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Avison Young keen on building business

By Rich Letkeman

(L-R); Martin Dockrill, Avison Young senior vice-president principal managing director Mississauga, joined fellow Avison Young principals Stephen Vesuwalla, partner Calgary, Joe Almeida, principal, vice-president, Mississauga, Michael McKiernan, principal managing director, Chicago, IL, Gary Schramm, senior vice-president Mississauga, and Mark Fieder, president and managing director Ontario at the recent SIOR World Conference in Toronto. *Photo by Stephen Uhraney*

Canada's largest independent commercial real-estate company, Avison Young, has chosen Washington and northeast GTA to expand its operations while many who would are holding tight.

"The investment economy is going well enough for us and it's definitely improved over the past six months, although still well below the levels of 18 to 24 months ago," according to Martin Dockrill, principal and senior vice-president at Avison Young.

The new office in downtown Washington, DC, with Keith Lipton as its managing director, will be the third of several that are planned for the U.S. market as part of AY's expansion strategy.

Lipton, fresh out of his managing director's position at Grubb & Ellis in Washington, becomes a new principal at AY and will be building the firm's Metro region, which refers to D.C., Maryland and north Virginia. He's accustomed to developing ICI teams: At the Grubb & Ellis firm he and two of his staff (who also have joined Avison Young's new office team) recruited 60 per cent of the brokers and 80 per cent of the total staff and opened a Baltimore office as well.

"Our sights are beyond D.C., and even global," says AY's Chair and CEO Mark Rose.

AY is soon to choose a site for its third GTA office (after Mississauga and Toronto), "probably in Richmond Hill," says Dockrill, who helped with the national merger of all affiliates in late 2008, followed promptly by the acquisition of Carton Property Advisors and Managers to place AY among Canada's top five property management companies in charge of 20-million square feet. And then, boldly stepping into the big financial-residential bubble, the company opened a major office in Chicago that now is in final recruiting phases.

AY's growth mode, giving it the distinction as Canada's only national, Canadian-owned-and-run real-estate services firm, has a lot to do with changing investment conditions.

"In the marketplace, commercial investment strategy now focuses on properties with good covenant and good term in place, and the better class of suburban office buildings that enjoy cap rates in the 8-to-8.5-per cent range," said Dockrill.

He said properties with higher leasing risks are forcing investors to ask for much higher cap rates. "However, I wouldn't say the volume of activity is exceptional right now."

In Mississauga, a number of office buildings are either for sale or under contract right now, Purolator's plant and offices being a major one, as well as several near Pearson Airport. Another major building will be under contract shortly.

For the next six months, Dockrill sees cautious optimism as the operative investment mood, and he qualifies this by saying, "how much leasing risk will be the big uncertainty. Investors likely will continue to take harder looks at the strong fundamentals: assets with good covenant and term in place. This means they either must show signs of high imminent rollover in their tenancy or sell at a lower price range."

Lending policies are supposed to be tight, "but not for the investors we seem to be dealing with. There are properties out there that aren't easy to get good terms on, but I've seen lots of evidence of sufficient funding at reasonable rates from the financial institutions."

Avison Young, whose offices have research staff as a key professional service to the industry, reported an 11-per cent Class A office vacancy rate at the end of September for GTA West, and it was a shock compared with a year prior. By early November it had climbed another 12 per cent to 12.4. For GTA West, that amounted to a 116,000-square-feet fall from the previous quarter. The third-quarter increase included 229,000 square feet of new inventory in Heartland and Meadowland districts.

According to AY's Office Market Overview (OMO), the fall quarter was beset by weak absorption – amounting to 279,000 square feet in GTA West – such that one-million square feet was the net decline in occupied space in the GTA West.

Class A in City Centre and Meadowvale districts remained resilient throughout the year, according to OMO, and are sitting at 8-9-per cent vacancy. But numerous tenants in the City Centre have lease expiries coming up.

GTA West net asking rates in Class A office space are still on the way down, sitting at about $14.50 psf, but only 30 cents lower since January 1st.

The largest transaction in the third quarter was GE Canada's Meadowvale office building, which sold for $10-million at $162 psf. The largest number of buildings with available space in the GTA West (a total of 133) are in the Airport Corporate Centre, Meadowvale, Heartland, City Centre, and Dixie-Eglinton areas.