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AVISON YOUNG Intelligent Real Estate Solutions

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Media Release

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Editors/Reporters:
· **Avison Young Mid-Year 2009 British Columbia Real Estate Investment Review, full report:**
http://www.avisonyoung.com/library/pdf/Van_Research/Invest_MID_09.pdf
· **Property Photos for Media use:**
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British Columbia commercial real estate investment activity dips in first half of 2009 as buyers and sellers continue to seek middle ground, but investor interest remains strong

Avison Young releases Mid-Year 2009 BC Real Estate Investment Review, global economic slowdown continues to influence local market as industrial deals dominate

Vancouver, BC – British Columbia commercial real estate investment activity shifted downward in the first half of 2009 as the province continued to feel after-shocks from the global financial meltdown. Capitalization rates, however, did not rise as high as they did in other Canadian markets. Meanwhile, buyers and sellers continue to seek middle ground.

These are some of the key trends noted in **Avison Young's *Mid-Year 2009 British Columbia Real Estate Investment Review***, released today. The semi-annual report tracks office, industrial and retail investment sales in BC greater than $5 million.

While the 23 transactions completed in the first half of 2009 represent the lowest first-half number of deals witnessed in the province in the past seven years, investor confidence continues to improve as global economic restraints ease. Total dollar volume in the first half of 2009 fell 12% to $643 million from $734 million in the second half of 2008. (It is important to note, though, that the majority of those second-half 2008 deals were negotiated in the early part of 2008, before the fall 2008 equity market crash.) Year-end 2009 sales volume is on track to meet last year's level of $1.27 billion.

"The drop in both dollar volume and number of transactions over the second half of 2008 is mainly due to buyers' expectations that pricing should follow national and U.S. trends," comments Avison Young Principal **Bob Levine**. "However, most sellers have been reluctant to dispose of assets at those price levels."

Levine says that the current market trends reflect the continuing influence of the subprime mortgage crisis, which reached an acute stage in September 2008.

“As expected, deal activity decreased significantly from January to June of this year due to the slowdown in executive decision-making, buyer perception versus vendor expectation, and the time needed for the price-expectation gap between buyers and sellers to narrow. The lower transaction total reflects the difficulties of putting together deals in turbulent economic times.”

Industrial deals (11) outnumbered office (8) and retail (4) transactions. But office deals accounted for 79%, or $506 million, of the $643 million in total dollar volume, while industrial amounted to 15%, or $96 million, and retail reflected a modest 6%, or $41 million. The average sale price in the first half of 2009 increased to $29.2 million from $24.5 million in the second half of 2008 and $14.5 million in the first half of 2008.

Continuing a trend that prevailed through 2008, private investors were the most active players on both the buying and selling sides in the first half of 2009. However, institutional investors dominated higher-priced office transactions.

The sale of the **Grosvenor** building (1040 West Georgia) in Downtown Vancouver for $84 million, which closed on June 30, 2009, helped push the total sales volume for the first half of 2009 above the first-half 2008 volume. German investor **Deka Immobilien Investment GmbH’s** unsolicited $297-million purchase in May of **Bentall V** in Downtown Vancouver, the largest deal in Canada this year, accounted for nearly half of the total amount invested in the first half of 2009.

Overall in the first six months of this year, institutional investors demonstrated their desire to maintain high-valued portfolios in the wake of global economic conditions, and private buyers proved they are quite willing to invest in competitively-priced properties,” says Avison Young Principal **Douglas McMurray**. “REITS are also making a comeback as their unit prices improve. Some are raising more capital for acquisitions or to shore up their balance sheets as debts mature in the near term.”

Cap rates are expected to maintain their current levels in metro markets and increase in secondary and tertiary regions. Continued interest in prime real estate should help stabilize capitalization rates across all categories, according to the report.

“Lenders will make financing more easily available as they recover from bad loans and face more pressure from their boards, shareholders, clients, corporate social responsibility advocates and governments to help accelerate economic activity during difficult times,” adds McMurray.

Other Survey Highlights:

Office Investment Market

Office investors struggled to string together office deals in the first half of 2009 because of the dearth of high-quality supply, according to Levine. “Nonetheless, the recovering Canadian economy and Bentall V and Grosvenor building sales, which underline investor confidence in the Vancouver office market and provide much-needed benchmark prices for class A office properties, are likely to spur more deals in the second half of this year.”

Institutional investors again spent the most on office properties, investing $379 million as cap rates rose 100 to 150 basis points from the previous year, depending on the asset class and submarket. However, cap rates did not influence pricing significantly in the first half of this year and any rise will be slight in the second half.

“This scenario, the lack of available high-end office properties, and the yield gap between BC and other Canadian markets may increase the possibility that investors will buy elsewhere in the second half of 2009,” says Levine. “Rental rates, interest rates and lower sale prices will have a major impact on future market-capitalization levels. But these effects will not likely be felt until the middle to end of next year.” He adds that more office product should become available through 2009 as economic conditions improve. “Purchasers will continue to challenge rental assumptions as lease agreements approach post-Olympic renewal dates and tenants in all business sectors continue to review operations.”

Retail Investment Market

Mostly private investors participated in retail transactions during the first half of 2009. Institutional investors generally shied away from retail facilities because of uncertainty created by the global financial meltdown and significant reductions in retail spending.

“More retail centres are likely to change ownership in the second half of 2009, but the increase is expected to be marginal,” says Avison Young investment broker **Michael Keenan**. “Supply remains the issue because sellers can afford to wait for the consumer to return. Retail investors’ biggest challenge will be to minimize the loss of tenancies. As rental agreements approach their renewal dates, sellers will face more pressure to lower rents and provide more lease concessions. Buyers will also insist on having strongly-branded food and drug anchor tenants, and continue to display a preference for restaurants, which are less vulnerable to recessionary pressures.” He adds that Canadian retailers will help offset defaults and declines by moving into prime space vacated by struggling U.S.-based chains.

Industrial Investment Market

Industrial property sales accounted for half of the transactions in the first six months of 2009, compared to just 7% in the second half of 2008. However, on a year-over-year basis (mid-2008 to mid-2009), industrial investment fell 65% to $96 million from $274 million as record prices normalized. Despite strong demand, tight supply kept key players on the sidelines.

“More industrial deals would have occurred if more properties were available,” says McMurray. “Financial institutions and REITS chose to lick wounds caused by the global financial meltdown and declines in their investment portfolios rather than contend with modest yields and limited credit availability. However, institutions and REITs, thanks to stronger balance sheets and decreased dividend yields, are positioned to re-enter the industrial market in a potentially big way, depending on attractive offerings.”

Overall, availability of quality product, especially in the office and retail categories, is expected to remain low in the second half of 2009 as many investors are still sitting on the sidelines and watching for future value adjustments. According to Keenan, approximately half of the deals this year occurred off market, but investors now prefer a more traditional, orderly approach to transactions.

"Due to excessive demand, the BC market became a Wild West show in recent years as vendors auctioned off properties to the highest bidder without setting list prices," he says. "Those days are over."

Founded in 1978, Avison Young is Canada's largest independently-owned commercial real estate services company and the only national, Canadian-owned, principal-managed real estate brokerage firm in the country. Headquartered in Toronto, Ontario and ranked among Canada's leading national commercial real estate organizations, Avison Young is a full-service commercial real estate company comprising more than 500 real estate professionals in 12 offices across Canada and in Chicago, IL . The company provides value-added, client-centric investment sales, leasing, advisory, management and financial services to owners and users of commercial, industrial and multi-residential real estate properties.

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(If you are unable to open the links, please contact Sherry Quan for PDF attachment to be emailed.)

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