

Taking Stock with Steele

Your Monthly Newsletter

The purpose of this newsletter is to share insights and expertise. Our goal is to ensure that our clients are well informed of changes affecting local business decisions and our investment recommendations. We believe Knowledge Pays and we want our knowledge to help pay for you.

THE STATE OF REAL ESTATE DREAD AT ONE END AND EUPHORIA ON THE OTHER

This has been a strange year in real estate. Typically, all types of real estate in a given locale are highly correlated with one another. Issues facing a major local employer typically reduces demand for office property while resulting unemployment begins to hurt demand for residential and retail real estate. The COVID-19 crisis initially caused real estate markets to freeze but they soon unfroze as COVID investment themes and unorthodox government stimulus took hold to create a market like none other.

Factors Driving Real Estate Markets in the Post-COVID World

De-urbanization. After years of greater urbanization, COVID has pushed many to consider leaving the core for the suburbs. The open space of the suburbs is now looking better than the core, which is now much less lively than in the past.

Work from Home. The work from home trend is picking up steam as businesses are operating better than expected using teleworkers. Many businesses, mostly in the technology sector, have already decided to keep a large percentage of their workforce at home. Open Text, Facebook and Shopify are major proponents of work-from-home.

E-Commerce is the Default for Now. The COVID crisis pushed businesses to either go online for the first time or offer a better e-commerce experience.

Travel at a Standstill. How quickly consumer and business travel demand takes to recover is unknown but fear for personal health and the liability associated with business travel will likely linger for a long time.

Government Stimulus. Global stimulus measures helped prevent or delay downsizing of higher income earners while downsizing of lower income earners has been pervasive – see the hospitality, travel and retail sectors. Further, all-time low interest rates help those who can access credit (the employed) but not those who cannot.

How Various Real Estate Sectors Are Reacting to these Factors

Residential. Low interest rates caused house prices to shoot higher. Single-family homes and townhomes outperformed condos/apartments due to the post-COVID buyer preference for space and the suburbs. Smaller communities are outperforming due to telework and pricier properties are outperforming due to greater credit access.

Office. Office real estate faces an uphill climb as business failures accumulate and healthy businesses are not operating as normal. Greater adoption of work-from-home labour makes the long-term outlook for office property demand uncertain as well.

Retail. COVID caused many retailers to go bankrupt and more will follow. Malls face an existential crisis. Some mall REITs are buying retailers to alleviate lost cash flow.

Lodging. Limited travel means weak hotel occupancy in the near- and medium-term.

Industrial. Data centers and fulfillment centers have benefitted from the spike in e-commerce demand.

Current Rates & Data

Govt of Canada

90 day	0.14%
1 year	0.21%
2 year	0.26%
5 year	0.35%
10 year	0.54%
30 year	1.06%

U.S. Treasury

90 day	0.11%
1 year	0.13%
2 year	0.13%
5 year	0.25%
10 year	0.66%
30 year	1.41%

Canada Prime Rate

2.45%

U.S. Prime Rate

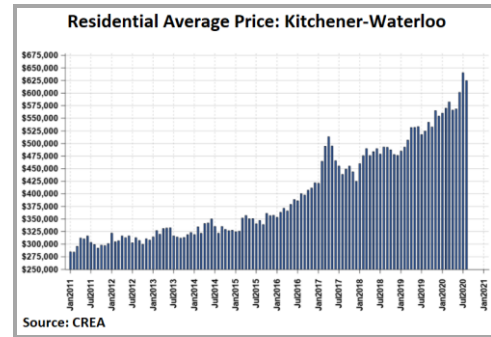
3.25%

Exchange Rates

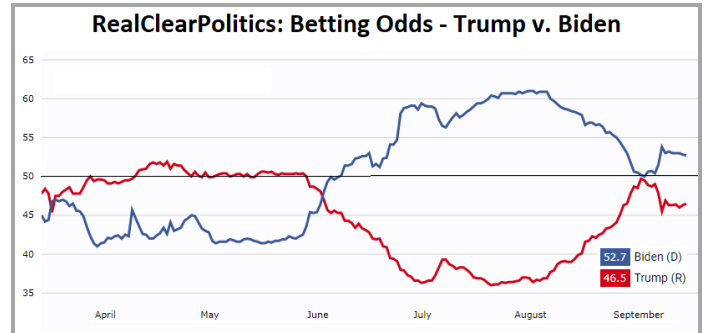
CAD/USD	0.759
USD/EUR	1.186
JPY/USD	105.7

ECONOMIC TIDBITS KW HOUSING A WINNER IN POST-COVID WORLD & US ELECTION ODDS NARROWING

• As of August 2020, KW house prices were up 21% year-over-year relative to Toronto and London at 20%. KW benefits from an above average percentage of single-family homes in its housing stock, a labour force less affected by COVID-related employment disruptions and the fact that KW is a relatively affordable community for those looking to escape urban Toronto but remain close to Toronto.



• As measured by RealClearPolitics, the betting odds have favoured Democratic presidential nominee Joe Biden since June though the gap has closed lately. The reality of an energized Trump and Trump voter base, a not so energized Joe Biden and Biden voter base and greater voting obstacles facing registered Democrat voters could make the election much closer than many previously assumed.



LE JIT A "JUST-IN-TIME" RUNDOWN OF OUR CURRENT INVESTMENT THEME

Looking at How Alternatives Have Fared During the Pandemic

This month, SWM's Sam Ryder sat down virtually with Glenn Murray, President and Chief Investment Officer of Capstone Asset Management, for a conversation on how alternative investments have fared throughout the COVID-19 pandemic. Below is the link to their video conversation and a summary of their discussion.

[Click Here for Sam's Video on our Taking Stock with Steele Webpage](#)

- Alternative investment funds that focus on mortgages and real estate have generally experienced steady returns throughout the pandemic so far. A slight reduction in distributions to investors, can be seen as prudent, as this ensures a fund has ample cash reserves to deal with future uncertainty.
- Risk management is vital in times like these. It is important to have retained an investment manager who has experienced and thrived in volatile markets previously.
- Coming out of crises, there are typically a greater number of investment opportunities. Many alternative investment fund managers are preparing to deploy capital opportunistically as a result. Again, experienced managers have a leg up on others if they have dealt with similar economic disruptions in the past.
- Residential and mixed-use real estate has outperformed broader real estate market indices in 2020 and these areas remain a good source of uncorrelated returns for investors.

JEANNINE'S TIP O' THE MONTH 2020 Westmount Oktoberfest Charity Pro-Am Auction Link

As we mentioned last month, the golf portion of the pro-am is unable to proceed due to COVID-19 but the online auction will progress as planned. Like many small businesses and local organizations, the **Waterloo Region Suicide Prevention Council** has been trying to do more with less this year. Your support is extra meaningful this year. The auction is fun way to buy something interesting and you may even get a deal!

If you feel like participating in the auction, please click the following link. Please share with anyone you think may be interest in participating. The auction is live as of October 1st. <https://wrspevents.cbo.io/>

This newsletter has been brought to you by Steele Wealth Management

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