



The International Comparative Legal Guide to:

Real Estate 2015

10th Edition

A practical cross-border insight into real estate law

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General Chapter:

1	The AIFMD and the Real Estate Sector: An Update – Scott Cochrane & Nish Dissanayake, Herbert Smith Freehills LLP	1
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Country Question and Answer Chapters:

2	Albania	Haxhia & Hajdari Attorneys at Law: Isuf Haxhiu & Elvina Haxhij	7
3	Argentina	Marval, O'Farrell & Mairal: Santiago Carregal & Diego A. Chighizola	17
4	Australia	Herbert Smith Freehills: David Sinn	25
5	Brazil	Demarest Advogados: Adriana Khalil Daiuto	34
6	Canada	Osler, Hoskin & Harcourt LLP: Heather McKean & Stella Di Cresce	45
7	Chile	Figueroa, Illanes, Huidobro and Salamanca: Juan Eduardo Figueroa Valdés & Jose Manuel Figueroa Valdés	55
8	Croatia	Law Office Lacmanović: Natalija Lacmanović	62
9	Cyprus	Andreas Neocleous & Co LLC: Christos Vezouviou & Lefkios Tsikkinis	71
10	Czech Republic	Gürlich & Co.: Richard Gürlich & Katerina Benasova	80
11	Denmark	Gorrissen Federspiel: Hans-Peter Jørgensen & Jesper Avnborg Lentz	86
12	England & Wales	Herbert Smith Freehills LLP: Kathryn Oie & Michelle Howie	95
13	Finland	Dittmar & Indrenius: Antti Aaltonen & Raija-Leena Ojanen	106
14	Germany	Herbert Smith Freehills Germany LLP: Johann Rumetsch & Stefanie Herkert	114
15	Greece	KG Law Firm: Gus J. Papamichalopoulos & Elia Iconomidou	122
16	Indonesia	Ali Budiardjo, Nugroho, Reksodiputro: Nafis Adwani & Agus Ahadi Deradjat	132
17	Ireland	McCann FitzGerald: Shane Fahy & Denise Dockery	139
18	Israel	Ziv Lev & Co. Law Office: Ziv Lev & Moshe Merdler	151
19	Japan	Nishimura & Asahi: Hideaki Ozawa & Takahiro Yokota	160
20	Lithuania	Balčiūnas & Grajauskas: Kazimieras Karpickis & Artūras Liutvinas	170
21	Macedonia	Debarliev, Dameski & Kelesoska Attorneys at Law: Dragan Dameski & Jasmina Ilieva Jovanovikj	178
22	Mexico	Portilla Ruy-Diaz y Aguilar, S.C.: Ivan Guerrero Sanchez & Gonzalo Eugenio Ruy-Diaz Benhumea	187
23	Nigeria	Austen-Peters & Co.: Jide Ogundana & Jerry Okoye	195
24	Peru	Miranda & Amado: Claudia Lucena Mayorga & Daniel Corzo Simons	203
25	Puerto Rico	Ferraiuoli LLC: Eduardo Tamargo-Motroni & María del Rosario Fernández-Ginorio	211
26	Romania	Pachiu & Associates: Ana-Maria Goga & Raluca Mustaciosu	218
27	Russia	Capital Legal Services: Elena Stepanova & Vladimir Adelson	227
28	Serbia	Petrikić & Partneri AOD in cooperation with CMS Reich-Rohrwig Hainz: Marija Marošan & Đorđe Popović	236
29	Slovenia	Odvetniki Šelih & partnerji, o.p., d.o.o.: Blaž Ogorevc & Tilen Terlep	245
30	Spain	Hogan Lovells: Emilio Gomez Delgado	253
31	Sweden	Advokatfirman Vinge: Sofia Olsson & Anna Edström	262
32	Switzerland	Schellenberg Wittmer Ltd: Yves Jeanrenaud & Amanda Burnand Sulmoni	270
33	Turkey	Başpınar & Partners Law Firm: Kaan Gök & Adil Ali Ceylan	278
34	Ukraine	Vasil Kisil & Partners: Alexander Borodkin & Volodymyr Igonin	285
35	USA	Greenberg Traurig, LLP: Christina Braisted Rogers	295
36	Vietnam	Gide Loyrette Nouel A.A.R.P.I.: Nasir PKM Abdul & Huynh Tuong Long	305

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Canada

Heather McKean



Stella Di Cresce



Osler, Hoskin & Harcourt LLP

1 Real Estate Law

1.1 Please briefly describe the main laws that govern real estate in Canada. Laws relating to leases of business premises should be listed in response to question 10.1. Those relating to zoning and environmental should be listed in response to question 11.1.

The main laws that govern real estate in Canada are the statutes of each provincial and territorial government. In each province, there are separate real estate laws, which, save for Québec, are based on common law. In Québec, property law is governed by the *Civil Code of Québec* “CCQ”, which is based on civil law and derived from the Napoleonic Code. Federal laws including competition, criminal, and interest rate laws additionally apply to real estate.

1.2 What is the impact (if any) on real estate of local common law in Canada?

With the exception of Québec, property law throughout Canada has developed through the English common law process and is greatly reflected in jurisprudence throughout Canada. In Québec, the law is based on civil law.

1.3 Are international laws relevant to real estate in Canada? Please ignore EU legislation enacted locally in EU countries.

International laws do not directly impact Canadian real estate laws. In certain circumstances, orders of foreign courts may be enforceable in Canada.

2 Ownership

2.1 Are there legal restrictions on ownership of real estate by particular classes of persons (e.g. non-resident persons)?

There are both federal laws, such as the *Investment Canada Act* and *Competition Act*, and provincial laws, which vary by province, which may restrict the ownership of real estate by non-residents.

Some provinces do not have any direct restrictions, but may impose taxes, registration and reporting requirements. For example, Ontario, Québec and British Columbia, require foreign entities to obtain a licence to own and operate real estate. Other provinces

have strict restrictions on land ownership by non-residents. For example, in Prince Edward Island, the *Land Protection Act* generally restricts, *inter alia*, the amount of land that a non-resident of Prince Edward Island may own to five acres. In Alberta, the *Agricultural and Recreational Land Ownership Act* restricts non-Canadians, including non-Canadian corporations and partnerships, from acquiring controlled land, which generally refers to large parcels of land outside of urban areas such as farm land or rural recreational land. The provinces of Saskatchewan and Manitoba also restrict ownership of real estate by non-residents.

3 Real Estate Rights

3.1 What are the types of rights over land recognised in Canada? Are any of them purely contractual between the parties?

In Canada there are both freehold and leasehold rights. A freehold estate is almost always held as a fee simple interest, which is the closest interest to absolute ownership. A leasehold right confers a right of exclusive possession on a tenant, which is enforceable against all, even the lessor. Both freehold and leasehold interests may be held on a co-ownership basis as a tenancy in common or joint tenancy.

Licences are purely contractual rights between the parties. A licence given by the licensor to the licensee allows the licensee to use the property in a manner specified in the contract but does not provide an interest in the land. Easements, restrictive covenants and servitudes are additional rights in land. An easement provides one party a right to use a specific portion or land for a specific purpose. A restrictive covenant is a contract where one party agrees not to use its land for certain purposes or in a manner specified in the contract. A servitude is an interest in land where an owner’s possessory rights are burdened by another’s non-possessory rights. In Québec, usufruct, servitudes, superficies and emphyteusis are among the types of rights giving limited rights in land.

3.2 Are there any scenarios where the right to a real estate diverges from the right to a building constructed thereon?

While not typical, there are many exceptions where the right to real estate can indeed diverge from the right to a building constructed thereon. One method is by lease between contracting parties. This can provide the tenant with exclusive rights to the building, while the landlord retains ownership of the lands. Another increasingly

common method of separating the real estate from the building in Canada is through strata title ownership, which is common with condominiums. In these instances, a condominium owner may own a portion of the building, their condominium unit, but the condominium corporation will own the real estate and retain the common elements of the building. Superficies is a similar concept used only in Québec, where a portion of the property either above or below ground is owned. In Québec, an emphyteusis is a dismemberment of the right of ownership for a specified period of time. The emphyteutic lessee enjoys all of the rights attaching to the status of an owner during emphyteusis but does not actually have the status of owner.

4 System of Registration

4.1 Is all land in Canada required to be registered? What land (or rights) are unregistered?

All land owned in Canada is registered in a public land registry through either a registry system, a land titles system or a combination of both in the applicable province. The registry system is a public record of documents evidencing transactions affecting land. Buyers and other inquirers must determine the quality of title themselves. In the land titles system, the applicable provincial government determines the quality of the title, and essentially guarantees (within certain important statutory limits) the title to, and interests in, the property. For such properties, the province has all original title documents. Currently, most common law provinces and territories are using the land titles system or are in the process of converting title from a registry system to a land titles system.

4.2 Is there a state guarantee of title? What does it guarantee?

As indicated in question 4.1, there is a provincial guarantee of indefeasible title under the land titles systems but not under registry systems. This guarantee of title, subject only to fraud in acquiring the interest, is the fundamental difference between land titles systems and registry systems. Under provincial land titles systems, if a person has been wrongfully deprived of land or of some estate or interest in land through fraud or errors and omissions of the land registration system, they can apply to a provincially administered assurance fund for compensation, which may be limited by the available proceeds in the assurance fund, for their wrongful deprivation.

4.3 What rights in land are compulsory registrable? What (if any) is the consequence of non-registration?

Rights in land are not compulsorily registrable; however, pragmatically most rights in land are always registered for several reasons, including establishing priority, providing notice to third parties (since a third party without notice is not bound by interests that are not registered) and ensuring eligibility for available provincial assurance funds in case of wrongful deprivation of land or an interest in land through fraud or errors and omissions of the land registration system.

4.4 What rights in land are not required to be registered?

Pursuant to provincial land titles legislation, certain interests do not need to be registered in order to be effective against the owner of the

land and third parties. In certain provinces, leases that do not exceed three years where there is actual occupation under the lease need not be registered. Similarly, there are also governmental, utility and railway rights that do not need to be registered against land such as municipal taxes, certain easements, expropriation rights and provisions of land planning and subdivision statutes.

4.5 Where there are both unregistered and registered land or rights is there a probationary period following first registration or are there perhaps different classes or qualities of title on first registration? Please give details. First registration means the occasion upon which unregistered land or rights are first registered in the registries.

There are different procedures in each province throughout Canada for first registration, thus the rules vary between the provinces. In Ontario, but not all other provinces, the title granted upon first registration in the land titles system may be absolute, qualified or leasehold title, depending on the applicant's interest. In some provinces, a first registration may be later amended if there was fraud, a wrongful act or mistake. In Ontario, there is no probationary period following a first registration. However, upon registering an interest in land in Ontario and most other jurisdictions, there is a certification process.

4.6 On a land sale, when is title (or ownership) transferred to the buyer?

On a land sale, ownership is generally transferred to the buyer when the deed or transfer is registered in the applicable land registry office.

4.7 Please briefly describe how some rights obtain priority over other rights. Do earlier rights defeat later rights?

Generally, priority of registration prevails wherein a right first registered will have priority over a subsequent registered right. However, there are some exceptions to this general principle, which may include the following: i) certain unregistered rights may have priority over registered rights, where the registered interest holder had knowledge of the unregistered interest at the time of registration; ii) rights that arise by prescription may take precedence over registered rights (such as in the case of adverse possession); iii) legislation, such as bankruptcy legislation, or legislation pertaining to personal property, including security interests in fixtures may provide for different priority rights; iv) construction liens; and v) parties may also contract to subordinate their interest to a subsequent registered right.

5 The Registry / Registries

5.1 How many land registries operate in Canada? If more than one please specify their differing rules and requirements.

Each province and territory in Canada has its own land registry system, whether it is a land titles system, a registry system or a combination of both. Each system has its own rules, although the land titles systems in British Columbia, Alberta and Saskatchewan have similar rules and requirements. The registry system applies in Prince Edward Island and Newfoundland and Labrador and a

similar system applies in Québec. Ontario has largely converted from registry systems to a land titles system and Manitoba, Nova Scotia and New Brunswick are in various stages of the conversion process.

5.2 Does the land registry issue a physical title document to the owners of registered real estate?

Typically, land registries throughout Canada do not issue a physical document to the owners of registered real estate. A transfer of ownership is actualised by registering, either physically or electronically (depending on the applicable land registry system), a deed or transfer with the applicable land registry office or land registrar, copies of which can be obtained from the relevant registry office, often electronically. Once registration is complete, a copy of the transfer (if in the land titles system) or deed (if in the registry system) or a copy of a certificate of title is issued to the owner to confirm the registration and status of title.

5.3 Can any transaction relating to registered real estate be completed electronically? What documents need to be provided to the land registry for the registration of ownership right? Can information on ownership of registered real estate be accessed electronically?

The rules regarding electronic registration of real estate documents vary across provinces, as each land registry, whether electronic or paper-based, is administered provincially. Canadian provinces are generally shifting towards electronic registration, which is permitted or mandatory in most provinces. To register an ownership right in the land registry typically a deed or transfer must be provided to the land registry. Most jurisdictions have a prescribed form of deed or transfer that must be used. Information on ownership of registered real estate can be obtained electronically in most jurisdictions. However, under the registry system, any such ownership information can only be obtained by the records at the land registry office.

5.4 Can compensation be claimed from the registry/registries if it/they makes a mistake?

As stated in questions 4.2 and 4.3, common law jurisdictions under the land titles system generally have a limited assurance fund to compensate victims if the land registry or land registration system makes an omission or error that wrongfully deprives a person of land or of an estate or interest in land.

5.5 Are there restrictions on public access to the register? Can a buyer obtain all the information he might reasonably need regarding encumbrances and other rights affecting real estate?

There are no restrictions on public access to the information contained in a Canadian land register. A buyer or other interested party can retrieve most information they will reasonably need regarding encumbrances and other rights affecting land. However, not all rights in respect of real estate are registered on title to the property. Some claims in respect of real property work orders, taxes or utilities can also constitute encumbrances despite not being registered on the title to the property. There may also be other claims by public authorities or unregistered rights that may affect the property. Such rights may only be discoverable upon inquiring with the various governmental authorities, which may require the consent of the owner or may only be discovered upon an examination of

additional documents such as a municipal planning report from a third party consultant, an up to date survey, environmental assessment or building condition assessment. In Ontario, the previous purchase price on a deed may not be revealed on the land register if the previous buyer paid land transfer taxes directly to the Ministry of Finance. In such cases, a subsequent inquirer can only determine the previous purchase price by inquiring directly at the Ministry of Finance.

6 Real Estate Market

6.1 Which parties (in addition to the buyer and seller and the buyer's finance provider) would normally be involved in a real estate transaction in Canada? Please briefly describe their roles and/or duties.

- a) Selling and purchasing agents (also referred to as real estate brokers)

Typically, a person who wishes to acquire or dispose of real estate will seek the assistance of a real estate broker. Real estate brokers are subject to special regulation in Canada. Each province has legislation regulating the trade in real estate, designed to protect consumers and instil confidence in the buying and selling of real estate.

- b) Lawyers

Lawyers play a significant role in real estate transactions. Lawyers will examine title to the property and conduct off-title searches and inquiries in order to determine the status of the property and whether there are any issues or deficiencies related thereto. Lawyers can hold payment and closing documents in escrow until the transaction has been completed. In commercial transactions, lawyers are frequently involved in drafting and settling the terms of the purchase agreement and closing documents, and will attend to registration of the transfer of the property.

- c) Notaries

Generally, notaries do not play a large role in real estate transactions in Canada other than in Québec. Notaries are commonly used in Québec, and must be retained for anything that requires a notarial act. A gift of immovable property or hypothec on immovable property (i.e. a mortgage) are two documents that require a notarial act to be valid. A contract of sale of immovable property does not require a notarial act; however, notaries are involved in the registration of the deed of sale.

- d) Surveyors

In the event that an existing survey of the property does not exist, a surveyor may be retained to provide a new survey. Surveys are often required to obtain a mortgage, determine whether the building is in compliance with all applicable by-laws, confirm the size, shape and location of the property, the building and other improvements thereon.

- e) Title Insurers

Title insurance is not mandatory but is frequently used in residential and commercial transactions. A title insurer provides an insurance policy in favour of an owner or a lender of real property. Such insurance can protect an owner from losses related to survey and municipal issues, encroachment issues, title fraud and intervening registrations between the time of closing and registration, if such gap exists. Similarly, it can protect a lender from losses associated with priority, validity and enforceability.

- f) Third Party Consultants

Third party consultants, such as environmental consultants, engineering consultants and planning consultants are often used in commercial real estate transactions. Environmental consultants

determine the environmental status of a property, engineering consultants determine that the building and improvements are in good condition or the condition presented by the seller and planning consultants ensure that planned development will comport with local laws and regulations.

6.2 How and on what basis are these persons remunerated?

Real estate agents are typically remunerated on the basis of commission which is generally paid out of the purchase price that would otherwise go to the seller upon the transfer. Fees of lawyers are charged based on hours worked or, increasingly, through alternative fee arrangements. Surveyors are typically paid a flat fee. Title insurers are paid based on the value insured. Third party consultants are typically paid a flat fee.

6.3 Has the real estate market in Canada seen an increase in the availability of real estate finance during recent years? What trends (if any) are emerging as to different categories of finance providers beyond traditional lending banks?

The Canadian real estate market has seen an increase in availability of real estate financing in the past five years, following the financial crisis of 2008. Long-term interest rates have declined and are currently at record low levels for high-quality commercial real estate throughout Canada, specifically with respect to Class A office buildings in central business districts in major Canadian cities and high-quality industrial and retail properties. In Canada, federal insurance programmes provide coverage on multi-residential properties resulting in very low long-term interest rates for owners of these properties. However, competition for lending is very competitive and continues to be dominated by banks, insurance companies and pension funds. While there has been some commercial mortgage securitisation lending, it is significantly less than before the financial crisis.

6.4 How strong is development activity in Canada? What were the most significant development transactions in Canada in the past year?

Toronto, Calgary and Edmonton have seen significant development of new commercial office complexes in their central business districts. For example, in downtown Toronto, the central business district is growing four times faster than the rest of the city. This has resulted in a surge of new construction of downtown office buildings in Toronto in the past couple of years including Bay Adelaide Centre, Bremner Tower, RBC Waterpark Place III and QRC West. Development activity in also been strong in the multi-residential condominium market in every major city in Canada.

6.5 Have you observed a shift in the approach of investors towards residential as an asset class and, in particular, towards what were historically viewed as its specialist subsectors such as affordable housing, student accommodation and retirement living?

There has not been a significant shift in the approach of investors towards residential as an asset class. With the availability of low interest rates, the cost of residential housing is at an all-time high in cities such as Vancouver and Toronto, although more affordable in smaller cities and towns. Affordable housing and student accommodation are typically developed by or with government

assistance. Retirement homes are increasingly owned by large specialised real estate investment trusts.

7 Liabilities of Buyers and Sellers in Real Estate Transactions

7.1 What (if any) are the minimum formalities for the sale and purchase of real estate?

A transfer or deed of land must be accepted in written or electronic form by the applicable land registry office for the purchase and sale of real estate. An agreement of purchase and sale must be in writing to be enforceable. Québec has additional requirements, including for some transactions, an endorsement from a notary.

7.2 Is the seller under a duty of disclosure? What matters must be disclosed?

Generally, the seller is not under a duty of disclosure in connection with a sale. The starting principle in common-law jurisdictions is *caveat emptor*, meaning buyer beware; however, there are many exceptions to this principle which require certain disclosures to be made by a seller. First, the seller must disclose latent defects in the property that render the property dangerous, a health hazard or unfit for habitation. Latent defects are defects which cannot be discovered upon a reasonable inspection of the property. Second, environmental contamination or any other matter amounting to an error *in substantialis* must be disclosed by the seller. Third, *caveat emptor* does not apply to fraud, and if such fraud is found to exist, a court may impose remedies that do not exist in the contract. Additionally, there are increased disclosure requirements on developers of condominiums. The civil law regime in Québec imposes certain warranties which pertain to title, encumbrances and compliance with the law; however, these warranties may be excluded or limited by contract.

7.3 Can the seller be liable to the buyer for misrepresentation?

Sellers can be liable to buyers for misrepresentation unless representations merge on closing. The liability of the seller and remedies available to the buyer also depend on whether the misrepresentation was innocent, negligent or fraudulent. Remedies that may be available to the buyer include damages and rescission.

Recently the Supreme Court of Canada recognised a general organising principle of good faith in contract law, requiring honest and reasonable performance of contractual duties, and a specific duty of honest performance with respect to all contracts in Canada, requiring that parties do not lie or knowingly mislead each other regarding matters directly linked to the performance of the contract.

7.4 Do sellers usually give contractual warranties to the buyer? What would be the scope of these? What is the function of warranties (e.g. to apportion risk, to give information)? Are warranties a substitute for the buyer carrying out his own diligence?

Sellers often provide contractual representations and warranties to buyers. In commercial transactions, sellers sometimes sell on an "as is" basis with limited representations and warranties. The scope of the warranties provided depends on numerous factors, mainly pertaining to market forces and the bargaining power between the parties. Typically, when representations and warranties are given

by the seller, they relate to the seller's knowledge of the property, agreements related to the property and matters that cannot be easily discovered by the buyer on its own. For example, a seller will generally provide a representation that all leases, contracts and environmental reports have been provided and that the seller has disclosed any known environmental issues, outstanding work orders and disputes with tenants. Representations and warranties are important as they provide information to the buyer and allocate the risk as between buyer and seller; however, they only provide a limited amount of information. Thus, representations and warranties are not a substitute for the buyer carrying out its own due diligence. In Québec, as noted in question 7.2, certain warranties are imposed unless excluded by contract.

7.5 Does the seller warrant its ownership in any way? Please give details.

Generally, a seller will warrant that it is the owner of the land and that it has good and marketable title to the land free and clear of all liens and encumbrances, save for those specifically permitted by the agreement of purchase and sale. A warranty of ownership is implied in Québec unless specifically excluded.

7.6 What (if any) are the liabilities of the buyer (in addition to paying the sale price)?

In addition to paying the purchase price for the sale of real property, the buyer has additional financial and non-financial obligations. In terms of financial obligations, the buyer will be responsible for land transfer tax and registration fees. In terms of non-financial obligations, the buyer will assume and be bound to perform the covenants and obligations of which they have notice that run with the land, including mortgages, leases, options and municipal agreements.

8 Finance and Banking

8.1 Please briefly describe any regulations concerning the lending of money to finance real estate. Are the rules different as between resident and non-resident persons and/or between individual persons and corporate entities?

Some jurisdictions require that foreign corporations be registered under provincial legislation in order to hold an interest in real estate by way of a mortgage. For example, in Ontario the *Mortgage Brokerages, Lenders and Administrators Act, 2006* requires a person carrying on the business of dealing or trading mortgages, or carrying on business as a mortgage lender, to obtain a licence issued by the Superintendent of Financial Services. Financial institutions are also regulated federally by the *Bank Act*. Generally, there are no particular differences for individual persons and corporate entities.

8.2 What are the main methods by which a real estate lender seeks to protect itself from default by the borrower?

The primary protection to a lender from default by the borrower comes by registration of the mortgage in the applicable land registry office. Registration establishes the priority ranking of the lender's interest in the land and makes the lender a secured creditor. A lender will often take additional security, generally in the form of an assignment of rents and a general security agreement, notice of

which may be registered in the personal property registry system of the applicable province. A lender may also require that the loan be full recourse to the borrower and/or may require a guarantor.

8.3 What are the common proceedings for realisation of mortgaged properties? Are there any options for a mortgagee to realise a mortgaged property without involving court proceedings or the contribution of the mortgagor?

Proceedings regarding the realisation of mortgaged properties vary significantly between the provinces. The following five remedies are common, but not consistent, in Canadian provinces: foreclosure; power of sale; judicial sale; action on covenant (suing the borrower); and possession. Power of sale is a contractual remedy by which, pursuant to legislated processes, the lender can sell the mortgaged property for fair market value to the public, without involving court proceedings or the contribution of the mortgagor. Québec has separate remedies which are analogous to those listed above. Remedies in Québec include a sale by the secured creditor, sale by judicial authority, an action against the debtor and possession for purposes of administration.

8.4 What minimum formalities are required for real estate lending?

To ensure that a mortgage protects the lender's interest in the land, a mortgage must be in writing, duly executed and registered against title to the land. In Québec, a mortgage is referred to as a deed of immovable hypothec, which must be executed in the presence of a notary.

8.5 How is a real estate lender protected from claims against the borrower or the real estate asset by other creditors?

A real estate lender is protected from claims made by other creditors by the registration of its mortgage. This renders the lender a secured creditor, and gives it priority over all unsecured creditors, subject to certain exceptions for debts payable to the government, fraud and certain other exceptions pursuant to legislation.

The lender is protected from claims against the borrower through the remedies available to the lender in the mortgage and those prescribed by legislation. While remedies vary in each province throughout Canada, in all provinces, where the loan is payable on demand, the lender is obliged to provide reasonable notice before making demand for payment. Depending on the remedy being executed, in a demand or term loan, the lender may have to give notice under the federal bankruptcy legislation. The lender may also have the right to appoint a receiver either privately or by court appointment. Most provinces have legislation prescribing rights to one or more of the following remedies: foreclosure; power of sale; and judicial sale. In power of sale and judicial sale proceedings, the borrower will remain liable for any deficiency.

9 Tax

9.1 Are transfers of real estate subject to a transfer tax? How much? Who is liable?

Land transfer tax is exigible on the transfer of real property in most jurisdictions throughout Canada, including upon the creation or assignment of a long-term lease. Land transfer tax is typically

imposed at the provincial level; however, in certain jurisdictions it may also be imposed at the municipal level. Each jurisdiction has a different rate of land transfer tax. In Ontario, the land transfer tax is approximately 1.5% of the total consideration. The City of Toronto, located in the province of Ontario, also imposes an additional land transfer tax on commercial properties of approximately 1.5% of the total consideration up to \$40,000,000 (Canadian) and 1% on the remainder of the consideration. Therefore, in the City of Toronto, where a provincial and municipal land transfer tax is imposed, the total rate of land transfer tax can be near 3%. Land in Alberta, Newfoundland and Labrador and some municipalities in Nova Scotia is not subject to land transfer taxes. However, typically registration fees will apply in such jurisdictions. In most provinces, the buyer is liable to pay the land transfer tax.

9.2 When is the transfer tax paid?

The land transfer tax is typically exigible when the transfer is registered with the land registry office. In Québec, a bill for land transfer tax will be sent to the buyer subsequent to the registration of the deed of transfer.

9.3 Are transfers of real estate by individuals subject to income tax?

Transfers of real estate by individuals are subject to income tax unless the property being sold is the individual's principal residence. An exemption exists for the sale of a principal residence, which can reduce or eliminate the capital gains tax payable by the individual.

9.4 Are transfers of real estate subject to VAT? How much? Who is liable? Are there any exemptions?

Generally, transfers of commercial and new residential real estate throughout Canada are subject to a 5% Goods and Services Tax ("GST"). In some provinces, the federal GST has been harmonised with the provincial sales tax to form the Harmonized Sales Tax ("HST"). Québec has its own separate sales tax, which is applicable to transfers of commercial and new residential real estate, called the Québec Sales Tax ("QST"). In provinces where there is HST, the rate will be the 5% federal tax plus the provincial tax rate, which varies by province but in Ontario is 8% (for a total of 13% in Ontario). If the buyer is registered for GST/HST purposes, it may be permitted to self-assess the GST/HST. If not, the seller will remit the applicable taxes which are collected from the buyer. Used residential properties are generally exempted from these taxes. Subject to some exceptions, a commercial buyer can recover the GST/HST that was paid.

9.5 What other tax or taxes (if any) are payable by the seller on the disposal of a property?

Gains on the disposal of real estate are subject to taxation. Capital gains are taxed at one-half of the level of other income earned. Additionally, if the seller is a non-resident of Canada, an additional tax is imposed on the gain on disposition of a property. The non-resident seller will have to provide to the buyer a clearance certificate from the government pursuant to s. 116 of the *Income Tax Act*. If the certificate is not received by closing, the buyer must withhold a percentage of the purchase price on behalf of the Canadian tax authorities until the seller provides the applicable clearance certificate to the buyer.

9.6 Is taxation different if ownership of a company (or other entity) owning real estate is transferred?

Land transfer tax is not generally owed on the sale of shares. On such a sale, other taxes such as capital gains may apply.

10 Leases of Business Premises

10.1 Please briefly describe the main laws that regulate leases of business premises.

There are two main sources that make up the body of law surrounding commercial leases. First, there is the common law, which has evolved to provide a series of principles which set out the basic obligations of a landlord and tenant. Second, a number of provinces have enacted legislation to supplement the common law principles. In Ontario, the *Commercial Tenancies Act* defines the relationship between a landlord and tenant in relation to commercial properties and sets out some of the rights, responsibilities and remedies of each party to a lease. The *Residential Tenancies Act* defines the relationship between a landlord and tenant in relation to a residential property. Similarly, in Québec, the *CCQ* governs the relationship between a landlord and tenant in respect of commercial leases. Alberta has not yet enacted commercial tenancy legislation.

10.2 What types of business lease exist?

While every lease is different and should be tailored to the specific use, there are two main categories of leases: gross leases; and net leases. Generally in a gross lease, the tenant agrees to pay a fixed amount of rent. In a net lease, in addition to a minimum amount of rent, the tenant is responsible for certain expenses that are not personal to the landlord in respect of the maintenance and management of the building, including real estate taxes, insurance, maintenance and upkeep of the building and common areas. Although those are the two main categories of leases, the structure of a lease and the payments required under such lease can also vary depending on a number of factors, including the type of property, the tenant's use of the property, the identity of the parties, and their relative bargaining power. In many retail leases a tenant will usually pay basic rent, additional rent plus a portion of the tenant's revenues (known as percentage rent).

10.3 What are the typical provisions for leases of business premises in Canada regarding: (a) length of term; (b) rent increases; (c) tenant's right to sell or sub-lease; (d) insurance; (e) (i) change of control of the tenant; and (ii) transfer of lease as a result of a corporate restructuring (e.g. merger); and (f) repairs?

Though provisions in commercial leases vary significantly, some usual provisions include:

- (a) Length of term
The length of a term of lease varies, depending on the tenant's intended use. A common term of a lease between a landlord and tenant entering into a new relationship is five years, with the tenant having the right to renew or extend the lease for additional terms. Shorter and longer terms are not uncommon. In some provinces, land transfer tax is payable on long-term leases.
- (b) Rent increases
The rent payable under a lease will often increase throughout the term, particularly in the case of longer term leases. The

amount of the increase, or a formula for calculating the increased rent, will often be set in advance, but it is also common to see future rent set in accordance with “prevailing market rates”. This is sometimes the case for renewal or extension terms. The determination of the increased amount of rent is not always simple, and leases may contain dispute resolution provisions to deal with situations where the landlord and tenant cannot agree on the new amount.

(c) Assignment or sub-lease by tenant

It is quite common for leases to require the landlord’s consent before a tenant can assign or sublet the premises. Common provisions in a lease include the procedure to follow to obtain the landlord’s consent, payment by the tenant of the landlord’s fees in connection with the proposed assignment or sublet, and the rights of the landlord following a tenant’s request for consent. The landlord may have the right to terminate the lease upon a request for assignment and sublet. Often times, the landlord will require that the original tenant remain liable under the lease despite the assignment.

(d) Insurance

Insurance provisions in a lease can be extensive and complex, setting out both the landlord’s and tenant’s obligations to maintain insurance. Landlords are usually responsible for insuring the building as a whole, and any liability with respect to the common areas. The costs of the landlord’s insurance are typically passed along to the tenant in a net lease. Tenants are usually responsible for maintaining liability insurance and property insurance to cover personal property and leasehold improvements, as well as business interruption insurance. The tenant is responsible for the costs of its own insurance.

(e) (i) Change of control of the tenant

The general comments with respect to a tenant’s right to assign or sublet often apply to changes of control, though there can be exceptions to the consent requirement, including for inter-company re-organisations, or for publicly traded companies.

(ii) Transfer of lease as a result of a corporate restructuring (e.g. merger)

A transfer of the lease as a result of a corporate restructuring is often exempt from the landlord consent requirement upon the landlord receiving certain assurances.

(f) Repairs

Leases will generally provide that it is the tenant’s obligation to repair the premises during the term of the lease, and to repair any damage before vacating the premises. If a tenant does not carry out repairs in accordance with the lease, the landlord may be able to do so at the expense of the tenant. Often times, the lease requires that the landlord undertake repairs of a more structural nature or repairs required to the roof of the building.

10.4 What taxes are payable on rent either by the landlord or tenant of a business lease?

Since provinces and territories in Canada have their own tax regimes, the types of taxes payable, as well as the amount, will depend on where the property is situated. GST, HST and/or QST are all payable by tenants under commercial leases. If the tenant is a GST and/or QST registrant, the tax should be recoverable by the tenant, but the landlord is still responsible for collecting it on behalf of the tax authorities. The rent received by a landlord from a tenant will be subject to income tax, after deductions are subtracted.

10.5 In what circumstances are business leases usually terminated (e.g. at expiry, on default, by either party etc.)? Are there any special provisions allowing a tenant to extend or renew the lease or for either party to be compensated by the other for any reason on termination?

Generally leases terminate at the end of their term, on default or unilaterally on the exercise of a termination right. Other circumstances that may result in the termination of a lease include a landlord’s decision to withhold consent to an assignment or sublet, or major damage to the building. Contractually parties may negotiate termination rights. If the tenant has a termination right, often times a termination payment is negotiated.

10.6 Does the landlord and/or the tenant of a business lease cease to be liable for their respective obligations under the lease once they have sold their interest? Can they be responsible after the sale in respect of pre-sale non-compliance?

When a landlord assigns its interest in a lease on a sale of the property, the assignee landlord automatically becomes obligated to perform all covenants made by the original landlord and is entitled to all benefits from all covenants made by the tenant, that run with the land. When a tenant assigns its interest in a lease, the tenant is not typically released from its obligations under the lease unless the lease provides for such a release. Leases generally provide that the landlord is released on a sale of the property. Typically on a sale of the property, the assignee landlord will request an estoppel certificate from the tenant in order to flush out any issues that the tenant may have with the existing landlord. A buyer will also include an indemnity in the assignment agreement wherein the existing landlord will indemnify the buyer for any pre-existing claims that the tenant may have under the lease.

10.7 Green leases seek to impose obligations on landlords and tenants designed to promote greater sustainable use of buildings and in the reduction of the “environmental footprint” of a building. Please briefly describe any “green obligations” commonly found in leases stating whether these are clearly defined, enforceable legal obligations or something not amounting to enforceable legal obligations (for example aspirational objectives).

Examples of “green obligations” that are found in commercial leases include targets for electricity use, natural gas consumption, water consumption, waste diversion and carbon dioxide levels. Whether green obligations are enforceable between the parties, depends on how such obligations and the remedies relating to same are described in the lease. For example, while failing to comply with “green obligations” could constitute an event of default under a lease, the obligations as set out in the lease may merely require a party to use commercially reasonable efforts to meet targets and consult with the other party on how to best achieve the objectives. The enforceability of such clauses will also depend on the bargaining power of the parties. A landlord with greater bargaining power will make the tenant’s obligations to comply with the landlord’s green obligations binding covenants whereas it may make its own objectives, for instance achieving a Leadership in Energy and Environmental Design (“LEED”) standard, aspirational. However, a tenant with greater bargaining power may hold the landlord to certain “green obligations” including achieving a LEED standard and may provide the tenant with certain self-help remedies if it is not achieved.

11 Public Law Permits and Obligations

11.1 What are the main laws which govern zoning and related matters concerning the use and occupation of land? Please briefly describe them and include environmental laws.

Property zoning and development is regulated primarily at the municipal level with oversight from the province. Each province enacts laws that govern zoning and matters relating to the use and occupation of land. Municipalities typically control land use and the density of development through official plans and zoning by-laws. Many of them impose development charges on new developments within their jurisdiction. Several provinces restrict and regulate the ability of an owner to subdivide property.

Construction of new projects is also subject to provincial and municipal legislation. In addition to regulating the maintenance of existing structures, building codes set specific standards for the construction of buildings. Before construction commences, most municipalities require that building permits and all regulatory approvals be acquired.

Environmental legislation may be enacted federally or by the provinces. Environmental liability may flow from laws and civil liability based on environmental claims is also possible.

11.2 Can the state force land owners to sell land to it? If so please briefly describe including price mechanism.

There is no constitutional protection of property rights in Canada. Federal, provincial and municipal governments as well as public utilities can force land owners to sell them their land, or interests therein, such as easements, through expropriation. This can generally occur for public purposes only. Generally, each expropriation must be approved by an approving authority, which in most statutes is the Minister responsible for administration of the act or the council of the municipality (if the municipality is executing its expropriation powers). Expropriation statutes also provide for compensation to the land owner when their property interests are expropriated. Compensation is usually determined based on the market value of the land, any damages attributable to disturbance or for injurious affection and any special difficulties of the owner in relocation.

11.3 Which bodies control land/building use and/or occupation and environmental regulation? How do buyers obtain reliable information on these matters?

Land/building use is regulated primarily at the municipal level with oversight from the province. Environmental matters are subject to provincial and federal legislation. Official plans and zoning by-laws control matters such as the use of land and the density of development permitted. Buyers can obtain reliable information from applicable government authorities concerning the permitted uses under applicable zoning regulations, existence of work orders and open building permits. Buyers must acquire information regarding environmental contamination independently, often through conducting environmental site assessments. If there are environmental concerns a buyer will often hire an environmental consultant, as environmental liability can arise merely from the ownership of contaminated property, despite the contamination taking place before a party acquired ownership. Buyers may need to commission a municipal planning firm to ascertain if buildings comply with certain zoning requirements, such as set backs, density, number of parking spaces and compliance with the building code

and fire and health regulations. The buyer may also require an up-to-date survey.

11.4 What main permits or licences are required for building works and/or the use of real estate?

The construction, renovation or demolition of a building requires a permit. The specific permit required and additional licensing requirements depend on the specific construction, renovation or demolition project proposed.

11.5 Are building/use permits and licences commonly obtained in Canada? Can implied permission be obtained in any way (e.g. by long use)?

Building permits are generally required before carrying out construction or renovation, and failure to obtain a permit can constitute an offence. Obtaining the required permits and licences can be a time-consuming process, and can involve coordination with the municipality, as well as specific agencies if, for example, there are environmental concerns. If the use of land or a building does not conform with the current laws, but the use was permitted before the enactment of such laws, and has continued uninterrupted, the owner may have a right to continue a non-conforming use.

11.6 What is the appropriate cost of building/use permits and the time involved in obtaining them?

The cost and time it takes to obtain a building permit and any additional approvals depends on a number of factors, including where the proposed construction is taking place, the type of building or structure being constructed, the area of the building or structure, the cost of the project, the complexity of the project, and whether approvals are required. Municipalities may require payment of development charges and conveyances of part of the property (for parkland or road widening, for example) as a condition of approval. After an application is submitted, the review process can take a matter of days to a matter of months, and once a permit is obtained there may be regular inspections during the construction.

11.7 Are there any regulations on the protection of historic monuments in Canada? If any, when and how are they likely to affect the transfer of rights in real estate?

Each level of government, federal, provincial and municipal, has a role to play in protecting heritage sites. For example, municipal by-laws can set guidelines for the preservation of heritage sites and may limit the extent to which renovations can be carried out, or whether buildings or structures can be demolished. Regulations are usually enacted to conserve historic properties as opposed to preventing transfers from occurring. Generally upon purchasing a historic property, the new owner will have to provide notification pursuant to provincial or municipal legislation where the property is situated. Some historical monuments, such as railway stations, grave sites and lighthouses are protected by federal legislation.

11.8 How can e.g. a potential buyer obtain reliable information on contamination and pollution of real estate? Is there a public register of contaminated land in Canada?

As discussed in question 11.3, conducting independent investigations, often through environmental site assessments of

the property in question, is the best way to determine if land is contaminated or polluted. To some extent, environmental risk can also be allocated in the contract through representations, disclosures, indemnities, releases or remedial work. One cannot contract out of liability for contamination but one may have remedies against the counterparty through the types of contractual provisions described above. Although there are provincial registries of properties with known contamination issues, these registries are not comprehensive and generally contain information provided by the property owner. Thus, referring to a registry can confirm contamination but cannot confirm a property is free from contamination, pollution or environmental issues.

11.9 In what circumstances (if any) is environmental clean up ever mandatory?

Environmental regulation takes place at the federal and provincial level, and different jurisdictions within Canada have their own set of rules relating to environmental clean-up. For example, in Ontario, the Ministry of the Environment and Climate Change ensures compliance with environmental laws and standards, and under Ontario's *Environmental Protection Act*, when there is damage or where damage to the environment, animal life or human health or safety is likely, the person responsible or the person in control of the property can be ordered to repair or prevent it.

11.10 Please briefly outline any regulatory requirements for the assessment and management of the energy performance of buildings in Canada.

A large part of the ongoing assessment and management of the energy performance of buildings is done through third party rating programmes. These include Leadership in Energy and Environmental Design ("LEED") and the "Go Green" programme, administered by BOMA BEST® (Building Environmental Standards) which, among other things, evaluate and certify the energy performance of buildings. While there are no regulations pertaining to energy performance of existing buildings, provinces, such as British Columbia, are beginning to adopt standards that must be achieved by newly constructed buildings. These standards arise pursuant to the *National Energy Code of Canada for Buildings 2011*, which is a set of federal standards for energy efficient buildings that must be adopted provincially to come into force in that specific province.

12 Climate Change

12.1 Please briefly explain the nature and extent of any regulatory measures for reducing carbon dioxide emissions (including any mandatory emissions trading scheme).

The federal government currently has regulations in place which pertain to transportation, electricity and renewable fuels. Regarding transportation, there are regulations in place that limit emissions from cars and light trucks. These regulations are projected to reduce greenhouse gas emissions by 50% on such vehicles made in 2025, from those made in 2008. Gasoline in Canada is required to contain 5% renewable content and diesel fuel is required to contain 2% renewable content.

One significant order relating to energy results from the federal Reduction of Carbon Dioxide Emissions from Coal-fired Generation of Electricity Regulations. This order comes into force in 2015 and

imposes stringent performance standards upon coal-fired electricity generation units. By setting the performance standard at 420 tonnes of carbon dioxide per gigawatt hour (CO₂/GWh), it is hoped that a permanent shift to lower or non-emitting types of generation, such as high-efficiency natural gas, renewable energy or fossil fuel-fired power with carbon capture and storage, will occur.

The province of Québec has a cap and trade system for greenhouse gas emission allowances implemented through the regulation respecting a cap-and-trade system for greenhouse gas emission allowances. This rule sets a global GHG emission ceiling which is gradually reduced. Recently, Québec adopted a regulation to harmonise its cap and trade system with recent California regulatory amendments. The Regulation introduces changes aimed at harmonisation with recent California regulatory amendments allowing for a joint auction of GHG emission units.

While provinces such as Ontario and British Columbia have considered but not yet enacted cap and trade laws, they have enacted their own regulations. For example, Ontario has enacted the *Green Energy and Green Economy Act, 2009* to develop renewable energy sources and energy efficiency by providing financial and regulatory incentives.

Where there is overlap between federal and provincial rules and regulations, in order to prevent regulatory duplication and the accompanying financial burden on electricity producers, the federal government can order the suspension of the application of federal regulations in certain provinces. This has happened in Nova Scotia, where it was determined that Nova Scotia's Environment Act and Greenhouse Gas Emissions Regulations are essentially equivalent to the federal *Canadian Environmental Protection Act, 1999* and the Reduction of Carbon Dioxide Emissions from Coal-fired Generation of Electricity Regulations.

12.2 Are there any national greenhouse gas emissions reduction targets?

The Copenhagen Accord, to which Canada is a signatory, imposes an economy-wide greenhouse gas emission reduction target of 17% by 2020 from 2005 levels. While Canada has withdrawn from the Kyoto Protocol, it remains a party to the United Nations Framework Convention on Climate Change.

12.3 Are there any other regulatory measures (not already mentioned) which aim to improve the sustainability of both newly constructed and existing buildings?

In Canada there are numerous policies and programmes which aim to monitor and improve the sustainability of newly constructed and existing buildings. Most of the standards and certifications commonly advertised by new and existing buildings in Canada were market driven initiatives as opposed to real property laws imposed by a level of government.

The Building Owners and Managers Association created BOMA BEST® (Building Environmental Standards), a national, independently verified, four-level certification programme regarding energy and environmental performance of buildings. The Canada Green Building Council developed the LEED rating system to recognise sustainable site development, water savings, energy efficiency, materials selection and indoor environment quality in buildings. LEED has four levels of certification, to accommodate a variety of sustainable building strategies. All newly constructed federal office buildings are required to attain a LEED® Gold standard for environmental performance. At the provincial and municipal level, there are incentives for LEED certified buildings.

Although there are widely used market developed initiatives, there are also many government-created policies and programmes aiming to improve the sustainability of new and existing buildings in Canada. The Energy Efficiency Act gives the federal government the authority to prescribe energy efficiency standards. The federal government of Canada has developed an “EnerGuide” mark to label appliances and heating and cooling equipment with a label to indicate its energy efficiency. Along with other federal programmes, EnerGuide was designed to promote energy efficiency in the Canadian marketplace.

Many provinces have enacted their own energy efficiency rules and regulations. For example, the British Columbia Energy Efficiency Act sets energy performance standards for devices which use energy. Although there is no single standard universally applied throughout the country, these and many other programmes, certifications and regulations constitute a quickly developing sustainability regime in Canada.

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