

FIERA REAL ESTATE MARKET COMMENTARY

The following comments represent a high-level view from Fiera Real Estate Canada on the impacts of the current COVID 19 issue. They apply generally across our Canadian Platform. It is worth noting that the duration of the current crisis is the wild card and that the source of the crisis spares few asset classes.

If the crisis is **relatively short lived** and has peaked and is settling prior to the end of Q2 2020 we would expect limited impact on all our current strategies.

In a **short duration scenario**, the market is expected to take a pause while it works out the potential impact. We are in that position today as all enterprises assess the situation. During this phase real estate values and fundamentals tend to hold but investment and leasing transaction volumes could fall significantly. In effect it is a no bid market.

In a **longer duration scenario**, all of the other factors that one would expect begin to come into play. Highly levered businesses begin to fail starting with those closest to the issue (in this case hospitality and travel), rental rates stay flat or begin to fall, liquidity begins to dry up, occupancy levels widen out and capital value declines begin to appear as capitalization rates (CAP Rates) move out.

In our past experience of managing an open-ended fund through the GFC in 2008/09, we experienced about a 20% fall in AUM driven by a combination of de-valuation of assets and investors exercising redemptions to re-balance their positions. During that time, the stable income generated through leases limited the impact of falling capital values and ultimately maintained total returns above the zero line. This compared positively relative to significant negative returns out of equity portfolios. A low leverage position also helped mitigate downside. In effect, the real estate portfolio performed exactly as envisioned serving to deliver good relative returns compared to other asset classes. During this time not one of our investors flattened their position, no assets were sold, and all investor requirements were managed within the fund's set of liquidity provisions. We would not expect our experience to be significantly different in the event of an extended period of disruption under the COVID scenario.

SUMMARY OF IMPACTS

Open ended CORE Strategies:

- *Short duration COVID End of Q2:*
 - Income levels sustained
 - Occupancy levels maintained
 - Valuation potentially increase with yield compression lifting values
- *Long duration COVID 2 to 4 quarters:*
 - Income levels fall 5% - 10% as business failures reduce demand and impact occupancy

- Occupancy levels fall
 - Redemptions commence as investors re-balance positions against equities (~ -10% to -20% AUM impact)
 - Valuations fall
 - Lending spreads and cap rates widen
 - Income funds perform well on relative basis and stay above the zero line as sustained income offsets capital losses
 - Lenders favour existing relationships and strong borrower covenants
- Global Oil Price War – Our exposure to this issue is confined primarily to our Alberta portfolio. We have a single office asset in Alberta leased on a long-term lease to the government, so our exposure to the underperforming office sector in the province is limited and de-risked. The bulk of our remaining portfolio is characterized by industrial and “daily needs” unenclosed retail. During the last oil price crisis, the portfolio performed well on a relative basis and recovered quickly primarily due to a lack of office exposure. At the Fund level significant positive performance in other regions more than offset the minor downside in Alberta. Since the last crisis the portfolio has further reduced overall exposure to Alberta, and we do not expect a material adverse impact from the current crisis at the Fund level.
- Bottom line, the income-oriented strategies are low leverage and have proven to sustain good relative performance through significant market disruptions. Longer duration lease contracts tend to stabilize financial results and the correlation with the broader market tends to break down in a favourable way during a downturn.

Closed Ended Opportunity and Development Funds:

- *Short duration COVID End of Q2:*
 - Modest inflation of costs due to supply chain disruption
 - Reduced liquidity and financing
 - Extended build periods of 2 to 3 months
 - Up to 10% reduction in IRR's
- *Long duration COVID 2 to 4 quarters:*
 - Reduced liquidity for new projects
 - Strict controls on existing projects
 - Projects at preliminary stage postponed or cancelled
 - Some proportion of aborted condo sales by consumers and extended lease-up periods
 - Extended Development periods
 - Completion issues
 - Potential for 50%+ reduction in IRR's depending on the duration of the crisis.

Note that we have no development exposure in Western Canada. Our projects are situated in the well diversified economies of Ottawa, Montreal and Toronto.

The bottom line for these strategies is that the money is fully committed through to completion. The expectation is that while mid teen total return targets may be in jeopardy if the COVID crisis takes place over an extended period, the net total returns in the fullness of time should remain in positive territory. Oddly, if the COVID crisis operates over an extended time frame it will significantly reduce the supply pipeline and potentially help to temper the downside in existing projects. Most of our projects are well advanced and capitalized and while they may come in at lower total overall returns over an extended time frame, they are still expected to deliver returns that compare relatively favorably with other asset classes.

We are conscious of treading a fine line in our messaging. We do not want to underestimate the severity of the COVID 19 issue nor do we want to act on speculation. There is no way to tell at this point how long the issue will remain at its current level. History would suggest that like other viruses in the past it will run its course and fade away. At this point we feel our portfolios and projects are well positioned and well capitalized to weather the crisis. We expect the portfolios to perform in the manner contemplated. That is to say that as a result of the current COVID crisis and the assumption that it may extend well into the current year, there is a risk that Funds could deliver lower returns than in the recent past, but should maintain positive performance in relation to other asset classes.