SVN ROCK ADVISORS

PRESENTS

OUR KICKOFF

2018 NEW APARTMENT DEVELOPMENT WEBINAR



Apartment Webinar

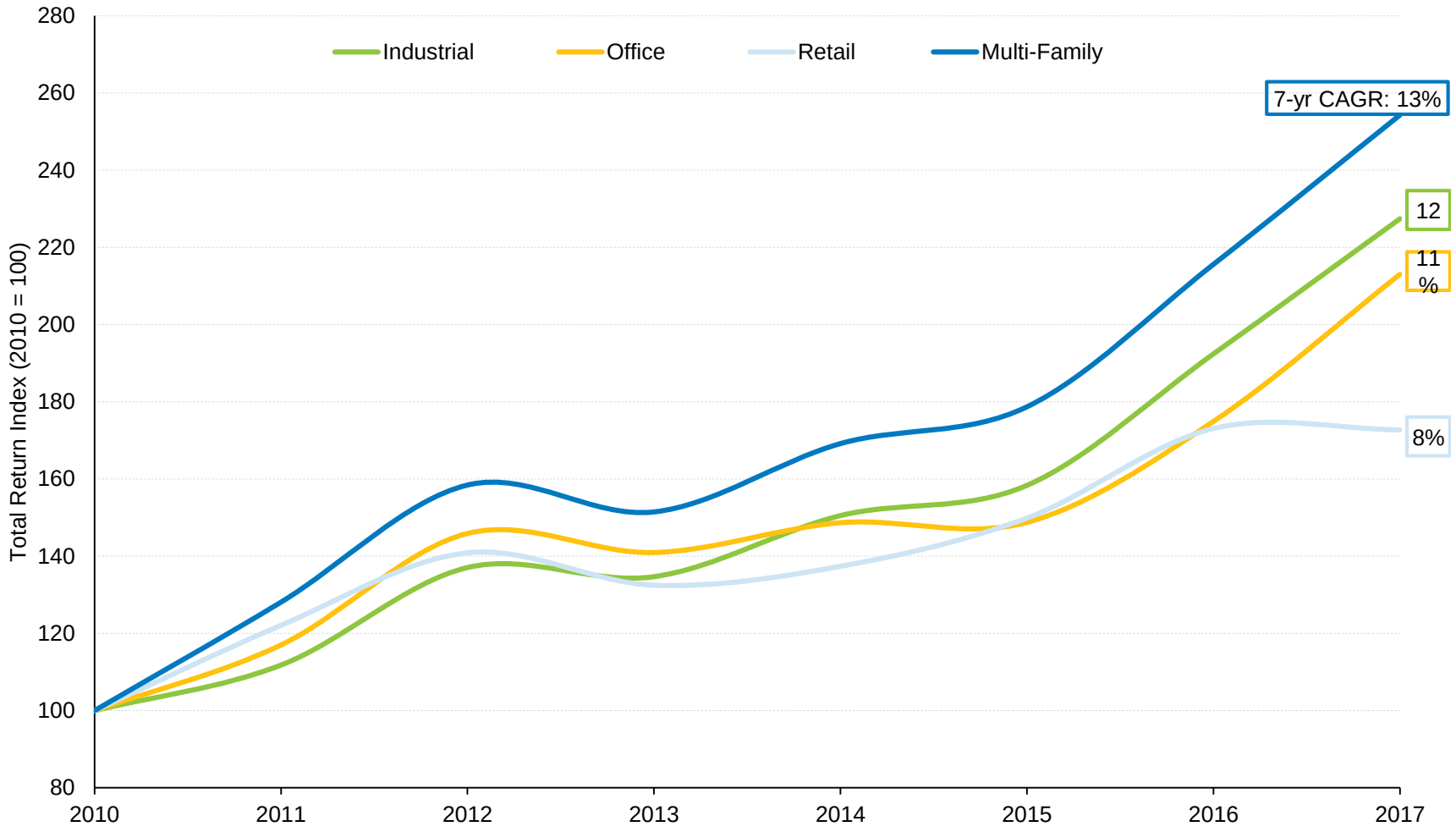
Heather Kirk, CFA
Managing Director / Analyst, Real Estate & REITs Equity Research
(416) 359-4030
Heather.Kirk@bmo.com

January 2018

BMO Capital Markets®

This report was prepared by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst's Certification, please refer to pages 23 to 26.

Apartment REITs Delivering Strong Returns

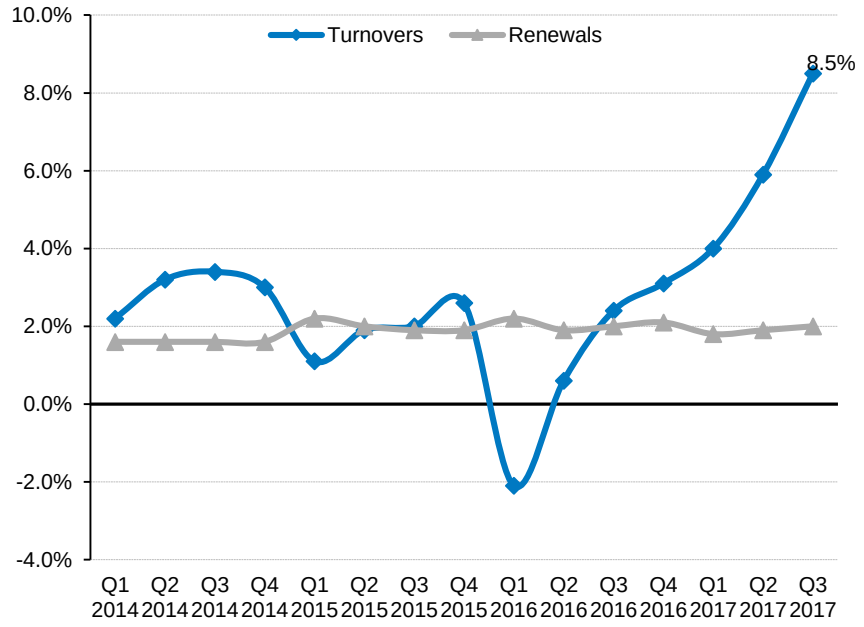


Source: FactSet, BMO Capital Markets

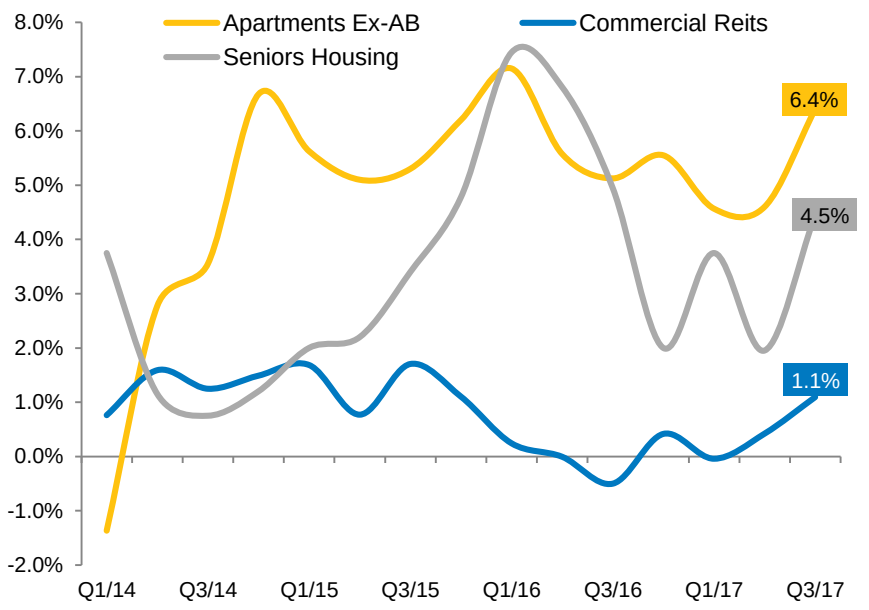
Apartment Performance Continues to Exceed Expectations

- A tale of two geographies: Ontario and Vancouver on fire and Edmonton/Calgary starting to stabilize but rent growth still negative
- Cap rates continue to compress particularly in Toronto and Vancouver, but spreading to non-core locations
- Strong demographic support from immigration, millennials and boomers
- Expensive house prices also a factor

CAPREIT RENT UPTICKS



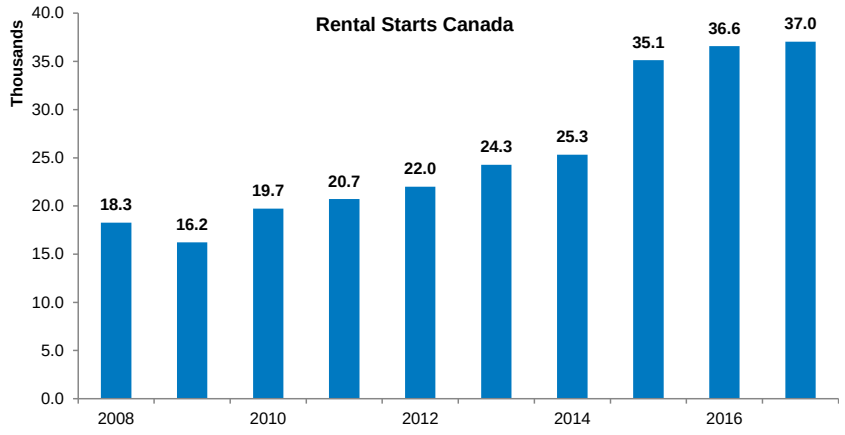
SAME PROPERTY NOI GROWTH BY SECTOR (Q2/17)

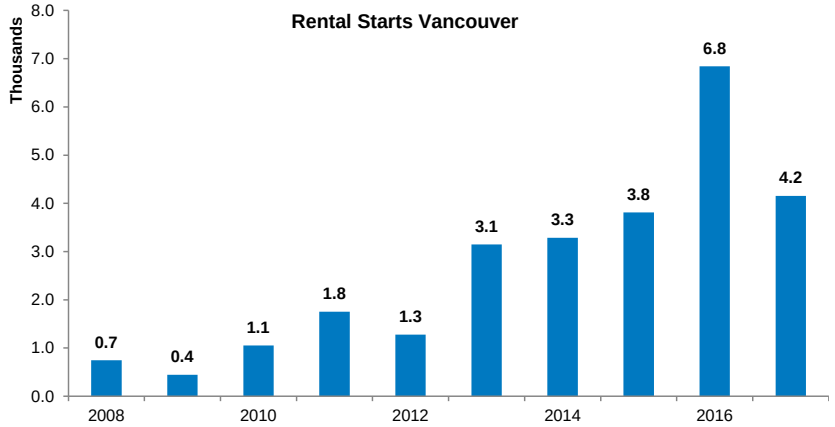


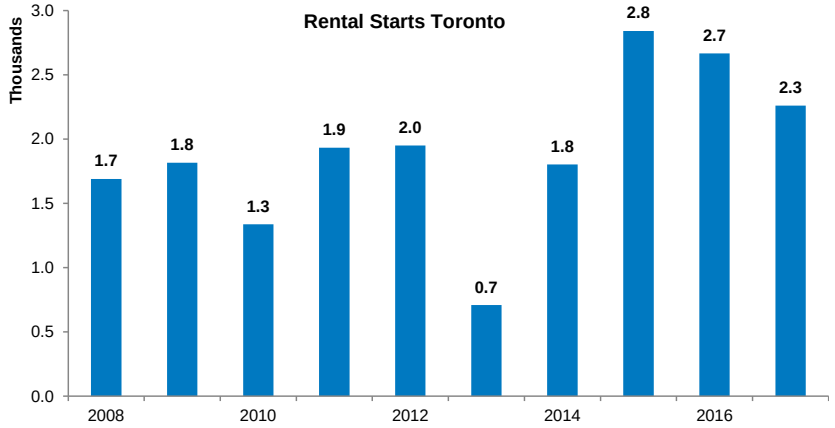
Source: Company Reports, BMO Capital Markets
Last Data point: Q3/ 2017

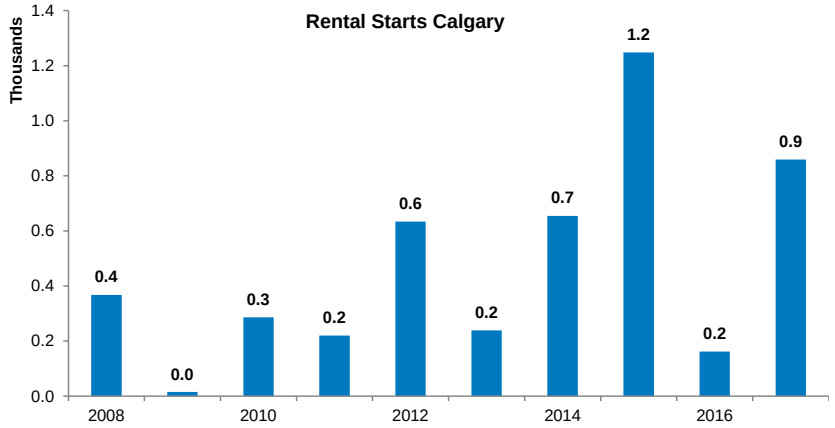
BMO Capital Markets

Canada Rental Supply



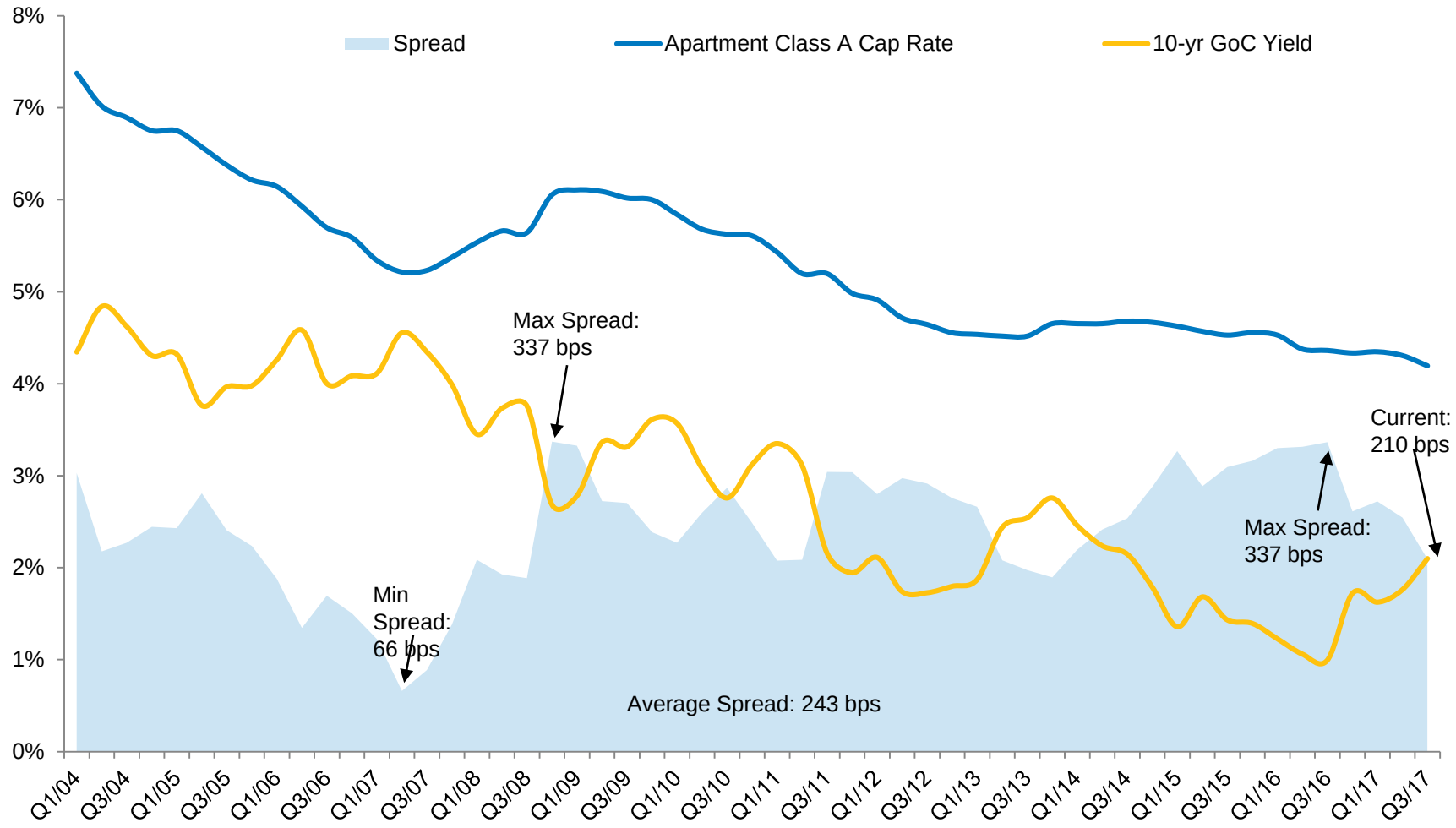






Source: CMHC, BMO Capital Markets
Note: 2017 figures represent annualized YTD starts to Oct 2017

Apartment Cap Rates vs 10-yr GoC bond yield



Source: CBRE, Bloomberg, BMO Capital Markets
Last Updated: January 19, 2017

Killam Apartment REIT, One of Few Developing New Apartments

THE ALEXANDER, HALIFAX





- 240 units
- Cost: 74 mln
- Expected Yield: 5.1%
- Average Rent: $1,770
- Location: Halifax, NS

SAGINAW PARK, CAMBRIDGE



- 93 units
- Cost: $25.1 mln
- Expected Yield: 5.5%
- Average Rent: $1,670
- Location: Cambridge, ON

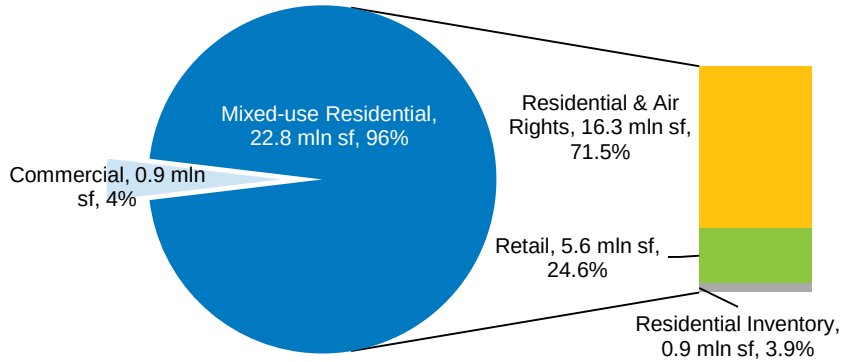


Source: Company Reports, BMO Capital Markets

Retail Landlords Pursuing Residential Rental Intensification

- Retail is undergoing a dramatic shift due to e-commerce, changing demographics and a squeezed middle class.
- Numerous retailers are rightsizing footprints or closing down altogether (Sears, Target etc.)
- Retail landlords are looking for better income streams and to monetize the value of their land
  - Parking lots
  - Multi-storey mixed use development
  - Transit oriented development
  - Urban Intensification
  - Converting upper retail floors to other uses

Riocan Development Pipeline



Smartcentres Residential Developments

- Apartment Rentals
  - 1 underway
  - 9 active developments
  - 15+ future planned developments
- Condomimums
  - 4 underway
  - 7 active developments
  - 12+ future planned developments
- Townhouses
  - 1 underway
  - 5 active developments
  - 4+ future planned developments
- SmartREIT also has an active development pipeline in self-storage, office and senior residences.







Source: Company Reports, BMO Capital Markets

Retail Landlord Case Studies

SMARTCENTRES - VAUGHAN METROPOLITAN CENTRE



- A Long-term build (10-15 years)
- Potential density of 16-17 mln SF
- Transit infrastructure to include TTC subway, VIVA bus and York regional bus

H&R REIT – DUFFERIN MALL, TORONTO





Source: Company Reports, BMO Capital Markets

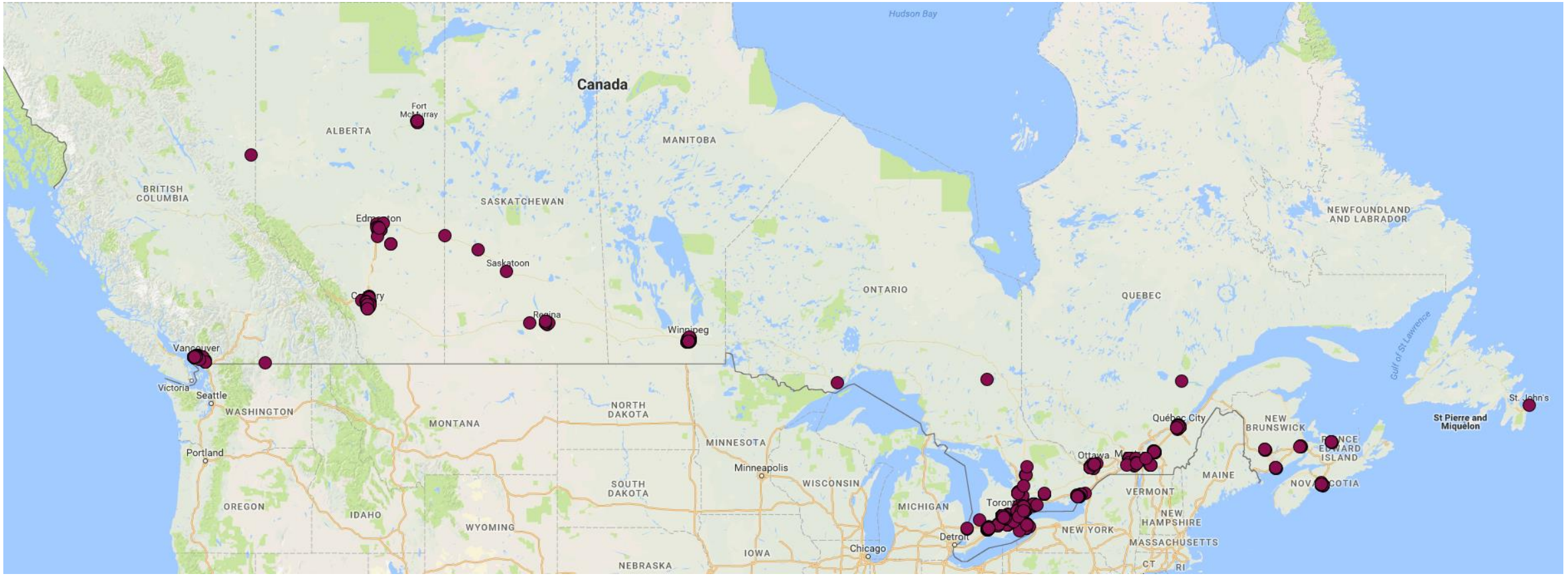
SVN
ROCK ADVISORS INC., BROKERAGE

Derek Lobo
CEO, Broker of Record

SVN Rock Advisors Inc., Brokerage

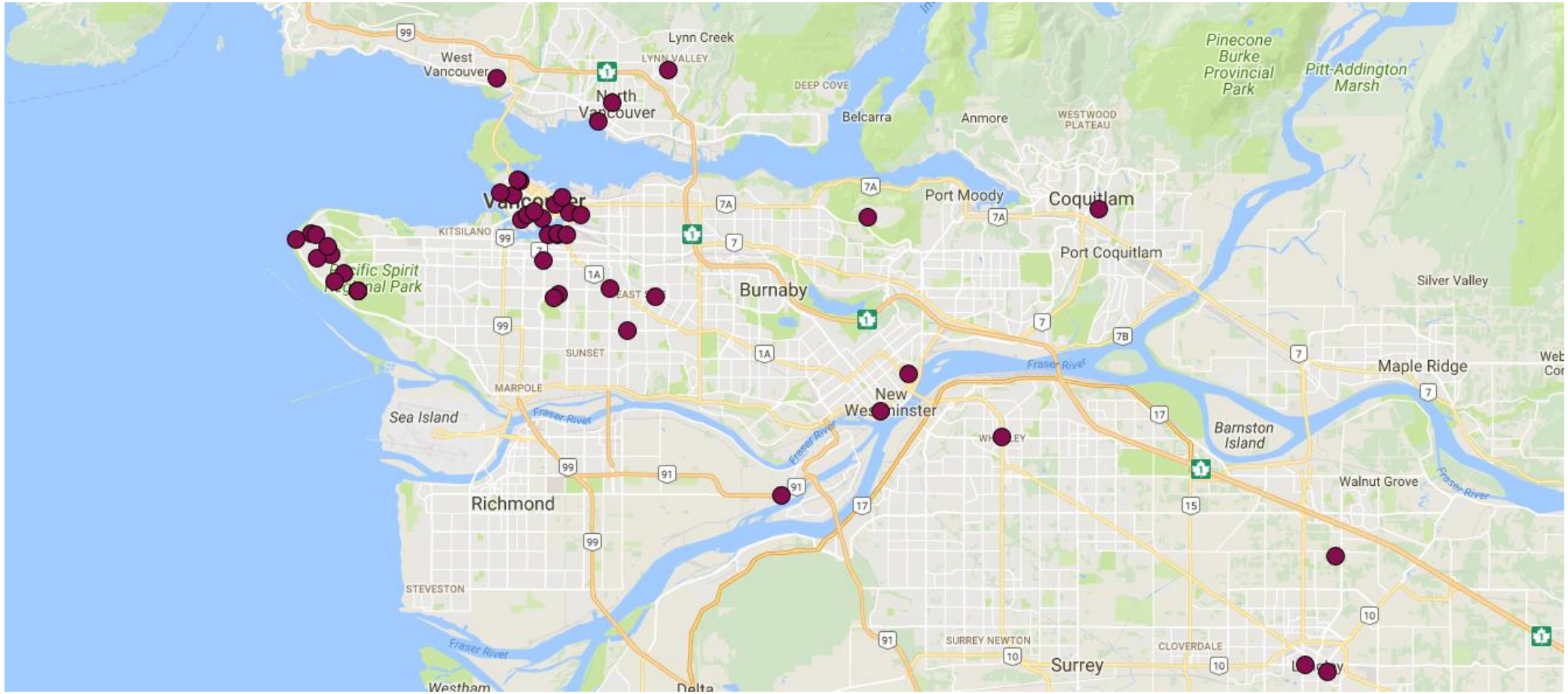


Which Canadian markets are ripe for new apartment development?

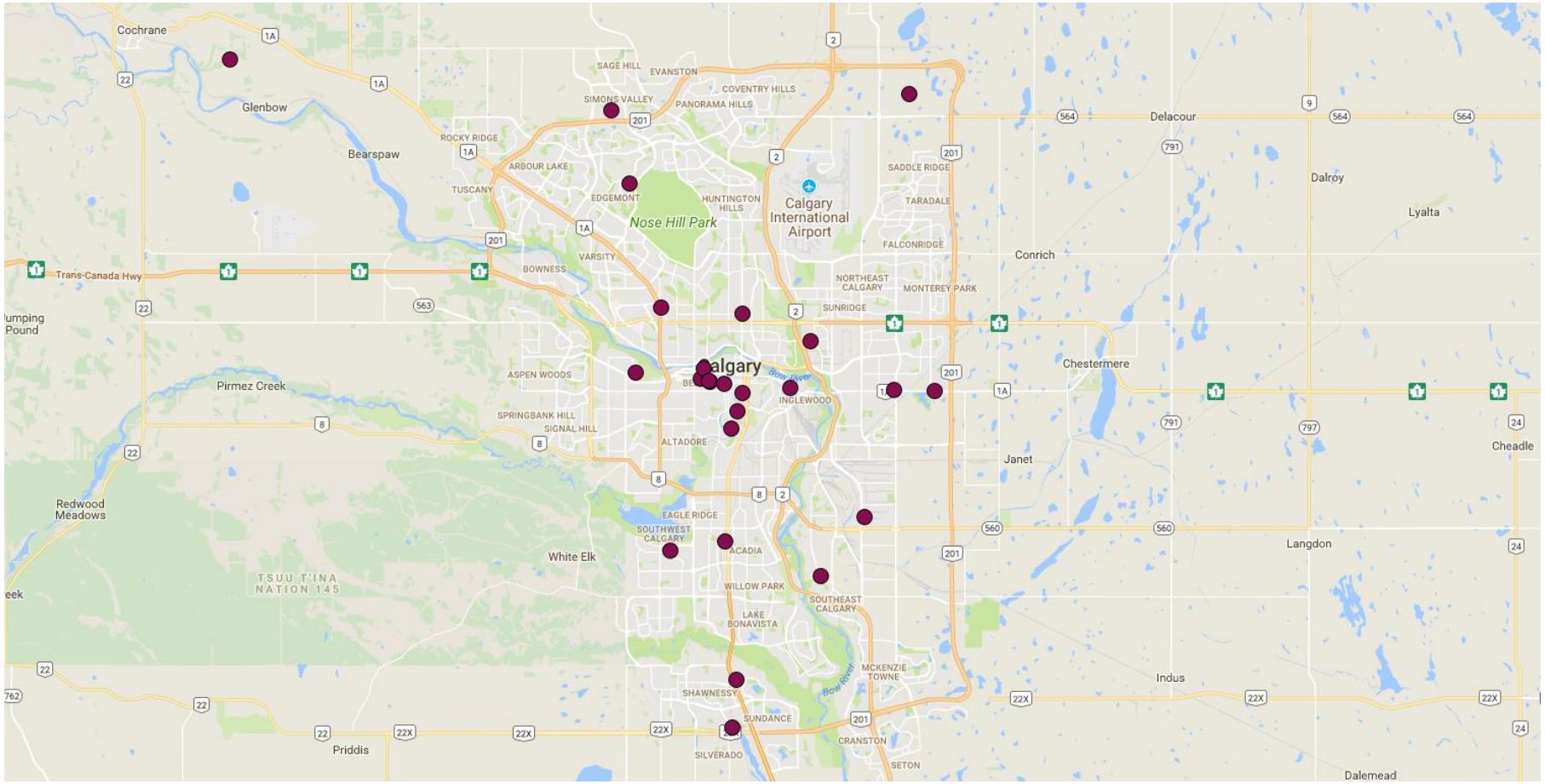


New Apartment Construction in Canada: 2000 - Present

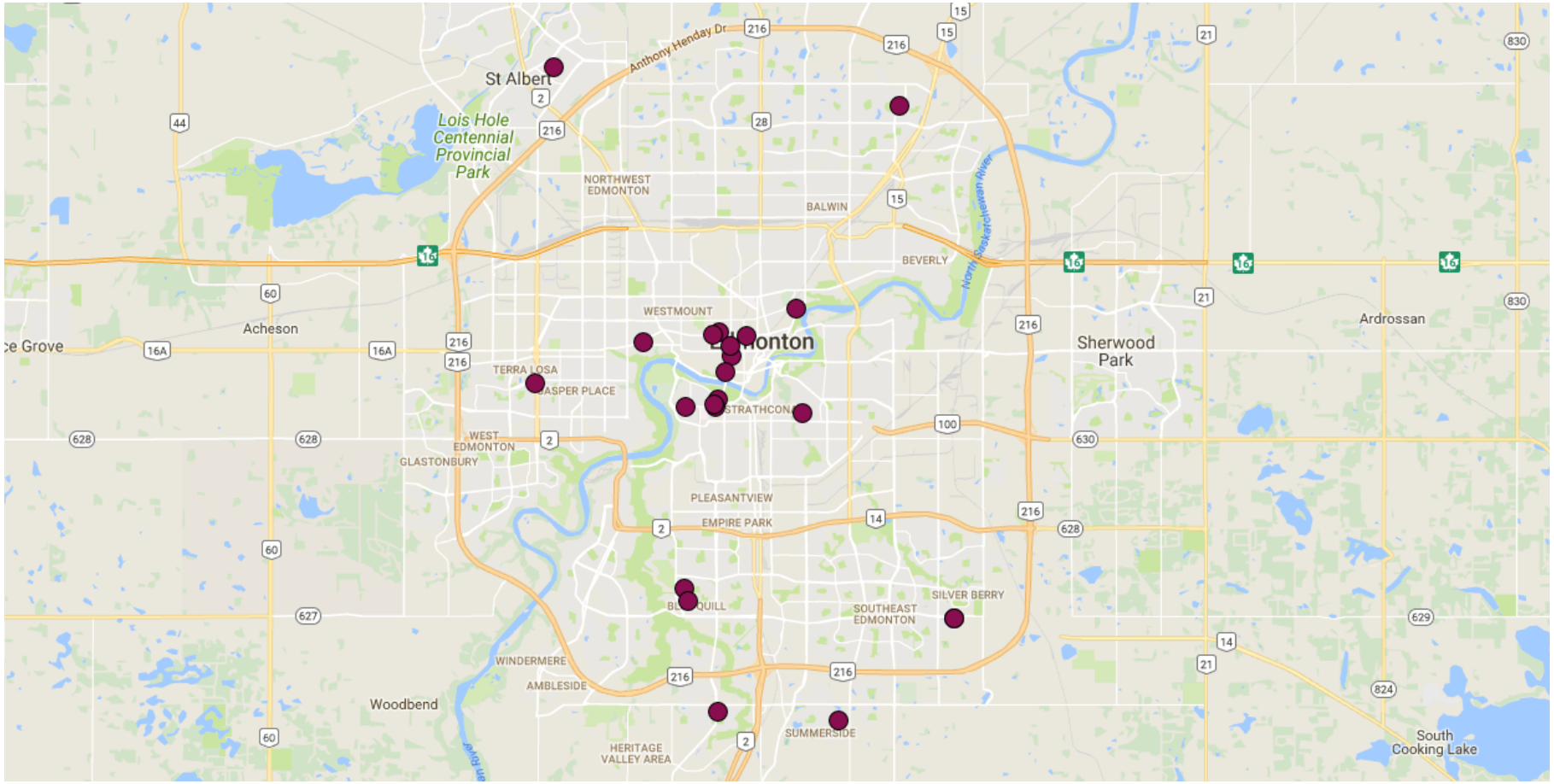
SVN ROCK ADVISORS INC., BROKERAGE



Vancouver - 54 Buildings

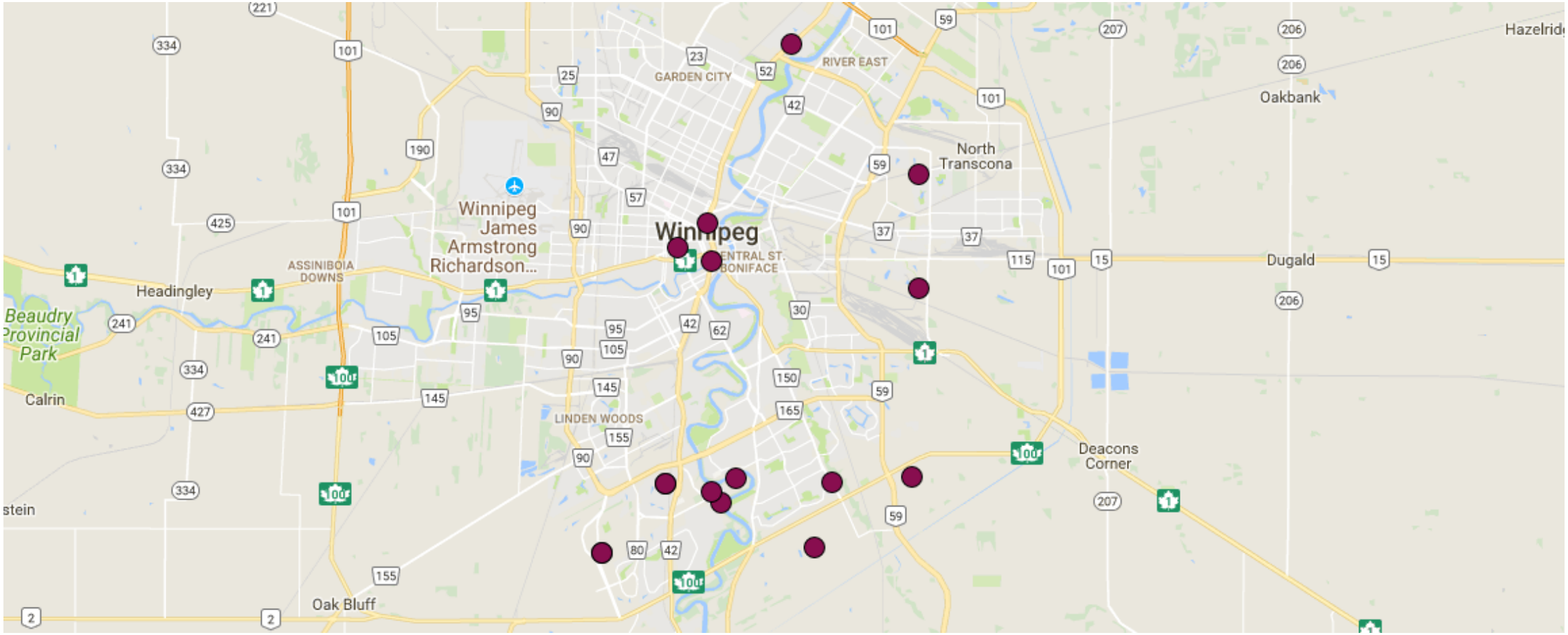


Calgary - 32 Buildings



Edmonton - 28 Buildings

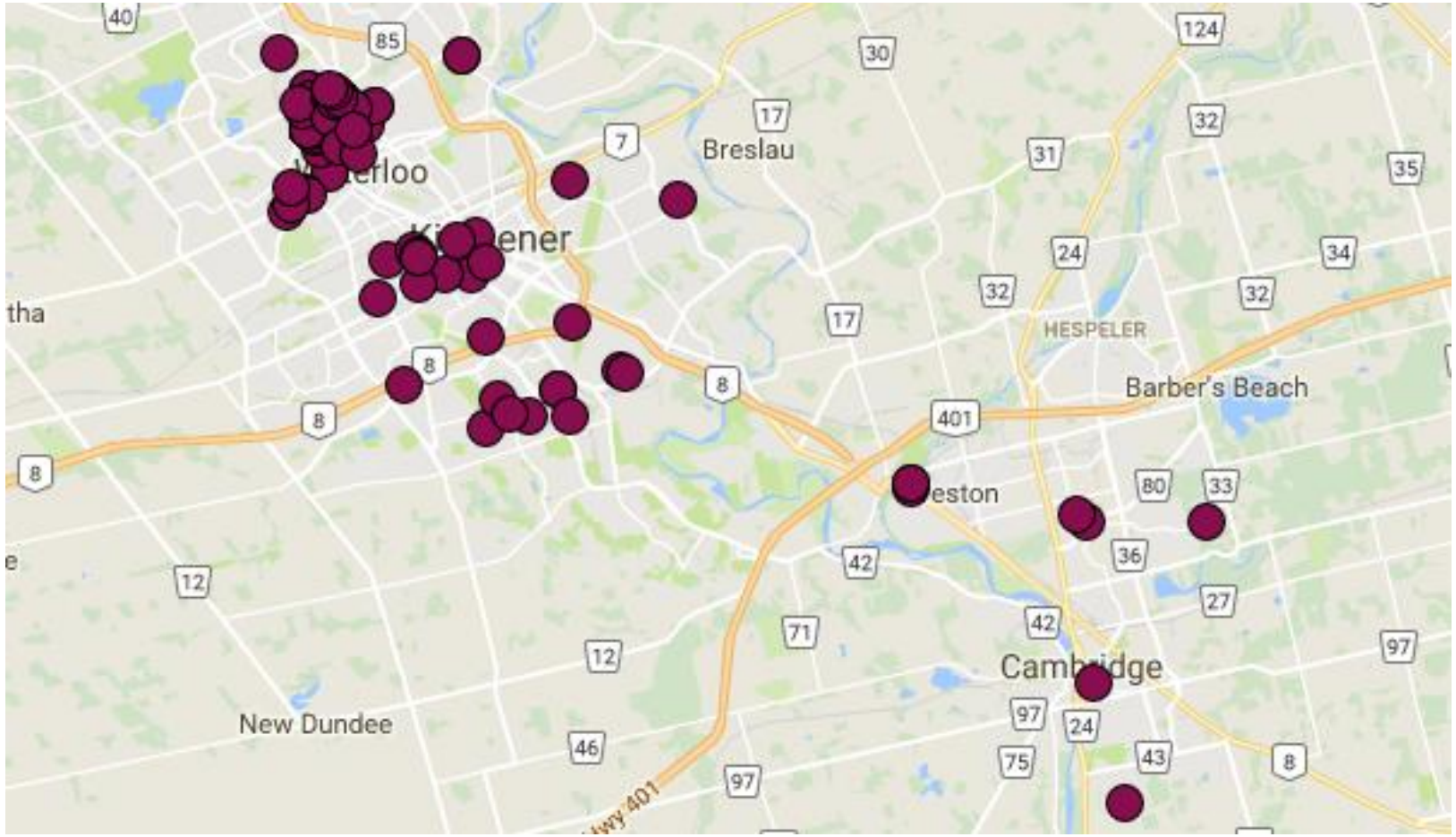
SVN ROCK ADVISORS INC., BROKERAGE



Winnipeg - 18 Buildings

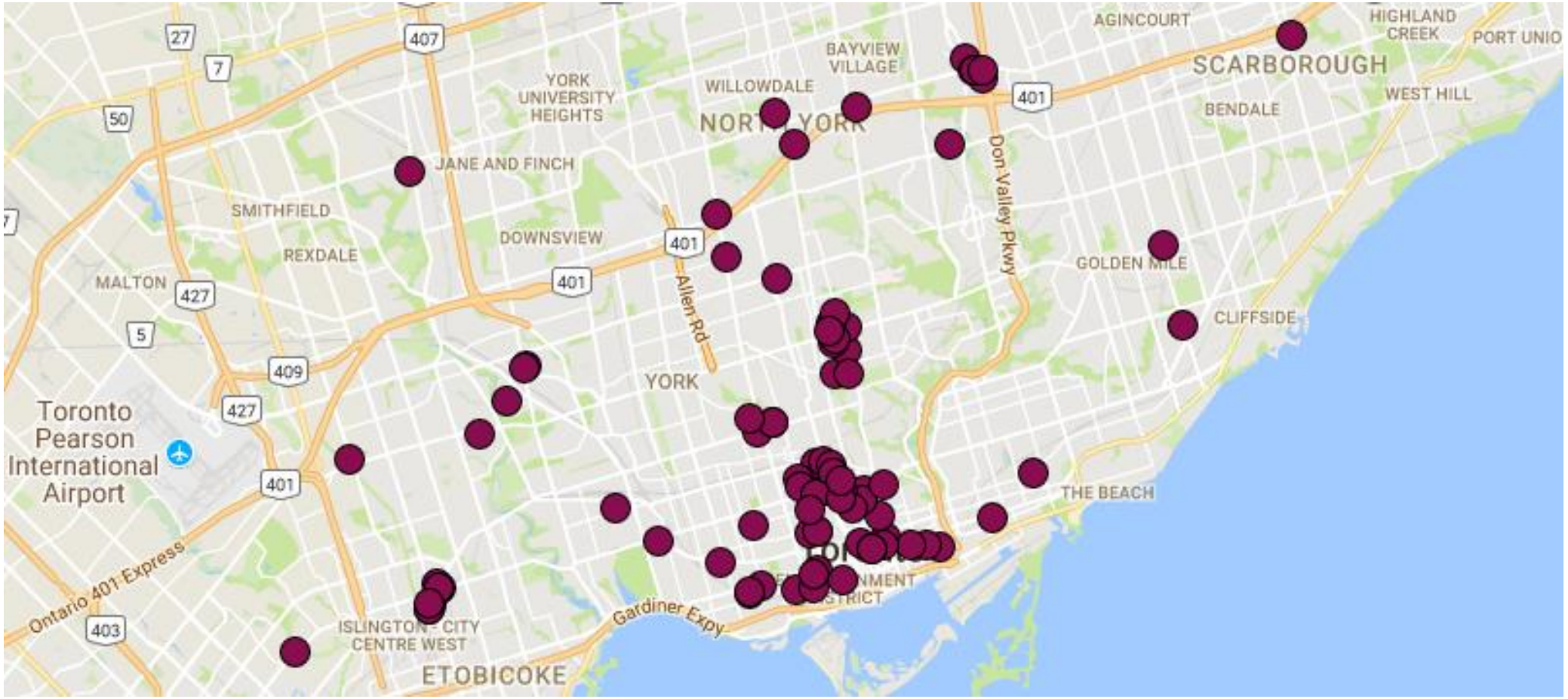


London - 30 Buildings

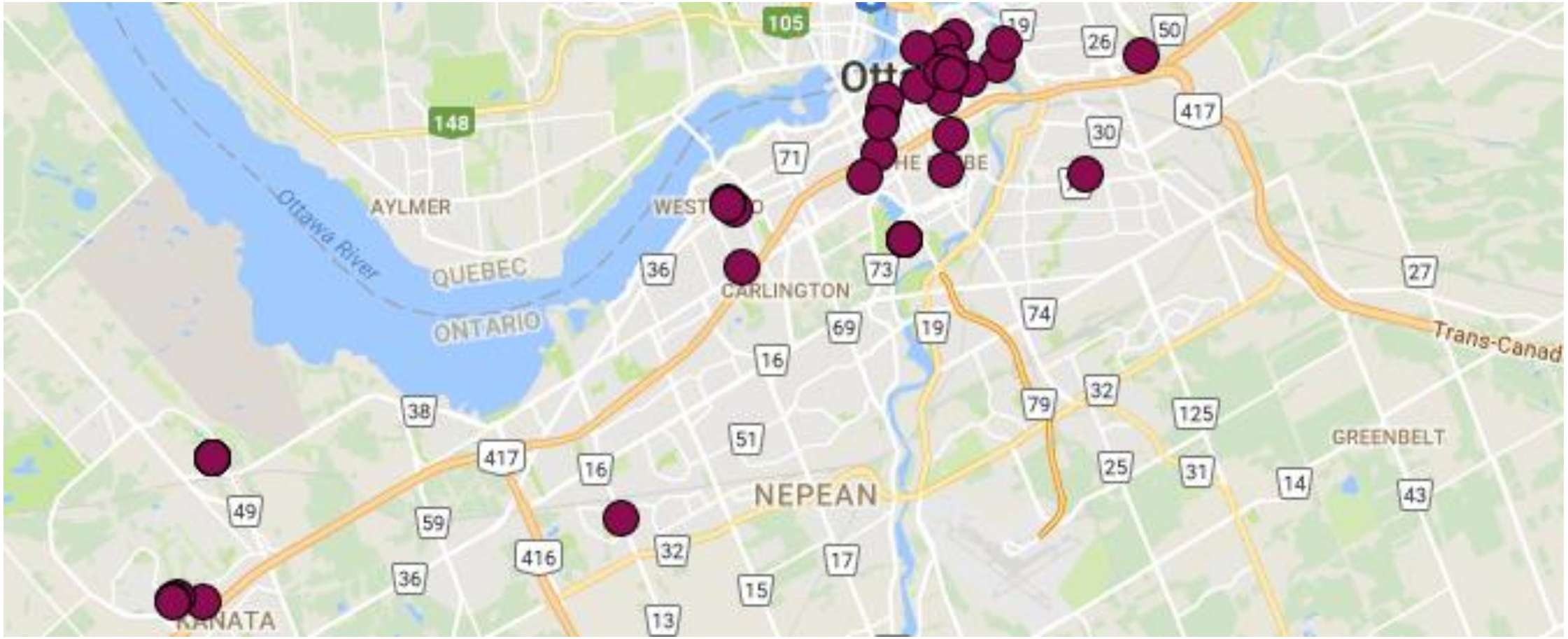


Kitchener / Waterloo / Cambridge

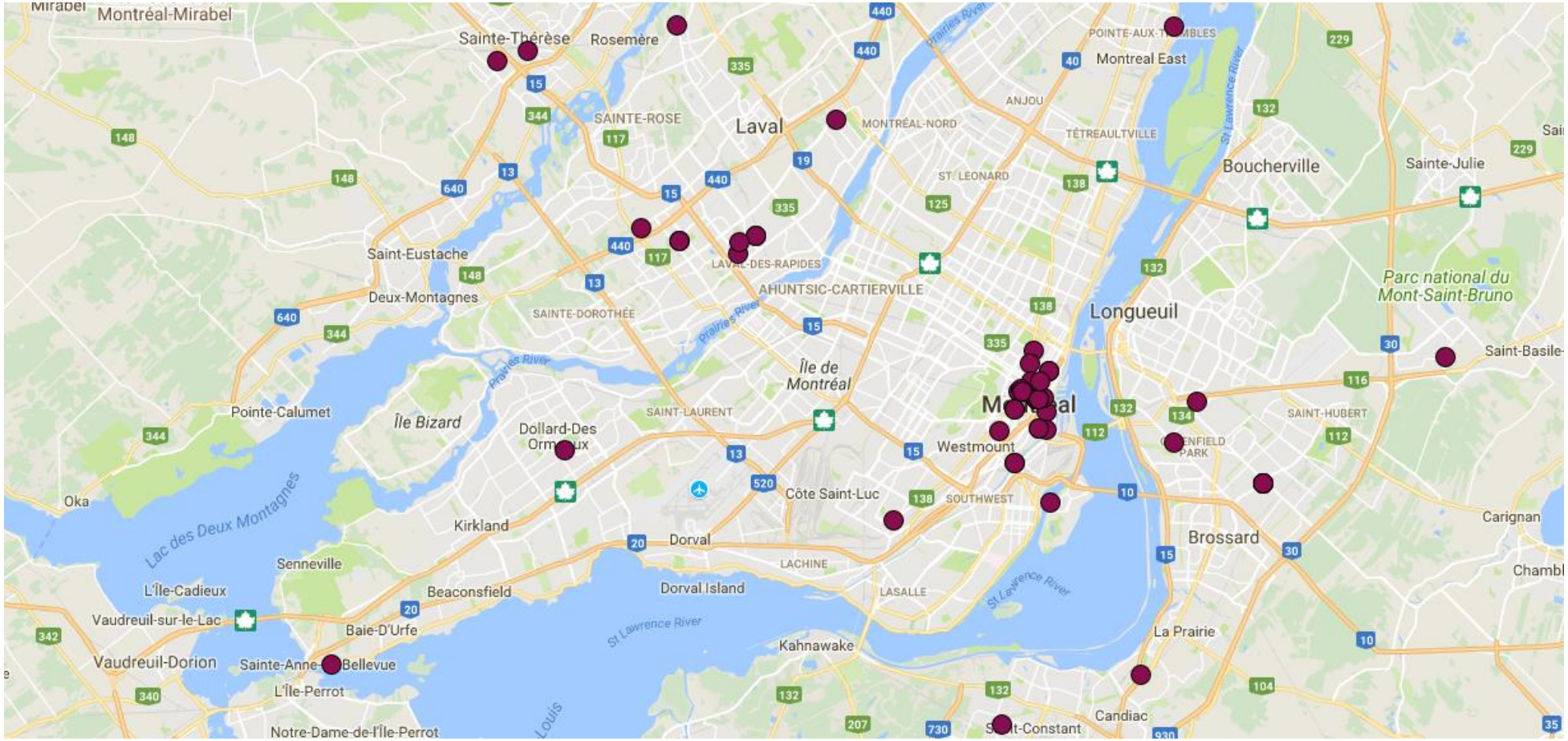
27 Buildings / 72 Buildings / 9 Buildings



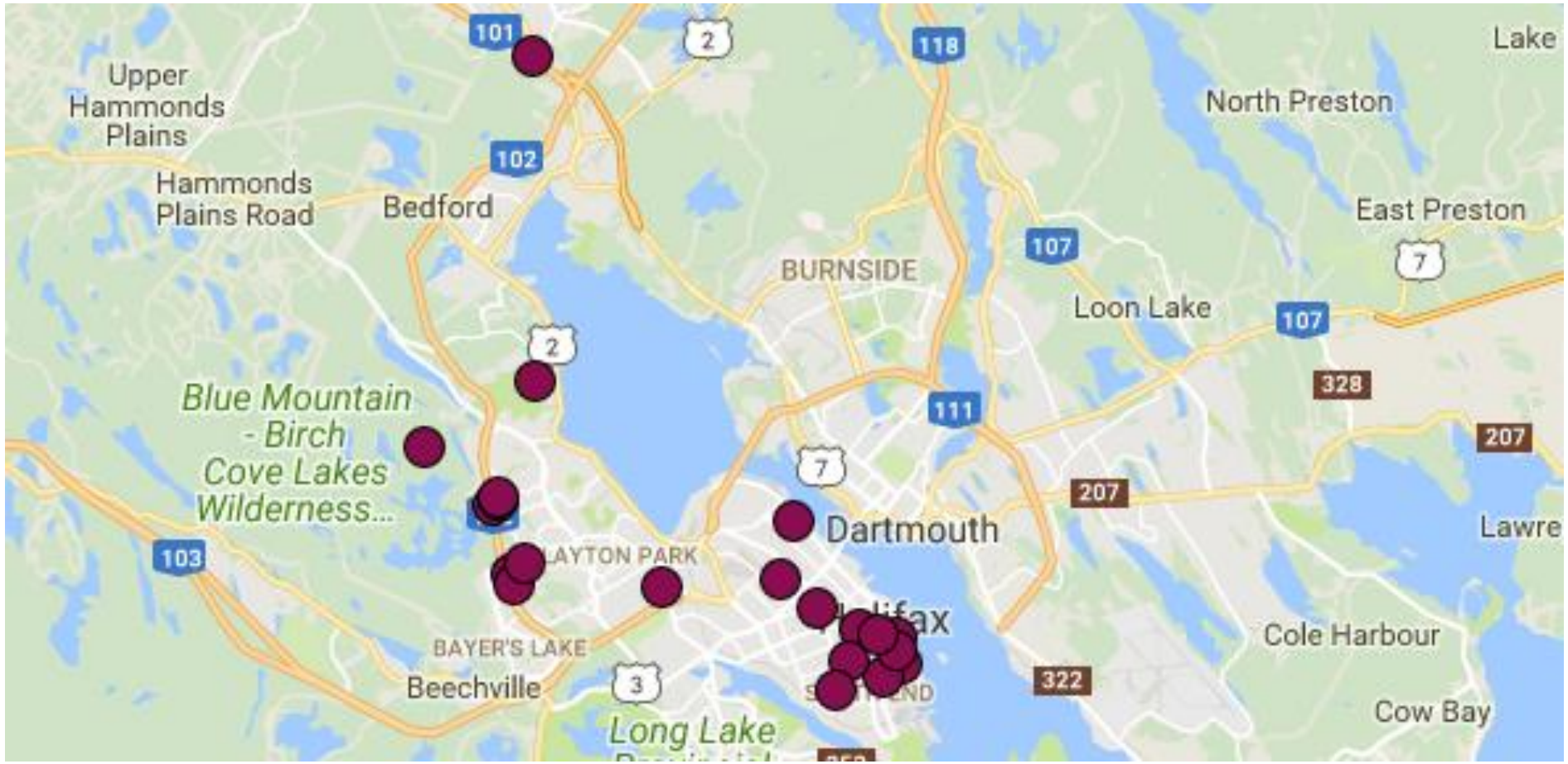
Toronto - 89 Buildings



Ottawa - 40 Buildings



Montreal - 42 Buildings



Halifax - 22 Buildings

SVN
ROCK ADVISORS INC., BROKERAGE

Transactions of New Apartments Across Canada

Transactions of New Apartments

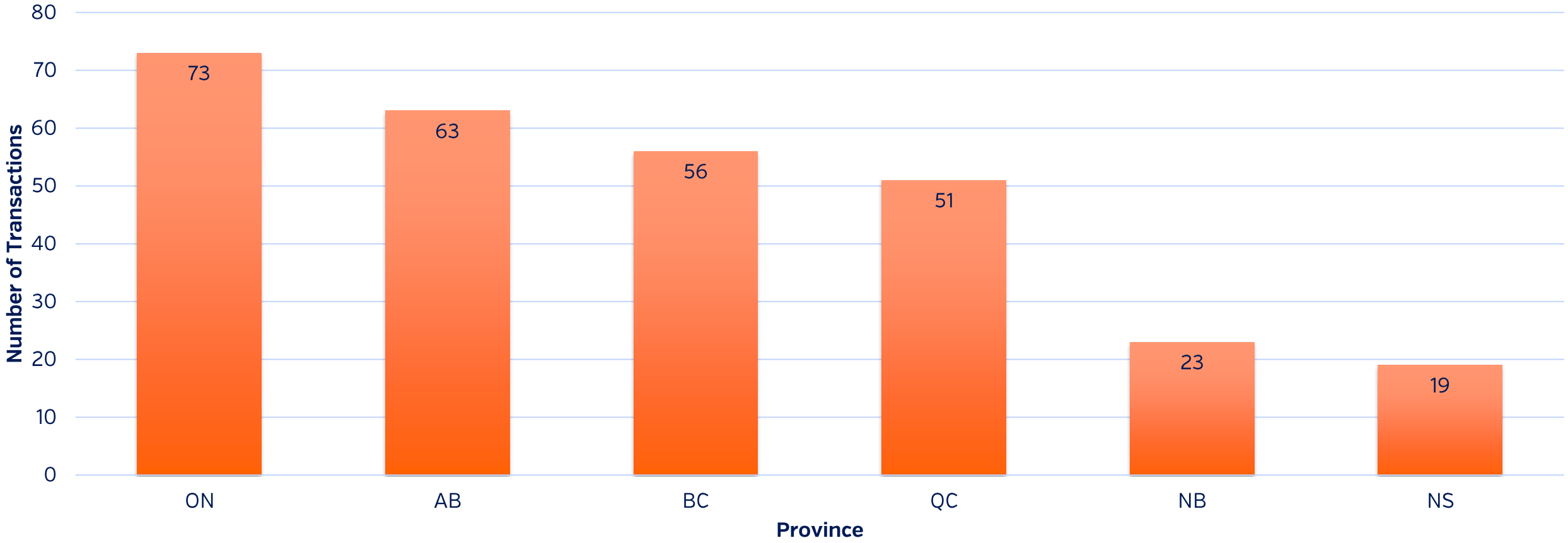
DEFINITION:

New Apartment

A purpose-built, multi-family building built from 1991 through today.

Transactions of New Apartments

New Apartments Sold By Province – Total: 291

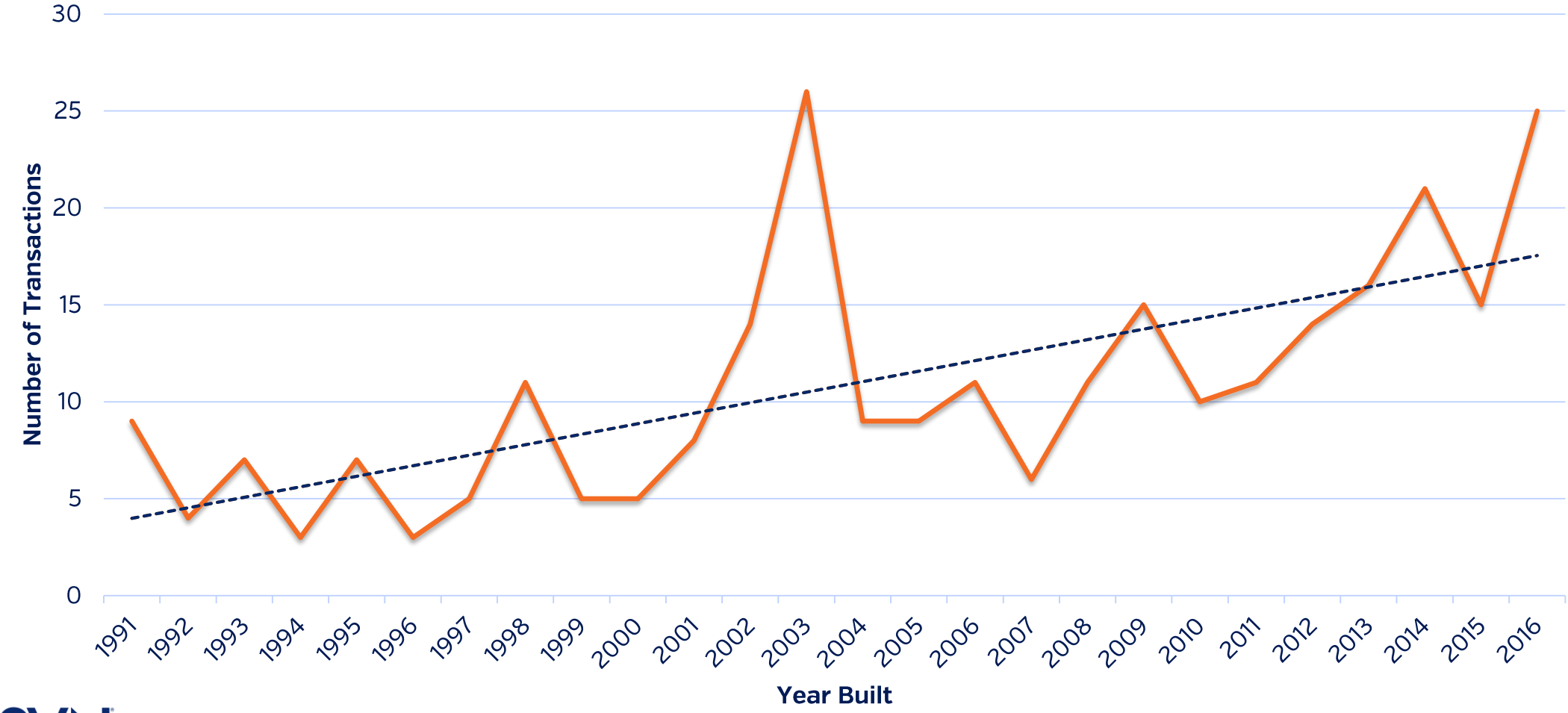


SVN
ROCK ADVISORS INC., BROKERAGE

* 2017 data is incomplete and has been excluded

Transactions of New Apartments

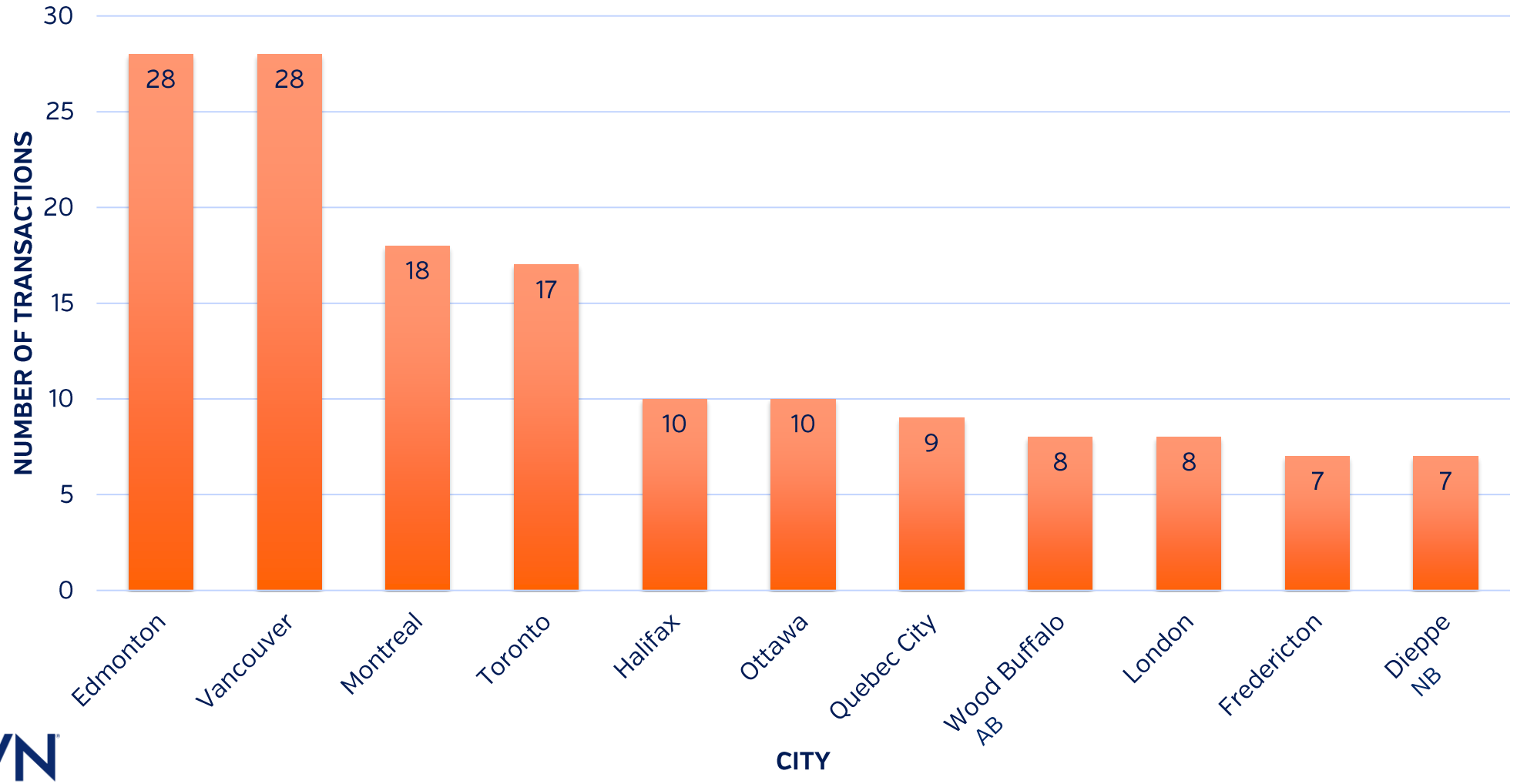
New Apartments Sold By Year Built – Total: 291



SVN
ROCK ADVISORS INC., BROKERAGE

Transactions of New Apartments

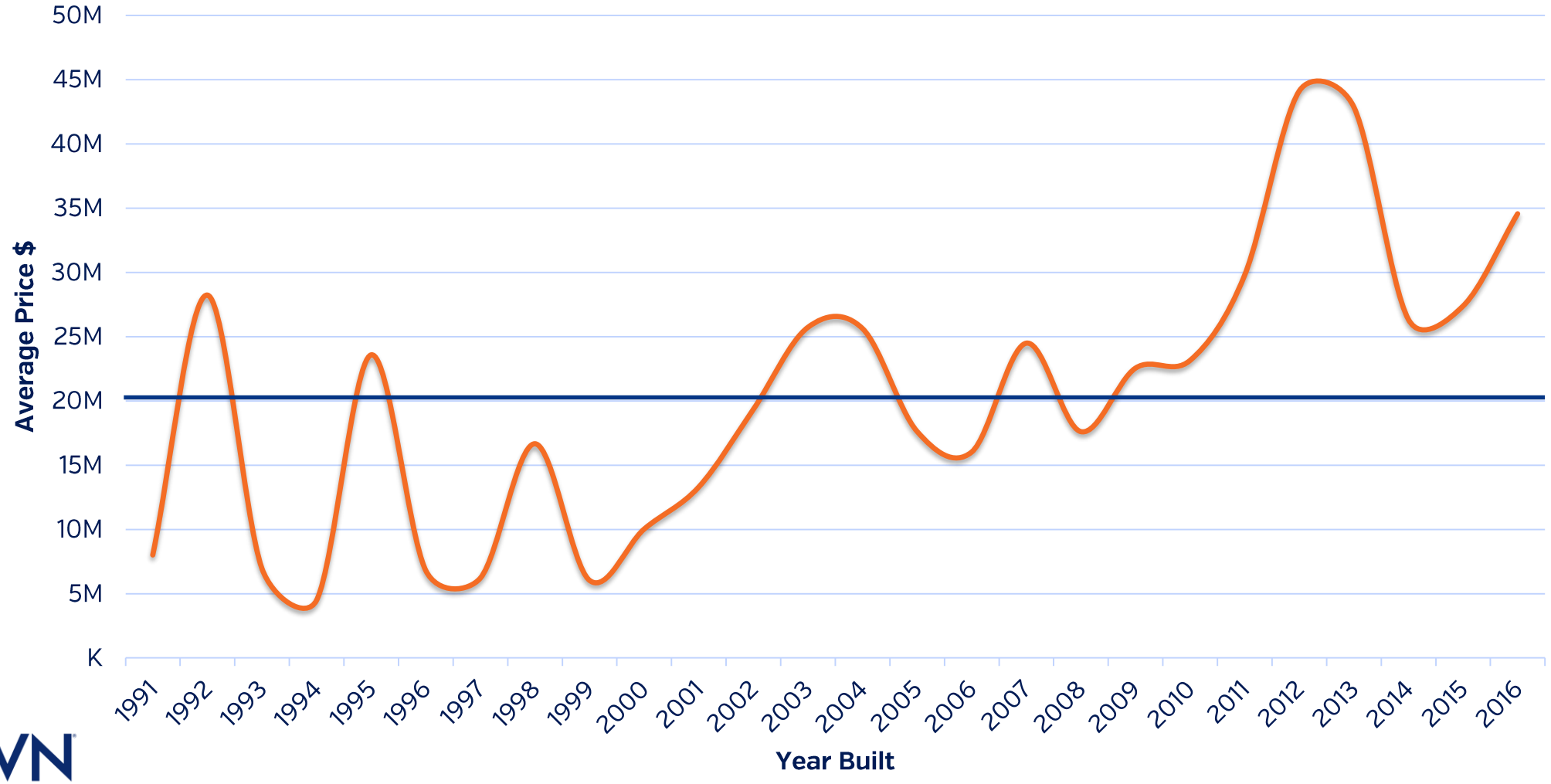
New Apartments Sold By City (Top 10) – Total: 291



SVN ROCK ADVISORS INC., BROKERAGE

Transactions of New Apartments

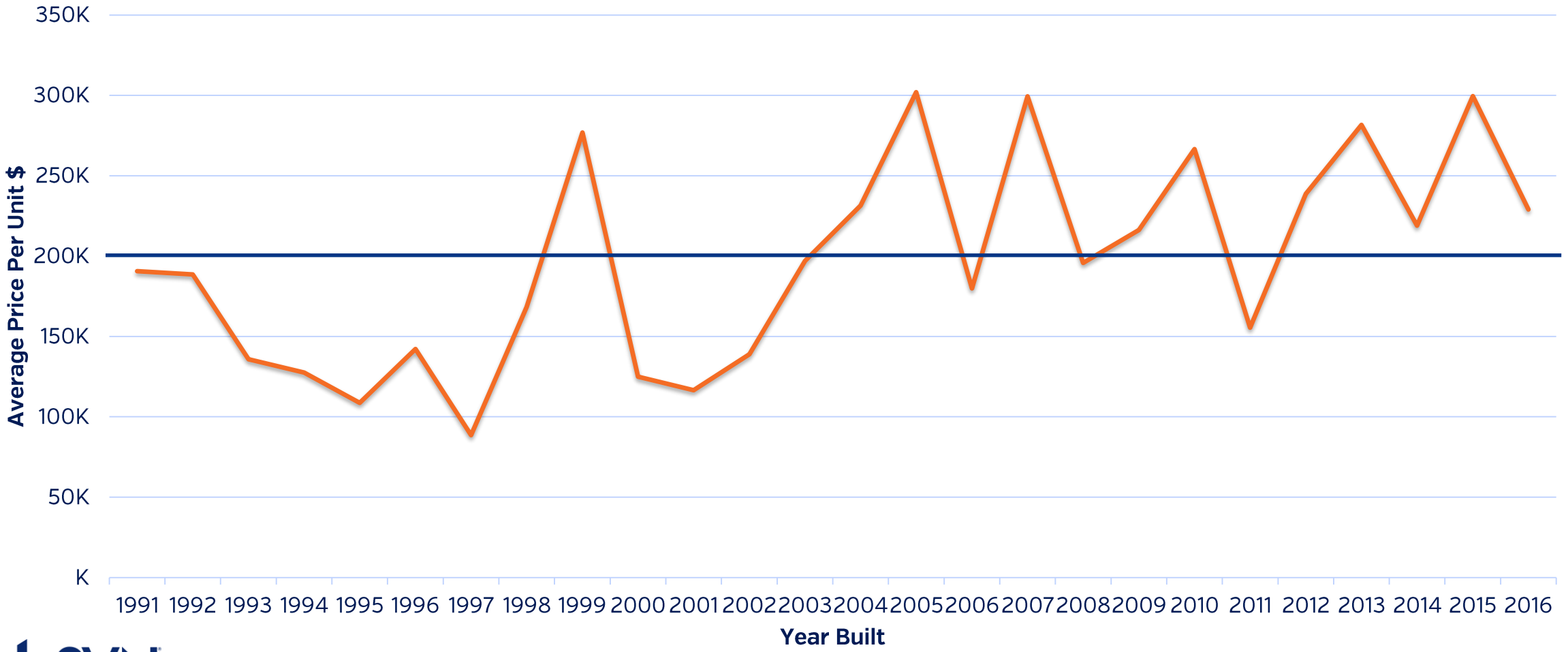
Average Transaction Price By Year Built



SVN
ROCK ADVISORS INC., BROKERAGE

Transactions of New Apartments

Average Transaction Price Per Unit By Year Built



SVN
ROCK ADVISORS INC., BROKERAGE

Transactions of New Apartments

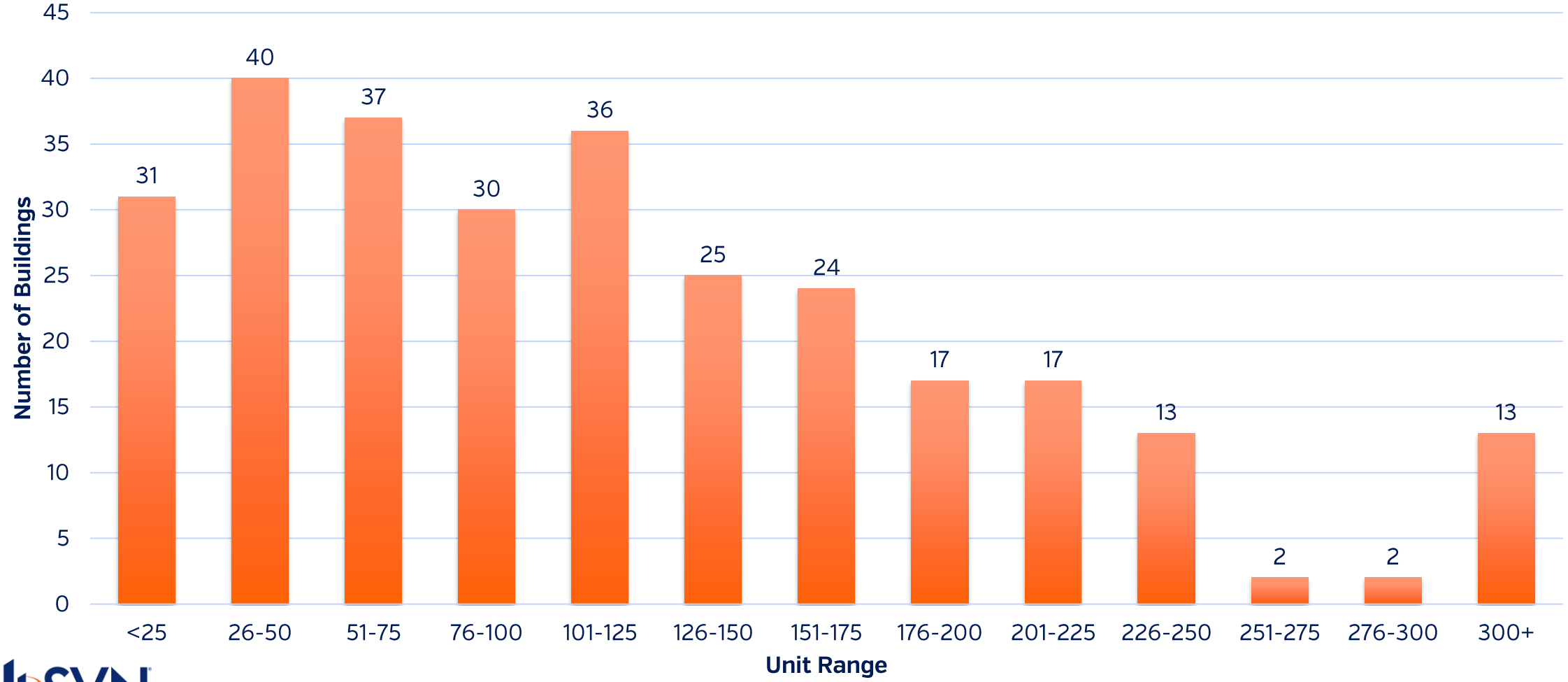
Number of Transactions By Price – Total: 256



SVN
ROCK ADVISORS INC., BROKERAGE

Transactions of New Apartments

Number Of Transactions By Unit Size – Total: 287



SVN
ROCK ADVISORS INC., BROKERAGE

Trends In New Apartment Construction

Where Should You Build?

1. Uber-Urban
2. Urban
3. Suburban/Urban
4. Suburbs
5. Smaller Cities

It seems that you can build almost anywhere.

Profitability and Risk Profiles favour ***non***-uber-urban markets, But…

SVN
ROCK ADVISORS INC., BROKERAGE

Liquidity


PARTY
ENTAIL
EXCESS
MARKET
NATURAL
OUTFLOWS
UNHEDGED
NEGATIVE
COLLATERALIZED
RISK
PROVIDERS
OFFSETTING
BAILED
SWAP
LIQUIDATE
SUFFERED
TRADING
ILLIQUIDITY
DEPOSITOR
LARGE
UNWIND
FUTURE
COUNTERPARTIES
OPTION
CREDIT
COUNTERPARTY
LIQUID
TRADE
CONTRACT
LIQUIDITY RISK
UNECONOMIC
DEFAULT
EXOGENOUS
CONTINGENT
NET
TRADER
MATURITY
ELASTICITY
ILLIQUID
LIABILITIES
RESERVES
PLANS
MARGINAL
CASH
CONTINGENCY
CRISIS
POSITION
ASSET
DUE
NEEDED
LIQUIDITY
DERIVATIVES
SPREAD
MANAGEMENT
DEPTH
STAGGERINGLY
FINANCIAL
FLOW
GAP
GAS
SYSTEMIC

Who Is Building In Major Urban Markets?

Institutional Investors

Often with a JV developer



KingSett CAPITAL



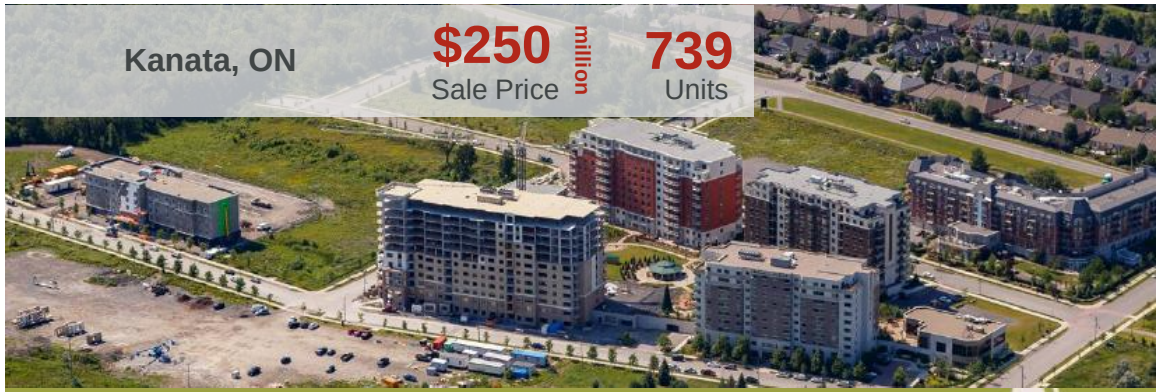
GWL REALTY ADVISORS

THE LIVMORE
Refined Residential Rentals

SVN
ROCK ADVISORS INC., BROKERAGE

Who Is Building In Smaller Centres?

Small, Entrepreneurial Developers



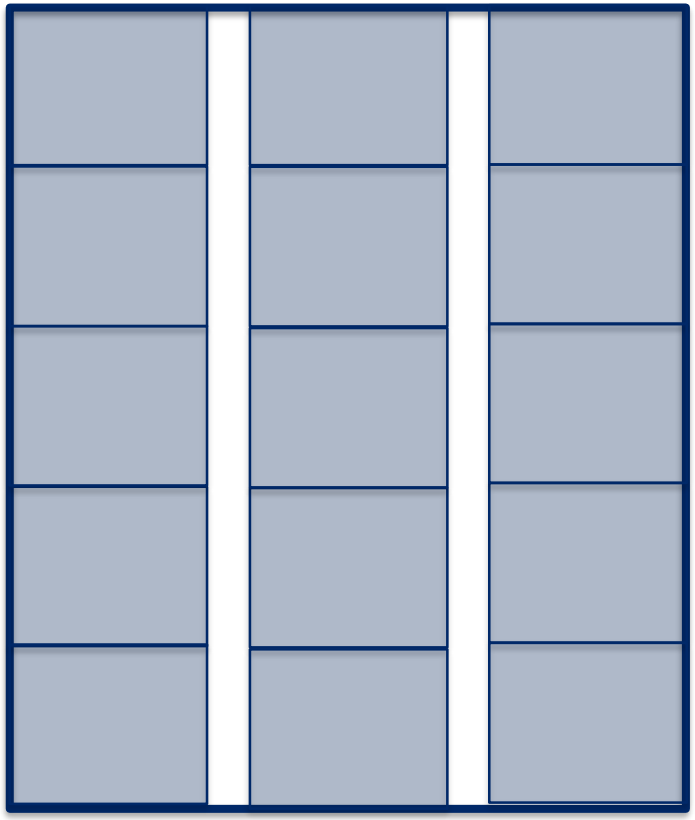


SVN
ROCK ADVISORS INC., BROKERAGE

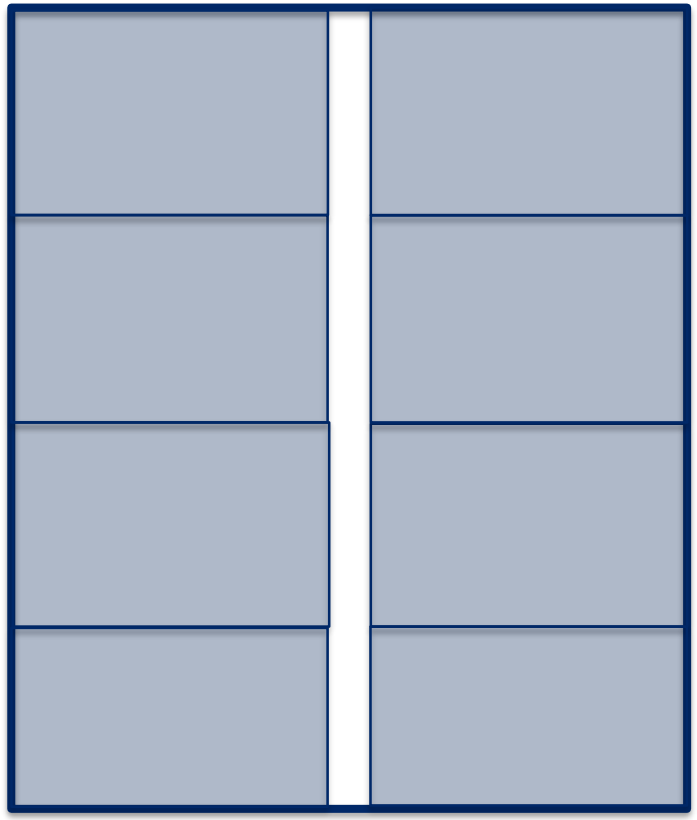
What's The Right Unit Size & Mix?

100,000 SF Net Rentable

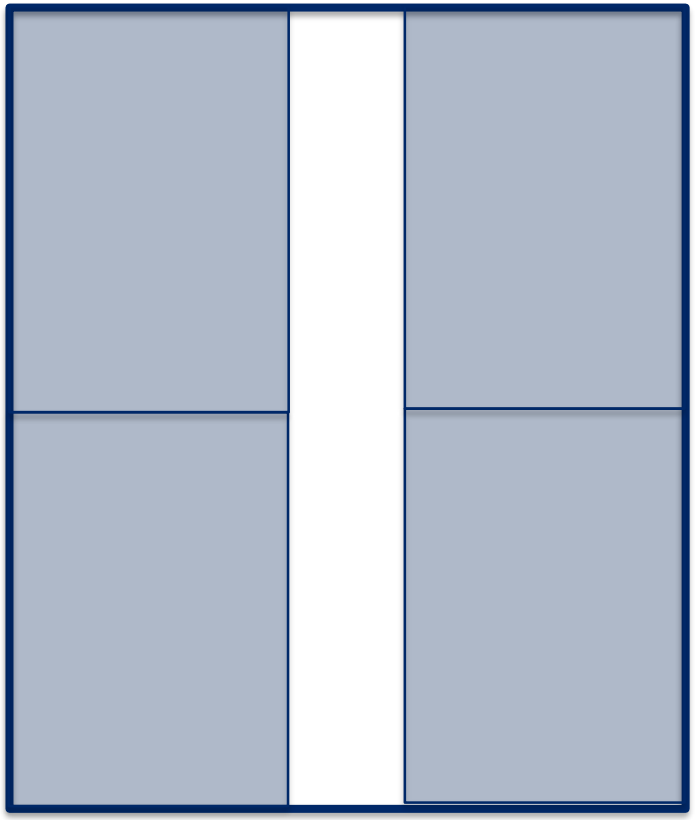
200 Units @ 500 SF



100 Units @ 1,000 SF



500 Units @ 2,000 SF



SVN
ROCK ADVISORS INC., BROKERAGE

Operating Costs

Taxes - Based on assessed values which are going up. Can be appealed to decreases taxes.

Gas - No foreseeable material increase/decrease in the near future. We think it will be holding steady more or less in the foreseeable future.

Hydro - significant decreases in the near future due to provincial government accounting changes on Hydro. Foreseeing a rate reduction of 16% year over year but the upward movement in the rate (over the long term) is inevitable as there have been no market changes by the only accounting changes for a temporary fix.

Water - Slight increase year over year. We are estimating that the increase in water rates will be 4.4% year over year for most Ontario municipalities.

SVN
ROCK ADVISORS INC., BROKERAGE

The Apartment Of The Future

The Apartment Of The Future



1. High-End Amenities



2. Electric Car Charging



3. Rooftop Lounge



4. Spacious Units



5. Upgraded Kitchen



6. Live/Work Spaces



7. LED Lighting



8. Automated Parking Systems

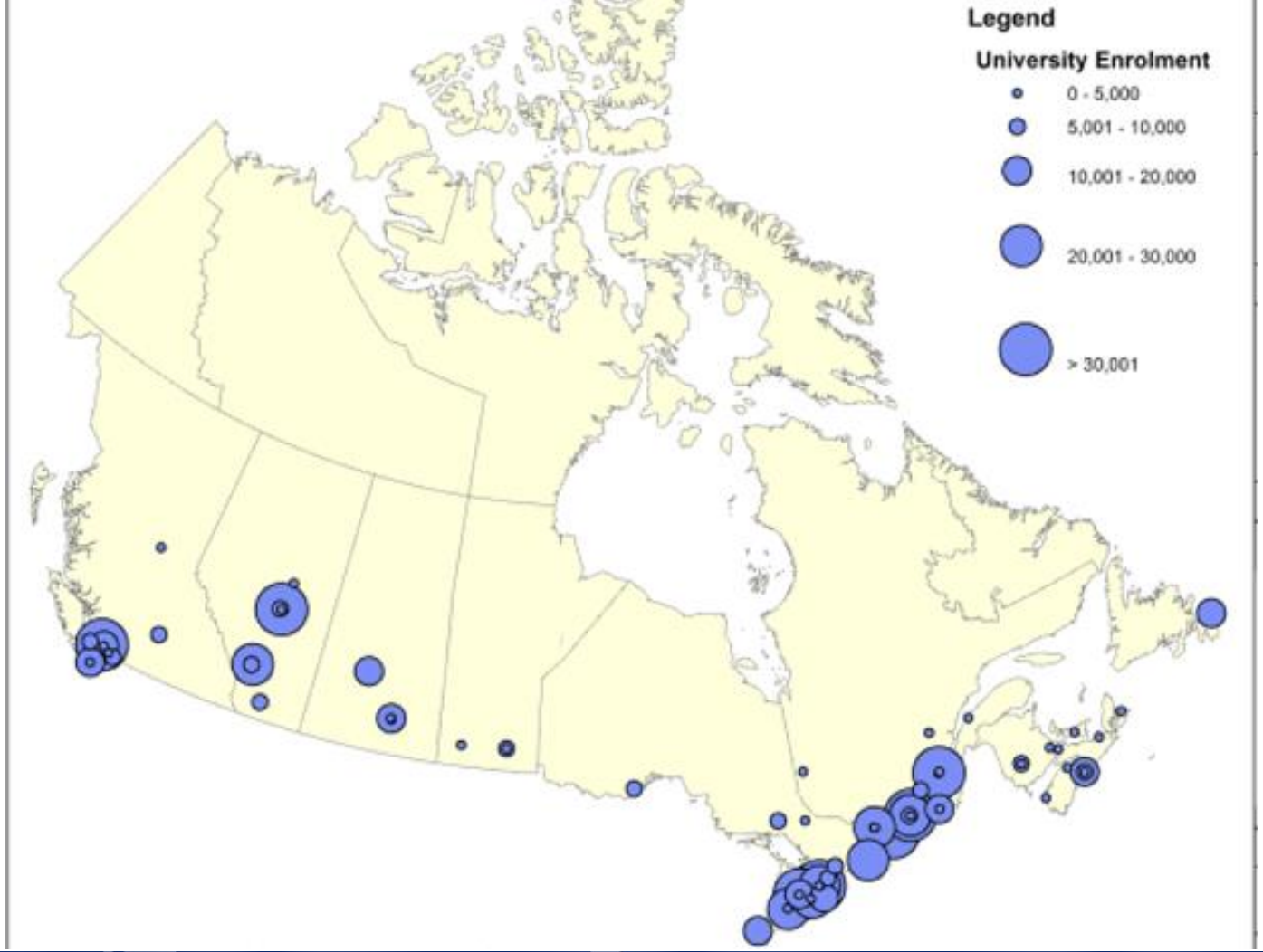


9. Sustainable Features

SVN
ROCK ADVISORS INC., BROKERAGE

ROCK ADVISORS INC., BROKERAGE

Student Housing



Student Housing

Pan-Canadian Opportunity

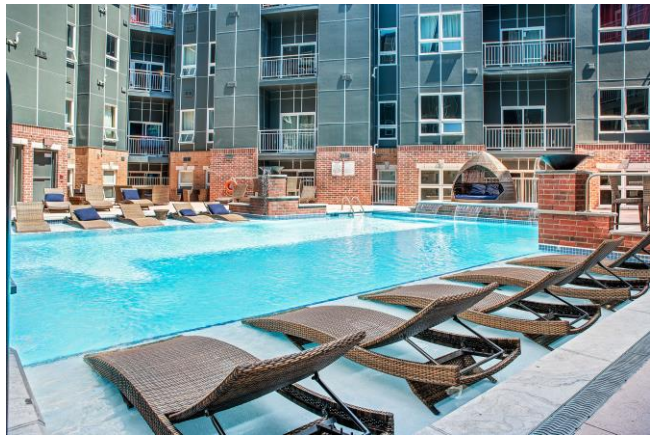




Student Housing

256 Rideau Street, Ottawa, ON







Student Housing

655 Princess Avenue, Kingston, ON

SVN
ROCK ADVISORS INC., BROKERAGE



CMHC

Paula Gasparro

Manager, Multi-Unit Mortgage Loan Insurance

Canada

CMHC SCHL

CMHC Insured New Rental Construction in 2017

- CANADA – 13,797 Units/205 Deals
- ATLANTIC - 1,742 Units / 28 Deals
- QUEBEC – 4,878 Units / 112 Deals
- ONTARIO – 3,117 Units / 27 Deals
- PRAIRIES – 1,854 Units / 20 Deals
- BC – 2,206 Units / 18 Deals



Example CMHC Insured New Rental in 2017

- Location – Toronto “A” location
- 564 Units
- $147M loan @ 74%LTC
- Deal type - Market
- Rent psf: range from $3.41 - $3.73
- Average unit size - 587 sq. ft.

Example CMHC Insured New Rental in 2017

- Location – Toronto “B” location
- $36M loan @ 65% LTC
- Deal Type - CMHC old Affordable Housing IAH program
- Section 37 “Toronto Builds” for 50 of the 171 units in total
- Rent psf - range from $2.32 to $3.01
- Average unit -576 sq. ft.

Example CMHC Insured New Rental in 2017

- Location – Toronto “C” location
- 272 Units
- $59M loan a@ 84% LTC
- Deal type – Market
- $258k/unit (including land); $163 psf – this developer has very low costs
- Rent psf: range from $1.95 – $2.65 depending on the unit size
- Average unit size – 704 sq. ft.

CMHC Flex Example

- Location: Ottawa
- 138 Units / 12 Storeys
- LTC and loan amount: 95% and $37.9 million
- Deal type: Flex, Option A
- Rent psf: range from $1.68 to $2.02 sq.ft
- Unit size (sq ft): Range from 712 to 1,122 sq. ft.

CMHC Flex Example

- Location: Hamilton
- 183 Units / 10 Storeys 2 Towers
- LTC and loan amount : 88% and $48.4 million
- Deal type: Flex, Option A
- Rent psf: range from $1,80 to $2.07sq. ft
- Unit size: Range from 623 to 1194 sq ft



CMHC - Rental Construction Financing

Canada

CMHC SCHL

What is the Rental Construction Financing Initiative?







$1M
minimum
loan

$2.5B

In low-cost loans to municipalities and housing providers for the construction of affordable rental housing in Canada

4 Year
initiative

Minimum mandatory requirements



Financing Terms and Client Benefits

	Financing Terms	Benefit
Loan Term	10 year fixed rate term or 10 year hybrid (floating/fixed)	A fixed rate provides interest rate certainty during the most risky periods of development.
Loan to Cost (LTC)	Up to 100% for residential space Up to 75% for non-residential space	Greater flexibility on loan size supports better matching of construction loan to eligible project costs reducing the need for large amounts of equity financing.
Debt Coverage Ratios (DCR)	Minimum 1.10 for residential space Minimum 1.40 for non-residential space	Lower DCR supports larger loan amounts, reducing the need for large amounts of equity financing.
Amortization	Up to 50 years	Longer amortization period supports smaller monthly mortgage payments which improves long term project viability.
Interest	Interest only during construction through rent-up to stabilization. Principal and interest payments begin only after 12 months of stabilized net operating income.	Loan structure enables borrowers to have flexibility during times of limited revenue, and low interest rates support long term project viability.
Rental Achievement Holdback (RAH)	No holdback	The entire loan is available at the end of construction eliminating the need for interim financing.
Recourse	Recourse for loan deficiencies to borrowers/guarantors for 100% of loan during construction & rent-up; non-recourse thereafter	Borrowers/guarantor's credit is available for other projects once current project is complete.



Mortgage Loan Insurance
Affordable Housing Flexibilities

Canada

CMHC SCHL

Affordability criteria – new construction

Options		Affordability
A	Total residential rental income must be at least 10% below its potential residential rental income; and a minimum 20% of units have rents at or below 30% of the median household income	Must be maintained for a minimum of 10 years from the date of first occupancy
B	Proposal approved under other housing programs/ initiatives (federal, provincial, territorial or municipal) that provide support for the development of affordable rental housing	

Loan-to-value/cost and debt coverage ratio

	New Construction
Maximum LTV/LTC - Residential Space	Up to 95% LTC
Maximum LTV/LTC- Non-residential space	Up to 75% LTC
DCR standard apartment (any loan term) NEW	1.10
Other shelter models (SROs, supportive housing, retirement homes)	1.20 NEW
Non-residential space	1.40

Other loan characteristics for new rental

Loan amortization	Up to 40 years
Advance of Funds – New Construction	Full loan available once construction is complete





Heather Kirk
Managing Director
BMO Capital Markets



Derek Lobo
CEO & Broker of Record
SVN Rock Advisors Inc., Brokerage



Paula Gasparro
Manager, Multi-Unit
Mortgage Loan Insurance
CMHC

Panel Discussion

SVN
ROCK ADVISORS INC., BROKERAGE