Real Estate

MONTHLY PERSPECTIVES | PORTFOLIO ADVICE & INVESTMENT RESEARCH

May 2015

In this issue

Martha Hill, CFA

In today's low return and low interest rate environment, investors are seeking alternatives to traditional investments to enhance returns. One such alternative is real estate. An investment in real estate can offer stable cash flow, inflation protection and portfolio diversification. Additionally, in 2013 and 2014, real estate returns outpaced equity market returns, but can the trend continue?

To help answer this question, we begin this issue of Monthly Perspectives with an outlook for the North American real estate market and move on to outline how real estate can fit into a portfolio and what needs to be considered before investing. We review the various segments of the Real Estate Investment Trust (REIT) market and provide potential investment options. Finally, we examine the responsibilities and tax consequences associated with owning an investment property.

Outlook on real estate

Craig Alexander, Senior Vice President & Chief Economist, TD Economics

The era of low interest rates has made real estate an attractive option for many investors, offering the potential for higher yields alongside the possibility of capital gains. The bet has paid off so far. Home price growth outstripped equity market returns in 2013 and 2014, and real estate investment trusts (REITs) have similarly outperformed. However, investors looking for positive returns in 2015 and 2016 will have to choose their markets wisely.

In Canada, the combination of a 60% plunge in oil prices and a 30-basis-point drop in mortgage rates has created a noticeable regional divide. The drop in oil prices has dealt a heavy blow to the commodity-driven provinces of Alberta, Saskatchewan and Newfoundland. While their economies may not meet the technical definition of recession, this is little solace to their housing markets. In Calgary, existing home sales are already down 30% (from year ago levels) and home prices are likely to fall 10% over the next two years. Edmonton is likely to realize a similar decline.

Toronto and Vancouver, on the other hand, have benefited from the recent drop in mortgage rates, with both sales and prices advancing swiftly at the start of this year. Future gains, however, will be harder to come by. Continued price growth has only increased the degree of overvaluation in these markets, which we estimate at around 15%. While prices are unlikely to unwind abruptly as long as interest rates remain low, there appears to be little further upside. The deterioration in affordability is already showing signs of cutting into first-time home buyer demand and pushing more households into the rental market. Even so, rent growth has not kept pace with home prices, leaving capitalization rates lower than in other Canadian regions such as Edmonton, Halifax, Ottawa and Winnipeg.

Table 1: North American Home Prices, Year-Over-Year % Change

	2014	2015F	2016F
Canadian Existing Home Price	6.6	5.1	1.1
Toronto	8.0	7.5	2.1
Vancouver	6.0	5.9	0.1
Calgary	5.2	-7.8	-3.7
Montreal	2.4	0.6	1.7
U.S. Corelogic Home Price Index	2.8	5.2	4.7
New York	5.5	8.5	6.2
Arizona	6.5	4.6	5.8
California	12.3	6.0	5.8
Florida	8.0	6.9	6.3
Nevada	11.6	5.7	4.7

Sources: Canadian Real Estate Association. National Association of Real Estate. Forecasts (F) by TD Economics. As at March 31, 2015.

Elsewhere across non-commodity producing Canada, markets for the most part have been cooling and are relatively fairly valued. Looking ahead, upside potential for prices will be limited by an aging population and slowly rising interest rates. One exception is Hamilton. Close to Toronto, yet more affordable, Hamilton has become an increasingly popular option among younger home buyers.

The post-housing-collapse American market may offer the best opportunity for real estate investors. While home prices have been growing in the United States over the past two years, they remain below their pre-crisis peak and several markets still appear underpriced and underbuilt. In addition, barriers to home ownership following the housing collapse has been a boon to the rental market, pushing down vacancy rates and pushing up rent growth. As income growth picks up and credit scores improve going forward, more households (and young people still living in their parents' basements) are likely to move back to the ownership market.

Location wise, the best opportunities are likely to be in the American south where population growth is the fastest and new home construction is still fairly depressed following the housing crash. Markets in Arizona and California have been top performers, with average annual price gains topping 12% in 2013 and 16% in 2014. Both states are popular destinations for foreign investment, particularly from China. Healthy demand is likely to support continued robust growth in California and Arizona over the next two years. The average home price in California is likely to reach the pre-recession peak in 2017. Arizona home prices will have a much longer slog back to pre-recession levels.

Another market with continued upside potential is Florida. With population expected to rise at a rapid pace in many urban markets in the sunshine state alongside limited construction, the housing market is likely to remain tight.

New York has once again become a popular destination for foreign investment and is likely to be a top performer through 2015 and 2016. However, there appears to be less room for growth in home valuations over the long term, with prices already above pre-recession levels and sub-par population growth limiting future demand.

Still, Canadians looking to invest in the U.S. market may want to hold off a little longer. While the 30% depreciation in the Canadian dollar since 2013 has magnified returns on American real estate for Canadians already invested, the flip side is that getting into the market now is considerably more expensive. The upside to waiting is that the Canadian dollar is likely close to a bottom and is expected to appreciate through 2016, which will offset much of the gains of investing today. A higher Canadian dollar in 2016 will create a more favourable environment for investing in the U.S.

PORTFOLIO STRATEGY

Investing in real estate

Catherine Carlin, CFA; Christopher Lo, CFA

We spoke with Michael Missaghie, Senior Portfolio Manager, Sentry Investments and lead manager of Sentry Real Estate Investment Trust (REIT) Fund about his perspective on real estate as part of an individual investor's portfolio. Below is a summary of his views:

We know the large institutional investors, like pension funds, have broadened their asset mix to include real estate. Should real estate be considered part of an individual investor's portfolio as well?

At the end of 2013, the 19 largest pension funds in Canada held approximately 12.3% of their assets in real estate versus 6.5% in 2004 (source: RBC Capital Markets; this is the latest disclosed number). Pension funds like the long-term nature of the cash flow stream that real estate investments generate as it matches their long-term liability profile. These funds generally hold the assets directly and are therefore involved in all the details that property ownership entails.

While individual investors do not generally have the time or ability to manage large commercial (retail, office, industrial) properties themselves, we do believe it is generally appropriate for individual investors to include real estate in their investment portfolios.

What are the benefits of holding real estate in an investment portfolio?

Real estate assets are considered to be excellent long-term investments, particularly in the current environment where it is very difficult to generate a positive real return (after inflation) from traditional fixed income assets. Real estate can provide stable cash flow through longer-term lease agreements, inflation protection (especially where this is built directly into the terms of the leases) and overall portfolio diversification.

An investment in a real estate company offers further benefits over a direct investment in real estate property insofar as these vehicles are liquid (i.e. traded on public market exchanges), are professionally managed both in terms of the balance sheet and the assets themselves, and provide access to large marquee assets that an individual would otherwise not be able to access.

What are the risks?

There are risks inherent in all investments and real estate is no exception. The main risks to an investment in real estate or REITs are a deep economic recession and a credit tightening cycle. That is not to say that we see a high probability of these risks on the horizon at this time. In the event of a deep economic recession, the cash flow generated by a property may be compromised as tenants vacate. This would reduce the stability of cash flow that investors seek from this asset class. A credit tightening cycle would be damaging as real estate is a capital intensive asset; it is expensive to purchase and operate. REITs generally finance 40% – 50% of the value of the property with debt and 10% – 15% of the total debt matures each year. In a credit tightening cycle, both the ability and the cost to refinance become more challenging.

An increase in interest rates is often held up as a risk, and to be sure, we did see REIT unit prices drop in 2013 when the market feared that rates would be moving higher. We would argue, however, that in isolation, a rise in interest rates would not necessarily result in challenging conditions. For example, if interest rates were to rise because of a strong economic recovery, a real estate property may actually benefit from stronger occupancy levels and higher rental rates.

How much real estate should investors consider holding?

As with any other asset class, the allocation of an individual investor's investment portfolio to real estate depends on the risk tolerance, investment horizon and investment goals. As a general guideline, we would suggest that an allocation in the range between 5% and 20% may be appropriate.

Would a principal residence or vacation property be included in that allocation?

No, we would not recommend considering a home or cottage part of an investment portfolio. Investors should differentiate between their home/cottage and real estate for investment purposes. There is utility and consumption in a home as your residence, which is quite different than what is expected of an investment. An investment should generate an economic return and/or provide cash flow. A home does not provide these attributes (and very likely generates expenses rather than cash flow).

If investors are considering a private real estate company, what questions should they ask before investing?

Investors considering a private real estate company should be prepared to do additional due diligence as there is likely not the same level of disclosure as for a public company. Private companies are also generally not subject to the same level of scrutiny by large institutional shareholders who dig into many details as part of their due diligence process. Investors should ensure that management interests are aligned with theirs, specifically as it relates to compensation, and that management has a strong track record of creating value. Asset quality should be reviewed in detail (location, age, condition) as well as the asset life cycle (i.e. development assets are much higher risk and need greater review than income producing assets). The balance sheet should be reviewed to ensure that it is appropriate in structure (no large maturities clustered in one year). The sustainability of the dividend or distribution should be scrutinized by examining the free cash flow payout ratio. This is not an exhaustive list and we advise investors proceed with caution in the private investment arena as liquidity is not always available in the event of second thoughts.

NORTH AMERICAN EQUITIES

Open doors to public markets

Robert Marck, CPA, CMA, CIM

When it comes to investing in real estate, investors are not limited to bricks and mortar. Instead, they can gain access to real estate by investing in market traded real estate vehicles such as Real Estate Investment Trusts (REITs), Real Estate Operating Companies (REOC) and Mortgage Backed Securities (MBS).

REITs are essentially tax-advantaged companies that operate and own different types of income producing properties. They offer liquidity, lower investment requirements and access to real estate professionals. The revenues generated from these companies generally come from rents and tend to be exempt from income taxes at the trust level, distributing the majority of their income to unitholders. Real Estate Operating Companies (REOC) are standard taxable real estate companies. They tend to reinvest earnings into the business instead of distributing funds to unitholders and are more flexible in the types of investments they can make. Mortgage Backed Securities (MBS) are asset backed securities secured by a collection of mortgages on residential or commercial assets. Their payments to investors are similar to coupons (interest). In this article, we will focus on REITs, which are likely the most recognized by investors.

The foundation

When considering REITs for investment, it's important to review and understand the characteristics and risks of the companies and the assets. Investors should be aware of a REIT's geographic exposure as that may affect market rents and occupancy levels. Analyzing the lease terms and tenant concentration may uncover risks or opportunities such as pending vacancy risk and upcoming lease renewals at lower than (or above) current rates. Investors should analyze the balance sheet to determine if the REIT is overleveraged. Large-capitalization REITs in Canada generally have a net debt to total capital ratio of 40% to 50%. Finally a review of management's track record is important to target teams who are good operators and recycle capital efficiently.

Economic drivers influence REIT sub-sectors

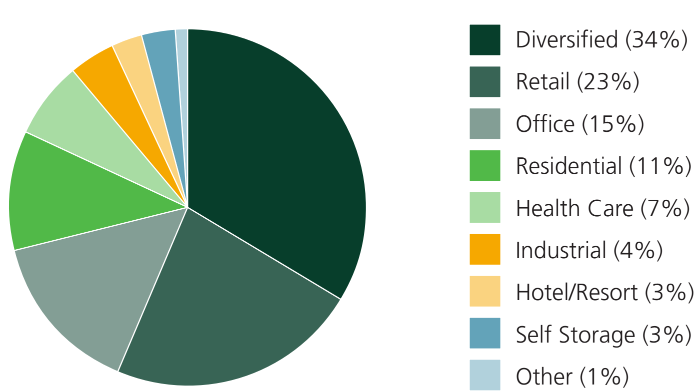
REITs can hold property across a variety of sub-sectors (figure 1). Generally, retail REITS own shopping malls, big-box centers and other retail outlets, generating rent from local vendors or large corporate retailers. Retail REITS are economically driven by overall population trends and local dynamics that may impact foot traffic. Job creation and employment may affect the surrounding population's spending. Office REITs are generally exposed to urban centre properties, ideally where unemployment is low and businesses are likely to locate. Similarly, office REITS are driven by population growth and retail sales growth, as well as stronger corporate profits and occupancy. Residential REITs typically invest in and manage rental properties for individual tenants. Local demographics and income trends help drive occupancy trends and location of the assets is of considerable importance. Industrial REITs invest in warehouses, distribution centers or other similar properties. They generally sign long lease terms and proximity of properties to major forms of transportation (rails, airport, etc.) is of importance.

In addition to the sub-sectors listed above, REITs may also be grouped by health care, hotel, and self-storage spaces, all with different economic influences. All of these REIT categories tend to be more cyclical due to short-term lease terms. Finally, diversified REITs are those that own properties across a number of sub-sectors, providing diversification benefits.

A historical look at returns by asset class

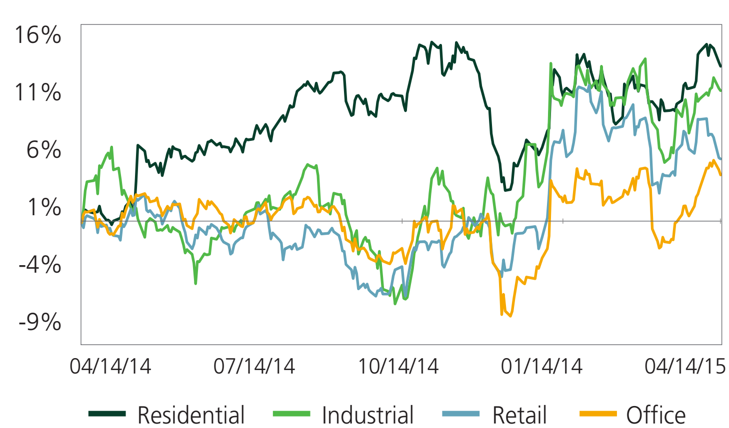
To review the performance of Canadian REIT sub-sectors over the past year, we have included Canadian REIT sub-sectors where there were at least two constituents with data for the past twelve months. As shown in figure 2, residential REITs exhibited the strongest relative price performance, followed by industrial REITS, retail REITs and office REITs.

Figure 1: Global REITs by Property Type



Source: CFA Institute. 2014.

Figure 2: REIT Sub-Sector Returns



Source: Bloomberg Finance L.P. As at April 14, 2015.

NORTH AMERICAN EQUITIES

Residential REITs, with material operating assets focused on eastern Canada, have benefited from increasing occupancy underpinned by a healthy residential housing market. As such, the sub-sector has appreciated an impressive 13% during the last year. As housing prices continue to rise, especially in major Ontario and BC markets, renting becomes a more affordable option for individuals and as such, puts upward pressure on rents and occupancy rates. The next best performing sub-sector was industrial REITs, which increased 11% due to strong price performance from Granite REIT (GRT.UN-T) and Pure Industrial REIT (AAR.UN-T). Finally the retail and office REIT segments returned 6% and 4%, respectively.

Looking forward

Turning to specific investment themes for 2015, we believe that REITs with strong tenant characteristics (including term and diversity) and desirable locations should provide solid returns for investors. Table 2 highlights a number of REITs from different sub-sectors.

Table 2: REIT Ideas

Company Name	Ticker	Yield	Sub-sector
RioCan REIT	REI.UN-T	4.8%	Retail
Allied Properties REIT	AP.UN-T	3.8%	Office
H&R REIT	HR.UN-T	5.9%	Diversified
Boardwalk REIT	BEI.UN-T	3.4%	Apartment
Chartwell Retirement Residences*	CSH.UN-T	4.7%	Sr. Housing

*CHS.UN is an open ended trust. Source: Thomson Reuters Eikon. As at May 6, 2015.

In the retail segment, we highlight RioCan REIT (REI.UN-T), which is Canada's largest retail REIT, and owns interest in over 300 retail properties across Canada and the U.S. As Canada's top landlord for many key retailers, REI.UN has a dominant position in the market and an attractive growth profile along with a quality asset base. AP.UN is an example of an office REIT; it owns a portfolio of predominantly Class I office properties across Canada and is expected to deliver above average growth while maintaining low leverage and a conservative payout ratio.

HR.UN is an example of a large diversified REIT. It is expected to exhibit steady adjusted-funds-from-operations (AFFO) growth, has a long average remaining lease term and a strong balance sheet. It also trades at a discount to peers despite its high-quality portfolio.

In the residential space, we highlight BEI.UN, whose unit price has been negatively impacted by its large Alberta presence and the drop in the price of oil. The discounted valuation may provide a good entry point for investors who believe the Alberta housing market will not suffer materially because of lower oil prices.

Finally in the senior housing space, we highlight CSH.UN, which recently announced the sale of its U.S. business and its goal to improve the overall quality of the portfolio. While there may be a near-term drag on AFFO due to the sale of the assets, the transaction may allow CSH.UN to focus on its Canadian business, exit a market with little competitive advantage and reduce debt on their balance sheet.

In addition to holding equity positions in units of REITS, investors may also access REIT exposure through debt (i.e. bonds), or through a fund. While purchasing a bond will not provide the capital appreciation upside, it offers increased relative safety by owning a claim on the company's assets. In the tables below, we provide examples of specific debt issues from REITS that may be of interest to investors. Additionally, we list a number of fund and ETF ideas.

Table 4: REIT Debt Ideas

Issuer Name	Coupon	Maturity	DBRS
H&R REIT	5.9%	2/3/2017	BBBH
Morguard Corporation	4.1%	12/10/2018	BBBL
Cominar REIT	4.3%	12/8/2021	BBBL
Calloway REIT	4.0%	5/30/2023	BBB
First Capital Realty	4.3%	7/31/2025	BBBH

Source: Company Reports, Dominion Bond Rating Service (DBRS). As at May 6, 2015.
Low (L), High (H).

Table 3: Real Estate Fund and ETF Ideas

Fund Name	AUM (millions)	1 year	3 Years	5 Years	7 Years	Avg. 12-month Dist. Yield	5-Year Std. Deviation	5-Year Sharpe Ratio
Sentry REIT	$1,366.50	20.0%	10.4%	12.5%	7.0%	8.2%	8.3	1.35
Dynamic Global Real Estate	$202.88	28.7%	15.1%	13.0%	8.2%	2.8%	9.7	1.23
Fidelity Global Real Estate	$10.72	31.3%	19.5%	14.3%	5.7%	0.3%	12.3	1.09
Invesco Global Real Estate	$186.30	29.0%	18.3%	13.5%	5.1%	0.0%	12.3	1.02
Manulife Global Real Estate	$34.38	21.8%	21.4%	14.3%	8.6%	1.6%	12.3	1.07
iShares S&P/TSX Capped REIT ETF (XRE-T)	$1,325.57	11.9%	7.0%	12.9%	9.7%	4.8%	10.11	1.16
Vanguard REIT ETF (VNQ-US)	$69,133.21	42.4%	23.5%	21.1%	12.4%	3.7%	14.50	0.86

Source: Morningstar Direct. As at March 31, 2015. Performance longer than one year is annualized. Performance, distribution yield and risk metrics are provided for the front-end versions of the funds. AUM: Assets Under Management. The Vanguard REIT ETF is priced in USD. The AUM, performance, and risk metrics are converted to CAD for comparison purposes using exchange rates provided by Morningstar Direct.

THE LAST WORD

So you want to be a landlord

Clara Bor, CIM; Joanna Mazin and Adrienne Lo, TD Wealth, Wealth Advisory Services

In a low interest rate environment, owning a second property may seem like a great investment opportunity. With the current low money-market and mortgage rates, it may seem easy to justify purchasing a rental property and reaping the benefits of a supplementary income stream. However, dealing directly with tenants and maintaining a rental property may require a lot of time and energy. If you prefer to have a paid professional act as the landlord, a property management company could be an option. Individuals who own rental property generally report rental net income (or loss) on a calendar-year basis. All reasonable expenses incurred in operating the property can be deducted. Such expenses could include the cost of interest (discussed in more detail below), insurance, professional fees, property taxes, electricity, small repairs and advertising for tenants. Capital expenditures (usually deducted in the form of depreciation) may also be deductible; these include items such as renovations or home improvements. It is important to note that if there is no reasonable expectation of making a profit from the investment, there is a possibility that net rental losses may be denied. The extra administration that comes with owning a rental property, including keeping accurate records of all expenses and related activities connected to the property, can help your tax professional determine if expenses are valid and eligible for deduction or depreciation. In addition, the tax consequences of selling the rental property should also be reviewed prior to purchasing the property, to ensure that you are aware of the ultimate financial impact of exiting this investment.

Interest deductibility

With the low interest rate environment, investors may borrow money to invest in a rental property, however there are certain risks and benefits with a leveraged investing strategy. For instance, certain criteria must be met for the interest on borrowed money to be deductible. Generally, for interest to be deductible, the federal Income Tax Act (ITA) requires that interest must be paid or payable for the year; there must also be a legal obligation to pay the amount, and the amount paid or payable must be reasonable.

There are two additional criteria that require further examination. First, under paragraph 20(1)(c) of the ITA, the borrowed money must be used "for the purpose of earning income from a business or property… ." If the sole purpose is to realize capital gains, the interest incurred may not be deductible from income. Secondly, court cases have ruled that the direct use test should be applied in determining income deductibility. If the direct use of the borrowed money is to earn income from business or property, then the interest is deductible. Nevertheless, interest on borrowed money may be deductible even where profit was not earned. The Canada Revenue Agency (CRA) has traditionally denied deductibility of interest expenses unless profit (net income) was realized from the underlying property after taking the interest expense into account. However, the Supreme Court of Canada (Ludco) dismissed the CRA's position and held that "income" does not mean "net income" or "profit." Note: the province of Quebec has its own set of tax laws related to interest deductibility. Additional tax information from the CRA can be found here: http://www.cra-arc.gc.ca/rental

Direct ownership of a rental property is certainly one way to gain exposure to real estate but keep in mind that publicly traded choices are available, which can offer daily liquidity and best of all, no landlord responsibilities. To determine which strategy is right for you and to ensure that you fully understand the potential risks and tax implications, we recommend that you speak with your advisor and tax professional before making any related decisions.

Source: Canadian Revenue Agency.

PERFORMANCE MONITOR

Monthly market review

		(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Canadian Indices ($CA) Return	Index Level	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	20 Years
S&P/TSX Composite (TR)	46,854	2.43	4.50	5.07	6.93	10.68	7.57	7.93	8.98
S&P/TSX Composite (PR)	15,225	2.16	3.76	4.05	3.91	7.39	4.51	4.97	6.55
S&P/TSX 60 (TR)	2,204	2.29	4.16	4.76	8.94	11.55	7.43	8.24	9.57
S&P/TSX SmallCap (TR)	877	4.74	3.97	4.48	-9.07	1.72	2.25	3.23	-
U.S. Indices ($US) Return	Index Level	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	20 Years
S&P 500 (TR)	3,842	0.96	5.07	1.92	12.98	16.73	14.33	8.32	9.29
S&P 500 (PR)	2,086	0.85	4.54	1.29	10.70	14.26	11.94	6.07	7.25
Dow Jones Industrial (PR)	17,841	0.36	3.94	0.10	7.60	10.53	10.14	5.76	7.35
NASDAQ Composite (PR)	4,941	0.83	6.61	4.34	20.10	17.50	14.96	9.91	9.24
Russell 2000 (TR)	5,777	-2.55	5.03	1.65	9.71	15.87	12.73	9.18	9.36
U.S. Indices ($CA) Return	Index Level	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	20 Years
S&P 500 (TR)	4,656	-3.53	0.12	6.46	24.96	24.93	18.53	7.93	8.67
S&P 500 (PR)	2,527	-3.63	-0.39	5.81	22.44	22.29	16.05	5.68	6.64
Dow Jones Industrial (PR)	21,620	-4.10	-0.96	4.56	19.01	18.29	14.19	5.37	6.74
NASDAQ Composite (PR)	5,988	-3.66	1.58	8.99	32.83	25.75	19.19	9.50	8.63
Russell 2000 (TR)	7,000	-6.88	0.08	6.19	21.34	24.02	16.87	8.78	8.74
MSCI Indices ($US) Total Return	Index Level	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	20 Years
World	6,694	2.40	6.82	4.91	7.99	14.12	11.13	7.46	7.38
EAFE (Europe, Australasia, Far East)	7,004	4.16	8.83	9.37	2.10	11.71	7.89	6.10	5.60
EM (Emerging Markets)	2,116	7.72	9.51	10.17	8.17	3.60	3.35	9.93	6.99
MSCI Indices ($CA) Total Return	Index Level	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	20 Years
World	8,112	-2.16	1.78	9.59	19.44	22.15	15.22	7.07	6.78
EAFE (Europe, Australasia, Far East)	8,488	-0.47	3.70	14.24	12.93	19.56	11.86	5.72	5.01
EM (Emerging Markets)	2,564	2.93	4.35	15.09	19.63	10.88	7.16	9.53	6.39
Currency	Level	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	20 Years
Canadian Dollar ($US/$CA)	82.52	4.65	4.95	-4.27	-9.59	-6.57	-3.55	0.37	0.56
Regional Indices (Native Currency) Price Return	Index Level	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	20 Years
London FTSE 100 (UK)	6,961	2.77	3.13	6.01	2.66	6.65	4.62	3.78	3.94
Hang Seng (Hong Kong)	28,133	12.98	14.80	19.18	27.10	10.07	5.91	7.30	6.25
Nikkei 225 (Japan)	19,520	1.63	10.44	11.86	36.46	27.04	12.04	5.89	0.75
Bond Yields		3 Months		5 Years		10 Years		30 Years	
Government of Canada Yields		0.66		0.98		1.58		2.18	
U.S. Treasury Yields		0.00		1.43		2.03		2.74	

Canadian Bond Indices ($CA) Total Return	Index Level	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year
FTSE TMX Canada Universe Bond Index	987.31	-1.36	-1.81	2.74	8.21	4.62	5.77	5.37
FTSE TMX Canadian Short Term Bond Index (1-5 Years)	681.62	-0.44	-0.50	1.45	3.20	2.78	3.26	3.85
FTSE TMX Canadian Mid Term Bond Index (5-10)	1072.01	-1.26	-1.64	2.98	8.30	5.20	6.60	5.98
FTSE TMX Long Term Bond Index (10+ Years)	1561.55	-2.61	-3.55	4.34	15.64	6.76	9.31	7.46

Sources: TD Securities Inc., Bloomberg Finance L.P. TR: total return, PR: price return. As at April 30, 2015.

APPENDIX A

Important information

The information has been drawn from sources believed to be reliable. Where such statements are based in whole or in part on information provided by third parties, they are not guaranteed to be accurate or complete. Graphs and charts are used for illustrative purposes only and do not reflect future values or future performance of any investment. The information does not provide financial, legal, tax or investment advice. Particular investment, trading, or tax strategies should be evaluated relative to each individual's objectives and risk tolerance. TD Wealth, The Toronto-Dominion Bank and its affiliates and related entities are not liable for any errors or omissions in the information or for any loss or damage suffered.

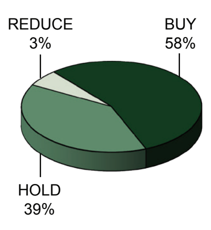
Certain statements in this document may contain forward-looking statements ("FLS") that are predictive in nature and may include words such as "expects", "anticipates", "intends", "believes", "estimates" and similar forward-looking expressions or negative versions thereof. FLS are based on current expectations and projections about future general economic, political and relevant market factors, such as interest and foreign exchange rates, equity and capital markets, the general business environment, assuming no changes to tax or other laws or government regulation or catastrophic events. Expectations and projections about future events are inherently subject to risks and uncertainties, which may be unforeseeable. Such expectations and projections may be incorrect in the future. FLS are not guarantees of future performance. Actual events could differ materially from those expressed or implied in any FLS. A number of important factors including those factors set out above can contribute to these digressions. You should avoid placing any reliance on FLS.

Full disclosures for all companies covered by TD Securities Inc. can be viewed at https://www.tdsresearch.com/equities/welcome.important.disclosure.action

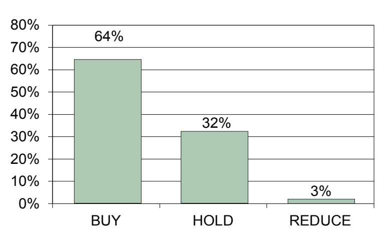
Company	Ticker	Disclosures
RioCan REIT	REI.UN-T	1,2,4,9
Allied Properties REIT	AP.UN-T	1,2,4
H&R REIT	HR.UN-T	1,2,4,9
Boardwalk REIT	BEI.UN-T	N/A

1. TD Securities Inc., TD Securities (USA) LLC or an affiliated company has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company. **2.** TD Securities Inc., TD Securities (USA) LLC or an affiliated company has received compensation for investment banking services within the last 12 months with respect to the subject company. **3.** TD Securities Inc., TD Securities (USA) LLC or an affiliated company expects to receive compensation for investment banking services within the next three months with respect to the subject company. **4.** TD Securities Inc. or TD Securities (USA) LLC has provided investment banking services within the last 12 months with respect to the subject company. 5. A long position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control. **6.** A short position in the securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control. **7.** A long position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control. **8.** A short position in the derivative securities of the subject company is held by the research analyst, by a member of the research analyst's household, or in an account over which the research analyst has discretion or control. **9.** TD Securities Inc. and/or an affiliated company is a market maker, or is associated with the specialist that makes a market, in the securities of the subject company. **10.** TD Securities Inc. and/or affiliated companies own 1% or more of the equity securities of the subject company. **11.** A partner, director or officer of TD Securities Inc. or TD Securities (USA) LLC, or a research analyst involved in the preparation of this report has, during the preceding 12 months, provided services to the subject company for remuneration. **12.** Subordinate voting shares. **13.** Restricted voting shares. **14.** Non-voting shares. **15.** Common/variable voting shares. **16**. Limited voting shares.

Distribution of Research Ratings



Investment Banking Services Provided



Percentage of subject companies within each of the three categories (BUY, HOLD and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.
Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

As at May 1, 2015.

Research Ratings
Action List BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector. **BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months. **SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss. **HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months. **TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities. **REDUCE:** The stock's total return is expected to be negative over the next 12 months.

Research Report Dissemination Policy: TD Waterhouse Canada Inc. makes its research products available in electronic format. These research products are posted to our proprietary websites for all eligible clients to access by password and we distribute the information to our sales personnel who then may distribute it to their retail clients under the appropriate circumstances either by e-mail, fax or regular mail. No recipient may pass on to any other person, or reproduce by any means, the information contained in this report without our prior written consent.
Analyst Certification:The Portfolio Advice and Investment Research analyst(s) responsible for this report hereby certify that (i) the recommendations and technical opinions expressed in the research report accurately reflect the personal views of the analyst(s) about any and all of the securities or issuers discussed herein, and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the provision of specific recommendations or views expressed by the research analyst in the research report.

Conflicts of Interest: The Portfolio Advice & Investment Research analyst(s) responsible for this report may own securities of the issuer(s) discussed in this report. As with most other employees, the analyst(s) who prepared this report are compensated based upon (among other factors) the overall profitability of TD Waterhouse Canada Inc. and its affiliates, which includes the overall profitability of investment banking services, however TD Waterhouse Canada Inc. does not compensate its analysts based on specific investment banking transactions.

Mutual Fund Disclosure: Commissions, trailing commissions, performance fees, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus, which contains detailed investment information, before investing. The indicated rates of return (other than for each money market fund) are the historical annual compounded total returns for the period indicated including changes in unit value and reinvestment of distributions. The indicated rate of return for each money market fund is an annualized historical yield based on the seven-day period ended as indicated and annualized in the case of effective yield by compounding the seven day return and does not represent an actual one year return. The indicated rates of return do not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. Mutual funds are not covered by the Canada Deposit Insurance Corporation or by any other government deposit insurer and are not guaranteed or insured. Their values change frequently. There can be no assurances that a money market fund will be able to maintain its net asset value per unit at a constant amount or that the full amount of your investment will be returned to you. Past performance may not be repeated.

Corporate Disclosure: TD Wealth represents the products and services offered by TD Waterhouse Canada Inc. (Member – Canadian Investor Protection Fund), TD Waterhouse Private Investment Counsel Inc., TD Wealth Private Banking (offered by The Toronto-Dominion Bank) and TD Wealth Private Trust (offered by The Canada Trust Company).

The Portfolio Advice and Investment Research team is part of TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank.

Trade-mark Disclosures: FTSE TMX Global Debt Capital Markets Inc. ("FTDCM"), FTSE International Limited ("FTSE"), the London Stock Exchange Group companies (the "Exchange") or TSX INC. ("TSX" and together with FTDCM, FTSE and the Exchange, the "Licensor Parties"). The Licensor Parties make no warranty or representation whatsoever, expressly or impliedly, either as to the results to be obtained from the use of the index/indices ("the Index/Indices") and/or the figure at which the said Index/Indices stand at any particular time on any particular day or otherwise. The Index/Indices are compiled and calculated by FTDCM and all copyright in the Index/Indices values and constituent lists vests in FTDCM. The Licensor Parties shall not be liable (whether in negligence or otherwise) to any person for any error in the Index/Indices and the Licensor Parties shall not be under any obligation to advise any person of any error therein.

"TMX" is a trade mark of TSX Inc. and is used under licence. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTDCM under licence.
Bloomberg and Bloomberg.com are trademarks and service marks of Bloomberg Finance L.P., a Delaware limited partnership, or its subsidiaries.

TD Securities is a trade-mark of The Toronto-Dominion Bank representing TD Securities Inc.,TD Securities (USA) LLC, TD Securities Limited and certain corporate and investment banking activities of The Toronto-Dominion Bank.