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Cressey Development Group's Hani Lammam pointed to an investment climate that has been "negatively impacted by recent government actions." JENELLE SCHNEIDER FILES

COMMERCIAL REAL ESTATE

CITY FADES AS LENDER HOT SPOT

Toronto now No. 1 market for commercial financing, CBRE Canada says in report

EVAN DUGGAN

The appetite to finance Canadian commercial real estate remains high among lenders, but that eagerness to lend is retreating in Metro Vancouver as it makes gains in Toronto, according to a new report by CBRE Canada.

Toronto has emerged as the most desirable market for lenders in 2017, with 84 per cent of surveyed lenders reporting a strong appetite to lend toward Toronto commercial real estate assets next year, according to the 2016 Canadian Real Estate Lenders' Report.

Respondents included domestic and foreign banks, credit unions, private lenders and pension funds.

Vancouver remains Canada's second top draw for commercial financing nationally, but the percentage of lenders with a strong desire to lend toward Metro Vancouver projects next year fell to 68 per cent. Last year, 80 per cent of lenders had a strong desire to lend in Metro Vancouver.

Meanwhile, industrial was the only asset class to record a year-over-year increase in budget intentions by lenders nationally, with lenders dropping their willingness to become exposed in the highrise condo sector and suburban office market.

"We have had an unprecedented level of interest of both debt and equity capital to invest in Canadian commercial real estate assets, and 2016 is expected to break the investment volume record of $32.1 billion set back in 2007," said Carmin Di Fiore, executive vice-president of CBRE's debt and structured finance group.

"The financing climate has been highly supportive of this record-breaking environment and, with 58 per cent of lenders looking to expand their asset allocation to commercial real estate in 2017, lenders are poised to support another robust year of investment activity," he said in a media release. Di Fiore was not available for an interview.

He said there has been shift in preference between geographies and asset classes, with lenders increasing their budgets for Toronto and for industrial financing, while pulling back on apartment buildings and retail projects.

"With debt capital flow moderating in Vancouver, and Calgary seeing capital becoming more tightly focused at specific high value opportunities, Toronto stands to be the destination of choice for lenders in 2017," Di Fiore said, noting that sustainable commercial property values and lenders' "enthusiasm" is spilling over into the Hamilton and Waterloo regions as well.

"I think capital would love to be in Vancouver, it's just difficult to find a place to put it," said Mehdi Shokri, a principal with Avison Young in Vancouver, who focuses on investment properties.

"It's such a tight market to find opportunity in, especially opportunities of scale to place capital," he said. "I think if anything, Toronto has become more favourable more-so because there is more opportunity, than (because of) risk profile. But I'm sure some lenders would argue that residential land here is making them a bit nervous because of the numbers they're starting to see."

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Shokri said lending rates remain enticingly low for commercial projects, and the increasing apprehension by lenders in Vancouver likely has more to do with extremely high land values, development red-tape, and political issues.

There is indeed more apprehension by lenders to lend into the Metro Vancouver marketplace, said Hani Lammam, executive vice-president with Cressey Development Group.

"I think the reason for that is the recent turbulence and uncertainty in our marketplace," he said in an interview. "There's a concern about overvaluation considering the investment climate, and I think the investment climate has been negatively impacted by recent government actions — the foreign buyers tax."

Cressey currently has nine developments underway in the Metro Vancouver region, and develops all types of assets, including residential, office and industrial.

"That kind of policy, that kind of a tax, basically says that this is not a free market anymore, and when you do that, I think it sends a negative message. It basically limits the investor pool and when you have less demand, you could have a softening of values," he said.

He said the remarkable rise in land values in the region may also be giving institutional lenders pause. "There's just less cushion for the bank," he said. "It's all about risk management for the bank."

Prices and rents in the industrial market have remained strong, and have been more predictable than residential properties, perhaps explaining lenders' increasing appetite to finance industrial deals, Lammam said, noting that the well-documented shortage of industrial space in the region continues.

"You don't see industrial rents move dramatically, you don't see cap rates shift dramatically," he said. "It's a pretty stable market."

As for the increased interest in Toronto, Lammam said most lenders are based there. "That is going to be their focus undoubtedly," he said. "We're kind of the hinterland. They don't understand our market. They look at it and say it's insane, what's happening?"

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