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Media Release

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· Please click on link to view and download Avison Young's Fall 2015 Canada, U.S. and U.K. Commercial Real Estate Investment Review:
http://www.avisonyoung.com/fileDownloader.php?file=files/content-files/Research/Links/2015/AYFall15CanadaUSUKInvestmentOct7_15Final.pdf

Investor interest remains high despite lack of available product and global economic volatility

Avison Young releases its Fall 2015 Canada, U.S. and U.K. Commercial Real Estate Investment Review

Toronto, ON — Against a backdrop of global economic uncertainty and potential future interest rate hikes in Canada and the U.S., investor interest is high as the flow of capital into the commercial real estate sector continues at a healthy pace – constrained mainly by the lack of available quality product. While Canadian investment has softened, U.S. sales volumes are strong and notably higher than one year ago.

These are some of the key trends noted in **Avison Young's *Fall 2015 Canada, U.S. and U.K. Commercial Real Estate Investment Review***, released today.

The report covers commercial real estate investment conditions in 41 metropolitan regions: **Calgary**, **Edmonton**, **Montreal**, **Ottawa**, **Toronto**, **Vancouver**, **Atlanta**, **Austin**, **Boston**, **Charleston**, **Charlotte**, **Chicago**, **Cleveland**, **Columbus OH**, **Dallas**, **Denver**, **Detroit**, **Fairfield County**, **Fort Lauderdale**, **Houston**, **Las Vegas**, **Long Island**, **Los Angeles**, **Miami**, **Minneapolis**, **New Jersey**, **New York**, **Oakland**, **Orange County**, **Orlando**, **Philadelphia**, **Pittsburgh**, **Raleigh-Durham**, **Sacramento**, **San Diego County**, **San Francisco**, **San Mateo**, **Tampa**, **Washington DC, West Palm Beach** and **London U.K.**

"Irrespective of potential future interest rate hikes and the effect they may have on the current velocity of commercial real estate capital changing hands within or between countries, real estate has earned its place as a core portfolio holding and is producing favourable total returns against alternative investment options," comments **Mark E. Rose**, Chair and CEO of Avison Young.

"Interest rate movement is pivotal, but not entirely surprising, since it has been debated to death. The Bank of Canada, after a lag period, will follow any U.S. Fed rate hike – small at first,

CANADA'S BEST MANAGED COMPANIES

with incremental bumps thereafter. I believe the initial rate hike will have little impact on near-term pricing, given the spreads, which are still wide. However, the pace of future rate hikes could cause a re-pricing of commercial assets, boosting investment volumes beyond current levels."

Rose continues: "Increased allocations, combined with an abundance of capital and historically low cap rates, have pushed pricing in gateway markets to new record levels – in some cases ahead of fundamentals. There is also much more to come in terms of REIT mergers and privatizations in both Canada and the U.S. As REITs enter a period of rising rather than declining interest rates, there will be greater efficiencies to be gained and critical mass to be created. In the meantime, our capital markets teams are busy representing various pools of capital on both the buy and sell sides."

According to the report, of the 41 markets (up from 29 one year ago) surveyed by Avison Young in Canada, the U.S. and London, U.K., investment sales for the commercial real estate sector increased to varying degrees in nearly three-quarters of the markets. The majority of U.S. markets, and London, saw increased investment activity on an annualized basis, while sales across Canada's six major markets were considerably off 2014's mid-year mark.

CANADA

Surplus capital, low-cost borrowing and limited available product continue to characterize the marketplace. Despite the biggest hurdle – limited product – and its constraint on overall investment dollar volume in the first half of 2015, investor interest remains high. Increased foreign (mainly Asian) capital has elevated pricing in Vancouver and Toronto. Moreover, Canada's finite investable marketplace has led some investors to deploy capital abroad – especially in the U.S – while the vendor/purchaser profile encompasses the spectrum from institutions and REITs to private and developer capital.

"More of the same seems to be the story in Canada, with perhaps greater competition from foreign buyers, particularly China, pushing pricing for select assets to record levels, most notably in Vancouver and Toronto," notes **Bill Argeropoulos**, Principal and Practice Leader, Research (Canada) for Avison Young.

"In general, investors are seeking stable long-term returns, and the commercial real estate sector has been delivering. However, as revealed in the REALpac/IPD *Canada Quarterly Property Index*, the annualized total return in the first half of 2015 was 6.8%, comprising 5.2% of income return and 1.6% of capital growth. This result is the lowest rate of return that investors have witnessed since the Great Recession. Nevertheless, when you look at the overall 10-year return, including the market trough, it shows a healthy 11% return. In short, real estate has outperformed alternative investments, such as bonds and equities."

Argeropoulos adds: "In this highly competitive and finite investable marketplace, some buyers are finding it increasingly difficult to buy at the current high or rising prices – and, even if they sell something, they cannot reinvest the proceeds at the same or better returns. Investors will go to any lengths to place capital, even if it means going beyond their borders. Cross-border capital, particularly headed to familiar markets such as the U.S., continues to flow. For example, according to Real Capital Analytics, Canadian investors deployed $6.6 billion in the U.S. during the first half of 2015, led largely by institutional capital, with Manhattan the top destination."

Notable First-Half 2015 Canadian Investment Market Highlights:

- The aggregate sum of commercial real estate investment (office, industrial, retail, multi-residential and ICI land greater than $1 million) in Canada's six major markets totaled $10.6 billion (CAD) in the first half of 2015 – down $2.4 billion, or 19%, compared with the first half of 2014. The lower volume results from product scarcity more than any change in investor sentiment.

- **Toronto** was again the top investment market ($4.7 billion / 44% share) – more than doubling the sales volume of second-place **Vancouver**. Toronto outpaced the other markets in every asset category, challenged only in ICI land by Vancouver and **Edmonton**.

- Industrial ($2.5 billion / 20%) was the top investment sector and one of two sectors to register year-over-year growth. Sales dipped in all three Western markets and in **Montreal**. **Ottawa** jumped 50%, while **Toronto** remained flat. The largest, and only, $100-million-plus industrial deal in first-half 2015 was the $106-million sale of the now-defunct 1.3-msf Target Canada distribution centre in Milton, ON (part of the Greater Toronto Area).

- Multi-residential investment surged to $2.4 billion, accounting for 23% of all investments, and recorded the greatest annualized sales growth (+34%). Sales climbed in four of six markets, notably in **Calgary** and **Toronto** – markets seeing increased purpose-built rental multi-residential construction.

- The multi-residential sector dominated the top five sales rankings and was among the top three sectors by sales volume in every market. Deals that captured headlines included: High Park village ($105 million / 60% interest) and Langara Gardens ($102 million / 50% interest) in **Toronto** and **Vancouver**, respectively.

- Retail sales ($2.1 billion / 20%) contracted nationwide (-29%) as investors weighed the morphing retail landscape, including the failure of Target Canada, among others. The largest first-half transaction overall was the **Toronto** portion ($216 million) of the $1.2-billion SmartCentres – SmartREIT national retail portfolio sale.

- ICI land slipped 22% year-over-year to $2.1 billion and a 20% share, falling everywhere but **Montreal**. Despite the decline, the sector was high on investors' lists in **Vancouver**, **Calgary** and **Edmonton**.

- Office building trades plummeted 55% to $1.5 billion (14% share), with substantially lower sales volumes noted in **Calgary**, **Edmonton**, **Toronto**, **Montreal** and, to a lesser degree, in **Vancouver** – due mainly to a lack of product and burgeoning development pipelines. Noteworthy office sales included Yonge Richmond Centre ($154 million) in **Toronto** and Encana Place ($116 million) in Calgary.

- Capitalization (cap) rates across six markets and five asset categories were either flat or marginally lower than one year ago. Multi-residential assets once again had the lowest yields, while **Vancouver** had the tightest cap rates.

"If it is any consolation, the second half of 2015 is shaping up to be a busy one in Canada with a number of big transactions already concluded or in the pipeline, including last week's surprise announcement by Ivanhoe Cambridge that it plans to sell its majority interest in Bentall Centre in downtown Vancouver. These large transactions could be an indication that some investors believe prices are nearing their peak," concludes Argeropoulos.

U.S.

In Avison Young's U.S. markets, the pace of sales continued to reach new heights in the first six months of 2015 with $131.8 billion (USD) of commercial transactions – a 40% increase year-over-year. At this rate, overall U.S. commercial sales are poised to eclipse 2014 annual investment volume of $225.8 billion.

The U.S. investment market strengthened between mid-year 2014 and mid-year 2015 as the availability of capital, improving economy, and historically low interest rates pushed sales volumes higher for all asset classes. Sales are on track to exceed 2014 levels; however, while all sectors have rebounded, only retail and multi-residential have achieved annual sales volumes that exceeded their 2007 peak levels.

"Continuing a trend spanning more than five years, Canadian buyers led foreign investment in U.S. assets in 2015. Investors, both foreign and domestic, have continued to look beyond the top investment destination cities," notes **Earl Webb**, Avison Young's President, U.S. Operations. "For example, Atlanta has moved up in favor on the strength of its office sales, and had recorded $6 billion in total investment volume – nearly 60% of its full-year 2014 total – by mid-year 2015."

Webb adds: "Improving leasing fundamentals across the U.S. – due to generally limited development, lower vacancy levels, rent growth and major occupiers' shedding of their excess space – will continue to support office trades this year."

Notable First-Half 2015 U.S. Investment Market Highlights:

- Four markets exceeded $10 billion in commercial sales in the first half of 2015: **Washington, DC** ($10 billion / 8% share), **Chicago** ($10.2 billion / 8% share), **Los Angeles** ($11.4 billion / 9% share) and **New York** ($22.4 billion / 17% share). Together, these markets represented more than 40% of total commercial sales nationwide.

- By mid-year 2015, the office, industrial and multi-residential asset classes had demonstrated exceptional growth year-over-year. However, sales of retail assets recorded the greatest gains when compared with the same period in 2014, jumping 64% in the first half of 2015.

- Office sales were 23% higher year-over-year and totaled $49.9 billion in the first six months of 2015.

- **New York** led first-half 2015 sales volume in every asset class with the exception of industrial. For office properties alone, New York sales of $13.3 billion accounted for 27%

of total U.S. office sales volume and a 41% increase locally, compared with the same period in 2014.

- Several U.S. markets achieved industrial sales exceeding $1 billion in the first half of 2015. Southern California powerhouses **Los Angeles** and **Orange County** together recorded $3 billion of industrial sales ($1.7 billion and $1.3 billion, respectively). **New Jersey** ($2 billion), **Chicago** ($1.9 billion) and **Dallas** ($1.5 billion) rounded out the top five first-half 2015 U.S. industrial sales markets.

- In spite of lower energy prices, even **Denver** (+59%) and **Houston** (+33%) saw first-half 2015 sales markedly higher when compared with the same period in 2014.

- Overall, cap rates fell by 32 bps year-over-year in U.S. markets tracked by Avison Young, led by multi-residential (-45 bps) and office (-42 bps) assets. For industrial properties, overall cap rates averaged 7.1%, though cap rates can be as low as 4% to 5%.

Webb continues: “Markets continued to see cap rate compression and some are approaching record-low territory. Nimble buyers are taking advantage of value-add plays, and CBD assets received top prices in markets such as Washington, DC. Still, select suburban submarkets with well-defined market drivers – transportation-centric districts, work-live-play environments, or technology occupiers – have attracted significant investor interest.”

Webb concludes: “Given the gap between lending rates and 10-year treasury bonds, and the absence of a meaningful interest rate hike by the U.S. Federal Reserve, the investment sales market will likely continue to be frothy with select assets trading at record prices.”

Editors/Reporters:

Please turn to the following pages of the report for fall 2015 market highlights of the local investment markets. For further info/comment, please contact the Avison Young Principals/Managing Directors listed below. Thank you.

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