# REALpac / FPL Canadian Real Estate Sentiment Survey

Fourth Quarter 2009

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REALpac
Real Property Association of Canada
Association des biens immobiliers du Canada

FPL

# The REALpac / FPL Canadian Real Estate Sentiment Survey

The Real Property Association of Canada (REALpac) and FPL Advisory Group are pleased to announce the results from the Fourth Quarter 2009 REALpac / FPL Canadian Real Estate Sentiment Survey. The survey is the industry's most comprehensive measure of senior executives' confidence in the Canadian commercial real estate industry. This quarter, the survey captured the thoughts of 39 senior real estate executives, including CEOs, presidents, board members, and other executives from a broad set of industry sectors including owners & asset managers, financial services providers, and operators & related service providers. The quarterly survey measures executives' current and future outlook on three topics including (1) overall real estate conditions, (2) access to capital markets, and (3) real estate asset pricing. Survey respondents represent the retail, office, industrial, hotel, multi-family, residential, and seniors residential asset classes.

## Topline Findings

- Canadian executives' sentiment on real estate markets has moved up meaningfully over the past quarter, more so than in the U.S.
- More respondents are seeing positive market trends, but any movement is expected to be slow.
- Asset values are seen as materially down today, but expectations are up and respondents still report stronger pricing than in the U.S.
- Debt capital availability is seen as much improved since last quarter though it is still far from what was seen in '07.
- Perspectives on equity capital availability continue to track above those for debt capital.

## Data Collection

Data was collected during the first two weeks of the fourth quarter, 2009. In the pages that follow, survey responses are supplemented by excerpts from interviews conducted with senior executives with Canadian property developers and owners, institutional investors, asset managers, and other organizations.

# Canadian executives' sentiment on real estate markets has moved up meaningfully over the past quarter, more so than in the U.S.

"Canada is in far better shape than the U.S.  Our banks are in good shape and they're lending.  Unemployment is up, but it's not too bad.  Overall, the fundamentals here are good."

"The real question is if revenues can grow.  Most people are working at capacity, so if revenues do go up, then employment will have to grow."

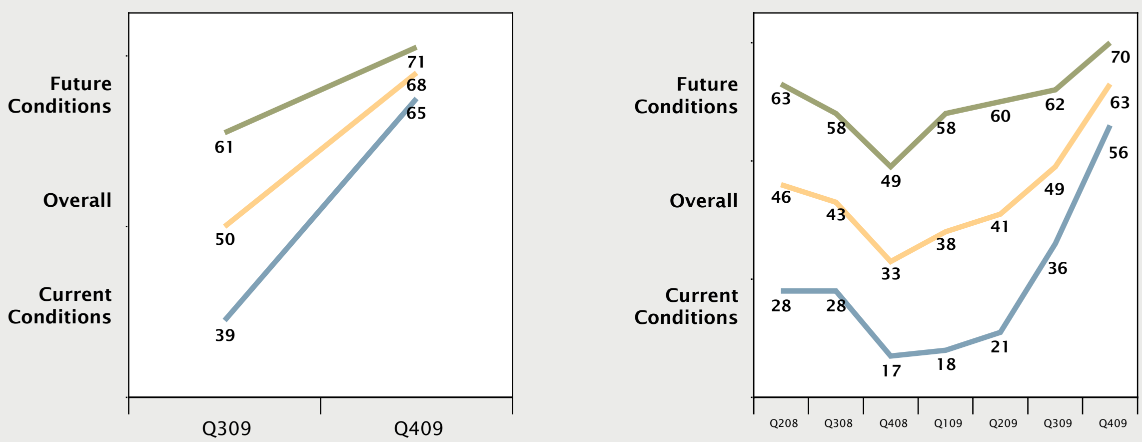
"Unemployment statistics have started to stabilize, but there are still some key things to be worked out.  We are still 2-3 quarters away from real stability."

"It's not clear to me that we're done with the downturn.  It's 50/50 right now whether we'll escape another dip or not."

Exhibit 1

**REALpac/FPL Canadian Real Estate Sentiment Index**[1]

**Real Estate Roundtable Sentiment Index (U.S.)**[1]




[1] The REALpac/FPL Canadian Real Estate Sentiment Index and The Real Estate Roundtable Sentiment Survey, organized by FPL Advisory Group, are conducted using the same survey methodology, questions, and timing.

# More respondents are seeing positive market trends, but any movement is expected to be slow.

"We will see velocity again by Q310, and a return to normal by 2013. It will be a slow grind—not a bloodbath in 2010 but not glamorous either."

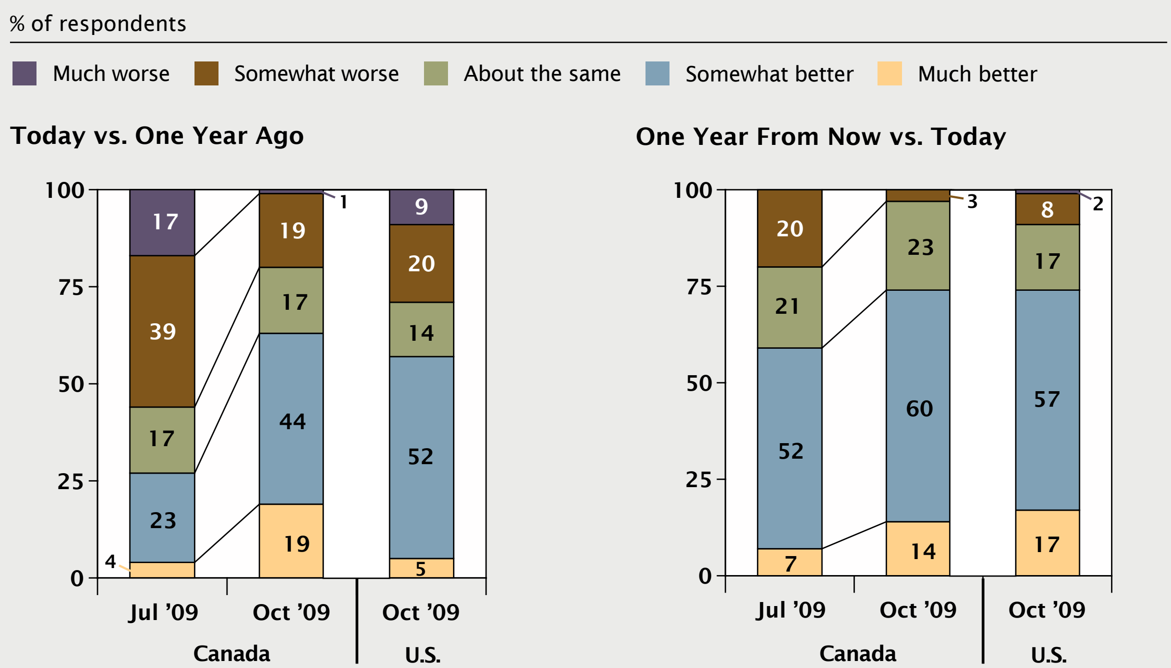
"We're in the third round of a five round boxing match, but in the first two rounds nobody threw a punch. At some point somebody's gotta throw a punch."

"I like that the markets have been improving, but I am not happy about the dollar moving back to parity (with U.S. $); that has taken some of the edge off recent gains."

"Some profitability was inevitable with all the cost-cutting that's happened, but you can't cost-contain yourself to prosperity."

Exhibit 2

**Perspectives on Real Estate Market Conditions**



# Asset values are seen as materially down today, but expectations are up and respondents still report stronger pricing than in the U.S.

"There are two markets now, one for good stuff and another for everything else. Values probably fell up to 25% for non-quality assets, for quality stuff it probably only fell 10% or so and has stabilized now."

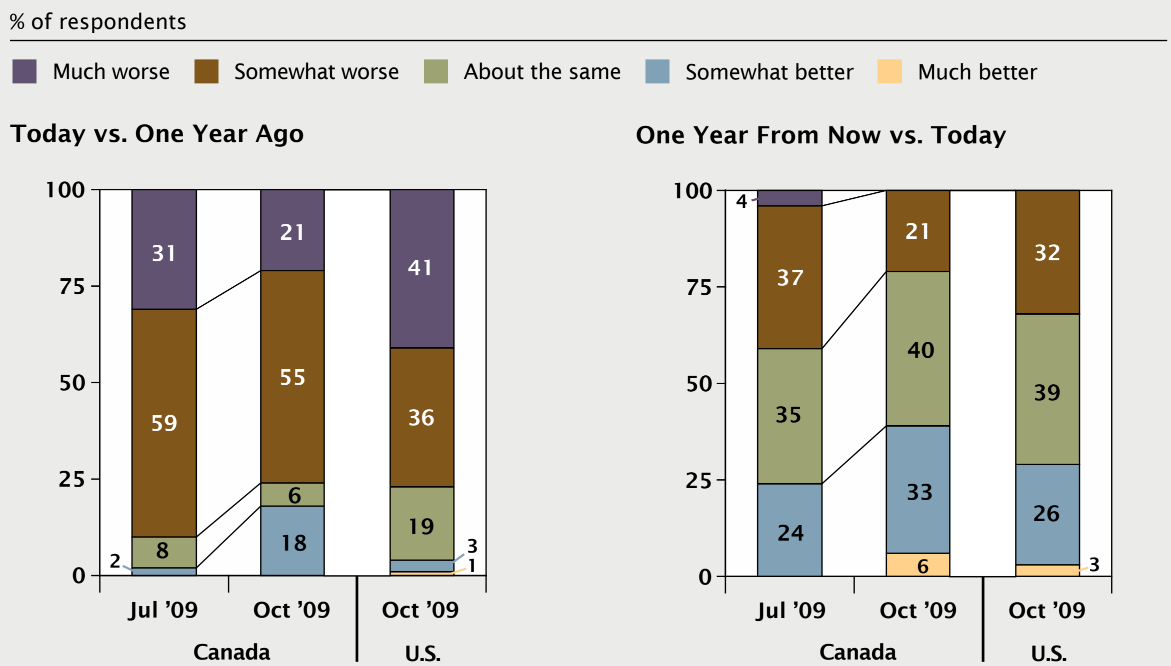
"Pricing is down, but not as much as in the U.S. We had plans to sell assets in both countries, but we've only had success selling in Canada."

"Values are up; there is more going on but it's cautious."

"I'm already seeing risk being mispriced, specifically in retail and some office. I think there's going to be more cash flow issues than those pricing these properties may be expecting."

Exhibit 3

**Real Estate Asset Values**



# Debt capital availability is seen as much improved since last quarter though it is still far from what was seen in '07.

"In the U.S. there are CMBS rollovers, refis, etc. We don't have that type of negative velocity in Canada."

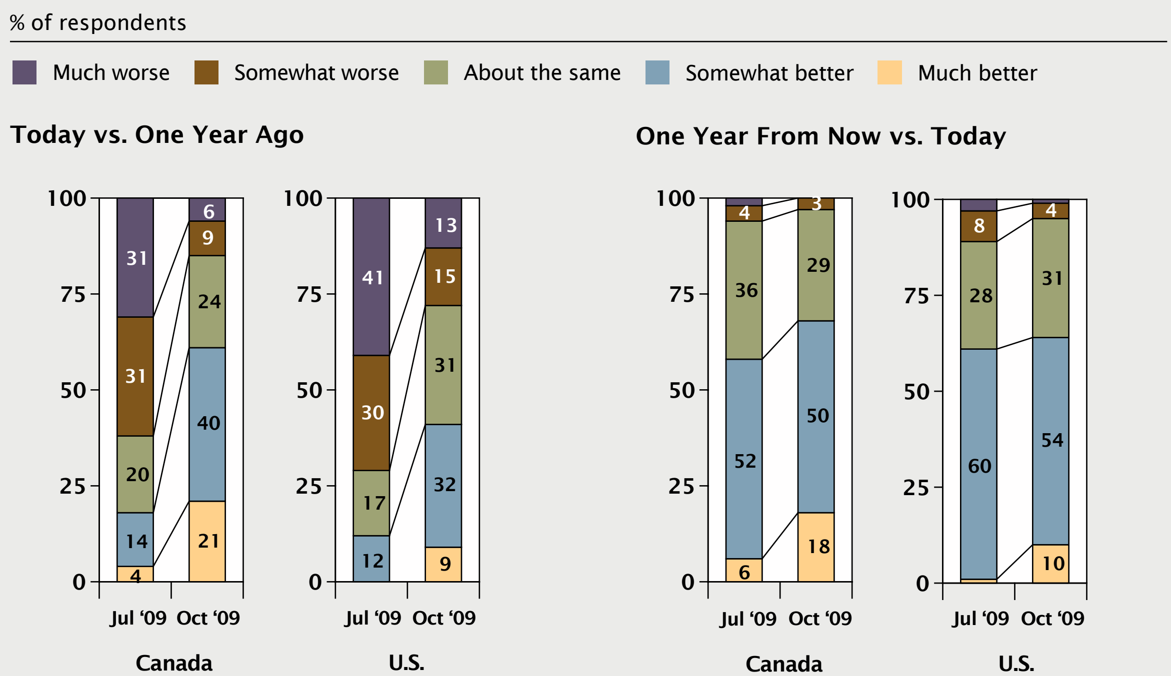
"Debt is obtainable. The rates are a little higher and the leverage is a little lower, but it's nothing other than a normal down cycle."

"Debt is available, it's there. We've renewed mortgages and raised new debt. However, you can't do any kind of opportunistic deal with debt these days."

"Two years ago, I'd get 8-10 term sheets. A year ago, I got only one or two. Now, I get about four. That seems a reasonable, healthy level of response to me."

Exhibit 4

**Availability of Debt Capital**



# Perspectives on equity capital availability continue to track above those for debt capital.

"Equity has been tough since last November, now it's available, not in huge amounts, but it's there, usually in blocks of $15-20M."

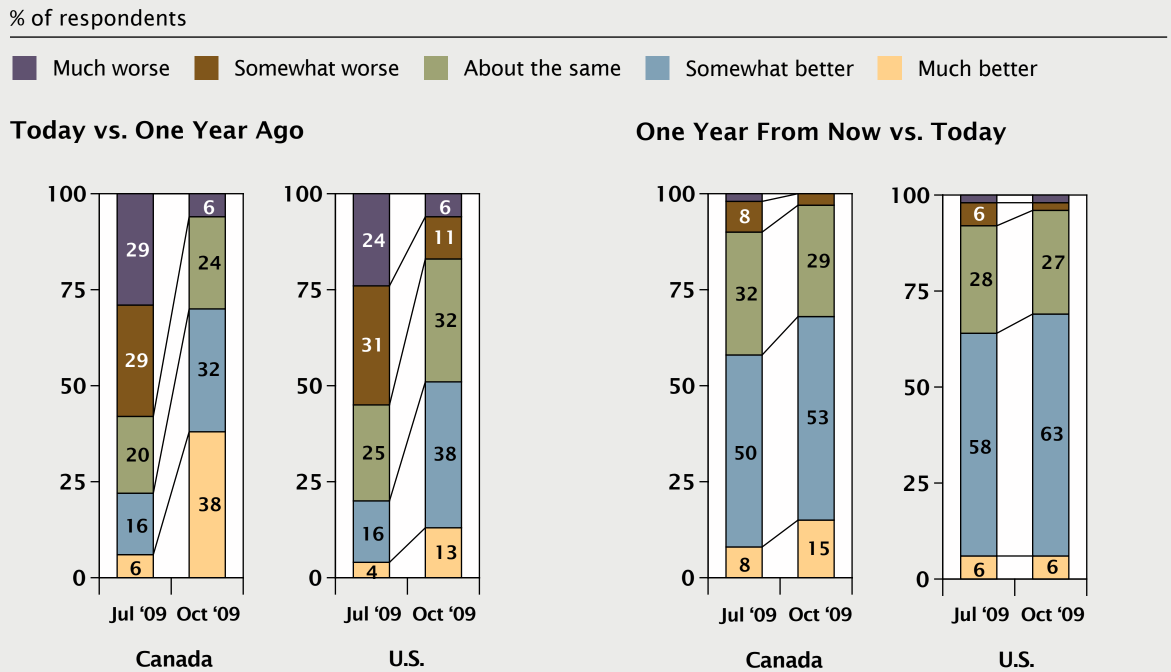
"[Public] equity's free today. Every good REIT is able to raise capital. So much so that the flood of capital is pushing cap rates down. Private equity is available for the right deal, but not on a blind basis."

"On the capital front, REITs have raised billions. There's money out there, but where are you going to put it?"

"Liquidity is back. It's back in equity, it's back in debt."

Exhibit 5

**Availability of Equity Capital**



# Participants

*(Please note that this is only a partial list.  Not all survey participants elected to be listed.)*

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Gary Whitelaw

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**Canaccord Adams**
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**Concert Properties Ltd.**
David Podmore

**CREIT (Canadian REIT)**
Stephen Johnson

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