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Editors/Reporters
• Please click on link to view and download Avison Young's Mid-Year 2016 BC Real Estate Investment Review:
http://www.avisonyoung.com/fileDownloader.php?file=files/content-files/Offices/Vancouver/Research/2016/Vancouver_InvestmentReview_MY2016.pdf

Disposition of trophy assets drives record investment levels in red-hot British Columbia market

Avison Young releases Mid-Year 2016 BC Real Estate Investment Review

Vancouver, BC – The value of commercial real estate investment in British Columbia achieved new heights in the first half of 2016 driven by the disposition of trophy office assets in downtown Vancouver. The billion-dollar sale of the **Bentall Centre** office portfolio powered BC's investment totals to a new record in 2016 and will likely come to represent the peak of the market for some time to come. With 65 transactions completed and proceeds of $2.74 billion in the first half of 2016 alone – the previous six-month dollar volume record was $1.79 billion in the second half of 2015, and the 12-month record of $2.67 billion was also set in 2015 – it is highly unlikely that these levels of investment activity will be repeated in this current market cycle.

These are some of the key trends noted in **Avison Young's *Mid-Year 2016 BC Real Estate Investment Review***, released today. The semi-annual report tracks BC office, industrial, retail and multi-family property sale transactions greater than $5 million.

While private investors in the first half of 2016 continued to dominate the overall BC market in terms of the number of transactions they were involved in – representing 89% of buyers and 75% of vendors – the total value of BC transactions revealed the large role that institutional investors and public companies in downtown Vancouver played when it came to overall dollar volume. Despite being involved as purchasers in just 6% of BC transactions, institutional buyers accounted for 42% of total dollar volume with the vast majority of capital placed during **Anbang Insurance Group Co.'s** acquisition of Bentall Centre. (Rather than identifying investors as foreign, Avison Young categorizes them as institutional or private as the case may be. For the purposes of this report, Anbang has been classified as an institutional investor.)

Meanwhile, Canadian institutional investors were involved as vendors in just 8% of BC sales, but reaped 47% of the proceeds. In the downtown core alone, four institutional owners, including **Ivanhoé Cambridge**, **Great-West Life Assurance Co.**, **Bentall Kennedy** and **Greystone**

CANADA'S BEST MANAGED COMPANIES

Managed Investments, executed disposition strategies for office assets in the first half of 2016 – an unprecedented level of sales activity from a vendor type largely absent from the downtown market in recent years. In addition, the sale of the **Royal Centre** for $427.5 million by publicly-traded **Brookfield Office Properties** and the disposition of the **UK Building** for $115 million, both of which sold to private investors, capped off a remarkable, record-setting first half of the year and a level of sales activity in downtown Vancouver unseen in a generation.

“Some institutional owners who had held properties in the downtown Vancouver market for a long period of time chose to exit the market and redeploy the capital elsewhere where an opportunity to earn a higher return exists,” comments Avison Young Principal **Michael Gill**. “Demand for BC commercial real estate assets, particularly downtown office product and retail properties with land available for redevelopment, remains exceptionally strong and pricing robust.”

Private investors remained a potent force in BC’s commercial real estate investment market spending $1.51 billion (55%) on office, retail and industrial properties in the province during the first half of 2016 compared with $1.08 billion (39%) by institutions. Other purchasers, including a public company, a REIT and a non-profit organization, combined for a total of $90 million (3%) of dollar volume.

The drastic shift in vendor and purchaser profiles and activity in the first half of 2016 would indicate that demand and pricing in the commercial real estate market in BC had reached a threshold that triggered institutional owners to reconsider their positions in BC, particularly in the downtown market. Those decisions to sell – many of which would have been initiated in mid-to-late 2015 – represented the culmination of years of steady price increases, strengthening demand, higher yields in other markets and compressing cap rates. Even the development and recent delivery of millions of square feet of new office space – a route increasingly taken by institutional owners as an alternative to being unable to secure existing product – did little to relieve the upward pressure on pricing in the face of seemingly insatiable demand from local and, increasingly, foreign investors seeking to place capital.”

“Tightened underwriting will also play a role on investment deal and dollar volume moving forward into the second half,” says Avison Young Principal **Mehdi Shokri**. “Investors will likely be patient in the second half of 2016 and watch if the tightening of capital from traditional lenders and recent tax impacts imposed by the provincial government will have a lasting effect on the market going forward into 2017. With the uncertainty created by a tightening of capital and political measures to slow the residential market, we expect that deal velocity will likely slow down as compared to the first half of 2016.”

“That said, all signs currently indicate that we could expect a ramp-up again in 2017 as lenders see evidence that the fundamentals have not changed and more capital from private and foreign investors continue to fuel torrent demand in commercial real estate,” he adds.

While each institutional sale has its own backstory with different motivations, justifications and actors, the decision that appears to have been taken collectively by a number of institutional owners to sell represented the emergence of a new stage of investment and ownership in BC’s commercial real estate market. The broadening exposure of the province’s commercial real estate market to an international audience of investors, combined with a weakened Canadian dollar, record low interest rates, a strong rule of law, and political and economic stability, attracted foreign capital and emboldened local investors to step up their own game in order to compete at a level previously unseen on this scale in Vancouver and British Columbia, according to the report.

Sector Investment Review Highlights:

Office

Office investment sales activity in BC generated record dollar volume in the first half of 2016 with 15 transactions valued at $1.9 billion, capturing an astonishing 69% of the overall dollar volume of $2.75 billion. However, approximately 54% of the dollar volume for office transactions in the first half of 2016 was attributed to the historic sale of the Bentall Centre in Vancouver for $1.03 billion. Two other office deals exceeded $100 million in the first half of 2016, and three others exceeded $50 million, as the majority of activity involved class A and B assets downtown.

Office sales were registered in Vancouver, Surrey, Burnaby, New Westminster, Victoria, Kamloops and Kelowna. Deal velocity was moderate when compared with previous years, including the first half of 2015 when 17 office deals ($213 million) closed. In comparison, there were 15 office transactions ($380 million) in the first half of 2014 but just 10 deals ($165 million) in the same period of 2013. There were 20 office transactions ($764 million) in the previous record-holding first half of 2012.

Retail

Sales of BC retail assets in the first half of 2016 reflected markedly strong pricing and limited supply with 25 transactions totalling $593 million, a substantial increase from the 21 transactions ($295 million) recorded in the first half of 2015 or the 28 transactions ($310 million) noted in the first half of 2014. There were 24 retail deals ($292 million) registered in the first half of 2013. The sale of **Royal City Centre** in New Westminster ($115 million) was responsible for almost 20% of total retail dollar volume in the first half of 2016.

Other than the Royal City Centre sale, three other retail transactions were valued at $50 million or greater. **Mission Junction**, **Peninsula Village** and **Big Bend Crossing** represented the three largest retail transactions (after Royal City Centre) in the first half of 2016 and made up 36% of total retail dollar volume.

Industrial

Industrial investment activity in the first half of 2016 was comparable in regard to deal velocity with the same period of 2015, but marked a significant drop in total dollar volume as supply remained highly constrained. The level of industrial investment in the first half of 2016 totalled 25 transactions that contributed $252 million in dollar volume compared with 27 transactions valued at $358 million in the first half of 2015. However, industrial sales activity in the first half of 2016 marked a substantial departure from the 13 sales valued at $163 million recorded in the first half of 2014.

A single transaction – the acquisition of 8400-8500 River Road by **Bentall Kennedy** for $49.5 million – made up 20% of total industrial investment in the first half of 2016. Just seven other deals exceeded $10 million, but none of them exceeded $15 million. Most deals represented premium pricing for small- to mid-sized industrial assets clustered in Vancouver, Richmond, Delta and Surrey with very limited availability in Burnaby and North Vancouver.

Multi-Family

Multi-family investment activity remained highly elevated in the first half of 2016 after recording 43 transactions valued at $472 million. This compares with 26 deals valued at $370 million in the first half of 2015 and 23 deals valued at $396 million in the first half of 2014.

CANADA'S BEST MANAGED COMPANIES

Premium pricing and highly compressed cap rates continued to define BC's multi-family investment market, particularly within Metro Vancouver. Private investors were involved as buyers and vendors in every transaction in the first half of 2016. Most institutional investors simply do not have a mandate to acquire properties with such low cap rates and, combined with a lack of assets of scale available for purchase in BC, have largely avoided the asset class with limited exceptions during the past 18 months. Strong demand for multi-family product has pushed select properties to a 2% (or slightly less) cap rate and those properties with cap rates of 3% to 4% may continue to compress further yet.

Listings remained tight and large deals few and far between in the first half of 2016 with the largest deal being the sale of the **Berkeley** in Vancouver for $43 million. Seven other deals exceeded $15 million while 10 other deals were between $10 million and $15 million. Supply constraints have limited deal velocity while those properties that do trade achieve a significant premium.

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