

PROPERTY REPORT

5.9 per cent
Waterloo area's 2Q vacancy rate, up from 5.6 per cent

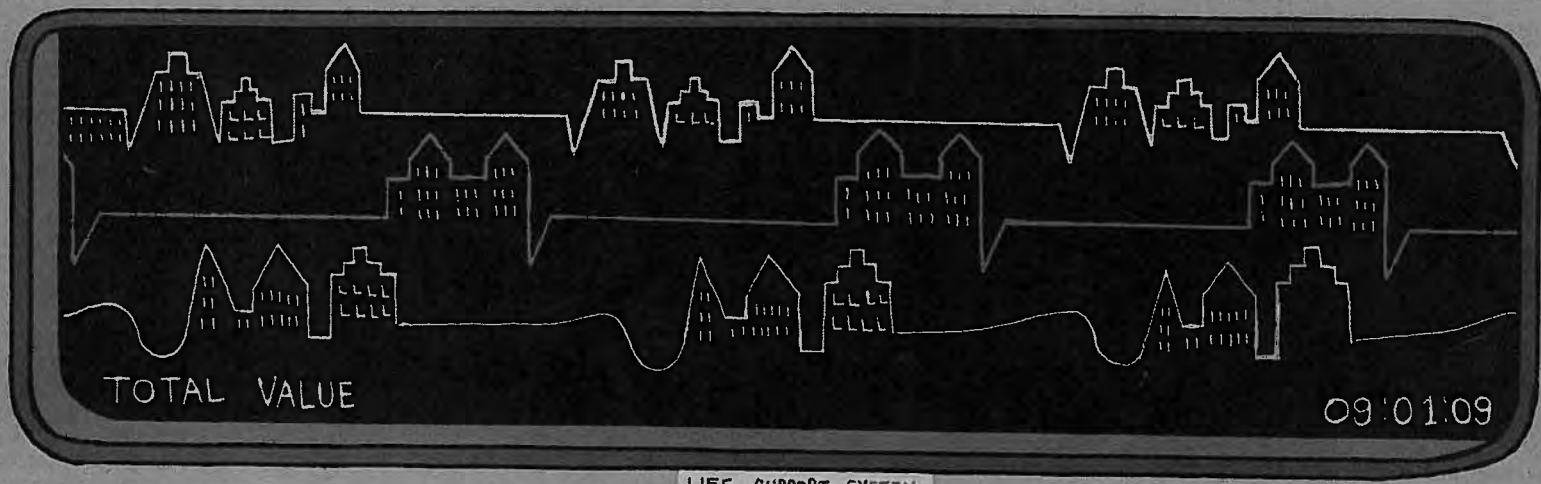
8.4 per cent
Toronto's 2Q vacancy rate, up from 7.7 per cent

14.7 per cent
Biggest one-week REIT gainer, Lanesborough

12.2 per cent
Biggest one-week REIT decliner, InterRent

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COMMERCIAL REAL ESTATE



KEITH JONES FOR THE GLOBE AND MAIL

Let the healing begin

Pessimism gives way to optimism as four industry experts see signs of a gradual – though slow – recovery in buying, selling and leasing

BY TERENCE BELFORD

The worst is likely over, say the heads of four of Canada's largest real estate brokerages. Canadian commercial real estate now faces 12 to 18 months of slowly climbing back to normal activity.

And when recovery finally kicks into full gear the pace of activity – buying and selling, leasing and even construction – will likely be fast-paced, they add.

This recession, the four agree, has not been as devastating for the industry nor as transformative as those at the start of this decade and in the early 1990s. The difference, they say, is that we entered last fall's global meltdown without an oversupply of commercial, industrial and retail space.

As a result, even though the industry is smack in the middle of the trough that precedes the upswing, vacancy rates are relatively low and the downward pressure on rents is minimal. That means recovery will be launched from a stable platform and the first months – or years – will be not wasted on playing catch-up.

Here is what they have to say:



PIERRE BERGEVIN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, CUSHMAN & WAKEFIELD LTD.

"I think the worst is behind us and we are faring far better than the United States," he says. "That negative pessimism has given way to cautious optimism. I think what we consider normal is between 18 to 24 months away."

Lenders are once again loosening purse strings and providing financing, albeit at rates 60 to 80 basis points above those that prevailed in the spring of 2008, he says. They are also continuing to demand more equity in deals, and loans seldom exceed 65 per cent of a property's value.

One challenge over the next few years will be finding replacement financing for mortgage-backed securities, which provided about 30 per cent of long-term debt in the real estate industry this decade.

"We have about \$1-billion a year coming up for renewal over the next five years, peaking at about \$1.3-billion," he says. "While finding replacement financing will be a challenge for some building owners, most have at least 20 per cent equity today because of conservative and prudent management."

Mr. Bergevin says he can see the possibility of innovative new forms of lending being created; there is simply too much money accumulating in the hands of investors and too few places to put it. "Right now investment activity is off 30 per cent from 18 months ago, which means there is a lot of cash out there unplaced and looking for appropriate investments."



MARK ROSE, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, AVISON YOUNG INC.

Mr. Rose agrees that the industry is passing through the bottom of the trough; he sees it moving slowly back to normal over the next 12 to 18 months. Confidence is coming back but the bellwether will be rising employment figures.

"When they start to rise we will know we are in recovery," he says.

"Rising employment will mean there will again be increasing demand for office space, for retail and demand for industrial products and manufacturing."

The pace of transactions – the buying and selling of properties – will take more time to pick up again as well, he says. Right now the gap between bid and ask is too great.

He too can see new forms of mortgage-backed securities being created to fill the financing gap.

"They are just too valuable a product and fill too great a need," he says.

He can also foresee lenders' demand for 35 per cent and 40 per cent equity coming to an end soon.

"All it will take is just one lender to jump in to get the ball rolling," he says. "Someone will see a competitive edge in making 70 per cent financing available and everyone else will start to follow. Then it will go to 75 per cent and then 80 per cent. I doubt if we will ever get back to the days of 100 per cent financing no matter how overheated the market gets."

"It is just the nature of the business that 60-40 ratio of debt to equity just can't hold."



STEFAN CIOTLOS, PRESIDENT, CB RICHARD ELLIS LTD.

Mr. Ciotlos borrows Winston Churchill's view of the Second World War following the Battle of Britain. We are at the end of the beginning, he says.

In his view Vancouver and Calgary have weathered the economic storm relatively well while Ontario has been more deeply affected because of its reliance on manufacturing.

He says the industry must still come to grips with a number of issues. They include a lack of liquidity in the market; the wide gap in expectations between those interested in selling and those eager to buy; a lack of signs of economic expansion and a clear view of the future of manufacturing, especially in southwestern Ontario.

"My view is that recovery will start for real in the second quarter of 2010," he says. "Look for an increase in capital flows. New activity among REITs will probably be a good indicator."



DAVID BOWDEN, PRESIDENT, COLLIER'S INTERNATIONAL CANADA

The real estate industry always lags behind the general economy, he says.

"The economy shows no sign of sustained recovery yet and neither have we," he says. "We have bottomed out but I think we are a year to 18 months away from real recovery."

An encouraging sign, however, is the return of private capital to the real estate market as both lenders and investors.

"These are very smart people who have made sizable fortunes in real estate in the earlier years of this decade," he says. "They are very savvy investors and now are seeing great opportunities in Canadian real estate."

"They are leading the way and I am certain their success will encourage traditional lenders and investors to follow. What we are focusing on these days is working with clients to minimize vacancy rates and to look for investment opportunities."

"We are actually seeing the gap between bid and ask coming down slowly, which is a good sign."

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