



RECAN GLOBAL

MUNICH · HALIFAX



CANADIAN REAL ESTATE MARKET REPORT

REVIEW 2021

OUTLOOK 2022

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Canadian Real Estate Market Update



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RECan Overview and Structure

RECan Overview/Structure

- Offices and Management Team in Munich, Luxembourg and Halifax Canada
- Partners each having between 20-32 years of real estate experience in Germany and Canada
- Umbrella Fund: RECan Canadian Diversified Real Estate Funds
 - Sub-Fund 1: [RECan Canadian Commercial Real Estate Fund I](#)
 - Sub-Fund 2: [RECan Canadian Multi-Residential Real Estate Fund I](#)
- Fund structure: SCS, SICAV-RAIF (Reserved Alternative Investment Fund), Luxembourg
- AIFM structure with Pancura providing investors with regulatory oversight and Pandomus providing central administration
- PG Asset Management Inc., a Canadian entity with common ownership to RECan Global, will provide exclusive, local asset sourcing, financing, and asset management services to the Funds
- External Independent Advisory Committee – oversight and direction
- Currency Hedging available through 7-Orca

Key Take-Aways – USP's

- German and Luxembourg based oversight for investor capital
- Local Canadian based team to execute on asset sourcing and asset management
- ESG: In addition to financial and technical criteria, RECan's ESG policy will be applied to acquisitions and asset management decisions. All RECan funds are compliant with Sustainable Finance Disclosure Regulations - Article 8.
- Fund Products positioned to take advantage of Canadian investment opportunities and deliver favorable risk adjusted returns
- Each sub-fund will be operated independently (no shared assets) and investors will have the ability to invest in one, or both sub-funds.
- Common regular Luxembourg SICAV-RAIF SCS structure with recognized partners and options like a securitization bond and currency hedging

Canadian Real Estate Market Update

Economic Review



✦ GDP Growth remains strong in 2022

- 2021 GDP Growth – 4.5%
- 2022 Forecast **GDP growth – 4.0%**

✦ Employment exceeds pre-pandemic levels (Table 1)

- Full-time employment rose by a further 123,000 (+0.8%) in December, **dropping the unemployment rate to 5.9%**. Full-time employment is now 234,000 jobs (1.6%) higher than the pre-pandemic level (Feb 2020).

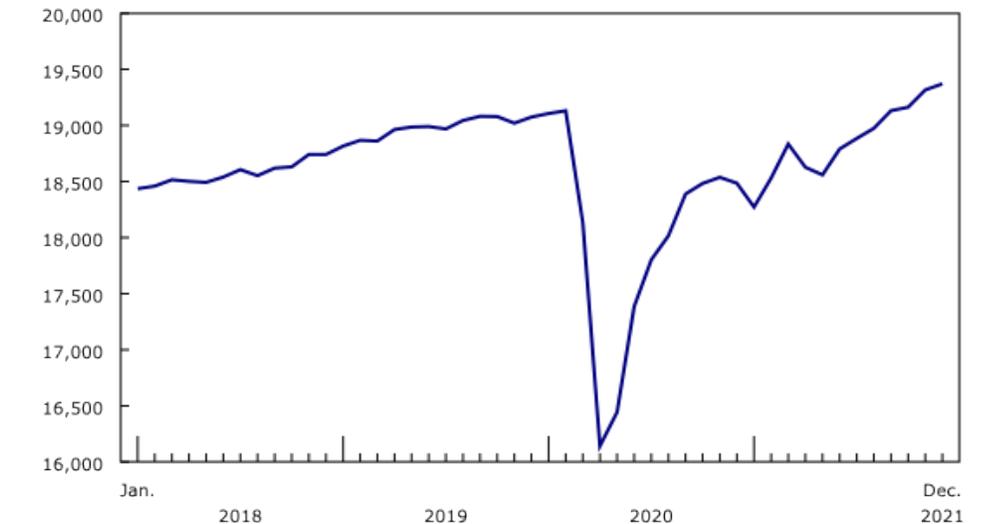
✦ Consumer Price Index (CPI)

- **CPI increased by 4.8%** in 2021 up from a 4.7% increase in November. Excluding gasoline, **CPI rose 4.0% year-over-year**

✦ Cost of Capital

- Bank of Canada(BoC) holds the Overnight Lending Rate at 0.25%
- 10-year Government of Canada (GOC) bond yields have increased by 60bps to 1.80% since September 1.
- Market Mortgage spreads – 140-170 bps over the 10-year GOC Bond
- Canadian Average Cap rates of approx. 5.8% represent a 400 bps spread over the 10-year bond

Table1. Total Employment 2018-2021



✦ Immigration

- Canada welcomed 401,000 new permanent residents in 2021, the highest total in its history
- 65% arrive through employment related immigration programs
- Canada is targeting 411,000 new immigrants in 2022, approximately 1% of its current population

Sources: BofC, Statistics Canada, CBRE

Canadian Real Estate Market Update

Real Estate Review



🍁 **Investment Activity** **\$54B** Record Year of Investment

- Volume driven by low cost of capital, forecasted income growth, and general confidence in Canada's economic outlook
- Spread between average cap rates and 10-year bonds remains above 400 bps

🍁 **Investor Profile** **> 60%** Private and Foreign Investors

- Institutions and REIT's share of investment volume continues to decrease as private equity and foreign capital continue to seek out real estate opportunities in Canada.

🍁 **Asset Class Focus** **> 50%** Multi-Family and Industrial

- Investors continue to focus on industrial and multi-residential assets due to strong market fundamentals and income stability.

🍁 **Retail Investment** **79%** Increase in YTD Sales

- Investors have a strong demand for well-located grocery-anchored retail assets

Canadian Real Estate Market Update

Multi-Residential Review



❖ **Ultra Low Vacancy Rates and Rental Rate Growth remains strong**

- Rental rate growth of 3.8% in 2021, with the majority of the growth occurring in the 2nd half of 2021 and the impact of the covid-19 pandemic diminished.
- Average rental rates have returned to pre-pandemic levels, after a decline of just under 10% from the start of the pandemic.
- The average apartment vacancy rate is forecasted to decline below 3.0%, from 3.5% at the start of 2021.

❖ **Investment volume 79% increase Y-o-Y**

- 2020 record volume of \$12 billion CAD was surpassed in Q3 2021
- Low cost of capital and an abundance of mortgage debt availability fueled both investment sales and new developments

❖ **Immigration and employment gains driving rental demand**

- Despite the pandemic, Canada was able to hit its target of 401,000 new permanent residents in 2021
- Canada added 631,000 jobs since June 2021, reducing the unemployment rate by 3.0%

❖ **Housing starts increase by 20% in 2021**

- Land for development and infill sites are trading at a premium as developers attempt to meet the demand

Source: CMHC, Rentals.ca, CBRE, JLL

Canadian Real Estate Market Update

Multi-Residential Example



Multi-Residential Transaction – 642 Units - \$267M Ottawa, Ontario

- Portfolio of scale offers economies of scale for management
- Historical low Roll-Over supports lower annual operating costs
- Current average rental rates are below market allowing significant income growth on tenant roll-over
- Average unit size greater than market at 817 square feet
- Assets located close proximity to public transport and numerous amenities

Why would asset have suited the Multi-Residential Fund

- Below market rents supports income growth
- Mid-long term capital requirements minimal
- Large unit count allows owner to maintain dominant position in sub-node
- Significant capital placement



Canadian Real Estate Market Update

Commercial Review



🍁 Industrial (Logistics) Asset Class

- Investment Volumes forecasted to be close to \$10 billion CAD in 2021, 170% above 2020 levels
- Absorption totaled over 50M ft² (4.6M m²) which represents 2.6% of 1.9B ft² (16.6m²) of industrial inventory in Canada
- National average vacancy rate declined to 1.8% (1.0% for RECan's target markets)
- Asking rental rates increased by 10.9% year over year
- New Supply: Canada added 24M ft² (2.2m²) in 2021 and has 36M ft² (3.4m²) currently under construction

🍁 Office

- Investment Volumes well below average, but Q4 saw a \$1.2B office transaction completed in Toronto
- Absorption of 1.7M ft² (.16m²) in Q4 2021 represents the first quarter since the start of the pandemic that absorption was positive
- National average vacancy rate reached 15.8% in Q4, but sublease availability declined for the 2nd consecutive quarter
- Asking rental rates increased by 2.6% year over year
- New Supply: 2.4M ft² (.2m²) of office development was completed in Q4, making the positive absorption rate in Q4 that much more impressive

🍁 Retail

- Investment volumes in 2021 greatly surpassed the \$3.4B 2020 total
- Investors remain focused on both “essential services” retail (food, pharmacy, liquor, banking) and properties with residential development opportunities

Source: JLL, CBRE, Colliers

Canadian Real Estate Market Update

Commercial Example



Industrial Transaction – 602,000sqft - \$183M CAD Toronto, Ontario

- Direct access to transportation network
- New construction
- Population density offers employment pool
- Abundant employee parking and ample truck turning radius
- Shipping door density provides for broad user applications



Why this asset would have suited the Commercial Fund

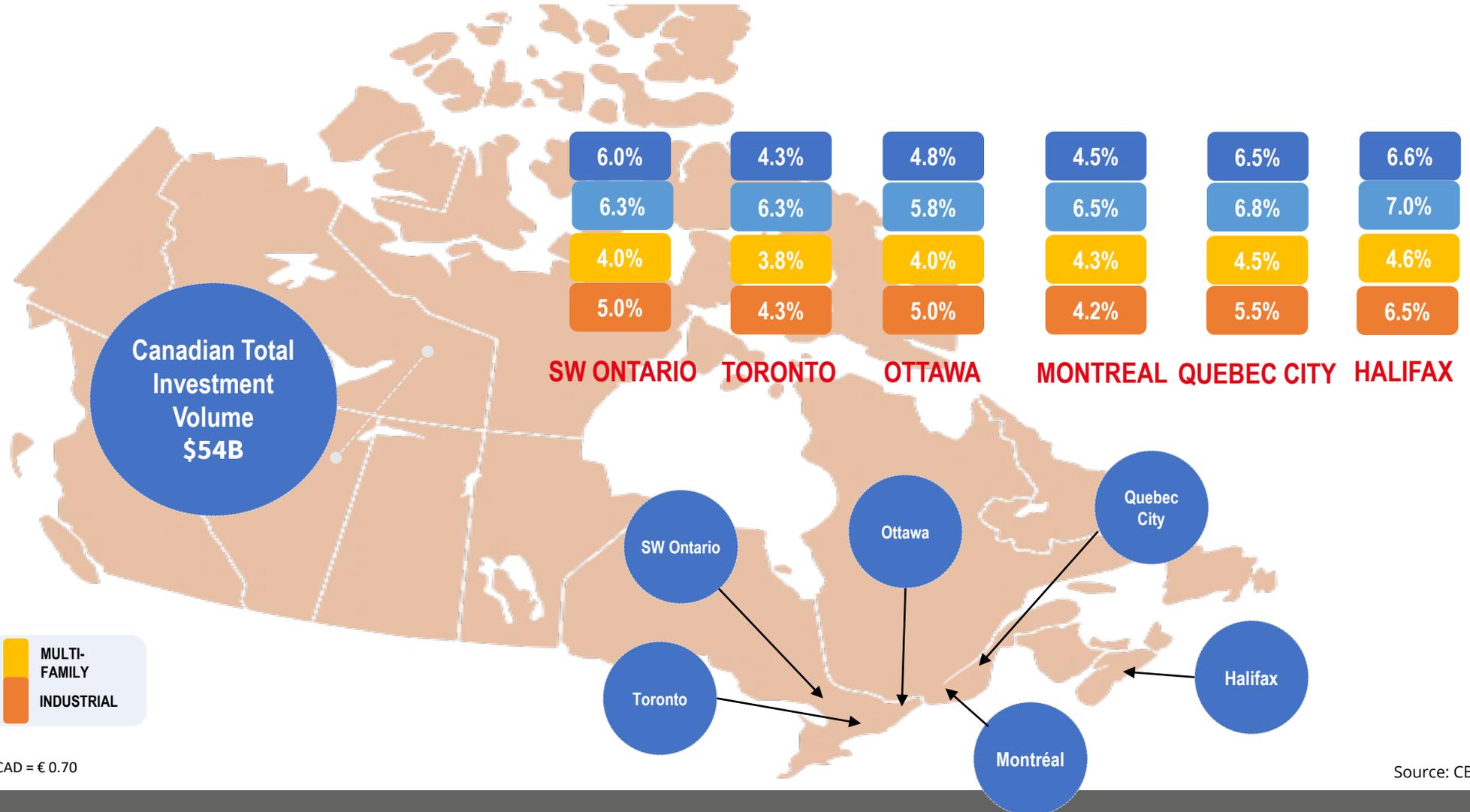
- Geographic Location
- Sizable capital allocation
- Tenant quality supports very competitive debt terms
- Building configuration supports future multi-tenant leasing
- Tenant quality provides income surety with contractual rent increases



RECan Canadian Real Estate Market Update



2021 Investment Volumes & Q4 2021 Average Cap Rates



* All amounts in \$ CAD. \$1.00 CAD = € 0.70

Source: CBRE, Cushman, Colliers



🇨🇦 **RECan Forecast: Investment Volumes will continue strong through 2022**

- Investment Volume equal to or greater than the record \$54 billion set in 2021
- New construction will continue to provide investment opportunities
- Industrial, multi-family and land will continue to dominate with office and retail increasing

🇨🇦 **RECan Forecast: Industrial market fundamentals will continue to drive returns**

- Continued trend of low vacancy rates, with most RECan target markets averaging 1.0% vacancy
- Rental rate growth of between 10-20% will support continued income growth
- Creative new developments (multi-level industrial) and in-fill projects will increase to meet demand and help alleviate the problem of land availability

🇨🇦 **RECan Forecast: Office Market stabilizing is most major markets**

- Return to the office will increase through late Q1 into Q2
- Absorption (lease up) will increase resulting in a reduction in overall vacancy rates
- As markets stabilize, investment volume will increase in 2nd half of 2022



🍁 **RECan Forecast: Select retail assets will continue to be in demand**

- Investors will continue to seek out grocery and pharmacy anchored (Non-enclosed) retail centres
- Continued densification of enclosed malls with new multi-residential developments on excess land

🍁 **RECan Forecast: Immigration will continue to drive demand in multi-residential**

- Continued trend of low vacancy rates, with most RECan target markets averaging 1.0% - 3.0% vacancy
- New construction will accelerate to meet growing demand
- Cost of construction continue to increase driving overall valuations
- Rental rate growth is expected to keep pace with inflation.

🍁 **RECan Forecast: Inflation will remain a challenge in 2022**

- Inflation will force the Bank of Canada to increase the overnight lending rate throughout 2022
- Long-term interest rates will increase at a slower pace than the overnight rate, as higher inflation is viewed as short-term in nature
- Cost of capital increases may slow cap rate compression

Canadian Real Estate Market Update

Real Estate Market Comparison – Canada vs Germany



🍁 Investment Activity **\$54B** Record Year of Investment

Germany **€ 110B**

- Volume driven by low cost of capital, forecasted income growth, and general confidence in Germany's economic outlook
- Real estate is hedged better in Canada than in Germany against inflation due to the lease contracts

🍁 Investor Profile **> 60%** Private and Foreign Investors

Germany **> 70%** Domestic Capital Sources

- In Germany 2021 more than 80 % of Residential Investment was invested by domestic capital.
- In Germany 2021 55% of market volume was traded within portfolios.
- In Germany 2021 64% of all transactions take place in the BIG 7 cities.

🍁 Asset Class Focus **> 50%** Multi-Family and Industrial

Germany **> 45%** Multi - Family

- Scarcity of new product in German real estate markets, especially in residential.
- Yield in residential in general went down to an average of 2.6% (Munich 2.35%; Stuttgart 2.4%, Berlin 2.45%)

🍁 Retail Investment **79%** Increase in YTD Sales

Germany **Food Anchor in Focus**

- Investors have a strong demand for well-located grocery-anchored retail assets
- Last mile logistics and food anchored retail is highly searched for and yield for food anchored retail is down to 3.5%

Source: JLL Research, CBRE, CMHC, Deutsche Bank

Canadian Real Estate Market Update

Real Estate Market Comparison – Canada vs Germany



Population/Markets

- ✦ Germany's population is approx. 83.0 million vs 38.4 million Canadians
- ✦ Canada's population is more concentrated around major urban centers. Toronto (6.6M) and Montreal (4.3M) are both larger than Berlin (3.7M)
- ✦ RECan's Target Markets (Toronto, Ottawa, Southwestern Ontario, Montreal, Quebec City, Halifax) have a population of approximately 15.1M. By contrast, Germany's "Big 7" plus the next 9 largest German cities would total 15.1M.

Capitalization Rates

- ✦ Industrial Cap Rates in Canada are approximately 150 – 200 bps higher, on average than in Germany (Germany 2.5%-4.0% vs Canada 4.0-6.0%)
- ✦ Office Cap Rates in Canada are approximately 200 bps higher, on average than in Germany (Germany 2.0%-4.0% vs Canada 4.5-7.0%)
- ✦ Retail Cap Rates in Canada are also approximately 200 – 250 bps higher, on average, than in Germany (Germany 2.9-4.85% vs Canada 5.4 – 6.8%)

Multi-Residential

- ✦ Capitalization Rates in Canada are approximately 200 bps higher than in Germany (Germany 1.0%-3.0% vs Canada 3.0-5.0%)
- ✦ Canada is averaging a 1.2% increase in the supply of new apartment units annually, vs 0.75% for Germany
- ✦ Vacancy Rates (pre-covid) were estimated to be 2.0% in Canada, versus 3.0% in Germany. Canada's vacancy rate rose to 3.2% at the end of 2020 as the Covid-19 pandemic hit.

Source: JLL Research, CBRE, CMHC, Deutsche Bank

European Investor Expectations to be met in Canada



✦ ESG considerations when investing into non-listed funds

- ✦ 68 % Net Zero Carbon Commitment
- ✦ 86 % Environmentally & socially responsible investments
- ✦ 66 % Diversity, Equity and Inclusion Programme

RECan new properties on the path to Zero Carbon
RECan investment matrix to be met before acquisition
RECan investment matrix and team

✦ Regional destination of planned capital deployments

- ✦ European investors plan to deploy 50% of their capital in Europe, 30% in the Americas and 20% in APAC
- ✦ Most significant shift:
Europe (49%, down from 65% in 2020) and the Americas (29%, up from 13% in 2020)

✦ Expected change in real estate allocations over the next two years

- ✦ 80% of European investors expect their allocation to APAC to increase, unchanged since 2020
- ✦ Most significant shift:
Expected allocation to "Americas ex US" (Canada) is three times higher than in 2020 (45% vs. 15%)

✦ Most challenging obstacles when investing in non-listed real estate funds

- ✦ "Availability of product" remains #1 obstacle for European investors RECan has an excellent deal pipeline
- ✦ "Currency risk exposure" much less an issue for Europeans than for US investors (3% vs. 67%)

Source: INREV Investment Intentions Survey 2022



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