



# NEWSLETTER

## 2016 Q2

### **AAMIC business update and 2016 Canadian Real Estate Outlook**

AAMIC new Offering Memorandum (“OM”), is now available on our website. The OSC revised definition of *Accredited Investors* and a new *Form 45-106F9* are incorporated in this new OM, as is the new *Friends, Family & Business Associates Exemption (Ontario)*

investor category. This updated OM also includes our 2015 Annual Report as audited by Ernst & Young. As of April 2016, AAMIC mortgage portfolio is \$8.35 million with 15 mortgages. The portfolio weighted average duration is 8 months, LTV is 48.66% and interest rates is 11.68%. 2 are non-residential totalling \$1.05 million (12.58%) and 6 are 1<sup>st</sup>

mortgages totalling \$4.02 million (48.19%). AAMIC continues to be on track to meet its target return of 8%.

AAMIC remaining initiatives in 2016 includes a) initiatives to drive AAMIC brand awareness b) transition to automated monthly distribution; and c) drive towards a growth target of \$10 million by end of fiscal year 2016.

## Core Values vs Insanity - Real Estate Market

A Canadian Real Estate Association (CREA) article (May 16, 2016) confirmed what most of us hear and see about the Canadian housing market – home sales up for the 4<sup>th</sup> consecutive month since January 2016 within a stagnant supply market. The result is the MLS<sup>®</sup> Home Price Index (“HPI”) rose by 10.3% year-over-year. This increase is only an averaged out nationwide numbers. For Greater Vancouver and Fraser Valley, April annualized HPI was north of 25% while GTA saw increases over 12.5%. Wanting supply, Chinese immigration money influx into the Canadian real estate are two commonly cited factors behind such staggering numbers.

National Bank of Canada economist Peter Routledge has “hypothesized” that Chinese buyers last year shelled out nearly \$12 billion on real estate in Vancouver, accounting for 33 per cent of the city’s sales. He pegged the number at \$8.4 billion, or 14% of sales for Toronto. (Maclean’s May 9, 2016). Such rabid activities are frustrating local new entrants into the housing market and existing home owners fearful of selling their existing abode as they will

then be drawn into that same supply/pricing vortex. This current insanity, however, is not going away any time soon or necessarily translate into a real estate bubble. Conversely, one can reasonably expect Canadian government to take measures raising the cost and/or tempering the wave of speculative housing activities by non-permanent Canadian residents in the not too distant future.

As a potential buyer, understand and manage what is controllable and not fret over what is uncontrollable (price/affordability and lack of supply). Location is paramount to one’s needs and eventually, one’s exit strategy. There is no dream home. Needs and preferences change over time (couples, young family, education, accessibility, lifestyles, healthcare). Neighbourhoods change as fast as the next new listing. And the downside risk of the lemming effect versus the ‘upside’ of a hot new neighbourhood is seldom considered. Remember the story of the Emperor’s New Clothes. At the next real estate market adjustment, be it localized, temporal or sustaining; individual

buyers and institutional lenders will always prefer stable, established, multi-facet mixed neighbourhoods.

There is an ‘organic’ element in the risk management of any real estate market. As an example, it is easy to envision why there is a higher downside risk for a population area sustained by one big employer or industry, For an equity based mortgage lender, a borrower’s employment income is not the paramount consideration in its underwriting, the ‘organic’ factors of a property location and neighbourhood demographics cannot be casually ignored. Toronto grand transit projects can dramatically change the vibrancy of a neighbourhood. Acute changes in the economic fortunes in China or drastic government directives in stemming capital outflow there can materially affect the marketability and values of a demographically singular residential and commercial area. In mortgage lending, location is king but equally important is recognizing the other non-monetary factors in a mortgage application.