SkyPoint Market Overview

Analyzing the current macroeconomic environment is the foundation for all of SkyPoint's research

North American Multifamily Outlook 2016

The multifamily asset class remains the most stable real estate asset class across major North American cities. High demand in major markets driven by rising housing affordability concerns and strong economic growth in major markets has vacancy rates floating below historical averages.

The low interest rate environment coupled with strong economic fundamentals continues to compress multifamily cap rates in major U.S. and Canadian markets. Both the U.S. and Canada saw record levels of multifamily investment in 2015 following a period of constrained supply.[1]

A strong U.S. economy has pushed the national unemployment rate down to 4.9%, which is close to the Federal Reserve's definition of full employment.[2]

Commodity based economies in Texas and Western Canada continue to struggle with the impact of $30/barrel oil. Meanwhile, manufacturing export based economies in Eastern Canada are benefiting from a weak Canadian Dollar and a strong U.S. economy.

Economic Forecast

Globally, concerns of China's slowing growth, the future of oil prices, uncertainty throughout the European Union, and a divergence in monetary policy across central banks have turned the beginning of 2016 into a rough ride for investors.

The resulting turmoil has led to a spike in volatility, equity market declines, and government bond yields falling to all-time lows in Canada, the US, and Europe.

In 2015, low energy prices kept inflation under target rates in North America. Home sales and prices increased, while business investment was weak as energy companies cut capital expenditures. Consumer spending was strong in both the US and Canada.

Table of Content

Economic Forecast
Page1

U.S. Multifamily Outlook
Page3

Canadian Multifamily Outlook
Page4

Spotlight on Toronto
Page5

Conclusion
Page11

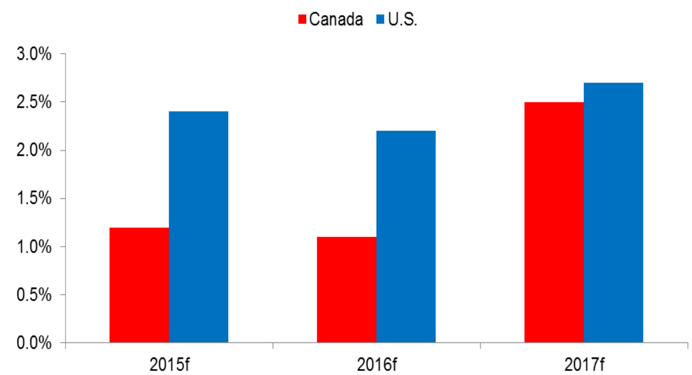
SkyPoint
REALTY PARTNERS LIMITED

Tel: +852 3180 9284
Email: Info@skypointrp.com
www.skypointrp.com

Unit 1506, 100QRC
100 Queens Road Central
Hong Kong SAR

Figure 1: Canada and U.S. Real GDP Forecast

In 2016, the U.S. economy is expected to grow at 2.2%, while Canada's growth slows to just 1.1% (Figure 1).[3] This difference is largely driven by the impact of low oil prices on Canada's commodity based economy.



Source: Scotiabank

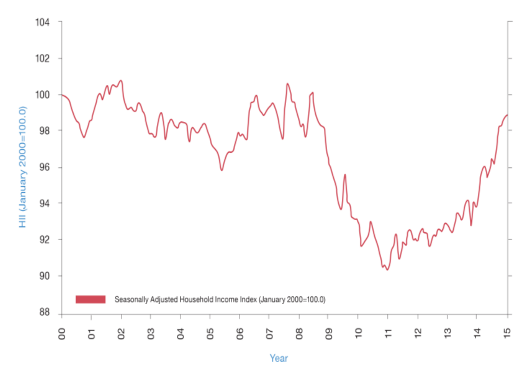
In December of 2015, the U.S. Federal Reserve increased interest rates, while the Bank of Cana-da remained at 0.5% in their January rate decision. Fed Chair Janet Yellen was primarily driven by the fear that holding interest rates too low for too long could lead to excessive risk taking in financial markets.4 The main drivers behind the Bank of Canada's January decision to stay put at 0.5% were a lack of business investment, record-low hiring intentions, and an under-whelming increase in exports.[5]

U.S. economy reaches full employment

A strong U.S. economy has pushed the unemployment rate down to 4.9%, which is close to the Federal Reserve's definition of full employment. As the economy reaches full employment, wages will start to see upward pressure. Increased wages should have a dramatic impact on consumer spending and the housing market as households have more disposable income.

Figure 2: Median Household Income Index

After adjusting for inflation, median household income in November of 2015 was still 1.1% lower than in January 2000, suggesting there is room for further real wage growth (Figure 2).[6]



Source: Sentier Research

As the economy continues to grow, households are continuing to pay down debt, resulting in the debt-service costs as a share of disposable income reaching a 35-year low. In addition, the national home-ownership rate of 63.7% is still far below the level of 69.2% reached in 2004 leaving the housing market with room for growth.[7]

SkyPoint
REALTY PARTNERS LIMITED

Tel: +852 3180 9284
Email: Info@skypointrp.com
www.skypointrp.com

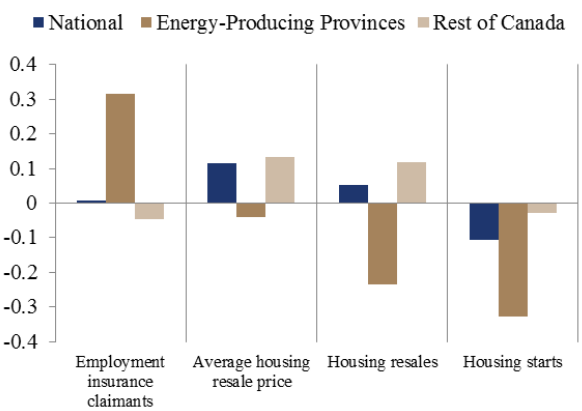
Unit 1506, 100QRC
100 Queens Road Central
Hong Kong SAR

Canada's economic story has two parts

Although national growth is expected to lag the US economy, much of this decline is focused in a few resource based provinces. Alberta's economy, home to Canada's oil sands, is going through structural changes as they adjust to a lower price of oil. According to RBC, Alberta's unemployment rate is expected to average 6.9% in 2016, exceeding the national average for the first time since 1988.[8]

Since November 2014, housing resales and housing starts have seen significant declines in energy-producing provinces, while the rest of Canada saw little impact (Figure 3).[9] Rising housing prices across Canada were primarily driven by large increases in Canada`s two largest cities, Toronto and Vancouver.

Figure 3: Change in Canadian economic indicators since November 2014

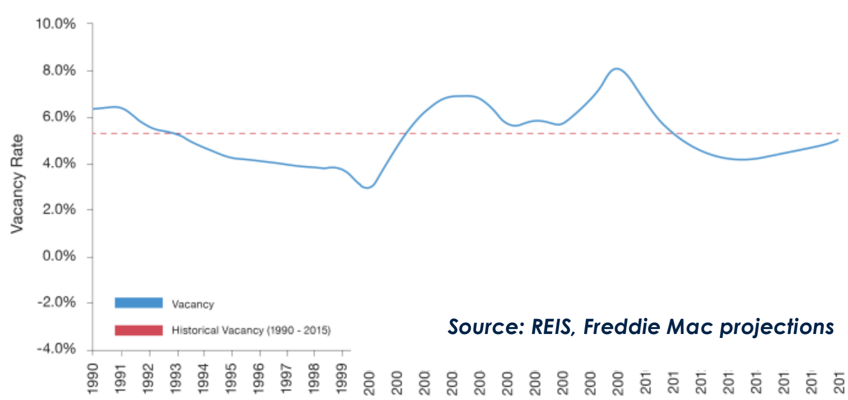


Source: Bank of Canada

U.S. Multifamily Outlook

A strong job market, favourable demographic trends, and housing affordability issues will continue to create strong demand in the U.S. multi-family sector. Two of the main drivers of the multifamily sector, real GDP growth and unemployment levels, will remain strong in 2016 as the U.S. economy reaches full employment. Although 2015 saw 306,000 multifamily starts, the most in a single year since 1989, the vacancy rate in 2016 is expected to remain below historical averages (Figure 4).[10]

Figure 4: Historical US multifamily vacancy rate



Source: REIS, Freddie Mac projections

SkyPoint
REALTY PARTNERS LIMITED

Tel: +852 3180 9284
Email: Info@skypointrp.com
www.skypointrp.com

Unit 1506, 100QRC
100 Queens Road Central
Hong Kong SAR

Despite the recent increase in the interest rate, strong economic fundamentals are expected to keep downward pressure on multifamily cap rates in large U.S. markets. Gross income increases between 5% and 8% are expected across major U.S. markets including San Francisco, Los Ange-les, Chicago, and New York.[11] However, resource dependent states such as Texas and Colorado will feel the impact of low oil prices as employment growth slows.

The rise of the renter

Over the past decade, household formation, the underlying driver of long-term demand for housing, has been heavily skewed towards renters. Since 2007, eight million renter households have been formed, while owner-occupant households have decreased by 1.8 million.[12]

Many individuals were forced to rethink their living situations during the Global Financial Crisis of 2008. Un-sustainable debt levels, driven primarily from subprime mortgage lending, were a huge factor in the decrease of homeownership rates.

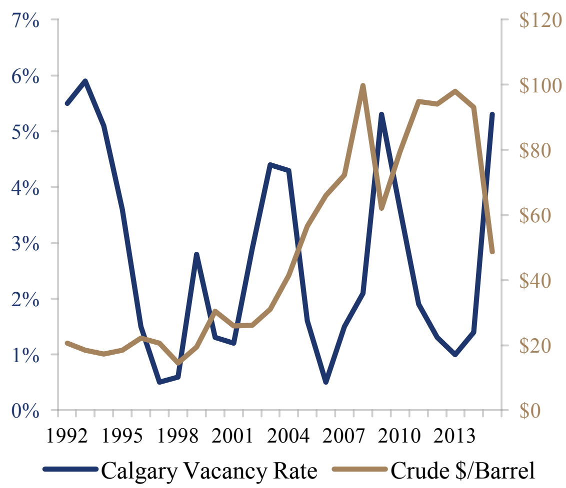
Millennials (those born 1980-2000) are saving less on average, making homeownership a more difficult goal to achieve.[13] Millennials are also choosing to get married at an older age than past generations, pushing off homeownership to later in life.[14]

Finally, potential homeowners in large metropolitans are increasingly facing housing affordability issues, leaving these individuals with no other option but to rent.

Canadian Multifamily Outlook

The Canadian multifamily sector remained the most stable real estate asset class in 2015. However, resource based provinces in western Canada have been severely impacted by the low price of oil. In Calgary, multifamily vacancy rates increased dramatically from 1.4% in 2014 to 5.3% in 2015 as the price lost nearly half its value (Figure 5).[14]

Figure 5: Impact of the price of oil on Calgary's multifamily sector



Although the Canadian economy overall is expected to have weak growth in 2016, there are some reasons for investor optimism.

Long-term interest rates are expected to stay at their current low levels. The Bank of Canada, Canada's central bank, has little reason to increase interest rates in the near future. Economic growth has slowed and inflation is expected to remain stable.

SkyPoint
REALTY PARTNERS LIMITED

Tel: +852 3180 9284
Email: Info@skypointrp.com
www.skypointrp.com

Unit 1506, 100QRC
100 Queens Road Central
Hong Kong SAR

> "There is a trend in rentals that will emerge over time: people will want to rent luxury—by choice, not because they can't afford to buy."

Emerging Trends in Real Estate® 2016, PwC and ULI

The current economic and interest rate environment should keep cap rates at their current levels. Cap rates and vacancy rates in Canada's two largest cities, Vancouver and Toronto, are at record lows. Record price levels in both cities continue to worsen housing affordability concerns, leading to increased rental demand.

With housing prices showing no signs of a slowdown, Vancouver and Toronto will preserve the top multifamily investment spots for the foreseeable future.

Fundamental drivers, such as population growth and employment gains, are supporting strong rental demand in both cities.[15] For example, the population of Toronto is projected to grow by three million people, or 45%, over the next 25 years.[16]

Spotlight on Toronto

Toronto has become one of the world's most desirable cities to live in. Known for its rich culture, there are an estimated 80 languages spoken throughout the city.[17] Toronto is the fourth largest city in North America behind only Mexico City, Los Angeles, and New York City.

As home to the headquarters of every major Canadian bank, Toronto is the financial hub of Canada. Approximately 40% of all jobs in the province of Ontario are located within the Greater Toronto Area (GTA).[18]

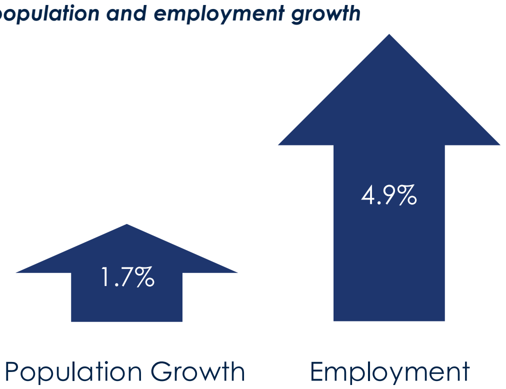
Internationally, Toronto is highly regarded and was recently ranked the best city in the world to live in by The Economist Intelligence Unit.[19] As the top choice for new immigrants to Canada, Toronto's multifamily sector is amongst the most desirable in North America.

Steady household formation driving strong housing demand

Household formation in Toronto, the annual number of households that will be formed in the long-run, is 2.5 times that of Vancouver and approximately 3 times that of New York City and Los Angeles. Based on projections of population, household formation is the underlying driver of demand for new housing. Household formation is expected to outpace construction through 2017.[20]

Demand from strong population growth is compounded by even stronger economic growth in Toronto (Figure 6). When employment growth outpaces population growth, the unemployment rate starts to fall and wages start to increase. As Toronto's economy reaches full employment, households have more disposable incomes and are able to afford higher rents.

Figure 6: Toronto's economy is driven by strong population and employment growth



Source: BMO

SkyPoint
REALTY PARTNERS LIMITED

Tel: +852 3180 9284
Email: Info@skypointrp.com
www.skypointrp.com

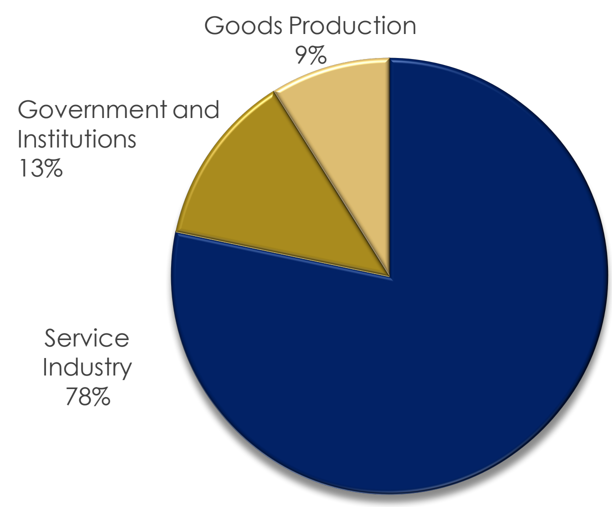
Unit 1506, 100QRC
100 Queens Road Central
Hong Kong SAR

In the Emerging Trends in Real Estate® 2016 report, PwC noted a trend towards luxury rentals, as seen in the sharp increase in the number of condos being rented.[20] This luxury rental trend coupled with increased household disposable income should drive future rent increases.

Follow the jobs

In 2015, employment growth in Toronto was an impressive 4.9%.[21] Toronto's unemployment rate is currently 6.6%, down from 7.1% in January 2015. Most of the employment growth in Toronto has been in high-paying professional services jobs as well as the transportation and warehousing industry (Figure 7).[22] Toronto now accounts for over 40% of the jobs in the province of Ontario. Strong job growth in the region is expected to continue through 2017, stimulating the need for further housing.

Figure 7: Toronto jobs by major economic sector

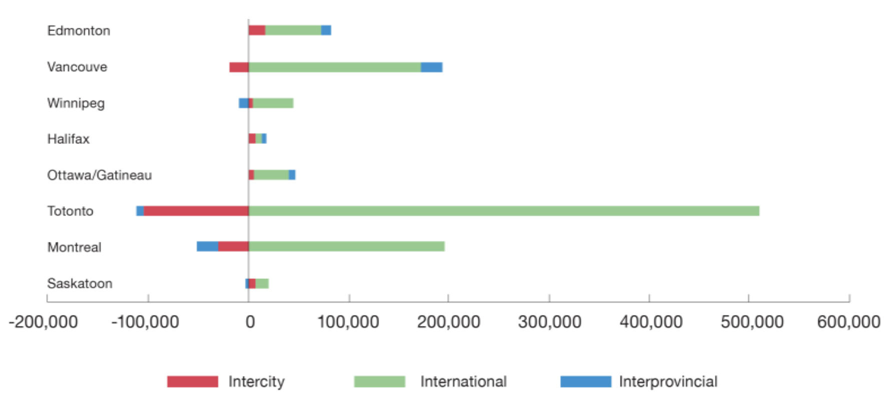


Source: City of Toronto

Immigration continues to be a leading driver of healthy multifamily demand

Strong immigration numbers coupled with new immigrant's high propensity to rent will help create strong multifamily demand throughout the GTA. Toronto is Canada's top destination for new immigrants. The Conference Board of Canada forecasts that from 2015-2019 Toronto will receive more than twice the number of international immigrants as the second most popular destination, Montreal (Figure 8).[22]

Figure 8: Forecast net migration 2015-2019



Source: Conference Board of Canada

SkyPoint
REALTY PARTNERS LIMITED
Tel: +852 3180 9284
Email: Info@skypointrp.com
www.skypointrp.com

Unit 1506, 100QRC
100 Queens Road Central
Hong Kong SAR

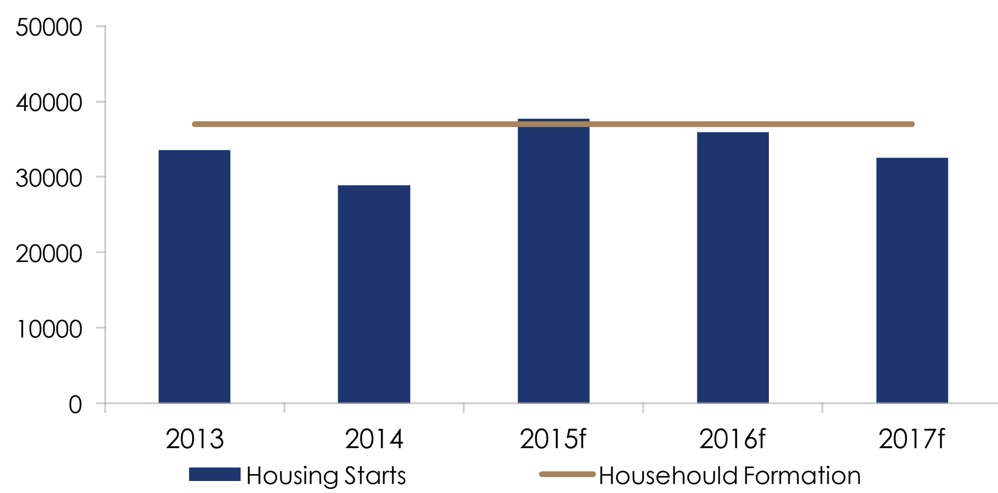
New immigrants have a high propensity to rent for their first few years as they adjust to their new country. According to a recent government survey, less than half of immigrants, one of the main drivers of new housing units in Toronto, are homeowners three years after landing in Canada.[23]

Construction starts remain below long-term household formation

Total housing starts in 2016 are expected to fall below the annual average rate of household formation of about 37,000 (Figure 9). In 2010, low interest rates and a restricted supply of land for development led to a sharp increase in the number of condos being built.

Of the forecast 35,950 unit starts in 2016, about 20,000 will be in apartment and condominium structures.[24] Despite this strong growth in the supply of condo rentals, the average vacancy rate was just 1.8% in 2015.[25]

Figure 9: Toronto's housing starts remain below household formation



Source: CMHC

SkyPoint
REALTY PARTNERS LIMITED

Tel: +852 3180 9284
Email: Info@skypointrp.com
www.skypointrp.com

Unit 1506, 100QRC
100 Queens Road Central
Hong Kong SAR

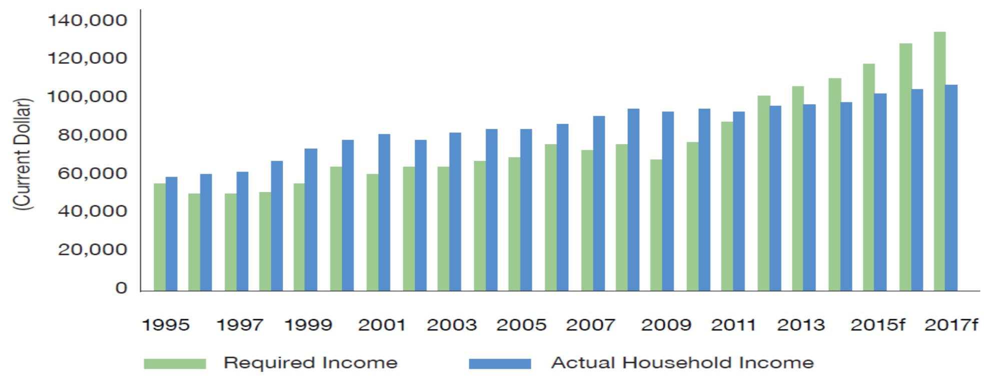
Potential homebuyers face affordability concerns

Housing affordability concerns in Toronto are one of the main drivers of multifamily rental demand. According to CMHC, the required income to buy the average home in the GTA is trending about 30% above that of the average actual household income (Figure 10).

In 2016, the average price of a pre-construction unit of single-detached home in the GTA will grow by 5.3% to $940,000, while the average MLS® price of an existing home will increase by 4.0% to reach $636,500.[26]

By comparison, the average condo price in 2015 was $445,400 and the average rent was $1465/month, making condos and renting much more affordable options.[27]

Figure 10: Required vs. actual household income



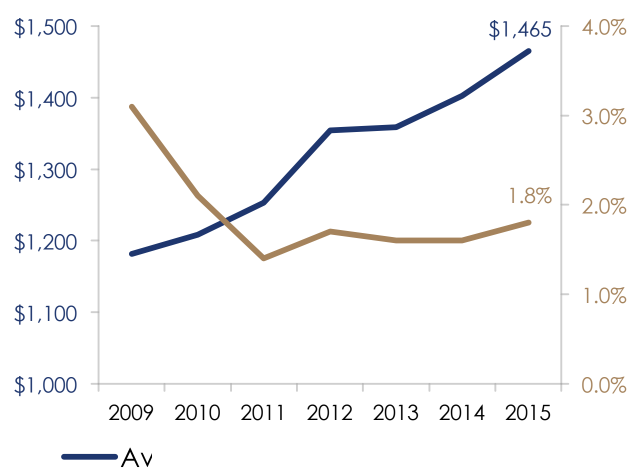
Source: Statistics Canada, CMHC

Rent growth maintains pace while vacancy rates remain at historic lows

Toronto has seen significant rent growth over the last five years. For years, the region's rental stock has suffered from significant underinvestment. At the same time, population and economic growth in the region has created strong rental demand leading to increases in rental rates.

The condo boom, which started in 2010, has helped to bridge the gap between supply and demand. Estimates of the share of condos held for investor purposes as an income generating income are in the 30-40% range.[28]

Figure 11: Toronto average rent and vacancy rate



Source: CMHC

SkyPoint
REALTY PARTNERS LIMITED
Tel: +852 3180 9284
Email: Info@skypointrp.com
www.skypointrp.com

Unit 1506, 100QRC
100 Queens Road Central
Hong Kong SAR

Despite this strong growth in the supply of condo rentals, strong demand for rentals has kept vacancy rates at just 1.8% in 2015 (Figure 11).

"One thing is clear so far: Millennials have had a huge impact on the GTA rental sector because of their willingness to pay a hefty price — on average about $1,800 a month — to rent sky-high new glass-and-granite condos an easy walk from work."

Toronto Star

Millennials are changing the housing market landscape

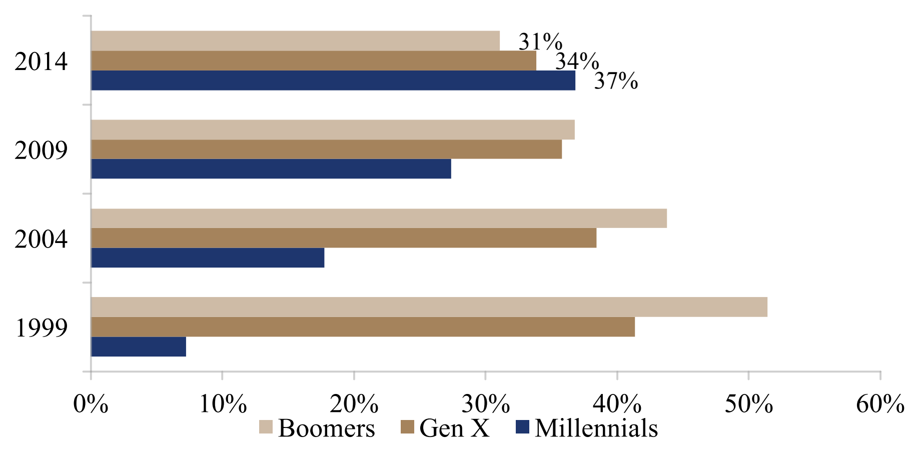
Millennials, born between 1980 and 2000, are changing the landscape of the housing market. Millennials are the future of housing as they now make up the largest cohort of the Canadian workforce (Figure 12).[29] As a result, millennials are receiving special attention from investors, developers, landlords, and property managers.

According to a recent TD Economics report, those aged 28 and younger accounted for 70% of the job losses during the 2008 recession.[30] Millennials faced much bigger challenges than other generations during the recession, which has now led to many millennials choosing to rent rather than purchase their living space.

There are also a number of other factors impacting millennials preference for rentals.

In Canada, millennials are getting married at about half the rate of 1975, choosing to marry later in life or forgo marriage altogether.[31] According to William Wheaton, a housing economist at MIT, millennials just aren't settling down and buying houses like past generations — partly because fewer are getting married.[32]

Figure 12: Millennials are now the largest generation in the Canadian workforce



Source: Statistics Canada

Rather than the traditional commute from the suburbs, millennials are choosing to live in downtown cores where they can "live, work, and play". According to the PWC & ULI Emerging Trends in Real Estate Study, 82% of millennials rank "short distance to work" as a top priority compared to only 67% of baby boomers.[33] With a large share of Toronto`s jobs in the downtown core, millennials are choosing to live close to work where homeownership is often out of their budgets.

SkyPoint
REALTY PARTNERS LIMITED
Tel: +852 3180 9284
Email: Info@skypointrp.com
www.skypointrp.com

Unit 1506, 100QRC
100 Queens Road Central
Hong Kong SAR

Millennials are saving less than past generations, driving up the demand for rentals. Instead of saving for a down payment, they choose to spend their money on leisure activities.[34]

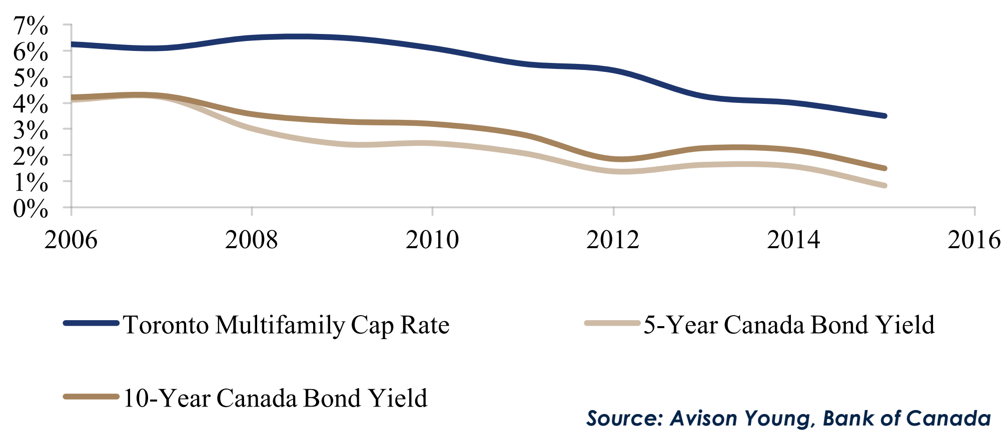
Millennials provide a unique opportunity for the multifamily sector in Toronto. If targeted correctly, millennials preference for luxury rentals in the downtown core could prove to be a valuable market for investors, developers, and property managers.

Low interest rates and strong fundamentals continue to compress cap rates

Since 2009, multifamily cap rates in Toronto have fallen steadily. This compression of multifamily cap rates in Toronto has allowed the multifamily asset class to be the most stable and sought after in Canada.[35]

Canada's low interest rate environment and Toronto's strong economic fundamentals were two of the main drivers of the cap rate compression that drove Class A high rise apartment buildings down to the 3.25%-4.0% range (Figure 13).[36] Low volatility and restricted supply of land have also played a role in driving cap rates down.

Figure 13: Compression of Toronto's multifamily cap rates



Source: Avison Young, Bank of Canada

SkyPoint
REALTY PARTNERS LIMITED

Tel: +852 3180 9284
Email: Info@skypointrp.com
www.skypointrp.com

Unit 1506, 100QRC
100 Queens Road Central
Hong Kong SAR

Conclusion

The North American multifamily market will see another strong year in 2016. The economic outlook for the U.S. is relatively strong compared to the rest of the World. In Canada, commodity based regions are suffering, placing strain on the national economic output.

Overall, North American fundamentals remain very strong for the multifamily asset class. Cap rates are expected to remain below historical averages in major cities across North America as a result of the low interest rate environment and favourable demographic trends. Additionally, challenges such as deteriorating housing affordability and real wage stagnation will benefit multifamily demand.

In Toronto, years of underinvestment in multifamily has led to an increase in purpose-built rental starts. Yet, new housing starts are still trending below long-term household formation. The strong demand and lack of supply in the region has led to significant rent increases and low vacancy rates. Finally, millennials, the generation that makes up the largest percentage of the workforce, are being drawn to Toronto's downtown core where they can "live, work, and play".

Toronto multifamily properties offer investors an attractive alternative investment to equities and bonds. Favourable demographics, a strong economy, and deteriorating housing affordability will generate robust demand for Toronto multifamily properties. The mix of stable cash flows and the opportunity for significant property appreciation is an attractive offer in today's financial environment.

SkyPoint
REALTY PARTNERS LIMITED

Tel: +852 3180 9284
Email: Info@skypointrp.com
www.skypointrp.com

Unit 1506, 100QRC
100 Queens Road Central
Hong Kong SAR

ENDNOTES

1. *"Multifamily Investment Outlook United States Q4 2015", JLL; "2016 Canada Commercial Real Estate Market Outlook", CBRE*
2. *"The Employment Situation – January 2016", Bureau of Labor Statistics, U.S. Department of Labor*
3. *"Global Forecast Update Feb 1, 2016", Scotiabank Economics*
4. *U.S. Federal Reserve*
5. *"Monetary Policy Report January 2016", Bank of Canada*
6. *"Household Income Trends – November 2015", Sentier Research*
7. *"Economy 2016", Bloomberg*
8. *"Alberta Provincial Outlook December 2015", RBC Economics*
9. *"Multifamily Outlook 2016", Freddie Mac*
10. *"Multifamily Outlook 2016", Freddie Mac*
11. *"Multifamily Outlook 2016", Freddie Mac*
12. *"Financial Facts: Saving and sound or dealing with debt? A global generational view", Neilson*
13. *"Will A Fed Interest Rate Hike Slow The Housing Recovery?", NPR*
14. *CMHC; St. Louis Federal Reserve*
15. *"Ontario Population Projections", Ontario Ministry of Finance*
16. *Invest Toronto; Statistics Canada*
17. *Invest Toronto; Statistics Canada*
18. *"Safe Cities Index", The Economist Intelligence Unit*
19. *"Housing Market Outlook – Greater Toronto Area", CMHC.*
20. *"Regional Labour Market Report Card February 2016", BMO Economics*
21. *"Ontario Economic Update 2016", Ontario Chamber of Commerce*
22. *Conference Board of Canada*
23. *"The Housing Experiences of New Canadians", Citizens and Immigration Canada*
24. *"Housing Market Outlook – Greater Toronto Area", CMHC*
25. *Urbanation*
26. *"Housing Market Outlook – Greater Toronto Area", CMHC; MLS® Home Price Index*
27. *RealNet; "Housing Market Outlook – Greater Toronto Area", CMHC*
28. *"Housing Market Outlook – Greater Toronto Area", CMHC*
29. *Statistics Canada*
30. *"Canadian and U.S. millennials: one of these is not like the other", TD Economics*
31. *"Will A Fed Interest Rate Hike Slow The Housing Recovery?", NPR*
32. *"Will A Fed Interest Rate Hike Slow The Housing Recovery?", NPR*
33. *"Emerging Trends in Real Estate® 2014", PwC and Urban Land Institute*
34. *"Financial Facts: Saving and sound or dealing with debt? A global generational view", Neilson*
35. *"Canada Multifamily", Colliers International*
36. *"2015 Q4 Canadian Cap Rate Report", CBRE*

SkyPoint
REALTY PARTNERS LIMITED

Tel: +852 3180 9284
Email: Info@skypointrp.com
www.skypointrp.com

Unit 1506, 100QRC
100 Queens Road Central
Hong Kong SAR

Inspired living in the heart of Toronto's Entertainment District

40 Widmer is located in the heart of Toronto's Entertainment District. A vibrant neighbourhood, the Entertainment District is home to some of the nation's most iconic landmarks including the CN Tower, Rogers Centre, Air Canada Centre, Princess of Wales Theatre, TIFF Bell Lightbox and many more. It is the city's cultural centre for sports, dining, nightlife, and the arts.

We're not making concessions by making a more traditional, suburban-type condo.

OpArt Lofts is located in the Kerr Village neighbourhood of Oakville, one of North America's fastest growing regions. OpArt Lofts features a stunningly modern design consisting of two, eight-storey towers atop a two-storey podium. Designed by the acclaimed firm of Teeple Architects, two white towers spangled with black-framed windows in jaunty patterns reflect the eye-popping Op Art painting style of the 1960s.

About SkyPoint

SkyPoint Realty Partners (SkyPoint) is the first company to bring institutional grade multifamily real estate investments to Asia. SkyPoint was formed to provide Asian investors access to Class A North American multifamily real estate opportunities. SkyPoint combines macroeconomic fundamentals with local in-depth market intelligence to deliver trusted research on current North American real estate trends and opportunities to the international market.

SkyPoint
REALTY PARTNERS LIMITED

Tel: +852 3180 9284
Email: Info@skypointrp.com
www.skypointrp.com

Unit 1506, 100QRC
100 Queens Road Central
Hong Kong SAR