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AVISON YOUNG

Media Release

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Editors/Real Estate Reporters

· **Click here to view Avison Young's Mid-Year 2010 British Columbia Real Estate Investment Review:**
http://www.avisonyoung.com/library/pdf/Van_Research/Invest_MID_10.pdf

**British Columbia commercial real estate investment market
enjoys record sales volume in first half of 2010;
dollar volume surpasses \$1 billion mark with retail leading the way**

Avison Young releases its Mid-Year 2010 BC Real Estate Investment Review

Vancouver, BC — With momentum building from a strong finish to 2009, the British Columbia commercial real estate investment market enjoyed record sale transaction dollar volume of \$1.026 billion in the first half of 2010.

For the first time in the province's history, commercial real estate investment volume surpassed \$1 billion in a six-month period as 45 sales transactions completed. In the first half of 2010, the total volume of office, retail and industrial property sales rose 43% from \$715 million in the second half of 2009 and \$643 million in the first half of 2009. As a result, the year-end 2010 total is expected to surpass the year-end 2009 mark of \$1.36 billion by a wide margin.

These are some of the key trends noted in **Avison Young's Mid-Year 2010 British Columbia Real Estate Investment Review**, released today. The semi-annual report tracks office, retail and industrial investment property sales in BC greater than \$5 million.

"The market is much stronger than last year. I wouldn't be surprised if, by the end of 2010, it's one of the largest-volume years – if not the largest – on record," comments **Bob Levine**, Avison Young Principal.

Levine notes the results come a year after a slowdown in activity in the first half of 2009, which stemmed from the recession and U.S. credit crisis. The record first-half 2010 sales dollar volume and high transaction level can also be attributed to the market's reinforced underpinnings.

"Investors have a lot more confidence because of a number of factors – affordable credit, the stability in what you're buying and lack of stability in other investment products," he says.

According to the report, the record dollar volume of \$1.026 billion could not be attributed to one massive market driver. In fact, the dollar-volume milestone was reached after a prolonged period of capitalization rate compression.

In the first half of 2009, the unsolicited sales of two large Downtown Vancouver office buildings distorted the picture of an overall Metro Vancouver market that was trying to withstand after-shocks from the global financial shake-up of late 2008. On the other hand, the first-half 2010 levels can be traced to a combination of strong underlying fundamentals, wide availability of capital, fewer credit restrictions, minimal debt loads, and institutional investors rebalancing their portfolios as part of the normal business cycle.

As in the second half of 2009, retail property transactions dominated activity in the first half of 2010 with 21 properties trading – compared to 16 in the previous six-month period and just four in the first half of 2009. With investors showing much more confidence and market conditions more favourable, the retail sector alone (\$711 million) in the first half of 2010 exceeded the total value of *all* transactions combined (\$643 million) in the first half of 2009.

“The large number of retail deals was due to sellers’ desire to capitalize on peak pricing and rebalance their commercial real estate portfolios,” notes Avison Young Investment Property Specialist **Michael Keenan**. “I’ve been in the commercial real estate industry for 30 years and not too long ago, we were celebrating the rare achievement of \$1 billion in *annual* investment.”

Office (12) and industrial (12) transactions were slightly above their second-half 2009 totals. Office-building sales volume climbed 23% to \$189 million in the first half of 2010 from \$154 million in the second half of 2009. Industrial property investment also rose 23% to \$126 million in the first half of 2010 from \$102 million in the second half of 2009.

(The report also covers the multi-family asset class; however, multi-family sales are not included in the overall statistics.)

Other survey highlights:

Office

Office acquisitions accounted for 27% (12 of 45) of total transactions. While the number of deals remained on par with the year-end 2009 total (11), office transaction dollar volume rose 23% to \$189 million from \$154 million.

“Ongoing strong demand for office properties was muted by a lack of available supply,” says **Michael Gill**, Avison Young Principal.

“There are far more potential buyers Downtown than there are sellers,” adds Levine. “Owners can’t replace their office properties, so they don’t want to sell – and income is stable to going up.”

The largest office deal occurred in suburban Burnaby as Artis REIT, in the midst of an aggressive expansion program, acquired Production Court for \$64 million from Great West Life. But more large suburban office deals are not likely in the near future.

“The Downtown office market is going to continue to attract a lot of investment capital – if there’s product to buy,” says Levine. “That’s not necessarily the case in the suburbs, where vacancy rates are quite a bit higher. There’s also more concern about the sustainability of the income in the suburbs, due to the higher vacancy and more new supply.”

Consequently, a trend appears to be emerging as office strata-ownership opportunities slowly surface in the marketplace. Keenan says tenants are seeking to take advantage of low interest rates while developers are exploring ways to offset rising suburban vacancy.

“The trend towards strata office ownership will be one to watch going forward,” says Keenan. “The limited Downtown supply and low interest rates make strata ownership more appealing, and rising vacancy rates in markets like Burnaby and Richmond may convince developers to pursue strata projects rather than risk yield reductions.”

Retail

Retail investment dollar volume rose 56% in the first half of 2010 to \$711 million from \$458 million in the second half of 2009. (Ivanhoe Cambridge’s non-arm’s length \$211-million acquisition of the remaining 50% in Oakridge Centre mall from Oxford Properties Group is not included in the first-half 2010 retail volume.)

“The reason for the increase is twofold,” says Levine. “Buyers have more confidence in the market and sellers are making more shopping centres available for sale.”

Unlike in the other sectors, large investment-grade retail properties were available and often subject to multiple bids and auction processes. The sale of Lougheed Town Centre in Burnaby (\$133 million) ranked as the largest retail transaction in the first half of 2010, while Burnaby’s Brentwood Town Centre (\$100 Million), the Bay Centre in Victoria (\$90 million) and Semiahmoo Shopping Centre in White Rock (\$83 million) also sold for above-average prices.

“There’s a lot of money from both the public and private markets looking to buy,” points out Levine. “There’s more money available to buy large retail centres than there was six months ago. With a lack of decent investment opportunities elsewhere, the trend towards large retail property transactions is likely to continue. A lot of private investors are looking to the real estate market because, possibly, they’re unhappy with the stock market.”

“Retail is perceived as a safe asset class,” adds Gill. “Buyers continue to show a preference for food-and-drug-anchored shopping centres, which are performing extremely well. BC is also attracting more national Canadian and U.S. chains than it has before.”

Industrial

The BC industrial property market continued its slow-but-steady rebound from the recession in the first half of 2010. Industrial transactions increased slightly to 12 from 10 while dollar volume rose 23% to \$126 million from \$102 million in the second half of 2009.

“A lack of supply continued to limit deal velocity,” explains Levine. “But stable activity over the past 12 months is providing more reliable pricing figures. Investors who completed, or extensively negotiated, transactions in the first half of 2010 have blazed a trail for buyers and sellers here in the second half of 2010.”

All of the first-half 2010 industrial deals occurred in Metro Vancouver, where developers are proceeding cautiously on new projects until the lease market shows more improvement. With the global economy continuing to improve, it is considered just a matter of time before leasing demand returns to pre-recession levels.

“The Metro Vancouver industrial property market remains among the tightest in North America,” adds Keenan.

*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 700 real estate professionals in 21 offices across Canada and in the U.S. The company provides value-added, client-centric investment sales, leasing, advisory, management, financing and mortgage placement services to owners and occupiers of office, retail, industrial and multi-residential properties.*

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