



Environmental Risk Management in Real Estate



Albert Ho
First Capital REIT

SMART Remediation
Edmonton, AB | March 11, 2020

SMART is
Powered by:



VERTEX
Environmental Inc.

www.vertexenvironmental.ca



Meadowlark Health and Shopping Centre, Edmonton









Environmental Risk Management In Real Estate

SMART Edmonton 2020

Albert Ho
Senior Director Environmental Programs

1

Real Estate Concepts & Considerations

-  Highest Best Use
-  Tenant Mix
-  Asset Class
-  Geography
-  Location
-  Environmental Risks and Liabilities

First Capital 2

2

REAL ESTATE ASSET CLASS



Office
Mount Royal Village, Calgary



Retail
Meadowlark Health and Shopping Centre, Edmonton



Residential
King High Line, Toronto



Industrial



Hotel / Resorts
Griffintown – 100 Peel, Montreal



Medical
71 King Street West, Mississauga



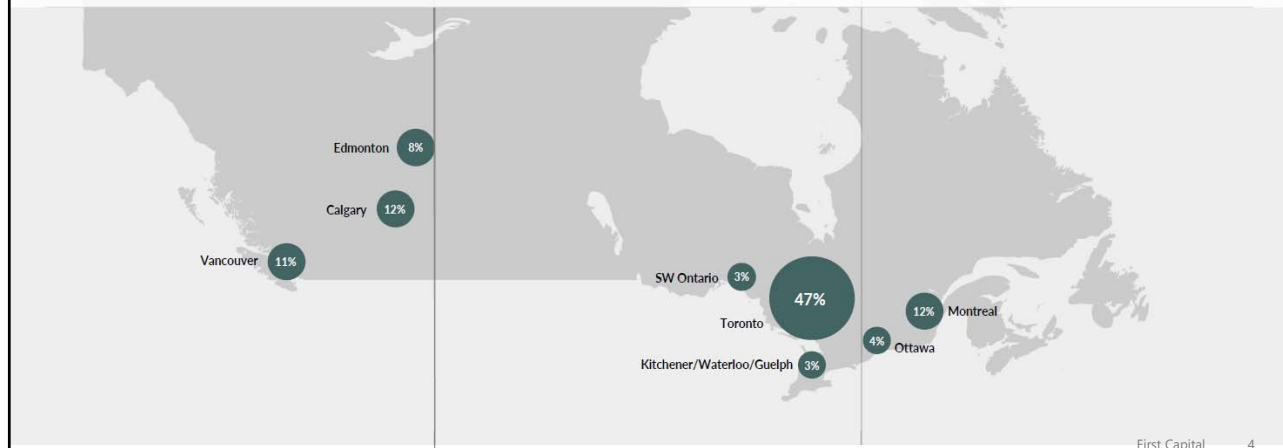
Senior Housing
Wilderton Centre, Montreal

First Capital 3

3

SUPER URBAN NEIGHBOURHOODS IN CANADA'S LARGEST CITIES

Western Canada	Vancouver, Calgary, Edmonton	Central Canada	Toronto	Eastern Canada	Montreal, Ottawa
Properties	46	Properties	66	Properties	46
GLA	6.8m	GLA	8.9m	GLA	5.2m
Fair Value %	31%	Fair Value %	53%	Fair Value %	16%



First Capital 4

4

FIRST CAPITAL REIT SNAPSHOT (TSX: FCR.UN)

One of Canada's leading, developers, owners and operators of mixed-used urban real estate in Canada's most densely populated centres

Formerly - First Capital Realty Inc.



Now - First Capital Real Estate Investment Trust (REIT)



158
Properties

\$9.3b
Total enterprise
value

Super
urban
Market focus
across Canada

23.5m sf
of gross leasable area
(20.9m sf at FCR share)

25.0m sf
Of future incremental density

As of December 31, 2019

First Capital 5

5

FCR's Pillars of Environmental Risk Management

1. Integration of Risk Management into Functional Teams
2. Master Service Agreement with select Consultants and AGAT labs
3. Environmental Insurance Policy
4. Work Programs
5. Quarterly Reporting to Executive Management and the Board of Directors



First Capital 6

6

Key Functional Teams



First Capital 7

7

Investments

Purpose

Acquisitions, dispositions and investment opportunities

Required Services

- Environmental Assessments (Phase I & II ESA)
- Property Condition Assessment
- Geotechnical Assessment
- Risk Assessment
- Evaluation of Environmental Impairment (\$\$)

Business Considerations

- Contracts - Agreement of Purchase and Sale
- Due Diligence Period – Set Timelines to Waive Conditions



Edmonton Assembly – 16 Properties

First Capital 8

8

Financing

Purpose

Debt, equity, mortgage financing and treasury cash management

Required Services

- Environmental Assessments (Phase I & II ESA)
- Property Condition Assessment
- Evaluation of Environmental Impairment to a Property (\$\$)
- Risk Assessment

Business Considerations

- Meeting Lender's Requirements
 - ✓ Environmental and Property Condition Assessments
 - ✓ Pre-approved consultants
 - ✓ Reliance Letters
 - ✓ Completing Lender Undertaking(s)



Meadowlark Health & Shopping Centre, Edmonton

First Capital 9

9



Juicing Returns with Leverage

Financing Conditions

- Acquisition Price \$20,000,000
- Retail Building 100,000 sq. ft.
- Rent \$22 /sq. ft with 3% increase per year
- Operating Expense \$15 /sq. ft. with 2% increase per yr.
- Debt Servicing or Interest Rate 3% per year
- Sale Capitalization Rate 5.75% in year 5
- Amortization period of 5 years

No Leverage	0	1	2	3	4	5
Property Income		2,200,000	2,266,000	2,333,980	2,403,999	2,476,119
Operating Exp		1,500,000	1,545,000	1,591,350	1,639,091	1,688,263
Debt Servicing		0	0	0	0	0
Sale Price						21,150,000
Net Earnings	(20,000,000)	700,000	721,000	742,630	764,909	21,937,856

IRR 4.8%

ROE (@Year 1, 5) 3.5% 3.9%



Moderate: 65% Leverage	0	1	2	3	4	5
Property Income		2,200,000	2,266,000	2,333,980	2,403,999	2,476,119
Operating Exp		1,500,000	1,545,000	1,591,350	1,639,091	1,688,263
Debt Servicing		390,000	390,000	390,000	390,000	390,000
Sale Price						21,150,000
Net Earnings	(7,000,000)	310,000	331,000	352,630	374,909	21,547,856

IRR 28.1%

ROE (@Year 1, 5) 4.4% 5.7%



High: 90% Leverage	0	1	2	3	4	5
Property Income		2,200,000	2,266,000	2,333,980	2,403,999	2,476,119
Operating Exp		1,500,000	1,545,000	1,591,350	1,639,091	1,688,263
Debt Servicing		540,000	540,000	540,000	540,000	540,000
Sale Price						21,150,000
Net Earnings	(2,000,000)	160,000	181,000	202,630	224,909	21,397,856

IRR 64.8%

ROE (@Year 1, 5) 8.0% 12.4%



First Capital 10

10

Operations

Property Management

Purpose

Responsible for day to day operations of the property and tenant relations.

Required Services

- Risk Assessment
- Remediation (Planned)
- Hazmat Surveys
- Hazmat Abatement (including mould)
- Monitoring – Groundwater, Soil vapour and/or Indoor air
- Vapour Mitigation
- Spill and Flood response
- Sewer Use Bylaw Compliance

Business Considerations

- Access restrictions and notification requirements
 - ✓ Interruption to tenant operations
 - ✓ Interruption to operations of building



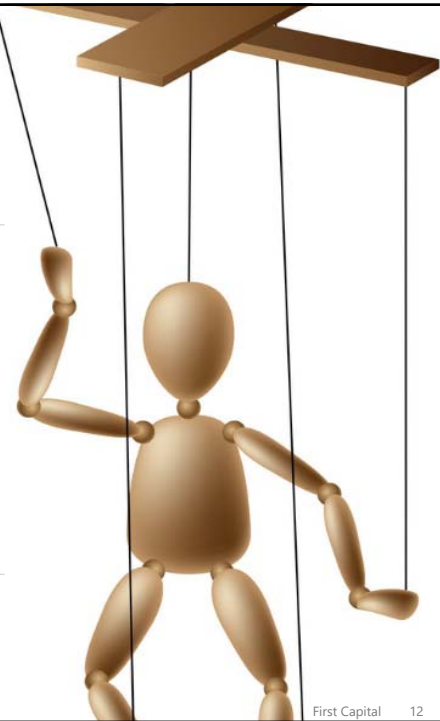
Longstreet Shopping Centre, Edmonton

First Capital 11

11

Top 5 Intolerable Environmental Risks

1. Off-site Migration
2. Uncharacterized or Not Fully Characterized Contamination
3. Inability to Investigate the Property
4. Practically Unresolvable and/or Ambiguous Recommendations in Reports
5. Relying on Environmental Reports that are Not Current



First Capital 12

12

Expectations of Consultants

1. Communicate Frequently and Promptly
2. Manage Each Property as a Separate Project with its Own Deadlines
3. Provide Expert Opinion and Practical Recommendations
4. Meet Agreed to Deadline(s)
5. Develop an Appropriate Scope and Budget for each Engagement
6. Invoice on Time



Development Process



Prepare Concept Plan (Massing Plan)
– Planning Consultants



Obtain Internal Stakeholder Feedback
- includes Leasing, Construction, Environmental and financial review
- Pre-submission meeting with City



Refine Plan



Submit for Municipal Entitlements
- Development permit (6 to 18+ months expected)



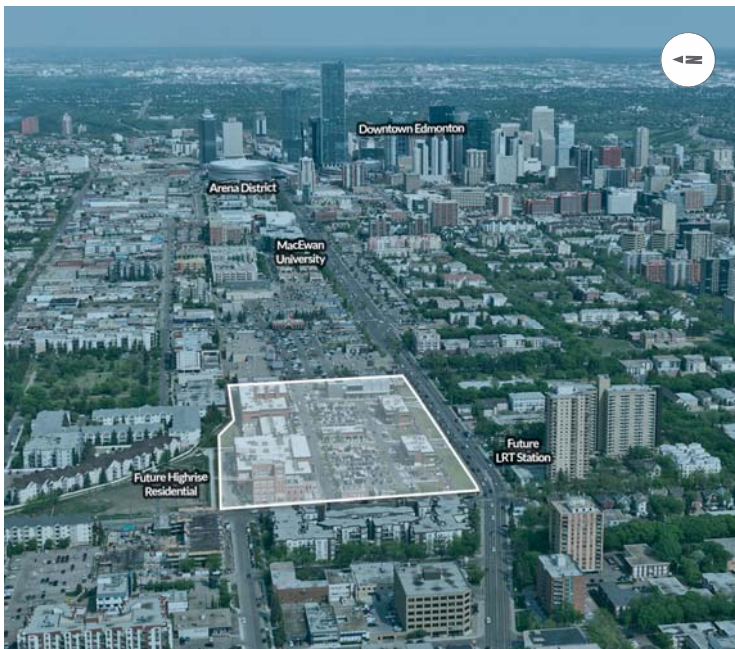
Negotiate Approval Conditions/ Address Comments Raised by Municipality



Approved Redevelopment Plan

First Capital 15

15



Super Urban Neighbourhood Edmonton Brewery District Edmonton, AB

Demographics 2019 Estimates	5KM AVG
Population	210,700
Average Household Income	\$94,100
Total Acreage	11.8
GLA	310,000 sf
Key Tenants	

First Capital 16

16



17



18



Super Urban Neighbourhood
Edmonton
South Park Centre
Edmonton, AB

19



Meadowlark Health and
Shopping Centre, Edmonton



Albert Ho
Senior Director Environmental Programs

First Capital
Shops at King Liberty
85 Hanna Ave, Suite 400
Toronto, ON
Tel: 416-216-2390

fcr.ca
TSX: FCR.UN

20

20