

QRIC: REAL ESTATE INDUSTRY PRIMER

OVERVIEW

Real estate has always held a strong position in the news for the meaningful effects it imparts on peoples' lives. Whether it be the infamous housing bubble, foreign buyer taxes, or a modest home that just sold \$450,000 over asking, it is a prevalent topic of discussion for professionals and laymen alike. Despite this, the commercial segment tends to the shadows of journalism relative to its residential counterpart. But when Canada reached a record-setting \$34.7Bn in commercial property sales in 2016, there was little to ignore. The national transaction volume had reached \$33.2Bn by Q3 2017, well ahead of the pace to set a new record. A herd of economic, technological, and social change is running around the world causing shifts at a pace never seen before. Canadian real estate is benefitting from increased uncertainty abroad as the nation's established character of safety and stability attracts significant investment capital. With this, Canada is indisputably under the international spotlight and will continue to absorb significant capital, both foreign and domestic.



REAL ESTATE ASSET CLASSES AND TRENDS

The commercial real estate environment has typically been divided into four main segments: office, retail, industrial, and multi-unit residential (apartment) properties. Each asset class presents its own trends across the market, and within different geographical locations. Office properties are thriving in urban centres like Vancouver, Toronto, and Montreal as businesses continue to attract top talent by relocating to Class A buildings in downtown cores or near coveted transit hubs. The expanding tech sector especially attributable to this effect. On the other hand, sector-focused markets like Calgary are experiencing high vacancy rates from the delivery of new office space that unfortunately coincided with downturn of oil and gas. The retail industry is currently in a state of flux as the influence of e-commerce continues to change consumer expectations and behaviour. It is drawing people away from physical store locations causing difficulties for retail property managers to find suitable tenants, while asset managers must also re-evaluate their strategies when forming their retail properties portfolios. While the impact of e-commerce is in its infancy, landlords must collaborate with retailers to create environments where they can impress customers with an augmented shopping experience, giving them a reason to visit the store. The outlook on industrial properties in 2018 is largely positive, especially in the Ontario market. Continuously increasing demand for online shopping is increasing the need for high-quality distribution and fulfillment centers that can handle the modern logistics demanded by the omnichannel retail landscape. The availability of industrial properties is at a 15-year low, so be prepared to see a surge in functional supply. Multi-unit residential demand will continue to grow as the stigma against renting softens alongside the potential for future additional increases in interest rates which is causing a retreat of prospective home-owners. Strong economic and population growth attributable to both foreign and inter-provincial migration are also playing a large role in intensifying renter demand.



Below is a brief overview of the main group of investors heavily involved in the Canadian commercial real estate industry. Keep an eye out for some of them throughout the conference.

Real Estate Investment Trust (REIT)

REITs are publicly traded companies that provide individuals the ability to invest a highly liquid stake in real estate, which is otherwise considered an extremely illiquid asset. As a requirement for their classification as a REIT, they must distribute at least 90% of their annual taxable income to unit holders. This provides investors with high-yield distributions, a unique feature of REITs.



Real Estate Developer

Developers are effectively the entrepreneurs that orchestrate the construction of new buildings. Their activities include buying land, organizing teams of architects and engineers, gaining building approvals, financing the project, and having a builder actually construct the project. Developers assume high amounts of risk associated with the projects. If the building fails because an insufficient number of units are sold or leased, then that falls on the developer and its investors.



Real Estate Asset Manager

Asset managers are active investors, owners, and managers of real estate and related assets that focus on delivering strong returns to their own investors. The range of activities can vary widely across organizations. It typically involves direct real estate investment, the provision of debt secured by real estate, and the management of portfolios invested in publically-traded real estate companies.



Pension Fund

A fund established by an employer or union to facilitate the investment of employees' retirement funds. Many of Canada's largest pension funds place serious importance on real estate investments as they provide relatively low-risk returns. Market leaders such as Quadreal are now wholly-owned subsidiaries of pension funds, operating as their real estate arm of business.



Private Equity

Firms that use funds raised from wealthy investors and institutions to purchase or invest in real estate assets. PE firms undertake highly levered transactions (using high amounts of debt), to decrease the risk exposure of their own equity in the deal.

