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Record year for British Columbia commercial real estate investment market as dollar volume hits nearly \$2 billion in 2010

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Record year for British Columbia commercial real estate investment market as dollar volume hits nearly \$2 billion in 2010



Feb. 24, 2011

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

VANCOUVER, Feb. 24 /CNW/ – Building on the

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2010, dollar volume in British Columbia's commercial real estate investment market reached \$1.946 billion for the year – a new high-water mark for the province.

For the first time in the province's history, commercial real estate investment volume approached \$2 billion in a 12-month period as 99 sales transactions completed. In the second half of 2010, the total volume of office, retail and industrial property sales was \$920 million, almost matching the record dollar volume of \$1.026 billion set in the first half. Total 2010 dollar volume easily surpassed 2009 and 2008 dollar volumes of \$1.36 billion and \$1.27 billion, respectively. The previous record was \$1.53 billion in 2004.

These are some of the key trends noted in **Avison Young's Year-End 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.

"All-time high dollar volume and transaction levels were indicative of the low cost of debt and redeployment of capital accumulated in the wake of the financial downturn of 2008," comments Avison Young Principal **Bob Levine**.

He notes that no single transaction skewed dollar volumes in any asset class in 2010 as had been the case in 2009. The record 2010 sales dollar volume, which was reached after a prolonged period of capitalization rate compression, can be attributed to the market's

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reinforced underpinnings, with investors showing much more confidence.

"Improved debt markets with fewer restrictions and reallocation of capital to targeted asset type investments propelled 2010 to new heights of commercial real estate activity in BC," he says. "Private purchasers were dominant in all asset classes more so than cash buyers such as pension funds, life insurance companies and REITs."

The greater availability of retail assets in 2010 boosted overall deal velocity and dollar volume. Comprising 40% (40 of 99) of all 2010 transactions and generating 59% (\$1.148 billion) of total dollar volume, the retail asset class was by far the most active for all buyer types, particularly private and institutional investors.

Other report highlights:

Office

Office acquisitions accounted for 26% (26 of 99) of total transactions. While the number of deals in 2010 exceeded the year-end 2009 total (11), office transaction dollar volume moderated to \$484 million from \$660 million in 2009, which was skewed by the \$297-million purchase of Bentall V.

"Capitalization rates trended downward by 50 to 75 basis points in 2010. The perception is that there remains reasonable upside in downtown office buildings because of increasing rents and lack of new construction," points out Levine.

The largest office deal in 2010 occurred in suburban Burnaby in the first half of 2010 as Artis REIT acquired Production Court for \$64 million from Great West Life. However, the majority of office deals and significant dollar volume transacted in the downtown Vancouver market in the second half of 2010.

Although many economists' short-term outlook is for interest rates to hold steady, a rate hike in 2011 could narrow the field of potential purchasers by eliminating those buyers dependent on inexpensive debt. Private and institutional investors along with foreign capital will be active in the market.

Retail

The total value of retail investment in BC in 2010 (\$1.148 billion) was more than double that in 2009 (\$499 million), which is interesting given that retail tenants were the most negatively affected beginning in the fourth quarter of 2008.

"The desire of purchasers to buy retail drove capitalization rates down and sellers reacted to the strong interest, which helped keep deal velocity steady throughout the year," says Avison Young Principal **Michael Gill**.

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More sizeable 2010 transactions included: Lougheed Town Centre in Burnaby (\$133 million); Hillside Centre in Victoria (\$113.5 million); Brentwood Town Centre in Burnaby (\$100 Million); South Point Exchange in Surrey (\$91 million); the Bay Centre in Victoria (\$90 million); and Semiahmoo Shopping Centre in White Rock (\$83 million).

"Disposition of retail assets has been beneficial to both buyers and sellers in 2010," says Gill. "Buyers acquired quality assets that deliver stable cash returns, while sellers were able to maximize their return on investment in one of the strongest pricing environments in recent memory."

He adds that low capitalization rates for most Metro Vancouver retail properties were the result of investor perception that the region is not yet saturated with retail product: "The upside potential in Metro Vancouver's retail properties, many of which are not yet mature, remains high as new tenants, particularly U.S. brands, seek to enter or expand in the local market."

Industrial

The BC industrial property market rebounded from the recession in 2010. Industrial transactions increased to 33 from 21 while dollar volume rose 58% to \$313.5 million from \$199 million in 2009.

Industrial tenants/users seeking additional space in 2010, along with stable tenant relations more typical of industrial assets, combined to boost overall demand.

"The record low cost of debt has allowed many investors to meet vendor pricing expectations," says Avison Young Principal **Robert Gritten**.

Constrained supply of quality assets continues to fuel investor interest. Industrial assets attracted more capital from private investors (\$256 million) than did office product in 2010.

"All buyer types should close on a deal if they are able to achieve an accretive spread of more than 100 basis points on any industrial transaction in the Metro Vancouver market in 2011," adds Gritten. "For those planning a disposition strategy, pricing and demand are unlikely to strengthen further. Capitalization rates will not continue to compress as interest rates are unlikely to go much lower."

*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

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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.

Editors/Real Estate Reporters

• **Click here to view Avison Young's Year-End 2010 British Columbia Real Estate Investment Review:**

http://www.avisonyoung.com/library/pdf/Van_Research/Invest_YE_2010_LR.pdf

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