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Canadian commercial real estate investment market gains traction

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Strong appetite for retail properties and an active real estate investment trust sector has caused commercial real estate investment sales dollar volume in Canada to already exceed its 2009 year-end total.

By the end of the third quarter of 2010, over USD12bn in commercial real estate assets had changed hands - up 57 per cent over the same nine-month period one year ago.

While retail has been the most sought-after property type among investors, Toronto has been the most active and Vancouver the most expensive market.

These are some of the key trends noted in an internal study recently completed by Avison Young. The quarterly Investment Market Monitor tracks office, industrial, retail, land, and multi-residential property sales transactions greater than USD1m, as well as capitalisation rates and spreads to ten-year Canada bonds.

"With the recent closing of the ING portfolio comprising some 400 industrial properties across the country and the Nortel campus in Ottawa, to name a few, we can expect overall investment volume in Canada to reach the USD16bn range in 2010 - barring any deal closings being pushed into 2011," says Bill Argeropoulos, vice president and director of research (Canada) for Avison Young.

According to the study, retail was not only the most actively-traded asset class in Canada in the first nine months of 2010, but it also posted the greatest improvement over the same period in 2009. In all, USD3.8bn (+207 per cent) worth of retail properties changed hands, capturing 31 per cent of the overall investment dollar volume.

Office (USD2.3bn/+35 per cent/19 per cent share), land (USD2.1bn /+7 per cent/18 per cent share) and industrial (USD2.0bn/+31 per cent/17 per cent share) trailed, while multi-residential finished at USD1.8bn (+53 per cent) and a 15 per cent market share.

"Compared to last year, the results to date are a welcome sign that the commercial real estate investment market is gaining traction in Canada," says Argeropoulos. "This upswing is attributed to a number of factors, including stable and improving market fundamentals, historically-low borrowing costs, high availability of debt, a narrowing bid-ask gap and the emergence of Reits as active buyers."

The results show that, on a year-over-year basis, the national average cap rate for major property types has declined 50 basis points (bps) to 6.75 per cent at the end of the third quarter of 2010, but is still approximately 80 bps above where it was when the market peaked in the summer/fall of 2007.

Overall, cap rates range from an average low of 5.97 per cent for multi-residential properties to a high of 7.47 per cent for multi-tenant industrial buildings. While multi-residential properties are viewed as the most expensive asset among investors, Vancouver is the highest-priced market in Canada with an overall average cap rate of 6.12 per cent, which is poised to fall further.

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