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Real Estate Solutions

## **Media Release**

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- **Avison Young Mid Year 2008 British Columbia Real Estate Investment Review, full report:**  
[http://www.avisonyoung.com/library/pdf/Van\\_Research/BC\\_Investment\\_Report\\_Final\\_Aug25.08.pdf](http://www.avisonyoung.com/library/pdf/Van_Research/BC_Investment_Report_Final_Aug25.08.pdf)
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### **Firm demand continues to drive BC investment market**

***Private investors dominate buying and selling sides, while industrial properties were most prominent assets traded in first half of 2008***

**Vancouver, BC**— British Columbia's commercial real estate investment market continues to show stability, with significant capital chasing a limited number of properties, according to the latest survey by **Avison Young Commercial Real Estate**.

“Despite the economic downturn in the U.S. and the turbulence in global financial markets, the BC economy continues to trend above the national average and demonstrate resilience, with solid economic fundamentals continuing to drive demand,” comments Avison Young principal, **Bob Levine**.

According to Avison Young's **Mid Year 2008 British Columbia Real Estate Investment Review**, during the first half of 2008 the total value of office, industrial and retail investment transactions amounted to \$535 million— up from \$316 million in the first half of 2007 and on pace to meet the \$967 million recorded in all of 2007. (Avison Young tracks investment sales in BC greater than \$5 million.)

Total number of trades also rose from 24 in the first half of 2007 to 38 during the first half of 2008. Average sale price was \$14.1 million, down from the average transaction size of \$20.6 million in 2007. Private investors were at the forefront on both the buying and selling sides.

Industrial properties were the most prominent assets traded between January 1 and June 30, largely influenced by the disposal of **Versacold Canada Corp.**'s portfolio to **Kingsett Capital**, which accounted for six trades (in Abbotsford, Delta and Richmond) totaling \$103 million.

“Buyers continue to outnumber sellers, and the current barriers to more activity are the lack of prime product available for sale; higher borrowing costs; and, for non-prime property, a gap between vendor and buyer expectations,” explains **Douglas McMurray**, Avison Young's Managing Director.

“Many owners continue to be disinclined to sell investments, which currently outperform other options. Due in part to the ongoing credit crisis and economic concerns in the U.S., buyer urgency has left the market. However, there continues to be multiple offers for first-rate product,” he says.

According to the semi-annual survey, prices for well-located prime properties have not retrenched in value over the past six months. With interest rates remaining steady, capitalization rates for prime assets are anticipated to hold firm. However, the number of deals in secondary and tertiary markets has tapered amongst all product types, and capitalization rates have increased.

“Properties in weaker locations or with vacancy/tenant covenant issues (especially in the BC interior and on Vancouver Island) as well as development sites in inferior locations are witnessing a decline in value. This is due to a change in yield expectations from buyers who are perusing properties’ investment attributes more scrupulously,” notes Levine.

He continues: “With lending practices, including debt-service coverage and loan-to-value ratios, stricter than in previous years, investors requiring high leverage may be sidelined for now. Nonetheless, interest rates remain at historic lows and there have still been a reasonable number of trades involving buyers flush with equity.”

“The remarkable increases in land values and construction costs continue to challenge new construction agendas, and this has forced attention on and increased demand for existing product,” says Levine.

According to the survey, more product is anticipated to become available over the next 12 months, especially on a quietly-marketed basis with vendors unofficially offering their property to the market or buyers making unsolicited offers.

“Driven by macro financial influences, which take longer to affect investors, real estate cycles are often less volatile and returns are typically more predictable,” comments McMurray, who says the BC investment market appears to be returning to more realistic transactional levels following the high volume of deals experienced between 2003 and 2005. “The challenges facing the market currently are a lack of listings/offerings and market pricing expectations on the part of vendors.”

### **Other survey highlights:**

#### **Buyer Profile:**

Private investors dominated the buyer side during the first six months of 2008, purchasing \$319 million worth of investment properties— up from \$199 million during the first half of 2007. This buying group accounted for 68% (26 of 38) of the trades and 59% of the dollar volume to-date in 2008.

There continues to be interest from large pension funds, which were responsible for 21% (8 of 38) of the transactions and 33% (\$179 million) of the dollar volume during the first half of

2008. Meanwhile, REIT acquisitions have slowed due to lack of appetite from the capital markets to provide equity. There was also interest from government and public companies.

Avison Young principal **Robert Gritten** comments: "Buyers are generally confident in BC's economy, willing to invest and have access to capital. They do, however, expect a better yield as a matter of course because that is what the rest of North America is experiencing."

"Until the gap between what buyers are willing to pay and what sellers are willing to accept shrinks, activity volume will continue to be affected. The big challenge for some buyers will be availability of debt. However, while financing terms in the short run are more onerous, there are still significant levels of equity seeking deals," says Gritten.

### **Seller Profile:**

Private investors were also the largest class of vendors during the first six months of 2008, selling \$337 million worth of property— up from \$204 million during the first half of 2007. This seller group represented 68% (26 of 38) of the transactions and 63% of the dollar volume. The next most active groups were public companies, followed by institutional investors.

According to McMurray: "Although BC's investment market has not been affected nearly as significantly as in other markets, it has not been impervious to the national economic slowdown, as evidenced by lower activity levels. As real estate pricing and activity levels typically trail the overall economy by months and sometimes years, vendors are not currently motivated to meet buyers' expectations, which have changed for other than prime real estate. It may take several quarters for sellers' expectations to adjust."

### **Industrial Investment Market:**

The industrial investment market remains active, with demand continuing to significantly exceed supply due to the lack of available product. During the first half of 2008, industrial investment trades accounted for 51% (\$274 million) of the total volume. This already exceeds the \$168 million worth of industrial properties traded in all of 2007.

The dwindling supply of industrial-zoned and serviced land has continued to drive escalating land values. This demand-supply imbalance has pushed up average land prices an astounding 75% over the past four years to more than \$1 million per acre in most markets, and as much as **\$4 million per acre** in urban Vancouver city locations.

Solid well-located, well-tenanted properties sell quickly, with numerous buyers vying for the opportunity. Capitalization rates, which have been steadily declining since 2004, are holding firm in the 6.0% to 6.5% range for premium properties in Vancouver and 7.0% to 8.0% range for secondary properties or those in smaller non-core markets.

According to Gritten, secondary markets will continue to see a widening of the spread in yields over primary markets. "Today a warehouse in Kamloops, BC will trade in the 7.5% to 8.5% range, while that same building in Burnaby will trade for 6.0% to 6.75%. In recent years, that gap would have been only 100 basis points instead of the 150 to 200 basis points

experienced now. Prior to this bull market (pre-2000) the gap was 200 to 300 basis points, and over time this spread is expected to return," he says.

The average value of an industrial building has risen dramatically over the past two years. "Property is selling at rates never seen before," stresses Gritten. "There are current offerings at \$150 to \$170 per square foot (psf) for well-situated, single-tenant buildings." The strata market also remains strong, with units now tagged at \$180 to \$230 psf. This is up 30% over the past two years, and 100% over the past seven years.

Adds Gritten: "Worth watching is how the recent rise in transportation costs, as a result of escalating energy costs, may force some national logistics companies to consider opening smaller distribution centres closer to the markets they serve. It makes little sense to ship Asian product landing in Vancouver, to a distribution centre in Alberta, and then back to the retailer in BC."

### **Office Investment Market:**

During the first half of 2008, the number of office property trades was spotty due to the scarce supply of quality office investment stock. Owners have been reluctant to sell due to a lack of re-investment options, and a belief that office rents have more room to grow than do retail and industrial rents.

Most of the recorded trades represented properties in Vancouver. There have been no sales in the financial core thus far in 2008. For buyers and sellers, escalating rents and low vacancies have created favorable market dynamics. While institutional players typically chase trophy properties, many other buyers are pursuing suburban buildings.

Land and construction costs have pushed the average replacement cost to more than \$500 psf. Capitalization rates are holding steady in the 5.0% to 6.0% range. While the demand for strata space is strong, the price of admission remains high at \$750 psf for shell space only.

"There are dispositions proceeding for the latter half of 2008, but unless sellers' expectations meet those of buyers, some of these potential transactions may not complete," notes Levine.

### **Retail Investment Market:**

Stymied by a deficit of quality product for sale, the retail investment market remains relatively quiet. Between January 1 and June 30, retail investment trades accounted for 26% (\$138 million) of the total volume—slightly below the activity levels of the previous six-month period but on track to meet 2007's year-end performance.

While there are many buyers for premium retail centres, the market has witnessed a lack of enclosed mall sales. Most of the recent deals in the past year have involved grocery-anchored and neighbourhood strips, and smaller regional centres in the BC interior and on Vancouver Island. Capitalization rates in Metro Vancouver have generally remained stable in the 6.0% to 6.5% range for quality food-anchored and big box centres and in the 6.5% to 7.5% range for quality enclosed malls.

Elsewhere in BC, capitalization rates are starting to rise. “Many vendors have been seeking the same capitalization rates as in Metro Vancouver, but they’re not there to be had,” says Levine. “In the BC interior and on Vancouver Island, most product currently being offered is priced above what buyers are willing to pay. Many shopping centres have not sold because owners want last year’s price.”

Levine adds: “While the real estate market appears to be in a transitional period, the lending community is still paying attention to quality projects with quality borrowers. There is still a tremendous appetite for quality retail assets and significant capital is available.”

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“Overall, while investors are not entirely immune from the capital markets issues south of the border, buyers continue to look favorably at BC’s real estate market,” comments McMurray. “There continues to be plenty of equity targeting real estate, as investors have historically been drawn to its relatively stable and predictable returns. All property sectors share positive prospects, and investment sales in all categories are still commanding high prices. We expect demand to remain healthy in the foreseeable future.”

*Avison Young is a 100% partner-owned Canadian commercial real estate company comprising more than 300 real estate professionals in 11 offices across Canada. Through its alliance with Grubb & Ellis, one of America's largest commercial real estate firms, Avison Young is able to provide its clients with a full range of property solutions around the world.*

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• **Possible photo captions for media use:**

**Photo #1: 3030 East Broadway**

The 146,000-sf multi-tenanted property at 3030 East Broadway (Vancouver, BC) sold in the mid \$30-million range in June 2008. Industrial properties were the most prominent assets traded in the first half of 2008.

**Photo #2: Rendering of Brewers Distributors Ltd.'s new build-to-suit at 1751 Kingsway, Port Coquitlam, BC**

Avison Young recently represented **Brewers Distributors Ltd.** in the 451,047-sf build-to-suit expansion and relocation of its Lower Mainland distribution warehouse to Port Coquitlam, BC. Construction will begin in September 2008 on what will be one of Metro Vancouver's largest buildings. Completion is slated for second quarter 2009.

**Photo #3: Head Shot**

**Bob Levine**, Principal, **Avison Young Commercial Real Estate**

**Photo #4: Head Shot**

**Douglas McMurray**, Managing Director, **Avison Young Commercial Real Estate**

**Photo #5: Head Shot**

**Robert Gritten**, Principal, **Avison Young Commercial Real Estate**

**For the full report-- "Avison Young Mid Year 2008 British Columbia Real Estate Investment Review", click here:**

[http://www.avisonyoung.com/library/pdf/Van\\_Research/BC\\_Investment\\_Report\\_Final\\_Aug25,08.pdf](http://www.avisonyoung.com/library/pdf/Van_Research/BC_Investment_Report_Final_Aug25,08.pdf)

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