

COMMERCIAL REAL ESTATE

Tower sale is a 'testament to Vancouver'

German company pays \$300-million to buy downtown Bentall V office building from Caisse subsidiary

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The \$300-million sale of a major downtown Vancouver office building in the midst of a global economic crisis heralds the resiliency of Canada's quirkiest commercial real estate market.

Vancouver is a city bordered by oceans and mountains but few big-name corporations are headquartered in it. Office space is scarce and nothing new is being built. These factors are behind the second-lowest downtown office vacancy rate in Canada, at 4.2 per cent, and the second-highest lease rates for Class A space, at \$33.64 a square foot.

For landlords, it's a winning combination, cited yesterday by Germany's DekaBank GmbH as it announced the \$300-million (€186-million) cash deal - its first acquisition in Canada - to buy Vancouver's Bentall V building from SITQ, a real estate subsidiary of the Caisse de dépôt et placement du Québec.

DekaBank, which sells real estate mutual funds in Germany and manages €19-billion of assets, has been hunting for a major Canadian real estate deal for a year and focused on Vancouver the past three months. It made an unsolicited offer to SITQ, which said the deal was too good to pass up. SITQ said that liquidity issues at the Caisse were not a factor in the sale, and that it would look to reinvest part of the money in Vancouver.

"It's a testament to Vancouver," said Michael Gill, a principal at broker Avison Young in Vancouver who was not involved in the deal. "Why else would Germans come all the way here to spend \$300-million when they could buy in Paris or New York?"

"We don't have a lot of new space," Mr. Gill added. "And there's nothing on the drawing board."

Vancouver's downtown real estate market is the most unusual in Canada. Far smaller than other major cities (two-thirds the size of Calgary's, half of Montreal's and roughly one-quarter the size of Toronto's market) it is constrained by geography. The downtown core is on a small peninsula, bounded on two sides by water, on the third by an old residential neighbourhood, and on the fourth by the drug-riddled Downtown Eastside.

Further, there are few large companies that need large amounts of space, so builders

Different downtowns

Vancouver is the country's quirkiest downtown office market. It's much smaller in terms of space than Calgary, Toronto and Montreal, but rents are the second-highest in Canada behind Calgary.



VANCOUVER

Existing space: 21.8 million square feet
Vacancy: 4.2 per cent, up from 2.6 per cent last year

Under construction: 0.1 million square feet
Class A rental rate: \$33.64 per square foot, down 1 per cent from last year



CALGARY

Existing space: 33.1 million
Vacancy: 6.9 per cent

Under construction: 5.3 million
Class A rental rate: \$43.24, down 4 per cent



TORONTO

Existing space: 74.6 million
Vacancy: 5.7 per cent

Under construction: 4.6 million
Class A rental rate: \$24.92, up 2 per cent



MONTREAL

Existing space: 42.2 million
Vacancy: 6.4 per cent

Under construction: 0.4 million
Class A rental rate: \$20, up 4 per cent

» Source: CB Richard Ellis, Cushman Wakefield

say it doesn't make sense to construct new buildings, exacerbating the space scarcity. The lack of commercial space became a big enough concern for Vancouver City Council to recently expand office zoning, ahead of more profitable residential space, in the downtown core.

The construction of Bentall V is itself the story of the Vancouver market. Now 33 storeys, it was built in two parts, a symptom of weak demand for large amounts of space. The first two-thirds were completed in 2002. Three years later, work started on the rest; it finished in 2007, with miner Teck Resources Ltd. and law firm Fasken Martineau as anchor tenants.

It would be difficult and expensive to build anything like Bentall V in Vancouver or in the core of other Canadian cities, adding to the value of the purchase, said Mark Renzoni, managing director in Vancouver of CB Richard Ellis, which advised DekaBank.

He cited the stability of Canada's financial system and long-term strength of the dollar as other factors behind DekaBank's decision.

"There's tremendous foreign interest in the Canadian marketplace for quality real estate assets," Mr. Renzoni added.

The Vancouver market is "an attractive and sound location with good growth prospects," said Thomas Schmengler, a manager director at a DekaBank operating subsidiary. Vancouver is also "particularly attractive" for service industries and technology companies, benefiting from proximity to Seattle and Portland, Ore., as a link to Asia, and host of the 2010 Winter Olympics.

The Caisse, which posted a stunning \$40-billion loss in 2008, saw a 22-per-cent loss in its real estate portfolio last year, compared with a 3.4-per-cent loss for the benchmark index.

Caisse spokesman Maxime Chagnon said the sale of Bentall V is a purely operational move that has nothing to do with the Caisse's strategy as it makes adjustments to improve its performance.

The Canadian office market has held up better than Europe and the United States, said Yves-André Godon, SITQ first vice-president for Canada, where about a quarter of its assets are; the rest are in Europe and the U.S.

"It's a good time to sell if the price is right," Mr. Godon said.

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Charles M. Winograd

Hartley T. Richardson President & Chief Executive Officer, James Richardson Sons, Limited is pleased to announce the appointment of Charles M. Winograd to the Firm's Board of Directors.

Mr. Winograd previously served as a Director from 1998 to 2003 and rejoined the Board following his retirement as Chief Executive Officer of Capital Markets, a position he held from 2001 to 2003. When RBC Dominion Securities acquired Richardson Greenshields Canada Limited in 1998, Mr. Winograd became Deputy Chairman and Director. He was also President & Chief Operating Officer of RBC Dominion Securities in 1998.

During his 22-year tenure with Richardson Greenshields, Mr. Winograd held several executive positions until becoming President & Chief Executive Officer in 1987 and Chairman & Chief Executive Officer in 1991.

Mr. Winograd continues to contribute to the community by serving various Boards and Committees including Dexia, Mount Sinai and Talisman Energy.

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