AVISON YOUNG

Media Release

For Immediate Release (4 pages)
Thursday, September 3, 2015

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

Editors/Reporters
• Please click on link to view and download Avison Young's Mid-Year 2015 BC Real Estate Investment Review:
http://www.avisonyoung.com/fileDownloader.php?file=files/content-files/Offices/Vancouver/Research/2015/Vancouver_InvestmentReview_MY2015.pdf

Private investors continue to dominate sales activity, leaving institutions and others sidelined

Avison Young releases Mid-Year 2015 BC Real Estate Investment Review

Vancouver, BC – Private investors continue to provide the lion's share of the financial capital powering BC's commercial real estate market as pricing and the lack of available investment-grade properties keep institutions and others sidelined. With 67 transactions completed in the first six months of 2015 and proceeds of more than $879 million, the BC investment market was dominated by private purchasers who were involved in 93% of acquisitions and collectively deployed 78% of the total dollar volume (or almost $689 million) in the first half of 2015 to acquire office, industrial and retail assets. (Avison Young tracks investment deals valued at more than $5 million.) While the ratio of private buyers has fluctuated between 60% and 87% of purchasers annually since 2006, the previous record was in 2014 (87%). The percentage of private purchasers declined to 67% as recently as 2011, but has been steadily rising ever since.

These are some of the key trends noted in ***Avison Young's Mid-Year 2015 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.

The number of institutional purchases declined to 4% of acquisitions in the first half of 2015, but the deals did capture 20% of total dollar volume. Of those three deals, one was for a sizeable retail asset (~$123 million) – **The Bay Centre** in Victoria. The remainder of the institutional purchases involved two industrial assets: **Ocean Ridge Business Centre** ($11 million) in Delta and **Knightsbridge Business Park** ($40.25 million) in Richmond. A 50% interest in the redevelopment of the **Langara Gardens** multi-family complex was the only multi-family asset acquired by an institutional investor in the first half of 2015.

Institutions remain largely unwilling to transact as purchasers in the BC commercial real estate market due to the significant capitalization (cap) rate compression – a measure of yield for a real estate investment – that characterizes most assets, particularly those of scale and recent construction. This, in turn, results in the majority of assets not meeting the necessary investment returns generally required for an institution to act to acquire a real estate asset. A significant lack of available investment-grade assets further restricts an institution's ability to act. Despite premium pricing, which often represents a significant lift in the value of those assets already owned by institutions, many are unwilling to sell their properties in the BC market because they cannot be easily replaced (if at all). The geographic and asset allocations necessary in an institutional portfolio can be challenging to maintain in BC's commercial real estate market and has severely curtailed their investment activities.

"All types of commercial real estate transactions in BC, particularly those in Metro Vancouver, have been increasingly incorporating an underlying land value component when determining pricing," comments Avison Young Principal **Michael Gill**. "While this is not necessarily a new consideration, the rising value of land (and its redevelopment potential) has come to define the value of a property more than other more traditional criteria such as lease rates, tenant covenants, holding income and building condition. While those factors remain important considerations, the rising value of land has contributed to the increasing compression of cap rates, which has squeezed out almost all other market participants other than private capital."

Income properties that have a high land value component of the selling price are achieving historically low cap rates (or holding return) in Metro Vancouver – so low, in fact, that many investors (and developers) have essentially been "priced out" even though it is their preferred asset type. Some of these investors have turned their focus to more traditional income-producing assets that have less upside on land value but generate higher returns. This has put downward pressure on cap rates for income-producing assets as well, which may not offer as much potential upside from a land perspective, but provide stronger returns.

"Essentially, high land values have imposed extremely low yields on properties that are prime for redevelopment," explains Avison Young Principal **Bal Atwal**. "This, in turn, has created a trickle-down effect, compressing cap rates for many income-producing properties as local and offshore buyers seek to achieve marginally better yields."

Local investors continue to be involved in the majority of transactions, but Asian buyers and capital, particularly from Mainland China, continue to make inroads into the BC commercial real estate market. This trend is anticipated to accelerate as foreign investors' familiarity with the market continues to improve and their risk tolerance becomes more calibrated to operating in one of the most unique commercial real estate markets in North America.

<u>Sector Investment Review Highlights:</u>

Office

Office investment sales activity in BC was muted in the first half of 2015 with 17 transactions only capturing 24% of total dollar volume. Only four deals exceeded $15 million and they accounted for nearly 50% of office's overall dollar volume. In comparison, there were 15 office transactions ($380 million) in the first half of 2014 but just 10 deals ($165 million) in the same period of 2013. There were 20 office transactions ($764 million) in the record-setting first half of 2012.

Even though more than two-thirds of the properties that sold were located in Vancouver, none were considered prime locations. However, the acquisitions did highlight where within Vancouver's city limits overwhelmingly private purchasers were seeking to secure assets. Four Downtown properties – all east of Granville Street – were sold and included 750 Cambie Street, 555 & 569 Richards Street, 837 Beatty Street and 626 West Pender. The Broadway corridor remained popular with the properties at 395 West Broadway, 532 West Broadway and 1867 West Broadway changing hands. The increasingly popular Mount Pleasant office node was the location of three sales: 33 & 53 East 8th Avenue, 127 East 4th Avenue and 375 West 5th Avenue.

Retail
Sales of BC retail assets were restricted by a lack of supply in the first half of 2015 with 21 transactions totalling $295 million, a decline compared with the first half of 2014 that recorded 28 transactions valued at $310 million but on par with the 24 deals ($292 million) that closed in the same period in 2013. The sale of the **Bay Centre** in Victoria alone was responsible for more than 40% of the overall retail dollar volume in the first half of 2015.

Other than Victoria's Bay Centre, only three retail transactions were valued at $15 million or greater. **Walnut Grove Town Centre** in Langley and **The Village at Sardis Park** and a **Sears** store, both located in Chilliwack, represented the three largest retail transactions (after the Bay Centre) in the first half of 2015 but made up just $51 million in dollar volume. The majority of retail deals involved properties valued at less than $10 million.

Industrial
Industrial investment activity surged in the first half of 2015 with 27 transactions contributing $358 million, a significant increase from the 13 sales valued at $163 million recorded in the first half of 2014 and the 25 deals ($256 million) registered in the second half of 2014. Deal and dollar volume in 2015 is anticipated to surpass 2014 as demand for industrial assets will likely remain strong.

Industrial sales activity accounted for 41% of total dollar volume and 40% of deal volume in the first half of 2015. Private purchasers spent more than $307 million on industrial assets in the first half of 2015, while institutional purchasers acquired properties valued at $51 million. Industrial vendors included private owners primarily, but also institutions, government and a public company.

Multi-Family
Multi-family investment activity rebounded in the first half of 2015 after recording 26 deals valued at $370 million in comparison with the back half of 2014, which registered just 20 transactions totalling $186 million. Multi-family investors' first-half performance in 2015 was on par with the levels of activity in the first half of 2014, which featured 23 deals valued at $396 million.

Pricing has continued to rise for well-located assets (if and when they come to market) with the lack of supply further boosting pricing and compressing cap rates to levels that seem to defy conventional investment wisdom. The acquisition of multi-family assets is now more about wealth preservation as opposed to earning a return or even acquiring a property with an eye to redevelopment. Land banking also remains a key consideration for investors seeking to acquire multi-family assets, but it is certainly not the only one or even the most important. Competition remains intense.

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 2,000 real estate professionals in 69 offices, providing value-added, client-centric investment sales, leasing,

CANADA'S BEST MANAGED COMPANIES

advisory, management, financing and mortgage placement services to owners and occupiers of office, retail, industrial and multi-family properties.

-end-

For further information/comment/photos:

• **Andrew Petrozzi**, Vice-President, Research (British Columbia): **604.646.8392**

• **Michael Gill**, Principal, Avison Young: **604.647.5067**

• **Bal Atwal**, Principal, Avison Young: **604.647.5090**

• **Michael Keenan**, Principal, Managing Director, Vancouver: **604.647.5081**

• **Sherry Quan**, Principal, Global Director of Communications & Media Relations, Avison Young: **604.647.5098;** mobile: **604.726.0959**

www.avisonyoung.com

*Avison Young was a winner of **Canada's Best Managed Companies** program in 2011, 2012 and 2013 and has demonstrated its commitment to the program and successfully reapplied for the designation as a Gold Stand winner in 2014.*

Follow Avison Young on Twitter:
For industry news, press releases and market reports: www.twitter.com/avisonyoung
For Avison Young listings and deals: www.twitter.com/AYListingsDeals

***Follow Avison Young Bloggers:** http://blog.avisonyoung.com*

***Follow Avison Young on LinkedIn:** http://www.linkedin.com/company/avison-young-commercial-real-estate*

***Follow Avison Young on YouTube:** www.youtube.com/user/AvisonYoungRE*