LIZOTTE
AND ASSOCIATES REAL ESTATE INC

June 2022

ALBERTA LAND REPORT

By Christian Jones

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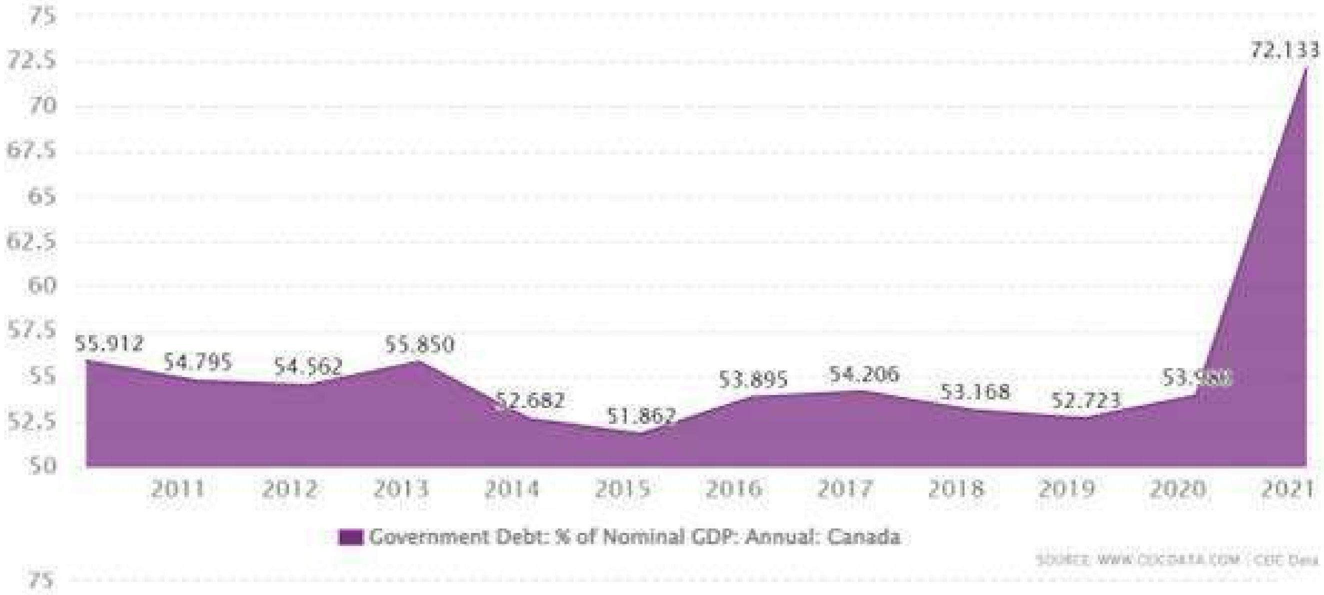
ALBERTA'S DEVELOPMENT LAND IN 2022

BY CHRISTIAN JONES, LAND SALES EXECUTIVE, ARCH T. | LIZOTTE AND ASSOCIATES REAL ESTATE INC.

2022 HAS LAUNCHED WITH WAR, RUMORS OF WAR, FAMINE, AND ONGOING PESTILENCE.

Such strain has many investors prophesying hyperinflation eroding the power of cash into the foreseeable future. This statement is bolstered by the Bank of Canada's efforts to slow inflation via increasing bank interest rates. Canada, unfortunately, seems self-hogtied from excessive debt accumulation. Such obligations theoretically turn unserviceable if interest rates increase too much. During the past two years, Canada's debt to Gross Domestic Product (GDP) ratio has spiked by roughly 20%. Per the below diagram, this now places it over 72%:



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In principle, rate hikes could draw Canada into economic default. Boldly said, but imagine a credit card where you owe 72% of your annual salary with minimum payments due to avoid default. Payments may be workable when rates are low, but they mushroom as rates rise. Eventually, the minimum payments surpass your income collapsing you to default. Although you might acquire more debt to make your minimum payments, lenders eventually see the risk as too great and move to stronger business opportunities.

The solution the Canadian Government has installed appears to be threshold interest rate hikes. Unable to raise rates whereby adverse inflation is completely thwarted, they may only mitigate CAD erosion. It seems inevitable that Canadians will pay their debt via inflation sucking the value from the dollar, higher interest rates, or a blend.

One hopeful investment strategy has investors taking refuge in commodity markets like gold, oil, grain, and real estate. **Lately, Alberta's future development land has particularly caught peoples' attention for some of the following reasons:**

- Land is a limited hard asset that generally lends itself to rise with inflation. Cash may erode, but basic hard assets tend to appreciate;
- Many west coasts and Toronto investors concerned by bursting real estate bubbles appreciate diversification opportunities. Calgary and Edmonton appear as strong alternatives which have generally experienced less real estate market volatility recently;
- The Greater Vancouver Area virtually has zero large land tracks due to the constraints of past development, the Pacific Ocean, and the United States border. Calgary and Edmonton being nearby and having established markets offer ample Canadian farmland for fractional pricing;
- Alberta's economy has been especially stunted since oil prices dropped circa 2013. Following suit, Calgary and Edmonton real estate markets have generally remained soft creating buying opportunities;
- Alberta being the world's fourth-largest oil reserve combined with ongoing energy price escalations, points towards provincial immigration and job creation. A hot energy sector usually means more people, work, spending, and real estate demand. This translates to climbing real estate prices and investment returns;
- Remote workers in expensive housing markets like Vancouver and Toronto have been moving to Alberta. Selling their homes and buying similar ones in Calgary or Edmonton can afford big city luxury at fractional living cost;
- Calgary and Edmonton prices are generally rising now indicating an upward market wind;
- As world food prices increase, owning farmland is a trending stopgap should famine strike. Those who control the land, control the food.

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In general development land around Calgary and Edmonton is inclined to rise from higher oil prices, hyperinflation, speculation, and pending famine. Offers to Purchase and land inquiries are rampant with many deals slated to finalize later this year. If these close, it strongly indicates the Alberta economy has returned.

It is critical to look at investing intelligently and from multiple angles. In this report, I have included articles and brought professionals together from an array of fields like land appraisers to share their wisdom in this industry. Their goal and mine are to inform you of today's market and present sophisticated ways to invest. Should you have any questions, feel free to reach out anytime for more in-depth discussions.

We are striving to see your land investments succeed.

Respectfully,

Christian Jones

VALUING A PARTIAL INTEREST IN REAL ESTATE

BY BRAD DAVISS, B.COMM, AACI, P. APP | FROST VALUATIONS INC.

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VALUING A PARTIAL INTEREST IN REAL ESTATE

Fee simple interest represents the most common form of real estate ownership in Canada. When valuing real property such as land, the appraiser may be asked to value a partial or fractional interest in the asset. Given various structures, such as syndications and joint ventures, the valuation of partial interests are becoming more prevalent in today's market.

Where two tenants in common own a single property and where each tenant in common has a one-half interest through a consensual or joint venture agreement, the division of the fee simple interest is relatively straightforward. However, where there is no prior contract between the parties on the division of the fee simple value between the interest holders, or when multiple fractional interests are involved, then the valuation can become very challenging.

It is the appraiser's experience, through extensive market research that partial interests in real estate typically trade at discount, as a partial interest is less desirable than ownership of a whole.

There are numerous reasons why the market typically discounts the partial interest value in real estate. Some of these are:

- The more limited market appeal of a partial interest;
- The cost and time savings in selling a partial interest to the other tenant in common;
- Compatibility, or lack thereof with other fractional interest owners;
- Divergent future use/development goals between the various owners;
- Inability to leverage/finance which is typical with other real estate assets;
- Lack of liquidity; and
- Varying financial strength between the fractional interest owners in a group;

It is therefore the appraiser's task to research the market in order to determine the appropriate discount when valuing a partial interest. This work can be contentious where the tenants in common are in dispute. Where the parties are not in dispute, but are seeking advice on the sale or purchase of a partial interest the appraiser's research will prove to be of great benefit.

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The complexity of the discount rate has many influences and a partial interest can be discounted for several factors; for example one minority discount may relate to the value of a particular interest where the rateable value (which reflects a control position) is discounted to reflect the lack of control over decisions/operations (discount for non-control). A further discount for illiquidity (illiquidity or marketability discount) may also be applicable. The illiquidity discount generally relates to a minority position in a smaller private holding (i.e. is similar to this situation), as the en bloc value may already reflect a discount for the illiquidity.

Discounts for lack of control and illiquidity are related as a non-controlling interest is less marketable than a controlling interest. In practice, these factors are often combined and are reflected in one discount. Nevertheless, the discount for non-control relates to the lack of control and reflects the relationship between the interest holders while the discount for illiquidity relates to the external market at that time.

In conclusion, each individual's interest in a property will have value, however the sum of the market values of the individual partial interests will usually not equal the market value of the fee simple interest.

HOW SELLING YOUR FARM SOONER CAN BE A BETTER INVESTMENT

BY CHRISTIAN JONES, LAND SALES EXECUTIVE, ARCH T. | LIZOTTE AND ASSOCIATES REAL ESTATE INC.

YOUR SALE STRATEGY CAN BE CRITICAL.

Have you ever had a developer offer to buy your land and let you freely farm until development was imminent? Did you wonder if it would be wiser to wait for more appreciation? Your sale strategy can be critical.

Let's take a quarter section generating $100k of annual farm cash flow. You negotiate a 2022 sale for $20M during the hot seller's market and freely farm the land until development is imminent.

Theoretically, the bottom of an economic cycle is every 3.5 years, half of a complete historical seven year cycle. If you reinvest during the next economic down turn, say 2026, you should be able to acquire a like parcel for less, say $17M.

Then, hypothetically in ~3.5 years (2029), your new parcel may sell for $24M (opposed to $20M) being 3.5 years closer to development and in a boom.

The second quarter section also produces 3.5 years of extra farming ($350k). In total, that nets $3.35 MILLION more than if you waited seven years to sell to a developer for the same theoretical $24M.

THEORIZING FURTHER:

$3.35M is great, but what if you could capture MORE?

When compared to moderately distanced parcels, land generally appreciates slower when it's right next to, or very far from, urban development. This disproportion creates a window to tailor acquisitions for optimal returns.

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The following diagram shows examples sold circa southeast Edmonton. Notice the dropping price relative to development distance. Now, hypothetically use parcel "X" as your current parcel and Parcel "B" as the "like" parcel described earlier.

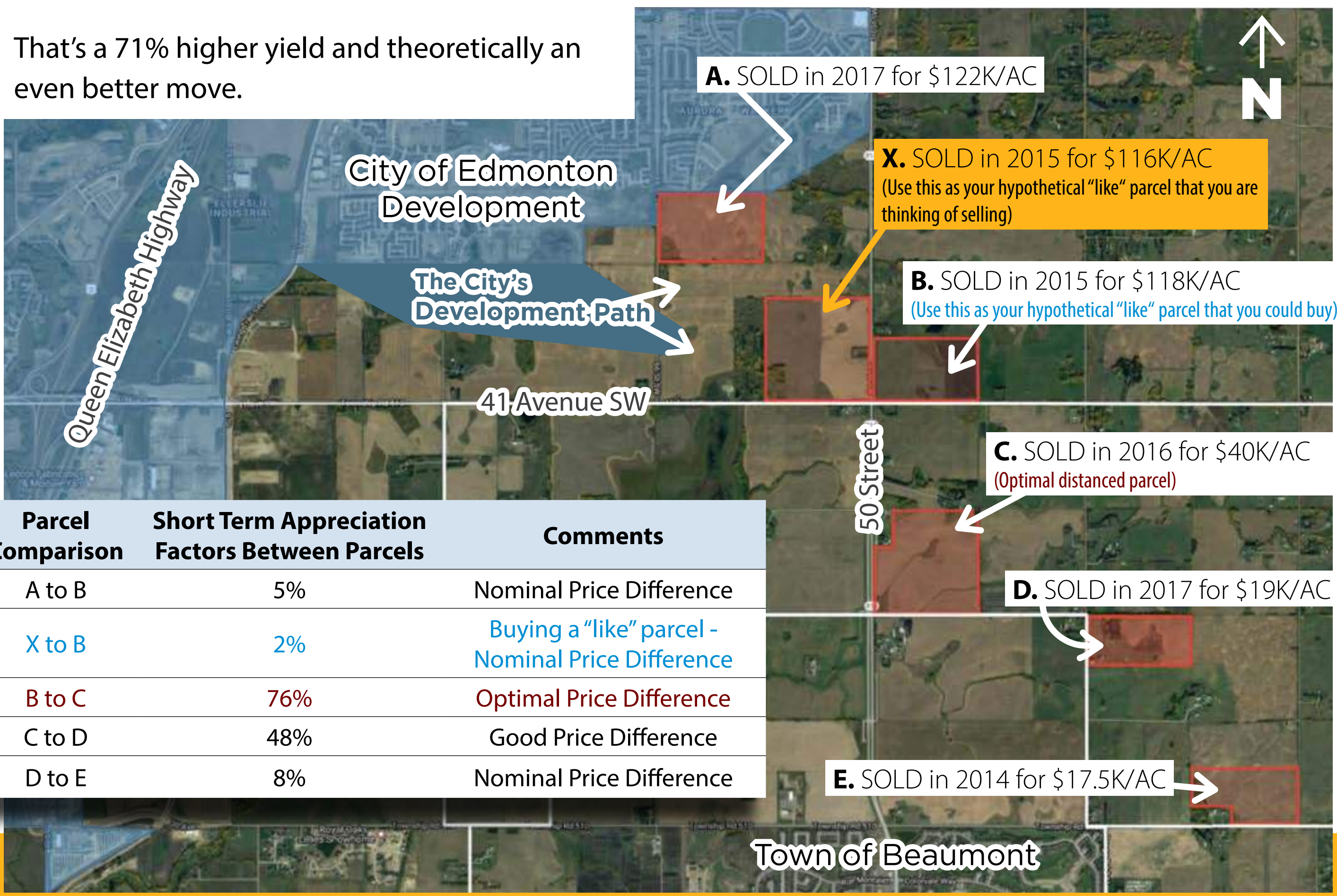
If development advances towards parcel "X" by a mile, parcel "X" will be where parcel "A" is in relation to development. Theoretically, parcel "A" has only increased 5% in value.

But also with development a mile closer, parcel "C" appreciates to the value of parcel "B", a 76% value gain.

That's a 71% higher yield and theoretically an even better move.

In addition though, since you're purchasing $17M worth of land at $40k/acre instead of at $118k/acre, you can actually acquire 425 acres instead of only 160 acres. This quadruples your farming cash flow during your final 3.5 years netting an extra $930k. By reinvesting intelligently, $17M of land appreciates to $41M instead of just $24M. That's about $18M or 75% more.

By selling to a developer strategically, you might significantly boost your gains. When the next offer appears, see what the math says and consider discussing your options with a professional commercial land expert.



Parcel Comparison	Short Term Appreciation Factors Between Parcels	Comments
A to B	5%	Nominal Price Difference
X to B	2%	Buying a "like" parcel - Nominal Price Difference
B to C	76%	Optimal Price Difference
C to D	48%	Good Price Difference
D to E	8%	Nominal Price Difference

LIZOTTE AND ASSOCIATES REAL ESTATE

NOTABLE RECENT TRANSACTIONS IN GREATER EDMONTON AREA & GREATER CALGARY AREA

GREATER EDMONTON AREA

ADDRESS	ACREAGE	SALE PRICE	PRICE/ACRE	SALE DATE
2503 Ellerslie Rd SW	15 Acres	$1,260,000	$84,000	Sep-21
12410 Winterburn Rd NW	19.99 Acres	$3,998,000	$200,000	Jan-21
315/461 153 Ave NW	22.61 Acres	$1,700,000	$75,187	Jul-21
55037 RR 214	40.2 Acres	$1,400,000	$34,824	Feb-22
19971 17 St NE	40.03 Acres	$2,200,000	$54,958	Nov-21
Hwy 814 Lying South of Hwy 625	41.65 Acres	$2,330,750	$55,960	Jun-21
Hwy 628 & RR 233	45.69 Acres	$1,370,700	$30,000	Oct-21
3149 66 St SW	50 Acres	$9,000,000	$180,000	Mar-22
52469 RR 221	63.29 Acres	$540,000	$8,532	Sep-21
2304 184 St NW	75.13 Acres	$13,523,000	$180,000	Jun-21
4011 Ellerslie Rd SW	80 Acres	$18,000,000	$225,000	Jul-21
Nisku Spine Rd, N of TR 510	80.04 Acres	$7,307,269	$91,295	Mar-21
Hwy 21 & TR 520	118 Acres	$1,150,000	$9,745	Jul-21
RR 232 North of TR 520	123.94 Acres	$1,550,000	$12,506	Sep-21
RR 213A & TR 564	135 Acres	$400,000	$2,963	Feb-21
25463 Hwy 19	153.4 Acres	$4,536,226	$29,571	Feb-21
Hwy 21 South of TR 514	155.06 Acres	$1,000,000	$6,449	Feb-21
22064 Hwy 16	159.57 Acres	$1,305,000	$8,178	May-21
RR 234, North of TR 510	160 Acres	$1,500,000	$9,375	Mar-22

GREATER CALGARY AREA

ADDRESS	SITE UNITS	SALE PRICE	PRICE/ACRE	SALE DATE
Hwy 549 & 256 Ave	58.32 Acres	$572,000	$9,808	Mar-20
Hwy 1 & RR 270	132.31 Acres	$1,650,000	$12,470	Aug-20
Hwy 772 & TR 270	149.91 Acres	$1,350,000	$9,005	Nov-21
RR 20 & TR 264	159.6 Acres	$1,280,000	$8,020	May-20
RR 45 & TR 242	160 Acres	$1,600,000	$10,000	Mar-20
RR 52 South of TR 252	160 Acres	$1,150,000	$7,187	Sep-21
RR 25 & TR 262	160 Acres	$1,300,000	$8,125	Dec-20
243001 RR 41	160 Acres	$3,680,000	$23,000	Nov-21

**The data presented in this table was sourced from third party data sources, Lizotte and Associates Inc. is not responsible for the accuracy of the historical data within this table.

IN THE NEWS

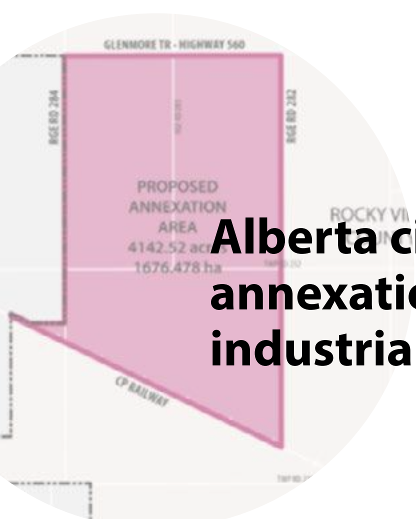
CLICK TITLE TO READ FULL ARTICLE

Long delays at Alberta Land Titles office slowing down real estate transactions

Priced out of Ontario, home buyers turn their eyes to Calgary real estate market

Okanagan housing prices drive exodus to Alberta and beyond

Rosenberg: Alberta's economic turnaround is the real deal, and it's about more than just energy



Alberta cities pursue annexations to support industrial growth

LIZOTTE AND ASSOCIATES REAL ESTATE

WHO ARE WE

Founded in 1984, our focus is strictly on commercial real estate sales, leasing, and associated services.

Lizotte & Associates Real Estate Inc. is a growing Edmonton-based Commercial Real Estate firm that has been operating from both Edmonton and Calgary locations. We provide a superior service and innovative solutions to real estate needs.

Together our team of experts possesses extensive market knowledge and offers a diverse range of services to Landlords, Tenants, Vendors, Investors, and Developers in all sectors. Our success is a result of our client's success. We recognize the importance of your time and are committed to providing a seamless & professional real estate experience. Above all, we believe in long-term relationships over successful transactions.

Lizotte and Associates Real Estate Inc. strives to provide the highest standard and level of customer service, priding ourselves on our extensive knowledge of the current market and relationship building.

OUR SERVICES INCLUDE

- Commercial real estate leasing
- Investment sales, both owner user and off marketing opportunities
- Industrial leasing & investment building and land sales
- Retail lease and renewal consulting

$3,750,000.^{00}

$3,795,000.^{00}

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Or check out **lizotterealestate.com**

CHRISTIAN JONES

LAND SALES EXECUTIVE, ARCH T. | LIZOTTE AND ASSOCIATES REAL ESTATE INC.

ORGANIZATIONS WORKED WITH:

ABOUT HIM.

Corporately based in Alberta, Canada, Christian has been the provincial land department head for the world's top real estate brokerages including DTZ Canada Inc., Cushman & Wakefield Canada, and Colliers International. He has also managed the real estate of Canada's fourth-largest company, the Canadian National Railway (CN Rail). This multi-billion-dollar portfolio included over 100,000 acres and millions of square feet of office and industrial space –roughly the surface area of Calgary, Alberta!

To achieve this milestone Christian studied real estate by developing industry-leading land-mapping software. Through data-driven decisions, his clients are informed of the latest market trends, comparables, and listings. Christian shows them hidden property potential by evaluating zoning, density, development options, and market forecasts so they make strategic transactions.

Christian also holds a diploma in Architectural Technology and has years of construction and engineering experience.

With over two decades of assisting corporations, developers, investors, and owners, Christian continues building momentum with many years of energy remaining. His path has been intense and he prays this is just the start!

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