**An Integrated Investment Plan for the Financing of Real Estate- A Case Study: Coldwell Banker Complete Real Estate Services Canada**

**Introduction**

**Background of the study**

The global economy still suffers from the great recession which impacted the emphasis of real estate as the factual point of analysis. The economic crisis spilled over and vigorously impacted not only the real estate markets but other financial and non-financial markets including derivative markets, stock, and bond markets. Consequently, real estate has a very high multiplier effect hence depicted to as the “economic locomotive” as the industry has significant impact on employment and gross domestic product (GDP). The bane of real estate investment and development is finances. There is no iota of doubts that financing real estate is a critical factor in developing and investing in the field (Breuer & Nadler, 2012). However, the industry is experiencing some complexities and high capital demand and funding which make it hard to realize in the current economy.

The real estate property investment is either in form of real investment or financial investments. Real estate financing are comparatively similar to other financial investment. However, real estate works towards changing the use or management of a premise hence enhancing its income earning and usefulness in the long-run. These can be achieved through alteration of existing assets or construction of new facilities to bolster efficiency and meet the changing market needs and demands. The real estate industry is the spectrum economic life. The field is culminated with cross-boarders investments in both portfolio and physical assets investments; thus resorting to offshoring supply chain and fields of economics (Baum, 2015). Therefore, due to its impact in the micro and macro-level of economies, financing and development of real estate in Canada is an important endeavour.

Canada and other parts of the world are experiencing steady in supply of business premises, townhouses and apartments in urban area which tremendously pressures the real estate sector. Consequently, it is difficult to value land for real estate development thus culminating financing. The social and technological developments are significantly influencing people lives which make it hard for real estate to respond to such changes in real time. Canada is experience millennial changes in workspace environments besides emergent of online retail sales which threaten the real estate industry. More importantly, Canada is facing a significant demand in industrial space. Despite the increased possibilities to rent an industrial space in Canada, especially in Toronto at a reasonable price, the availability rate is such facilities are very low. These factors not only tighten the real estate markets but also necessitate the sector to adapt to changing work environments towards more flexible and affordable facilities.

Proper financing is significant to successful real estate investment and development. There are various forms and sources of financing in real estate which vary in terms and availability in the market. Consequently, the source and type of finance are tailored towards specific schemes and projects and or particular stage of the project. The major sources of real estate financing includes mortgage financing, debt financing, unsecured institutional lending, sale-leaseback financing, sale of securities, and advanced payment of key money(Baum et al., 2011) These sources of financing differs in terms and conditions as well as payment including interest.

The norm of the real estate industrial across the world is increasing complexity in financing arrangements which entail non-institutional and non-Canadian entities and lenders. This is especially due to varied sources and types of fund which embeds on dynamics of market rates including the interest rates and mortgage rates (Eichholtz, Gugler, & Kok, 2011). Real estate financing in across Canada is arranged through lending institutions like credit unions, trust companies, and banks besides private and non-institutional organization. However, the credit terms vary from lender to lender and depend on risk involved and nature of transaction (Brueggeman & Fisher, 2011). For instance, the interest rate varies in financing real estate and can either be variable, fixed, or based on prime rate as determined by the creditor. Besides, lenders necessitate collateral and primary securities in real property and or other assets to secure a loan. Typical primary securities in real estates in includes debentures and mortgages while collateral security may include specific/general assignments to rent and lease, personal guarantees, and security agreements (Bulan, Mayer, & Somerville, 2006).

However, despite the implications of real estate investment and development, the Canadian government has set up advanced and sophisticated legislations to protect the environment. There are laws regulations, statutes, laws, and guidelines concerning the protection of the environment. Consequently, real estate lenders evaluate and assess risks and regulations while financing a real estate investment and development. Integrated landscape management outlines the spatial target context and harmonization of investment. This calls for real estate and their financers to develop and adapt to innovative mechanisms beyond sector-based approach (Charney, 2001). This furthers the challenges in financing real estate from both the private and public financial institutions not only due to economic implications but also social and environmental influences.

Therefore, there has been renewed focus on sustainable development and corporate sustainability. Consequently, despite major breakthrough and significant achievements, the sustainable financial practices are far from mainstream. When financial institutions including banks and credit union are moving towards financial sustainability with comprehensive evaluation of the social, economic, and development concerns in the financial sectors and the real estate development. Therefore, financial and non-financial institutions evaluate the social, environmental and economic implications of real estate development and investment before financing their projects.

It is imperative that real estate investment and development involves particularly massive capital expenditure. Finance is an essential input in real estate in essence that it provides the industry with capital to operate. However, the availability and cost of finances for real estate development varies from lender to lender thus influences the capital base of the project and its viability. Despite of the significance of the real estate investment and development, there exist an information dearth that impact financing source, place, and methods. More worrying, through the circumstances are not unexpected; there is no central institution to facilitate the processes of real estate funding (Kazimoto, 2016). Therefore, this research sought to evaluate financing challenges in real estate and the integrated plans and approaches to remedy the challenges.

**Coldwell Banker’s Real Estate Canada**

The company was established in 1906 and has it’s headquarter in New Jersey, USA. Coldwell Bakers has established territories in 49 countries and with about 3000 offices across the world. The company, through its offices and territories, provides various services including residential brokerage, corporate brokerage, and corporate services. The company has been serving the Canadian market since 1943 across all provinces. The organization has been successful in meeting customer requirements with a satisfaction level of approximately 98%. With such a diverse history and reach, the organization provides the study with the right background to evaluate financial challenges and alternative financing in real estate industry.

**Problem Statement**

Despite the financial needs and estimates for real estate investment and development being necessarily imprecise, without a doubt, the need for finance in the sector is extremely huge. The industry has a relatively low global saving proportion besides the growing financial assets across the world. However, the major impact lies on the enhancing real estate financial incentives such as reallocation and developments. Therefore, development of local and global, private and public, financing is necessary. Besides, with the growing sustainable development needs, financing of the real estate remains profit driven (Herbert, Belsky, & Apgar, 2012). Therefore, it is imperative that the real estate industry will face substantial risks and extra costs to secure financing from lenders. Real estate funding has for long depended on traditional commercial loans to finance their projects and development. However, alternative finance for real estate development and investment tend to lessen the stringent commercial bank loaning policies.

Alternative funding in Canada will allow relators and developers to access finances with less stringent qualifications. Additionally, alternative finance provides abundance of loan options as commercial bank has lower loan limit and preference which constraint small sized projects. Therefore, alternative finance in real estate provides urgent and short-tern fund infusion to the industry thus supporting all types of projects. Traditional and commercial banks have little flexibility not only in loan terms but also interest rate flexibility. Alternative funding typically provides the industry with comprehensive loans with lower and competitive interest rates. The application and approval process of alternative finances is less notorious compared to commercial banks and credit union. Therefore, alternative funding allows the real estate industry to access urgent funds to spearhead their projects. Alternative finances therefore provides the real estate with a less bureaucratic access to cash with less stringent and competitive interest rates which favours the industry’s financial needs in the short and long-run.

Commercial banks forms more than 50% of real estate funding source and this overdependence results to constraint financial channels, high debt ratio, and soft budget constraints. However, their interest rates remain high at 1.75% (Bank of Canada) (Bédard-Pagé, 2019). For instance, RE/MAX Holding Inc., a major real estate company across Canada operates using 45% of commercial loans. According to the Canadian Mortgage and Housing Corporation, due to stricter standards and rates, number of new mortgages dropped by 11.9% in 2018 as many developers and buyers find it difficult to qualify for funding (Cowan, 2019). More worrying, the Bank of Canada hiked the interest rate to developers and mortgages to buyers which impacted the market considerably. Therefore, with the adoption of alternative finance in real estate development waivers on commercial banks stringent measures and hiked interest rates hence enhancing their investment and development endeavours. The main challenge in real estate financing remains diversification of financial channels and optimization of financial plans to minimize fund shortage and risks in real estate development.

**General Research Question**

To address this research problem, the research sought to answer the research question:

1. What is the implication of alternative funding in Canadian real estate financing?
2. What are the financial impacts to the real estate development in Canada?

**Specific research questions**

1. Why is it that more than 50% of capital comes from commercial banks for real estate financing?
2. What are the major financial constraints facing real estate development in Canada?
3. How will integrated financing plans remedy real estate financial challenges in Canada?
4. What alternative sources of finance are possible for real estate financing under the present legislation in Canada?

**General Research Objective**

Amidst scarcity of real estate finances and changing loan policies and regulations, real estates are at the glimpse of losing business unless they adapt and innovate new and integrated financing strategies.

1. ***Real estate financing constraints***

Success of real estate investment and development solely rely on capacity and ability to mobilize finances from various sources. However, mobilization of finances is not a walk in the park as the lenders have differentiated terms and conditions of lending. Consequently, the sources of funds are constraint of various factors which limit the amount a real estate firm can get. Therefore, with the fluctuating lending and borrowing markets including mortgage payment and interest rates, it is necessary to establish the challenges real estate faces in quest to fund their projects in Canada. Therefore, this paper sought to establish the major constraint in real estate financing in Canada.

1. ***Alternative finances under the current Canadian legislation***

Real estate development and investment is a capital intensive endeavour. Consequently, it is nearly impossible to finance the massive scale investments from saving hence necessary to rely on other sources including mortgage institutions, commercial banks, insurance companies, equity financing, Real estate investment trusts (REITS), etc. More important, the dependency on commercial loans is proving difficult and expensive. However, with the growing capital needs in the industry, alternative finances have emanated. Which of these alternative funding are feasible and genuine in terms of interest rates, terms, and conditions? This study evaluated alternative finances to real estate approved and gazetted by the Canadian legislation.

1. ***Real estate funding strategies***

To envisage real estate investment and development, organizations adopt differentiated techniques to maximize the value of loans. The re a major funding techniques including debt/equity financing that real estate implement to acquire funds. More important, the desires to obtain funding from all sources are subject to hypothecate or pledge on either personal property or real estate ownership as loan condition. The use of funding is contingent the sheer size of an investment and or developmental project thus commands varied capital allocation thus funding strategies. Therefore, the size of the project and other factors impacts the techniques adopted by a real estate to finance its projects. This research evaluated the funding techniques in real estate and how integration of these techniques will impact the real estate financing.

1. ***Commercial Bank capital dependence***

Approximately 50% of real estate development capital comes from commercial banks and mortgages. This is despite the finances being culminated with stringent terms and conditions and hiked interest rates. For instance, the Bank of Canada hiked commercial loans interest rates while the mortgage terms were made stricter thus limiting their capacity and access to development and purchase funds. Therefore, this research evaluated the dependency of real estate on commercial banks finances amidst strict measures and higher interest rates at the expense of alternative finances.

**Specific Research Objectives**

This research aims at establishing the implication of integrated financing plan in real estate with respect to financial challenges and sources in Canada. The specific research objectives for the research were;

1. To evaluate the challenges that faces real estate in financing their development project in Canada.
2. To establish the major sources of financing for real estate industry in Canada.
3. To determine the best techniques in different real estate funding
4. To evaluate the implication of integrated real estate financing plan on real estate funding.

**Research Hypothesis**

***Sources of Finance***

***Ho***: More than 50% of Coldwell Banker’s financing come from commercial banks

***Ha***: Less than 50% of Coldwell Bankers finances come from commercial banks

***Challenges in financing***

***Ho***: Lack of alternative sources of finance is the major challenge in Canadian real estate financing

***Ha:*** Alternative financing is not a major source of financial challenges in Canada.

**Research Significance**

The real estate industry in Canada is culminated with unending financial constraints. Financing and financial plans plays an important role in allowing investment and development of real estate across the world. The research will be important due to;

1. Establish the various sources and strategies are adopted to enhance finding of the sector. Due to the hefty capital outlay, savings cannot substantially scale the financial needs in real estate thus result to other sources such as commercial banks, mortgage institutions, equity financing, etc.
2. Despite availability of various funding sources, these financers embeds their loan with varied terms and conditions to access and payment of the funds which further heightens the challenges of financing real estates.
3. Establish the government through the central bank regulated the lending metric which impacts the amount of loans real estate could receive especially from commercial banks.
4. The global economy fluctuates now and then impacting the mortgage and interest payments thus limiting the capacity of real estates and their customers to borrow to finance their activities. The real estate sector demands more funding to meet investment and development needs in a volatile lending market, it is imperative to evaluate the best approach to funding their operations.

The purpose of this paper is to evaluate the various sources of real estate funding including risks and strategies to establish the implication of integrated investment plan in real estate.

**Definition of terms**

**Real Estate**: This is a real property that entails improvements of land through buildings, road, utility systems, structures, fixtures etc. contingents to property rights as depicted in the title of land ownership, natural resources, and or improvements. Real estate exists in various forms, with unique utility and purpose, including residential, land, industrial, and commercial.

**Real Estate Financing**: entails any financing related to, encumbering, regarding, or secured in part or in whole directly or indirectly from varied sources including commercial banks and bond financing to secure deed of debts and trust or mortgage and or any financing secured directly or indirectly through pledge to enhance real estate investment and development.

**Real Estate Development**: also **property development**, involves business operations/processes that encompass varied activities including renovation and re-lease of existing facilities and buy and develop land for resale through developers companies whose main role is to coordinate the conversion of paper work into real property.

**Organization of work**

The research project has five chapters which covers specific aspects. The structure of the research paper is as depicted below;

Title page

Declarations

Acknowledgement

Dedication

Abstract

Table of contents

List of figures

List of Tables

List of abbreviations

1. Chapter 1: Introduction

This chapter discusses the research background and the research problem of the research. More important, it highlights the research questions, objectives, and hypothesis to be analysed in quest to inform the study

1. Chapter 2: Literature Review

This chapter addresses the theoretical background of real estate financing besides providing comprehensive literature on sources, advantages, and challenges in funding real estate.

1. Chapter 3: Research Methodology

Research methodology will provide the blueprint through which the research paper will be addressed including research paradigm, research design, approach, and data collection methods that will enhance answering the research questions and ascertaining the research objectives.

1. Chapter 4: Data analysis and Interpretation

This chapter contains the analysis of primary data to test for hypothesis and inform further on the situation of alternative funding in real estate. Besides, the chapter details the interpretation of data with reference to the research objectives.

1. Chapter 5: Conclusion, Recommendation, and Further studies

This chapter wraps up the research paper. The chapter involves the research conclusions and recommendation to practitioners besides evaluating areas for further studies as depicted by research shortcomings.

References

Appendices

**References**

Aivazian, V. A., Ge, Y., & Qiu, J. (2005). The impact of leverage on firm investment: Canadian evidence. *Journal of corporate finance*, *11*(1-2), 277-291.

Baum, A. (2015). *Real estate investment: A strategic approach*. Routledge.

Baum, A., Fear, J., Colley, N., Notay, A., & Evans, L. (2011). Have property funds performed. *Urban Land Institute Europe Policy and Practice Committee Report*.

Bédard-Pagé, G. (2019). *Non-bank financial intermediation in Canada: An update* (No. 2019-2). Bank of Canada Staff Discussion Paper.

Breuer, W., & Nadler, C. (2012). Real estate and real estate finance as a research field—an international overview. In *Real Estate Finance* (pp. 5-52). Gabler Verlag, Wiesbaden.

Brueggeman, W. B., & Fisher, J. D. (2011). *Real estate finance and investments* (pp. 5-6). New York, NY: McGraw-Hill Irwin.

Bulan, L., Mayer, C. J., & Somerville, C. T. (2006). *Irreversible investment, real options, and competition: Evidence from real estate development* (No. w12486). National Bureau of Economic Research.

Charney, I. (2001). Three dimensions of capital switching within the real estate sector: A Canadian case study. *International Journal of Urban and Regional Research*, *25*(4), 740-758.

Cowan, J. (2019, September 12). Canada real estate market outlook 2019 - Canadian Business. Retrieved May 28, 2020, from https://www.canadianbusiness.com/uncategorized/canada-real-estate-market-outlook-2019/

Eichholtz, P. M., Gugler, N., & Kok, N. (2011). Transparency, integration, and the cost of international real estate investments. *The Journal of Real Estate Finance and Economics*, *43*(1-2), 152-173.

Herbert, C. E., Belsky, E. S., & Apgar, W. C. (2012). *Critical Housing Finance Challenges for Policy Makers*. What Works Collaborative.

Gyourko, J. E., & Rybczynski, W. (2000). Financing new urbanism projects: Obstacles and solutions. *Housing Policy Debate*, *11*(3), 733-750.

Kazimoto, P. (2016, January). Challenges facing real estate investment for economic growth in Arusha. In *Journal of International Scholars Conference-BUSINESS & GOVERNANCE* (Vol. 1, No. 3).

Tyrrell, N., & Bostwick, J. (2005). Leverage in real estate investments: an optimization approach. *Briefings in Real Estate Finance: An International Journal*, *5*(3‐4), 143-154.