Media Release

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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 Mid-Year 2017 BC Real Estate Investment Review:
http://www.avisonyoung.ca/documents/95750/1691323/British+Columbia+Real+Estate+Investment+Review+%28Mid+Year+2017%29/f0901b85-3d09-416a-9869-d74a22294b77?t=-1673120202

Fundamental shift coming in British Columbia commercial real estate investment market as record first-half likely marks end of an era

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

Vancouver, BC – Unprecedented levels of investment in the first half of 2017, which involved 109 transactions valued at $5.09 billion, will likely mark the culmination of the latest and most robust cycle of capital expenditures on BC commercial real estate yet recorded in the province. This 'cycle of impatience', which has its roots in 2012 and accelerated in 2015 before peaking in 2017, may be on the decline. Interest-rate increases in the U.S. and Canada, rising bond yields, a change in government at the federal and provincial levels, municipal red tape, new taxation regulation as well as increased enforcement limiting capital outflows from China may start to slow investment activity in BC's commercial real estate market.

The recent resurgence of the Canadian dollar has pushed up the cost of capital for foreign investors, which has made Canadian assets less attractive from a price perspective compared with the past three years. A low Canadian dollar meant that foreign investors could pay more, contributing to further price increases. However, after years of rapid price escalation and cap rate compression, the re-emergence of longer periods of due diligence and more measured financial analysis may lessen the exuberance, haste and impatience that characterized much of the transactional volume since 2015.

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

The largest commercial real estate deal in BC history closed in the first half of 2017 with Cadillac Fairview selling a 50% non-managing interest in both the Pacific Centre shopping mall in Downtown Vancouver along with a portfolio of 12 downtown office towers for $1.9 billion. The Ontario Pension Board and the Workplace Safety & Insurance Board each acquired a 25% stake.

The largest retail deal in provincial history also closed in the first half of 2017 with the $961-million-sale of Oakridge Centre, a regional shopping centre in Vancouver, to QuadReal Property Group, the real estate arm of Victoria-based bcIMC. The sale of Metrotower I & II in Burnaby to a private investor for $274 million in the first half of 2017 also marked the largest deal for a suburban office asset in BC history.

Other significant retail deals in the first half of 2017 included: Sevenoaks Shopping Centre in Abbotsford ($214 million), Westbank Hub (North & Centre) in Kelowna ($106.8 million), Columbia Square in New Westminster ($97.7 million) and the Canadian Tire/Best Buy urban retail centre at 2200-2290 Cambie Street in Vancouver ($94.2 million). In terms of office transactions, Fortinet Technologies acquired two adjacent properties in Burnaby from HOOPP Realty for $110.7 million. No significant industrial assets changed hands in the first half of 2017.

"A lack of demand is not what will impact investment activity in BC commercial real estate. Supply remains the challenge. Increases in the Canadian interest rate environment and the cost of capital as well as changes to federal and provincial taxation policy, combined with greater enforcement of limitations on foreign capital, particularly from China, are what will ultimately lead to a pause in BC," comments Avison Young Principal **Mehdi Shokri**. "With the rising cost of capital, purchasers will no longer obtain the same leverage ratio when using debt financing to acquire properties; hence, purchasers will be required to contribute more equity to a transaction than in years past."

Private purchasers remained the most dominant buyer group in the first half of 2017 in terms of the number of deals completed, but for the first time since 2012 did not represent the majority of dollar volume. Private buyers accounted for 86% of all transactions but only 36% of total dollar volume due to the significant value of institutional transactions that closed in the first half. Private capital still accounted for a number of significant deals in the first half, including Metrotower I & II, Sevenoaks Shopping Centre and Columbia Square.

Institutional investors, who had largely remained on the sidelines in BC since 2011 when they captured 24% of total dollar volume, grew more active in 2016 when they captured 33% of dollar volume in large part due to foreign institutional investment in the office market. However, an influx of Canadian institutional capital in the first half of 2017 captured 60% of total dollar volume of $5.09B, but were represented in just 6% of deals. The scale of institutional investment in BC commercial real estate in the first half of 2017 is unprecedented in the province's history.

Sector Investment Review Highlights:

Office

Office investment sales activity in BC generated near-record dollar volume in the first half of 2017 with 17 transactions valued at $1.86 billion, including the sale of a 50% interest in a portfolio of 12 downtown Vancouver office buildings for $1.25 billion. While capturing just 16% of the total number of investment deals that occurred in the province, sale proceeds from office assets represented 37% of overall record dollar volume of $5.09 billion in the first half of 2017.

Only the first half of 2016, which featured 15 office sales for a record $1.9 billion (including the Bentall Centre, Royal Centre, UK Building (409 Granville Street) and the former Revenue Canada Building (1166 West Pender Street), surpasses the first half of 2017 in terms of dollar volume achieved. The disposition of a 50% interest in Cadillac Fairview's downtown Vancouver office building portfolio for $1.25 billion represented the single largest office transaction in the province's history. The Ontario Pension Board and Workplace Safety & Insurance Board each obtained a 25% share on a non-managing basis.

Retail

The sale of BC retail assets achieved record heights when 55 retail transactions valued at $2.77 billion were completed in the first half of 2017. The record-setting dollar volume was primarily attributed to the sale of Oakridge Centre for $961.3 million and a 50% interest in Pacific Centre valued at $650 million for a total of $1.61 billion. Retail deals captured 54% of overall BC dollar volume of $5.09 billion while also making up 50% of the total number of deals completed in the first half.

Retail assets, particularly those with a land component, remain in extraordinarily high demand in core and suburban markets alike with strong pricing finally coaxing formerly reluctant vendors to execute a disposition. Besides regional malls such as Oakridge Centre and a 50% interest in Pacific Centre, a number of other shopping centres and retail outlets changed hands.

Industrial

Strong demand for industrial assets continued unabated in the first half of 2017 with 37 transactions valued at $456.4 million. This followed the record second half of 2016, which included 36 industrial transactions valued at $566.9 million. While the industrial share of overall dollar volume was just 9% due to extraordinary spending on institutional-grade retail and office assets in the first half of 2017, industrial sales did represent 34% of the total number of deals completed. Industrial sales activity has been rising steadily since 2015 and is trending toward another record year.

In 2016, there were a record 61 deals valued at $819 million, which followed up the 51 deals valued at $642 million that closed in 2015. The previous record, which had been set in 2013, was 38 deals valued at $663 million. What distinguishes the performance of the first half of 2017 from previous years is an absence of trophy industrial assets changing hands. Only five sales exceeded $25 million.

Multi-Family

Sales of BC multi-family assets roared back with 46 transactions valued at $652 million in the first half of 2017. The second half of 2016 had recorded just 30 transactions valued at $262 million after the first half of 2016 registered 43 transactions valued at $472 million. Multi-family investment activity in 2017 is on pace to surpass the 73 transactions valued at $734 million set in 2016. The record was set in 2015 when 80 multi-family properties valued at $1.41 billion traded hands.

This recent surge in sales activity is attributed in large part to long-term owners of multi-family assets finally cashing out due to highly compressed cap rates and pricing that even 12 months ago was not considered achievable. Further boosting sales volume were the single dispositions of assets that were part of larger portfolios. Properties were individually marketed in order to obtain top dollar and widen the field of prospective buyers when compared with the number of purchasers who would acquire an entire portfolio.

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 2,400 real estate professionals in 80 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**

• **Mehdi Shokri**, Principal, Avison Young: **604.647.1355**

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