BOARD OF GOVERNORS
Investment Committee

Thursday, August 13, 2020
11:30 a.m. – 1:30 p.m.
Video Conference
PUBLIC +1.888.240.2560 Meeting ID: 341 570 115

Members: Stephanie Chow (Chair), Doug Allingham, Mitch Frazer, Ferdinand Jones, Thorsten Koseck, Mark Neville, Maria Saros, Steven Murphy

Staff: Becky Dinwoodie, Cheryl Foy, Andrew Gallagher

Guests: Leila Fiouzi and Connor Glassco (PH&N)

AGENDA

No.	Topic	Lead	Allocated Time	Suggested Start Time
	PUBLIC SESSION			
1	**Call to Order**	Chair		11:30 a.m.
2	**Agenda (M)**	Chair		
3	**Conflict of Interest Declaration**	Chair		
4	**Minutes of Public Session of Meeting of June 1, 2020***	Chair		
5	**Chair's Remarks**	Chair	5	11:35 a.m.
6	**President's Remarks**	Steven Murphy	10	11:40 a.m.
7	**Investment Review**			
7.1	First Quarter Investment Review* (U)	PH&N	15	11:50 a.m.
7.2	Investment Learning: Real Estate Strategy*	PH&N	20	12:05 p.m.
8	**Other Business**	Chair		
9	**Adjournment (M)**	Chair		12:25 p.m.
	BREAK		**5**	
	NON-PUBLIC SESSION (material not publicly available)			12:30 p.m.
10	**Call to Order**	Chair		
11	**Conflict of Interest Declaration**	Chair		

D – Discussion M – Motion P – Presentation U – Update * Documents attached

No.	Topic	Lead	Allocated Time	Suggested Start Time
12	**Minutes of Non-Public Session of Meeting of June 1, 2020* (M)**	Chair		
13	**Investment Review**			
13.1	First Quarter Investment Review – Portfolio Components* (U)	PH&N	15	12:35 p.m.
13.2	Investment Strategy* (M)	PH&N	20	12:50 p.m.
14	**Other Business**	Chair		
15	***In Camera* Session**	Chair	10	1:10 p.m.
16	**Termination (M)**	Chair		1:20 p.m.

Becky Dinwoodie, Secretary

BOARD OF GOVERNORS
Investment Committee

Minutes of the Public Session of the Meeting of June 1, 2020
Video Conference, 11:30 a.m. – 12:25 p.m.

Members: Stephanie Chow (Chair), Mitch Frazer, Ferdinand Jones, Thorsten Koseck, Mark Neville, Maria Saros, Steven Murphy

Regrets: Doug Allingham

Staff: Becky Dinwoodie, Cheryl Foy, Andrew Gallagher

Guests: Leila Fiouzi (PH&N), Chelsea Bauer (Ontario Tech Faculty Association)

1. Call to Order
The Chair called the meeting to order at 11:30 a.m.

2. Agenda
Upon a motion duly made by M. Saros and seconded by M. Neville, the Agenda was approved as presented.

3. Conflict of Interest Declaration
There was none.

4. Minutes of Public Session of Meeting of February 19, 2020
Upon a motion duly made by F. Jones and seconded by M. Saros, the Minutes were approved as presented.

5. Chair's Remarks
The Chair thanked everyone for participating in the meeting. She noted it was the first fully virtual meeting for the committee, which was required because of the pandemic guidelines. The Chair discussed the Student Relief Fund (SRF), which was created to help students deal with the unprecedented changes and difficulties caused by COVID-19. She highlighted that donations to the SRF are being matched by the university. The names of donors are posted on the website and the Chair thanked L. Fiouzi for contributing to the SRF. She encouraged the committee members to contribute to the fund, as well.

6. Investment Review

6.1 Fourth Quarter Investment Review

L. Fiouzi reviewed the portfolio's fourth quarter performance. She highlighted the recent market volatility, noting the sharp downturn and quick recovery. The portfolio was down 9.63%, which was ahead of the benchmark at 10.21%. She commented that they were happy with the capital preservation during that time. The portfolio is down just over 5% over the year, which is slightly less than benchmark. Since inception, the portfolio has had an annualized basis return of just under 7%. L. Fiouzi noted that April was a good month with the portfolio up 6.05%, a bit less than the benchmark. She explained that April's rebound was due to a "junk rally". The mortgage portfolio was disciplined in preserving cash. The global equity focus strategy did very well over the quarter. L. Fiouzi responded to questions from the committee.

6.2 Annual ESG Report

L. Fiouzi presented the annual ESG Report. She discussed PH&N's ESG approach, which focuses on the sustainability of businesses. This is particularly important during the pandemic crisis (e.g. health and safety of employees, suppliers, etc.). She reminded the committee that RBC signed onto the UN PRI in 2015 and is committed to incorporating ESG into its investment strategies. The strategy includes ensuring clients are not exposed to contingent liabilities over the long term.

Every year, the UN PRI evaluates signatories' approaches to the principles based on its assessment methodology. As indicated in their most recent Assessment Report's Summary Scorecard, the UN PRI gave each of RBC GAM's modules a score of A+. Signatories are graded on:

- ability to fully integrate ESG into investment processes – L. Fiouzi provided examples of "bullets dodged" (e.g. Volkswagen);
- active stewardship – exercise of proxy voting, which is a significant influence in promoting change; and
- ability to have client driven solutions & reporting – improved line up of capabilities to address ESG concerns.

L. Fiouzi discussed the improvement in the number of female directors. They are a member of the Canadian 30% Club Investor Group and the goal is to have 30% women on boards and management of S&P/TSX Composite companies.

L. Fiouzi further discussed proxy voting. Proxy voting is often routine and there are usually good reasons to vote with management. Overall, in 2019, 13% of proxies were voted against management. L. Fiouzi also discussed their strategy with respect to climate change. She emphasized that when it comes to climate change, considerations vary between different sectors and industries.

L. Fiouzi reviewed the results of the 2019 Responsible Investment Survey. Some of the highlights included:

- divestment vs. engagement - engagement is more effective;
- ESG can drive returns in a portfolio & is a way to mitigate risk;

- asset classes: no vote in fixed income so ESG in bonds is less about engagement;
- direct investment in real estate – Canadian investors place more emphasis on real estate and infrastructure that are sustainably managed; and
- board diversity – many areas of the world have tried to legislate Board diversity – believed to be more effective to have investors encourage diversity (e.g. shareholder proposals are a more effective means of promoting diversity).

7. Annual Board Report

B. Dinwoodie reviewed the draft annual report with the committee.

Upon a motion duly made by S. Chow and seconded by S. Murphy, the Investment Committee approved the Annual Board Report as presented.

8. Other Business

9. Adjournment

There being no other business, upon a motion duly made by M. Neville, the public session adjourned at 12:17 p.m.

Becky Dinwoodie, Secretary

Wealth Management
PH&N Investment Counsel

Presentation to:

Ontario Tech University

Leila Fiouzi, CFA
Vice President & Investment Counsellor

Taylor Woodward, CFA
Investment Counsellor

Connor Glassco, CFA
Associate

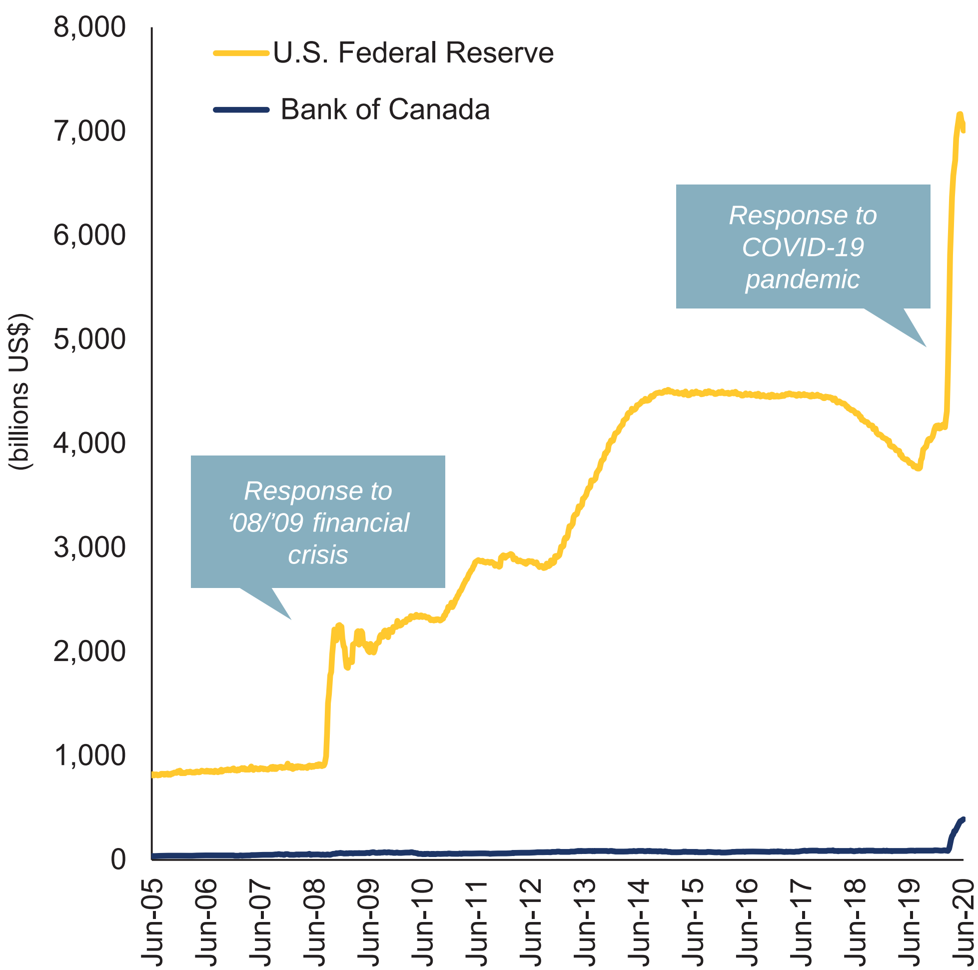
Jacinta O'Connor
Associate

August 13, 2020

Policymakers deliver record stimulus

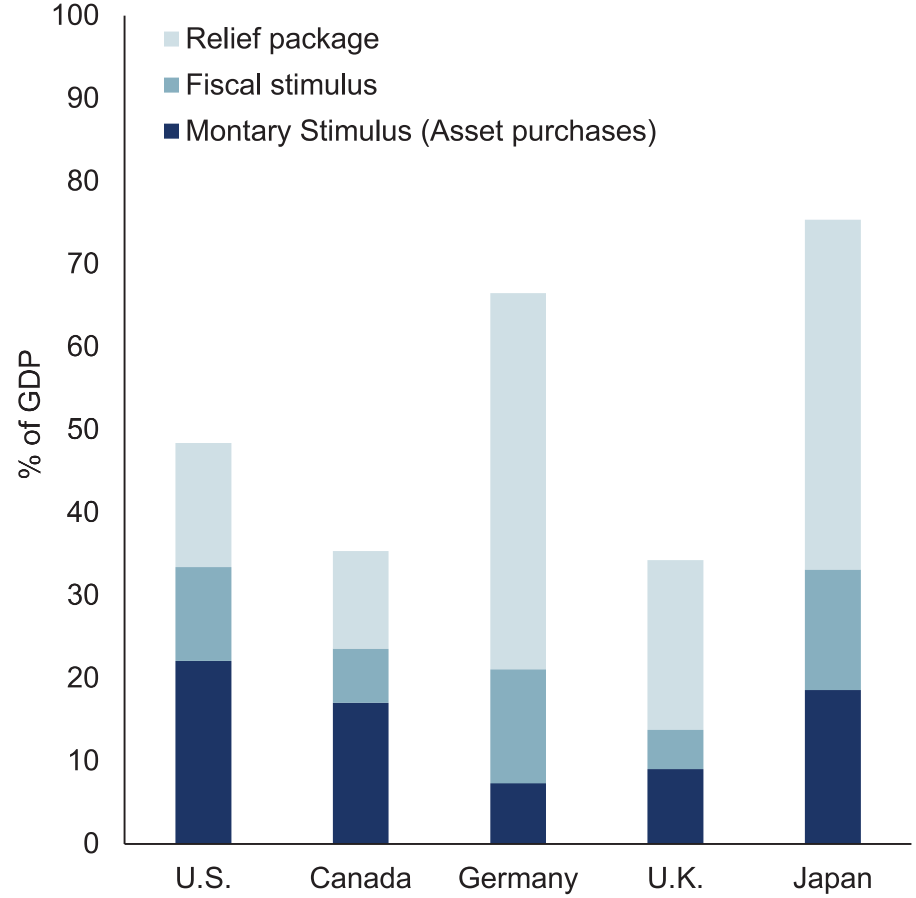
A variety of monetary and fiscal measures swiftly enacted to stem the downturn

Central bank balance sheets



Source: Bloomberg

Government stimulus (% of GDP)

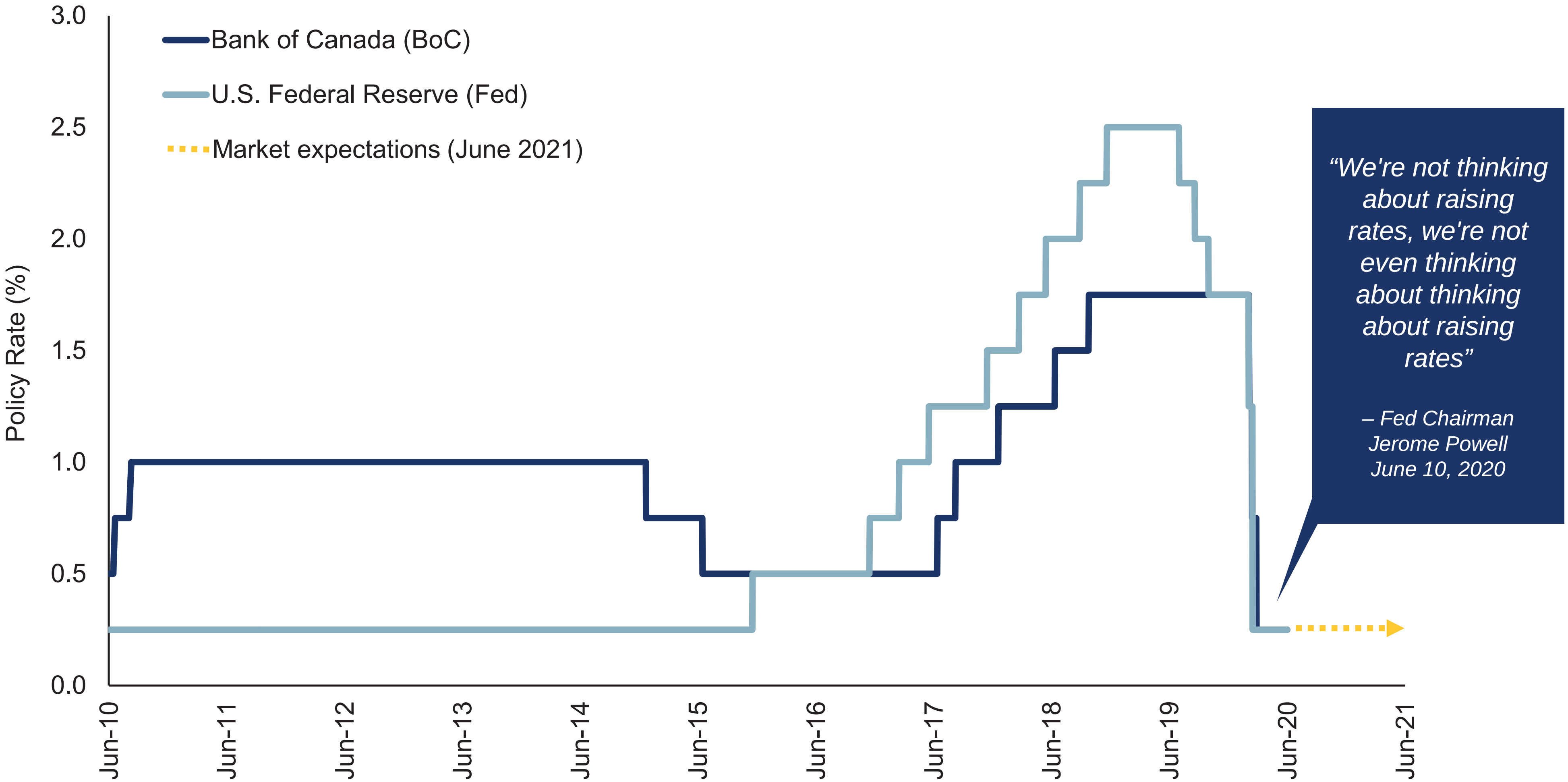


As of June 23, 2020. Asset purchase estimated for BoC, BoJ and Federal Reserve which have open-ended QE, based on an assumption of a duration of 1 year.Fiscal stimulus only includes spending, tax cuts and non-repayable portion of loans and does not include relief measures such as tax and fee deferral, repayable loans, loan guarantees, and equity investment, etc.
Source: National central banks, national government websites, Bruegel, IMF, ING, UBS, RBC GAM

Central bank monetary policy expectations

Market expects rates to remain at effective lower bound

Central bank policy rate & market expectations



Source: Bloomberg, PC Bond Analytics

Summary Investment Returns

June 30, 2020

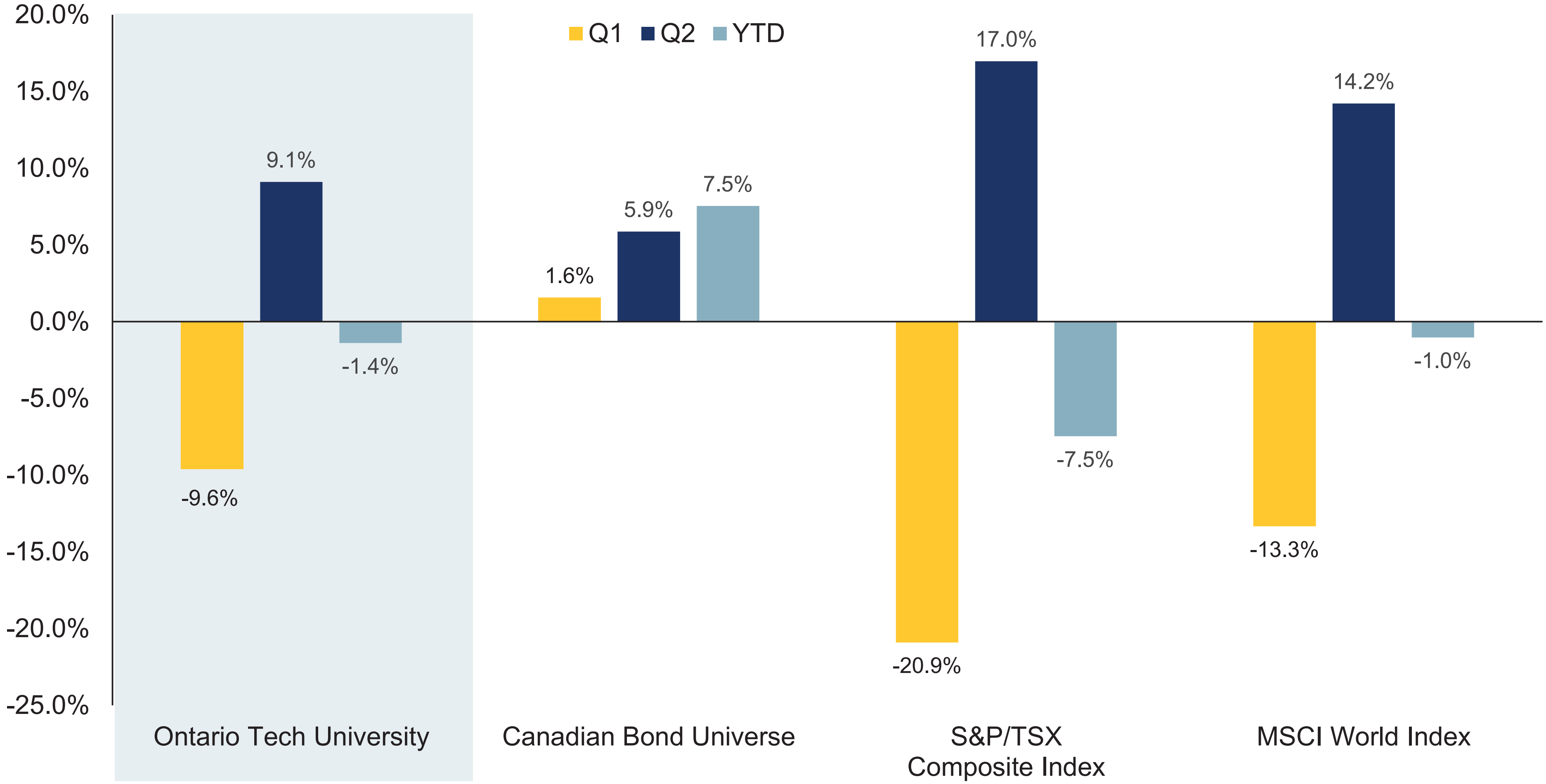
Market Value	June 30, 2020
Investment Account	**$ 27,846,217**
Cash Account	**$ 514,314**

	Three Months (%)	One Year (%)	Three Years (%)	Five Years (%)	Since Inception (%)
Ontario Tech University[1]	**9.11**	**2.26**	**5.31**	**5.87**	**7.38**
*Benchmark***	*11.28*	*4.35*	*5.60*	*5.54*	*5.82*
Difference	-2.17	-2.09	-0.29	+0.33	+1.56
*Inception date Aug 31, 2010					
Ontario Tech University (Cash A/C)[2]	**0.26**	**1.67**	**1.74**	**1.40**	**1.33**
FTSE TMX Canada 30 Day T-Bill Index	*0.16*	*1.49*	*1.33*	*0.99*	*0.95*
Difference	+0.10	+0.18	+0.41	+0.41	+0.38
*Inception date Nov. 30, 2013					

[1] Reflects University of Ontario Institute of Technology account.
** Current Custom benchmark: 15% FTSE Canada Short Term Overall Bond Index; 20% FTSE Canada Universe Bond Index; 24% S&P/TSX Capped Composite Index; 36% MSCI World Net Index (C$); 5% MSCI Emerging Markets Net Index (C$).
Note: All performance is shown gross of annual investment management fees of 40 basis points

Global market performance

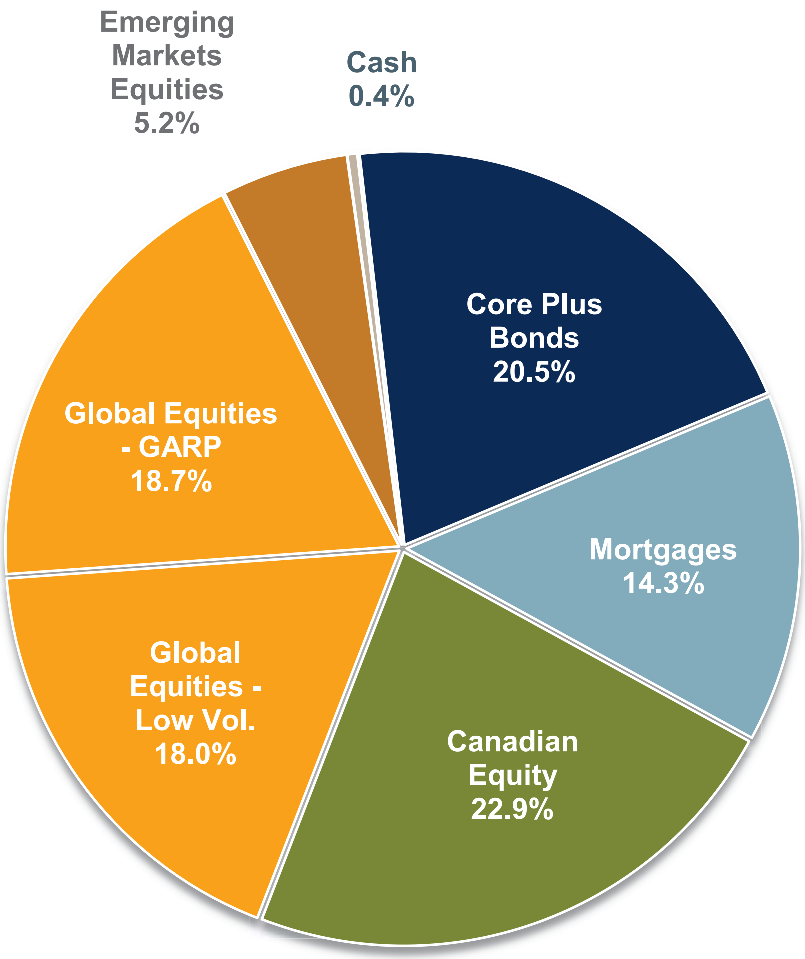
2020 has been a period of significant volatility



Canadian Dollar Returns. Source: Bloomberg, FTSE Global Debt Capital Markets Inc.
Canadian Bond Universe: FTSE Canada Universe Bond Index

Ontario Tech University[1]

Asset Mix as at June 30, 2020



Funds	Target Allocation (%)
Cash and Cash Equivalents	0.0
Mortgages	15.0
Core Plus Bonds	20.0
Canadian Equities	24.0
Global Equities	36.0
Emerging Markets Equities	5.0

[1] Reflects University of Ontario Institute of Technology account

Wealth Management
PH&N Investment Counsel

Wealth Management
PH&N Investment Counsel

RBC Global Asset Management

Real Estate Q&A – June 2020

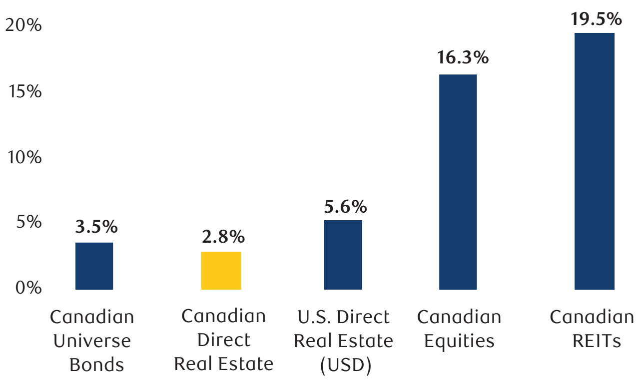
We recently sat down with Michael Kitt, Head of Private Markets and Real Estate Equity Investments at RBC Global Asset Management, to talk about the Canadian real estate market, with a particular focus on how the effects of the COVID-19 pandemic might shape the industry looking ahead. Over the course of our discussion Michael answered many of the questions that our clients have been asking and expanded on his experience as the Portfolio Manager for the RBC Canadian Core Real Estate Fund, and how investors should think about investing in direct real estate today and for the long term.

1. Why invest in real estate?

The same principles that have always supported the inclusion of private assets like real estate in an investment portfolio – low correlation to other asset classes, strong income yield,[1] low volatility – are still very much in place today. In fact, these principles have been reinforced by the extreme volatility experienced in the global public markets recently.

Annualized volatility, local currency

Dec 2007 - Mar 2020



Source: Bloomberg, MSCI, RBC GAM. Data from December 2007 to March 2020. Canadian Universe Bonds = FTSE Canadian Universe Bond Index; Canadian Direct Real Estate = MSCI/REALPAC Canada Property Fund Index, unlevered (Standing Investments); US Direct Real Estate = MSCI/PREA U.S. ACOE Quarterly Property Fund Index (unlevered); Canadian Equities = S&P/TSX Capped Composite Index; Canadian REITs = S&P/TSX Capped REIT Index.

The inclusion of private assets in a portfolio has become an important stabilizer that does not trade daily based on emotion and headlines. Instead, the private investment's value is directly connected to the value of the underlying asset, insulating it from daily swings in sentiment and eliminating panic-driven "sell at any price" behaviour that is frequently witnessed during severe market corrections. The private asset investor accepts the loss of daily liquidity and in exchange receives the stabilizing and de-risking impact of a private investment.

2. How would you characterize the current backdrop for real estate investors in terms of fundamentals?

It is worth recalling the state of fundamentals before COVID struck; they were sound, and will provide a strong foundation for a subsequent recovery. Just a few months ago, the global economy was solid and functioning well, interest rates were low, capital was deep, and the real estate market was thriving. As a result, governments were able to borrow massively to provide immediate support, which helped offset the near-term negative impact of the global shutdown.

The foundation is in place to support a meaningful recovery, although the future might look very different from the past. In some form, business will be back, and in some form, consumers will be back; well-located real estate, whose owners adapt to changing behaviours, should see long-term value supported.

In fact, times like this have often created favourable long-term buying opportunities. Investors who bought wisely through the leverage mania of the early 90s, 9/11, the Tech Crash, or the Great Financial Crisis, did very well for the most part. Quality, diversity, liquidity, and patience are all rewarded over time.

3. What are some of the characteristics of the Canadian market that make it attractive for real estate investors?

As a result of its unique advantages, Canada could be one of the stronger economies coming out of the crisis. Namely:

[1]The MSCI/REALPAC Canada Quarterly Property Index, Standing Investments, from 1985 to 2019, shows an annualized 5-year income return of 5.22%, an annualized 10-year income return of 5.59%, and an annualized income return of 7.23% since inception.

- Canada entered the crisis with one of the lowest debt-to-GDP ratios among the 37 member countries that comprise the Organisation for Economic Co-operation and Development (OECD);[2] as a result, we have the capacity to provide massive fiscal and monetary support.
- Our financial institutions are incredibly strong, with each of the Big Five banks having made the 2019 Global Finance list of "Global Top 50 Safest Banks."
- We are recognized as global leaders in education, health care, and the technology industry.
- We are supported by our strong natural resources, both in terms of commodities that people need and natural wonders that people want to travel to see.
- We have open borders to immigration, and it is possible the government plays catch up to offset a short-term slowdown.
- We have a friendly relationship with our neighbour to the south, and although the U.S. is facing many challenges today, they remain the world's largest and strongest economy and will recover.

Looking ahead, it is worth noting that the majority of job losses have been concentrated in the retail, restaurant, entertainment, and leisure sectors and the hope is that these are temporary. There has also been an income redistribution (towards essential services and health care) happening that is positive in the long run, and new jobs are being created elsewhere (e.g., major hiring initiatives by Amazon and Walmart)

Furthermore, if a trend toward de-globalization materializes (i.e., major countries like the U.S. start producing all essential goods closer to home), this is long-term positive for Canada.

On top of the positive macro story, ownership in the Canadian core real estate market is dominated by pension funds and life insurance companies. As a result of this dependable ownership structure, rental and transaction markets have been very stable, and the Canadian real estate market has avoided any pronounced distress.

Combined, all of these factors offer strong support to the long-term value of every sector of Canadian real estate.

4. What is the outlook for the Office sector?

Downtown office market fundamentals entered the crisis in a very strong position, and vacancy rates in Toronto and Vancouver were among the lowest in North America.[3]

Now three months into the crisis, using the RBC Core Canadian Real Estate Fund as an example, we have found that occupancy levels and rental rates have remained steady, as a very high percentage of tenants have continued to pay rent and are now planning their return to the office. This is a reflection of the fact that for the most part, companies have continued to operate and adapted to the "work from home as best you can" model.

Leasing activity has become focused on renewals, with tenants preferring to stay in place and focus their attention and resources on back to work planning and creating a safe work environment. As a result, buildings with high existing occupancy levels in particular have benefitted from the trend to renew in place. We expect these conditions will likely continue through the "back to work" transition period, which we anticipate will be about six to twelve months.

Overall, long-term lease terms and lower exposure to variable rent makes this sector resilient, and in addition, the institutional ownership dominance of core office assets in major Canadian cities will add stability through any transition period.

Future of Office

Recent comments by Shopify that "office-centricity is over" are provocative, although the office environment will likely change. The crisis has forced many businesses to address their technology platform and accelerate the remote work and work-from-anywhere trends that were in place pre-crisis. The physical office will likely maintain its importance for facilitating interaction and collaboration and, ultimately, for employee health, well-being and productivity. That said, a number of surveys, including a recently published report by Gensler Research,[4] have confirmed that employees want to have an office while maintaining the flexibility to work from anywhere, so it will be up to businesses and landlords to deliver safe and flexible work environments.

The ability to "work from anywhere" will be important for two reasons. It is becoming an increasingly important talent retention and recruitment tool, a fact that technology firms have understood for a long time. Employees enjoy freedom. Secondly, companies will look to reconfigure their office space, both to accommodate new social distancing requirements and to conserve costs.

As an example, for a company with 100 employees occupying 17,500 square feet (1 employee per 175 sf – the approximate average density today), if 10% of their employees began to

[2]International Monetary Fund World Economic Outlook, April 2020.
[3]Current office vacancy in downtown Toronto is 2.4%, and in downtown Vancouver, 4.1%. Source: RBC GAM, CBRE; CBRE Canada Market Outlook 2020, Feb 2020 - https://www.cbre.ca/en/mainland%20china/research-reports/Canada-Market-Outlook-2020
[4]Gensler Research and Insight: U.S. Work from Home Survey 2020. https://www.gensler.com/research-insight/workplace-surveys/us-work-from-home-survey/2020.

work from home permanently and the space per employee moved up modestly from 175 sf to 200 sf per person to incorporate social distancing room – then the company would need 18,000 square feet (500 sf more space). In addition, when you consider the "total cost" of an employee, compensation, benefits, and IT dominate, and the real estate component is actually very small. The potential savings associated with shifting to work from home are low. Employers will make this decision based on what employees want, and their productivity and engagement, and the vast majority of employees want the flexibility to work from anywhere, including an office. We expect that overall, the impact of "work from home" on office demand is likely to be neutral.

Co-working spaces were gaining traction before the crisis, and we believe the flexible space sector is likely to undergo significant changes in the near term as it is forced to incorporate new health and safety standards. In the longer term, however, we believe it will remain a key feature of global office markets.

5. What is the outlook for the Retail sector?

The headlines are not good. As we have all likely seen in the news, reporting[5] has highlighted the fact that many retail tenants aren't paying rent, and that large fashion mall rent collections have been at very low levels as tenants were forced to close. Meanwhile, retail bankruptcies and restructurings are beginning to add up, and there will almost certainly be more to come. Adding to the uncertainty is a lack of clarity on how to re-open a mall safely – in mid-May, The Eaton Centre in downtown Toronto had a total of four stores open for curbside pick-up – Nordstrom, JOEY's, The Bay, and Best Buy.

At the same time, e-commerce adoption rates are soaring; there has been a 78% increase in the number of consumers purchasing from merchants they've never shopped at before. Amazon and Shopify are among the most valuable public companies in the U.S. and Canada, respectively.[6] However, these are distorted times driven by a quarantine/lockdown, and it is difficult to determine with any precision what shopping habits will look like following the relaxing of restrictions.

For retailers, this means they will need to deliver a flexible omni-channel sales model, as customers now expect an online presence and a similar shopping experience online and offline, as well as a wide range of shopping and delivery options. Many physical stores will have to adapt to support e-commerce and other channels – for example, by acting as showcases, education centres, fulfillment hubs, and pick-up locations. This transition will also require significant investment in technology – for example, to facilitate self-checkouts, contactless payments, in-store robots, non-contact delivery options, and virtual reality. These are features that Apple, for example, has been developing and implementing for years.

Similarly, "online only" stores are finding that they need some type of physical presence to acquire and educate customers as they can be easily lost in the infinite online world. This is long-term good news for retail real estate.

For landlords, these changes will require them to accelerate the re-use and re-purposing of shopping centres. They will have to work with physical stores to enhance their online presence, and work with online stores that wish to establish a physical presence. The key metric defining shopping center success has historically been "sales per square foot," but this will change as online sales begin to dominate. The new key metric that will define successful shopping centers will be customer acquisition and education – again, something Apple already knew. In some cases, separate businesses will be merged; for example, warehousing/fulfillment and selling, as retailers move to a ship-from-store model.

It is likely that total physical retail selling area will shrink as the weakest retailers, Class C shopping centres, and malls disappear, and are replaced by technology-forward retail fulfillment and warehousing uses. New partnerships are also likely to form, with a shift away from standard long-term leases with fixed payments, and more revenue sharing agreements. In order to support their tenants' omni-channel business model, landlords will need to adapt and invest in technology.

6. What happens to "bad retail real estate" in the future?

The beauty of real estate is that it is simply a physical asset that can adapt to trends and back the winning retail formats, evolving along with customers' needs.

"Ground scrapers" like retail assets with large parking lots are easily adaptable. The shopping centre, the retail plaza, online shopping, and street-front retail will all survive in one form or another – the weak will be forced to evolve or face extinction, while the strong will prosper.

It is quite possible we will begin to see weaker retail assets, especially ones in large population centres, be converted to "last mile" distribution hubs. Rent levels are beginning to

[5] Globe and Mail, "REITs see retail rent payments plunge" April 22, 2020

[6] At CAD$1.7 trillion, Amazon has the third-largest market cap among U.S. companies, behind only Microsoft and Apple; at CAD$110 billion, Shopify has the second-largest market cap among Canadian companies, behind only RBC. As of May 26, 2020.

converge and the economics are very close to supporting this type of conversion.

Bottom line: well-located retail assets will find a way to perform in the long term. They will adapt to trends, leverage their natural advantages – namely, location and prominence – and evolve to remain a key part of the consumer landscape.

7. What is the outlook for the Industrial sector?

Industrial fundamentals were very strong heading into the crisis and remain so nationally, with a 3% overall vacancy rate.[7]

In Vancouver, industrial vacancy rates remained very low and preleasing activity was high heading into the COVID-19 pandemic.[8] Rapidly decreasing supply of industrial land in the city will continue to support land values and lease rates over the long term.

In Calgary, average asking net rents increased year over year[9] and long-term fundamentals remain strong with a diverse base of manufacturing, warehouse, and distribution hubs for western Canada.

In the Greater Toronto Area, vacancy levels are at historic lows and average asking rents were up significantly.[10] User demand from smaller companies and suppliers related to travel and non-essential retail industries will moderate, but greater demand from e-commerce and essential retail industries will drive absorption.

Looking ahead, we anticipate that this period will shape the future state of the industry by accelerating trends that were already in place; for example, increased online penetration, expansion of online grocery, omni-channel retailing, and the integration of technology into warehousing (logistic workers tend to work in crowded spaces)

We expect re-shoring to have an effect on the industry as well, as interest grows in repatriating some industries in order to have better control in times of disruption. A renewed emphasis on domestic supply chain independence will accelerate this re-shoring trend, with the greatest pressures on critical industries such as medical devices, technology, and pharmaceuticals. Combined with the new trend of increasing safety stock, we believe demand for industrial space will likely grow.

Another trend we expect will impact the future of the Industrial sector is diversification; specifically, greater diversification in terms of sourcing. Distribution networks will be restructured to be less reliant on one country in order to de-risk the production or distribution processes. This will lead to more multi-facility/multi-location strategies. We also anticipate further diversification of transport nodes, including the development of port diversification strategies and investment in locations that provide multi-modal transport options.

8. What is the outlook for the Residential sector?

The headlines tell a sensational short-term story: home sales down significantly, with home and condo prices projected to be down across the country.[11] Rents are flat to down across major markets, while rent relief requests are high. Borders are closed, so immigration has stopped.

This sounds pretty dismal, however, the reality is much better: residential rent collection levels have been strong throughout the crisis. People are staying in place, so occupancy remains strong. The short-term rental market (Airbnb) has been severely impacted (similar to hotels), and this could well cause these units to be reintroduced into the long-term renting pool. Finally, landlords have worked very hard to create safe environments for their tenants.

Looking ahead, the long-term investment thesis for rental residential remains very compelling in markets that create jobs and have population growth. Multi-family residential is considered to be the most resilient real estate sector, and in many ways is naturally hedged:

- In weak economic conditions, rental demand stays firm as house sales decrease and there is a shift from owning to renting.
- In stronger times, unit turnover increases, enabling the landlord to raise rents.

We expect to see a re-balancing of demand, away from dense downtown developments and towards suburban lower density. This will be counteracted by people's potential discomfort with commuting via mass transit – will they have ready access to other modes of transportation, or be able to work from home, or will they prefer to live closer to work? We also anticipate an acceleration of property technology, or "PropTech" – virtual leasing, marketing, and e-payment systems. Finally, we believe Canada's immigration policies will continue to drive population growth, thus continuing to support residential real estate demand.

[7, 8, 9, 10]Source: RBC GAM, CBRE; CBRE Canada Market Outlook 2020, Feb 2020 - https://www.cbre.ca/en/mainland%20china/research-reports/Canada-Market-Outlook-2020
[11]Source: RBC GAM, The Globe & Mail: "Home Sales hammered by stay-at-home measures in Toronto, Vancouver, Calgary, May 5, 2020

9. When are buyers, sellers, and lenders returning to market?

At the moment, the entire real estate market – both commercial and residential – is essentially frozen. Two things need to happen before transaction volumes return to normal:

1. **The relaxation of restrictions.** Buyers, sellers, and lenders need to be able to walk the real estate – it is hard to have the confidence to buy a house if you can't see it.
2. **Consensus in pricing.** Today, buyers are looking for "bargains" and sellers are being patient, so there is a wider bid/ask spread. But sellers know this – so why sell at a discount? The market is thus frozen in the short-term while price discovery takes place.

A property's value is essentially the present value of future cash flows, and the higher the future uncertainty, the harder it is to make a deal. Unsurprisingly, the sectors that face the most current uncertainty in future cash flows (e.g., retail, hotels, seniors' homes) are facing the widest bid/ask spread. Conversely, the sectors that face the least current uncertainty (e.g., core office, industrial, and residential) should see transaction activity return more quickly.

As market participants develop a clearer understanding of what "normal" will look like, the market should start moving again, as we know that there is significant capital ready to invest. Until then, there will be opportunistic transactions that happen where there is a need for liquidity – buying discounted credits, investing in struggling retailers (as Brookfield has done), or recapitalizing development deals where a partner needs to get out.

10. Are there any other parts of the market where you believe there are compelling investment opportunities at this time?

Absolutely – I think the following areas are very interesting at the moment:

- **Medical spaces**: With telemedicine becoming more mainstream, the need for rapid shifting of space (operating room to ICU) points to the need for flexibility in design in order to incorporate new uses and shifts in demand.
- **Life science**: Generally, vacancy is lower and rents are higher for lab space than office space, and the life science sector has been resilient through past recessions.
- **Self-storage**: Demand for self-storage has counter-cyclical properties – it often comes from positive and negative life events such as moving, birth, death, marriage, or divorce.
- **Data centres**: These have risen to the forefront as large corporations learn to modify their IT infrastructure on the fly as employees work from home.

11. Given the extent to which the market values of many REITs have recently declined, don't REITs currently offer significant upside potential ?

This question is best left to the experts, but it is worth noting the difference between buying a REIT and investing in real estate. They are two different investment strategies and both can be attractive in different ways to investors over time.

Let's use the RBC Core Canadian Real Estate Fund as an example of buying real estate directly. When you buy a unit in the Fund, you are paying for the current value of the real estate less the debt owed (no premiums and no discounts). The assets are not only professionally appraised every quarter, but the appraisals themselves are also independently reviewed to confirm their accuracy. The unit value is then reset to market. Thus, when you buy a unit, you are buying the real estate at today's value.

REITs are very different. They are companies that own, develop, and manage real estate. They often trade on the stock market and the price of a REIT tends to move as the market moves. In other words, they behave like stocks. The tendency of REITs to "follow the market" is demonstrated through their historical correlation statistics. The REIT market's historical correlation with the S&P/TSX Capped Composite is high, at 0.6 (where 1 is perfect). To put this into perspective, the correlation of Canadian direct real estate with the S&P/TSX Capped Composite Index is approximately 0.11.

Low correlation

	Canadian Universe Bonds	Canadian Equities	Global Equities	Canadian REITs
Canadian Bonds	1.00			
Canadian Equities	-0.14	1.00		
Global Equities	-0.14	0.75	1.00	
Canadian REITs	0.14	0.60	0.45	1.00
Canadian Direct Real Estate	-0.07	**0.11**	**0.16**	**0.02**

Source: Bloomberg, MSCI, RBC GAM. Data from December 2007 to March 2020. Canadian Universe Bonds = FTSE Canadian Universe Bond Index; Canadian Direct Real Estate = MSCI/REALPAC Canada Property Fund Index, unlevered (Standing Investments); Canadian Equities = S&P/TSX Capped Composite Index; Global Equities = MSCI World Index (CAD); Canadian REITs = S&P/TSX Capped REIT Index.

At the end of May 2020, REITs were down approximately 25% year to date,[12] and according to analyst estimates, were trading at an overall discount to the value of their underlying real estate. This analysis would indicate that REITs are on sale, however there are many factors that can influence a daily equity price. Thus, it is important for investors to fully understand the fundamentals of the underlying business.

First, the value of a REIT is estimated in a relatively straightforward way based on publicly available information, typically through the application of a capitalization rate on reported income, while the valuation of a direct real estate investment has the benefit of very detailed private information. Next, REITs often carry relatively high leverage – the REIT market average is 50%[13] – which has the potential to constrain liquidity and can create more price volatility. Additionally, a REIT's capital structure can can find itself more challenged in difficult markets, making self-funding more problematic. Finally, a REIT's management fee revenue can be hit by declining net operating income, which puts pressure on their cost structure – and when you buy a REIT, you are paying for its management platform as well.

Ultimately, when you buy a REIT, understand that you are paying for the value of a business, not the value of its real estate assets. This is very different than buying direct real estate or a fund unit. This too is highlighted in the correlation chart where the correlation between Canadian direct real estate and REITs is essentially 0 – their return characteristics are virtually unrelated. That said, a strategy of buying REITs can be a tactical complement to investing in real estate directly, but it is an active strategy that must be managed similar to any equity allocation.

At the end of the day, buying REITs and buying real estate directly are different but complementary strategies: one is tactical, the other more strategic.

12. Crystal ball...what does a little glimpse into the future look like?

Existing trends have been accelerated and some new trends have emerged, which in some cases are complete reversals of direction. Some key themes we are anticipating will influence the future of the real estate market are as follows:

- **Canada becomes more important on the world stage.** More people will want to live here – Canada is safe, clean, open, educated, and full of opportunity.
- **There will be a shift in desire for a simpler, healthier, cleaner life.** People will rethink how they live, placing more importance on control and freedom.
- **Rising capital allocations to private asset classes.** The low interest rate environment and financial asset price volatility will emphasize the importance of portfolio diversification ("flight to diversify").
- **Urbanization vs suburbanization.** The pandemic is unlikely to stop the long-term trend towards urbanization, but will prompt a rethink in urban design; notably, increasing the imperative to develop truly scalable smart city solutions, putting a much greater focus on public health and safety, and delivering greater investment in public infrastructure.
- **Technology.** The mass "experiment" of remote working and remote living will embed technology even more into our everyday lives (including work, health, and interaction).
- **A reversal from letting technology completely drive the speed of change.** The previous point notwithstanding, people – adults and parents in particular – will exert more control over the ways in which technology impacts their lives.
- **Health and safety.** There will be an increased spotlight on social responsibility as it relates to health, and a transfer of wealth towards this sector.
- **Reverse globalization.** Companies will continue to seek supply chain resiliency by moving manufacturing closer to the consumer.
- **A new definition of retail emerges.** Retail becomes merged with social media, technology, stores, and warehousing, shifting our current way of shopping.

[12]Source: Bloomberg, Performance of the S&P/TSX Capped REIT Index
[13]Source: RBC Capital Markets – REITs Quarterly Review and Sector Outlook Q2 2020

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