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Retail property sales on upswing

Derrick Penner, Vancouver Sun: Wednesday, February 24, 2010



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British Columbia's commercial real estate market is starting to look more like a seller's market moving through 2010, with more capital available for investors, and investors willing to accept lower returns, according to one commercial realtor.

Avison Young this week released its 2009 year-end results, which saw commercial real estate transactions gather steam in the latter half of the year, particularly among retail offerings.

Avison Young counted 16 retail-property sales worth more than \$5 million in the second half of 2009. The largest were the sale of Surrey's Grandview Corners for \$182 million to RioCan REIT and the Canada Pension Plan, and the sale of a half-interest in Nanaimo's Woodgrove Centre for \$103 million.

"I think it's going to be a very active market [in 2010]," said Bob Levine, a principal in Avison Young's Vancouver office.

"There's lots of [investment] money looking, and probably more vendors out there than there have been for a couple of years, because the perception is that [capitalization] rates are reasonably low."

A lower capitalization rate means that buyers are willing to pay higher prices and accept a lower rate of return. Capitalization rates at the start of 2010 are almost as low as they were at their lowest point in early 2008, Levine said.

Levine said the return of institutional and investment-trust capital to the market has helped drive demand for investment real estate.

The recovery of stock markets has bolstered the stock holdings of institutional investors, giving them more leeway to consider real estate investments, Levine said. Likewise, he added, real estate investment trusts have been able to raise new pools of capital.

Levine said banks have even been more willing to extend commercial mortgages, albeit with substantial down payment requirements. "I would say private capital has always been [in the market], but the institutional capital and public capital has come available because of the rebound in the stock market," he said.

Levine said he is untroubled by the shrinking capitalization rates, particularly in Vancouver, because there is still relatively little supply of unleashed commercial properties available for buyers to purchase.

In total, for sales of commercial property worth more than \$5 million, Avison Young counted \$1.36 billion worth of sales in B.C. in 2009, up from \$1.27 billion in 2008.

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