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COMMERCIAL REAL ESTATE

Search for stability lifts B.C. sales to \$1b in first half of 2010

BY DERRICK PENNER
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A post-recession appetite for investments more stable than stock markets helped drive British Columbia to a record \$1 billion in significant commercial real estate sales in the first half of 2010, commercial realtor Avison Young said Tuesday.

That \$1-billion figure, which counts commercial transactions worth \$5 million or more, is 43-per-cent higher than the \$715 million that investors spent in the second half of 2009, and compares with \$643 million spent in the first half of the recession-plagued previous year.

And 70 per cent of that investment — \$711 million — has been poured into shopping centres, including some very large transactions.

Michael Gill, a principal in Avison Young's Vancouver office, said that is a function of the type of properties investors are looking for combined with the recognition of property owners that they can fetch decent prices for retail properties.

"Investors have indicated they like retail, they like food-anchored [malls], they like stable cash flow," Gill said.

And with the prices that investors have paid to secure cash-flow generating properties, Gill said owners have "elected to sell into that marketplace."

The sale of Lougheed Town Centre on the Burnaby-Coquitlam border for \$133 million was the largest transaction Avison Young tracked in the first half of 2010. The Ontario Pension Board sold it to a private investor.

The Ontario Pension Board also sold Brentwood Town Centre in Burnaby for \$100 million and Bosa Development Corp. sold the Semiahmoo Shopping Centre in south Surrey for \$82.7 million.

Outside of Metro Vancouver, Victoria's Bay Centre sold for \$90 million. In total, 21 of the 45 sales over \$5 million that Avison Young tracked were for retail properties.

Gill expects more retail properties to trade hands in the second half of 2010, though perhaps not at the same rate as the first half.

Sales of office properties was the next biggest segment of commercial sales activity, with 12 transactions worth \$188.9 million, but Gill said the reluctance of owners to put buildings up for sale may have played a part in that situation.

The \$64-million sale of Production Court, an office complex on the south slope of Burnaby Mountain, was the largest office transaction Avison Young tracked in the first half of 2010.

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Investments in retail sales and the need for companies to restock inventories have increased demand for pulp, like that produced by the Harmac mill near Vancouver. That should slow industry losses in paper products to \$139 million this year, an improvement on the \$3 billion lost over the previous two years.

Losses may end: Conference board

paper-products sector profitable again and paper-products sector should see profits next year

BY DERRICK PENNER

There are glimmers of hope for British Columbia's forestry industries may be at the end of punishing losses and high unemployment, according to reports Tuesday by the Conference Board of Canada.

Canada's wood-products industry returned to profitability this year, the Conference Board said in its Industrial Profile, Summer 2010, published in collaboration with the Business Development Bank of Canada.

In the paper-products sector, at a segment of it that produces paperboard for packaging, companies should see modest profits in 2011.

In near-term outlook, we do see some growth [in the paper-products industries], and expect a return to profitability," Michael Burt, the Conference Board's associate director for economic trends.

For paper products, Burt said the recession rebound in Canadian construction has helped the industry along with increased

shipments to Asia. In the longer term, a slow recovery of U.S. housing starts should improve demand for structural lumber and push the Canadian industry to \$1-billion-a-year profits by 2012.

In B.C., lumber giant West Fraser Timber Co. Ltd. has posted profits of \$96.8 million over the first two quarters of 2010, compared with \$340.8 million in losses for all of 2009. The story for B.C.'s second-place producer, Canfor Corp., is similar with the company showing profits of \$72.9 million in profits over the first two quarters compared with total 2009 losses of \$70.5 million.

In paper products, Burt said improvements in Canadian retail sales and the need for companies to restock inventories has increased demand for pulp and the paperboard in packaging, which should slow industry losses to about \$139 million this year, but that will be an improvement on the \$3 billion lost over the previous two years.

And the paper sector is expected to edge back into black ink in 2011 with modest industry-wide profits of \$366 million thanks to stronger demand for pulp and paperboard, particularly in China and the rest of Asia.

Asian paper giant Sinar Mas Group's purchase and restart of a pulp mill in

Mackenzie is evidence of that trend.

But Burt added that the producers of paper for publishing, such as B.C.'s Catalyst Paper Corp., are still suffering through a secular decline in demand for their products. And Catalyst remains mired in losses with just over \$412.8 million in red ink on its books for the first two quarters of 2010 alone.

However, Burt said recovery will be gradual, and for the forest-based industries he offered the caveat that "we don't expect either segment to return to their peak levels of production or employment."

Forests and Range Minister Pat Bell said he has a muted optimism based on the number of mills that are running and the modest investments companies are making in buying or improving operations.

"Those are all pretty positive signs that the forest industry is in recovery," Bell said. "And the next couple of years will probably lead to some pretty strong economic times for them."

However, looking at the provincial forest harvest as a sign of industry health, it remains a long way off peak levels.

Bell said he anticipates forest firms will harvest about 45 million cubic metres of timber this year, which is

an improvement from last year's low harvest of 40 million cubic metres, but still significantly off the 70 million cubic metres of timber a year the industry processed into lumber, plywood, pulp and paper as late as 2005/06.

"Not every industry is at the same point in their recoveries, but improved profitability can be expected as demand grows and the cost-cutting implemented during the recession starts to help the bottom line," Burt said.

In another key sector, the Conference Board's forecast for furniture manufacturers, who have seen declining production over the past decade due to cheaper imports, is for modest increases in profitability while foreign competition remains "fierce."

The report forecasts a third consecutive year of losses for auto parts makers, though this year's losses of \$41 million will be far less than was lost in previous years. "U.S. vehicle demand is gradually recovering and cost-cutting measures implemented during the recession are improving the bottom line — to the extent that the industry is expected to be profitable in 2011," the report says.

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