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PARK & TILFORD

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VANCOUVER, BRITISH COLUMBIA

PARK & TILFORD SHOPS AND GARDENS

333 BROOKSBANK AVE,
NORTH VANCOUVER, BRITISH COLUMBIA
170,524 SQUARE FEET

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1.0 EXECUTIVE SUMMARY

Park and Tilford is an outdoor community shopping centre in the Greater Vancouver Regional District (GVRD) submarket of the "North shore". The two anchor tenants are a grocery story and movie theatres that are supplemented by a diverse and complementary tenant mix. The property also benefits from a park, hence the name, which drives traffic to the area and accounts for above market-average rents. Vacancy rates are exceptionally low, however the unlikely renewal of the Cineplex theatre raises concerns as well as risk. The theatre is an important draw to the mall and any successor will have to match the existing mix, and will undoubtedly need extensive tenant improvements and time to move in.

The currently steady cash flows are somewhat negated by uncertainty for the future. Because of that, we have valued the property at a $64.78 million purchase price and sale price of $67.27 million at the end of year 7 for an NPV of $121,269. We feel that these numbers adequately demonstrate the appropriate risks and rewards and are justified by the pro-forma and in the sensitivity analysis, particularly with variables relating to the theatre occupancy. Our valuation did not include development potential, as the mall is still a financially fruitful venture, especially if the right replacement is found for Cineplex, and given the strong consumer market in the North shore. The extremely conservative assumptions and expectations dictate that the aforementioned purchase price would be a maximum, and the sale price and NPV are minimums. The purpose of this proposal is to demonstrate that at the very least, Park and Tilford is profitable, and with the right management the property could perform significantly better than our assumptions.

There is a large array of factors that impact the cap rate of a community shopping mall and we determined a going-in rate of 5.6% for Park and Tilford. The general market trends for malls of this size apply to the property but there are other factors unique to Park and Tilford. The diverse and stable tenant mix and strong stable market demographic are in favour of a lower cap rate, however the likely departure of Cineplex adds a significant risk to cash flows in the future, even if it is only temporary. The most relevant comparable rates for malls with similar mixes, locations, and cash flows were both 5.75% at their respective time of sale (both in 2013) and we measured these against what they would be at the present time. There is a limited amount of competition in the vicinity, and although there is at least one similar mall project nearby confirmed for the future, we considered this negligible. These factors and more contributed to our going-in rate of 5.6%, and for the terminal rate in 7 years we added 50 basis points to make it 6.1%. These rates put us in the middle of the expected range for this type of property, which reflects a balance between the stability of the positive characteristics and unpredictable risks. Our terminal rate is outside the current range, but we feel that is to be expected given the uncertain circumstances of the future.

2.0 PROPERTY DESCRIPTION

2.1 PHYSICAL DESCRIPTION

The retail complex property at Park and Tilford Shopping Centre is located in North Vancouver and is a single level strip mall with an array of different tenants of both large and small sizes. The mall is just shy of 180,000 square footage of leasable floor area and serves the Greater Vancouver market and "North Shore" submarket.

To the rear of the site, you will find the Park and Tilford Gardens, 2.8 acres in size and containing over 110 species of plants and trees. The gardens provide amenity to the area, at the same time causing headaches for the owners of the mall due to numerous constraints to development such as botanist approvals.

The site is located in the Greater Vancouver Regional District (GVRD), where there are approximately 115 retail shopping centres (Colliers, 2014). Park and Tilford Mall is situated more specifically inside the submarket of "North Shore", about 15 minutes' drive northeast of the Vancouver CBD. This submarket boasts the lowest vacancy rate in the entire Greater Vancouver area of 1.7%, making it highly desirable for investors of this type of multiple tenant retail property.

2.2 STRENGTHS

The site is in a conventional horseshoe or "U" shape, which directs foot traffic around the front face of the retail tenants, and separates the shopping space with the gardens at the back, allowing for the maximal utilisation of window frontage. It also means that visitors can see virtually all the tenants from the parking lot. This means that there is more efficient use of the space for each tenant and visibility, potentially meaning higher impulse and unplanned purchases. This adds to the already stable income performance of the mall.

The area in which Park and Tilford is located is considered to be middle to upper-middle class, which is a desirable characteristic since we are operating retail space and the more disposable income that the market has to spend on items or services from our mall, the better it is for business. Some of the highest household incomes and lowest retail densities are found in our primary trade area.

The tenant mix compliments each other, with big, trusted names of retailers with service tenants, which provide mutual benefit to consumers and to other tenants. Annual sales are very high, approximately $850/psf on average. The site is also modern, which attracts both retailers and shoppers.

The parking lot always tends to be full at Park and Tilford, indicating good business at the mall. This general aura of the mall will resonate with visitors that the property is a happening place to be and make them want to visit more regularly as a place to get coffee, have a business meeting or just hang out.

There is a close landlord-tenant relationship between each of the tenants. This helps to smooth kinks in business and allows for a mutually beneficial relationship. It also decreases the risk of tenants packing up and leaving, which is more common when the management and tenant are not close.

2.3 WEAKNESSES

High operating costs and taxes at Park and Tilford have been known to deter anchor or otherwise larger tenants and chains from leasing space here because they have corporate ceilings for the rents they are willing to pay. This is based on the rationale that other spaces can provide lower operating costs and taxes and promote to increased bottom line for these tenants.

Any major changes or renovations to the site need a botanist's approval due to the botanical gardens behind the mall. This causes headaches for the tenants, as they cannot undertake work as freely as if there were no gardens.

Sometimes at peak times, there can be parking congestion, so that some consumers cannot get spot. This may cause frustration, and the association of the mall with being too busy for many consumers, causing them not to return.

2.4 OPPORTUNITIES

What we must identify to be successful in the bid for these tenants leases, are the benefits that come with a lease at Park and Tilford, that are not available at other sites. These can then be the tool used to convince those tenants that they should choose our site for operations. The benefits can be represented on the company's pro forma and may include things such as increased trends in the area towards outdoors activity and fitness. With these benefits we may be able to attract a gym, health supplement, athletic apparel store combo.

The gardens are an amenity that many North Vancouver residents enjoy. There are opportunities to host events and attract visitors to the mall. Events such as Sunday picnics in the gardens when the weather is fair with some live music may help to boost sales in the mall and resonate ideas that Park and Tilford might not be such a bad place to spend time.

During our site visit, we noticed that there was a large residential condo development named Local on Lonsdale, which is in the process of construction around the corner from the site. This increase in density in the area will result in an influx of foot and road traffic and should increase sales to tenants in the mall, as new residents to the development will require a place to do their grocery shopping and spend disposable income on hedonistic hobbies and activities (e.g. shopping, hanging out, visiting the movies).

There is currently 5,000 square feet of unleased space at Park and Tilford that needs a tenant. Since this space might be too large for a smaller tenant, and too small for an anchor, there is an opportunity to pair two smaller tenants together, such as a healthy food centre and supplement combination. This could bring a new feeling to the site and attract a new demographic of shoppers coming before or after a workout, providing a gym replaces the theatre.

2.5 THREATS

There is a constant threat of another retail mall being built inside Park and Tilford's competitive area. This could shift demand in a way that drives rents down for the leases in the mall. There is some competition from existing retailers and we have identified the key ones.

Northwoods Village is a future competitor that we don't have too much information about yet. According to the prospective Colliers listing, it will have a grocery-based anchor and is only located 4 minutes drive from our site. This will definitely drive some of the grocery-centric visitors from our site and to their shop if it is closer to their home. This is especially a problem during rush hour traffic between 3.30-7pm, when people won't want to take the extra time just to visit Park and Tilford. Northwoods Village is more of a mixed-use development and will not have the same scope and size of retailers so it is not a direct competitor.

Lynn Valley, which is just six minutes drive from Park and Tilford. This shopping centre is lacking a strong anchor tenant, separating it from our property as it does not have the same high volume of foot visitors through the centre. Should they decide to place a more solid anchor tenant such as a Whole Foods Market, or a Shopper's Drugmart, then they would become a dangerous threat to the profitability of Park and Tilford.

Lastly, Parkgate village, another retailer serviced by Bentall Kennedy, is located nine minutes drive east of our site. It contains much of the same tenant mix as our site, and definitely encroaches on our competitive area. Our site is more central to North Vancouver however and is definitely closer to the most densely populated areas.

Our site will see some changes in the coming years, with the likely non-renewal of one of our anchor tenants, the theatre, Cineplex Entertainment Limited. This implies a few very real risks and costs to the investment at Park and Tilford. There will be the risk that finding a new tenant for the 30,000sf site will prove difficult, boosting vacancy in the mall and affecting bottom line returns. (This will be a low risk since there are very low vacancy rates in our submarket, e.g. 1.7%). Potential costs will include tenant improvements for a new anchor tenant in place of the current Cineplex whom are leaving in three years time, which has been projected in our pro-forma as being upwards of $1,000,000.

Loss of an anchor tenant via bankruptcy or other unforeseen circumstances is something that we have to consider as a possibility. We can get some insurance and always stay in the know about whose is looking for what kind of space and stay relevant with potential tenants come time to renew leases. Keeping relationships positive with existing tenants can help to reduce this risk, and also keeping an eye out for signs of tenant decline to mitigate any losses.

3.0 MARKET ANALYSIS

3.1 MACRO MARKET ANALYSIS

GROWTH

British Columbia's economy is more dependent on the economies of the US and Asia than that of Canada as a whole. The economy is relatively diverse enough that it is not hinged to that of one commodity, with the geographic location of BC offering access to thriving markets across the Pacific and just over the border to the south. Additionally, while a low price in oil has wreaked havoc in Alberta, BC is not a producer of crude and this slump in oil prices conversely benefits consumers also meaning stronger economies in markets which not net exporters of oil, such as the US and China. Cheaper gas at the pump also means that BC consumers have increased additional income to dispose of, which is very relevant to Park & Tilford, and its diverse complementary retail tenant mix.

Weakness in the Canadian Dollar (CAD) is linked to a decreased price in commodities, specifically oil. While the weaker Canadian dollar translates to more expensive imports, this generally negatively affects consumers since their day-to-day goods will be more expensive (Canada is a net importer). A lower CAD, especially compared to the US Dollar actually means that Canadian goods become cheaper worldwide. Manufacturers that import materials may be hit, but this may cause higher demand which outweighs the higher input cost.

CAD to USD over the last 5 years

Since we are now in a bull market and the bear market driven recession in 2008 is a point in the past, more relevant growth concerns relate to some weakness in Asia and lack of performance in Europe. However, growth in Asia, specifically China, is relevant. Their economy continues to grow, but perhaps not as the same previous aggressive pace. BC is still the largest supplier of softwood lumber to China, with around $1 billion in net exports per year. Europe may be stagnant, but it is not a major trade partner to BC.

The Bank of Canada (BoC) sets the benchmark for inflation at 2% annually and adjusts their lending rate to affect this, either positively or negatively. This has wide-reaching effects, most notably on the mortgage and loan markets, and in turn this has an affect on the housing market. A serious downturn to the Canadian economy could cause the BoC to drastically adjust this rate, however the market tends to show signs of decline and foreshadows what movements in the economy are to be expected. Since Park & Tilford's diverse retail mix contains no mortgage lenders, it is unlikely that any of the tenants would be directly affected by these market conditions. However, a large enough downturn in the economy, even with a reaction from the BoC, may even result in our credit tenants being unable to afford their rents.

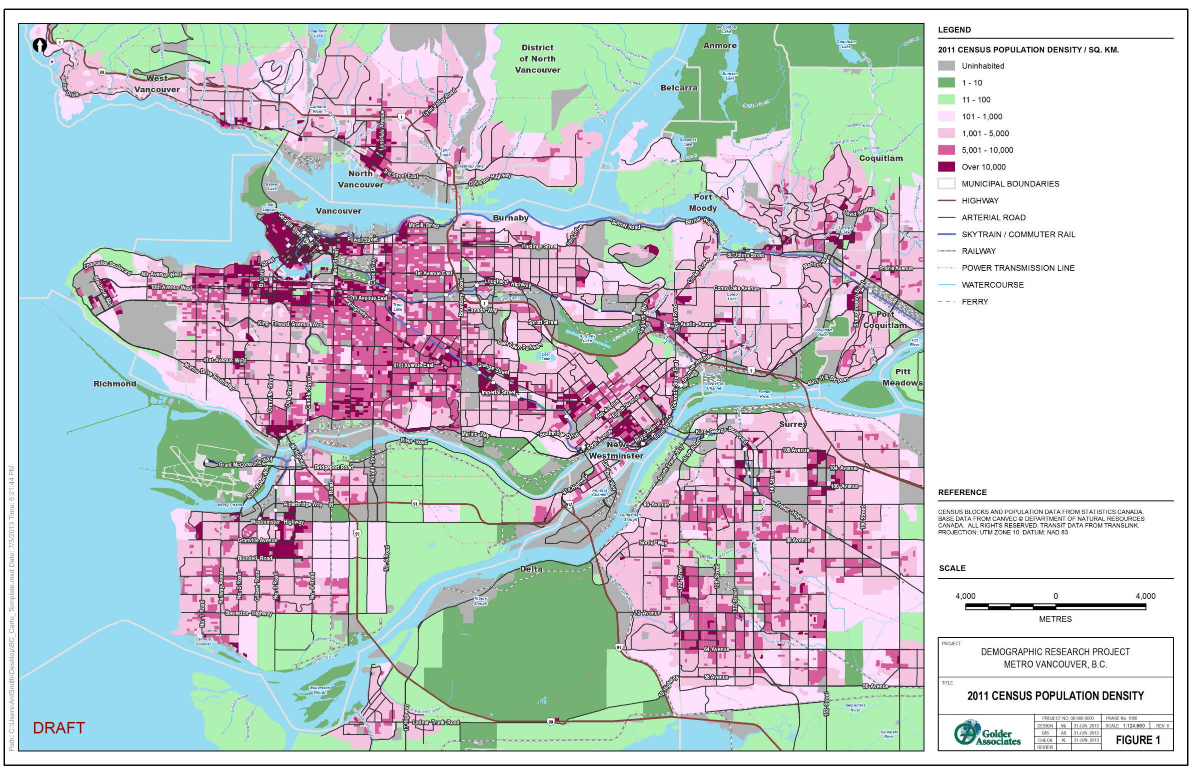
In summary, while the Canadian economy may be weaker and the dollar lower, BC is still expected to experience growth at a macroeconomic level due to a strong US economy and dollar, as well as continuous growth in China. BC has experienced strong growth due to increased demand for (relatively) cheaper Canadian goods, and cheaper oil means that consumers have more disposable income. This means that British Columbians can be expected to spend more, which bodes well for shopping centers such as Park & Tilford.

POPULATION

As shown in the 2011 National Household Survey, the population of BC had approximately 4.6 million people, with the Greater Vancouver Regional District (GVRD) and Fraser Valley making up almost 2.8 million people. These figures have grown since then at a rate of 4.4% (Georgia Straight, 2014). A steadily increasing population provides an increasing consumer base, which provides a much more attractive opportunity for investors and businesses alike. This trend is expected to continue, as the jobs outlook provides an attractive opportunity for migration to BC.

The GVRD also has the most dense population concentration in BC, which means that business owners have access to the greatest number of consumers in a given radius. Densities are particularly highest closer to the downtown core. These densities are also important when considering the major infrastructure and commuter routes.

Population density of the GVRD, with the higher concentrations in shades of purple



PRIVATE SECTOR

British Columbia Premier, Christy Clark introduced a new jobs plan in September 2011, and it has brought about $2 billion in investment to BC from the Asia Pacific markets. The growth of the private sector in Vancouver, as well as British Columbia, means an increase in jobs and disposable income.

BC's economy is made up of jobs across many industries. The provincial government has attempted to bolster and support large businesses in natural resources while also promoting service-based industries for small to medium sized businesses. It is a saving grace of the province that the economy has somewhat of a diversified portfolio and is not reliant on one particular product, although in the past it was overly dependent on softwood lumber as well as minerals. Currently, the economy of BC is much more diverse and includes many different industries in services, resources, and manufacturing, with service being especially important in the lower mainland, where approximately 80% of workers are in the service industry (BC Statistics, 2014). Many of these service industry jobs support the businesses, banks and other companies that dominate the area. For example, over 70 percent of all of the jobs in BC in finance, insurance, real estate and leasing are located in the lower mainland, as are 70 percent of all the province's jobs in professional, scientific and technical services. In addition, retail trade provides just over 12% of employment in the lower mainland.

2012–2022 LABOUR MARKET OUTLOOK-HIGHLIGHTS	
TOTAL JOB OPENINGS	**1 MILLION**
Openings due to confirmed or planned economic activities	985,100
» Retirements	669,800 (68%)
» Economic Growth	315,400 (32%)
Additional LNG job openings	UP TO 100,000
Job openings requiring post-secondary training	763,400 (78%)
SUPPLY NEEDS	
▸ New entrants	425,320 (45%)
▸ Net in-migration	300,820 (32%)
▸ Other mobility	216,750 (23%)

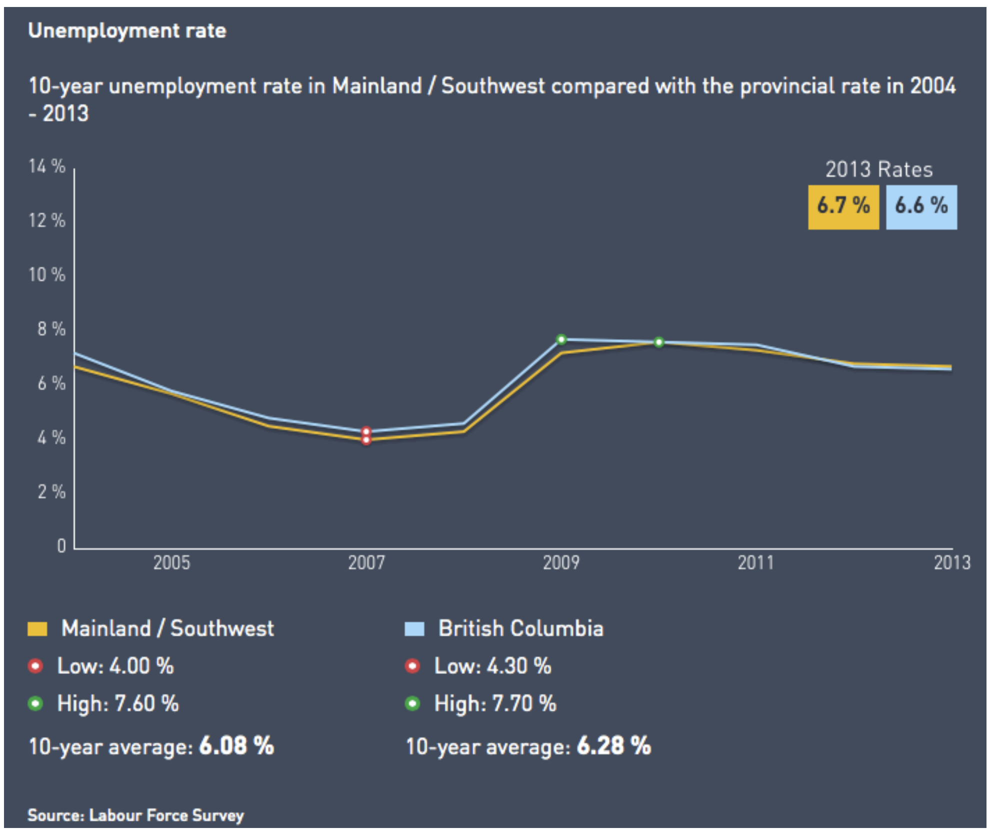
Labour market outlook for the next 10 years

Although there has been a push for a regional liquefied natural gas (LNG) industry, this has yet to get off the ground. Development of the industry was notably absent from the 2015 BC Budget, however the federal government is trying to boost the industry with an initiative tax. Public opinion towards pipelines, both LNG and of crude, tends to be divided and the future is not clear in either case. However, these industries would add more tax to the government coffers, which only indirectly benefits citizens in that the revenues from energy exportation may reduce their own individual tax burden.

As mentioned before, macroeconomic trends and overall growth generally mean that consumers will have more income to spend on goods and services, like the many provided by the diverse retail mix of a regional shopping centre. An argument could also be made that cheaper gas means that consumers are willing to drive to go out of their way to a centre that has all their needs, rather than simply opt for what is closest to them.

EMPLOYMENT

The lower mainland has the largest labour force in the province. Over 62 percent of B.C.'s workers live in the region. The unemployment rate is currently at a flat 6%, which is below the national average of 6.8%. To narrow it down, the unemployment rate in Vancouver is slightly lower than the provincial average, at 5.8%. All of these figures are as of February 2015.



According to the British Columbia 2022 Labour Market Outlook, there will be 641,500 job openings in the region by 2022. Approximately 63% of these job openings will be to replace retiring workers. The other 37% of these openings, or 237,500 jobs, will result from economic growth over the 10-year period.

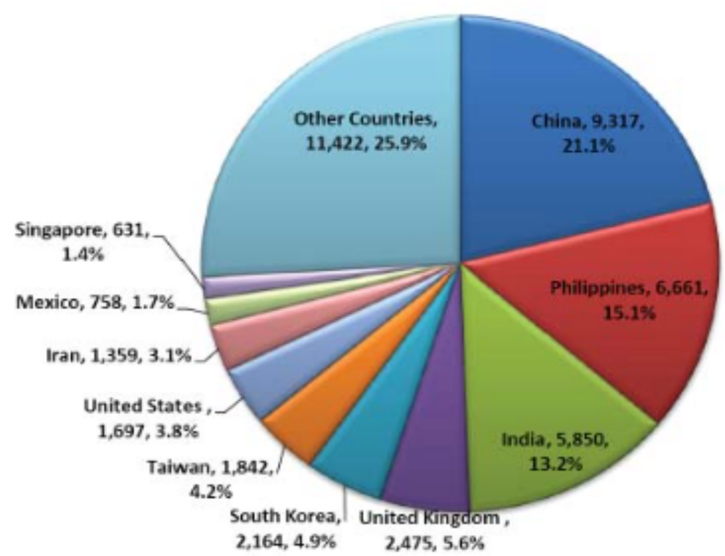
Generally, the BC unemployment rate has remained below the national average. We can't anticipate whether or not there will be a relatively stable rate for the future, but the jobs plan that the BC government has in place bodes well for the growth in job opportunities in the future.

The provincial government has also been actively promoting skilled trades as well as offering grants for people to enroll in apprenticeship programs. This shows an initiative and foresight for future labour demands, although there are no clear stats on the uptake of these programs.

IMMIGRATION

Immigration is a vital factor in BC's population growth. The birth rate in BC is slowing down and young people and skilled workers are required to replace and sustain an aging population. Being located right on the Pacific Ocean, BC is a natural choice for immigrants coming to Canada and the province, especially the lower mainland, is very multicultural. These immigrants bring their own culture and spending habits to our shores and submarkets.

Chart 2: Top ten source countries of immigrants to B.C. in 2010



Data Source: Citizenship and Immigration Canada

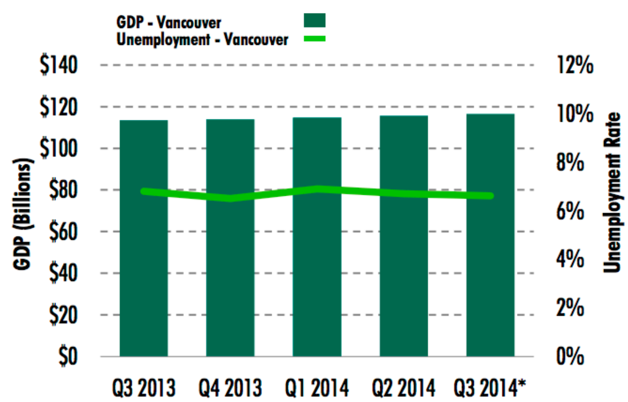
About 21% of annual immigration came from China in 2010, and this figure is likely higher at the present time. This is good for the BC economy, as the Chinese economy is currently experiencing exceptional growth in the last decade. With increased immigration from China, BC will be able to capitalize on this new wealth and there will be more potential for investment. One would think that as a shopping centre, Park & Tilford is more at the whims of consumer spending habits, rather than overall trends for investment. However, wealthy business people from China and elsewhere are often looking to invest in businesses in Canada, meaning that they have the potential to infiltrate the tenant market in some capacity. Many immigrants to BC were a part of the "Investor Class Immigration" shift and brought capital to invest and expertise to our businesses. The program is currently on hiatus but will likely restart in the new future to accommodate the high demand that eventually crippled the program.

Immigration is vital to BC's economy and for sustained growth in the future. As a regional shopping centre, Park & Tilford can only benefit from more people, especially wealthy ones, in the lower mainland. As the GVRD continues to grow it will become denser, and as a shopping centre, volume and exposure are key. Statistics BC research shows that in the lower mainland region in 2011, 37.3% of the population were immigrants. This is an incredibly high figure and has a noticeable affect on the economy as a whole.

3.2 MICRO ANALYSIS: THE NORTH SHORE

EMPLOYMENT & GDP

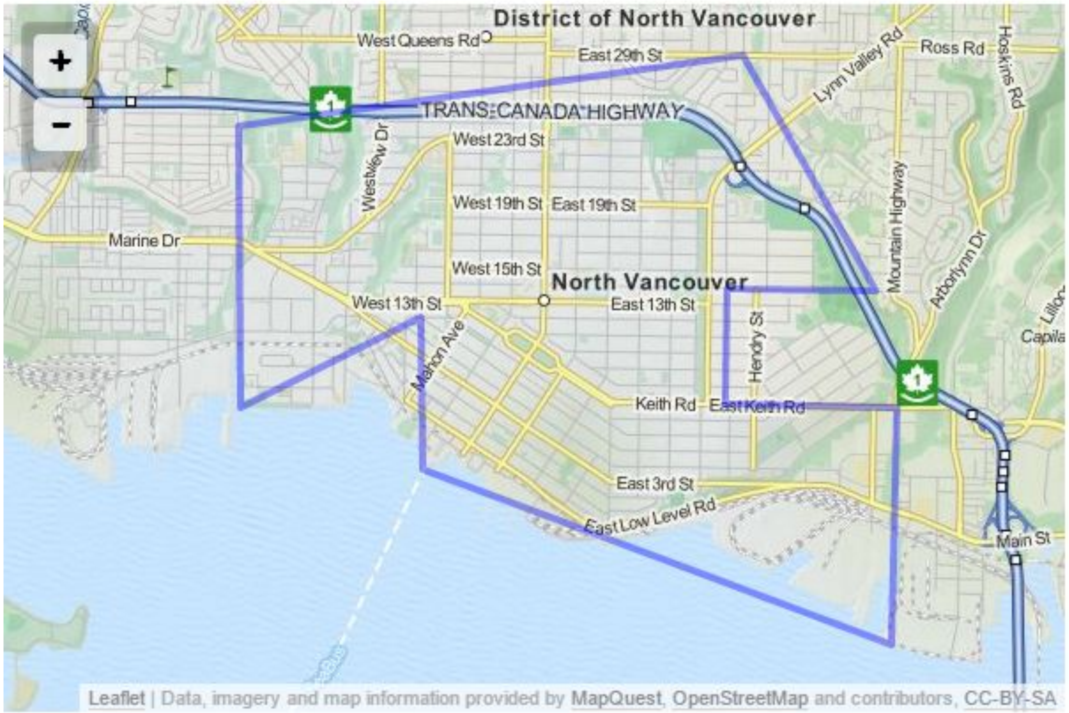
As per the figure on the right, the economic condition in Vancouver is very stable with only unemployment rate reaching close to 6%. It is considered to be a good indicator comparable to developed cities around the world such including Auckland, NZ (6.3%), New York, USA (8.2%) and Canada (6.6%) (Employment Canada, 2015). The city's GDP lies at $110 billion with around $44,000 per Capita (Employment Canada, 2015), which is also considered reasonably high. The forecast of unemployment rate is to further reduce by 0.2% by 2016 (Statscan, 2015), while the GDP will not be highly affected. Overall, the stable economy will be in support of Park & Tilford.



Source: Conference Board of Canada, 2014. *Forecasted

POPULATION

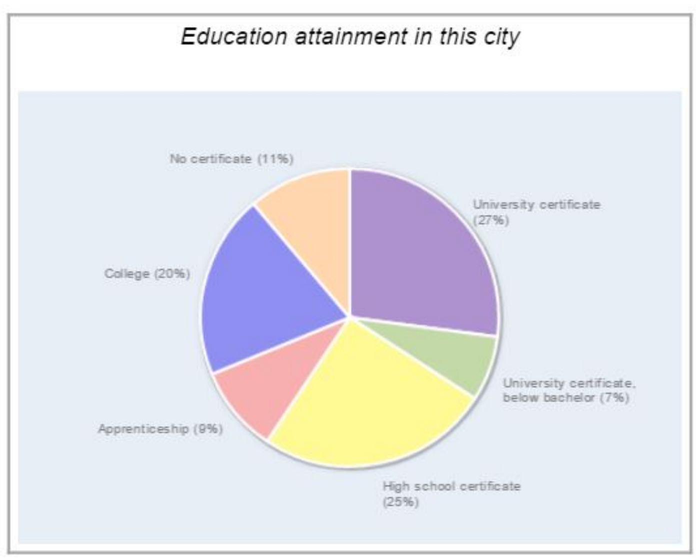
As of 2011, the Population in the city of North Vancouver, as seen below, is 49,196 with a change of 6.7% from the year 2006. This is still above the national average growth of 5.9%, but below the provincial growth of 7.0%. The population density of North Vancouver is 4,073.8 persons per square kilometer covering a land of 11.38 square kilometer in total, which could also be compared to the provincial space of 4.8 persons per square kilometer. It is notable to mention that the District of North Vancouver as a whole resides 84,412 people with a growth of 2.2% (Statscan, 2015).



EDUCATION

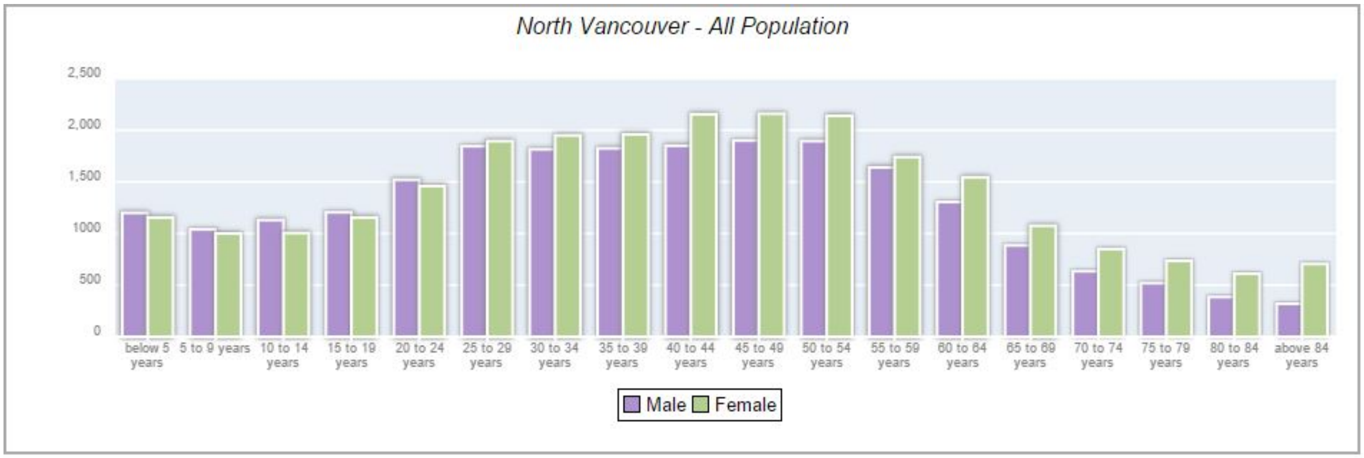
As seen below, majority of the population have a University certificate with a great 27.1%, which is higher than the provincial standard of 19.3%. There's a higher number of High school graduates at a provincial level than the city which has 25.2% in comparison to the provincial's 27.9%. However, this is highly compensated by the College graduates with 20.1% which is again higher than the provincial average of 16.7%. Lastly with there's only 11.2% of the population with no certificates which is much lower than the provincial standard of 19.9% (City-Data, 2015).

There is also a total of 14,015 people with no diploma or degree with 36.3% in the city level and 47.8% at provincial. Architure and engineering holds the highest percentage at 11.8%, which is directly comparable to the provincial level of 11.4%. Business and management is the next popular subject with 13.3% graduate in the city, in comparison to the 10.8 at provincial. It is also interesting to note that 19.7% of the city's population receives



education outside of Canada, which is 7.7% higher than at the provincial level. Overall, there's a positive job prospect and skilled labour present within the city itself that will be a compliment to Park & Tilford (City-Data, 2015).

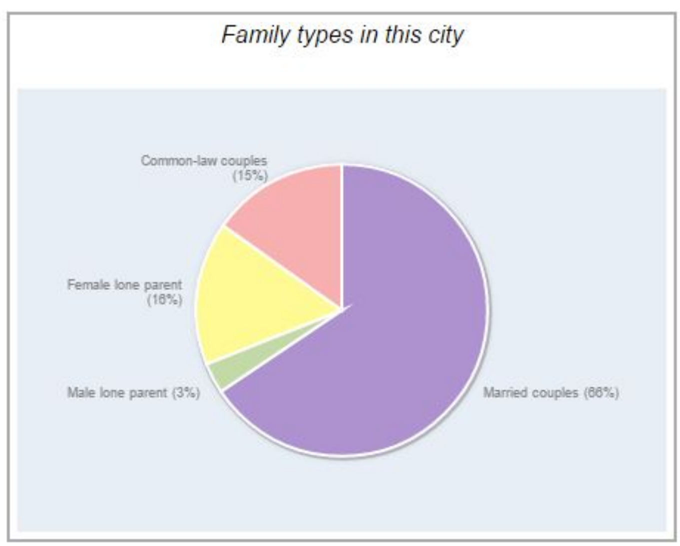
AGE



Indicated in the figure above, the median age of population is 41.2 years, which is comparative to the provincial level of 41.9 years old. This is a good median as it falls under the working professional age, where it is not an ageing population and at the mean time there is no overgrowth in Population. However, a younger median would still be favored as a median age of 41.2 is very close to the retirement age of 65 in Canada. With that said, the percentage of population aged 15 and over is 86.5% for the city and 84.6% at the provincial level. This means there's 1.9% more population below the age of 15 (City-Data, 2015). Given the growth capacity of the city, an increase in population is a positive signal.

HOUSEHOLDS

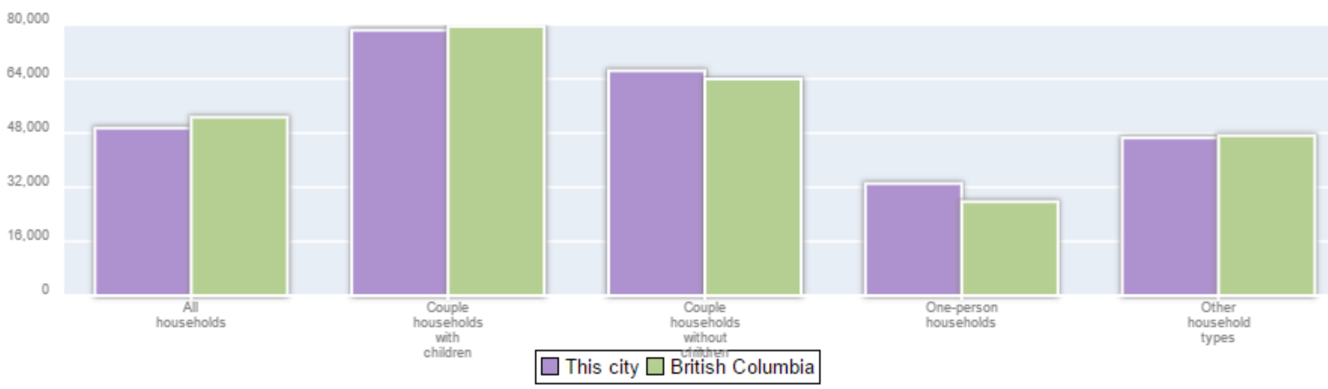
With references to the figure below, 81.2% of the population consist of married couple, which is 3.5% less than the provincial level. On the other hand, there are more common-in-law partners available with 18.8%, which is 3.5% more than the provincial level. In regards to lone-parents, there are 82.6% of female lone-parent and 17.6% of male lone-parent, comparable to the 78.5% and 21.5% lone-parents at a provincial level



respectively. It is also important to note that majority of the parents have children between the ages of 6- 14 years old at 31.5% which is still less than the provincial level of 33.3%. Then there's the under 6 years of age with 23.6%, which is 2.5% more than the province. While lastly children age 18-24 which is at 20.7% comparable to the provincial level of 20.8% (City-Data, 2015). High percentage of millennial would also be of huge interest to Park & Tilford.

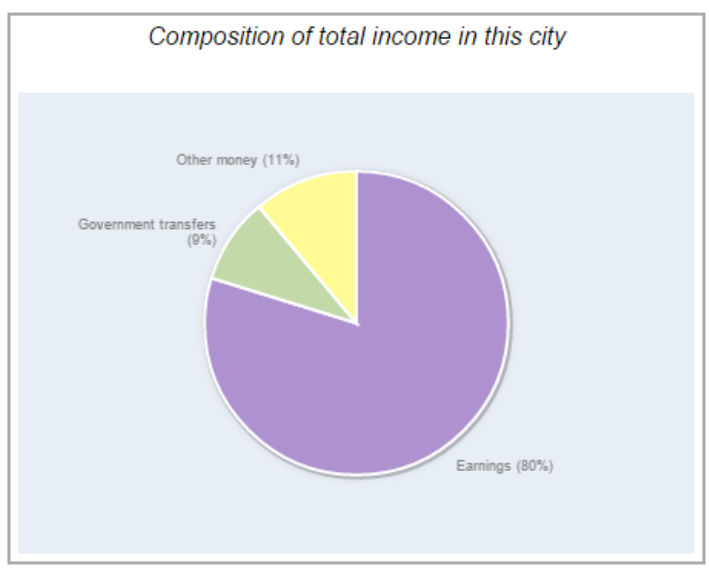
INCOME

As seen below, the average Household income of the city is $49,486, which is below the provincial level of $52,709. For couple household with children the household income is $78,396, which is still lower than the provincial level of $79,509. The only two categories which scores a higher household income at the city level than the provincial are couples without children which is at $66,430 instead of the provincial level of $63,969 and then the one person household with $33,090 in



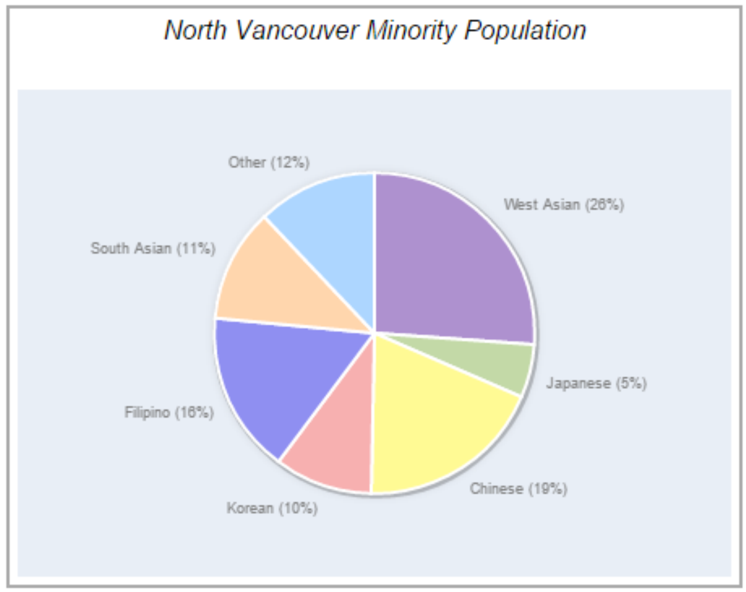
contrast to the state at $27,773. This is not a favourable result. However, we shall further investigate the individual earnings and come to have a better understand the city's income level in comparison to the province.

According to the pie chart, 80% of the income in the city of North Vancouver comes from the earnings. The median earning is reported to be $29,163 which far higher than the provincial level of $25,722. Earnings for persons who worked a full year at age 15 and over are $42,904, which is also higher than the provincial level at $42,230. The median income is $27,800 still much higher than the



provincial level of $24,867, while the median after-tax is still higher in the city at $24,947 and the province at $22,785 (City-Data, 2015). Hence, despite the lower household income, on an individual basis the average earning and income is much higher in the city than the province, which gives the population a huge spending power in order to boost retail sales and in turn benefit Park and Tilford.

IMMIGRATION



Approximately 87.4% of the city's population are Canadian citizens; this is lesser than the 92.3% provincial percentage, which means there are more permanent residents or foreigners living in the city of North Vancouver. It is also surprising that under the age of 18, there are 14.8% of Canadian citizen, which is far lower than the provincial standard of 19.7%. This is a good forecast of how the future of the city of North Vancouver will shape to be. There are a total of 16,390 immigrants in the city, which composes of 36.5% in comparison to the province's 27.5% immigrant proportion. As referred to above, 26.0% of the population consist of West Asian or the Persian population, which is 23% more than that of the province. Then comes the Chinese with 18.7%, which is lower than the 40.4% at province level. Lastly, the South Asians are at 11.4%, which is also less than the provincial benchmark of 26.0%. Overall, given the high number of immigration, the city is most likely to draw further foreign direct investment that will form a huge influx of income for the future.

RETAIL MARKET

The figure below showcases various notable retail sale transactions that were made in the City of North Vancouver, including the 29,519 sf of retail space purchased by Peter Wesik. In addition, according to Avison & Young, there are also three updates on ongoing projects. The first notable one is 101-149 Lonsdale Avenue: Staburn Property Group, located at west Lonsdale, the project includes mixed-use building with a retail space and has been rezoned. In addition, the City of North Vancouver has received an application to rezone the Fairbone Properties with an upgraded retail space at 117 west 1st street. Lastly, 725 Marine Drive & 843-855 West 1st Street have proposed to develop a 5-story commercial and retail area in front of Marine Drive.

Market	Address	Price	Size (sq. ft.)	Price ($ per sq. ft.)	Purchaser
North Vancouver	1250 Lonsdale Ave.	$30,516,815	60,000	$509.00	Blueshore Financial
Richmond	3000 Sexsmith Rd.	$29,600,000	79,930	$370.00	Canadian Fortune Land Investment Ltd.
Vancouver	8530-8550 Cambie St.	$20,500,000	47,175	$435.00	PCI Group/Triovest Realty Advisors
West Vancouver	303 Marine Dr.	$20,000,000	-	-	Darwin Properties Ltd.
Delta	Bayside Village: 1143, 1153, & 1163 56th St.	$16,300,000	48,115	$339.00	Jim Pattison Group
North Vancouver	819 Automall Dr.	$10,047,000	13,203	$2,045.00	Dilawri Group of Companies
North Vancouver	1100-1112 Lonsdale Ave.	$10,000,000	29,519	$339.00	Peeter Wesik, ASO

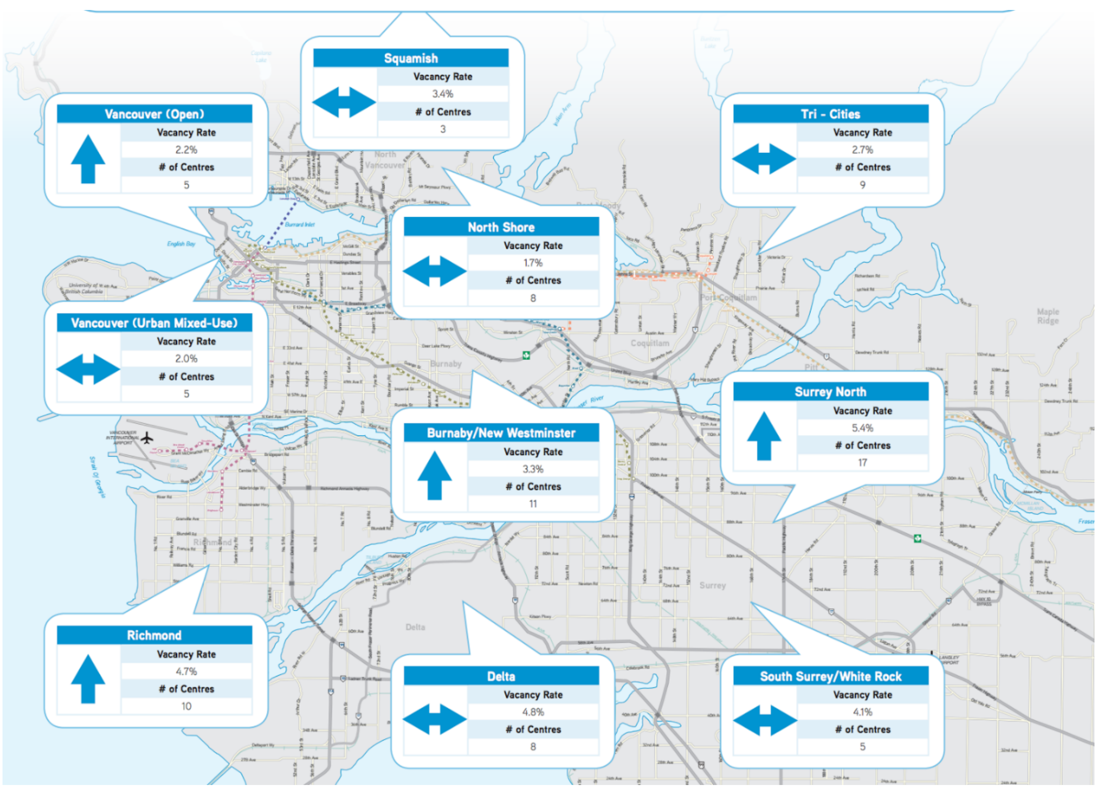
VACANCIES IN NORTH VANCOUVER

As seen in below, North Shore experiences high vacancy, low rent and high construction (Colliers, 2013). The commercial centre of North Vancouver, Lonsdale Avenue, is currently facing very high level of retail vacancy. However, there are several developments underway from both the Onni Group and Polygon, which consists of a mixed-use development. The high level of construction will be a huge driver in pulling the crowd into North Vancouver and in turn gaining vacancy. However, since there are many mixed development projects, besides retail they also consist of residential units. Hence, the strategy in order to attract the crowd is to have them visit the anchor tenants at the retail space or to occupy the residential units. In the long run once the crowd has settled, vacancy too will be stabilized.

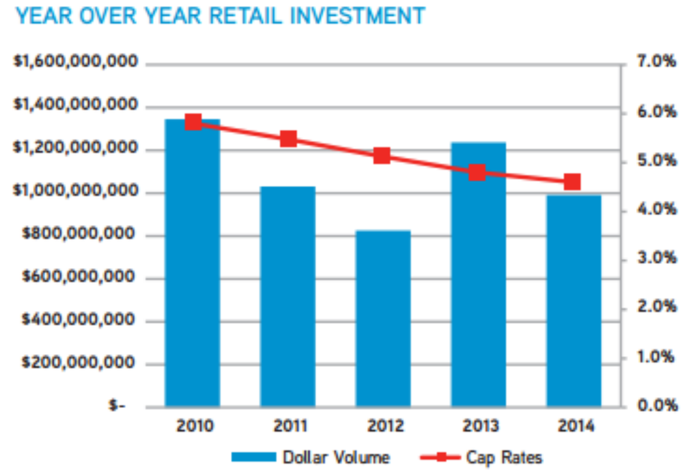
The table below shows that (Colliers, 2014) the power centre has a 1.7% vacancy rate. This is considered the lowest in comparison to neighbourhood centre at 4.5 or even community centre.

Centre Type	Number of Centres	Inventory (sq. ft.)	Q2 2014 Vacancy Rate (%)	Q4 2013 Vacancy Rate (%)	Vacancy Change (basis points, Q-o-Q)
Regional	12	6,033,783	3.2	2.1	110
Community	48	7,684,002	4.3	4.0	30
Neighbourhood	62	4,468,369	4.5	4.9	40
Power Centre	15	4,719,158	1.7	1.3	40
Retail Mixed-Use	18	2,625,703	2.2	2.8	60
Super-Regional	5	6,061,483	4.0	5.6	160

As substantiated in the map, there are 8 shopping centres in North Shore following the 1.7% vacancy rate, which matches the rate of a power centre. This is much lower than the rate in Vancouver (Open) at 2.2% and even Burnaby and Richmond, which are at 3.3% and 4.7% respectively, as seen below.



It is also important to state that the overall retail sales investment has dropped significantly from $1.23 Billion to only 990 Million in 2014 (Colliers 2014), as seen to the right, there are two huge drops in investment. The first is following post-financial crisis between 2010 and 2012, while the second is between 2013 and 2014. This also results in a lower cap-rate, which has dropped from the initial 5.8% down to 4.2%.



COMPETITION

In terms of competition there are three established malls in the 10-kilometre area. The closest one is the Capilano Mall located in North Vancouver, followed by Park Royal located in the border of North and West Vancouver and lastly the Pacific Centre located in downtown Vancouver.

As seen in below, In order to better analyze the competition, we will review the mall's performance through its market penetration and sales figures. As seen above (Thomas Consultant, 2012), the market penetration rate accounts for almost 31% of the Park Royal shoppers who come from outside of the Primary Trade Area (PTA), while 69% of the market penetration consist of sales within the PTA. In addition, Park Royal's strategic placement in the PTA have led to huge market penetration in the Pharmacy category with a total of 36.91%, Apparel with 28.14%, Jewelry & Watches with 25.93%, Electronic & Appliances with 23.49% and lastly Sports & Recreational Goods at 21.91%. Overall, this is a strong level of competition for Park & Tilford, although they may not share the same Primary Trade Area.

	Park Royal PTA Total Expenditure*	Park Royal Shopping Centre Total Sales	Park Royal Shopping Centre Market Penetration
Grocery & Specialty Food	$534,354,208	$109,122,127	14.09%
Pharmacy	$68,740,815	$36,772,867	36.91%
Alcohol & Tobacco	$109,976,966	$24,382,804	15.30%
Services	$91,040,186	$28,704,213	21.76%
Apparel	$231,941,733	$94,584,495	28.14%
Footwear, Luggage & Clothing Accessories	$72,302,230	$20,631,293	19.69%
Cosmetics, Health, Bath & Beauty	$124,409,589	$3,783,237	2.10%
Jewelry & Watches	$35,706,135	$13,415,678	25.93%
Home Improvement	$143,716,913	$22,637,655	10.87%
Home Furnishings & Accessories	$184,880,971	$37,458,456	13.98%
Electronics & Appliances	$161,969,054	$55,138,472	23.49%
Toys, Hobbies & Pets	$40,445,022	$7,764,779	13.25%
Sports & Recreational Goods	$45,716,464	$14,516,932	21.91%
Multimedia, Books & Music	$57,245,146	$10,367,096	12.50%
Restaurants	$191,042,324	$37,582,961	13.57%
Entertainment	$77,060,210	$0	0.00%
Leisure	$60,203,116	$0	0.00%
Total TCI Category Expenditures	$2,230,751,081	$516,863,063	15.99%
	*Based on Environics Canadian 2011 Data		

3.3 VACANCY ANALYSIS

Upon researching other options for commercial retail space in North Vancouver, we found 23 relevant shopping mall listings (Loopnet, 2015) although all of the rental rates per square foot are at least half that of Park and Tilford's current tenants. This indicates that tenants are willing to pay a high premium to be sharing the "Park and Tilford" name and mall space, and the connectivity to the anchor tenants and the amenity offered by the park. This being said, there are obviously numerous options for those tenants looking for a site in North Vancouver, and we shall consider these options against our own in our cap rate application.

Retail centre vacancy by region*	Current	Change from last year
Metro Vancouver	3.5%	-
Vancouver	1.6%	-
Surrey	4.2%	↑
Burnaby	5.6%	↓

The CBRE indicated vacancy rate suggests that demand for retail space in Vancouver is remarkably low at 1.7%, showing signs of strong demand in the market. This could be due to the low supply or options for retail tenants (there were only four other competing sites within a competitive radius of Park and Tilford).

We consider the current tenants of Park and Tilford to be very stable, indicated by the low vacancy rate, diverse tenant mix in the mall and the fact that the parking lot is consistently busy on both weekdays and weekends. The lot was nearly full on a Thursday afternoon when we visited the site. This may have been due to parking constraints, although the property manager has urged us that this was not the case, and that the mall is consistently busy and thriving.

OPEN FOOD ANCHORED SHOPPING CENTRE SURVEY - 50,000 SF OR GREATER

Regions	# of Centres	Anchor Rates	CRU Rates	Pad Rates	GLA (SF)	Vacancy Rate		Vacant Space
Abbotsford/Langley/ Aldergrove	18	$10 - 30	$15 - 55	$28 - 45	2,890,629	4.7%	↑	134,991
Burnaby/ New Westminster	11	$8 - 32	$20 - 45	$20 - 45	2,027,988	3.3%	↑	66,140
Chilliwack	5	$15	$12 - 26	$18 - 30	436,665	10.2%	↔	44,702
Delta	8	$10 - 15	$13 - 32	$35	764,615	4.8%	↔	36,500
Maple Ridge/ Pitt Meadows/ Mission	6	$15 - 20	$20 - 35	$33	1,206,481	3.3%	↔	39,249
North Shore	8	$10 - 30	$30 - 75	$35 - 50	927,200	1.7%	↔	15,338
Richmond	10	$6 - 20	$17 - 45	$20 - 49	905,720	4.7%	↑	42,909
Squamish	3	$11 - 22	$18 - 35	$22 - 35	213,344	3.4%	↔	7,303
South Surrey/ White Rock	5	$15 - 30	$30 - 55	$40	1,457,015	4.1%	↔	59,622
Surrey - North	17	$10 - 20	$15 - 35	$30	1,809,281	5.4%	↑	96,935
Tri - Cities	9	$13 - 30	$20 - 40	$35 - 40	963,637	2.7%	↔	25,790
Vancouver (Open)	5	$15 - 20	$22 - 52	N/A	407,290	2.2%	↑	8,880
Vancouver (Urban mixed-use)	5	$18 - 28	$35 - 65	N/A	920,163	2.0%	↔	18,451
Total	**110**	**$6 - 32**			**14,522,738**	**4.0%**	↑	**587,930**

As you can see by thee figure above (Colliers, 2014), there are currently 8 shopping centres at a total of 927,200 square feet of land, all currently filled (to 1.7% vacancy) in operation in the North Shore submarket. Our rental rates fit into the higher bracket of those mentioned in the report. It is definitely a benefit to our site to have high quality improvements and high-grade retail space, as tenants prefer these qualities in the market to those lower-grade retail spaces.

There were approximately $484.5 million in retail property sales in the market of greater Vancouver in the first half of 2014, which was a huge increase from 2013 (Colliers, 2014). 25% of these sales were accounted to four large transactions around Vancouver. However, a majority of these sales (43%) remain under $1,000,000 in volume. This information should definitely be considered in our cap rate allocation, as it seems that there are very few comparable sales around the size of our subject property at Park and Tilford but a large amount of smaller sales, which may not be helpful in estimating our cap rate.

According to an investment report by Avison Young, demand remains very strong in Metro Vancouver (and select secondary markets, including our North Van submarket) and superior retail properties could still see some upward pressure on pricing if the asset is food- or drug-anchored and potential for upside in rental growth exists (Avison Young, 2014). This information also sheds some light on the choice that must be made by the owners of the site about which industry to select the new anchor tenant from. Surely food or drug based anchors will be smart choice.

3.4 PROPERTY ANALYSIS

GROWTH IN DEMAND

Growth in demand in the area will be based on new development for retail space in North Van and potentially some run off effects from increased supply in the greater or metro areas. The supply of new retail space is in part affected by the surrounding growth of residential areas, of which there are some sizeable projects in proximity to Park & Tilford.

There are Highway 1 developments in the works that may positively affect the business and accessibility at Park and Tilford. These include the recently completed Keith Road extension between the Keith Road Bridge and the Highway 1 overpass, which enabled a smoother commute towards the mall and better east-west connectivity (North Vancouver District, 2015).

The owners of Park and Tilford mall should consider updating the tenant mix; the clothing companies are credit tenants but definitely are not "in style". If a fitness centre replaces the theatre as an anchor tenant, then an athletic apparel store such as Lululemon and a health supplement would act well as accessory retailers. This fits with the idea that North Van is a very "outdoorsy" area and the citizens are particularly active. There is therefore likely high demand for space in the North Van submarket from these types of tenants looking to capture the outdoor apparel and fitness markets, and this is partially reflected in the multitude of bicycle shops nearby.

Retail space in Vancouver remains in demand but a lack of supply is impeding further investment in the market (Avison Young, 2014). This indicates that demand in the market will only be increasing in the short-term, due to the lack of supply, and the time it takes to build new developments being so high. Vacancy remains low across all submarkets with rental rates holding steady throughout Metro and North Vancouver. American retailers are increasingly making their presence known in metropolitan markets. This should be an interesting starting point for the owners or investors for Park and Tilford, that the increased potential for American retailers in their malls is something that they should consider, when reflecting on tenant mix and replacement anchor tenants.

LEASE RENEWALS

There are six leases that expire this year, and they are all smaller tenants. These are expected to renew their leases for periods of 5 years. Due to the very low vacancy rate in North Vancouver, and the corresponding low rate at Park and Tilford, we can assume that in the unlikely event that they do not renew their leases, it will not be difficult to release to a different tenant. Three quarters of these tenants are said to renew, and it should not be a big issue to find another two tenants to fill such small spaces in a thriving mall. This remains true in 2017, with only two small leases expiring, with a high probability of renewal.

Some larger tenants such as Reitmans and Pennington's Superstore (11,000+ square foot together) are renewing in 2016. Should these tenants choose not to renew, the process of finding new tenants may be similar to that that has been the case with the Blockbuster building, and there could be trouble as it is time-consuming.

In 2018, there are big warning signs with one of the anchor leases, Cineplex, expiring along with White Spot and TD Bank. These are all major attractions for consumers to visit the mall, and replacements for them should be considered and negotiations started, should they decide to relocate. The same thing happens in 2019 with the main anchor tenant, Save-on-Foods. This is almost 74,000 square feet of leasable space that will hugely affect the well being of the mall. Negotiations need to be started so that if they decide not to renew, there is somebody ready to step in immediately.

PROJECTED CAPITAL EXPENDITURES

Non-recoverable capital expenditures will materialise in 2015 through to 2018, totalling at $2,140,000. The bulk of these numbers come from the major tenant improvements based on a new anchor to replace Cineplex in 2017, which are unavoidable but may be offset by a higher rent that could be charged in the to a new tenant.

There are going to be $320,000 worth of HVAC, parking lot and general building area maintenance and upkeep/improvement work done at Park and Tilford. These are going to be recoverable, which is highly desirable. These works keep the area relevant and high quality, something that those who visit malls look out for and consider re their enjoyment/likeliness to return.

4.0 RECENT TRANSACTIONS ANALYSIS

4.1 CAP RATES ON RECENT SALES

The first step we took in determining a suitable cap rate for the investment was to analyse recent sales on similar properties. Through using the retail market summary, we were able to see a broad range of cap rates for the properties. However, due to many notable differences, a cap rate spread of 295 basis points was found. As a result, we drastically narrowed the properties used for the analysis in order find a tighter spread that was more representative of our property. The criteria used for this was to have a retail shopping centre or strip that was anchored by a food store. As a result, two centres were selected: Aldergrove Village and Fraser Heights Village. Below is a summary of these two transactions.

Property	Fraser Heights Village	Aldergrove Village
Area	Surrey, BC	Langley Township, BC
Date	8/28/2013	3/6/2013
Type	**Food Anchored Retail Strip**	**Food Anchored Retail Strip**
Sq. ft.	61,388	91,517
Sales Price	$23,650,000	$29,250,000
Price/sf.	$385.25	$319.61
Stabilized NOI	$1,310,019.92	$1,696,725.18
Stabilized NOI/sf.	$21.34	$18.54
Terminal Cap Rate	5.75%	5.75%
Stabilized Cap Rate	**5.41%**	**5.42%**

The average of the terminal cap rates for these is 5.75%, and for the stabilized cap rates it is 5.415%. This gives us the starting point for determining the cap rate for Park and Tilford and due to the similarities with the type of property; we can infer that the cap rate will be fairly similar, at around 5.415%. This is in line with a report stating that cap rates in the area for retail properties are in the higher end of 4.75%-6% (Renx, 2014). However, there are more factors that have an influence in this case, which are: transaction date, location, risks, growth potential and redevelopment. The following sections shall deal with each of these in turn in order to adjust the cap rate.

Due to these two transactions being dated within the first months of 2013, there has been a substantial time gap. As a result, it won't be safe to assume that cap rates remain the same. In order to determine the effect of time, we have decided to look at mortgage rates. The reasoning behind this is that cap rates tend to follow trends in mortgage rates (BIV, 2014), and so looking at changes in mortgage rates since 2013, we can establish the direction of any change in cap rates as well as gain insight into the magnitude of the change. During mid 2013, mortgage rates were around 5.14% for a 5 year fixed mortgage, whereas the current rate is now around 4.74% (Ratehub, 2015), suggesting that cap rates should have decreased since the above two transactions. As a result of this this 9.7% decrease in rates, we expect the cap rate to be between 5.25%-5.75% for the Vancouver area, estimating Park and Tilford's at close to 5.35%.

All three of the properties are in close proximity to Vancouver metropolitan area and so we assume there to be little effect on cap rates. However, given that Park and Tilford is in a different municipality, North Vancouver, we believe that there will be a slight difference due to it being closer to the city area. With this in mind, we believe that the cap rate will be slightly lower due to potentially more expensive properties in the district. In order to determine the effect, we consider the fact that the more suburban areas have a higher cap rate of about 120 basis points compared to city areas (naiop, 2014). An issue with this is that we do not have specific date for the Vancouver area and so we are assuming that the closer to downtown Vancouver a property, the lower the cap rate. Due to the distance between Fraser Heights Village and Aldergrove village being relatively similar to that of Park and Tilford and downtown Vancouver, and that the difference in cap rates between the two recent transactions is small, we believe that the cap rate adjustment will be too minimal to acknowledge, and so we leave it at 5.35%.

4.2 CAP RATE RISKS

The intuition behind cap rates is that with higher risk comes a higher cap rate due to the compensation required by the investor for taking on a more risky investment. In order to determine risk, we first looked at the risk profile from the business plan provided. From this, we determined how each of these would affect the cap rate. As well as these, we also analysed the tenants of each of the properties, notably the anchor tenants, to see if there was evidence of a good mix and potential for stable revenues (Colliers, 2014). We determined that all three sites have a similar anchor tenant mix, providing the same amount of cash flow risk for each, thus not causing any difference in cap rates. We also concluded that the locations factors, such as accessibility, local demographic and income and competition were also similar, furthering this assumption.

INCREASING RISK

A factor increasing the risk of the investment is the fact that several sites are vacating the property within the next two years, accounting for more than 20% of the net leasable area in terms of square footage. As a result, there is the need by the site to find new tenants in order to provide consistent revenues, especially important as the site has relatively high operating costs compared to it's competitors, suggesting that a decline in revenue is potentially very damaging to profitability. Further increasing this risk is the fact that one of these tenants is an anchor, the Cineplex Odeon. The theatre accounts for over 17% of the NLA, creating an issue as the site will need to find a new anchor to occupy such a huge space that also benefits the rest of the tenant mix. This is also going to be costly and take time due to the unique design of the Cineplex, which creates renovation issues that will damage revenues while this area is unoccupied. Another factor we believe to be increasing risk is the fact that the area has a very attractive market with low retail density, as this will be an attractive location for new competitors to target. This would be problematic for the site as the high operating costs would make it vulnerable to another site opening that could potentially offer lower rates to tenants. If this were to happen, it would also aggravate the first risk of finding new tenants due to the new appealing location at another site.

REDUCING RISK

The first factor reducing potential risk is that the site has a long-term lease with an important anchor tenant: the Save-on-Foods grocery store. This provides a stable income due to the type of store as the product is a necessity good, and so demand should be less volatile than that of other anchor tenants. Along with this, the risk of finding a new tenant or renewing the contract is not yet of concern due to the time the site has to deal with this issue. The Save-on-Foods is of great importance as it will be a key store for customers to enter the site on a regular basis, thus enhancing the demand for other tenants.

Another factor may appear contradictory to the previous paragraph, however we believe that the point simply has an upside and downside. The factor is that of the low competition but high-income area. While increasing attractiveness for competition, this is not yet of great importance due to the lengthy process necessary for planning and developing a new site and so we believe that for the short future this is a factor reducing risk. The reasoning behind this is that demand will seldom be affected by competitor actions and so stability in terms of revenues will be likely. Evidence for this assumption is given from the table as a strength of the property is the stable income performance.

RETAIL								
REGIONAL / POWER		COMMUNITY		STRIP MALL		TREND		
LOW	HIGH	LOW	HIGH	LOW	HIGH	R	C	S
4.75%	5.50%	5.00%	6.00%	5.00%	6.00%	◀▶	◀▶	◀▶

CBRE Retail Cap Rates 2014

Taking the above factors into account, we believe that the most important factor affecting the risk profile is the fact that one of the big anchor tenants will be leaving within the next two years along unsure renewal of several other tenants. We believe that this is the case due to lack of income from this tenant, the difficulty in renovating the space, and finding a tenant. Along with this, one major risk concerned with this is the unknown effect that this shall have upon other tenants and demand as it was likely to be a key tenant in attracting consumers to the site.

Therefore, we estimate that the riskiness of the property will increase the cap rate from 5.35% to 5.5%. The increase is not severely pronounced because although it is highly unlikely that Cineplex renews, there is still a strong chance that a suitable anchor tenant will be found.

GROWTH POTENTIAL

The final influence on cap rates that we include in our analysis is the potential for revenue growth and redevelopment.

One large constraint on the growth potential of Park and Tilford is the lack of space in order to enlarge the parking area. This is of great importance as increasing the store space would not be beneficial if the parking space could not be increased as well, supported by the weakness of the parking already being congested in peak periods. Therefore, we see there to be less development potential, thus increasing cap rates. Another reason for the lack of development potential is the gardens on site. Due to a covenant in the contract, this space cannot be developed upon or removed and so there are restrictions on expansion. Furthermore, the difficulties with acquiring a new tenant to replace the Cineplex could cause a constrain on growth due to the possibility of the empty space being a deterrent to other smaller tenants who may want to rent at the site but feel there will be a decline in demand if a new cannot be found. Finally, given the long term contract with the food anchor tenant, there is not the possibility to increase the rent for this tenant should the market price increase, thus restraining revenue growth from one of the anchor tenants.

On the other hand, there are several factors that do increase the potential for growth that the site has. Firstly, there is the opportunity to renovate existing properties. This will have a twofold effect. Firstly, it will likely increase aesthetics and the ease of use of several tenants, thus increasing demand by consumers. Secondly, the improved site may provide the opportunity to charge a price premium to new tenants, supported by the expected increase in footfall, which would increase future revenues. Another possibility for growth is the potential to gain a new anchor tenant to replace the Cineplex. The large area will allow for tenants that the site has not been able to accommodate before and so it is possible that a store could enter which would drastically increase demand, thus increasing revenues. However, due to the lack of knowledge that we possess, we believe that this assumption may be farfetched, and so we take this assumption with caution.

Overall, we believe that there is less potential for development at the current time and so we predict that the cap rate will be increased in order to adjust to this factor. Therefore, we predict our going-in cap rate to be approximately 5.6%.

TERMINAL CAP RATE

For the terminal cap rate, we looked at the similar previous transactions that we started with, both of which were 5.75%. We used the analysis conducted above for the cap rate along with the cash flows from the pro forma to evaluate the risk factor associated with the property. Along with this, we used our sensitivity analysis to determine the range that could be expected in the sales price under different circumstances. As a result, we determined that it would be fair to add 50 basis points to our cap rate of 5.6% to give a terminal cap rate of 6.1% for the property. We believe that if the year of sales was later than the one stated, this would provide more stability in cash flows as the effect of the Cineplex tenant would be reduced, therefore we would have chosen a smaller cap rate to acknowledge the greater upside potential and less risk associated with the acquisition for the next buyer.

5.0 FINANCIAL ANALYSIS

5.1 PRO-FORMA ANALYSIS

BASE ASSUMPTIONS

In creating a pro forma for Bentall Kennedy's Park and Tilford, simplifying assumptions were made in order to accurately predict a future selling price for the property. This predicted selling price is a product of both assumptions made about the property and real estate market, in addition to concrete numbers extracted from Bentall Kennedy's documents we have been provided with.

TENANT GROUPING

We chose to group our tenants in 2 separate steps. First, we separated our major tenants—as chosen by Bentall Kennedy—from our "standard" tenants. Because major tenants, or anchors, provide very different benefits to the property, and are therefore charged rent, expenses, etc. differently, we separated these tenants. On the other hand, within our standard tenants, we then chose to further group tenants based on lease expiry dates. By grouping our tenants in two separate ways, we think our pro forma represents a simple, yet comprehensive analysis of the unique tenant mix at Park and Tilford Shops and Gardens.

VACANT UNIT

For the entire duration of the holding period, we made the assumption that unit 900 will be vacant. The significant costs associated with TIs and free rent that would be necessary to lease the space would be roughly equal to any revenues from this unit during the 7-year holding period, according to the Bentall Kennedy asset manager. For this reason, we decided to leave the unit out of the pro forma.

Physical Occupancy / Vacancy Summary

	Unit Count	Count %	SF	SF %
Vacant	1	2.86%	5,442	3.17%
Occupied	34	97.14%	166,381	96.83%
Totals	35	100.00%	171,823	100.00%

Economic Occupancy / Vacancy Summary

	Unit Count	Count %	SF	SF %
Not Leased	1	2.86%	5,442	3.17%
Leased	34	97.14%	166,381	96.83%
Totals	35	100.00%	171,823	100.00%

RENTAL RATES

Our major tenants' rent is individually calculated in our pro forma, however our standard tenants that were grouped by lease expiration date were priced in groups. In order to accomplish this pricing scheme—which also applied for expenses and leased square feet—we used an average rent. We know this method of grouping tenants is accurate, because our calculations for 2015 were constantly compared to Park and Tilford's financial statements. After verifying the accuracy of our pricing scheme, we could then apply this method throughout the rest of our pro forma.

RECOVERABLE EXPENSES

Bentall Kennedy provided us with the exact dollar values of recoverable expenses for its tenants—this dollar value applies to all expenses BK incurs, not just operating expenses. We simply applied this per square foot dollar value to our tenant groupings in order to come up with a very accurate and efficient method of determining all recoverables from tenants, which could then be forecasted in to the future.

LEASE LENGTHS

The lengths of leases at Park and Tilford vary fairly significantly. In order to ensure accuracy with our general assumptions for the length of a new or renewal lease we spoke with industry sources that confirmed that 5 years is an accurate assumption for the typical length of a lease.

ANNUAL INCREASES

In order to forecast rents for our pro forma, we needed to make an assumption about the growth of rent over the next 7 years. We chose to use a rate that is consistent with the CPI. This rate—about 2%—reflects most rent steps in the past at this property, which is why we think it is an accurate rate to use for forecasting. Additionally, this rate is only applied to rents at the end of a lease term—as a rent step—opposed to increasing each year. Industry sources confirmed this assumption. For the same logic discussed with increases in rents, we also used 2% for increases in expenses and TIs. Unlike rents however, we applied the increase to expenses annually.

MORTGAGE ASSUMPTIONS

Due to lack of availability of information regarding this rate, we reached out to professionals in the real estate industry in Vancouver for quotes on mortgage rates for similar properties. The rate we used—3.63%—is an average of two rates quoted, which are spreads of 10-year Canadian Government Bonds.

STABILIZED NOI

While stabilized net operating income typically helps to achieve an increasingly accurate forecast of a future sales price, we chose not to include this step of the pro forma. In Park and Tilford's second largest tenant—Cineplex Odeon—is not renewing a lease. Therefore, in 2019, the property suffers significantly in net operating income. Furthermore, in 2020, with a significant number of tenant improvements and leasing costs due to leases expiring, there is further financial strain on the property's bottom line. By not providing stabilized net operating income, we believe that our pro forma better represents the risks of this property, and highlights why a holding period of at lest 5 years is necessary because stabilized net operating income rounds out these significant drops in NOI for 2019 and 2020.

Gross Sale Price	$ 64,783,198.88							$ 67,269,495.43
	Less Future Sales Expenses						$ 1,009,042.43	
Net Sales Proceeds								$ 66,260,453
	Less remaining Mortgage Balance						$ 33,810,459	
Before Tax Equity Reversion								$ 32,449,994
Cash Flows from Operations	-$ 23,645,868	$ 999,500	$ 635,295	$ 945,073	-$ 181,653	$ 170,132	-$ 409,975	$ 506,406
Before-Tax Equity Reversion								$ 32,449,994
Total Before-Tax Equity Reversion	-$ 23,645,868	$ 999,500	$ 635,295	$ 945,073	-$ 181,653	$ 170,132	-$ 409,975	$ 32,956,399
PV Cash Flows	-$ 23,645,868	$ 942,036	$ 564,345	$ 791,260	-$ 143,345	$ 126,535	-$ 287,386	$ 21,773,692
NPV	$ 121,269							
IRR	6.1832%							

INTERPRETATION OF PRO FORMA

Park and Tilford Gardens is currently in a vulnerable state of operations due to the expiration of Cineplex Odeon's lease in 2018, in addition to multiple other leases expiring the following year. This vulnerability or risk results in a lower valuation both now, and at the sale of the property. In addition, by the end of the 7 year holding period, Park and Tilford's operations will have almost fully recovered from the lease expiries in 2018 and 2019, and can carry forward increasing profits. Therefore, by selling in 7 years, Bentall Kennedy would assume the risk associated with 2018 and 2019, but not receive the full extent of future benefits of higher NOIs by taking on this risk. For this reason, Park and Tilford Gardens does not appear to be an attractive investment for this 7-year holding period according to the pro forma.

PURCHASE & SALE

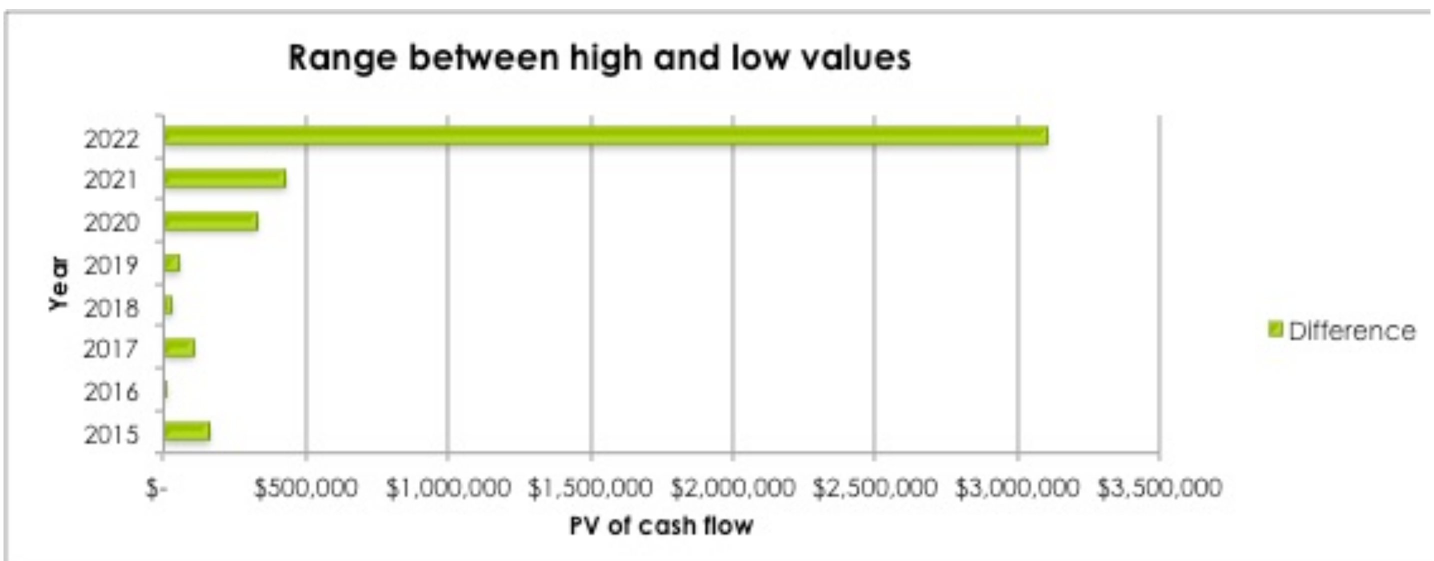
We believe Park and Tilford's current market value is just under $65M, while in 7 years; the property can be sold for more than $67M. While this appreciation in value is not very significant, it still yields a positive NPV of approximately $120,000, and therefore based on numbers alone, the property should create value for Bentall Kennedy, especially given that all estimates and assumptions are quite conservative, so this number should be treated realistically as the minimum value.

Even though an increase of $2M is not very significant, we believe the timing of the purchase and sale can explain this finding. Park and Tilford's second largest tenant is about to vacate its space, leaving behind approximately 20% of GLA not leased for at least 1 year. Additionally, the tenant improvements for this space will cost $35/square foot opposed to an average $20/square foot because of the unique layout of a movie theatre. In addition to other risks of this property that are outlined in this report, Cineplex Odeon's lease coming to a close causes lower cash flows for the mall, and further exposes the space to systematic risks in the industry. For this reason, we believe the appreciation of $2M over 7 years is accurate.

PGI	$ 3,627,859	$ 3,431,504	$ 3,608,426	$ 3,713,076	$ 2,854,865	$ 2,941,463	$ 3,528,822	$ 4,103,439
(+)Tenant Expense Recoveries								
EGI	$ 5,818,037	$ 5,665,486	$ 5,887,087	$ 6,037,311	$ 4,779,837	$ 5,359,597	$ 5,995,318	$ 6,619,265
Total OpEx	$ 2,190,178	$ 2,233,982	$ 2,278,661	$ 2,324,234	$ 1,924,972	$ 2,418,133	$ 2,466,496	$ 2,515,826
Net Operating Income (NOI)	$ 3,627,859	$ 3,431,504	$ 3,608,426	$ 3,713,076	$ 2,854,865	$ 2,941,463	$ 3,528,822	$ 4,103,439
(-)Annual Debt Service	$ 2,565,063	$ 2,565,063	$ 2,565,063	$ 2,565,063	$ 2,565,063	$ 2,565,063	$ 2,565,063	$ 2,565,063
(-) Leasing Costs (TI&fees)	$ 38,296	$ 206,147	$ 73,291	$ 1,304,667	$ 119,670	$ 786,376	$ 457,353	$ 78,685
(-) Non-Recoverable CapEx	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ -	$ -	$ -	$ -
Before Tax Cash Flow	$ 999,500	$ 635,295	$ 945,073	-$ 181,653	$ 170,132	-$ 409,975	$ 506,406	$ 1,459,691

5.2 SENSITIVITY ANALYSIS

HIGH & LOW VALUES



Through evaluating several different variables, we were able to see the effect that different circumstances could have on the value of the investment. From looking into the effects, we managed to analyse the highest and lowest potential values for the present value of each year's cash flow, shown in the graph below. From this, we can see that there is an effect on cash flows and thus on the NPV of the project. By comparing the difference between these high and low values (see previous page), we can identify the range in which these present values can take. The key point here is that we can see the effect that the Cineplex will have on the project when it vacates in 2018 due to the increasing in difference in present values. Therefore, it is evident that a key success factor in the investment will be based on this lot, mainly finding a new anchor tenant to create revenue as soon as possible.

CINEPLEX VACANCY SENSITIVITY

The best case scenario for the duration in which the existing Cineplex lot would be vacant is 6 months based on the managers estimation of 6 months to a year for most vacancies. In this case, the NPV would increase from around $120,000 to $414,538, providing a much more attractive investment opportunity. (see below)

PV Cash Flows	-$23,645,868	$942,036	$564,345	$791,260	-$143,345	$419,804	-$287,386	$21,773,692
NPV	$414,538							
IRR	6.3837%							

However, the worst case we predict to be possible is a 1.5 year vacancy duration. In this circumstance, our NPV for the project drops by about $200,000 to -$108,465. As a result, it is critical that a new anchor tenant is found as soon as possible and should be a priority. (see next page)

PV Cash Flows	-$23,645,868	$942,036	$564,345	$791,260	-$96,671	$126,535	-$563,794	$21,773,692
NPV	-$108,465							
IRR	6.0253%							

Given that the first step to our analysis showed the magnitude of the effect that the Cineplex tenant had on the NPV of the project, we wanted to see how rent would affect it. If the tenant replacing Cineplex pays 10% more in terms of rent, the NPV of the project drastically increases to over $1million. (see below)

PV Cash Flows	-$23,645,868	$942,036	$564,345	$791,260	-$152,679	$126,535	-$232,104	$22,667,136
NPV	$1,060,660							
IRR	6.8144%							

On the other hand, if the market rent is 10% less than the existing rent charge, then the NPV of the investment drops drastically to -$818,122 (see next page), suggesting that the new rent should be negotiated to significantly increase the value of the project.

PV Cash Flows	-$23,645,868	$942,036	$564,345	$791,260	-$134,010	$126,535	-$342,667	$20,880,247
NPV	-$818,122							
IRR	5.5284%							

GENERAL VACANCY SENSITIVITY

PV Cash Flows	-$23,517,555	$936,600	$486,384	$772,970	-$136,287	$91,033	-$133,067	$21,349,649
NPV	-$150,273							
IRR	5.9960%							

After seeing the impact that one anchor tenant has upon the value of the project, our attention was drawn to the collective impact of the length of all vacancies. As a result, we considered the effect of an increase in predicted vacancy periods from 6 months to 9. If this was the case, then the project's NPV decreases by over $150,000 to around -$150,273. (see above).

Continuing the evaluation, we looked at the impact of the probability of CRU tenants renewing. If we increase likelihood to 85%, then the NPV of the project greatly increase to $374,225 (see next page). Therefore, we believe importance should be placed highly upon creating long lasting relationships with tenants.

PV Cash Flows	-$23,680,084	$948,231	$592,031	$804,375	-$144,198	$149,766	-$221,225	$21,925,330
NPV	$374,225							
IRR	6.3555%							

If this is not carried out, then we predict that the chance of CRU tenants renewing could lower, such as 65%, which decreases NPV to -$131,687 (see below.)

PV Cash Flows	-$23,611,651	$935,840	$536,659	$778,145	-$142,491	$103,303	-$353,546	$21,622,053
NPV	-$131,687							
IRR	6.0093%							

RENT SENSITIVITY

PV Cash Flows	-$23,644,610	$942,093	$562,573	$785,443	-$147,846	$117,895	-$323,903	$20,244,145
NPV	-$1,464,209							
IRR	5.0636%							

If the annual increase in rent for all tenants falls from 2%, in line with CPI, to 1.5%, then the project becomes very unattractive. The NPV would fall to -$1,464,209 (see previous page).

However, if annual rent increase rises to 2.5%, then the project gains an astonishing $1,600,000 in terms of NPV (see below). We believe that the project's high sensitivity to market rent increases is a great risk factor and so we have incorporated this into our evaluation of cap rates. This goes to show that a 0.5% increase or decrease in rent above or below the 2% CPI benchmark in our assumption moves the NPV approximately $1,500,000 in the respective direction.

PV Cash Flows	-$23,647,126	$941,977	$566,126	$797,109	-$138,862	$135,255	-$250,124	$23,349,015
NPV	$1,753,371							
IRR	7.2660%							

CONCLUSION

While we have only analysed one variable at a time for our sensitivity analysis, we believe that this provides great insight into the critical factors for the project's return on investment. While certain circumstances may be unavoidable, thus increasing risk, we believe that if the property is acquired then an area of key importance is the replacement of the Cineplex tenant due to its huge impact on NPV. In addition, a slight increase in rent for all tenants, or just the replacement for the theatre could have a drastically positive affect. Therefore, we suggest immediate action in order to mitigate negative effects from a delay in replacing the tenant, and management decisions that will procure higher rent from the replacement tenant or perhaps all tenants, even if on a marginal scale.

6.0 APPENDICES

1. See attached Excel spreadsheet "Pro Forma and Sensitivity Analysis".

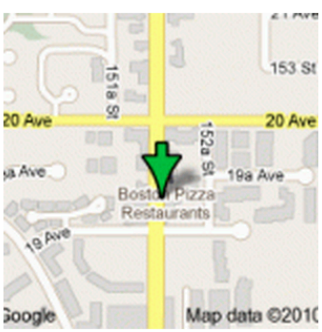
2. Market Statistics for malls in the GVRD.

Figure 1: Market Statistics

Region	Number of Centres	Inventory (sq. ft.)	Q2 2014 Vacancy Rate (%)	Q4 2013 Vacancy Rate (%)	Vacancy Change (basis points, Q-o-Q)
Surrey	30	6,650,328	4.4	3.9	50
Burnaby	8	3,544,316	5.5	7.1	(160)
Richmond	24	3,749,076	1.6	1.7	(10)
Vancouver	21	4,255,396	1.6	1.6	0
Tri-Cities	20	2,872,196	4.6	4.6	0
Langley	14	2,558,381	7.0	3.3	370
North Shore	11	2,493,545	1.3	2.2	(90)
New Westminster	5	1,092,219	1.6	1.6	0
Delta	9	1,232,077	3.6	4.6	(100)
Maple Ridge/Pitt Meadows	7	1,199,832	2.8	3.7	(90)
Abbotsford	11	2,040,021	3.1	4.5	(140)
Total	**160**	**31,687,387**	**3.5**	**3.5**	**0**

3. Description of a recent sale of a commercial property.

Recent Sale: 1938 152nd Street, Surrey



Another South Surrey sale, this time brokered by the team at MacDonald Commercial Realty including the Goodmans, is the retail commercial property located at 1938 152nd Street. The property boasts multi-family development potential (for an additional 100,000sf based on 2.5 FSR) with holding income and is located very close to the Semiahmoo Shopping Centre that recently sold. The selling price was $7,250,000 representing approximately 5.2% cap rate based on the in-place NOI of $374,100. The original asking price was $7,900,000. Total land area is 59,206 sf, with the total building area on the property measuring approximately 48,571 sf.

4. Table of data on recent sales of commercial properties.

Sale ID Complex Address	Closing Date Firm Date Adjusted Price Status	Class Year Built Parking Ratio	GER T&O NER	Yr. 1 Base Rent Blended Face Blended NER	Market Avail. District Avail. Node Avail. Class Avail.	Size Sq. Ft. Vacancy Yrs. 1-5 Rollover	NOI Yr 1 Yrs. 1-5 Yrs. 6-10	CF Yr 1 Yrs. 1-5 Yrs. 6-10	IRR TCR Stabilized CR $/Sq. Ft.
ID 42132 3500 GILMORE WAY Burnaby, BC	8/1/2013 n/a $15,200,000 Closed	Class A 1997/2000 2.99/1000	n/a n/a n/a	$18.99 n/a n/a	n/a n/a n/a n/a	51,571 0.00% 20.00%	6.68% 6.36% 6.49%	6.68% 5.33% 5.36%	7.28% 6.00% 6.24% $295
ID 42133 3650 GILMORE WAY Burnaby, BC	8/1/2013 n/a $15,500,000 Closed	Class A 2000 2.84/1000	n/a n/a n/a	$14.75 n/a n/a	n/a n/a n/a n/a	52,539 20% - 40% 3.84%	4.53% 6.11% 6.93%	1.81% 5.26% 5.28%	6.78% 6.00% 6.05% $295
ID 42163 Surrey Central Business Park 7445-7565 132 ST Surrey, BC	8/1/2013 n/a $59,700,000 Closed	Class A 1993/2000 3.40/1000	n/a n/a n/a	$8.16 n/a n/a	n/a n/a n/a n/a	352,769 20% - 40% 11.13%	3.41% 6.34% 7.92%	2.62% 3.55% 5.90%	7.18% 6.00% 6.35% $169

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