



Alternative Investments Forecast | 2020

The TD Wealth Asset Allocation Committee (“WAAC,” “we”) is modestly overweight the alternative investments asset class. With low interest rates and increased volatility in the equity markets, investors are seeking long-term alternative investments with contracted cash flows and inflation protection that generate consistent returns over the long term.

		Underweight	Neutral	Overweight
Alternative Assets (Modest Overweight)	Canadian Real Estate	-		+
	Commercial Mortgages	-		+
	Global Infrastructure	-		+

Canadian Real Estate

(Modest overweight)

- Attractive spread between capitalization rates and long-term Canadian bond yields will continue to drive demand for commercial real estate
- Economic growth will continue in gateway cities including Toronto, Vancouver and Montreal
- Property fundamentals remain strong across commercial real estate sectors, as evidenced by relatively low vacancy rates

Commercial Mortgages

(Modest overweight)

- Mortgage spread premium above corporate bonds expected to stabilize
- High quality term mortgages to outperform in the case of an economic slowdown
- Strong value-add performance in the front end of the real estate lending life cycle

Global Infrastructure

(Modest overweight)

- Strong momentum in transaction activity with significant supply of new infrastructure and privatization of assets
- Increased demand for core assets in developed economies as macro-economic uncertainty weighs on secondary markets

Alternative

Part of the WAAC's mandate is to highlight risks and opportunities on the horizon. Below are some of the factors we will be monitoring in 2020.

↑ Opportunity ↔ Neutral ↓ Risk

What We're Monitoring	Potential Implications
Economic Growth	<ul style="list-style-type: none"> ↑ Economic growth continues to place downward pressure on vacancies and upward pressure on rent. This can provide net operating income growth across property types. From a lender perspective this can provide significant cash flow cushion above debt servicing costs. ↑ As global growth slows economies will look further to private capital to fund infrastructure needs throughout the cycle, creating opportunity to acquire long-term, stable infrastructure assets.
Shifting Demographics	<ul style="list-style-type: none"> ↑ Canada is forecasted to lead all G7 countries in population growth over the next five years. This is expected to have a positive implication for demand across all property types, particularly multi-unit residential. ↑ Trends in urbanization globally continues to put pressure to invest further to replace aging infrastructure in developed markets and build new infrastructure in developing markets.
Technological Disruption	<ul style="list-style-type: none"> ↑ Rising e-commerce penetration is increasing the demand of intermodal distribution networks facilitated through industrial real estate and transforming opportunities within the retail landscape. ↑ Renewable energy has reached a tipping point, being more economical than coal in a number of geographies and benefits from political tailwinds in most jurisdictions. We anticipate significant growth in renewable energy transactions.
Transaction Activity	<ul style="list-style-type: none"> ↑ Majority of real estate activity is anticipated for core income producing properties in gateway cities including Toronto, Vancouver and Montreal. Positive tailwinds experienced in industrial and multi-unit residential assets will be a major contributor to deal flow activity. ↑ Mortgage origination activity is likely to be near recent decade highs. ↑ Increased infrastructure deal activity in 2020 given that 2019 is expected to be a record year for fundraising with over \$100 billion raised.
Valuations	<ul style="list-style-type: none"> ↑ Strong real estate valuations support mortgage lenders, we believe diligent cash flow projections and stress testing still must be completed to ensure the borrowers can withstand an economic downturn. ↑ Landlords are expected to benefit less from capitalization rate compression. However, focusing on active management and high quality assets can allow for growing and stable income over the longer term. ↑ Valuations rising as global interest rates remain near zero. Even at compressed returns infrastructure offers a significant spread to other asset classes, leading to significant capital inflows.

Forecast



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