



# Newsletter

Spring/Summer 2009



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## Rising unemployment will curb demand, but sound fundamentals bode well for Canadian markets long term

The latest unemployment figures from Statistic Canada suggest Canada's economy will face a tough 2009, with landlords witnessing higher vacancy levels and an increase in sublease space. However, government commitments to economic stimulus plans coupled with Canada's fundamentals, which remain more stable than those of other nations, should help Canada emerge from the recession more quickly.

According to Statistics Canada's most recent Labour Force Survey, the national unemployment rate rose in February to 7.7%, the highest it has been since September 2003. Canada lost 82,600 jobs in February, bringing total losses since the peak of October 2008 to 295,000 jobs, a 1.7% decrease.

Ottawa, which experienced the highest office employment growth in Canada in 2008 at 9.5%, is expected to see -2.2% and 2.2% growth in 2009 and 2010 respectively, according to the Conference Board of Canada. Meanwhile, Calgary, Edmonton and Vancouver witnessed job growth of 4.4%, 3.5% and 4.1% in 2008 and are anticipated to experience 1.8%, 0.2% and -1.0% growth in 2009 and 1.5%, 2.2% and 1.6% in 2010. Toronto and Montreal experienced 3.0% and 1.8% growth in 2008 and are anticipated to have growth levels of 0.7% and -0.8% in 2009 with recoveries to 3.6% and 1.3% in 2010.

As news continues to roll out regarding the collapse of the auto industry and the slowdown in oil and gas production, job losses continue to mount. As to how these figures relate to jobs in offices, the service-producing sector witnessed 71,200 jobs disappear between January and February 2009, but only saw a cumulative loss of 45,000 jobs between February 2008 and February 2009, indicating a large number of jobs were also created during the same time period. Professional, scientific and technical services accounted for the largest portion of this drop, losing 31,000 jobs (2.6%) between January and February 2009, mostly in legal, architecture, engineering and design services. This was primarily the result of the decline in construction activity. During the same time period, public administration only saw a decrease of 6,800 jobs, and finance, insurance, real estate and leasing only lost 2,500 jobs across Canada.

Overall, every aspect of the economy remains sharply off 2008's peak numbers and hence, vacancy rates are anticipated to tick up in 2009 as companies cut costs and unneeded space. However, while the media continues to churn out unfavourable economic news, most businesses are carrying on, vacancy levels still remain comparatively low, the current unemployment rate is still below the double-digits of past recessions, Canada's banking system is ranked the strongest in the world, and Canadians are generally confident the economy will recover without a prolonged recession.

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Stop the presses - we can't stand the news

# Vancouver

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## Economic slowdown drives up supply of office sublease space

The Metro Vancouver office leasing market is witnessing a significant rise in sublease space, particularly in the Downtown core, as businesses restructure themselves, shed unneeded space, and try to generate additional income in response to the changed economic environment.

As of year-end 2008, 516,627 square feet (sf) of vacant sublease space was available in the region, up 70% from 304,395 sf at mid-year 2008 and 52% from 339,871 sf at year-end 2007. Downtown, total vacant sublease space at year-end 2008 tallied 188,472 sf—doubling the amount recorded at mid-year 2008 and at year-end 2007.

Transaction volumes are anticipated to decline in 2009 due to a slowdown in executive decision-making as many firms elect to stay put while the economy recovers. Tenants are looking for savings in their real estate and some companies have had to reduce staff, and the result is space being brought back to the marketplace. Vacancy levels are expected to tick up through 2009, and tenants may see some relief with regard to rental rates.

While there is no one particular sector that is returning the bulk of the space to the market in BC, the financial sector, resource-based industries and engineering companies have been participants in the current sublease movement.

The tenant response to the increase in sublease space has been lukewarm due to lack of demand. Furthermore, the effect on landlords has been minimal as most landlords have little head lease exposure or vacancy issues. The Downtown core currently affords little room for movement, with only 2.5% vacancy. No major Downtown office tower is anticipated to come on stream before 2013.

There is little evidence to-date that this trend has provided tenants seeking head lease space with more negotiating leverage. (However, the lack of evidence may be due to the lack of bids.) There has been some softening in rents from landlords and they may increase inducements over time, but in general, they're trying to maintain rents.

Rental rates for sublease space are currently being offered at up to a 50% discount over what the tenants' contractual rents are, and that could increase over time. However, there are also risks associated with a sublease. Subleases typically trade at a discount because subtenants generally don't enjoy the same rights as tenants do, and the sublease is only valid so long as the tenant remains current with its lease commitment.

Overall, the region expects to see a continual increase in sublease space through 2009. Softening in the leasing market, however, is expected to be less severe than in other parts of Canada due to Metro Vancouver's relatively healthy vacancy levels and the fact that Vancouver is a branch-office town. Infrastructure projects, some of which are related to the 2010 Olympics, will also continue to cushion the impact of the global credit malaise.



Avison Young is marketing for lease Commerce@Citi in Burnaby, BC. Construction of the 130,000-sf office and retail building will be completed in fall 2009.

## Recent Lease Transactions

TransLink (office) -- 80,000 sf  
BC Hydro (office) -- 62,000 sf  
BC Safety Authority (office) -- 35,000 sf  
Airborne Engines (industrial) -- 30,000 sf  
OCE Canada (industrial) -- 30,000 sf  
Blanche Macdonald (office) -- 24,000 sf  
United Front Games (office) -- 22,000 sf  
TP Systems (office) -- 14,000 sf  
Ican Contracting (industrial) -- 11,000 sf  
Raymond James, Ottawa (office) -- 10,500 sf  
Brookfield Asset Management (office) -- 10,000 sf

## Recent Exclusive Lease Listings

13450 Gateway Drive, Surrey (office) -- up to 600,000 sf  
13401 108th Avenue, Surrey (office) -- 220,000 sf  
Commerce @ Citi, Burnaby (office) -- 130,000 sf  
1132 Hamilton Street (office) -- 55,000 sf  
88 Sixth Street, New Westminster (office) -- 22,000 sf  
Queen's Court, New Westminster (office) -- 20,000 sf  
1128 Homer (office) -- 17,500 sf

## Recent Properties Sold

1200 Howie Avenue, Coquitlam (multi-family) -- 66 units

## Recent Sale Properties Listed

Lougheed Super Centre, Coquitlam (retail) -- 81,000 sf  
Market Square, Victoria (retail/office) -- 59,000 sf



Avison Young is marketing Lougheed Super Centre (Coquitlam, BC) for sale. Anchored by Winners/HomeSense, the 81,000-sf development is 100% leased to eight national/regional retail tenants.

## Credit market crunches the commercial real estate market



Avison Young is marketing this proposed office condominium project, located at 634 - 6th Avenue SW, for sale.

The outlook for Canadian commercial real estate is not as negative as the residential sector and significantly less negative than the U.S. economy. While governments work to implement strategies to encourage lending, the root causes of the economic turndown, poor underwriting practices and overly-affordable products to less than creditworthy customers were not as prevalent in the Canadian marketplace. That being said, no sector of the economy will emerge unaffected when the great economic downturn of the early twenty-first century comes to its conclusion.

A number of reasons are behind the continuing slowdown in lending: underwriting standards have been tightened, the number of creditworthy applicants has declined, the number of lenders has declined, quality investment opportunities are down, certain types of "affordable" lending have been removed from the marketplace, financial institutions have had their capital constrained or are experiencing a lack of liquidity and life

insurance companies are requiring greater returns on their investments while reducing their lending budgets. Banks and credit unions are still lending, just less on each deal.

The ability to finance investment in existing property or the construction of new property is the big question mark across the real estate universe and is the most significant current bottleneck to getting deals done. Lenders are underwriting values with lower rental rates and longer vacancy turnover timeframes, resulting in low effective loan-to-value (LTV) ratios. While LTV ratios are lower, lenders have much higher security requirements (pledging of assets, personal guarantees and/or reduced leverage) in addition to the tightened underwriting standards.

With the market for securitized commercial mortgage loans (CMBS) virtually non-existent, the market has entered a new era in the commercial real estate lending world. Gone for now are the days of cheap and easy financing. This does not mean that deals have stopped altogether. Lenders are still looking for good deals with solid fundamentals to finance.

Recent conversations with institutional investors indicate that large portfolios (\$100 million plus) will see an increase in joint ventures between companies in 2009 and there is a high level of sensitivity to price per square foot, especially when there is any vacancy. The prices and capitalization rates may be down, but rents are still high based on leasing activity over the past few years. Investors are completing their due diligence on projects while being acutely aware of the challenges in the lending market.

Global commerce, banking, investment strategies and personal consumption will likely look quite different once the downturn is concluded. Already, a majority of investors are watching and waiting from the sidelines for value declines to create new opportunities. In terms of the real estate cycle, the market is presently at the stage where capitalization rates have gone up and well-capitalized investors are positioned to begin taking advantage of distressed situations and realistically priced investment opportunities. Business is still taking place, just like it has during and after every previous downturn.

### Recent Lease Transactions

Lennox Industries (industrial) – 110,000 sf  
BJ Services (office) – 51,900 sf  
EBA Engineering (office) – 50,300 sf  
Challenger Geomatics (office) – 23,700 sf  
Insight Medical (office) – 22,800 sf  
Pro Hockey Life (retail) – 20,000 sf  
Newair & Tours (office) – 18,000 sf  
Golf Town Canada (retail) – 18,000 sf  
C & R Transportation (industrial) – 16,900 sf

### Recent Exclusive Lease Listings

Palliser South (office) – 202,200 sf  
Stampede Trail (retail) – 180,000 sf  
Sierra Springs (retail) – 140,000 sf  
221 - 18th Street SE (office) – 50,000 sf  
777 - 64th Avenue SE (industrial) – 25,800 sf  
909 - 5th Avenue SW (office) – 25,700 sf  
Emerson Place (office) – 23,100 sf  
403 - 33rd Street NE (office) – 23,000 sf  
1601 - 9th Avenue SE (office) – 20,600 sf

### Recent Properties Sold

Rosenau Transport Facility (industrial)  
– 168,700 sf  
3916 - 70th Avenue SE (industrial) – 64,100 sf  
120 - 58th Avenue SE (retail) – 23,100 sf  
1224 - 9th Avenue SE (office) – 6,200 sf  
Concrete Equities Place (office condo) – 2,700 sf

### Recent Sale Properties Listed

11820 - 15th Street NE (land) – 5.26 acres  
1108 - 4th Street SW (office condos) – 193,000 sf  
634 - 6th Avenue SW (office condos) – 69,500 sf  
700 - 33rd Street NE (industrial) – 59,600 sf  
2874 Kingsview Boulevard SE (industrial)  
– 45,400 sf  
4315 - 72nd Avenue SE (industrial) – 30,100 sf

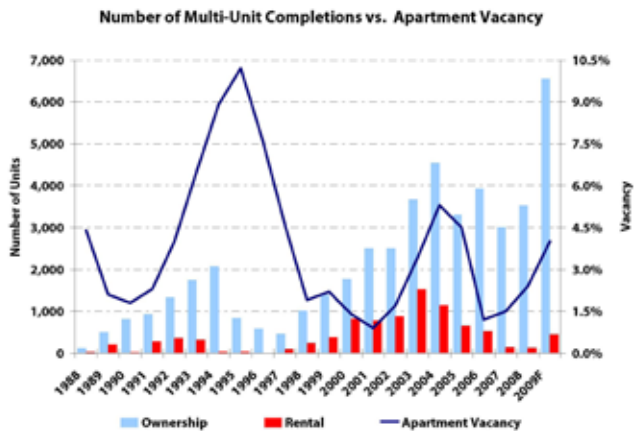


Emerson Building, 7180 - 11th Street SE

# Edmonton

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## Edmonton multi-family market adjusts to changing economy



In 2007, as roughly 43,000 new residents moved to the Edmonton CMA, the housing market became red hot. Construction played catch-up and apartment (purpose-built) rental vacancy sat around 1.5% in the fourth quarter of 2007. In late 2007, the market started to cool as housing supply, in both new construction and resale listings, began to outstrip demand. In

2008, population growth slowed but still stayed far above the average for the last 10 years. Though rental property completions were minimal, apartment vacancy increased as home ownership affordability improved. Going forward into 2009, with almost 8,000 multi-family units under construction – 40% more than 2004's record high completions, the question is "What impact this will have on rental market vacancy rates?"

When looking at past trends, it is evident there is no direct correlation between the apartment vacancy rates and multi-family completions. This lack of correlation is due to the fact that completions affect housing supply, and that accounts for only half of the vacancy equation. The other half is the demand for housing, influenced mainly by population fluctuations and affordability concerns.

There is no expectation of the existing housing supply to decline through obsolescence or demolition of existing housing stock. While the 8,000 multi-family units currently under construction are concerning, it is anticipated that at most 5,000 will be completed in 2009, as poorer sales activity forces builders to delay construction and halt some projects altogether. At the moment it is estimated that 700 have been halted indefinitely with potential for more to follow. It can only be speculated as to how these estimated 5,000 units will directly impact the housing market. What proportion of these units will be held as inventory, sold or rented is impossible to know. It is known that if there is not an equal or greater amount of demand for these units at prevailing home prices, then there will be downward pressure on prices. This will make home ownership more attractive by comparison to renting, thereby incenting renters to become owners.

While housing supply is expected to rise, demand is also expected to rise. Previous projections call for 16,000 new residents to be added to Edmonton in 2009, but those estimates are likely to be lowered given the current economic malaise. As well, a slowing economy often results in people adjusting their spending habits. While people always need a place to live, they may find ways to do it more affordably, such as by moving back in with family or friends-- effectively "doubling-up" some existing and new renter households and dampening demand growth.

In short, the multi-family housing supply will grow in 2009, but is expected to grow by less than the 8,000 units currently under construction. To counter this supply, increased demand is forecasted to grow as a comparatively stronger economy in Edmonton still attracts new migrants to the city. However, the net effect will be that supply growth will outstrip demand growth resulting in a rise in apartment vacancy from 2.4% in 2008 to 4.0% - 4.5% in 2009.

### Recent Lease Transactions

Highfield Place (office) -- 67,000 sf  
ClaimsPro (office) -- 41,000 sf  
Bennett Jones LLP (office) -- 40,000 sf  
West Point Corporate Centre (industrial)  
-- 33,800 sf  
Staples Business Depot (retail) -- 30,000 sf  
Home Depot (retail) -- 18.9 acres  
Shoppers Drug Mart (retail) -- 20,000 sf

### Recent Exclusive Lease Listings

Canadian Western Bank Place (office) -- 409,000 sf  
Gateway Crossing (retail) -- 269,600 sf  
Currents of Windermere (office) -- 205,500 sf  
St. Albert Trail Centre (office) -- 96,800 sf  
Veka Canada Co. (sub) (industrial) -- 62,500 sf  
Beaver House (office) -- 62,400 sf  
Millbourne Professional Centre (office) -- 40,800 sf

### Recent Properties Sold

Nisku Centre Commercial (land) -- 66 acres  
Ivan Vukovic Beaumont (land) -- 48 acres  
Smart Centre Lands (land) -- 11.09 acres  
Kerr Building (office) -- 65,800 sf  
Fun Sun Place (retail) -- 24,800 sf  
Ponka Shopping Centre (retail) -- 19,700 sf  
Central Car Park (investment) -- 422 parking stalls

### Recent Sale Properties Listed

Namao Town Site (retail) -- 115 acres  
North Rail Building (office) -- 252,000 sf  
Dresser Rand Building (office) -- 38,300 sf  
AMEC Building (office) -- 30,000 sf  
Red Deer Office Building (office) -- 14,500 sf



The Icon Towers I & II, provided by Langham Properties Ltd.

# Regina

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## Global transportation hub planned for Regina

Regina is expanding to the west! A major new development, located west of the city boundaries and the International Airport, will be home to a new inland port known as the Global Transportation Hub (GTH). The GTH will allow Saskatchewan to connect to Northern U.S. and global markets creating large scale, sustainable economic opportunities for the province. It ensures that Regina and GTH stakeholders can handle the demands of global supply chain management more efficiently, while improving security and reducing damage or loss of goods.



Regina is situated on the Trans-Canada Highway, on the main line of CP Railway and a branch line of the CN Railway. As a land-locked city in a land-locked province, the GTH will remove virtually all barriers of growth related to freight storage and assembly, re-distribution, re-packaging and logistics. Given the export driven economy of the province, where roughly 70% of GDP

is generated by exporting activity, the GTH is a natural fit for the region.

The GTH will attract distribution, warehousing and manufacturing companies by connecting the three major cities of Saskatoon, Moose Jaw and Regina. It is speculated that Saskatchewan's central location and low operating costs will be sufficient to attract international investor attention and new partnerships with existing businesses.

The development necessitates the construction of a two and four lane highway. This new highway will facilitate both east-west and north-south road and rail traffic flow and will interconnect with existing major arterial roadways & Highways #1 and #11. The added infrastructure will improve traffic flow and safety in and around Regina while providing new opportunities in Saskatchewan's booming economy.

The GTH is great news for industrial warehouse inventory. In 2008, industrial vacancy fell to 2% while average net rental rates rose to approximately \$7.00 per square foot (psf). New 2009 rental rates for Q1, average \$10.00 to \$14.00 psf. With industrial space in high demand, the city is working closely with the Rural Municipality of Sherwood to annex various portions of land aimed at securing the GTH, while satisfying industrial land demand until 2030. The province is also giving \$10 million to the city for sewer and water lines for this area and \$1.5 billion to infrastructure that will help make the development of the parcels of land possible.

There are positive domino effects of the GTH including the pending CP Rail yard relocation, which will open the door to further downtown development. The provincial government has committed approximately \$27 million of the \$93 million needed to relocate the CP rail yards from downtown Regina to the GTH. As well, Loblaw's Companies Limited announced plans to build a one-million square foot distribution centre at the GTH. This new facility will open the doors for 750 jobs within two years and as many as 1,500 jobs by 2017.

### Recent Lease Transactions

5875 Rochdale Blvd (retail) – 17,600 sf  
311 Albert Street (office) – 10,00sf  
434 Broad Street (office) – 6,600 sf  
6823 Rochdale Blvd (office) – 5,800 sf  
409 Park Street (retail) – 5,300 sf  
133 McDonald Street (retail) – 4,300 sf

### Recent Exclusive Lease Listings

Rochdale Crossing, 5875 Rochdale Blvd (retail/office) – 24,900 sf  
Market Mall, 303 Albert Street (retail/office) – 9,100 sf  
Rochdale Mall, 6823 Rochdale Blvd (retail/office) – 3,000 sf  
Western Pizza, Regina Beach (retail) - 1,500 sf  
Pasqua Street & Hwy 11 - 3.99 acres

### Recent Properties Sold

2401 Saskatchewan Drive (office) – 37,900 sf  
802 Main Street, Biggar, SK (land) - .37 acres  
1020 – 8th Avenue (land) - .35 acres

### Recent Sale Properties Listed

RM of Sherwood (land) – 156.70 acres  
City of Regina – 41.15 acres  
RM of Sherwood (land) – 23.29 acres  
RM of Sherwood (land) – 17.97 acres  
Paisley Golf Centre (land) – 14.9 acres  
Parkland Greenhouse, Yorkton, SK (retail) – 118,200 sf  
Regent Park Dry Cleaners, 3639 Sherwood Drive (retail) – 1,600 sf  
Western Pizza, Regina Beach (retail) – 1,500 sf



Rochdale Crossing

# Winnipeg

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## Winnipeg a "safe haven" for investment

Manitoba continues to be an 'it' province, with a hot housing market, significant capital spending projects, bumper wheat and barley crops and tight labour conditions. Winnipeg metropolitan area forecasts have been lowered, but the city is still expected to be among the best performers in North America in 2009. Real GDP, employment growth, personal disposable income and retail sales are all expected to perform 1% to 1.5% better than the projected Canadian average. Large construction projects recently completed or underway in Winnipeg and surrounding areas at the end of 2008 totaled nearly \$5.5 billion, including capital spending developments which are helping to support the Province's economy into 2009. These projects include millions of dollars in wastewater improvement projects, a \$665-million floodway expansion program, a \$585-million airport terminal and parkade, and a \$327-million rapid transit corridor.



Cityplace was recently sold by Huntingdon REIT to Manitoba Public Insurance (MPI) for \$80.5 million.

Winnipeg is viewed by many private equity and institutional investors as a safe investment option, due to its strong, diversified economy and sustainable growth trends. The city continues to have extremely low office, industrial, retail, and multi-family vacancy, and most commercial properties tend not

to be over-leveraged. Downtown office vacancy has fallen to below 6% overall. After a number of years in the 3% to 4% range, industrial vacancy decreased to 2.3%, reflecting a net absorption of just over 900,000 square feet (sf). Winnipeg's retail vacancy reached an 18-year low at the end of 2008, dipping to 3.2% overall, with approximately 2 million square feet (msf) of new power centre construction in the planning stages for 2012-2013.

Although investor activity was strong in 2008, with a continued focus on a variety of asset types, it was about half the volume of the record \$700 million in commercial sales that took place in 2007, due in part to a shortage of available quality product. This year, volumes are expected to remain similar to 2008, with a modest increase in cap rates due to increased investor risk sensitivity and the rising cost of debt and equity. Multi-family investment is expected to receive the most interest in this market due to its relative security and the fact that rental vacancy continues to hover around 1%, with little new inventory on the horizon. As tightening lending criteria continue, companies with quality properties and significant mortgages due for renewal may opt to focus on sale and leaseback transactions, allowing them to unlock the capital in their assets. Due to the recent global economic downturn there has also been some speculation that pension and endowment funds, which prefer to have a balance between real estate and equity, may choose to sell real estate holdings in an effort to rebalance their portfolios. As a result, there should be excellent opportunities for buyers with significant cash who may have been previously pushed out of the market by the large institutional investors.

## Recent Lease Transactions

4997892 Manitoba Inc. (industrial) – 22,500 sf  
Claims Pro Inc. (office) – 15,600 sf  
OCLC Online (industrial) – 11,500 sf  
Lennox Industries (industrial) – 11,000 sf  
Province of Manitoba (office) – 8,600 sf  
PWGSC (office) – 8,600 sf  
Superior Plus (industrial) – 7,600 sf  
Independent Glass (industrial) – 7,600 sf

## Recent Exclusive Lease Listings

Kensington Building (office) – 91,300 sf  
419 Notre Dame (office) – 22,700 sf  
1038 Waverley (industrial sublease) – 21,500 sf  
Hample Building (office/retail) – 15,300 sf

## Recent Properties Sold

Charleswood Hotel (development land)  
– 2.39 acres  
Broad Street & College, Regina (land) – 2.24 acres  
1600 Regent (retail) – 55,700 sf  
332 St. Mary's Road (multi-family) – 6,100 sf  
618 Erin Street (industrial) – 4,500 sf

## Recent Sale Properties Listed

7355 Wilkes (land) – 1.84 acres  
Northern Goose, Teulon (industrial/business)  
– 42,000 sf  
Hample Building (office/retail) – 15,300 sf  
75 Stadacona (industrial) – 3,000 sf



275 Portage Avenue, Kensington Building

# Mississauga

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## Industrial sales volumes are down



6200 Millcreek Drive, Mississauga

The influence of the global economic crisis has taken full effect as the first quarter of 2009 nears an end and almost every sector has felt the recession's squeeze. Available credit for commercial properties is harder than ever to find, and many investors are lingering on the sidelines. In the GTA West, Canada's largest industrial market, this is more evident as the number of transactions is at a relative standstill. In spite of market

conditions, values for industrial properties in this area have yet to see a substantial decline.

In January and February 2009, the total dollar volume of sales for industrial properties in the GTA West was at \$72.4 million. This represented a decline of 54% compared to the same period in 2008, when the value of sales totaled \$157.8 million. A significant reason for the decrease is the drop in the total number of transactions in the market. For the same two-month period mentioned above, the total number of transactions was nine (two of which were non-arms length). Compare that to the 43 transactions that occurred within the first two months of 2008 and the difference is a 79% decline year-over-year. Surprisingly, it has been owner-occupiers who have made the majority of industrial purchases in 2009. Logistics company Kuehne + Nagel accounted for more than half of the dollar volume of sales this year with the purchase of its 402,000-square-foot (sf) building at 6200 Millcreek Drive in Mississauga for \$42.1 million. Although the sale closed this year for \$105 per square foot (psf), it is not an accurate comparison for the market, given this sale was negotiated quite some time ago. In addition, the building was built by Orlando Corporation for Kuehne + Nagel's use and includes approximately 11.2 acres of extra land.

Despite the lack of velocity in the investment market, sale prices for industrial properties on a per square foot basis remains relatively high in the GTA West. Of the buildings that have been traded at arms-length in 2009, the average price was \$96 psf, which is at par with prices from a year ago (around \$100 psf). The problem in today's market is the fact that there are fewer trades to compare, making it difficult to accurately estimate the value of industrial buildings as we enter the second quarter of 2009.

Looking to the balance of 2009 and early 2010 it is expected that prices for industrial product in the GTA West will decrease significantly as the market witnesses an adjustment in values. This adjustment will accelerate as vendors are forced to sell product, thus lowering prices. The exposure time for most buildings for sale will remain lengthy due to the limited number of active buyers, but should rebound fairly quickly once confidence is regained and some pricing equilibrium is achieved.

## Recent Lease Transactions

*Shaw Canada (office) - 80,000 sf*  
*Hoya Lens Canada (industrial) - 17,500 sf*  
*Ontario Realty Corporation (office) - 11,300 sf*  
*SLR Consulting (office) - 5,000 sf*

## Recent Exclusive Lease Listings

*185 Courtneypark Drive East (industrial)*  
*- 97,100 sf*  
*75 Courtneypark Drive West (office) - 60,000 sf*  
*4475 North Service Road (office) - 35,000 sf*  
*1880 Courtneypark Drive East (industrial)*  
*- 32,400 sf*  
*231 Oak Park (office) - 12,600 sf*  
*385 Brunel Road (industrial) - 11,000 sf*  
*3050 Confederation Parkway (office/retail)*  
*- 5,600 sf*  
*221 Miller Drive (office/retail) - 2,400 sf*

## Recent Sale Properties Listed

*220 Water Street (industrial) - 207,700 sf*



4475 North Service Road, Burlington

## Financial services fallout in Toronto

As bank layoffs continue to pile up across major U.S. centres such as New York City, resulting in tens of thousands of square feet of vacant space, everyone is wondering when, and if, the shoe will drop on this side of the border. Canadian banks have not been entirely immune from the credit crunch; however, they have been better insulated and their value has not declined as rapidly as their U.S. counterparts. A recent article by the *Globe and Mail* indicated that since the credit crunch started in the summer of 2007, the Big Five Canadian banks have registered a total of almost \$19 billion in profits. By comparison, over the same period, the five biggest U.S. banks have lost more than \$37 billion (U.S.). As a result, Canada's financial/banking system has become the envy of foreign economic and political leaders.

The health of Toronto's office market has long been tied to the success of the financial services sector, especially the banks. According to Statistics Canada Labour Force Survey data, more than 222,000 people are employed in the finance and insurance sectors across the Toronto CMA. From a real estate footprint, the big five lease an estimated 16 million square feet (msf) across the Greater Toronto Area (GTA) or almost 10% of the overall office stock. Nearly 10 msf or 61% is housed downtown. This pales in comparison to the staggering 40 msf leased by major banks in New York City. In Toronto, major U.S. financial institutions have a real estate footprint of over 1.7 msf, of which an estimated 1.2 msf, or 71%, is located downtown. While many U.S. banks have been disposing of space at an alarming rate, Canadian banks have been busy inking leases in new developments and or renewing and expanding their premises in existing buildings. In the past 24 months, the big five have combined to transact in excess of 3.5 msf, most of it downtown.

Though not in the tens of thousands, there have been casualties in the financial services sector in Toronto. To date, and largely reported through the various newswires, mutual fund and smaller independent mortgage companies have issued lay-off notices. Prominent names such as AIC, CI Financial, Canaccord Capital, Sentry Select, and Dundee have reduced staffing levels, ranging between 35 and 250 employees. The potential impact can be simply measured by applying an employee per square

foot ratio. If you consider the typical ratio to be between 150 and 200 square feet (sf), a firm reducing its work force by 250 could translate into approximately 37,500 to 50,000 sf of vacant space returning to the market on either a direct or sublet basis.

It's still unclear how much office space will be vacated, if any, by whom or when. However, the first office space casualty has already emerged. While not U.S.-based, Macquarie, an international provider of investment services with roots in Australia, recently opted to return 41,000 sf to the sublet market of the original 66,000 sf it had signed up for at Brookfield Place not one year ago.

It can be assured, as we move deeper into the recession, market observers will be watching closely not only at the performance of foreign, but also domestic financial institutions.



Downtown Toronto

### Recent Lease Transactions

Promotivate LP (office) – 10,600 sf  
Interprovincial Lottery Corp. (office) – 8,200 sf  
Universal Energy (office) – 6,600 sf  
Wardle Daley Bernstein LLP (office) – 5,300 sf

### Recent Exclusive Lease Listings

525 University Ave. (office) – sub listing 56,000 sf  
Spadina Ave. & Bloor St. W. (office/retail redevelopment) – 44,000 sf

### Recent Properties Sold

2770 Jane Street, North York (multi-residential)  
– 144 units  
101 Marlee Avenue, Toronto (multi-residential)  
– 58 units  
305 Buena Vista Avenue, Oshawa (multi-residential) – 40 units

### Recent Sale Properties Listed

1011 Simcoe Street North, Oshawa (multi-residential)  
West Lynd Plaza, Whitby (retail)

### Recent Management Additions

Acquisition of Darton Property Advisors & Managers – 11 million square foot portfolio



## The core space crunch

As the realities of the current economic climate start to appear in commercial vacancies across the country it is expected that no community will be completely immune to the fall-out. A cross country survey would reveal a marked increase in the number of office and industrial sublease properties available on a nationwide basis. While Ottawa is certainly not immune to the rapid rise in vacancy rates in its tech sector, the same cannot be said for its office market, outside of the west suburban marketplace.

With approximately 10% of the office market and an availability rate in excess of 20%, the west suburban office market is feeling the effects of the economic downturn. This sector has seen its share of turbulent market swings and the recent global problems have only served to exacerbate an already challenging environment.

Outside of the west suburban market, the Ottawa office market is the tightest in the country. Class A office buildings in all areas, save the tech market node in Kanata, particularly the downtown core, have seen vacancy rates at seven-year lows. No abatement in the situation is visible in the short term. Direct class A vacancy stands at less than 2% with sublet space adding an additional 0.4% to that total in the downtown core.

New construction coming to the Ottawa skyline will see the arrival of 380,000 square feet (sf) of LEED Gold office product constructed by Ottawa developer Minto Developments. This building will be fully leased prior to its scheduled delivery date of May 2009. Scheduled to begin construction in the second quarter of 2009 is the new Export Development Corporation building. With 450,000 sf of class A space, this building is fully leased to EDC.

It is expected that the addition of almost half a million square feet (msf) of new space in Ottawa's core would see some upward pressure on vacancy rates. This will not likely be the case. In fact, the situation is expected to remain status quo for the next few years. Unless there is a fundamental change in the way in which the development community views risk, speculative building is unlikely to occur in the core office market. Where is this demand for office space coming from?

A recent request for proposal (RFP) from Public Works & Government Services Canada (PWGSC) sheds some light on the subject. The RFP was issued requesting expressions of interest from the commercial brokerage community to assist with lease renewals and roll-overs during the next 36-month period. It further explained that during the time period in question, PWGSC would be looking at lease expansions totaling 3.3 msf, in addition to negotiating 3.8 msf of renewal options.

An examination of the Government of Canada's property holdings reveals several properties built in the 1950s and 1960s that are in need of major retrofitting – or outright demolition and redevelopment. Currently occupied, these government campuses have not been held to the standards of the private sector buildings leased by government. As a result, the crunch for space is not so much new program space, but rather an ongoing retrofit/redevelopment program that has finally caught up with the availability of space on the consumer side.

The resulting space crunch will see an unbalanced market in the Ottawa core office market for the foreseeable future. The problem is certainly recognized by PWGSC and it has taken steps to provide for future growth and restructuring as it recently closed on a land purchase of 29.6 acres at a major interchange on Highway 417.



EDC - Export Development Corporation

### Recent Lease Transactions

*Huawei Technologies (office) – 8,400 sf*

### Recent Exclusive Lease Listings

*2 Antares Drive (office) – 53,000 sf  
40 Hines Road (office) – 10,800 sf  
30 Metcalfe Street (office) – 3,300 sf  
346 Waverly Street (office) – 2,800 sf  
1335 Carling Avenue (office) – 2,200 sf  
915 Churchill Avenue South (office) – 2,000 sf  
1545 Carling Avenue (office) – 2,000 sf*

### Recent Sale Properties Listed

*405 Huntmar Drive (land) – 10.78 acres  
2211 Thurston Drive (office/industrial) – 24,800 sf  
1174 Carp Road (land & building) – 4.51 acres /  
11,500 sf  
346 Waverly Street (office) – 2,800 sf*

# Montreal

2000 McGill College Avenue, Suite 1950  
Montreal, QC H3A 3H3  
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## Sale leaseback deals on the rise



5200 Armand Frappier St., St-Hubert, QC

Tightening credit market conditions and a slowing economy have left many companies in search of alternative means of obtaining financing. Since certain real estate assets are still preferred as long-term holdings for many institutional investors, owner-occupants may be interested in divesting of their real estate assets. A sale

leaseback transaction is an agreement in which an owner sells his property then leases it back from the purchaser for a specified term.

A sale leaseback transaction can be beneficial to both the investor and the seller. During periods of accelerated growth of a firm, liquidity is essential. Furthermore, mortgage debt holders may be required to maintain a minimum cash balance or a minimum income ratio for debt service. A seller can use the cash proceeds of such a transaction to repay remaining debt and reinvest in his core business activities. Raising funds through liquidation of assets rather than through refinancing can also make balance sheets appear healthier. The investor would benefit from assuming ownership of a fully-leased asset, from any potential appreciation of asset value over the holding period, and from a constant stream of cash flow from the asset in the form of rental revenue.

According to data from CoStar Group, while investment sales volumes have plummeted across every property type in most U.S. markets, interest remains keen in sale leaseback transactions. Sale leasebacks accounted for approximately 2.2% of all closed transactions by dollar volume in the third quarter of 2007, totaling about \$2.1 billion. In the third quarter of 2008, those transactions doubled to 4.4%.

Recent sale leaseback transactions in Canada include Canadian Tire Corporation's sale and leaseback of 12 of its properties in September 2008. Canadian Real Estate Investment Trust purchased eight properties for \$137.3 million, while Charter Real Estate Investment Trust acquired three properties for \$27.3 million and an undisclosed company purchased the remaining property.

In November 2007, Canadian National Railway sold CN's Central Station Complex in Montreal to Homburg Invest Inc. and CN leased back its corporate headquarters building and railway passenger facilities. The transaction brought \$355 million to CN.

In October 2007, the federal government announced the sale and leaseback of seven federal office properties to Larco Investment Ltd. for \$1.41 billion. The government agreed to lease the buildings for a 25-year term. A government representative stated that investing in office towers is not a priority for the government and the sale has allowed it to realize significant value for taxpayers.

Similar to the United States where companies are seeking out alternative means of financing, Canada is expected to see an increased interest in sale leaseback transactions in 2009.

## Recent Lease Transactions

*Location Gervais (office) – 43,000 sf*  
*Westmount Moving (office) – 32,000 sf*  
*Boralex / Cascades (office) – 15,000 sf*  
*Fisher & Paykel Healthcare, Inc. (industrial) – 12,400 sf*  
*Gastem (office) – 7,000 sf*  
*Adlaw Holdings (office) – 6,700 sf*  
*Marcus Evans (office) – 4,500 sf*  
*IndemniPro Inc. (office) – 4,600 sf*  
*Ministry of International Relations, Government of Quebec (office) – 3,900 sf*  
*Commercial Credit Adjusters (office) – 1,400 sf*

## Recent Exclusive Lease Listings

*630 Sherbrooke St. West (office) – 2,500 sf*  
*1501 McGill College Ave (office) – 1,900 sf*

## Recent Sale Properties Listed

*460 Knowlton Rd; Lac Brome, QC (retail) – 3,500 sf and 111.5 acres of adjacent commercial & residential land for development*



772 Sherbrooke Street West

# Quebec City

1300 Ste-Anne Blvd.  
Quebec City, QC G1E 3M5  
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## Here, the real estate market is alive and well

What is most remarkable as one enters Quebec City is the number of new developments taking place. What is also surprising is the amount of advertising for pre-leasing of new development projects. The resulting impression is that Quebec City's economy is rapidly growing, contrary to the current situation elsewhere in the world.

The city's employment structure has played a key role in its protection from the current recession. The federal and provincial governments are major employers; education remains strong with Laval University as a significant employer; and the pharmaceutical and high-tech sectors seem to have remained unscathed.

Government-funded infrastructure programs have also been instrumental. These programs have permitted engineering firms to perform at levels which justify hiring additional employees. All types of businesses involved in new infrastructure development are benefiting from these government-funded programs.

With the anticipated retirement of thousands of public works' employees over the upcoming 10 years, Quebec City will be required to attract even more manpower. The current unemployment rate is the second-lowest in the country, tied with Edmonton at 3.8%, and it should maintain itself throughout the years to come.

The end result on Quebec City's real estate market is that demand for new space remains high, rental rates remain stable and are even increasing, capitalization rates remain unchanged, and developers continue to propose new projects. The Quebec City region remains an excellent place for real estate investments.

## Recent Lease Transactions

*DMR-Fujitsu (office) – 48,100 sf*

## Recent Sale Properties Listed

*65 St-Vallier St. (multi-residential) – 56 units*



*Place de l'Escarpe Phase 1*

# Halifax

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## Stop the presses – we can't stand the news!



*Purdy's Wharf*

There is no mistaking the fact that the economy of the world has changed to a point almost unrecognizable from just six months ago. The constant bombardment of doom and gloom news on a global scale is overwhelming and at times gets so bad it could be assumed that the world is about to come to a fiery end.

Since January, hundreds of businesses in Nova Scotia have spoken to Avison Young, and most, while conscious of what is going on around them, are forging ahead. Some are almost embarrassed that they are doing as well as they are.

In Halifax, since the beginning of the global economic downturn, the following has occurred: a \$200-million-plus downtown development anchored by a new convention centre was publicized; and a new 150,000-square-foot (sf) office building was announced (and largely leased) in the suburbs for completion by this summer. The purchase and luxury conversion of Halifax's tallest residential building and numerous other positive real estate developments and job creation projects were also revealed.

So life and business does and will go on, despite what the news might be telling us. Are there areas of the economy suffering? Most definitely, but business is not all bad. It is important, now more than ever, that successes are celebrated, and confidence in the local economy and business community is restored. Let the good news roll.

## Recent Exclusive Lease Listings

*Freemason's Hall (office) – 31,000 sf*  
*75 Akerley Boulevard (office) – 8,300 sf*  
*1969 Upper Water Street (office) – 4,600 sf*

## Recent Properties Sold

*Lot 1212 Burbridge Avenue (land) – 2.15 acres*  
*271 Brownlow Avenue (office) – 15,000 sf*  
*6485 Quinpool Road (retail) – 8,000 sf*

## Recent Sale Properties Listed

*Clayton Park Plaza (retail) – 30,500 sf*

## Across the Country, Around the World

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Avison Young is the real estate partner business 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.



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