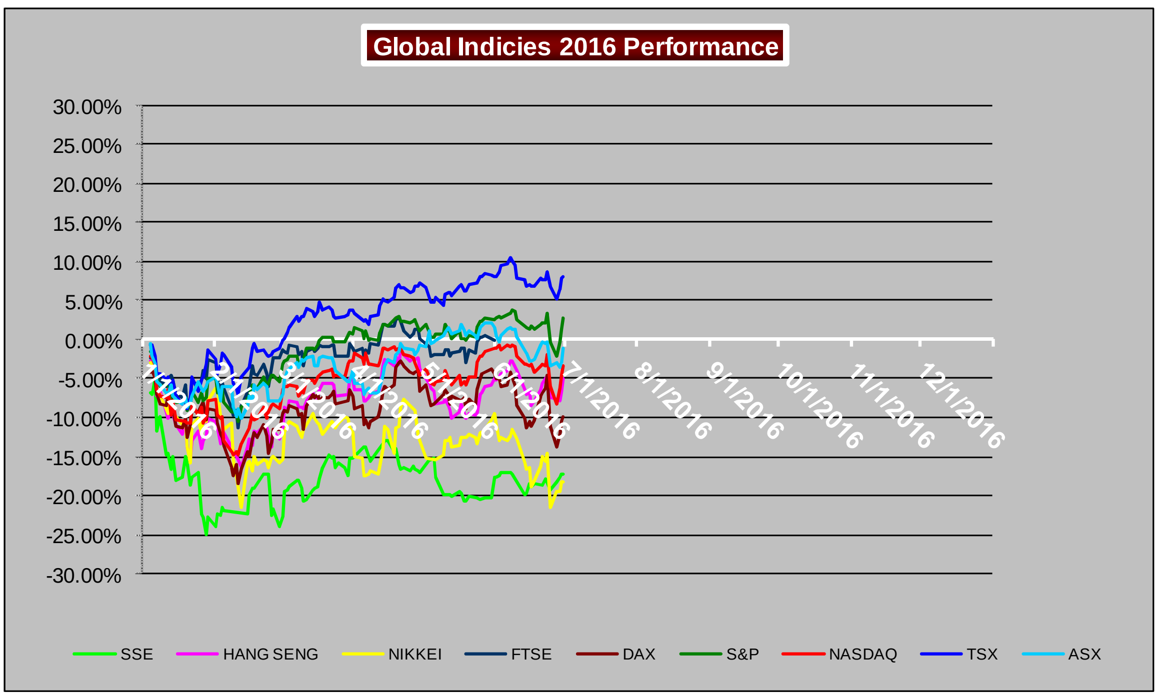
GDB July 2016 Newsletter

Monthly Market Summary:

2016 June Market Activity		
SSE COMPOSITE	***2,929.61***	+12.99 (0.45%)
HANG SENG	***20,794.37***	-20.72 (-0.10%)
NIKKEI 225	***15,575.92***	-1,659.06 (-9.63%)
FTSE 100	***6,309.98***	+79.18 (1.27%)
DAX	***9,680.09***	-582.65 (-5.68%)
DOW	***17,929.99***	+142.79 (0.80%)
S&P 500	***2,098.86***	+1.91 (0.09%)
NASDAQ COMPOSITE	***4,842.67***	-105.38 (-2.13%)
ASX 200	***5,233.40***	-145.20 (-2.70%)
TSX COMPOSITE	***14,064.50***	+1.00 (0.01%)



Investment Themes:

The red hot Canadian property market is facing the start of regulatory interventions from the government. With the surging property values in Vancouver spinning out of control, the provincial government finally is stepping up to introduce cooling measures this month. On Monday July 25, the British Columbia Liberal government broke new ground and introduced a 15% property transfer tax on foreign buyers on residential properties in the Metro Vancouver area. Days following the news, the Ontario government has also announced that they would be watching the development very closely, which has led to speculations that they will be implement similar measures in the near future.

Over the years, the flow of foreign capital into property markets in major metropolises around the world has led to restrictions and circumventions to limit the money flow from abroad driving up cost of home ownership for local residents. As our research shows, once the cooling measures are enacted, majority of the markets reach a peak in prices following the intervention.

Hong Kong

In October 2012, the Hong Kong government slapped on a similar 15% tax on property purchases made by foreigners as they attempted to curb the overheating market. A tax of 10-20% was also levied on anyone that sells a property less than three years after purchase to deter speculation.

The property price in Hong Kong continued to increase after October, albeit at a slower pace than prior to 2012, according to *Global Property Guide*:

> In 2009, residential property prices surged by 28.5% (26.5% inflation-adjusted)
>
> In 2010, house prices rose by 21% (17.7% inflation-adjusted)
>
> In 2011, house prices rose by 11.1% (5.1% inflation-adjusted)
>
> In 2012, property prices skyrocketed by 25.7% (21.2% inflation-adjusted)

However, notable slow down in price increases is observed post 2012:

In 2013, property prices rose 7.7% (3.3% inflation-adjusted)

In 2014, property prices rose 13.6% (8.2% inflation-adjusted)

In 2015, property prices rose by just 2.4% (0.1% inflation-adjusted)

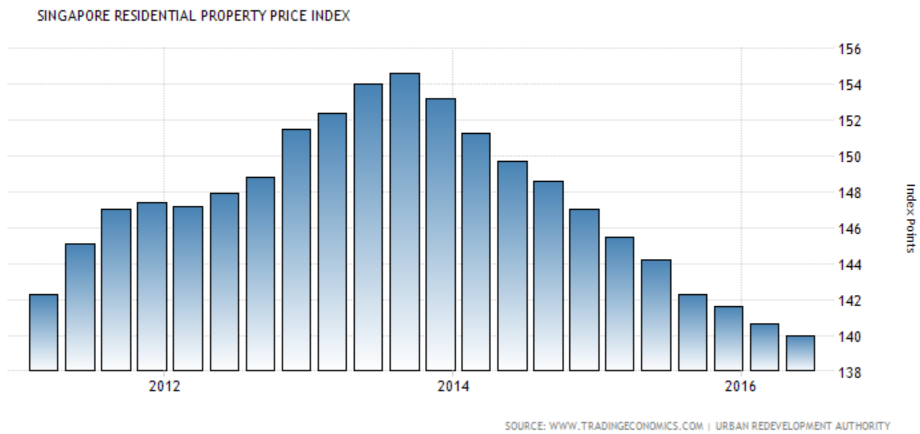
And finally price peaked in September 2015; and in the first quarter of 2016, property prices fell 13% from the peak.

(Source: Bloomberg)

Singapore

Foreigners purchasing residential properties aside from condominiums require government approval. In 2013, an additional buyer's stamp duty (ABSD) of 15% is levied on foreign property owners in addition to the 3% stamp duty for all property purchases.

Since the government intervention, residential property prices in Singapore has seen steady decline.



Australia

Since 2015, foreign investors must pay an application fee to the Foreign Investment Review Board (FIRB) for permission to buy only new dwellings or vacant land for development (existing property stocks are off limits). The property must also be for their personal use. In addition, three states: Victoria, New South Wales, and Queensland impose additional stamp duty surcharges on foreigner purchasers ranging from 3% to 7%.

The latest data from the Australian Bureau of Statistics shows that property prices are stalling in many capital cities. The average residential dwelling price dropped 0.2 per cent across all cities in Q1/2016.

United Kingdom

As of April 6, 2015, foreign property owners must pay 28 per cent of capital gain tax on UK residential property they own, in line with the top range of capital gain tax rate paid by UK residents on property sales. The capital gains tax for overseas owners was introduced shortly after the government took steps to cool sales of luxury homes by boosting the stamp duty — a progressive tax paid on most residential properties in the U.K. — for homes valued at more than 1 million pounds.

Overall house prices have yet to show sustained weakness since the cooling measures. However, the higher end luxury property segment where most foreign money is flowing to has reported to show signs of slowdown.

In conclusion, the overall impact from government interventions in foreign ownerships has lead to a slowdown in overall price growth. We expect the same reactions in Canada, especially in Vancouver and Toronto. Although investors cannot directly short these housing markets in Canada, shorting the real estate related stocks or REITs with a particular focus in British Columbia and Ontario can be investment strategies that may benefit from a peak in price in these markets.