. One in every five dollars of trade goes in and out of Vancouver.

"Then you have issues like the more than 80 cannabis growers who are registered to be

"If you're just outside of Seoul or Tokyo, you've been doing this for decades. And dealing with it. Necessity is the mother of invention."

accredited growers once the federal government legalizes marijuana. Those guys are going to put a huge amount of pressure on industrial space, particularly in Vancouver and Toronto. And so, it's a real problem."

Sawychyn believes more traditional industry players will be branching out further into Surrey, Abbotsford and Coquitlam. "Maybe they're going to build a box that's 40 feet high. I think smaller industrial players that need to be closer to the core will figure out how to operate on multi-levels of vertical industrial development.

"Keep in mind these challenges are no different than what places in Europe or Asia have been fighting with. If you're just outside of Seoul or Tokyo, you've been doing this for decades. And dealing with it.

"Necessity is the mother of invention."

■ *Barbara Balfour*

TIGHT LAND, MARGINS NARROW OPPORTUNITIES

Paul Finkbeiner
President, GWL Realty Advisors

Vancouver is thriving and GWL Realty Advisors is prospering from some well-timed investments here, reported its President, Paul Finkbeiner.

His firm is building 1.1 million sq.ft. at the Delta iPort and lands for Healthcare of Ontario Pension Fund; Vancouver Centre II will satisfy strong office demand, helping Vancouver's hot city core supply expand eastward; a 21-storey mixed-use property at 1500 Robson; plus 170 units of six-storey apartments at Lower Lonsdale.

"Our timing is great and we should take advantage of a good market," said Finkbeiner who leads his firm's strategic realty direction. "Low vacancy has made Vancouver one of the strongest markets in North America. Real estate is doing remarkably well in all sectors."

Developers face double challenge going forward, though, as the city's thriving economy attracts ever more investors.

"You have to be careful," he cautioned. "It's a land-constrained market. Prices are going up and a lot of people are looking at Vancouver. More and more people are doing development, which has squeezed returns during the past few years."

That has pushed pension funds to plow into development in order to secure a steady revenue stream.

"They're searching for better returns and quality of product," Finkbeiner observed.

Many more millions fleeing Alberta's energy-price woes, hoping for a piece of the Vancouver action, compound the dilemma.

"For major real estate investors in Canadian cities, Alberta is largely off the board," he anticipated. "You can still be opportunistic in Calgary and Edmonton, but a lot of that money is not coming back. It is heading to Vancouver and Toronto, because Alberta markets are less attractive than before."

As more investors pile into development, demand for contractors heats up, driving costs skyward.

"Hopefully we can control that through contracts," Finkbeiner said. "You need to be aware of construction costs and try to lock in as many construction components as possible – but you can't always lock in everything."

"Values have gone up to a level where people might have concerns about buying in Vancouver," he concluded, "both because of where values have gone as well as legislation creeping in which makes the city less attractive."

■ *Robert Frank*

BE DISTINCTIVE TO COMPETE

"The biggest opportunity is creating distinctive new workspace to meet the very significant demand that has driven the market for some time now and will likely continue."

Michael Emory
President and CEO
Allied Properties REIT

The futuristic office tower recently approved for construction at 400 West Georgia Street, Vancouver is inspired by a Japanese lamp by artist Isamu Noguchi. It's an example of the very distinctive workspaces that Allied Properties REIT is always striving to create. These might sometimes include elements of what's found in Class I buildings, such an open structural frame, high ceilings, and plenty of light. "We think there's very material demand for office space in the urban Vancouver market, emanating in large part from the tech advertising media and information sectors," says Allied Properties REIT President and CEO Michael Emory.

He believes that the demand currently exceeds the supply in Vancouver's office sector, and that new supply will be created to satisfy the demand. "The biggest opportunity in my opinion, or at least in relation to what we do," he says, "is creating distinctive new workspace to meet the very significant demand that has driven the market for some time now and will likely continue." Conversely, he says the biggest risk would be if the market created too much supply in relation to the demand. This would cause downward pressure on rental rates, in contrast to the upward pressure the area has been experiencing. "I don't think the risk is yet evident," he says, "but it could become evident if too many people build too many buildings on a speculative basis."

Emory adds that much of this development will occur in what he's calling the "new core." He says the concept of what is the Vancouver core is changing, branching out into the area of 400 West Georgia, for example. Allied announced last year that it was lending Westbank funds to develop the office tower and that it would buy an undivided 50 percent interest in the property on substantial completion of the development. Emory says this is one way to achieve respectable returns in the Vancouver marketplace, where simply buying finished product is difficult today.

■ *Michelle Morra*

DOWNTOWN OFFICE MARKETS IN HIGH DEMAND BY TECH TENANTS

> *In general, companies want housing in close proximity to the workspace, in multiple and flexible forms. They're more interested in renting smaller condos than in buying a single-family detached house with a yard."*

David Ferguson
Chief Investment Officer
Low Tide Properties

For the best opportunities in Vancouver's bustling office market, look no farther than the core.

After all, that's what most companies are doing when seeking potential spaces to house their workers.

"Companies want to locate in places where their workers would want to live. Because they're looking for an educated workforce, they want to be able to attract and retain them," says David Ferguson, Chief Investment Officer of Low Tide Properties.

"The core is where all the food and beverage, as well as fitness and retail amenities are. You have all the forms of transit terminating there, proximity to lots of high-density housing and major sites like Rogers Arena or BC Place.

"Some of those tenants, let's say Amazon in particular, who have a meaningful and growing presence here, seem to be very focused on being in the core. In their business model, the rent rates are not so important in the overall scheme of things and so they're not as price-sensitive.

"I think in general, companies want housing in close proximity to the workspace, in multiple and flexible forms. They're more interested in renting smaller condos than in buying a single-family detached house with a yard."

Vancouver's office market is the best it's ever been, says Ferguson, and the new tenants in the market that seem to be driving most of the absorption are in the tech industry, who want to stay downtown.

"There's tons of demand, limited supply and rates are going up. From the landlord's perspective, that's all good."

On the flip side, construction costs are steadily rising, and the approval process is an ongoing concern, says Ferguson.

Currently, Low Tide Properties has a number of projects in the works; they're a joint venture partner to PCI and completing a 160,000 square foot office building later this year. In addition to a few other joint ventures they are also planning a building on their own in Gastown.

"The timing of the approval process is a long, drawn-out process," says Ferguson. "A lot of times their zoning is very prescriptive. As the world changes, having more flexible zoning that incorporates lots of different uses, is much better than single use."

■ *Barbara Balfour*

DEMAND FAR OUTWEIGHS WHAT'S IN THE RENTAL PIPELINE

Shenoor Jadavji
President
Lotus Capital Corp.

The Vancouver multi-res market is in a transformative time. Shenoor Jadavji, President of Lotus Capital Corp., says that for the first time in 50 years the city is seeing a renewal of its rental housing stock to the benefit of tenants. For landlords – though this asset class has always performed well in Vancouver – there are challenges.

Jadavji believes that despite widespread understanding of the need for better rental accommodations, and despite "incredibly well intentioned" governmental support, the problem is transacting development at the civic level and putting it into action. "The city doesn't have the capacity to put through all these applications," she says. "It's clearly evident that when you have 8,000 units in the mix, from development building to the proposal stage, and only maybe 800 to 900 units are getting built a year, that just isn't enough. The block is happening when you go out to get your development permit."

There are several reasons why demand is far outweighing what's in the pipeline. People of retirement age are selling their homes, wanting the freedom to travel and not own. Millennials are staying in the rental market. Meanwhile, challenges in the condo market are another reason for upward pressure in rental. Unlike condos, where residents can never be sure their unit won't be sold, rental provides stability – not to mention that condo prices have become prohibitive for many potential buyers. "Three to four years ago you could buy an affordable condo for $800 a foot," Jadavji says. "Today that number is $1500 to $1700 a foot."

The city of Vancouver has a project in the works that aims to create 24,000 units over the next 10 years, "but 2,400 units a year just has no impact," Jadavji says. She mentions areas that could use more densification, including the West End and Mount Pleasant. The city, she says, is not providing densification but sticking instead to low-rise buildings. "I think the city needs to be more careful about where they put that densification. It doesn't just need to be around better transportation quarters. It needs to be around community and liveability for people."

■ *Michelle Morra*


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DEVELOPERS IN ROBUST MARKET MEET BARRIERS HEAD-ON

David Wesik
Executive Vice President
Wesgroup Properties

Strong revenue on the demand side has generated more construction activity than the Vancouver area has seen in some time. How are developers creating viable projects given land constraints and high construction costs? David Wesik, Executive Vice President of Wesgroup Properties, says it's about "getting very creative on deal structures, being very forward thinking in terms of policy and emerging policy, and getting creative when you get to building design."

A long-term outlook is key. Developers must try to envision what a given area will look like five or 10 years in advance and start taking positions very early on, despite the risk. "One thing many of Vancouver developers are forced to do is really extend that time horizon ….. you need to be very forward-looking and very patient in this city right now," Wesik says.

"One thing many of Vancouver developers are forced to do is really extend that time horizon… you need to be very forward-looking and very patient in this city right now."

Finding good opportunities that are well located, with a key set of attributes like amenities, transit, and proximity to the core, is probably the most difficult part. Another challenge is obtaining approvals, particularly in the city of Vancouver. With rezoning, for example, it can take two years or more from an application to a shovel in the ground. That – and the increasing cost of construction – sometimes leads developers to sell. "Some groups will see there has been a lift in the land. They look at what they need to go through now to build it and harvest those profits on construction, and a lot of times I'm sure they ask themselves if it's even worth it," Wesik says. He adds that the market for suppliers and sub trades is not as deep as the city needs it to be right now, given the volume of construction. "There's a scarcity of supply on the labour side here to actually move projects forward and construct them."

Notwithstanding these issues, the healthy state of the market makes it worthwhile for many. "That's the reason why all of this exists," Wesik says, "because revenues have been increasing and are strong and really have offset all of these time delays and cost increases. Once that slows or stops, the market will adjust."

■ *Michelle Morra*

NO SIMPLE SOLUTION FOR THE ONGOING HOUSING AFFORDABILITY ISSUE

Brian McCauley
President & CEO
Concert Properties

There's never been a better time than the present to increase the affordability of North America's most unaffordable city.

"In my career, I've never seen better alignment between all the levels of government," says Brian McCauley, President and CEO of Concert Properties.

"It's a phenomenal time to be wrestling with this issue because everyone has a will to make something happen. On a federal level, the Liberals are keenly interested in delivering on measures of affordable housing; provincial governments are also keen, and local municipalities are discussing how to create better affordability in their own backyards."

From stress testing for purchasers and increases in interest rates, to the introduction of the foreign nationals' buyers tax, speculation tax and empty homes tax, governments have several measures in place to stem the speculative nature of the marketplace.

Although these measures will have an impact on purchasing power, the reality is that there's still a supply problem, says McCauley.

"There's a strong, underlying demand for new housing in the metro Vancouver area that just can't be accommodated by current supply. We need to get more product to the market faster.

"We currently have a backlog in getting developers' approvals processed through local municipalities – the city of Vancouver is trying to streamline it but it's taking an inordinate amount of time to get those done."

Rising costs of construction is also hindering affordability. So too is the fact that local municipalities haven't pre-zoned land to make more of it available. "Up until a decade ago, the city had been reluctant to accept much density so there's this whole planning context for cities and land-use planning that has been a problem," says McCauley.

"Meanwhile, we have a changing demographic that wants to live, work and play in an urban environment and not spend hours in their car on the daily commute. And they're willing to pay a premium for it.

"There's no simple solution when it comes to housing affordability – you can pick up any summary from any real estate forum over the last 15 years and there's always been some discussion around that in major cities."

■ *Barbara Balfour*

EDMONTON
REAL ESTATE FORUM

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EDMONTON: A MAJOR MARKET IN ITS OWN RIGHT

Kevin McKee
Chief Executive Officer
Pangman Development Corp.

In 2018 there will be a continued flight to quality in Edmonton's real estate sector. Tenants are acknowledging, and prepared to pay for, a high-quality asset. Users of real estate in Edmonton are becoming more sophisticated and understanding that not every square foot of a particular asset class is created equally.

There is also a general acknowledgement that not all professional service advisors are created equally. Edmonton developers know that a best-in-class architect is going to be more expensive but will ultimately result in a better piece of real estate being developed or redeveloped.

This general flight to quality points to a healthier economic climate – it certainly looks like the worst is behind us and better days are ahead. Edmonton has emerged as a major market in Canada, and we have much to celebrate. Although we've been through one of the longest recessions on record, we should recognize and focus on the fact that we were able to withstand it, that a number of very good news stories have occurred in our market over the last three or four years, and that we're going to continue to build on our successes and should be very proud of them. This is about more than the resiliency Alberta is known for. What the institutional community has recognized about Edmonton in particular is, that over the last 15 to 20 years, our highs have gotten nearly as high as Calgary's, yet our lows haven't been nearly as low. More fortunes have been made and lost in Calgary but in Edmonton, slow and steady is winning the race.

Another factor that investors are recognizing is that Edmonton is home to the University of Alberta – second largest university in Canada – as well as MacEwan University and other significant post secondary institutions that are a big driver of our economy. Edmonton also has an opportunity to build on a centre of healthcare and technology excellence and has successfully attracted DeepMind, a division of Google, to open their second office in the world here, the first being in London, UK. Although Edmonton's proposal to house the new Amazon headquarters did not come to fruition, the bidding process helped to establish Edmonton in people's minds as a major market that can and should compete for high-profile tenancies.

Amid all of this growth, all 15 metro Edmonton municipalities are now under one economic development banner by the name of Edmonton Global. We now speak to the external world with one voice, as one cohesive organization, which is really going to move the needle for our region both nationally as well as on the international stage. With this in mind we invite all participants at this year's Real Estate Forum to share in a unified sense of pride because there is much to celebrate.

■ *Michelle Morra*

EDMONTON: SOLID, SUSTAINABLE GROWTH IN STORE

John Rose
Chief Economist
City of Edmonton

"Edmonton region incomes are up an average five percent. Coupled with low inflation, consumers have more money to spend."

Alberta's capital will continue to outpace the rest of Alberta and the rest of Canada for the next five years or more, predicted the city's chief economist John Rose.

"The economy here will grow by somewhere around 2.5-3 percent a year," he forecast. "That's really good compared to the rest of Canada, which will grow around two percent."

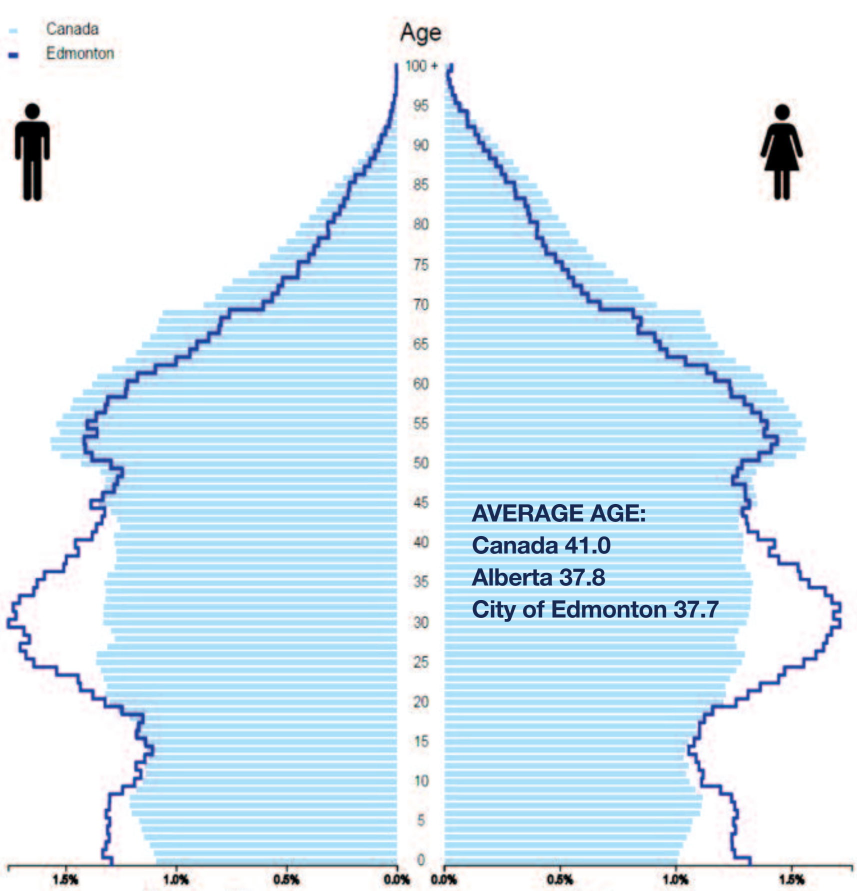
While six percent annual growth is unlikely to return in the near term, neither will roller-coaster volatility.

"Oil prices simply won't return to the $100 range anytime soon," Rose anticipated. "We're not going back to the boom days."

Though slower, the robust, steadier growth he forecasts for the next six years, is better, he suggested.

Edmonton's Demographic Advantage

Source: Statistics Canada



Young families with money

Rose credited the city's youthful and highly educated 18-45 demographic bulge.

"We don't have the same problems as Eastern Canada, whose relatively old demographic limits growth potential," he explained.

"We've witnessed a really dramatic improvement in professional services," he said. "Edmonton is a hub for project management and engineering. The big firms in those fields have done a remarkable job developing export markets for their services."

That success has driven a strong surge in quality job creation.

"All of the jobs that have been created in the past year or so have been full-time, relatively highly-paid positions," Rose reported. "It's boosted Edmonton region incomes, on average, by five percent. Coupled with low inflation, consumers have more money to spend."

The public sector provides another powerful stabilizer. The provincial government accounts for 27 percent of employment here.

"Public administration attrition is progressing slowly," he acknowledged, "but we're beginning to see an uptick in education employment as well in health care – which will be key drivers in 2018."

Edmonton can also count on its thriving, still-small-but-rapidly-growing technology cluster, where nanotechnology, biotechnology and food and beverage technology will supplement its existing strengths.

"They will be a major source of growth," Rose projected. "In a couple of years, the technology sector will really start to make major contributions to Edmonton's growth."

The downside? Completion of major non-residential downtown and peripheral petrochemical projects will sap some of construction's contribution to Edmonton's growth.

"The residential market, though, has held up remarkably well through the energy downturn," Rose reassured. "New multi-family house construction has held up pretty well. While not a strong source of growth, that will certainly be a stabilizing factor."

■ *Robert Frank*

ICE DISTRICT INJECTS PASSION INTO DOWNTOWN EDMONTON

Glen Scott
Senior Vice President Real Estate
Katz Group

Mall city no more: Edmonton's emerging Ice District development is enlivening the city core's cachet with one of the biggest sports and entertainment districts in North America.

"It's a reset for the entire downtown Edmonton that's taken from a place punctuated by indifference, turned it on its head and made it the focal point of the city," said Katz Group, Senior Vice President of Real Estate, Glen Scott.

The iconic project has already surprised skeptics by attracting strong demand for quality space in an otherwise-soft real estate market, after Scott rolled out its first phase, two years ago.

"It was an eye-opener to witness how strong the office demand for new AAA office space has been in Edmonton," he reported. "Legends has been about 90 percent sold out for more than a year."

Scott is implementing Daryl Katz' vision to piece together for a world-class development – one which the world will identify with downtown Edmonton. He credited solid research for the success so far.

"A lot of thinking went into the design," he explained. "It's its diversity that makes it attractive."

His team traveled far and wide to draw upon the best elements of the world's leading sports-entertainment districts, including Los Angeles, Montréal and Toronto.

"The dynamism of the district is its biggest draw," he declared. "There's something for everyone. Rogers place is one of the best hockey arena and entertainment venue in the world."

"It was an eye-opener to witness how strong the office demand for new AAA office space has been in Edmonton."

By anchoring the development on Rogers Place "the nuclear reactor of the ice district", the Ice District taps into the Oilers' signature brand. Adding to that is a casino, a hotel, a grocery store.

"We have all the amenities," Scott smiled. "It's a little like Las Vegas: We don't want you to leave."

"Our second tower and the Stantec Tower moves in in October, with the remaining tenants to arrive in 2019," he said. "The 483 condos above Stantec will be topped off around December. The final piece of the first phase puzzle will be completion of the Greyhound block in around 24 months, with the residential tower above it about 36 months out."

The next phase will populate the area with upward of 3,000 additional residential units and additional commercial space in the works as well, he concluded.

■ *Robert Frank*

APARTMENT MARKET: STEADY AS SHE GOES

Phil Milroy
President & CEO
Westcorp

"The latest statistics show that the component of the working population that got hit the worst is young males… So obviously if you've got apartments that cater to that, the drop has been the most significant."

For a market that's getting over an oil bust, Edmonton's apartment rental market has performed quite well over the past two years. "There's new supply to absorb, but the economy is recovering," says Phil Milroy, President and CEO, Westcorp.

Central Edmonton is coming alive in a big way, and fairly rapidly. The Ice District is a major contributor. So is the ability to cater to demographics that drive urbanization. Millennials, Milroy says, tend to prefer "nicer finishes" than in the past but are willing to live in smaller apartments, as long as they can get together in common areas as part of the amenity package.

"A proper fitness facility has been mandatory for a long long time and still is, but in addition to that, people want a multifunction room where they can hang out in and maybe play pool, access a colour printer, get a coffee," Milroy says. "Setup should be fairly flexible so they can put tables together and have a group meeting, or keep them apart and sit in couples or even singles. There should be televisions or a theatre setup, function rooms... There are all kinds of reasons why people like to get together, and they seem to appreciate the fact that they can do it either for free or relatively inexpensively in the building that they live in."

Since the economic slowdown, rents are somewhat lower than they were four years ago, to varying degrees. "The latest statistics show that the component of the working population that got hit the worst is young males," Milroy says. "Employment and employment income for females really didn't drop. It did drop for males – and there's been significant recovery – but males below the age of 24 have been hurt the worst. So obviously if you've got apartments that cater to that, the drop has been the most significant."

Edmonton's diversified economy has been key to its steady recovery. "And in particular the presence of the provincial government, which switched from a more fiscally responsible to a less fiscally responsible left wing government – which meant that they'd hired more people – certainly didn't hurt the Edmonton market," Milroy says.

■ *Michelle Morra*

ENERGY REBOUND, DEMOGRAPHICS BRIGHTEN EDMONTON PROSPECTS

Nolan Montgomery
President, Camgill Development

Edmonton, like most of Alberta, will continue to enjoy improved economic activity during the coming year, expects Nolan Montgomery.

"The biggest driver is the oil and gas industry rebound. Liquids like butane and propane are fetching really great prices," observed Camgill Development's president. "Likewise, Edmonton is going through a gentle recovery. We're seeing more tenants start to move around, rightsizing and consolidating."

The city also brims with youthful optimism and energy, maintaining its low median age, high education attainment and appeal to migrants.

"Edmonton is an urban, affordable community that continues to attract a young demographic," said Montgomery, who sees ample opportunity in all asset classes in the region.

"Whether that's Nisku, Acheson, Fort Saskatchewan, or Edmonton proper, they will all improve," he forecast. "There is a lot more activity in industrial, with a lot more tenants looking for space. Retail has been robust during the past couple of years. Where once we previously provided tenants with rent relief and had closed the doors on some, they're now seeing growth and posting stronger numbers."

Most markets are also showing an uptick elsewhere in the province, Montgomery added.

"In places like Grand Prairie, we have seen significant growth," he said. "On the retail side, we're seeing some resurrection in Lloydminster. Contractors tell us that they're a lot busier on the civil side, as well as in oil and gas."

Farther north continues to lag, though. In Fort McMurray, most new plants there are either now complete or have been shelved indefinitely. The federal and provincial governments could contribute more to improve economic prospects, Montgomery suggested.

"They're not providing a lot of certainty to the business community," he asserted. "A lot of non-Canadian oil companies deciding to leave."

Real estate operating costs are also hobbled by sky-high property taxes, Montgomery added.

"We are witnessing a dynamic here where tenants are mulling relocating to lower-taxed jurisdictions," he warned.

The greatest challenge over the horizon is rising interest rates, which will expand capital spreads while driving up debt service costs, sending valuations downward.

"That spells opportunity for buyers," Montgomery observed. "We're factoring that in to the pricing of our prospective purchases. If we anticipate interest rates to increase 50-100 basis points, perhaps it should be at a 7.75-8 per cent cap, rather than 7.5 per cent."

■ *Robert Frank*

QUEST FOR QUALITY PROVES PROFITABLE

Cory Wosnack
Principal & Managing Director
Avison Young

When Edmonton faced the latest energy crunch a few far-sighted developers had a vision: Rather than retrench, they decided to up their game. The results raised the bar for the entire city core and have proved unequivocally that Edmontonians hanker for quality properties – and are prepared to pay to get what they want.

"It's abundantly evident in the office market, but we're also seeing it in residential and retail," affirmed Avison Young Principal and Managing Director Cory Wosnack. "Tenants are consistently choosing quality over low cost. We're inundated with demand from tenants who want better quality buildings. The new buildings are nearly fully leased. Plus, on the hospitality side, the expectations attending the impending J.W. Marriott hotel opening have already induced hotels here to improve their offering."

The near-sellout performance of downtown Edmonton's new facilities has triggered a domino effect down-market. If you want to remain a player, your properties need to keep pace.

"That's good for the older buildings that are starting to see some success from reinvestment that has increased their value," he observed.

Other owners have opted to convert underperforming office properties to a residential vocation. That absorbs vacant office space and removes office inventory. At the same time, leasing is rising, creating a win-win combination for the city core.

"The trend points toward an improved marketplace," Wosnack reported. "We're witnessing a significant improvement in the vacancy rate of about three percentage points in the first quarter of 2018."

On the residential side, condo construction continues unabated, supplemented by the return of rental construction that had largely been absent here for the past two decades.

"That's exciting, because it will offer Edmonton's discerning young demographic the option of renting a high-quality residence," he said.

The resurgence has revived the interest of real estate investors who have skirted Edmonton for the past few years.

"The tough times are over in the energy sector," Wosnack said. "Our clients are coming off the sidelines and making real estate decisions. We've seen more first-quarter transactions than we have since 2013. By the third quarter, it ought to be apparent that Edmonton is on the upswing."

■ *Robert Frank*

EDMONTON'S DOWNTOWN REVITALIZATION UNDERSCORES NEED FOR MORE INFRASTRUCTURE

Keith Shillington
Senior Vice President
Canada Prairies & Territories
Stantec

This fall, Canada's tallest building west of Toronto will be the new home of Stantec's 1,500 Edmonton employees.

It's a big move for the previously scattered workforce, who will now be occupying floors three to 21 of the 66-storey Stantec Tower.

It also underscores the ongoing need for the city to continue improving and updating transportation infrastructure, says Keith Shillington, Stantec's Senior Vice President and geographic leader of Canada's prairies and territories.

"We can only have so many parking stalls and we know they won't accommodate 1,500 staff - so how can they efficiently get into our offices in the downtown core?" say Shillington.

"We need to make sure we have the appropriate infrastructure to get to and from work. Stantec is really driving the need for an enhanced LRT, making sure traffic routes and bike lanes are efficient and ensuring safe walkability for staff who live nearby."

The tower is at the heart of a 25-acre, $2.4 billion mixed-use development called the Ice District; it's the future home of Rogers Place and combines shopping, dining and entertainment with offices and condo residences. About 12 million people are expected to pass through it every year.

"Edmonton has maintained a degree of strength over the last few years in large part due to the construction in the Ice District and on condo towers. It's kept a large workforce employed and stimulated investment in the city," says Shillington.

"For us it has been about how to capitalize on opportunities with all this downtown revitalization.

"What will it look like when a lot of those cranes come down? A lot of potentially great gathering spaces have been created, so how will they be programmed and utilized to the maximum?"

"Right now, there's a lot of activity with new towers under construction in the Ice District. The question is, what will it look like when those cranes come down? A lot of potentially great gathering spaces have been created, so how will they be programmed and utilized to the maximum?

"Recently the city opened a park downtown with a dog run through it – those kinds of gathering opportunities need to continue. It's not just about the big buildings, but the spaces that go along with them – as this is not purely a place to work in, but also a place to live."

■ *Barbara Balfour*

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INSIGHTS FROM INDUSTRY LEADERS DURING THE CONTENT FORMATION OF THE QUÉBEC APARTMENT INVESTMENT CONFERENCE.

1
PURPOSE BUILT APARTMENT DEVELOPMENT IS HERE TO STAY

Development is everywhere – what does the market need in terms of supply and type?

2
SENIORS' HOUSING IS POISED TO GROW AND INNOVATE

population growth in the 75 year and over age group will accelerate, and likely lead to increased demand in the coming years.

3
STUDENT HOUSING AND THE USER EXPERIENCE HAVE IMPLICATIONS

Technology, amenities and layouts seem to be more progressive and notable compared to Canadian properties.

4
BUILDING SECURITY AND SAFETY IS PARAMOUNT

Owners and managers are concerned with costs that arise that are not factored into the typical property capital reserve structure and can not be offset by rents.

5
CANNABIS LEGISLATION AND RENTAL MARKET CONSIDERATIONS

How do you allow tenants their rights under the new cannabis legislations and still protect the buildings and other tenants from the effects of second hand smoke?

6
MIXED USE DEVELOPMENTS ARE IMPACTING COMMUNITIES

When done with proper consideration, a mixed-use development can essentially rebalance an existing property by eliminating outdated and surplus space and replacing it with contributing housing and businesses.

7
SUBSIDISED HOUSING IN QUÉBEC IS RECEIVING NATIONAL ATTENTION

Canada has plans to build 80,000 new affordable housing units over 10 years. More than $10bn has already been earmarked for this strategy.

8
TECHNOLOGY IS CHANGING THE INDUSTRY FROM TOP TO BOTTOM

From payments to service requests, technology is changing the ways we interact with our tenants.

9
MONTRÉAL IS DEALING WITH THE IMPACT OF AIRBNB

In 2016, the top 1% of hosts earned $51.7 million each.

10
CONDOMINIUMS KEEPS TO KEEPGOING UP AND SO DOES THE SHADOW RENTAL MARKET

In the urban downtown, CHMC has reported that 1 in 4 condominium units are rental.

For further details on these top trends please visit the Real Estate Forums Portal at realestateforums.com

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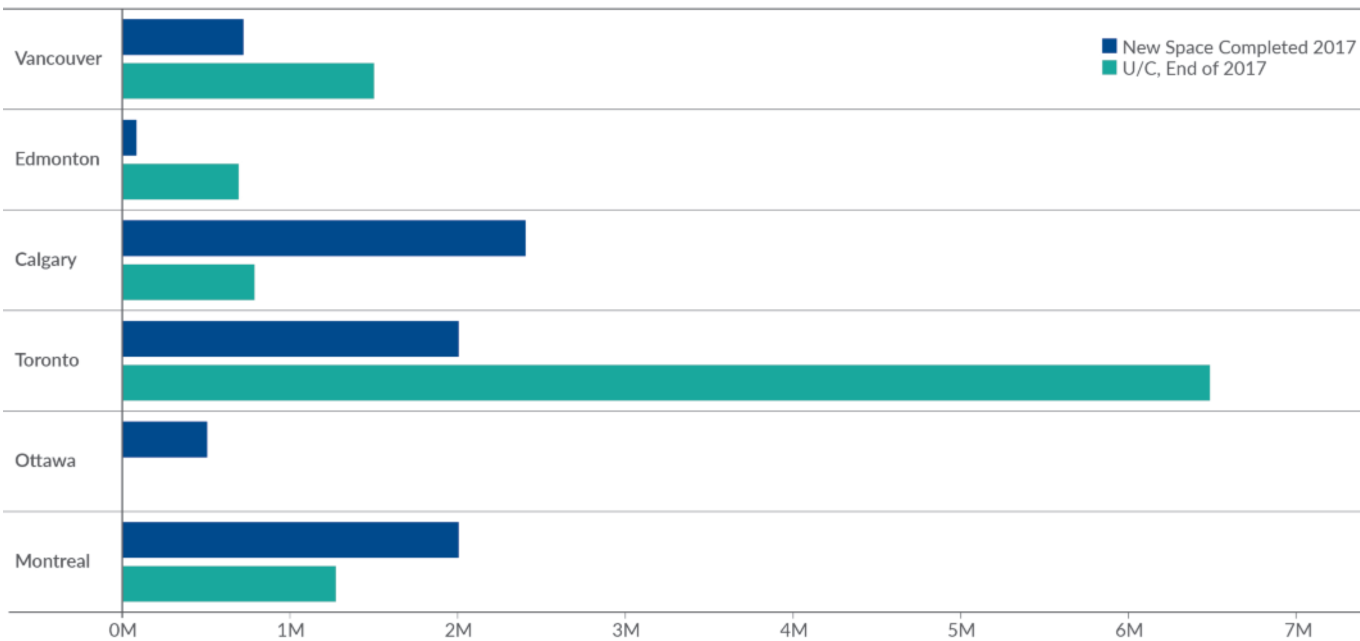
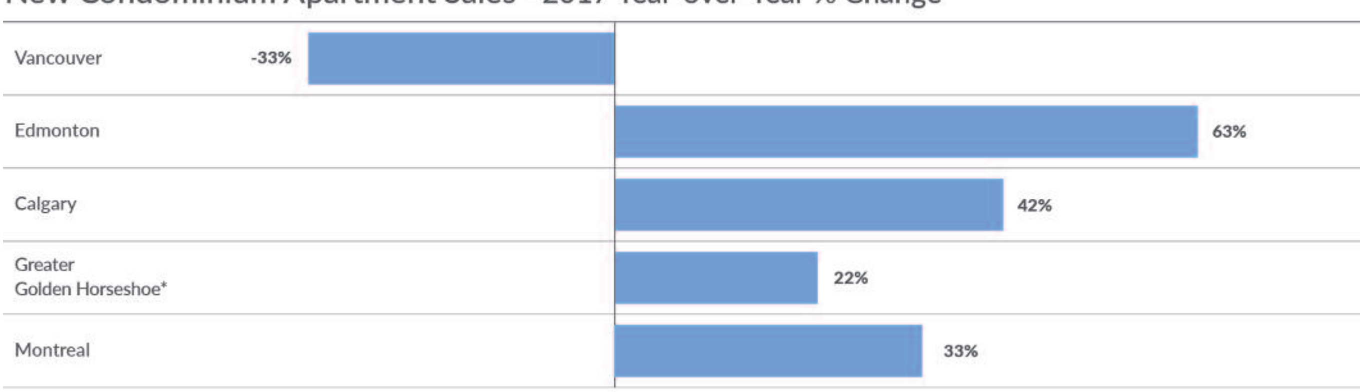
New Office Space



Source: Altus Group

New Condominium Apartment Sales - 2017 Year-over-Year % Change



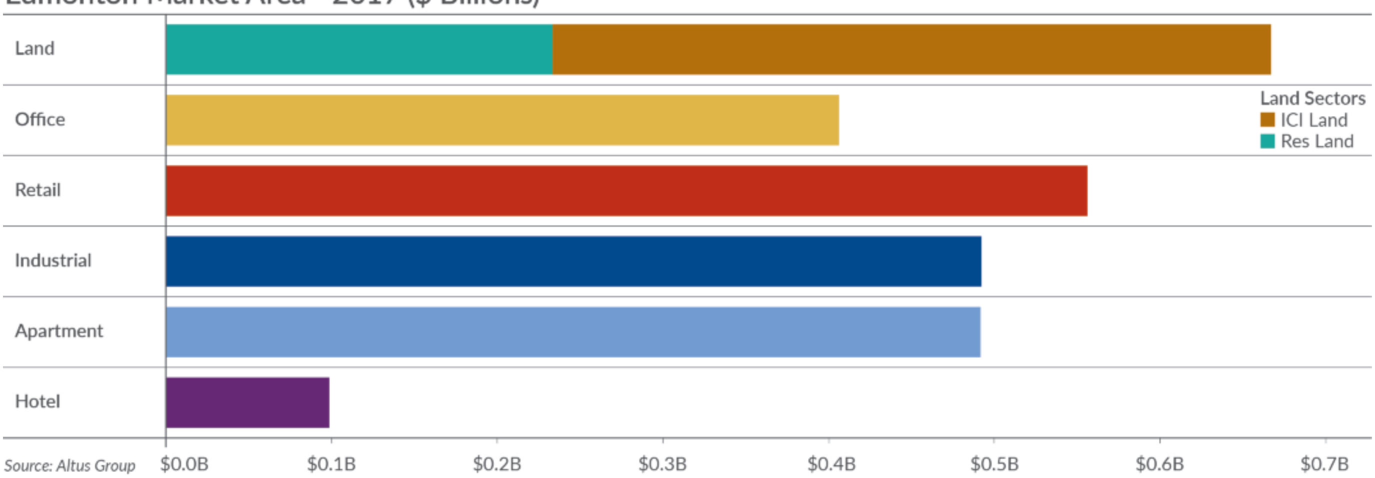
Source: Altus Group

**Includes Greater Toronto Area plus remainder of the Greater Golden Horseshoe*

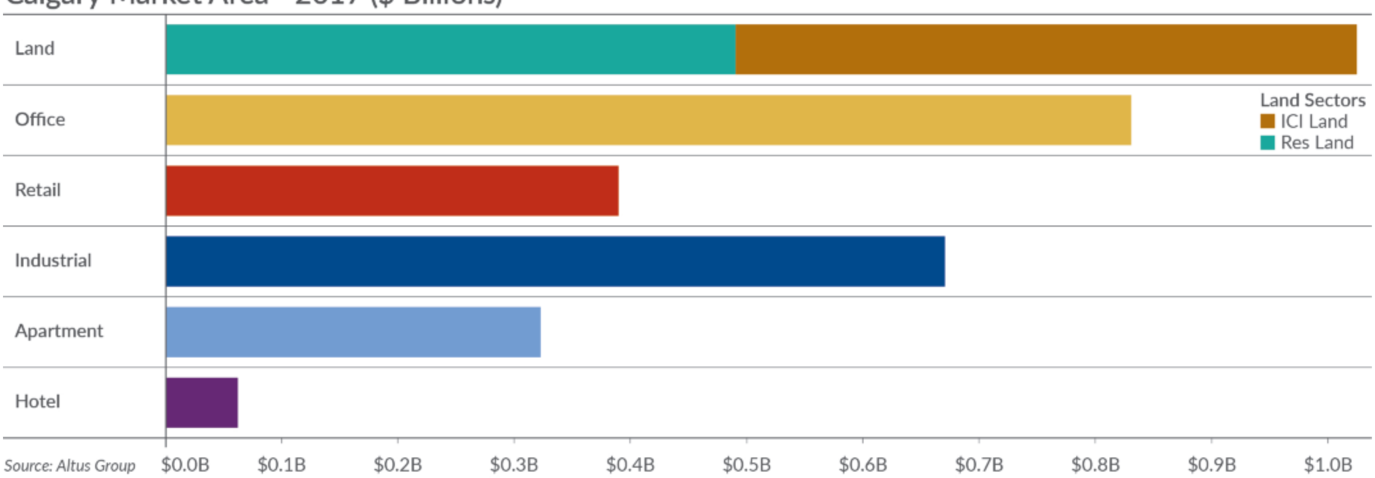
Property Transactions by Asset Class

Vancouver Market Area - 2017 ($ Billions)

Edmonton Market Area - 2017 ($ Billions)



Calgary Market Area - 2017 ($ Billions)



AltusAnalytics
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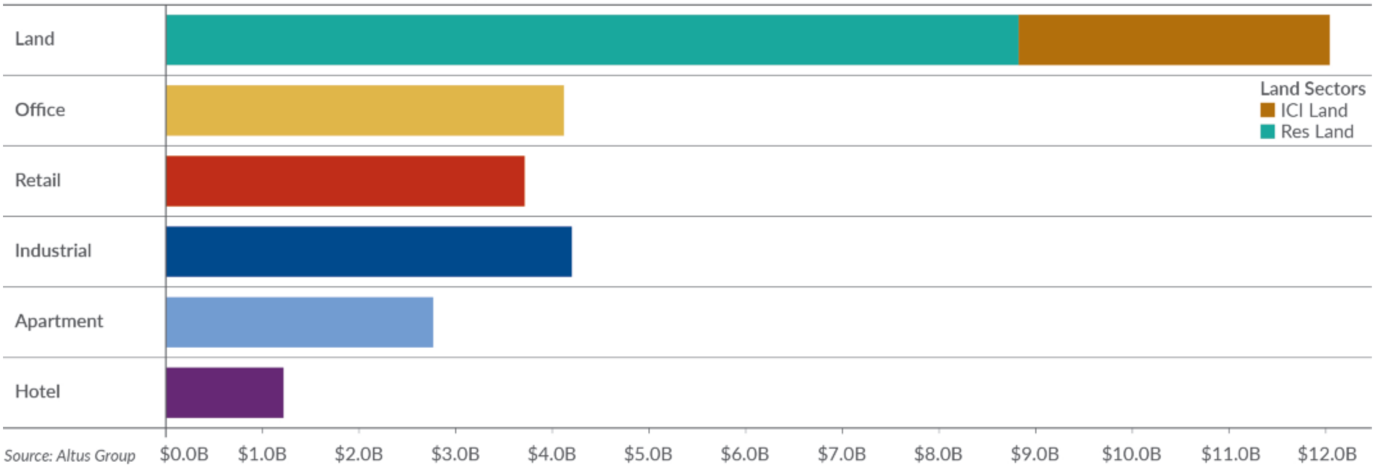
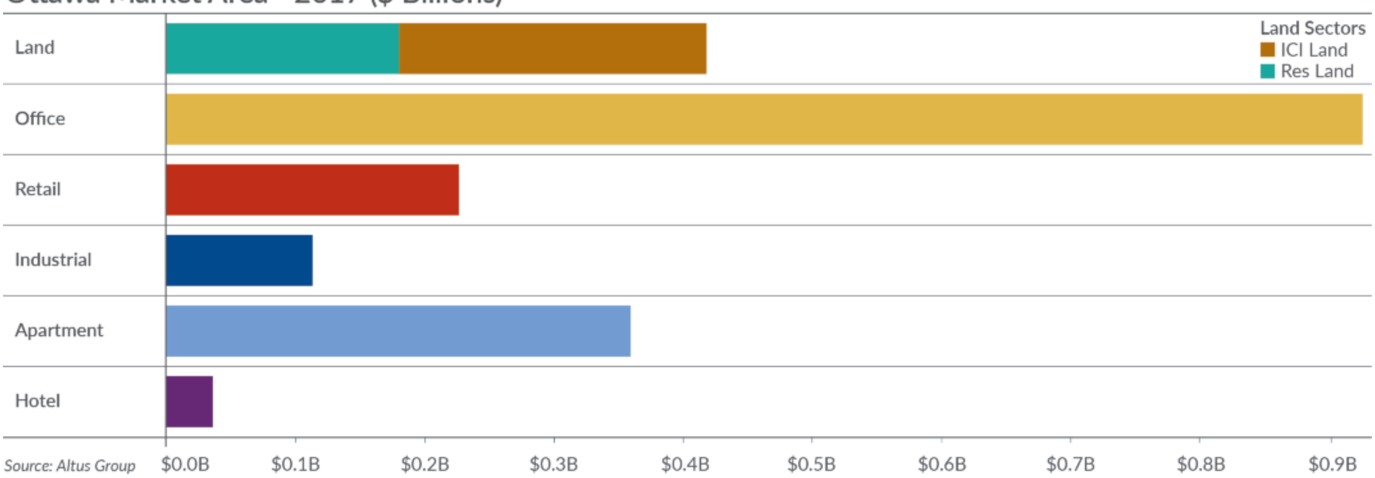
Greater Golden Horseshoe* - 2017 ($ Billions)

*Includes Greater Toronto Area plus remainder of the Greater Golden Horseshoe



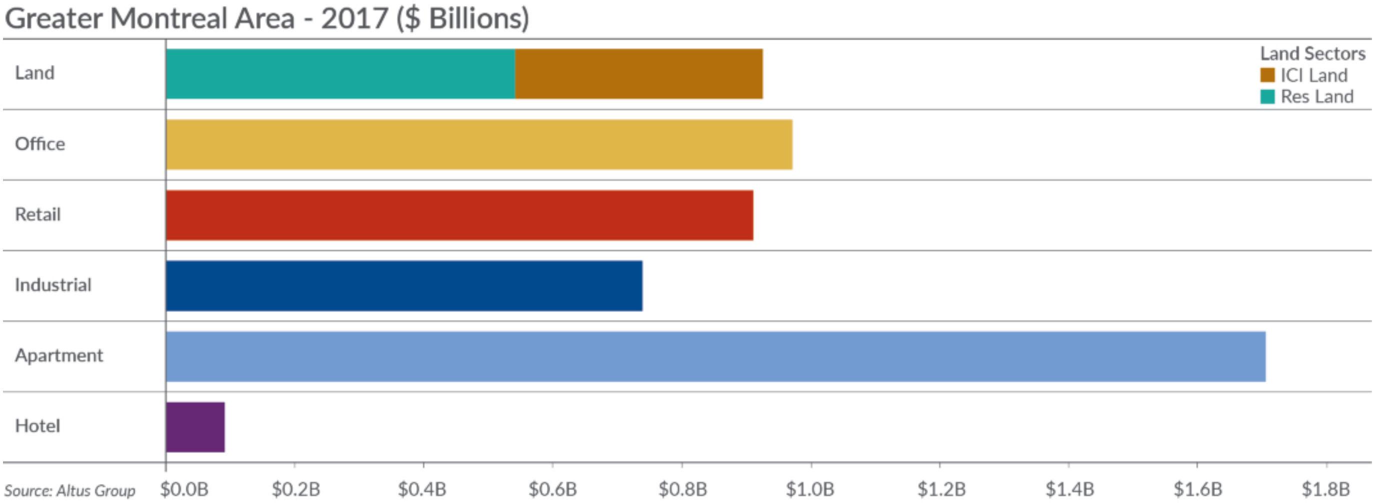
Source: Altus Group

Ottawa Market Area - 2017 ($ Billions)



Source: Altus Group

Greater Montreal Area - 2017 ($ Billions)



Source: Altus Group

DATA SOLUTIONS
altusgroup.com/datasolutions

TOP 10 | REAL INSIGHTS

2018 RealCapital Conference Issue

ISSUE 3.0

INSIGHTS FROM INDUSTRY LEADERS DURING THE CONTENT FORMATION OF THE TORONTO REAL ESTATE FORUMS & CONFERENCES.

1 CANADA'S BANK REGULATOR TO IMPLEMENT GLOBAL REGULATIONS

The most impactful changes to global banking regulations are in capital and liquidity.

2 BLOCKCHAIN AND OTHER CRYPTO CURRENCIES

Blockchain technology can potentially transform any type of transaction with built in inefficiencies including core CRE operations.

3 ARE HOUSING MARKETS AT THE TOP OF THE CYCLE?

Statistics Canada has recently reported that there will be some 2.5M people between the ages of 25 and 30 in 2018, an age that typically looks for home ownership.

4 PENSION FUNDS ARE FORECAST TO INCREASE THEIR ALLOCATIONS

It has been estimated that in 2016, Canadian pension funds held $188B of Real Estate assets up from $32B in 2004.

5 CERTIFICATION PROGRAMS AND DEBT UNDERWRITING

An argument could be made for LEED factoring into underwriting, but what about Wellness, Telecommunication and more.

6 GROWTH OF INVESTMENT MANAGERS

With a softening of the rules and a heightened need to increase allocations those plans without internal teams will continue to look at partners and managers.

7 CROWDFUNDING STILL ON THE RADAR AND GROWING

RealtyMogul was founded in 2012 and their portfolio is valued at over $1B having financed over 350 properties.

8 ARE INTEREST RATES GOING UP IN 2018?

Royal Bank economists say that they expect the Bank of Canada to increase the overnight rate by 1-2% throughout the year.

9 ALTERNATIVE LENDERS ARE MAKING GAINS

Borrowers are pushed to look at creative options regarding their debt structuring.

10 THE IDEAL CAPITAL STACK IN AN INVESTMENT

By no means is it one size fits all and creative structuring continues to evolve as this complicated and intricate process is negotiated.

For further details on these top trends please visit the Real Estate Forums Portal at realestateforums.com

CANADIAN MULTI-RES TENANT RENTAL SURVEY

Presented by

YARDI

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

7TH ANNUAL NORTH AMERICAN NEW APARTMENT CONSTRUCTION AND MIXED-USE SYMPOSIUM AND EXPO

June 6 & 7 2018 · Metro Toronto Convention Centre

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Michael Brooks
Chief Executive Officer
REALPAC

TALE OF THREE CITIES: DIVERSIFICATION EAST VS. WEST

It must be frustrating for real estate portfolio managers and CEOs. Diversification is of course always good discipline, particularly in real estate. Diversified portfolios generally outperform non-diversified ones over the long run; and their standard deviation and co-variance risk compared to all assets being in a single city, is much lower. Investment practitioners refer to this as the risk adjusted return. Academics refer to it as the efficient frontier.

If you had all your eggs in the Vancouver basket, you were likely a winner in 2017, with a total return of 9.3%. Toronto was 10.4%. Montréal also had a pretty good year with a total return of 6.5%. If you had all of your eggs in the Calgary basket, or the Edmonton basket, however, you were lucky to break even on a total return basis, with Calgary returning negative 3/10ths of 1% and Edmonton a plus 1.4%.

For the rest of us, we refer to it as good business sense. But the frustrating part for those with diversified portfolios is when one of those markets underperforms, dragging down the portfolio returns. Can we not just run on eight cylinders all the time? Well, no. That's not the way it works in real estate.

The recently released REALPAC/IPD Canada Quarterly Property Index results for 2017 show this. The Index tracks real estate assets across Canada, appraised quarterly, going back to 1985. It has almost 2500 buildings in its 2017 dataset, representing $150 billion of professionally managed real estate in Canada, probably from close to 50% of that market. If you were perfectly diversified across all of those 2500 assets, you enjoyed a total return of 6.7% in 2017.

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Capital growth was a key factor. Capital growth in Toronto and Vancouver was at 5.5% and 4.7% respectively. Montréal also had positive capital growth at 1.6%, but the total returns for both Edmonton and Calgary were dragged down by capital returns of negative 4.1% and negative 5.5% respectively. Most of the loss in Edmonton and Calgary were in the office sectors: -7.5% and -7.6% respectively.

Money was clearly flowing to Toronto and Montréal, with net inbound real estate investment of almost $1.6 Billion and $790 million respectively. Surprisingly, Vancouver saw some capital flight, with just under $750 million of real estate investment leaving the city.

The land use categories achieving the most success have flip-flopped over the years. In 2017, Canada-wide residential properties had the highest total return at 10.3%, followed closely by industrial at 10.2%. Office was at 6.2% total return, while retail dropped to the bottom of the pile at 5.3% total return. It was only a few years ago that retail was at the top of the total return stack having enjoyed a run of many years at the top of the heap. It's possible that low retail results are a harbinger of growing e-commerce sales, with positive industrial returns conversely benefiting from e-commerce sales. It wasn't too long ago, when oil was over $120 a barrel, that institutional investors couldn't get enough of Calgary and Edmonton. More recently, we have seen a few fire sales, but most investors are seemingly choosing to wait it out for that market rebound.

So diversification works. One may not always get the top return country-wide, but investors can also avoid the bottom return if they've diversified properly, both by city, and by asset class. ■

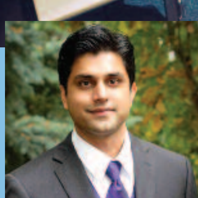
Congratulations graduates of the RPIC Program!

REALPAC Real property Real leadership | Ryerson University | TED ROGERS SCHOOL OF MANAGEMENT

EXECUTIVE EDUCATION PARTNERS

REALPAC and Ted Rogers School of Management at Ryerson University are pleased to congratulate the first five graduates of the RPIC Program.

Launched in 2015, the Real Property Investment Certificate (RPIC) offers 2-day, in-class courses that provide real-world insights and proven tools you can apply to your role in the commercial real estate industry.



"The experiences shared by the industry experts/guest speakers were phenomenal. This program enables you to see various aspects of the industry that normally you might not be involved in day to day, but shows you how they are linked in the big picture of things."

Farhan Shah,
Director, Asset Management,
Partners REIT

"The course material continues to evolve to meet key industry trends as they unfold and the impressive roster of speakers bring the content into real-time. The networking opportunities in this type of format are unparalleled – I'd highly recommend the program to anyone in the industry."

Dwayne Doolan,
VP, Asset Management,
Fiera Properties Limited

Visit realpac.ca > Educates > RPIC Program

Contact: Edward Byers, Manager, Professional Development & Events, ebyers@realpac.ca, 416.642.2700 x221

ON OUR WAY TO GREATER TRANSPARENCY IN THE CANADIAN PRIVATE FUND MARKET

Sandra Dos Santos
Director, Industry Affairs & Compliance
REALPAC

The Canadian non-listed real estate fund sector is gradually becoming more transparent. REALPAC's 2017 Closed-End Fund Survey Report provides more extensive information on the growing Canadian market. With an increased participation rate and more in-depth questions, as well as first time representation from western Canada, REALPAC is making progress on its goal to provide meaningful data on the scale of the Canadian market.

In its second year, the Survey had 17 participants and responses were provided for 47 funds, an increase from its inaugural year with 11 participants and 26 funds. The total equity raised by participating funds was over $10 billion and the total value of assets under management for participants was in excess of $37 billion, double the amount of the previous year. The 2017 Report focused on four areas: fund managers; fund particulars; fees and separate accounts; and a sentiment analysis. With the expansion of collected data, REALPAC was able to obtain new information on the level of investment by investor type with a comparison to the global market, level of investment by asset class focus, actual fund leverage, the basis of management fees as well as components of management fees, future allocation of investment and key challenges facing fund managers. The 2017 Report also contains crucial information on other areas previously reviewed in REALPAC's 2016 Report, including fund strategy, geographic focus and gross target annual returns.

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The expectation is that the market will continue to grow with over 80% of fund managers anticipating launching a new fund within 18 months. Private closed-end funds form an important part of the commercial real estate investment market and we should continue to focus on understanding the depth and specifics of the private fund sector. REALPAC is pleased with the progress made in the second year of its Survey, but greater participation and cross-country reach will provide more meaningful insight into the national fund landscape. REALPAC is currently working on its 2018 Closed-End Fund Survey, with a goal to continue its growth. With the varied geographical focus for fund investment in Canada, it is important that we secure greater participation from fund managers all across the country, especially western Canada, to provide a truly national perspective. Increased participation will result in more meaningful and relevant information that will help strengthen the current fund market and increase Canadian global competitiveness. ■

THE RETROFIT ECONOMY

Michael Brooks
Chief Executive Officer
REALPAC

Even an energy saving retrofit with a 10 year payback is in fact yielding a 10% return, which would easily be accretive to almost every REIT in Canada, and certainly every pension fund or endowment in Canada.

Is there anything more politically charged and divisive in this country than discussing carbon? In some parts of Canada the discussion about sustainability in all its attributes is positive, forward-looking, and absolutely necessary. In others it is seen as too expensive, anti-pipeline, and against our national interests. Political parties seem to be polarized on the issue as we swing back and forth both federally and provincially, depending on who is in power.

People are much less polarized when discussing kilowatts. Indeed, owners of income producing real estate have been focused on energy efficiency for decades, since there is a clear business case for doing so. Lowering energy demand in a building lowers the overall energy bill which in gross lease situations (i.e. apartments), goes into the landlord's pocket, and in net lease situations (i.e. office, retail, industrial) makes the gross rent number more competitive, allowing the net rent portion to be higher. That too goes into the landlord's pocket.

If the discussion is changed from kilowatts to carbon, attitudes change, because carbon doesn't have a cost as it is emitted. Buildings account for about 12% of Canada's GHG emissions. As Canada is a signatory to COP 21, our federal government, and many of our provincial governments are focused on reducing consumption of fossil fuels to meet our targets of a 30% reduction by 2030, and an 80% reduction by 2050. In fact, the discussion now has to include both kilowatts and carbon when it comes to real estate. In many provinces in Canada, carbon emissions now have a cost, whether it's through a carbon tax, or cap and trade system. That cost will continue to rise, forcing its way onto income statements across the country, in ever larger proportions.

All new buildings are required to meet minimum energy efficiency levels in areas such as lighting, HVAC, water, and electricity; and they're also more focused on renewable energy sources to meet the demand. The existing building stock however, needs to be massively upgraded to be more energy efficient, and likely need to convert fuel sources from fossil fuels to electricity and on-site renewable generation. The private sector needs to get out ahead of this tightening policy, as the business case for energy efficiency and fuel switching become clearer and more compelling. Even an energy saving retrofit with a 10 year payback is in fact yielding a 10% return, which would easily be accretive to almost every REIT in Canada, and certainly every pension fund or endowment in Canada. We have the skills and the knowledge to dramatically improve the energy and carbon performance of our buildings coast to coast. With global CO_2 now approaching 408 ppm, in a seemingly headlong upward rush since the beginning of the Industrial Revolution, we need to do so, now. ■

RENT CONTROL: THE PERFECT POLICY TOOL TO REDUCE LONG TERM RENTAL SUPPLY

Michael Brooks
Chief Executive Officer
REALPAC

For governments keen on protecting affordability in the rental housing sector, introducing (and sometimes expanding) rent control actually makes it worse. Rent control is a policy that places a cap on rental increases that landlords may charge tenants, and like all other government-mandated price controls, are apparently meant to limit price volatility and improve the general affordability of the commodity being controlled, and maybe garner a few renter votes on the side for the ruling party. In government parlance, we are told rent controls keep housing affordable for those who need that affordability most: generally low income current residents.

While that should be a key goal for all governments, the reality is that rent control is an unfair, ineffective and profoundly counter-intuitive measure that, ironically, worsens the rent problem it is meant to solve over the longer term. This is because only an increase in rental housing supply or a reduction in rental housing demand, will result in potentially lower market rents. By artificially constraining market-based pricing for rental accommodations, governments fix the top revenue line for anyone owning or planning on developing apartments, incentivizing them to look elsewhere for lower risk and higher market-based returns.

The votes gained today from existing renters are obtained on the backs of future renters, who will be worse off. Furthermore, rent control creates free riders. If I'm a wealthy renter, I've been handed a gift by a government who imposes rent controls, even though I don't need it, and could afford market rents. A far more targeted solution to low income current renters who can't afford market rents, would be a rent subsidy program geared to income. That way only those who need it receive government assistance, and the market incentive to supply rental accommodation remains intact. A second alternative is government supplied affordable housing, where they can suffer the risk and take the loss (and negative press) from uneconomical and under maintained apartments.

Twenty-five years ago, the American Economic Association polled its members and found 93% of economists agreed that "a ceiling on rents reduces the quality and quantity of housing". Surely this is a lesson our representatives could have learned by now. A forward thinking politician would be just as concerned about future renters as current voters.

There are significant challenges facing Canada's rental housing market, to be sure. Much of this is driven by strong demand in a few major cities. Vacancy rates in purpose-built rental are at a 15 year low in some cities. The vacancy rates for condos in cities like Toronto and Vancouver are also very low and as we know, a significant portion of those are added to the overall rental pool. Population increases further the demand in many major cities, and hit a prime renter age segment (the 25 to 34-year-old demographic) especially hard. New reports indicate the average price for one and two-bedroom rental units has hit historic heights in Toronto and Vancouver. Low vacancy rates and soaring prices leave the rental housing market unaffordable for many among us.

Even for tenants, rent control is a dicey play. In some cases (such as non-institutional landlords) the tenant is protected, but the actual value of the cap is questionable since tenant services may be reduced, unit upkeep and maintenance are scaled back and other non-essential expenditures are limited by landlords. The quality of rental services tends to reflect rents paid by tenants, after all.

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As rent control does nothing to address the underlying causes of price increases (increased demand and static supply) it is an ineffective solution to affordability challenges. Solutions will come from more expansive strategies that counterbalance strong demand with robust new supply. Sweeping government action to increase supply will provide more choice for prospective tenants, prevent rentals from being converted into condos, and keep purpose-built rental as an attractive prospect for institutional investors. ■

PROPTECH: NOISE OR DISRUPTION?

Michael Brooks
Chief Executive Officer
REALPAC

Lisa, Flip, Flow, Irene, Jones, Zeus. Nicknames of your high school friends? No. They're trade names of some of the thousands of start-up property technology firms intending to make more efficient use of space, or enhance the processes used by various actors in the residential and commercial real estate industry. Nothing seems to be immune from a rethink. Breather and Bizly tackle unproductive boardrooms and hotel rooms respectively. Rightmove and Trulia make listings more transparent. Pavegen generates electricity from walking on floor tiles. Lisa is software that is able to automatically respond to listing inquiries and schedule showings. Flip is an Airbnb for commercial subleases. Parkifi gives real-time occupancy data for parking and property management. Spacious lets you tap into unused space in local restaurants for your next meeting. Betterview provides for drone based property inspections. The categories are seemingly endless.

When we add in WeWork and RocketSpace, names a bit more familiar to Canadians, we can understand that what Uber and Lyft are doing for transportation, these companies are doing for commercial space.

Most of us have read about the pending transformation of transportation by autonomous vehicles, but few of us can figure out what that exactly means for parking space ratios, the design of parking garages, or even location decisions for businesses. Tesla has had hands-free highway driving for several years. Many other car manufacturers now offer it. How ought we to design new communities in the age of autonomous vehicles? Is mass transit made obsolete by autonomous on demand minibuses? Will the rules of agglomeration, indeed even Christaller's Central Place Theory, be changed by technology?

So many questions, so much to learn. But we can't abandon that ability to screen and critically analyse. We have after all been here before, the dotcom boom and bust of the early 2000's and the crazy valuations given to niche start-ups back then should give us all pause for reflection. We must examine which of the start-ups, technologies, and ideas will find a market and have the staying power to be truly transformative. We must determine which emerging technologies are already proving transformative, which will be transformative in 2 to 5 years, and which are still 10+ years away. Some of these proptech solutions will experience rapid adoption, and some will likely crash and burn in the next two or three years as they run out of cash and customers.

REALPAC wants to help our member companies efficiently filter and focus in on the proven proptech tools our industry needs to harness to continue leading the real property sector. We're pleased to have partnered with MetaProp NYC to deliver a series of breakfasts throughout 2018 centred on different facets of Canadian proptech. We're talking to start-up fund managers, industry professionals like yourselves, and others to learn about these new technologies and start to apply the filters and critical analysis necessary to weed out those that are useful from those that are useless. ■