

COMMERCIAL REAL ESTATE

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Vancouver draws foreign investors

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Our years abroad

The only barrier to foreign buyers is a lack of prime office properties for sale

By Frank O'Brien

Recent purchases of landmark office towers in Western Canada by foreign groups lend weight to the belief that Vancouver is on the radar for deep-pocketed international investors.

This February, an Asian investment consortium led by Hong Kong-based Atelier Capital Corp., which has been active in Vancouver for 20 years, bought the 10-storey, 103,000-square-foot office tower at 900 Howe Street for \$29.5 million. Avison Young principal Robert Levine, whose office handled the sale, says he also has Middle Eastern investors looking at Metro Vancouver office space, but he adds that offshore expectations make it tough to match buyer to product.

Robert Levine,
principal at
Avison Young



German investors purchased Bentall 5 in the biggest commercial investment deal of 2009: testimony to the resilience of Vancouver's office market during the global economic downturn

"Most of these buyers are looking for Class-A space. They are looking for relatively carefree deals," Levine observes of the foreign investors. "Not too many who are based off shore want to get involved in major releasing, positioning or development."

The comments are echoed by Jim Szabo, executive vice-president with CB Richard Ellis, who helped stickhandle the all-cash sale of the Bentall 5 office tower to the German investment group Deka Immobilien Investment GmbH in May 2009.

"Unfortunately, we don't have a lot of product that foreign buyers are interested

in," Szabo said. Unfortunate indeed. With total assets of approximately €14.4 billion (\$23 billion), Deka is the market leader among the German open-ended property funds.

The fully leased Class-A Bentall 5 was not even for sale when Deka presented \$297 million in cash for a building with a capitalization rate of six per cent.

The deal marked Deka's first office purchase in Vancouver and the most expensive building sold in Metro Vancouver in the past decade. It also showed what it takes to attract large, and largely conservative, foreign players.

"You can call it defensive capital," Szabo

says. "[German investors] are not interested in risk."

He notes, however, that Deka's beachhead in Vancouver could be the start of a European investment wave, one that major Vancouver brokers are working hard to expand. CB Richard Ellis and Avison Young are among the local firms that have led sales teams into Europe to pitch opportunities.

The Germans are also active in Calgary, as Dusseldorf-based Commerz Real AG purchased the fully leased, 161,000-square-foot Stampede Station last year for approximately \$70 million. Commerz started a global real-estate investment fund last year valued at about \$2.5 billion.

Safety first

German-born Hubertus Liebrecht, certified Canadian immigration consultant and head of Vancouver-based ProCanada Consulting, expects to see more German capital flowing into Vancouver.

Liebrecht says it's not the city's capitalization rates that attract European investors but rather the chance for appreciation. That Germany's real estate market "has been frozen for five or six years" has encouraged investors to look at North America, and Western Canada appears much safer than much of the United States.

That's an understatement. The vacancy rate among offices in Vancouver's downtown is eight per cent, with property prices holding firm. In comparison, double-digit office vacancies are common across the U.S., and according to the National Council of Real Estate Investment Fiduciaries there, commercial real-estate values have plunged by as much as 45 per cent in the past three years.

A fall 2009 survey of Canadian real-estate professionals by PricewaterhouseCooper (PWC), *Emerging Trends in Real Estate 2010*, rated Vancouver as the best buy in Canada in the office, industrial and retail sectors.

PWC notes that Vancouver's commercial capitalization rates are among the world's lowest and that the city's "prices ... defy gravity." Yet the study advises, "Don't bet against Vancouver, it does well in any circumstances, but outsiders will have difficulty finding many investment opportunities."

Liebrecht says that European interest in Vancouver has increased in recent months

because the "numbers look better" than in most other cities. He also credits the 2010 Winter Olympic Games for raising the city's profile.

There is, he cautions, a drawback in the Downtown Eastside: "For some reason, whenever foreign investors come to Vancouver, they always seem to visit the Main and Hastings area, and they are shocked." In European cities, he says, it is rare to be hit upon by panhandlers or to see such a degree of poverty and human degradation. Moreover, he points out, in Vancouver, panhandling happens "not just at Main and Hastings" but "all over the place."

Crossing the continental divide

Many in Vancouver point to the sale of 900 Howe Street as a harbinger of a wave of Chinese investments to follow upon Beijing's announcement of approved destination status for Canada in December 2009.

The long-awaited designation opens doors to visitors and investors, creating buzz among real-estate brokers who expect a huge impact on local markets.

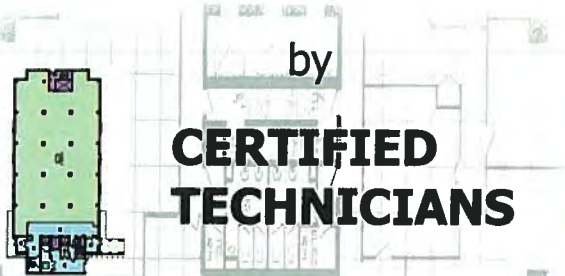
In a recent report on the Vancouver apartment market, David Goodman of Macdonald Commercial forecasts a "high level of interest" among mainland Chinese in local real estate that promises to boost a residential market already seeing multiple offers on some multi-family properties.

There has also been steady investment from South Korea over the past two decades. Korean buyers are primarily interested in motels, hotels, residential and light retail – especially in Burnaby and Coquitlam – according to Simon Ahn of Hana Real Estate Group of Coquitlam, which works closely with Korean investors. ■



900 Howe Street sold to Atelier Capital, Hong Kong, for \$29.5 million

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