



# Investment Review Greater Toronto Area

Winter 2008-2009



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## Economic Summary

The global economic headwinds are beginning to take their toll on the Canadian economy. Gross Domestic Product contracted 3.4% in the fourth quarter to close 2008 at 0.5% - a significant decline from the 2.7% realized in 2007. The manufacturing sector, more specifically the auto industry, continued to experience a decline in sales with several manufacturers struggling to remain afloat. Consequently, auto manufacturers approached the federal and Ontario governments requesting financial assistance to avoid bankruptcy. At the end of 2008 the federal and Ontario governments jointly agreed to loan General Motors and Chrysler a total of \$4 billion, subject to various conditions.

Oil prices declined substantially during the second half of 2008. While the price for a barrel of oil peaked at around \$150 in July, a slowing global economy greatly reduced the demand for this commodity, therefore causing its value to drop and hover between \$35 to \$45 per barrel by the end of 2008. Lower oil prices drove down the price of gasoline at the pumps, thus helping to bring Canada's overall inflation rate down to 2% instead of the 3% predicted by economists earlier in the year. Gasoline prices were down an incredible 14% in December 2008 from the same period a year earlier.

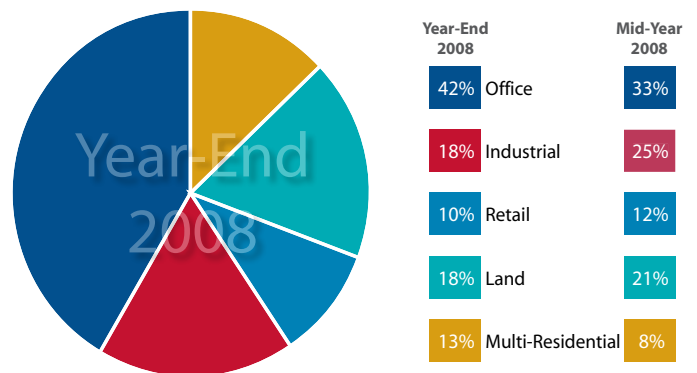
Meanwhile, a survey conducted by the Conference Board of Canada at the end of 2008 indicated that consumer confidence had declined to its lowest level in 25 years. The Conference Board cited an increasingly pessimistic job outlook as the primary cause for this decline. In an effort to counter this drop in consumer confidence, many retailers began to offer significant discounts on merchandise to encourage spending during the critical holiday season shopping period.

## GTA Investment Summary

2008 proved to be a challenging year for the Greater Toronto Area (GTA) commercial real estate investment market. The overall investment sales for all asset classes in the GTA continued to decline, ending 2008 at \$5.7 billion, or about half of the total sales volume in 2007. The sale of office buildings across the GTA remained the largest asset class sold (by volume). Office vacancy remained low across the GTA during 2008, sitting at about 6%. As economic uncertainty continued during the second half of 2008, many buyers remained on the sidelines, waiting to determine the direction of the financial and real estate markets before making any purchases. Further complicating this situation is a debt-starved market, which made it very challenging for buyers to acquire the necessary financing. While leasing market fundamentals remain relatively sound, imminent new supply and the rise in sublet space has shifted most markets from the landlords to the tenants favour. With an increase in available space and more options for tenants, landlords will have to adjust their rental rate expectations to either secure new or retain existing tenants. Consequently, lower rental levels will certainly impact future building values.

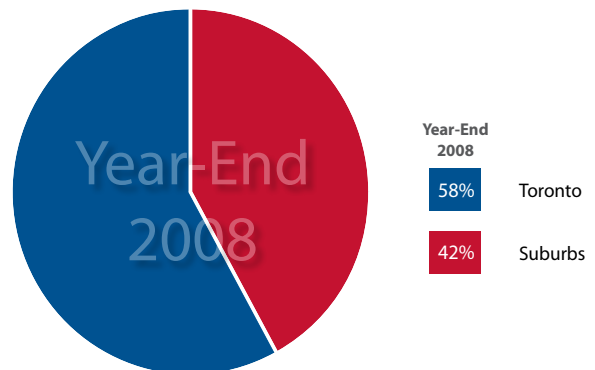
In general, lenders will likely remain cautious during the first half of 2009 as they attempt to determine the direction of the financial markets and the Canadian economy as a whole.

### Investment Properties by Sector



### Office Sales

City of Toronto vs. Suburbs  
By Number of Transactions

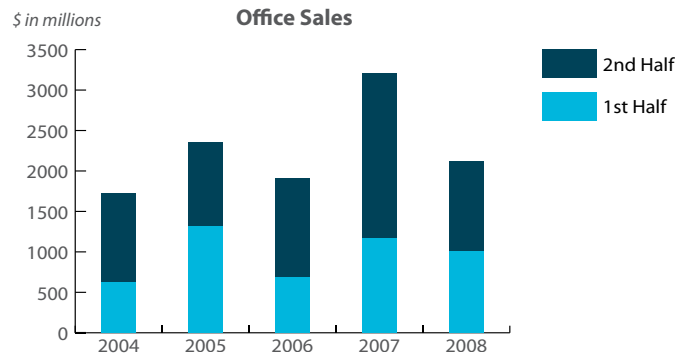


## Office Market

Total office sales transactions in the GTA for 2008 closed the year at \$2.1 billion, down from \$3.3 billion during the year prior. During the second half of 2008 \$1.1 billion of office buildings were sold, up slightly from the \$1 billion that was traded during the first half of 2008. Brookfield Properties sale of its 50% interest (\$425 million) in the TD Canada Trust Tower in Toronto's financial core to OMERS Realty Corporation was the largest transaction, accounting for almost half of the deal volume in the second half of the year. Importantly, this transaction marked the highest price per square foot (\$721) in Canadian history.

During the second half of 2008 the number of trades for office assets rose in the suburban markets surrounding Toronto, when compared to the first half of the same year. Suburban office sales (by the number of transactions) increased from 37% to 42% between the first and second halves of 2008.

Once again, Mississauga accounted for the greatest number of sales for office assets across the suburban markets. Notable transactions included 1980 Matheson Boulevard East and the Dixie-Eglinton Business Centre, both selling at just over \$30 million each.



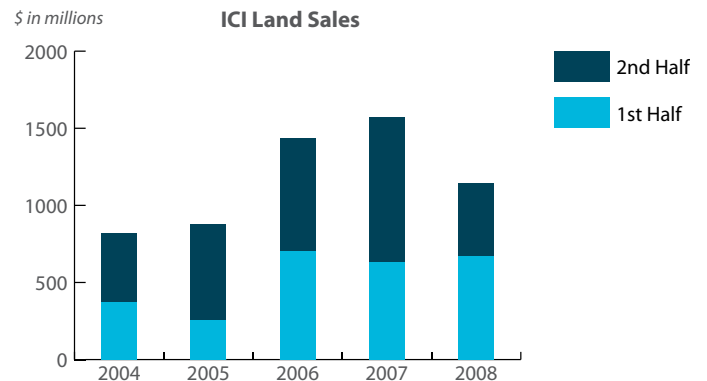
### SIGNIFICANT OFFICE TRANSACTIONS BY SALE PRICE SECOND HALF 2008

Property	Total Price	Sale Date	Purchaser	Vendor
Brookfield Place – TD Canada Trust Tower	\$424,999,998	24-Jul-08	Omers Realty Corp.	Brookfield Properties Corp.
North York City Centre	\$161,000,000	17-Oct-08	GWL Realty Advisors	SITQ National Inc.
1 Toronto Street & 92 King Street East	\$122,100,000	25-Nov-08	Investors Group	Wealth Capital Management Inc.
150 Bloor Street West	\$85,700,000	20-Oct-08	Cirvek Fund I, LP	Northam Realty Advisors
1980 Matheson Boulevard East	\$33,000,000	25-Nov-08	Investors Group	Wealth Capital Management Inc.

## ICI Land Market

The number of land transactions for the second half of 2008 was down to 55 from 100 during the same period of 2007. Total sales volume for land assets across the GTA amounted to \$1.1 billion in 2008, down 30% from 2007. The largest transaction of the period was the \$42 million purchase of 174 Front Street West (an improved surface parking lot) in Downtown Toronto by the Cadillac Fairview Corporation. Interestingly, this site is across the street from Cadillac's exiting Simcoe Place, as well as the RBC Centre and Ritz-Carlton, currently under construction.

A challenge for land developers in early 2008 was the rapidly rising construction costs, in particular steel, with prices peaking during the summer months. However, as the global economic crisis intensified during the second half of 2008, overall construction costs have stabilized and will likely decline during 2009 as a result of the general slowdown in the economy. Lower construction costs are not all bad news. This situation will greatly benefit those businesses moving forward with construction plans. Similarly, developers will have more enthusiasm to look at new projects where costs are more realistic.



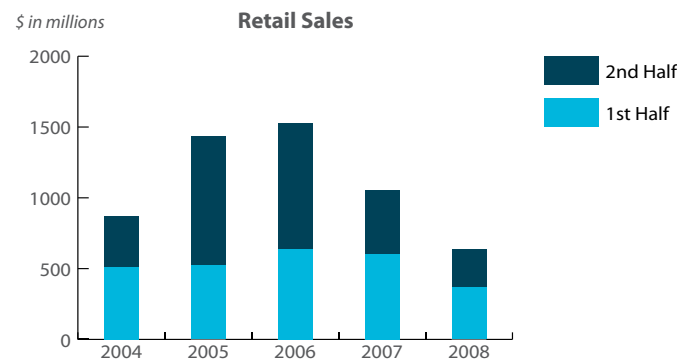
### SIGNIFICANT LAND TRANSACTIONS BY SALE PRICE SECOND HALF 2008

Property	Land Use	Total Price	Price per Acre	Purchaser	Vendor
174 Front Street W	Office	\$42,500,000	\$53,058,677	Cadillac Fairview Corp.	Glen Corp.
Heart Lake Road	Industrial	\$35,531,554	\$341,936	H & R Developments	Private Individual
50 Resources Road	Retail	\$30,510,480	\$839,977	Lowe's Companies Canada	Labatt Brewing Company Ltd.
8682 Highway No. 27	Commercial	\$24,200,000	\$287,647	Rice Commercial Group	Trammel Crow Properties
East Beaver Creek Road	Commercial	\$18,644,000	\$2,000,129	2179548 Ontario Ltd.	S & A Strasser Development

## Retail Market

Retail transactions across the GTA ended 2008 at \$653 million, down from the \$1 billion generated in 2007. The total number of trades was also down to 102 in 2008 from 136 in 2007. This continues the trend observed during the first half of 2008. Despite the lower sales volume of retail properties recorded, there were a couple of noteworthy transactions. First, Ed Mirvish Enterprises purchased Toronto's historic Canon Theatre on Yonge Street for \$26 million. Second, the Canadian Tire Corporation sold eleven of its stores across Canada, one of which was in the GTA, to two Canadian real estate investment trusts. The GTA Canadian Tire property was located at 99 McEwan Drive East in Caledon and was purchased by CREIT for \$16 million.

With the continued uncertainty of the global economy, retailers remained cautious in their expansion efforts. With retailers concerned about meeting their sales targets over the important holiday period, many offered various discounts as a means to attract customers. As worries about the economy grow, 2009 will undoubtedly be challenging for retailers in the GTA and across Canada. Vacancy in retail properties is expected to increase as merchants find their sales declining and some will have no alternative but to close. Having said this, well located and well leased properties with quality tenants will always appeal to investors, even in challenging times.



### SIGNIFICANT RETAIL TRANSACTIONS BY SALE PRICE SECOND HALF 2008

Property	Total Price	Sale Date	Purchaser	Vendor
Canon Theatre	\$26,086,030	22-Aug-08	Ed Mirvish Enterprises Ltd.	Key Brand Entertainment
Black Creek Super Value Centre	\$19,600,000	17-Oct-08	Medi Power Canada Inc.	The Rose Corporation
99 McEwan Drive East	\$15,900,000	08-Sep-08	CREIT	The Canadian Tire Corporation
164 Sandalwood Parkway East	\$10,500,000	09-Sep-08	Khalid Alenazi Real Estate Ltd.	672910 Ontario Inc.
Brampton Mall	\$9,600,000	06-Oct-08	Goldmanco Incorporated	Briarlane Property Management

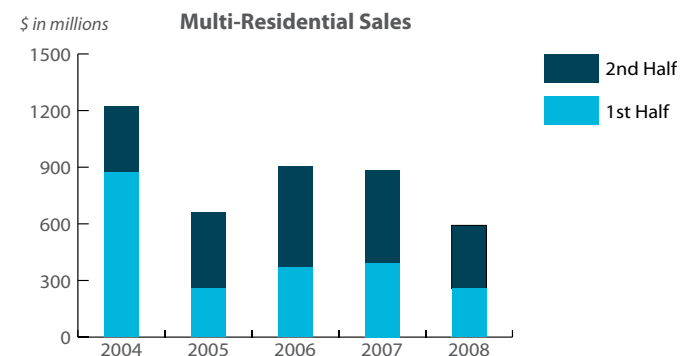
## Multi-Residential Market

Multi-residential sales totalled nearly \$335 million for the second half of 2008, up 30% from the first half of the same year. While overall multi-residential sales in 2008 totalled \$591 million, this figure was down from the \$943 million recorded in 2007. Avison Young brokered one of the largest single transactions of the second half of 2008, 22 Elkhorn Drive in North York for \$21 million.

The stable nature of multi-residential assets, with Toronto's apartment vacancy rate hovering around 2%, make it a very popular asset class with investors.

While the demand for multi-residential property remained high in 2008, its overall availability in the GTA market remained scarce, notwithstanding the sale of 2,500 units in December to a GTA consortium, which was part of a 4,700 unit portfolio of properties in Ontario and Quebec.

For those properties that have been brought to market, there has been a growing gap between the vendor and the purchaser's price expectations. In these situations purchasers expect a lower price given the current economic climate, while vendors hope to maximize the sale price of their asset, given the lack of availability of product. With CMHC insured financing still available at relatively low rates it may be possible, in the right circumstance, to assuage all parties.

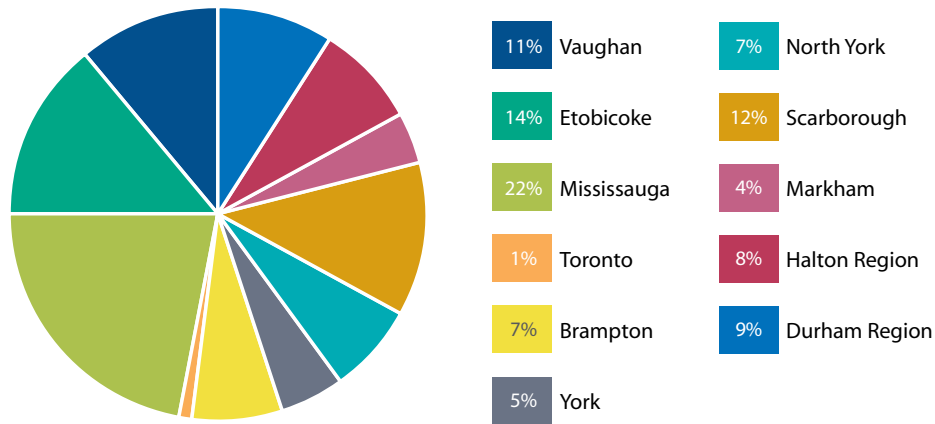


### SIGNIFICANT MULTI-RESIDENTIAL TRANSACTIONS BY SALE PRICE SECOND HALF 2008

Property	Total Price	Sale Date	Purchaser	Vendor
2 & 4 Silver Maple Court	\$49,050,000	26-Oct-08	Canadian Urban Ltd.	Bentall Capital Management
2313 & 2323 Lakeshore Boulevard West	\$23,850,000	22-Dec-08	Osgoode Properties	1044593 Ontario Limited
515 Rosewell Avenue	\$21,775,000	14-Aug-08	OMERS Realty Corporation	First Ontario Realty Corporation Ltd.
22 Elkhorn Drive	\$21,000,000	21-Aug-08	784928 Ontario Ltd.	McArthur Residences Inc.
2, 6, 7 & 8 Park Vista Drive	\$18,540,000	31-Jul-08	CAP REIT	PVP Realty Ltd.

## Industrial Sales – Second Half 2008

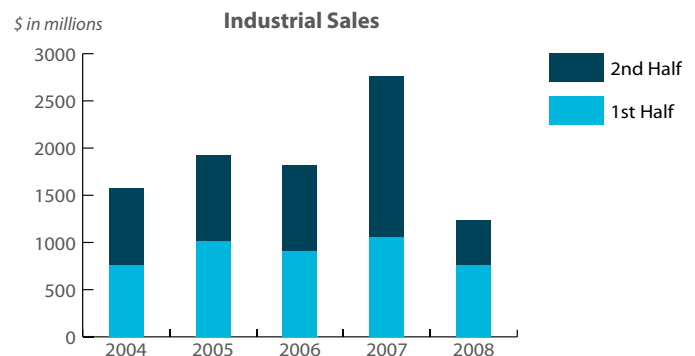
By Location of Transaction



## Industrial Market

Between the first and second halves of 2008 industrial sales dropped by nearly 40%. The overall volume of sales for industrial properties in the GTA totalled \$1.2 billion by the end of 2008. This figure was nearly \$1.5 billion less than the grand total for 2007.

With Ontario's manufacturing sector, especially the automobile sector, experiencing a decline in output due to a decreased consumer demand both in Canada and across the United States, it is not surprising that many of the industrial buildings on the market were used for manufacturing. The industrial market will be challenging in 2009 as more industrial companies will be cutting back production and bringing space back to the market. The federal and provincial governments are, however, committed to providing assistance to the major automobile companies, which should help the manufacturing associated with the car industry.



At \$171 million, the Mantella-Orlando sale was the largest industrial transaction for the second half of 2008. This comprised a portfolio of nine single and multi tenant buildings in GTA West. A distant second was the sale of the Agellan Peel Industrial Portfolio (12 single and 1 multi-tenant building) in Mississauga at \$31 million, solidifying Mississauga as the top municipality based on the number of industrial transactions.

### SIGNIFICANT INDUSTRIAL TRANSACTIONS BY SALE PRICE SECOND HALF 2008

Property	Total Price	Sale Date	Purchaser	Vendor
Mantella-Orlando Portfolio	\$171,328,500	01-Oct-08	Orlando Corporation	A. Mantella & Sons Limited
Agellan Peel Industrial Portfolio	\$31,438,650	03-Nov-08	Optrust East Industrial Inc.	Bentall Capital
8350 Lawson Road	\$27,573,675	12-Sep-08	Oxford Properties	O.R.E. Development Corp.
5590 Finch Avenue East	\$15,460,000	31-Oct-08	Rodenbury Investments Ltd.	Cinram International Inc.
1101-1121 Walkers Line	\$13,220,000	16-Sep-08	Stoneleigh Management Inc.	Ball Packaging Products Canada Corp.

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