OPPORTUNITIES IN DIRECT UNITED STATES REAL ESTATE

Exploring scale, performance and diversification benefits For Canadian Institutional Investors

GWL Realty Advisors
Research Services
and Strategy

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GWL Realty Advisors Inc. is a leading North American real estate investment advisor providing comprehensive asset management, property management, development and specialized real estate advisory services to pension funds and institutional clients. GWL Realty Advisors Inc. manages a diverse portfolio of office, industrial, retail and multi-residential assets as well as an active pipeline of new development projects.

In the United States, the Company provides real estate advisory services through its wholly owned subsidiary, EverWest Real Estate Investors, headquartered in Denver, Colorado.

Executive Summary

- For Canadian institutional investors with growing allocations to private real estate, the US market offers scale, diversification and performance benefits while being complementary to a domestic strategy.
- The US commercial real estate market is the largest in the world with an estimated value of US$3.14 trillion and 40% of the global (professionally managed) real estate market. More than US$373 billion is traded annually on average, making it the most liquid market globally. This size provides investors scalability and opportunities for superior market and property selection.
- Real estate has performed well in both Canada and the US, offering investors 9% average annual returns over the last decade according to the MSCI Direct Property Index. While total returns between the two markets have moved together historically, that pattern has eroded the last decade. Divergence in economic performance, capital appreciation and income growth are apparent, particularly when examining performance at the city and property level. All support the merits of diversification and cross-border investment.
- Institutional investors focusing on long-term income and asset value growth will continue to find opportunities in the US market. Capitalization rates (income returns) for US property remain attractive on a global basis with the potential for further income growth. Supply/demand also remains balanced across most major markets with controlled construction relative to pre-Global Financial Crisis levels. These various factors continue to support the stability of both income and asset values for real property.
- For Canadian investors, there is no 'one-size fits all' approach to the US property market; size, liquidity, existing real estate portfolio and risk appetite should determine the investment strategy. Within private real estate, open-ended property funds, single ownership, co-investments and close-ended property funds provide investors a range of options across the risk/return spectrum. Investment vehicle, tax, currency and regulatory requirements are also critical cross-border considerations for Canadian investors.

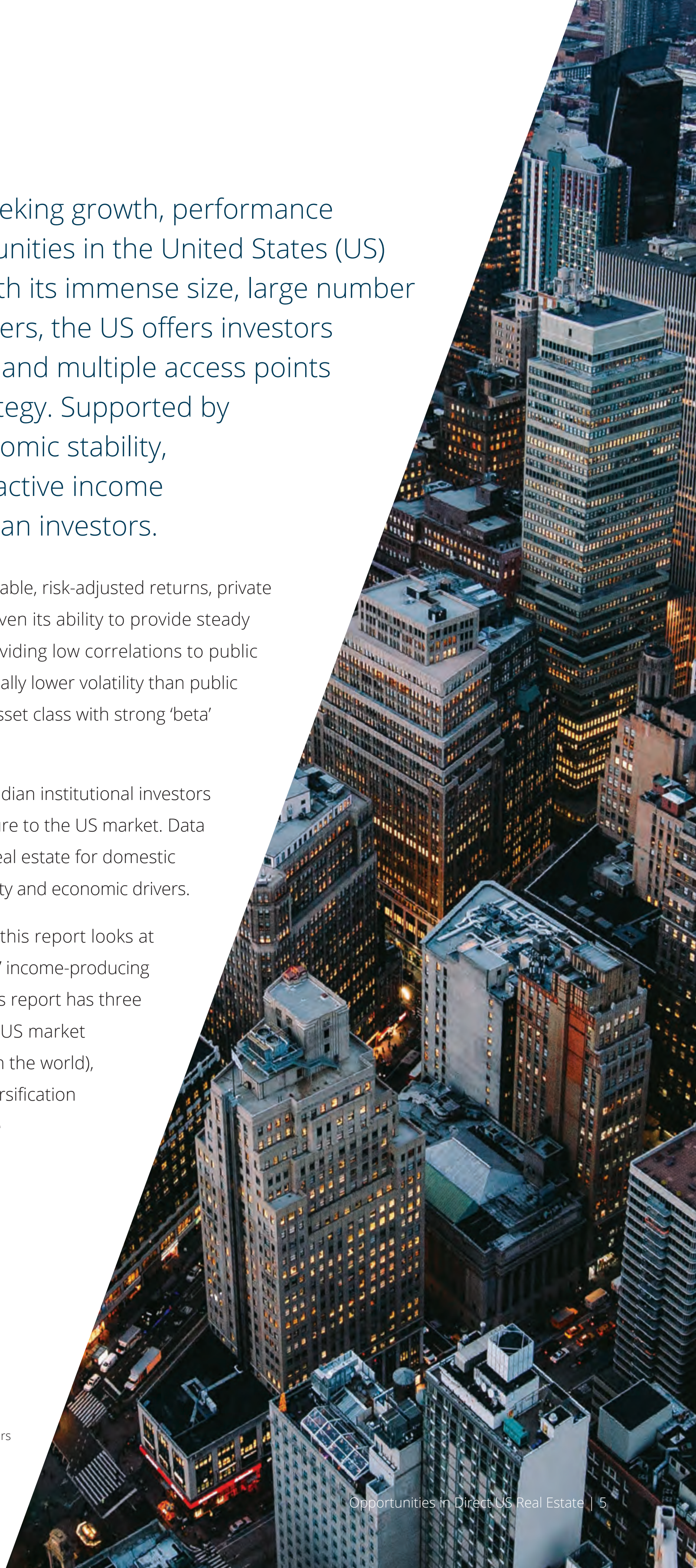
In Brief:

Canadian institutional investors seeking growth, performance and diversification will find opportunities in the United States (US) commercial real estate market. With its immense size, large number of cities and unique economic drivers, the US offers investors compelling diversification benefits and multiple access points depending on the investment strategy. Supported by underlying demographic and economic stability, the US also continues to offer attractive income yields and value growth for Canadian investors.

With institutional investors continuing to search for stable, risk-adjusted returns, private real estate has emerged as a desirable asset class given its ability to provide steady cash flows and potential for capital appreciation. Providing low correlations to public markets, inflation-hedging characteristics and historically lower volatility than public equities, private real estate has also emerged as an asset class with strong 'beta' benefits in a mixed-asset portfolio.

To improve risk diversification within real estate, Canadian institutional investors with existing or expanding allocations can use exposure to the US market. Data highlights the accretive performance benefits of US real estate for domestic investors, notably through the market's distinct property and economic drivers.

While there are many ways to access US real estate, this report looks at direct, private equity investments and particularly 'core' income-producing real estate.[1] Taking a cross-border, Canadian view, this report has three main sections based on the investment benefits the US market provides: size (the US property market is the largest in the world), diversification (the US offers compelling portfolio diversification benefits) and performance (the US provides attractive income and capital value growth).



1 Core real estate refers to stabilized, income-producing properties across four main asset types: Office, Industrial, Retail and Apartment (Multi-Family) rental. Development, asset repositioning or alternative sectors (e.g. data centres, seniors housing, farmland) are considered strategies that have higher risk compared to stabilized income assets.

The US Property Market: Unparallelled Size and Scale

The world's largest property market

From a size perspective, the US commercial real estate market is the largest in the world with an estimated value of US$3.14 trillion and 40% of the global (professionally managed) real estate market. The US is nearly four times the size of the second largest market, Japan (US$831 billion), and close to ten times larger than Canada (US$319 billion).

Compared to US$23 billion of property transacted annually on average in Canada, more than US$373 billion[2] is traded annually in the US, making it the most liquid market globally. Institutional investors with sizable capital deployment targets will find this an advantage.

The size of the US market also provides opportunities to scale strategically. There are 39 metropolitan regions in North America with a total population greater than 2 million (and fifty-three above 1 million). 36 of those markets can be found in the US with Toronto being the only Canadian market among the top ten—Canadian cities are generally smaller in population. Overall, there are fifteen US cities with a regional population above 4 million with New York, Los Angeles and Chicago being the largest. A large investment universe provides investors opportunity for superior market and property selection.

Figure 1: The US Is More Than 40% of The Global Real Estate Inventory By Value

2018 Estimates of the Total Professionally Managed Real Estate Market By Country

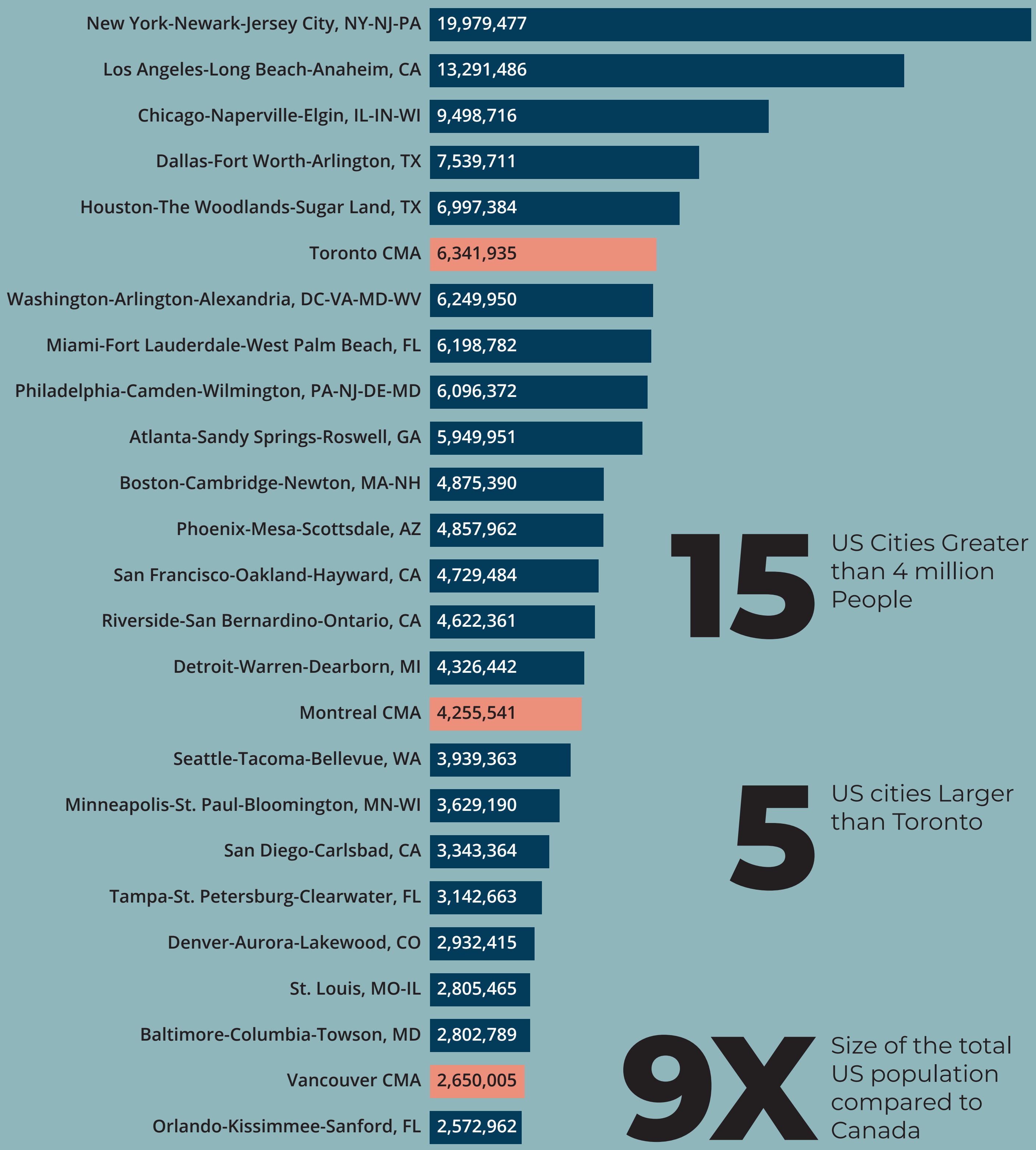
Source: MSCI (2019), Real Estate Market Size

Global Rank	Market	US$ Billions	Global Share (%)
1	United States	$3,146	40.9%
2	Japan	$831	10.8%
3	United Kingdom	$714	9.3%
5	China	$540	7.0%
6	Germany	$535	7.0%
7	France	$427	5.5%
8	Hong Kong	$366	4.8%
9	Canada	$320	4.2%
10	Australia	$278	3.6%
11	Switzerland	$241	3.1%
12	Sweden	$213	2.8%
13	Singapore	$174	2.3%
14	Netherlands	$167	2.2%
15	Italy	$125	1.6%
16	Spain	$104	1.4%

2 Average annual volume 2009-2018 from Real Capital Analytics and RealNet Canada. FX based on each year's currency conversion as of December 31st

Figure 2: The Top 25 Metropolitan Areas by Population in North America Highlights the Size of the US Market

Source: Statistics Canada (2019), US Census Bureau (2019)



15 US Cities Greater than 4 million People

5 US cities Larger than Toronto

9X Size of the total US population compared to Canada

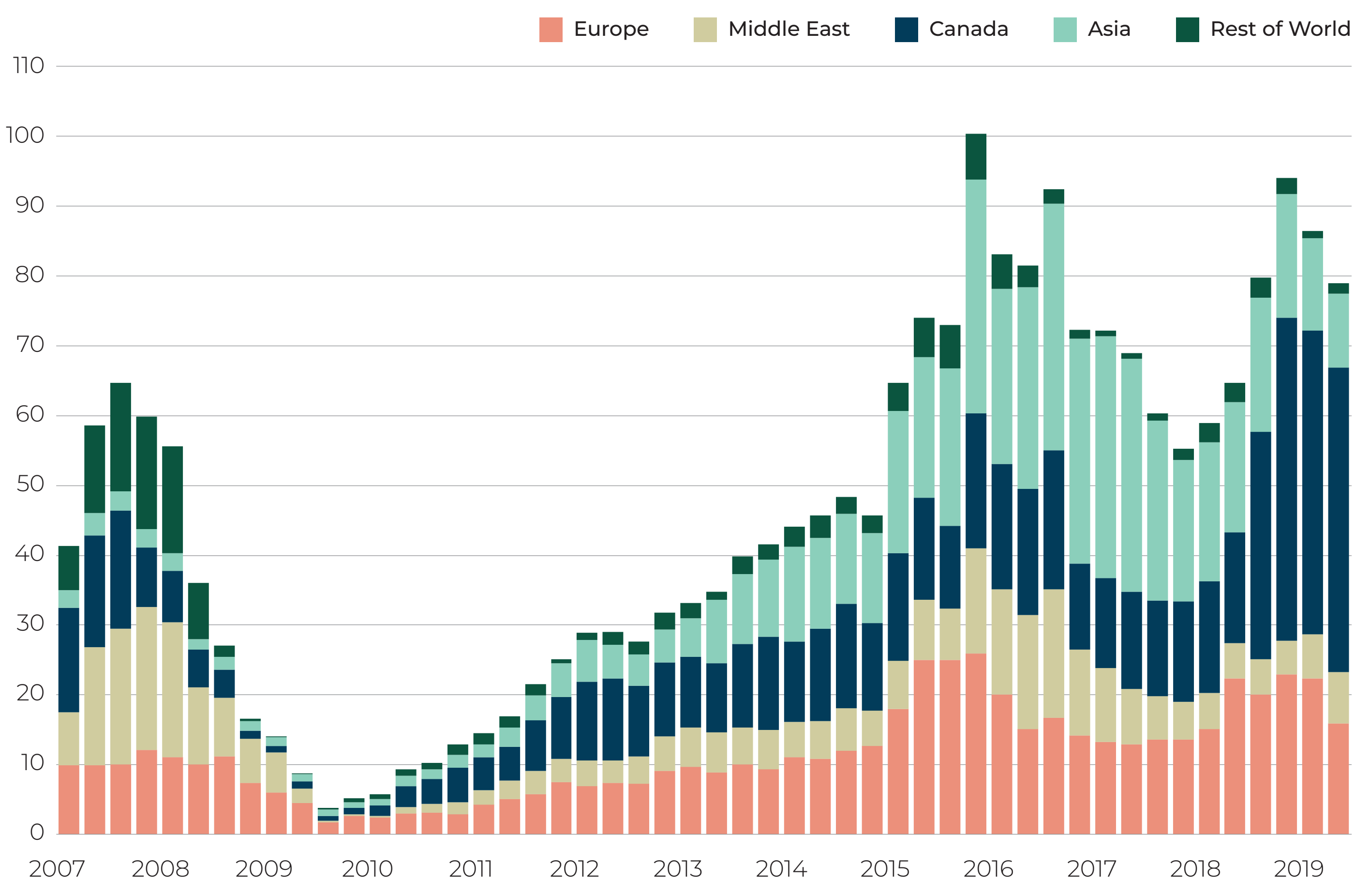
Capital Flows from Canada

From a capital flow perspective, Canadian Investors have a significant presence in the US market, with US$43.5 billion invested into the US between July 2018 and June 2019 according to data from Real Capital Analytics. Since the beginning of 2018, Canadians are now the largest foreign buyer of US property by a significant margin, surpassing European and Asian investors (Figure 3). Institutional Investors continue to also drive most of the foreign investment into the US making up 77% of cross-border volume the last 24 months. Institutions continue to reduce their home bias in private real estate, focusing on diversification and growing their allocations internationally[3].

Looking across markets, major gateways continue to drive a majority of the investment volume among foreign investors. As Figure 4 shows, the top ten US metros and sub-regions (based on population) attracted more than 54% of total cross-border Canadian property purchases in the last 24 months. Economic and labour growth remain part of the attraction, but also the relative size and scalability of investing in larger, stable markets. Several mid-sized markets however, are gaining in popularity among foreign investors for their growing and dynamic economies, highlighting the different investment opportunities and market access points available to investors.

Figure 3: Canadians have overtaken Asia as the largest foreign buyer of US property, making up 50% of sales in 2018: Rolling 12-month total cross-border property investment into the US by Domicile (US$ Billions)

Source: Real Capital Analytics, Data as of Q219

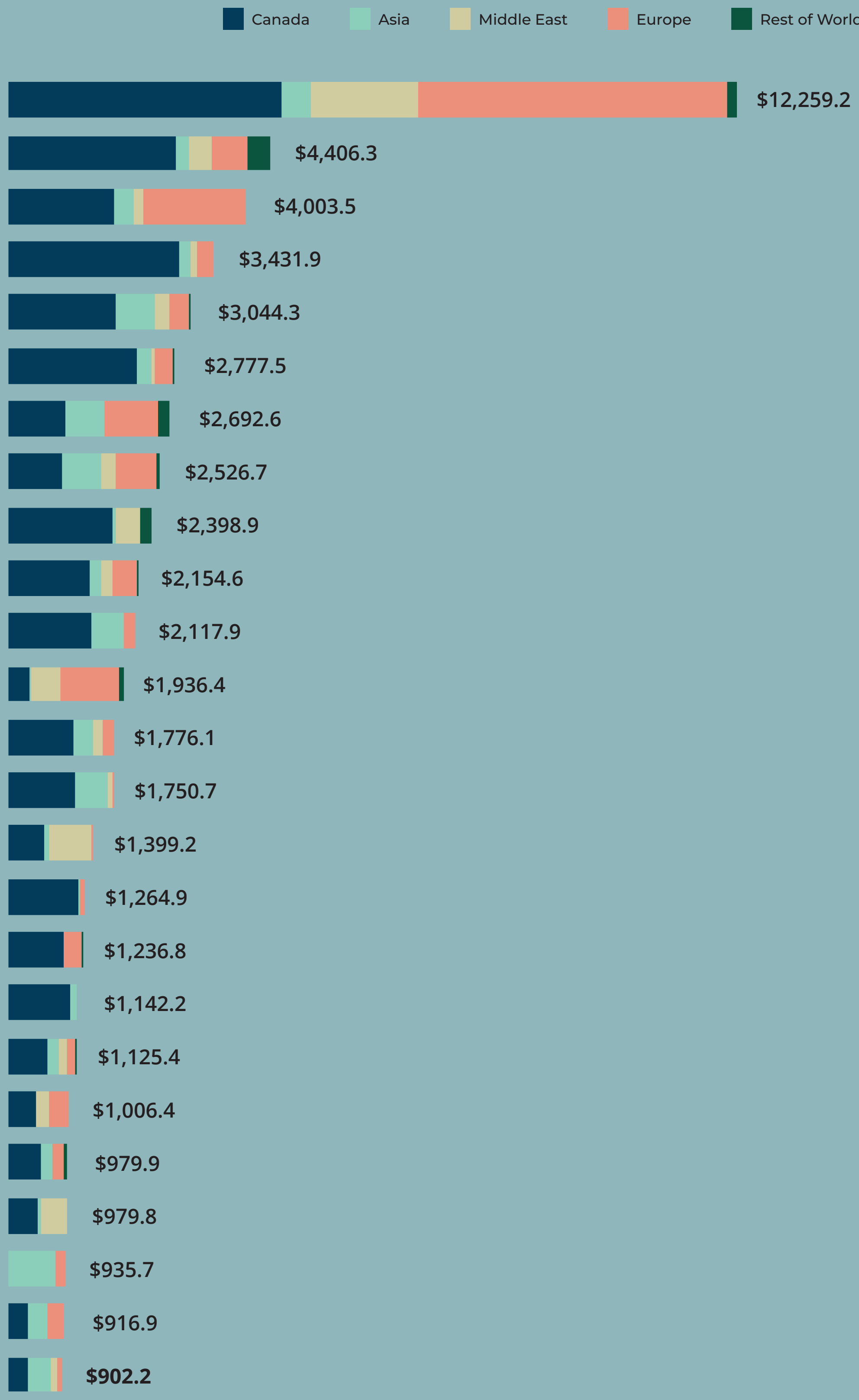


3 Hodes Weill (2018). Institutional Real Estate Allocations Monitor.

Figure 4: Foreign Investment Continues to be Concentrated Among Major US Metros:

12-Month Foreign Investment into the US by Major Metro (US$ Millions)

Source: Real Capital Analytics, Data as of Q219



2018	Q2'19*	Market	
1	1	Manhattan	$12,259.2
2	2	Los Angeles	$4,406.3
5	3	Boston	$4,003.5
4	4	NYC Boroughs	$3,431.9
3	5	Chicago	$3,044.3
6	6	Dallas	$2,777.5
8	7	Seattle	$2,692.6
10	8	San Francisco	$2,526.7
12	9	Houston	$2,398.9
9	10	Atlanta	$2,154.6
11	11	Inland Empire	$2,117.9
7	12	Washington, D.C.	$1,936.4
13	13	New Jersey	$1,776.1
15	14	Denver	$1,750.7
18	15	Philadelphia	$1,399.2
20	16	Las Vegas	$1,264.9
21	17	Miami/Dade	$1,236.8
19	18	Honolulu	$1,142.2
14	19	Phoenix	$1,125.4
28	20	Austin	$1,006.4
17	21	Washington, DC/ Virginia Periphery	$979.9
31	22	Baltimore	$979.8
27	23	San Jose	$935.7
30	24	Portland	$916.9
25	25	Raleigh/Durham	**$902.2**

*Past 4 quarters

Diversification Benefits of the US Market

Economic drivers vary between Canada and the US

With economic growth underpinning demand for real estate, it is important to highlight market differences between Canada and the US. Trade relationships, major industries and demographic patterns differ between the two countries, providing notable diversification benefits for property investors.

Trade Exposures: International trade relationships between the two countries are strikingly different, leading to differences in import/export activity, manufacturing, logistics and consumer spending. When 2018 trade data[4] is examined, the largest trading partner for the US economy is China (15.7% of total trade), followed closely by Canada (14.7%) and Mexico (14.5%). The share of US trade is more evenly distributed among a greater variety of markets when compared to Canada, whose economy is driven largely by trade with the US (70%).

Industry Drivers: Overall, technology, life sciences and public administration play larger roles in the US economy. Financial and Business Services, Public Administration, Manufacturing, Professional Services and Healthcare were the largest contributors to US GDP; sectors with the highest share of National GDP in Canada were Financial Services, Primary and Utilities, Manufacturing, Construction and Healthcare. As Figure 5 shows, the increased importance of technology and consumer services to the US economy is evident, opposite to energy and goods producing industries in Canada. This is also reflected in the market capitalization of industries across North American Stock Indices (Figure 6).

Demographics: Demographic patterns vary widely between Canada and the US. From an ethnicity perspective, African American and Latin American groups comprise the largest share of the visible minority population in the US at 34.3% and 46.8% share respectively. Conversely, groups from Asia make up the largest visible minority share in Canada at 46%.[5] These differences can have several economic implications, including foreign capital flows, socio-economics, labour demand and consumption patterns. As well, compared to more than 80% in Canada, less than half (48%) of the US's annual average population growth is driven by international migration.[6] As a result of this lower level of immigration, US cities rely heavier on domestic sources of population growth, notably flows from other states and cities. Foreign migrants also take a larger share of skilled, 'knowledge sector' labour such as technology and professional services in Canada; in the US, immigrant labour is concentrated in goods producing sectors.[7]

4 Statistics Canada (2019), US Census Bureau (2019). Denotes both import and export volumes.
5 US Census Bureau QuickFacts, 2018, Statistics Canada Focus on Geography Series, 2017.
6 US Census Bureau, 2018 and Statistics Canada, 2018. 7 US Bureau of Labor Statistics, 2019 and Statistics Canada, 2018

Figure 5: Components of 2018 GDP (% Share) by Industry Show Differences in Economic Composition

Source: US Bureau of Economic Analysis (2019), Statistics Canada (2019)

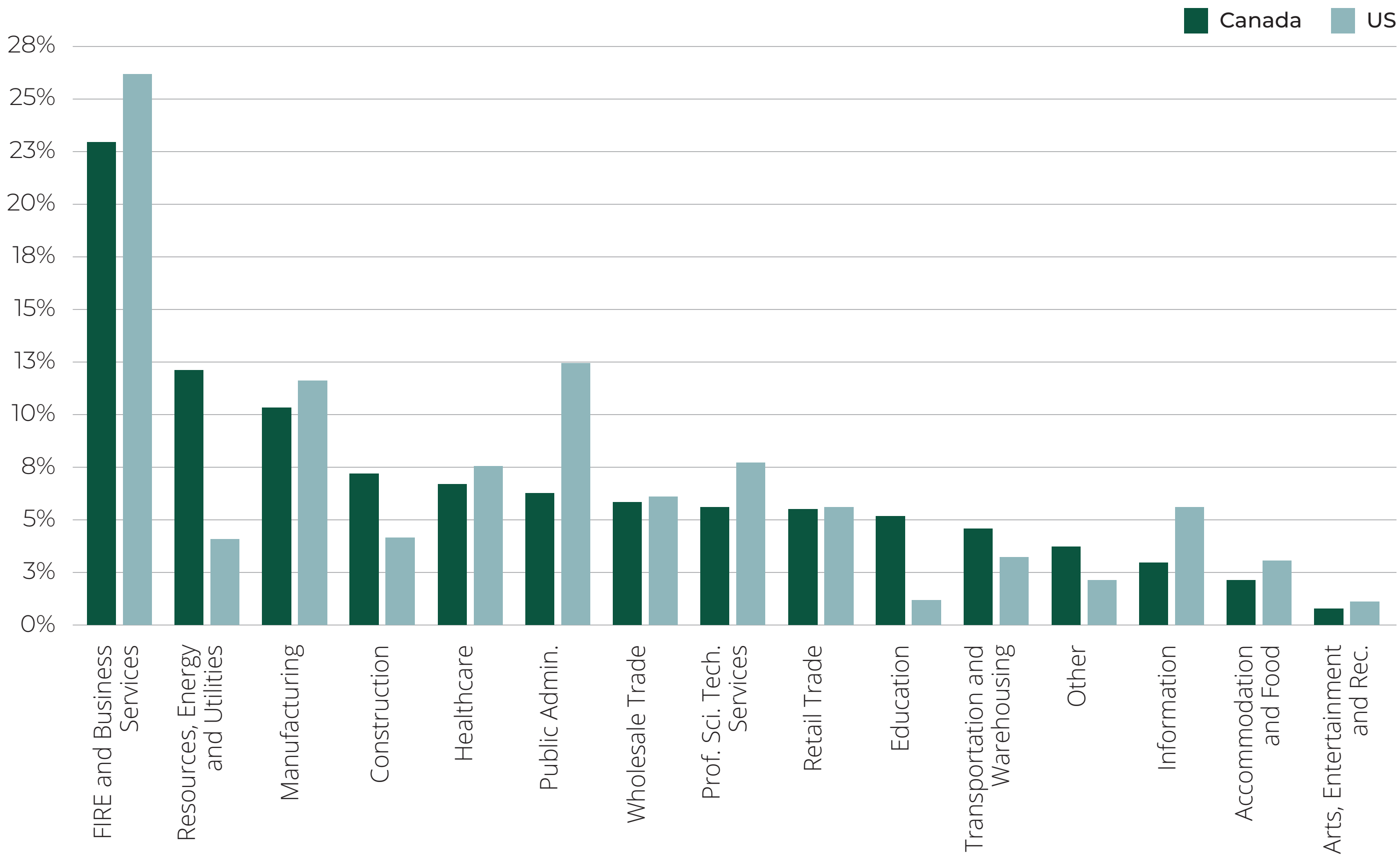
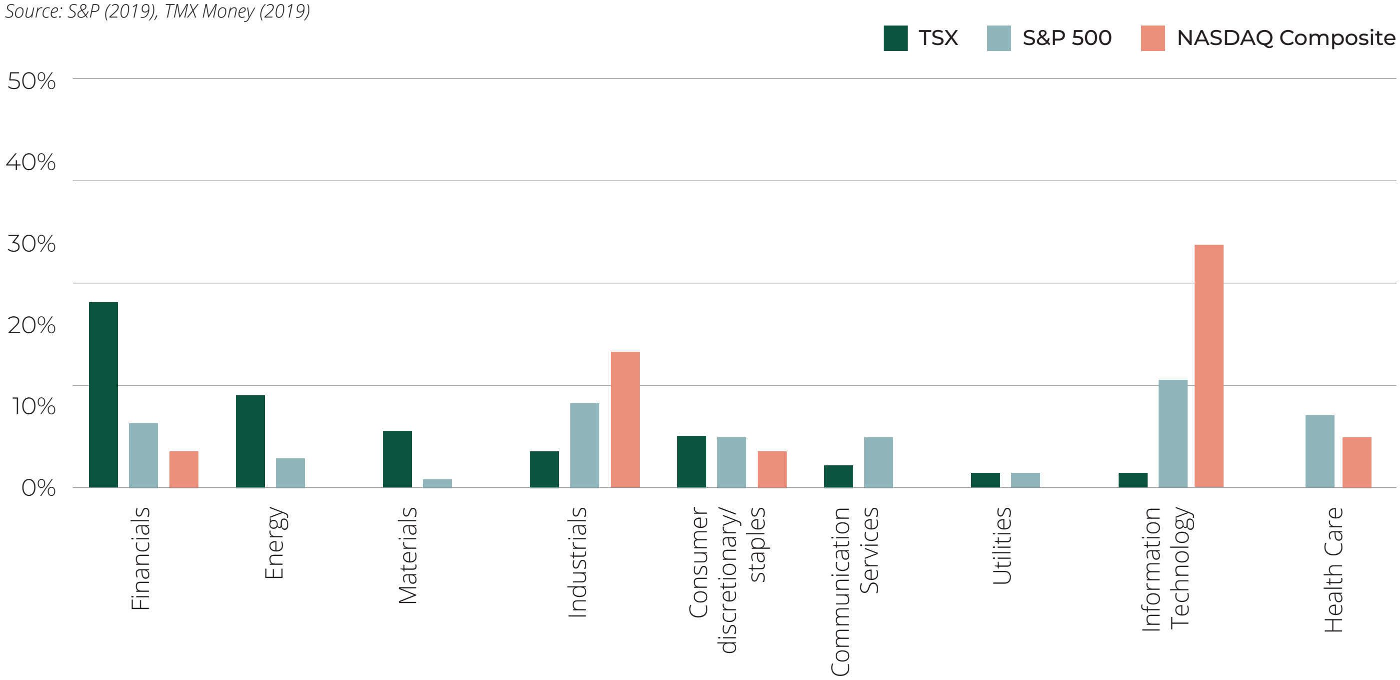


Figure 6: 2018 Components of stock indices (% market capitalization share) by sector highlight industry differences between Canada and the US

Source: S&P (2019), TMX Money (2019)



Attractive, diversifying returns for US real estate

Examining direct, unlevered total returns for real estate from the MSCI Direct Property Index[8], both Canada and the US have performed well, offering investors 9% average annual returns over the last decade (Figure 7). Among asset classes such as public equities and fixed income, direct real estate has offered one of the best and most stable sources of returns over time while also acting as a diversifier in a mixed-asset portfolio.

Looking at direct property performance between Canada and the US more specifically, portfolio diversification continues to be a key reason supporting cross-border investment. While real estate in both markets have performed well, divergence in total returns, capital appreciation and income growth are apparent over time—particularly when examining performance at the city and property level.

Figure 7: Strong Performance For Real Estate with Low Correlations to Other Asset Classes

Source: MSCI, Morningstar, S&P, iShares

Total Return	Avg. Total Annual Returns through to Q2 2019				Avg. Annual Total Return Correlations		
Indices	1 Yr	5 Yr	10 Yr	15 Yr	5 Yr	10 Yr	15 Yr
MSCI US Direct Property Index	6.6	8.7	9.5	8.7	US MSCI Return Correlation to:		
MSCI Canada Direct Property Index	6.8	7.0	8.9	10.2	0.26	0.73	0.81
S&P 500	6.1	7.4	11.6	8.8	-0.23	-0.17	-0.24
SPTSX Index	-0.3	0.1	2.5	4.3	-0.10	-0.46	-0.33
S&P/TSX Capped REIT TR Index	15.3	8.4	10.5	10.8	-0.58	-0.18	-0.44
iShares Core Canada Universe Bond Index ETF	7.3	3.1	4.1	4.4	-0.26	0.12	-0.01
Barclays US Agg Bond Total Return	7.8	2.9	3.6	4.0	-0.51	-0.06	-0.11

8 MSCI is a global data provider tracking the performance of equity, fixed-income, real estate and other investments. For real estate, they track the performance of private, direct held real estate assets owned by institutional investors (insurance companies, pension funds, sovereign wealth funds, closed and open-ended funds, charities and endowments and large institutional investment managers). The performance of direct property investments is aggregated into a benchmark index called the MSCI 'Property Index'. The index excludes REIT, owner-occupied, government-owned and private equity (small private landlords and developers) assets.

Declining total return correlations

Focusing on real estate returns between Canada and the US, correlation analysis does show a strong positive relationship historically between the two markets. As Figure 7 illustrates, total return correlations between Canada and US property indexes over a fifteen-year investment horizon was 0.81, highlighting strong co-movement between markets (0.75 correlation and above is considered a strong positive relationship).[9] However, correlations over the last several years have declined considerably—looking at the same analysis over a ten and five-year time frame, the correlation coefficient has lowered to 0.73 and 0.26 respectively.

Part of the decline has been diverging performance in Canada and the US the last decade. Despite Canada outperforming during the 2008-09 Global Financial Crisis (reflective of the nature and source of the economic shock), the US outperformed following the 2014 energy recession. The size and diversity of the US market insulated the effects of declining oil prices on property performance at the index level. Figure 10 accordingly, illustrates the diversifying and risk-mitigating effects of investing in both markets the last decade.

Figure 8: Annualized MSCI Total Property Returns (Through to Q2 2019): Declining Correlations Post-2014 Following the Oil Recession

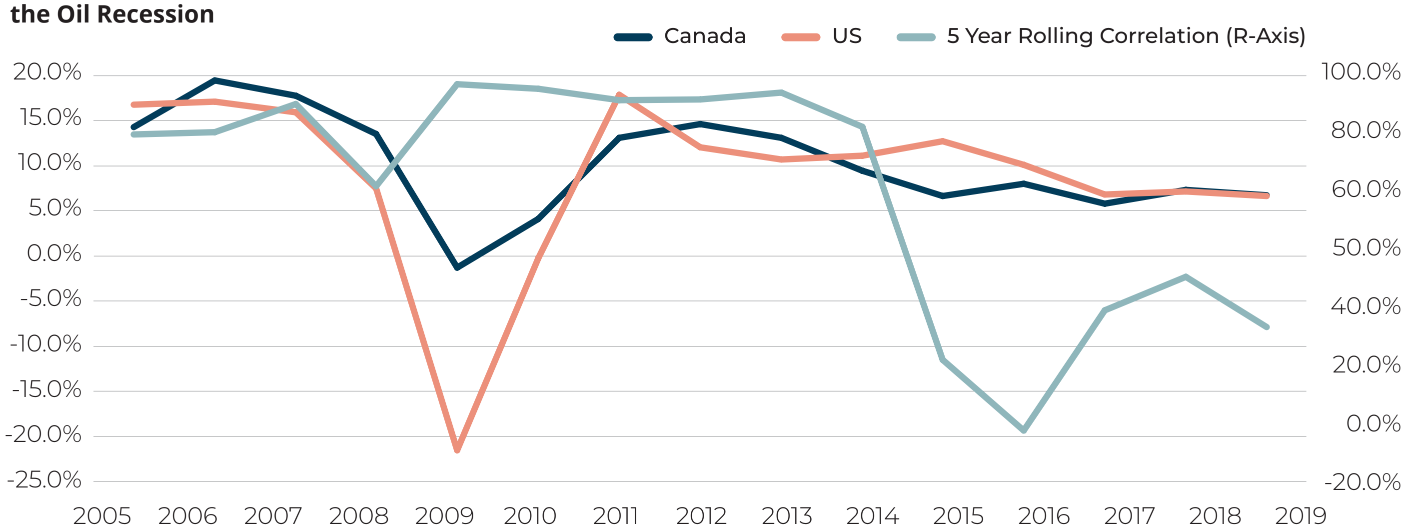


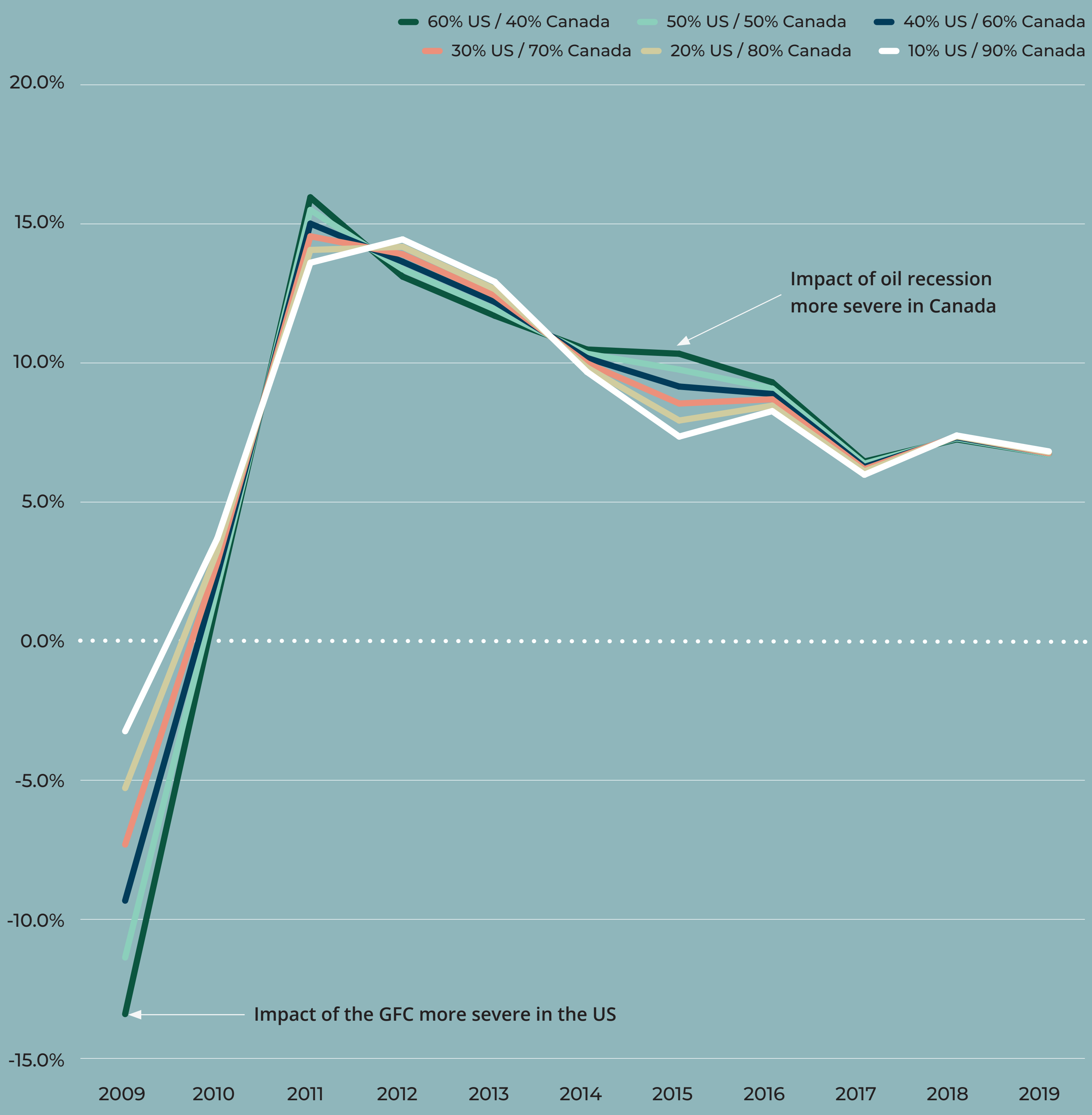
Figure 9: MSCI Total Returns Across North America Highlight Low Correlations between Canadian and US Cities

Total Returns – All Property Types	Average Total Return Correlations to Major US Cities[10]	
Market	**5 year**	**10 year**
Vancouver	0.10	0.69
Edmonton	0.71	0.45
Calgary	0.66	0.64
Toronto	-0.25	0.61
Ottawa	-0.43	0.46
Montreal	-0.35	0.54
Average	**0.45**	**0.56**

9 Note that correlations track the movement of returns between two metrics, not necessarily their scale, velocity or overall performance.

10 Source: MSCI Direct Property Index. Average annualized returns of Office, Industrial, Retail and Apartment Rental Assets. US Cities: Atlanta, Austin, Baltimore, Boston, Chicago, Dallas, Denver, Houston, LA, Miami, Minneapolis, New York, Orlando, Philadelphia, Phoenix, Portland, Riverside, San Diego, San Francisco, San Jose, Seattle, Washington DC.

Figure 10: Diversification Benefits with a North American Portfolio: Annualized MSCI Total Portfolio Returns Based on Different Allocations to the US/Canadian Markets



Income Stability, Diversity and Growth

Real estate returns are driven by a combination of income return (yield) and capital growth (asset value appreciation) and dissection of these returns in Figure 11 shows that capital growth has been the biggest driver for the co-movement in performance over time between Canada and the US. Global property values, to varying degrees, all witnessed sharp declines in 2008 causing total returns globally to move in unison. Over the last decade, capital growth has seen divergence between Canada and the US, with US values seeing sharper recovery from the Financial Crisis and higher capital growth from 2014 onwards. Income growth additionally, has had no correlation over time between the two markets (Figure 12). Income growth in the US has been particularly strong for industrial and residential properties supported by robust demand and low availability.

Figure 11: Annualized MSCI Capital Growth (Through to Q2 2019): Synchronized Capital Growth Through to 2011 in North America

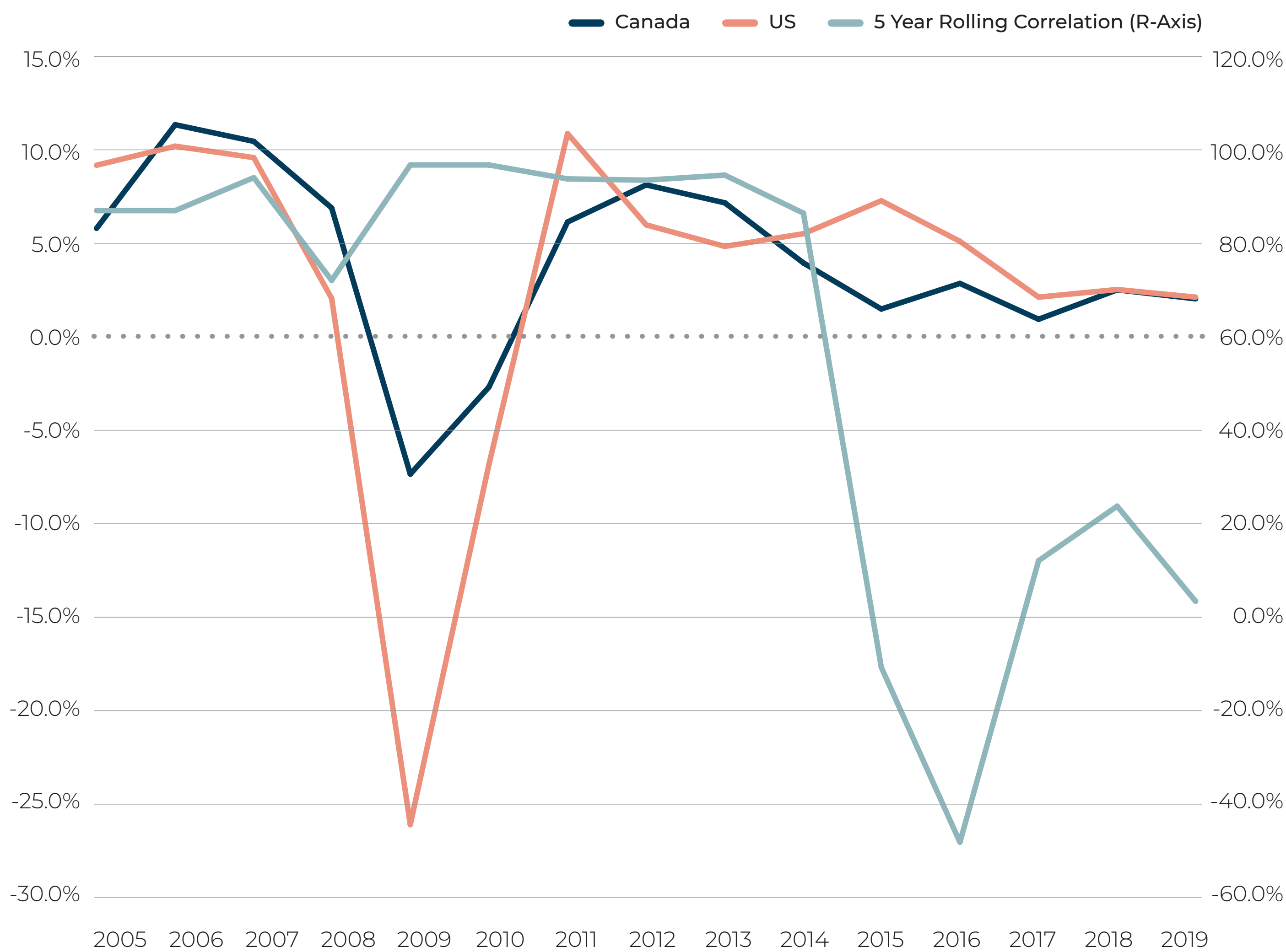


Figure 12: MSCI Annualized Same Store Net Operating Income Growth (Through to Q2 2019): Limited Income Correlations Over Time

Source: MSCI, Morningstar, S&P, iShares

Total Return	Canada NOI Growth (Y/Y)			US NOI Growth (Y/Y)			US-Canada Income Correlations by Period		
Property Type	**15 Yr**	**10 YR**	**5 Yr**	**15 Yr**	**10 YR**	**5 Yr**	**15 Yr**	**10 YR**	**5 Yr**
All	2.5%	1.7%	1.2%	3.0%	4.1%	5.0%	-0.18	0.12	-0.38
Retail	2.6%	2.4%	1.5%	1.5%	1.5%	0.9%	0.04	-0.21	-0.14
Office	2.4%	0.9%	0.0%	1.9%	3.4%	5.0%	-0.08	0.28	-0.26
Industrial	1.5%	1.0%	1.7%	4.8%	5.3%	8.2%	0.33	0.64	0.17
Residential	4.3%	3.8%	4.7%	6.4%	6.6%	6.8%	-0.09	0.10	-0.58

Reducing Domestic Concentration Risk

One compelling benefit of investing the US market is reducing domestic concentration risk in Canada. Because of Canada's relatively small size and population, most of the investible real estate nationally is within six markets—Toronto, Montreal, Vancouver, Calgary, Edmonton and Ottawa. Canadian property investors accordingly, tend to have sizable exposures to a limited number of markets and economies.

Investors in the US have a much wider opportunity set and potential for diversification given the market size and large number of cities. New York for example, is three times the population of Toronto but only makes up 12% of the MSCI US property index based on asset value. Toronto conversely, makes up more than 40% of the equivalent MSCI property index in Canada (Figure 13). Volatility occurring in one or more property markets in Canada accordingly, can have significant impacts at the portfolio level compared to the US.

Within the US, the spread in total returns between the best and worst performing market the last fifteen years on average is 14.2% and highlights significant variation in performance across regional property markets over time (Figure 14). This spread across markets and cycles can offer 'alpha' strategies for investors within the market.

Figure 13: North American Property Indexes Highlight The Relative Concentration of Real Estate Inventory in Canada Compared to The US: MSCI Property Indexes - Distribution of Q219 Total Capital Value by Region

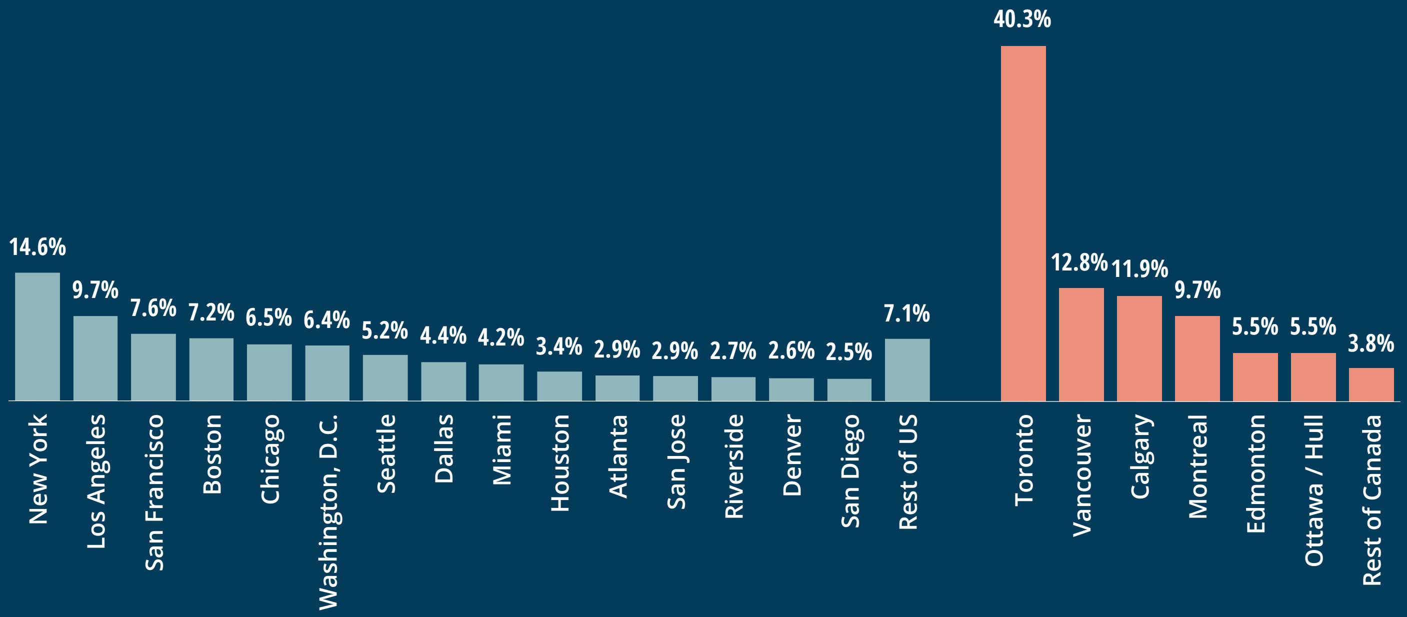
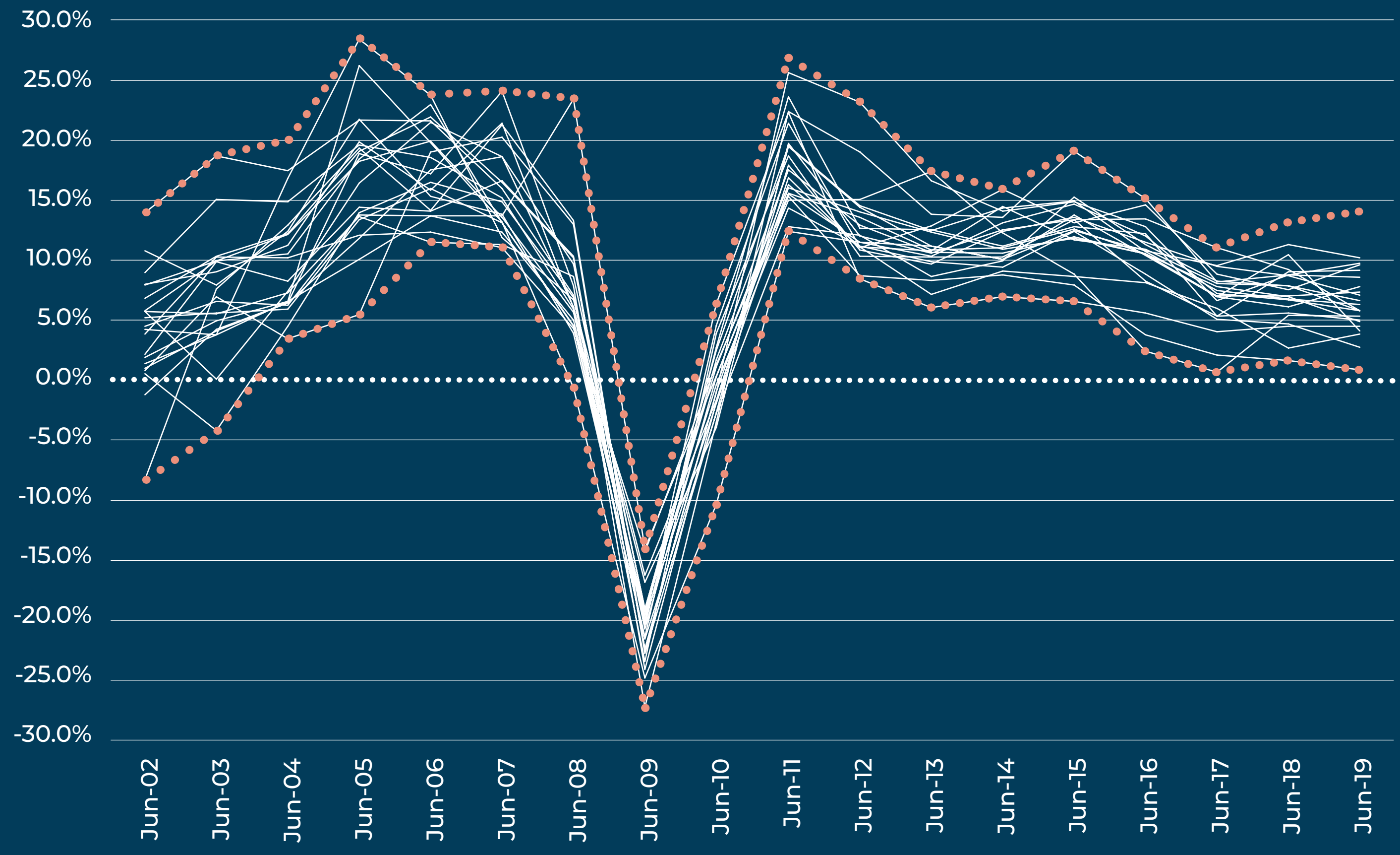


Figure 14: US MSCI Direct Index (Q2 2019): A Notable Spread Between Annualized Total Return on Highest and Lowest Performing MSA Per Year (Dashed Line)



Source: MSCI Direct Property Index. Average annualized returns of major US and Canadian Cities tracked. Office, Industrial, Retail and Apartment Rental Assets. US Cities: Atlanta, Austin, Baltimore, Boston, Chicago, Dallas, Denver, Houston, LA, Miami, Minneapolis, New York, Orlando, Philadelphia, Phoenix, Portland, Riverside, San Diego, San Francisco, San Jose, Seattle, Washington DC.

US Real Estate: Performance and Investment Strategy

A focus on income stability and growth

As we enter the latter stages of a historically long economic expansion across North America, direct real estate continues to offer investors a combination of strong income returns with the potential for long-term capital appreciation. With income in the form of contractual rental agreements, cash-flows are more resilient to periods of volatility and are foundational to real estate performance. Supported by this stability, several factors continue to make the US market attractive for investors:

Attractive yields, stable rental growth for core assets: On a comparative basis, income returns for US property remain attractive, particularly when looking at major gateway markets across North America and Europe (Figure 15). Despite income returns (as expressed by capitalization rates) in the US steadily declining in recent years, comparatively higher yields and the potential for further income growth provide attractive returns for global investors.

Risk-adjusted returns attractive: compared to fixed-income investments in the US, real estate continues to offer attractive yields with the potential for further income growth. With 10-year US treasuries trending in the 1.5%-2.5% range in the last several months, US real estate currently provides a spread of 400 bps (300bps for BBB corporate bonds) based on national average capitalization rates (Figure 16). The potential for income growth further adds to the attractiveness of that yield spread.

Figure 15: Q2 2019 MSCI Income Returns for Major Global Cities (Standing Investments, All Assets): US Markets Offer Attractive Income Returns Globally

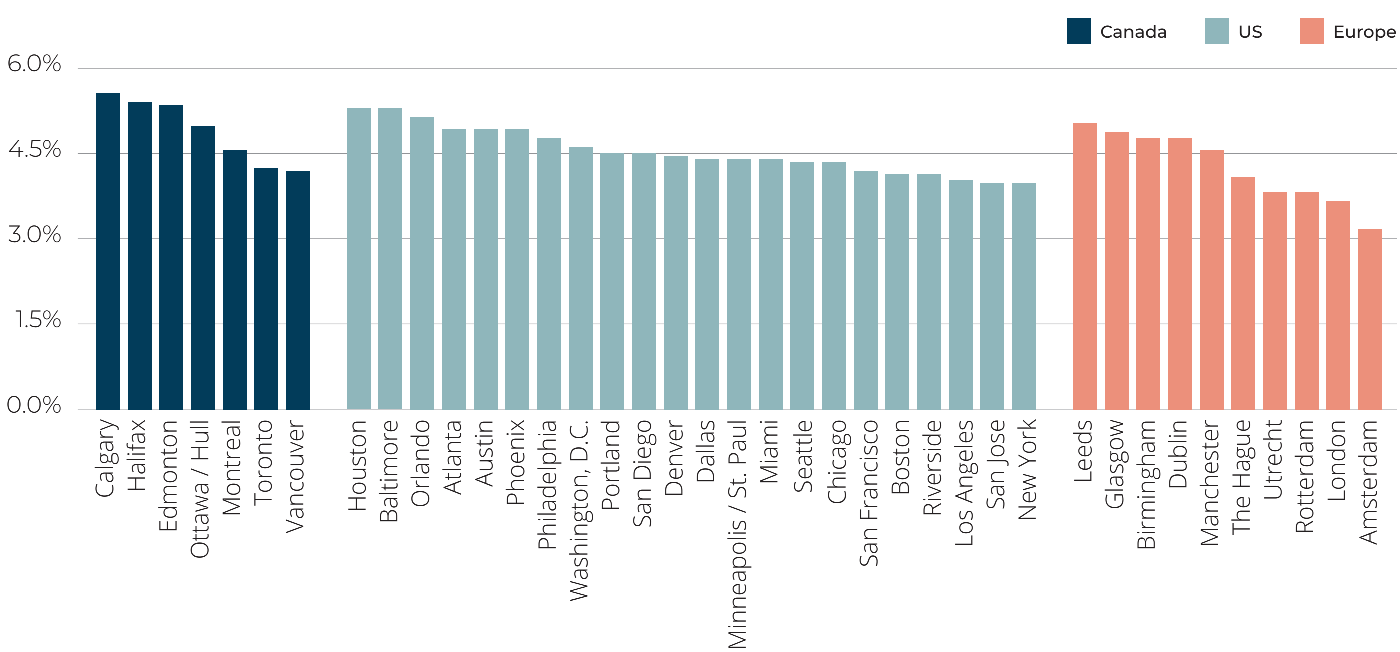
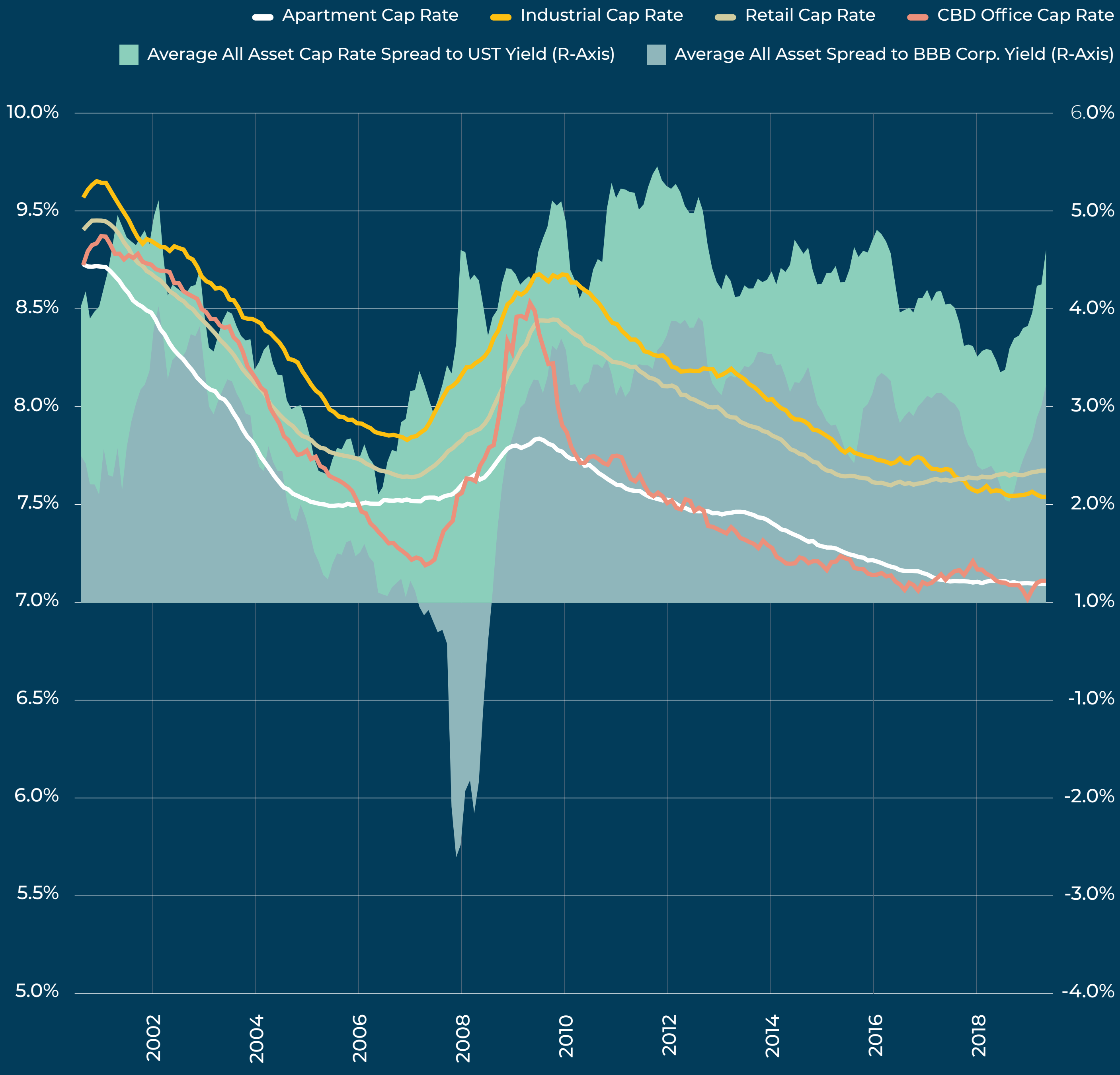


Figure 16: Cap Rate Spread to 10 Yr. US Treasury Yield and BBB Corporate Bond Yield: Wide Yield Spreads Highlight Attractiveness of US Property

Source: Real Capital Analytics, Green Street Advisors - Data Through to August 2019



Stable Market Fundamentals: From a cyclical perspective, real estate market fundamentals in the US are notably different than what was seen at the peak of the last cycle in 2007-2008. Supply/demand remains balanced across most major markets and construction remains well below pre-Global Financial Crisis levels. Capital markets remain stable with plentiful debt and equity available for US real estate. While there are some markets segments that are seeing higher levels of new supply relative to historic demand, the overall US real estate market remains balanced relative to other points in time cyclically. Lessons learned during the last global financial crisis are reflective of the overall conservatism of development and lending activity today. From an economic perspective, stable labour markets, consumer spending and strong corporate profits continue to offset risks associated with international trade disputes and geo-political volatility. These various factors continue to support the stability of both income returns and asset values for real property.

Figure 17: US Market Fundamentals Highlight Low Vacancies, Controlled Supply Across Property Types

Source: Colliers International (2019), Cushman & Wakefield (2019), US Census Bureau (2019), RealPage (2019). Apartment, Office, Industrial data as of Q2 2019. Retail as of Q1 2019.

Property Type	Inventory	Current Vacancy (%)	Under Construction	U/C as a % of Inventory
CBD Office	2.0 Billion SF	10.1%	63.35 Million SF	3.1%
Industrial	15.7 Billion SF	4.9%	306.1 Million SF	1.9%
Apartment	43 Million Units	6.8%	418,000 Units	1.0%
Retail Shopping Centres	4.1 Billion SF	6.4%	17.1 Million SF	0.4%

Structural opportunities: Across US markets, several structural themes continue to drive property demand and rental growth:

- Demographic shifts are driving demand for amenity-rich urban environments and accordingly requirements for new mixed-use development and housing.
- US cities are benefiting from strong labour growth in technology, science and related knowledge sectors and resultant new forms of office demand.
- The rise of e-commerce and omni-channel retailing continues to have profound impacts on industrial real estate and is expected to further intensify in the US market.
- Demand for experiential and activity-based consumption continues to drive demand for new retail and shopping centre formats and development concepts.
- Demand for 'niche' property sectors such as seniors housing, self-storage, student housing and medical office are providing investors with opportunities in emerging 'alternative' property segments.

These shifts continue to offer strategic, long-term opportunities for investors, particularly in terms of new development and intra-regional location dynamics.

Investment and portfolio strategy

Like any other asset class, there is no 'one-size fits all' approach to the US property market; size, liquidity, existing real estate portfolio and risk appetite should ultimately determine the investment strategy. Proposing a target US portfolio allocation or investment structure in this report would discount a myriad of factors unique to each investor.

From our work with clients, we suggest institutional investors consider the following when building a cross-border real estate strategy:

- Investor size and amount of capital available to deploy;
- Perspectives on liquidity and investment horizons;
- Existing property portfolio (be it domestic or international);
- Investment objective, growth and risk/return expectations; and
- Regulation, tax, structuring and governance considerations.

From an implementation perspective, institutional investors can access direct US real estate through several means including open-ended funds, single ownership, co-investments and closed-ended funds. Each strategy carries positives and negatives regarding tax, complexity, performance, liquidity and diversification.

Investment Vehicles

Open-ended funds are the most efficient way for Canadian institutional investors to access private real estate, particularly regarding liquidity and immediacy of capital deployment. These funds hold a pool of income-producing properties, providing investors diversification regardless of commitment size. Open-ended funds have no set investment period, meaning investors can redeem or add to their position at their discretion. Offsetting this efficiency and liquidity is an investor's lower control regarding direct asset selection—investment decisions and portfolio strategy are the responsibility of the fund's investment manager.

Conversely, direct investments, which refer to the standalone ownership of property through single ownership, co-investments or closed-ended funds, offer investors more control over their investment decisions but at the expense of lower liquidity and higher management resources. Single ownership and co-investments for example, often require cross-border investors to engage with a local advisor or partner to provide property, leasing and asset management services. Co-investments and closed-end funds further require expertise in deal structuring and management agreements. Regulatory requirements further impact the cross-border vehicle of choice—tax considerations depend on how property investments are structured for foreign institutions.

Figure 18: Private US Real Estate Investment Vehicles

Open-ended Funds	Closed-end funds
Open-ended funds are comingled investment vehicles that invest directly in commercial real estate and provide investors automatic diversification across property types and geographies. Total returns for open-ended funds generally mirror direct real estate investments but with added impacts of leverage (debt), cash-balances and fund management fees affecting net fund performance. There are two main indexes tracking open-ended fund performance in the US: the 'ODCE' (Open-ended Diversified Core Equity) index, administered by the National Council of Real Estate Investment Fiduciaries, and the 'ACOE' (All Core, Open-Ended Funds) index administered by PREA/MSCI.	Closed-end funds are pooled investment vehicles that invest directly in commercial real estate but have defined investment periods and exit dates from the fund. Investors typically make capital commitments as a Limited Partner (LP) that are drawn from over time as the fund makes property purchases. Fees are based on the performance of the property investments, which are usually managed by a local General Partner (GP) whom serves as the investment manager and fund operator. Closed-end funds are typically shorter in investment duration (7—10 years) and often focus on opportunistic investment strategies such as development or asset re-positioning.
Single ownership structures	**Co-investments ('Joint Ventures')**
Single ownership structures refer to the exclusive purchase, ownership and management of private real estate for a single investor. Fees are typically paid to third party advisors who manage the properties. Rental income goes directly to the investor, as do capital gains upon disposition. Single entities have higher liquidity risk given the direct ownership of property. The autonomy of these investment vehicles however, can give investors better performance through fee efficiencies, discretionary investment strategies and the ability to use leverage to enhance returns.	Co-investments ('Joint Ventures') refer to the standalone purchase, ownership and management of private real estate with one or more partners. Under a co-investment structure, a foreign investor would jointly own a direct interest in a property, typically with a domestic capital source. Fees are typically paid for an entity to manage the property (which can be the co-owner in some cases). Rental income goes directly to the investor, as do capital gains upon disposition. Given the underlying real estate is generally jointly held among one or more partners, alignment of investment strategy (e.g., capital expenditures, leasing, holding periods) is critical.

Risk, Return and Performance

Performance varies across US real estate investment vehicles, with investment strategy and liquidity being key drivers of relative risk and return. Open-ended funds operate on the lower end of the risk/return spectrum given their higher liquidity and focus on core, income-producing properties with lower use of leverage.

Closed-end funds conversely, operate on the higher end of the risk/return spectrum, giving investors the potential for outsized returns through opportunistic, cyclical and value-add strategies. Closed-end funds offer investors 'alpha' generation and provide different investment benefits than core, income producing real estate. Income growth, diversification and inflation-hedging benefits are more characteristic of open-ended funds than with closed-end funds.

Single ownership and co-investments fall in the middle of the risk/return spectrum depending on the investor's investment strategy. Most investors in these vehicle types tend to invest in core, income-producing properties using modest leverage and operating experience to drive returns.

Figure 19: Estimated Target Annual Returns, By Investment Vehicle, Net of Fees

Source: GWLRA, PREA, PREQIN

Open-ended Funds	Single ownership and Co-investments	Closed-end Funds
Estimated to be in the 6%-8% range for core-focused funds. Conservative use of leverage to enhance returns (less than 30% LTV).	Varies depending on strategy but estimated to be in the 7%-9% range for core-focused funds. Modest use of leverage to enhance returns (less than 50% LTV).	Varies depending on strategy with performance defined as the achieved Internal Rate of Return (IRR) over the investment period. Target IRR in the 10-20% range. Use of leverage is also higher (60+% LTV)

Currency hedging is also a complex consideration in terms of how and when it is used, especially given the relative unpredictability of property cash flows. Some institutional investors elect to not hedge at all, while others make tactical hedging strategies at the property or portfolio level to enhance returns. Currency strategies are unique to each investor and can have varying impacts on net returns for real estate.

A Complementary Allocation to US Property

The existing portfolio is also a critical factor determining investment strategy for Canadian investors—if the US is to act as a diversifier, an investor may want to offset high allocations in one market or asset class domestically with something complementary in the US. As mentioned, the attractiveness of the US market is its large size as well as its subset of metro-regions and nodes with various economic and cyclical characteristics. The expected performance and growth of the existing portfolio should align with target portfolio allocations to the US market. Canada's commercial property market continues to perform well, and investors have an opportunity to build a cross-border portfolio that enhances diversification while leveraging unique real estate growth drivers in each country.

Size, diversification and performance are key attraction points for the US market, particularly for Canadian institutional investors looking to increase their allocations to global real estate. Despite close geographic and economic connections, the US market is different from its northern neighbour, including more than fifty cities above a million in population and each with their unique regional dynamics. It is this market depth that allows investors to customize their investment strategies based on geography, economic drivers and property type.

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