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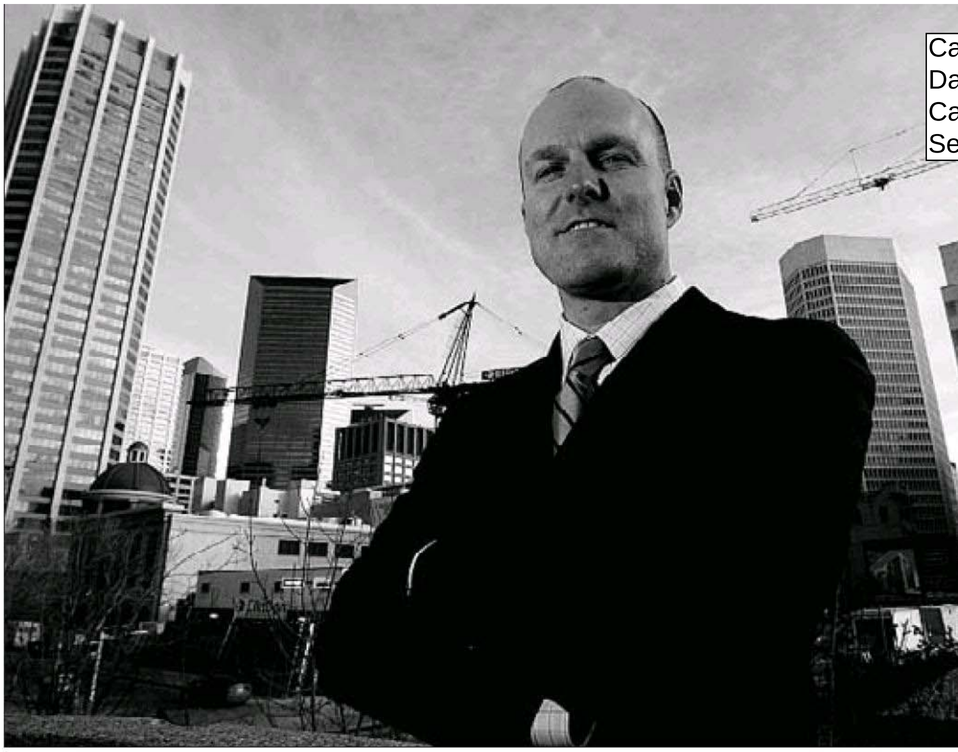

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Todd Throndson, of Avison Young, says the fall will bring more investment in commercial real estate.

Commercial real estate lull expected to end

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CALGARY HERALD

Calgary's commercial real estate market is somewhere in the trough of the current economic cycle, but recovery is anticipated over the next 12 to 18 months, says realty **Avison Young**.

In an overview of the investment activity in the city, the commercial real estate firm said overall transaction volume for the six asset classes (office, retail, industrial, multi-family, industrial land and residential land) was $842 million for the first seven months of this year with 68 sales.

This is down $1.35 billion, or 62 per cent, from the same seven-month period in 2008 and also down $1.38 billion, or 62 per cent, from the same period in 2007.

But investment activity will improve going into the fall, said Todd Throndson, managing director of Avison Young Calgary.

"Whenever you go through a period of slow activity, pent-up demand happens. People want to do things. There's a lot of money that's on the sidelines that is going to need to get active," said Throndson. "Now it may wait as long as it possibly can before it gets active to see how far down pricing can go. But it's going to have to get active. Especially with the institutions. They are going to have to place that money into something."

Throndson said prices are coming down a bit and buyers are prepared to pay a little more now.

"People are starting to move forward with what they think is the new reality in the world. I do think there's going to be more activity over the last four months of this year," he said.

Although the numbers are down year-to-date until the end of July, there are some positive aspects which indicate a healthy investment market, said Avison Young.

"Current market positives include industrial properties recording the highest average price per transaction in 10 years, and retail properties experiencing growth in average price per square foot over 2008," said the company's overview authored by research manager Susan Thompson. "Another noteworthy fact is the relatively low number of distress sales taking place. Only seven have been recorded to date in 2009 (10 per cent of the 68 transactions recorded). These are all indicators of underlying strength in the market and point toward the ability of the investment market to continue recovering."

Peter Cuthbert, vice-president of real estate for **Standard Life Investments Inc.**, said the vulnerability in Calgary is the amount of office space coming to the market in the downtown core in the next couple of years.

There is currently more than five million square feet of downtown office space under construction, particularly with The Bow skyscraper and Eighth Avenue Place.

"You're going to have an oversupply situation with all of the product coming on stream and that's making people nervous," said Cuthbert, speaking about the market in the first half of this year. "The interesting thing about Calgary is the stock of downtown core office is fairly tightly controlled by institutional players. So in a market like this, they're unlikely to sell out of it. The market's turned down. No one's quite sure what's going on and nobody's actually selling buildings in that segment, so how do you put a price on it."

Between Calgary and Edmonton, Cuthbert said Standard Life has about 20 per cent of its portfolio, about one million square feet, and mostly industrial property.

He said Standard Life is actively pursuing acquisitions in the West. The slowdown in commercial real estate investment in the first half of 2009 is temporary, he said.

"We like Calgary. We are pursuing opportunities," he said.

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