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Contact:
Andrew Petrozzi
604.646.8392
andrew.petrozzi@avisonyoung.com

Editors/Reporters

• Please click on link to view and download Avison Young's Year-End 2017 BC Real Estate Investment Review:

<http://www.avisonyoung.ca/documents/95750/1691318/Avison+Young+Investment+Review+-+Year+End+2017>

**Divergence of market opinion produces
blockbuster year for British Columbia commercial real estate**

Avison Young releases Year-End 2017 BC Real Estate Investment Review

Vancouver, BC – BC commercial real estate investment activity and dollar volume achieved new heights in 2017 with the disposition of 230 office, industrial and retail properties valued at \$7.5 billion during the record-setting year. The previous record was set in 2016 when 147 deals worth \$4.1 billion transacted, which itself represented a substantial increase in dollar volume from 2015, which had also been a record-setting year with 149 transactions valued at \$2.67 billion. Values and deal velocity have risen exponentially in BC since 2015.

The reasons behind this massive increase in commercial real estate investment in BC since 2015, and particularly in 2017, are complex and numerous. While these factors include large pools of private and institutional capital (both local and foreign), an ongoing shortage of land for development and an extended low-interest-rate environment, it is the mindset of market participants that ultimately dictates performance. In 2017, more property owners (i.e. potential vendors) than historically seen in this market came to the conclusion that a significant enough peak in terms of pricing had been achieved, which triggered the disposition of more assets and translated into an increase in deal velocity. From a purchaser's perspective, the BC market's track record of considerable price appreciation and stability – despite global turmoil, the BC market has not registered a noteworthy downturn in pricing in more than a decade – boosted demand from well-capitalized buyers with the mindset that such assets will continue to rise in value. The result of this divergence in opinion among vendors and purchasers produced the record level of deal activity and investment registered in BC in 2017.

These are some of the key trends noted in **Avison Young's Year-End 2017 BC Real Estate Investment Review**, released today. The semi-annual report tracks BC office, industrial, retail and multi-family property sale transactions greater than \$5 million.

“Ongoing price appreciation in all asset classes is being driven almost exclusively by land value and redevelopment potential,” comments Avison Young Principal **Bob Levine**. “The acquisition of retail assets has morphed in many cases into land deals with lesser consideration or interest for the income in place or the retail asset itself. This approach has spread to office and even industrial properties as investors seek to secure land in hopes of redevelopment.”

Private purchasers remained the most dominant buyer group in 2017. They accounted for 87% of all transactions but just 46% of total dollar volume, representing the lowest share of dollar volume captured by private investors since 2012 when they captured just 38% of total volume (and were involved in 72% of total deals). While private buyers have come to dominate the BC market in terms of the number of deals completed in recent years, this was not always the case. In comparison, private buyers were represented in just 66% of deals (and only 40% of total dollar volume) in 2008.

Private buyers rose in significance, particularly after 2014, due to the combination of an extended low-interest-rate environment and years of record pricing for Metro Vancouver commercial real estate assets. These factors resulted in many sophisticated private buyers (particularly local investors) familiar with the market becoming extremely well capitalized through the sale of previously acquired properties at a significant profit. The proceeds from those sales allowed for the reinvestment of those gains in larger commercial real estate assets.

Sector Investment Review Highlights:

Office

Office investment sales activity in BC achieved record levels in 2017 with 46 transactions valued at \$2.7 billion, representing 36% of overall record dollar volume of \$7.5 billion. This marked the second time in as many years that a new record for BC office investment sales was set. While the two largest office deals of 2017 closed in the first half – a 50% interest in Cadillac Fairview’s downtown Vancouver office portfolio (\$1.25 billion) and the \$274-million sale of Metrotower I & II in Burnaby – a fair number of significant suburban office deals closed in the second half of the year. No office buildings in downtown Vancouver traded hands in the second half of 2017.

Suburban deals included the sale of the recently completed office component of the multi-phase Solo District mixed-use development in Burnaby for \$116.8 million as well as the \$109-million sale of Station Tower in Surrey. Other significant suburban office assets sold in the second half of 2017 included two office buildings at 4350 and 4370 Still Creek Drive in Burnaby’s Willingdon Park for \$93 million and the \$46-million sale of Pacific Business Centre in Richmond along with the \$36-million sale of the new Gateway Place office building in Surrey. The largest office transaction in Vancouver in the back half of the year was the sale of the Wawanesa Building at 1985 West Broadway for \$39 million.

Retail

Sales of BC retail assets achieved blockbuster heights in 2017 with 96 transactions valued at \$3.63 billion – surpassing the previous record of 59 retail details worth \$1.22 billion set in 2015. Retail investment sales captured 48% of overall BC dollar volume of \$7.5 billion in 2017 while representing 42% of the total number of sales. While the majority of retail dollar volume in 2017 was recorded in the first half (55 retail transactions valued at \$2.77 billion), a historically significant second half included 41 deals valued at \$856 million, far exceeding the 22 retail deals valued at \$244 million registered in the back half of 2016.

Following the first-half sales of two Vancouver properties, Oakridge Centre (\$961.3 million) and a 50% interest in Pacific Centre (\$650 million) for a total of \$1.61 billion, substantial second-half retail sales in Metro Vancouver included Market Crossing Shopping Plaza (\$173 million) in Burnaby. Smaller but still significant retail sales outside Metro Vancouver also transacted in the second half including Dickinson Crossing Shopping Centre (\$34 million) in Nanaimo and Plaza 33 Shopping Centre (\$24 million) in Kelowna.

Industrial

Robust demand for BC industrial assets pushed deal and dollar to record levels in 2017 with 88 deals valued at more than \$1.2 billion, capturing just 16% of total 2017 investment proceeds of \$7.5 billion but claiming 38% of the total number of deals. This total easily surpassed the previous record set in 2016 (61 deals/\$819 million) and marks the first time in BC history that industrial dollar volume surpassed \$1 billion in a single year. It also likely marked the culmination of an incredible multi-year surge in industrial sales activity that started in 2014 with 38 transactions valued at \$419 million. Sales activity subsequently climbed to 51 deals valued at \$642 million in 2015 before spiking again to what was then a record-breaking year in 2016. In the past four years, almost \$3.1 billion has been invested in BC industrial properties.

Multi-Family

Multi-family investment activity surpassed the billion-dollar mark for only the second time in BC history after registering more than \$1.275 billion in 89 sale transactions in 2017. While the number of transactions in 2017, 89, marked a new record, dollar volume fell short of the record set in 2015 when 80 properties valued at \$1.41 billion traded hands. Multi-family investment activity remained stable in 2017 with sales evenly distributed throughout the year. First-half sales featured 46 transactions valued at \$652 million, while sales in the back half of the year resulted in 43 deals worth \$624 million.

Avison Young is the world's fastest-growing commercial real estate services firm. Headquartered in Toronto, Canada, Avison Young is a collaborative, global firm owned and operated by its principals. Founded in 1978, the company comprises 2,600 real estate professionals in 82 offices, providing value-added, client-centric investment sales, leasing, advisory, management, financing and mortgage placement services to owners and occupiers of office, retail, industrial, multi-family and hospitality properties.

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For further information/comment/photos:

- **Andrew Petrozzi**, Principal & Vice-President, Research (British Columbia): **604.646.8392**
- **Bob Levine**, Principal, Avison Young: **604.647.5066**
- **Michael Keenan**, Principal & Managing Director, Vancouver, Avison Young: **604.647.5081**
- **Sherry Quan**, Principal and Global Director of Communications & Media Relations, Avison Young: **604.647.5098**; mobile: **604.726.0959**

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