



Investment Review Greater Toronto Area

Winter 2009-2010



Intelligent
Real Estate Solutions

partnership.
performance.

GTA Investment Summary

The Greater Toronto Area (GTA) commercial real estate investment market continued to struggle in 2009. Compared to the run-up in investment activity that transpired between 2005 and 2007, the buying and selling of property has been stuck in neutral. This situation is attributed to a number of factors including the collapse of the debt market; the unwillingness of many investors to trade devalued assets; a slowdown in executive decision-making; tight industry lending conditions; financial weakness amongst tenants; the absence of distress in a market dominated by institutional ownership; and buyer perception versus vendor expectation. The buyer-vendor expectation gap is clearly evident in the low deal flow.

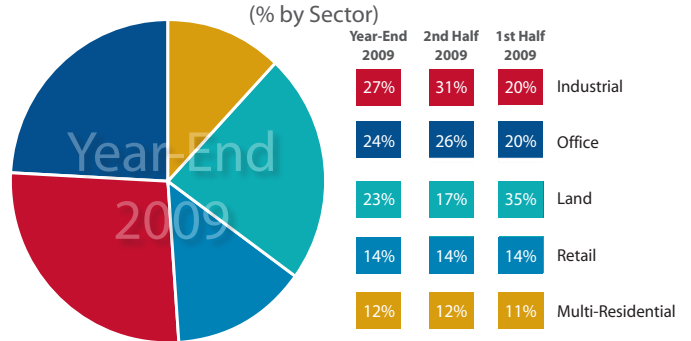
In the first half of 2009, investment volume for office, industrial, retail, multi-residential and land totalled a paltry \$1.4 billion compared with \$3.6 billion in the first half of 2008. Sales doubled to \$2.8 billion in the second half of the year, but still lagged behind the \$3.5 billion traded in the latter half of 2008. Industrial buildings were the hot items over the last six months of 2009, registering \$840 million in trades and capturing 31% of the total investment volume, up from 20% in the first half. In contrast, land sales which dominated the first half of the year (35% of total volume), represented the only asset class to post a decline in investment activity over the first half, falling 2% and lowering the share of volume to 17%. Multi-residential (12%) and Retail (14%) maintained comparable market shares while office buildings increased their share from 20% to 26%.

In all, \$4.2 billion worth of GTA commercial properties changed hands in 2009, down almost \$3 billion (41%) and \$6 billion (60%) from 2008 and 2007 (the peak), respectively. The final tally revealed industrial buildings as the most sought-after investment in 2009, with sales of \$1.1 billion (27% of the total volume) and the only asset class to surpass the \$1 billion mark. However, deal flow in this asset class was down 32% from 2008. The poorest year-over-year performance was turned in by the office sector with investment volume plunging 55% as it fell below the billion dollar level to close 2009 at \$990 million.

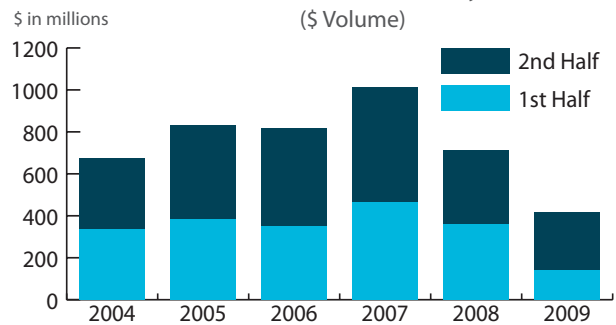
Given the low volume of trades, it has been difficult to gauge the direction, if any, of capitalization rates (cap rates). However, the consensus amongst the investment community is that cap rates for primary assets in all categories have climbed an estimated 50 to 150 basis points (bps) from the lows of 2007.

As for 2010, there were some encouraging signs in the closing months of 2009, including an increased number of properties coming to the market; an increase in qualified buyers and bids for assets; and, more importantly, a narrowing bid-ask gap. Over \$600 million worth of commercial real estate is projected to trade in the first two months of 2010, exceeding 2009's start by a three-to-one margin.

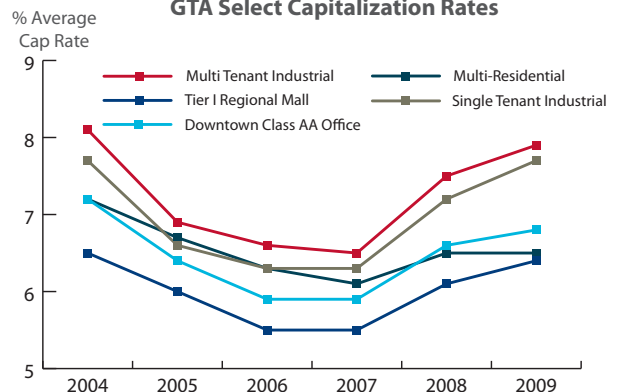
GTA Investment Activity



GTA Investment Activity



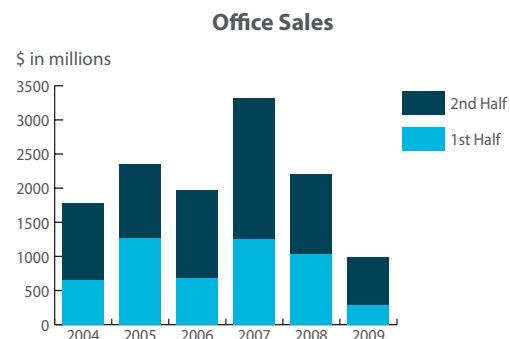
GTA Select Capitalization Rates



Office Market

Investment activity in the office sector picked up significantly in the second half of 2009 as more product came on the market and the bid-ask spread narrowed, bringing buyers and sellers closer together. Between July and December 2009, office buildings sales more than doubled to \$704 million, accounting for 26% of the total investment volume in the second half of the year. Despite the uptick in activity, office sales in the GTA finished 2009 at \$990 million, down from \$2.2 billion in 2008, representing a 55% decline. Transaction volume for office buildings has not only declined for two straight years, but has fallen below the \$1-billion mark for the first time this decade.

The largest single office building sale by dollar volume in the second half of the year included 151 Front Street West. Northam Realty Advisors sold the 325,000-square-foot (sf), eight-storey carrier hotel and data centre facility in Toronto's financial core to Allied Properties REIT for \$180 million at a reported cap rate of 10.8%. In Toronto's Midtown district, Morguard Investments purchased 60 and 77 Bloor Street West, comprising 626,000 sf for \$164 million from Cadillac Fairview for reported cap rates of 6.5% and 6.9%, respectively. In the suburbs, notable transactions included Commerce West, a two-building complex located at 401 and 405 The West Mall (442,000 sf in total) in Etobicoke. Commerce West was acquired by Whiterock REIT for \$82 million (8.6% cap rate) from TransGlobe, which had purchased the complex in 2006 for \$65 million. 2010 got off to a good start with an estimated \$300 million closing in the month of January alone.



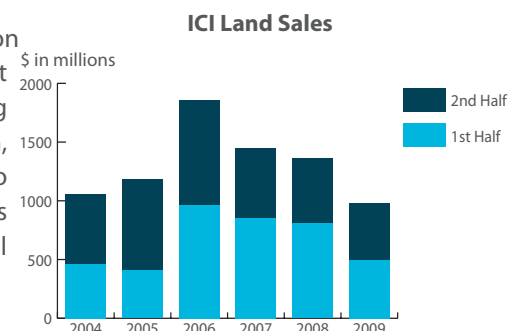
SIGNIFICANT OFFICE TRANSACTIONS BY SALE PRICE SECOND HALF 2009

Property	Total Price	Sale Date	Purchaser	Vendor
151 Front Street West	\$180,000,000	28-Oct-09	Allied Properties REIT	Northam Realty Advisors
77 Bloor Street West	\$96,500,000	15-Dec-09	Morguard Investments Ltd.	Cadillac Fairview Corp.
401 & 405 The West Mall/Commerce West	\$82,250,000	1-Sep-09	Whiterock REIT	TranGlobe Property Management
60 Bloor Street West	\$67,575,000	15-Dec-09	Morguard Investments Ltd.	Cadillac Fairview Corp.
6655, 6695, 6715 & 6725 Airport Road	\$49,195,000	18-Dec-09	Dundee REIT	LaSalle Investment Management

ICI Land Market

Just over 3,500 acres of land changed hands in the second half of 2009 for \$482 million compared with 2,100 acres and \$493 million in the first half. Land was the only asset class to actually show a decline in investment dollar volume over the first half, falling 2%. Total sales volume for land assets across the GTA closed out the year at \$975 million, down 28% from \$1.4 billion in 2008. Lower trade volumes have been attributed to the general slowdown in leasing activity and a sudden rise in development charges across the region, which have combined to make new developments uneconomical for many developers.

Though the total number of acres has not been finalized, the largest transaction in the second half of 2009 was for \$67 million. Metrolinx, an Ontario Government Crown Corporation responsible for the transportation network in the GTA and Hamilton areas, acquired full ownership of the 97-kilometre Toronto-Barrie rail commuter corridor from CN Rail. Another notable deal included the City of Vaughan purchasing nearly 87 acres of land, currently used as a parking lot by Canada's Wonderland, for \$59 million or \$685,000 per acre. Plans call for the development of a new hospital by the Vaughan Health Campus of Care, a not-for-profit organization.



SIGNIFICANT LAND TRANSACTIONS BY SALE PRICE SECOND HALF 2009

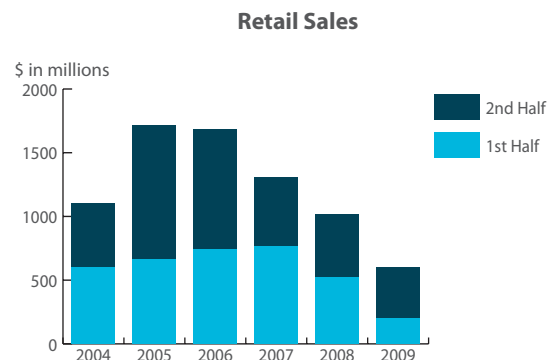
Property	Total Price	Land Use	Price per Acre	Purchaser	Vendor
Major Mackenzie Drive	\$59,450,000	Institutional	\$684,640	City of Vaughan	Cedar Fair LP
Newmarket Subdivision Railway Lands	\$34,515,000	Infrastructure	\$729,568	Metrolinx	Canadian National Railway
Highway No. 2	\$21,461,296	Retail	\$732,193	SmartCentres Inc.	Metrus Properties
Newmarket Subdivision Railway Lands	\$15,225,000	Infrastructure	\$729,568	Metrolinx	Canadian National Railway
Sheridan College Mississauga Campus	\$14,808,902	Institutional	\$1,724,572	City of Mississauga	OMERS Realty Corp & StoneCap Realty

Retail Market

Last year was a challenging one for retailers and their respective landlords across the GTA. Retail sales volume almost doubled to \$396 million in the second half of 2009 from \$203 million in the first half. The 2009 total of approximately \$600 million declined by \$415 million or 41% from 2008 and captured roughly 14% of the overall investment activity. A power centre and two community centres dominated the top five transactions in the latter half of the year. Phase I of the RioCan Centre in Vaughan was the largest deal in terms of area and saw RioCan REIT acquire the remaining interest (69%) from partners Strathallen Capital and Trinity Developments. The power centre (262,000 sf) traded for \$22 million, or \$123 per square foot (psf) at a reported cap rate of 7.4%. Once fully developed, the power centre will offer 504,000 sf of leasable area.

GWL Realty Advisors (GWL) was also an active seller, disposing of a couple of noteworthy community centres. The first saw Armadale Square in Markham, a 143,000 sf retail complex, traded to Redcliff Realty Advisors for \$32 million at a reported cap rate of 7.7%, making it the highest-priced transaction in the second half of 2009. GWL had purchased the property four years earlier for a similar price. The Armadale Square deal was followed by the sale of a retail complex located at 1475 Dundas Street East in Mississauga to pension fund manager Canadian Urban Equity for almost \$11 million at just under an 8% cap rate.

With the all-important holiday shopping season now behind us, retailers and landlords will undoubtedly be assessing their real estate requirements and portfolios, respectively.



SIGNIFICANT RETAIL TRANSACTIONS BY SALE PRICE SECOND HALF 2009

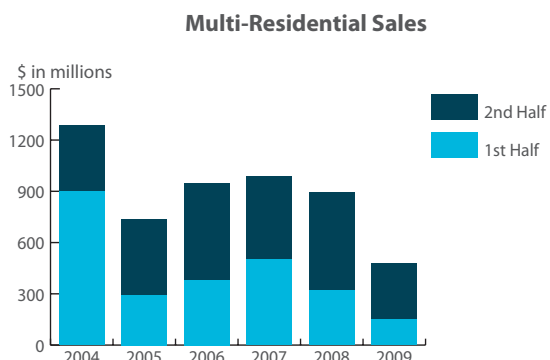
Property	Total Price	Sale Date	Purchaser	Vendor
Armadale Square	\$32,380,000	19-Aug-09	Redcliff Realty Advisors	GWL Realty Advisors
Wanless Centre	\$26,100,000	7-Dec-09	RioCan REIT	GWL Realty Advisors
RioCan Centre Vaughan	\$22,103,125	10-Sep-09	RioCan REIT	Strathallen Capital Corp./Trinity Dev. Corp.
375-381 Queen Street West	\$21,750,000	17-Dec-09	Allied Properties REIT	Stern Financial
Burton Hall	\$14,700,000	05-Nov-09	Ontario Realty Corp.	Women's College Hospital

Multi-Residential Market

Multi-residential properties have traditionally been sought-after investments, yielding the lowest cap rates. With low financing rates offered through Canada Mortgage and Housing Corp. (CMHC) and relatively high occupancy rates, investors continue to be frustrated by the scarcity of available product. Investment sales for multi-residential buildings across the GTA improved over a poor first half (\$149 million) to end the second half at \$332 million. Overall, \$481 million was sold in 2009 as the multi-residential sector turned in the lowest sales volume results of any asset class for the year. By comparison, \$898 million was sold in 2008, representing an annual decline of 46%.

Unlike 2008, portfolio sales were limited and confined to markets outside the GTA. However, a number of noteworthy trades still occurred. For example, Montreal-based Maestro Group made the largest acquisition in terms of dollar volume for the year. It purchased Scarlett Heights, a nine-storey, 206-unit, senior residence in Etobicoke from The Rockport Group and Spectrum Senior Housing for \$58 million (\$282,000 per unit) at a reported cap rate of 8.3%. Elsewhere, the British Columbia Investment Management Corporation (bcIMC) sold Markham Corners in Scarborough to Davpart for \$21.5 million (\$116,000 per unit) at a reported cap rate of 7%. bcIMC had acquired the property in 1998 for \$14.2 million, representing a price per unit of \$77,322.

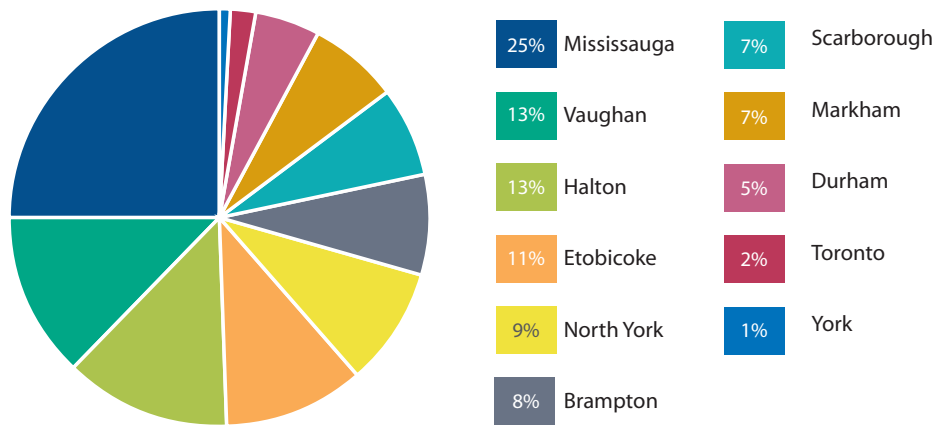
The year ahead appears to be promising with more than \$100 million of transactions set to close by the end of February, giving the multi-residential sector a well-needed boost.



SIGNIFICANT MULTI-RESIDENTIAL TRANSACTIONS BY SALE PRICE SECOND HALF 2009

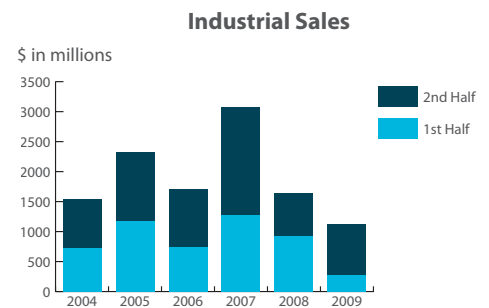
Property	Total Price	Sale Date	Purchaser	Vendor
Scarlett Heights	\$58,000,000	29-Oct-09	Maestro Group	Rockport Group and Spectrum Senior Housing
Markham Corners	\$21,500,000	26-Oct-09	Davpart Inc.	bcIMC
955 Warwick Court	\$19,095,000	16-Dec-09	Timber Creek Asset Management	TransGlobe Property Management
1275 Elgin Street	\$17,500,000	31-Aug-09	Park Property Management	Skycrest Developments Limited
2515 Bathurst Street	\$15,350,000	24-Sep-09	The Howard Property Company	TransGlobe Property Management

Industrial Sales – 2nd Half 2009
(Number of Transactions by Region)



Industrial Market

The recession has taken its toll on the largely manufacturing and automotive-based industries in the GTA and province of Ontario as a whole. During the current economic malaise, leasing and investment activity have been less than stellar as tenants, landlords and prospective buyers sat on the sidelines looking for clear signs of a sustainable recovery. However, their mood and appetite changed somewhat in the second half of 2009 as investment volume for industrial product jumped by almost 200% to \$840 million. Not only did industrial outpace the other asset classes in the last six months of the year, but it managed to surpass the \$1 billion mark, finishing 2009 with \$1.1 billion in overall investment volume. Notwithstanding the second half burst, overall industrial investment dropped 32% from \$1.6 billion in 2008.



Mississauga continues to dominate in terms of the number of transactions by region, capturing 25% of the deals between July and December 2009, similar to the performance over the same period one year prior. Vaughan and Halton were also on the radar screen, each accounting for 13% of the deals completed in the second half.

Traded in the final month of the year, 500 Bayly Street East in Ajax represented the top sale of not only the second half but all of 2009. The 909,000-sf single-tenant building serves as a distribution facility for Loblaw's, which purchased the facility from H&R REIT for \$140 million (\$154 psf). A distant second, 2701 High Point Drive, a warehouse and distribution facility in Milton, traded for \$51 million. The transaction represents a 20-year sale/leaseback between the vendor (Sobeys) and purchaser (Redcliff) at just under an 8% cap rate.

SIGNIFICANT INDUSTRIAL TRANSACTIONS BY SALE PRICE SECOND HALF 2009

Property	Total Price	Sale Date	Purchaser	Vendor
500 Bayly Street East	\$140,000,000	18-Dec-09	Loblaw Properties Limited	H & R REIT
2701 High Point Drive	\$51,000,000	23-Jul-09	Redcliff Realty Management	Sobeys
777 Bayly Street West	\$28,100,000	21-Dec-09	1191373 Ontario Inc.	First Industrial Realty Trust
75 Frontenac Drive	\$17,000,000	04-Aug-09	Hyundai Auto Canada Corp.	H & R REIT
45 West Wilmot Street	\$15,150,000	02-Oct-09	CanFirst Capital Management	CREIT

Avison Young is the real estate partner that the business community trusts for intelligent, integrated solutions. We deliver results that are aligned with your strategic business objectives, supporting real estate initiatives that add value and build competitive advantage for your organization.

Avison Young Offices

Toronto	North Toronto
Vancouver	Ottawa
Calgary	Montreal
Edmonton	Quebec City
Lethbridge	Halifax
Regina	Chicago
Winnipeg	Washington, DC
Mississauga	Atlanta

www.avisonyoung.com

For more information on this report, please contact Avison Young:

Bill Argeropoulos 416.673.4029
Vice President & Director of Research, Canada

Avison Young
150 York Street, Suite 900, Toronto, ON M5H 3S5
T 416.955.0000 F 416.955.0724
E ayresearch@ay-on.com www.avisonyoung.com



**Intelligent
Real Estate Solutions**

Some of the data in this report has been gathered from third party sources and has not been independently verified by Avison Young. Avison Young makes no warranties or representations as to the completeness or accuracy thereof. Investment sales data sourced from Avison Young, RealNet Canada Inc. and Altus InSite