

How has inflation impacted the real estate sector?

Commercial real estate is often looked at as being a pretty secure asset class to hold in times of heightened inflation such as this.

A lot of it really is a result of the way the leases are structured within those asset classes.

First and foremost, here in Canada, most of our commercial assets are structured on a net basis. We're able to pass a lot of the costs that we incur as a manager of real estate off to our tenants. You look at your property maintenance, your royalty taxes, your landscaping, your snow removal, all the different aspects to maintaining an asset. Those costs are passed through to the tenant. So, any inflation that hits those elements of cost, which typically it would be borne by the landlord that gets passed through to the tenant.

When you look at the base rental side of the rent that we actually charge to our tenant for utilizing that space. When you look at the historical performance of that against inflation, you can see that base rental rates tend to rise in step with inflation over time. So as the performance of the asset continues on, we're bringing in rent through this property. We're able to grow those rents in step with inflation to effectively hedge against any value detriment that would be achieved on the other side, which really is through increased borrowing costs.

Intended for Canadian Advisors and Accredited Investors

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