

partnership.  
performance.



Intelligent  
Real Estate Solutions

AVISON YOUNG

## Media Release

**For Immediate Release (8 pages)  
Wednesday, January 18, 2012**

**Media Relations:**

**Sherry Quan**

**(604) 647-5098 or (604) 726-0959 cell**

**email: [sherry.quan@avisonyoung.com](mailto:sherry.quan@avisonyoung.com)**

**Editors/Reporters:**

• **Click here to view Avison Young's 2012 Canada, U.S. Forecast, full report:**

[http://www.avisonyoung.com/library/pdf/National/AY\\_2012\\_Forecast\\_Canada\\_US\\_Jan18\\_12\\_FINAL.pdf](http://www.avisonyoung.com/library/pdf/National/AY_2012_Forecast_Canada_US_Jan18_12_FINAL.pdf)

• **Click here to view Avison Young's office and industrial vacancy rate graphs (2 graphs & data chart):**

[http://www.avisonyoung.com/library/pdf/Media\\_Releases/Temp/Avison\\_Young\\_2012\\_Forecast\\_Media\\_Graphs\\_Jan\\_18\\_12\\_FINAL.xlsx](http://www.avisonyoung.com/library/pdf/Media_Releases/Temp/Avison_Young_2012_Forecast_Media_Graphs_Jan_18_12_FINAL.xlsx)

### **Avison Young releases 2012 commercial real estate forecast for Canada, U.S.**

***Cautious optimism to guide Canada and U.S. commercial real estate markets in 2012; solid fundamentals abound in Canada, while U.S. looks for stability***

**Toronto, ON** — Benefitting from strong fundamentals, Canada's commercial real estate markets continued to enjoy stability and growth in 2011 despite global economic uncertainty. Meanwhile, the United States suffered from ongoing uncertainty, with limited good news concentrated in a few select markets.

Each country has its risks and concerns, but better days should be ahead for both as the world deals with its financial issues.

These are some of the key trends noted in **Avison Young's 2012 Canada, U.S. Forecast**, released today. The annual report covers the Office, Retail, Industrial and Investment markets in 20 Canadian and U.S. metropolitan regions: **Calgary, Edmonton, Halifax, Lethbridge, Mississauga, Montreal, Ottawa, Quebec City, Regina, Toronto, Vancouver, Winnipeg, Atlanta, Boston, Chicago, Dallas, Houston, Las Vegas, Los Angeles and Washington DC.**

"There is a dichotomy in the North American commercial real estate market. Canada is experiencing a period of stability and modest growth, while the United States continues to search for traction in the recovery process," comments **Mark E. Rose**, Chair and CEO of Avison Young.

"Despite this disparity, things are looking up in both countries as global financial uncertainty is gradually resolved and clarity begins to emerge," he says. "As Europe and the U.S. take steps to deal with their economic challenges and financial markets begin to rebound, there will be opportunities for commercial real estate markets to make further gains."

According to Rose, 2011 saw solid demand in both countries' investment markets, with a large pool of buyers driving the market in Canada, and U.S. buyers focusing on safe assets and avoiding risk.

"Given the relatively small investable universe in Canada, we continue to notice a growing trend of Canadian buyers heading south of the border," notes Rose.

He continues: "A number of Canadian buyers, be they pension funds, life insurance companies or REITs, are identifying opportunities to expand their portfolios in and beyond Canada's borders, especially into the U.S. While U.S. assets are currently available at more attractive pricing, their value is expected to rebound in the coming years, making them a good longer-term hold and convincing many that this is the time for cross-border deployment of capital."

Across the 20 Canadian and U.S. markets that Avison Young tracks, office vacancy has trended lower, falling from 14.7% in 2010 to 13.6% in the closing months of 2011 – a 110-basis-points (bps) improvement.

"The double-digit office vacancy doesn't tell the whole story, however," says **Bill Argeropoulos**, Vice-President and Director of Research (Canada) for Avison Young. "The performance of the two countries is quite distinct when you break down the figures. While the overall office vacancy rate in Avison Young's Canadian markets in 2011 settled at a respectable 7.6%, the rate is nearly double in Avison Young's U.S. markets (15%). This is a clear sign of the different pace of recovery seen in the two countries."

"Canada's leasing markets have seen a swift recovery to the point where new development, particularly office, is either underway or announced in most markets. This is quite remarkable, given that we just came through one of the worst recessions since the Great Depression – a healthy sign of confidence from both the development and the business community," continues Argeropoulos.

He adds: "A gap also exists between the two nations' industrial sectors. Collectively, across Avison Young's industrial markets, vacancy declined 50 bps between 2010 and 2011, ending 2011 at 8.3%. Once again, Canada's market is in much better shape, displaying an overall vacancy of 4.9% versus 9.7% for the U.S."

The report goes on to say that in Canada, confidence remains high coming off good results in 2011, and as long as businesses and consumers remain motivated by the underlying fundamentals and not the headlines, the country's markets can anticipate ongoing improvement.

Meanwhile, progress is slower and unevenly distributed in the U.S., with recovery struggling for a foothold as caution prevails.

"2011 was a year of sporadic recovery in the U.S. with strong capital flows and historically-low interest rates. Market recovery was best seen in a handful of larger coastal markets while widespread caution persisted and many businesses deferred real estate decisions," notes **Earl Webb**, Avison Young's President, U.S. Operations.

He says the office market remains at a cyclical low point in most U.S. cities, and 2012 will be characterized once again by weak absorption and downward pressure on rental rates. "Even in the best-performing office markets, such as Washington DC, budget pressure and new cost-cutting initiatives could lead to a pullback in federal government and contractor leasing."

He continues: "On the investment front, with an abundance of capital available for investment, along with low-cost financing, there was a continued decline in threshold cap rates and return hurdles for investors in core properties in 2011. Even non-coastal markets like Chicago experienced aggressively

priced trades of core assets to large, institutional investors. There clearly exists a gap between the abundance of capital available for core investment and the modest amount of property available for acquisition."

Webb says for 2012, overall U.S. real estate conditions are expected to mirror 2011 and demonstrate only modest improvement going into the election. "Post-election improvement may be seen in the event one of the two political parties controls the legislative and executive branches of government. Development should remain scarce in most markets and in all property types except apartments. Real estate, however, remains an attractive investment and, after a slow start, the U.S. will experience increased sales volume in 2012."

## **CANADA**

### **Office**

Leasing activity was strong across Canada's office markets in 2011, with vacancy rates decreasing and rental rates trending upward in most markets nationwide. Canada's overall office vacancy rate has declined steadily from 9.2% at the depths of the recession in 2009, to 8.3% in 2010, to 7.6% in the closing months of 2011 – solidifying the recovery.

Six of the 12 Canadian markets surveyed experienced a decrease in vacancy rates of varying degrees in 2011. Surprising many market observers, Calgary posted the most impressive improvement over 2010 with vacancy plummeting 340 bps to 7.2% as 2011 drew to a close. From West to East, vacancy rates also fell in Vancouver (-80 bps to 7.6%), Lethbridge (-50 bps to 9.4%), Mississauga/GTA West (-40 bps to 11.6%), Toronto (-70 bps to 7.9%) and Montreal (-60 bps to 8.6%). From West to East, those markets that witnessed a rise in office vacancy included Edmonton (+90 bps to 10%), Winnipeg (+40 bps to 6.9%), Ottawa (+40 bps to 5.6%) and Quebec City (+20 bps to 4.7%). Regina remained unchanged at 1% – the tightest office market in the country once again.

Looking ahead, the national office vacancy rate is forecast to decline an additional 60 bps to end 2012 in the 7% range. While vacancy rates are expected to hold steady in Montreal (8.6%) and Ottawa (5.6%), rates are expected to trend lower in Vancouver (-120 bps to 6.4%), Calgary (-200 bps to 5.2%), Edmonton (-140 bps to 8.6%), Lethbridge (-20 bps to 9.2%), Mississauga/GTA West (-100 bps to 10.6%) and Toronto (-70 bps to 7.2%). Conversely, due to some much needed supply, Regina will see its vacancy rate climb 320 bps to 4.1% by the end of 2012. Other markets that are expected to see an uptick in vacancy include: Winnipeg (+10 bps to 7%), Quebec City (+60 bps to 5.3%) and Halifax (+130 to 10.3%).

### **Retail**

The increasing number of new U.S. retail chains entering Canadian markets was noted in almost all cities as Canada's relative stability, high consumer confidence and healthy retail spending, coupled with proximity to American distribution systems, boosted the country's appeal for companies wary of further U.S. expansion. On the heels of Victoria's Secret and Bath & Body Works opening stores in 2010, others followed. In 2011, Canadian consumers welcomed the likes of J. Crew, Express and Marshalls, to name a few. All this activity, of course, is paving the way for U.S.-based giant Target Corporation's roll-out of roughly 135 stores in early 2013 following its acquisition of Zellers in early 2011. Eleven of Target's first 24 stores in Canada will be located in the Greater Toronto Area.

Steady cross-border demand, along with low vacancy rates and increasing rents, have investors adding retail assets to their portfolios. Through the first three quarters of 2011, retail (\$3.9 billion) edged out office (\$3.7 billion) as the most actively traded asset class amongst investors. The retail sector was not without its casualties however, as Blockbuster Canada was pushed into receivership in 2011.

### **Industrial**

Vacancy rates are declining in most of Canada's industrial markets as space is steadily absorbed. Stability and modest growth are reported across the country, with some markets anticipating the return of speculative development in 2012.

In 2011, the national industrial vacancy rate ended just below 5%. This compares with 5.5% in 2010 and 6.1% in 2009. In 2011, seven of the 11 industrial markets recorded vacancy rates below the national average of 4.9%. Regina boasted the nation's lowest vacancy rate at 2.1%, unchanged from one year prior. Eight of the 10 remaining markets saw a decline in vacancy led by a 280-bps drop in Lethbridge to 2.9%. While not as dramatic, vacancy rates also trended lower in Ottawa (-140 bps to 2.7%) and Montreal (-130 bps to 6.2%). Modest declines were noted in Calgary (4.7%), Edmonton (4%), Mississauga/GTA West (6.1%), Toronto (5%) and Winnipeg (2.4%), each falling by 40 bps. In contrast, Halifax witnessed a 100-bps rise in its industrial vacancy rate to 6%, while Vancouver came in at 4.6%, up 20 bps from one year earlier.

More of the same is expected in 2012, as Canada's industrial vacancy rate is forecast to end the year slightly lower, at 4.7%. Vacancy rates are expected to hold firm in Lethbridge (2.9%) and Montreal (6.2%); increase in Ottawa (+60 bps to 3.3%) and Regina (+30 bps to 2.4%); and decline in Halifax (-100 bps to 5%), Mississauga/GTA West (-60 bps to 5.5%), Calgary (-50 bps to 4.2%), Vancouver (-40 bps to 4.2%), Edmonton (-20 bps to 3.8%), Toronto (-20 bps to 4.8%) and Winnipeg (-10 bps to 2.3%).

### **Investment**

Unlike 2009 and the early part of 2010, when product and buyers were largely non-existent, the investment market is back and robust with the relatively ready availability of debt (due to continued historically-low interest rates) creating a large pool of buyers – particularly the Real Estate Investment Trust (REIT) sector. This situation has elevated prices to pre-credit-crisis levels in many markets. A limited supply of highly contested product – as witnessed by an increased number of bids – has resulted in further cap-rate compression. And for select assets, cap rates are lower than the previous peak in 2007.

The year was highlighted by a number of signature deals including what was the single largest deal of 2011 – Hines REIT selling Atrium on Bay (a 1.1-msf office/retail complex in downtown Toronto) to H&R REIT for nearly \$345 million. Even after flipping five of the original 29 assets (\$832 million), Dundee REIT secured the largest office portfolio ever acquired by a Canadian REIT for \$690 million from Blackstone/Slate Properties. In all, commercial real estate investment activity in Canada surged to almost \$15 billion through the first three quarters of 2011 – nearly \$2 billion, or 16%, higher than the same period one year prior. This figure could equal or surpass the \$20-billion mark as there were a number of transactions in the final stage of negotiation during the closing months of 2011. For 2012, these trends are expected to continue, tempered only by a scarcity of high-quality assets and the spectre of international economic difficulties.

## **U.S.**

### **Office**

While office absorption increased slightly in many markets in 2011, the absorption was modest. Nationally, the vacancy rate dipped to 12.5% in 2011 from 13% in 2010. Avison Young's U.S. office markets recorded an overall average vacancy rate of 15% in 2011, a 110-bps improvement over 2010. Chicago witnessed the largest decrease in vacancy, receding to 15.1% in 2011 from 20.2% at year-end 2010.

In other markets, Atlanta (16.9%) saw its absorption trend positively approaching year-end while Boston (18.7%) and Las Vegas (19.6%) witnessed small upticks in their vacancy rates. Meanwhile, Dallas (17.7%), Los Angeles (12.9%) and Washington, DC (11.7%) experienced vacancy declines. Houston vacancy remained steady at 13.8% over the year, but is beginning to shift to a landlord's market. Most of Avison Young's U.S. markets are forecast to see tepid and fluctuating vacancy rate improvement in 2012.

### **Retail**

While the overall U.S. retail vacancy rate came in at 7% in 2011, vacancy levels in Avison Young's U.S. markets ranged from 4% in Washington, DC to 12% in Las Vegas. A few markets remained stable over the year while others experienced falling rental rates and continued oversupply.

Houston is witnessing a slow turnaround and reduced vacancy, leading to major retailers planning future expansions. In Las Vegas, many big-box centers that were eagerly built a few years ago in anticipation of future residential developments remain vacant. Washington, DC saw an overall decrease in its retail vacancy as new restaurants opened in select neighborhoods and the service retail sector continued to expand. Boston witnessed several national retailers fill vacancies left during the recession. More stabilization for the retail sector is anticipated in 2012, with development stalled in most cities until the economy further improves.

### **Industrial**

The U.S. industrial market witnessed positive tenant demand in 2011, resulting in an overall vacancy rate of 9.6%. Vacancy in the Avison Young industrial markets performed similarly to the U.S. as a whole and declined to 9.7% in 2011 from 10.2% in 2010. As growth remains slow, minimal new construction will occur in the major markets in 2012. Improved vacancy rates and positive absorption are forecast for many markets, including Dallas, which is expected to see its vacancy decrease to 9.6% from 10.6%.

Houston and Los Angeles led Avison Young's U.S. industrial markets in 2011 with 5.6% and 4.2% vacant, respectively, and with rents rebounding due to their strategic port locations. In Chicago's 1.15-billion-square-foot industrial market, recovery is underway in select submarkets such as O'Hare.

### **Investment**

The U.S. investment market witnessed strong demand and increased velocity in 2011 and, as in 2010, cross-border investors made significant investments in the U.S. As year-end approached, Canadian buyers alone had closed on \$5 billion in office, industrial and retail assets, and overall transaction volume in the U.S. neared \$200 billion. Investment opportunities remain available for investors looking at non-coastal markets in 2012.

Several of Avison Young's markets experienced positive investment trends in 2011. In Atlanta, value-add opportunities attracted significant buyer interest. Houston was one of the country's most active markets and 2012 will be another year of strong investor interest. Chicago proved to be a solid choice for investors and witnessed a spurt of capital-markets activity in the first half of 2011 with several industrial portfolios changing hands. Duke Realty, Industrial Income Trust and Heitman Realty all made notable investments in the Chicago market. Boston saw a return of sustained liquidity and a broad range of asset sizes and classes trade in 2011. And in Washington DC, sales for office, retail and industrial properties reached \$8.4 billion as investors' appetite for assets in the National Capital Region continued.

Overall, predictions of a meaningful U.S. real estate recovery in 2011 were replaced with tempered forecasts by mid-year. Avison Young anticipates 2012 will continue the trend of modest fluctuating recovery as was experienced in 2011.

### **Editors/Reporters:**

**Please turn to the following pages of the report for *Forecast* highlights in the local markets. For further info/comment, please contact the Avison Young associates listed below. Thank you.**

#### **p.7 Property Management, Mortgage Services:**

**Peter Leroux**, EVP, Real Estate Management Services: (416) 673-4027 [peter.leroux@avisonyoung.com](mailto:peter.leroux@avisonyoung.com)

**Norman Arychuk**, Mortgage Agent, Investment Group: (416) 673-4006 [norman.arychuk@avisonyoung.com](mailto:norman.arychuk@avisonyoung.com)

#### **pp. 8-9 Canada & U.S.:**

**Bill Argeropoulos**, VP & Director of Research (Canada): (416) 673-4029 [bill.argeropoulos@avisonyoung.com](mailto:bill.argeropoulos@avisonyoung.com)

**Margaret Donkerbrook**, VP, U.S. Research: (202) 266-8761 [margaret.donkerbrook@avisonyoung.com](mailto:margaret.donkerbrook@avisonyoung.com)

#### **p. 10 Calgary:**

**Todd Thronson**, Principal, (403) 232-4343 [todd.thronson@avisonyoung.com](mailto:todd.thronson@avisonyoung.com)

#### **p. 11 Edmonton:**

**John Ross**, Managing Director, (780) 429-7564 [john.ross@avisonyoung.com](mailto:john.ross@avisonyoung.com)

#### **p. 12 Halifax:**

**Kenzie MacDonald**, Principal, (902) 442-4055 [kmacdonald@ay-ns.com](mailto:kmacdonald@ay-ns.com)

#### **p. 13 Lethbridge:**

**Doug Mereska**, Principal, (403) 330-3338 [doug.mereska@avisonyoung.com](mailto:doug.mereska@avisonyoung.com)

#### **p. 14 Mississauga:**

**Martin Dockrill**, Principal, (905) 283-2333 [martin.dockrill@avisonyoung.com](mailto:martin.dockrill@avisonyoung.com)

#### **p. 15 Montreal:**

**Laurent Benarrous**, Principal, (514) 905-5441 [laurent.benarrous@avisonyoung.com](mailto:laurent.benarrous@avisonyoung.com)

#### **p. 16 Ottawa:**

**Michael Church**, Principal, (613) 567-6634 [michael.church@avisonyoung.com](mailto:michael.church@avisonyoung.com)

#### **p. 17 Quebec City:**

**Laurent Benarrous**, Principal, (514) 905-5441 [laurent.benarrous@avisonyoung.com](mailto:laurent.benarrous@avisonyoung.com)

#### **p. 14 Regina:**

**Richard Jankowski**, Principal, (306) 359-9799 [rjankowski@ay-sk.com](mailto:rjankowski@ay-sk.com)

**p. 19 Toronto:**

**Mark Fieder**, Principal, (416) 673-4051 [mark.fieder@avisonyoung.com](mailto:mark.fieder@avisonyoung.com)

**p. 20 Vancouver:**

**Michael Keenan**, Managing Director, (604).647-5081 [michael.keenan@avisonyoung.com](mailto:michael.keenan@avisonyoung.com)

**p. 21 Winnipeg:**

**Wes Schollenberg**, Principal, (204) 947-2886 [weschollenberg@ay-mb.com](mailto:weschollenberg@ay-mb.com)

**p. 22 Atlanta:**

**Steve Dils**, Principal, (404) 865-3666 [steve.dils@avisonyoung.com](mailto:steve.dils@avisonyoung.com)

**p. 23 Boston:**

**John Fenton**, Principal, (617) 776-2255 [john.fenton@avisonyoung.com](mailto:john.fenton@avisonyoung.com)

**p. 24 Chicago:**

**Michael McKiernan**, Principal, (847) 849-1903 [michael.mckiernan@avisonyoung.com](mailto:michael.mckiernan@avisonyoung.com)

**p. 25 Dallas:**

**Brock Wilson**, Principal, (214) 451-6903 [brock.wilson@avisonyoung.com](mailto:brock.wilson@avisonyoung.com)

**p. 26 Houston:**

**Rand Stephens**, Principal, (713) 504-3155 [rand.stephens@avisonyoung.com](mailto:rand.stephens@avisonyoung.com)

**p. 27 Las Vegas, NV:**

**Joseph E. Kupiec**, Principal, (702) 472-7979 [joseph.kupiec@avisonyoung.com](mailto:joseph.kupiec@avisonyoung.com)

**p. 28 Los Angeles, CA:**

**Neil Resnick**, Principal, (310) 871-1961 [neil.resnick@avisonyoung.com](mailto:neil.resnick@avisonyoung.com)

**p. 29 Washington, DC:**

**Keith Lipton**, Principal, (202) 266-8763 [keith.lipton@avisonyoung.com](mailto:keith.lipton@avisonyoung.com)

• **Click here to view Avison Young's 2012 Canada, U.S. Forecast, full report:**

[http://www.avisonyoung.com/library/pdf/National/AY\\_2012\\_Forecast\\_Canada\\_US\\_Jan18\\_12\\_FINAL.pdf](http://www.avisonyoung.com/library/pdf/National/AY_2012_Forecast_Canada_US_Jan18_12_FINAL.pdf)

• **Click here to view Avison Young's office and industrial vacancy rate graphs (2 graphs & data chart):**

[http://www.avisonyoung.com/library/pdf/Media\\_Releases/Temp/Avison\\_Young\\_2012\\_Forecast\\_Media\\_Graphs\\_Jan\\_18\\_12\\_FINAL.xlsx](http://www.avisonyoung.com/library/pdf/Media_Releases/Temp/Avison_Young_2012_Forecast_Media_Graphs_Jan_18_12_FINAL.xlsx)

***If you are unable to open any of these links, please contact Sherry Quan for pdf versions to be emailed. Thank you.***

*Founded in 1978, Avison Young is Canada's largest independently-owned commercial real estate services company. Headquartered in Toronto, Ontario, Avison Young is also the largest Canadian-owned, principal-managed commercial real estate brokerage firm in North America. Comprising more than 800 real estate professionals in 26 offices across Canada and the U.S., the full-service commercial real estate 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.*

-end-

**For further info/comment/photos:**

• **Sherry Quan**, National Director of Communications & Media Relations, Avison Young:  
(604) 647-5098; cell: (604) 726-0959; [sherry.quan@avisonyoung.com](mailto:sherry.quan@avisonyoung.com)

- **Mark Rose**, Chair and CEO, Avison Young: **(416) 673-4028**
- **Earl Webb**, President, U.S. Operations, Avison Young: **(312) 957-7610**

[www.avisonyoung.com](http://www.avisonyoung.com)

**Follow Avison Young on Twitter:**

For industry news, press releases and market reports: [www.twitter.com/avisonyoung](https://www.twitter.com/avisonyoung)

For Avison Young listings and deals: [www.twitter.com/AYListingsDeals](https://www.twitter.com/AYListingsDeals)

**Follow Avison Young Bloggers:** <http://blog.avisonyoung.com>