COMMERCIAL INVESTOR 2013

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BRITISH COLUMBIA

Greater Vancouver

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After a strong 2012 performance, commercial real estate activity has subsided in Greater Vancouver.

Close to 600 sales occurred in the first half of 2013, down approximately 15 per cent compared to the same period one year earlier, according to RealNet Canada. Residential land sales in Vancouver declined 30 per cent in the first half of 2013, compared to the same period in 2012. Rising concerns over 10-year U.S. Bond rates and the threat of higher interest rates down the road have prompted institutional investors, pension funds, and Real Estate Investment Trusts (REITs) to scale back their intentions. An oversupply of product—particularly in the office leasing segment with five new commercial towers planned or under construction—has also pushed up vacancy rates in the core. Absorption will have a major impact on the market in the months ahead as a result. Despite a cap rate hovering at three per cent, multi-unit residential and apartment buildings, in particular, have performed well in the first half of 2013. Duplexes, triplexes, and fourplexes were popular with smaller local investors, with most willing to pay a premium for product in quality neighbourhoods. Industrial properties also experienced steady demand, given a shortage of product available for sale. Values have remained stable in spite of the downward pressure in the marketplace. Purchasers are especially interested in industrial product in the downtown core, although listings are scarce. Retail storefront, while still a strong segment, has tapered from year-ago levels. Activity is still occurring, especially in new and upcoming areas, like Downtown South, that are experiencing gentrification. Vacancies can be found on Robson St.—once the street for high-end retail—as more retail alternatives open up. Granville has served to attract a growing number of retailers, as have trendy, new neighbourhoods such as Gastown, Yaletown, and Coal Harbour. A steady stream of U.S. retailers continue to make their way into Vancouver, a trend that is expected to

"Multi-unit residential and apartment buildings, in particular, have performed well in the first half of 2013."

continue. Although most purchasers are local owner-users, foreign investment is still a factor in the market, with buyers from Hong Kong and Mainland China contributing to sales of commercial product. Political stability, a secure banking system, and volatile stock markets remain the key components supporting demand for real estate in this country. In spite of the pullback on the institutional side, demand continues to exist for quality commercial product throughout the Greater Vancouver Area. Inventory remains an issue, given that few commercial properties make it to the open market through MLS. Most transactions move through commercial brokerage houses, with most investors unaware of product availability until the deal is done. Sound economic fundamentals will underpin the commercial market in Vancouver for the remainder of the year, with the market expected to gain momentum as the economy accelerates.

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Despite a significant level of demand, a shortage of product continues to weigh down year-to-date sales in Edmonton's commercial real estate sector.

The desire for quality commercial product has increased sharply over the past year, particularly with the opening of the northwest portion of the Anthony Henday Drive ring road, now providing accessibility to a considerable area prime for retail, industrial and residential development. Eager purchasers are looking for a place to park their money and are seeking any quality, income-producing options, regardless of segment. The enthusiasm among small investors—many of them retirees or semi-retired individuals looking for stable income—has climbed dramatically, especially for product in the $1 million to $ 1.5 million range. Multi-family product is highly coveted, generally commanding $90,000 to $110,000 per door. Values have climbed three to five per cent in the multi-family category over the past year, with further room for growth anticipated. Good investment properties of all types, providing attractive cap rates in desirable locations, are snapped up as quickly as they hit the market. Plazas and strip malls remain a favourite, but listings are few and far between. Renovation and revitalization continue to raise the bar of the city's commercial stock, particularly as owners invest in and upgrade older B-class product. With trades easily engaged and competitive pricing available, some commercial buyers —particularly on the industrial end—are opting to build rather than wait for listings to come on stream. Buildings ideal for an owner-occupier set-up are in exceptionally short supply. With the oil and gas sector supporting demand, the industrial vacancy rate remains below five per cent. Product, both new and resale, is being readily absorbed. All segments remain solid, as fundamentals supporting the commercial sector remain stable, including interest rates, equity gains, employment and population growth, residential construction and, most imperative, the healthy natural resources sector. Yet, despite the influx of buyers, sales remain off the year-ago pace, given the supply crunch. Plenty of buyers are waiting in the wings for the right property to come on stream. There were 349 properties that sold via MLS in the first six months of the year—as reported by the

> **"Eager purchasers are looking for a place to park their money and are seeking any quality, income-producing options, regardless of segment."**



Edmonton Real Estate Board—compared with 373 during the same period in 2012. While this captures just a small percentage of overall sales—a significant number of commercial transactions are exclusive and unreported—it is indicative of the overall trend. Land is moving exceptionally well. More than a dozen listings, located within one to two kilometres of Edmonton's boundaries are available for as low as $20,000 to $60,000 an acre (unserviced). By comparison, serviceable land within the city is moving for as much as $1.1 million to $1.2 million an acre, with prices up roughly 10 per cent year-over-year. Annexation is expected to push prices up even further in the years ahead, and purchasers are banking on the future. Land assembly for residential development continues unabated. The proliferation of new neighbourhoods in the south and southwest ends of the city—including Windermere/Ambleside, Secord, Westview Village, Allard, Ellerslie and Walker Lakes, for example—is driving demand for all types of commercial space, including medical/professional buildings, daycares, drugstores, food/beverage outlets, etc. The trend favouring the peripherals is being driven not only by population growth, but also the prohibitive cost to buy/operate within the city proper. Retail storefronts in newer communities are fetching as much as $32 per sq. ft.—considerable, given that rents typically hover in the mid-$20 range. The retail segment continues to undergo expansion on all fronts throughout the city of Edmonton, particularly as large American and multi-national brands fuel competition. The need for larger spaces and additional locations is, in some instances, driving smaller retail tenants out of long-held establishments. While traffic counts are up in prime retail locations, there is some concern regarding the possible impact of rising household debt levels. For now, it's business as usual, and moderate growth is forecast for this segment, as long as market underpinnings remain stable. In the office segment, rents and leasing activity remain steady, and demand remains relatively on par with year-ago levels. Vacancies remain in line with a market that is leaning toward balanced, and inventory continues to be absorbed. With a multitude of projects poised to reshape the Edmonton landscape—and the city's downtown core, in particular—combined with the province's status as a forecasted GDP growth leader for the next two years, the future remains bright for Edmonton's commercial sector. Inventory will remain a significant wild card impacting its momentum through year-end and into 2014.

Calgary

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Cautious optimism continues to characterize Calgary's commercial marketplace, where more than 200 transactions occurred over the million-dollar price point in the first six months of the year.

According to recent statistics from RealNet Canada, close to $1.7 billion in dollar volume was reported between January and June 2013. Retail space continues to present a real challenge, with American retailers entering the marketplace at a serious clip. The retail vacancy rate now hovers at 2.9 per cent, although in some areas of the city that figure is decidedly less. Expansion is underway in Calgary's malls, with the Chinook Centre alone expected to add more than a million sq. ft. over the next couple of years, sending retail sales over the $1 billion mark by year-end 2015. Retail storefront is virtually non-existent within the city, with any product that comes on-stream snapped up quickly. Cap rates on retail now hover at 5.75 to 6.25 per cent in the suburbs, 5.5 to six per cent in strip plazas, and five to 5.5 per cent in power centres. Institutional investors and Real Estate Investment Trusts (REITs) remain the primary drivers of big box retail and power centres, with smaller investor groups pooling funds to accumulate both land and properties. The northeast quadrant of the city has seen significant change, as demonstrated by the transformation of the enclosed Deerfoot Mall to an open power centre. While the retail sector has seen strong activity year-over-year, the market for industrial warehousing has also undergone tremendous growth. The industrial sector experienced a significant upswing in activity in recent months as purchasers impacted by flooding looked for temporary warehousing solutions. The city, already faced with a limited supply of product, experienced further downward pressure on vacancy rates as a result. Multi-unit residential continues to hold its own, despite cap rates of four to 4.5 per cent. Large deals—involving 15 units and more—are few and far between. Investors have shifted their focus to smaller apartments offering up to 15 units, but inventory is severely depleted. On the development side, there has been a surge

"Institutional investors and REITs remain the primary drivers of big box retail and power centres, with smaller investor groups pooling funds to accumulate both land and properties."

in activity, with many investors looking to assemble tracts of land for future use. Most smaller investors are looking for commercial product valued at between $10 to $15 million. Beyond that price point, the affordability factor kicks in, with much of that activity attributed to REITs, pension funds, and institutional investors. Only one area appears to be of concern—office leasing. Just seven months ago, vacancy rates hovered at under one per cent in the core. Today, that rate is close to 5.2 per cent and is expected to climb to 12.4 per cent by 2017. The Bow, Calgary's tallest office tower, with 1.7 million sq. ft. of office space, was completed in 2012. Four additional projects have been introduced since, representing more than four million sq. ft. of space, all scheduled for completion in 2016 and 2017. Absorption remains an issue, especially given the volatility surrounding the energy sector. Yet, many of the developments include a residential/retail component, in keeping with the city's mandate to increase density. National investment continues to be a mainstay, with a fair amount of interaction between Calgary and the Greater Toronto Area. Foreign investors have also been active, including German, Swiss, and Chinese consortiums, fueling demand for everything from retail to industrial manufacturing. A continuation of the current trending is expected for the remainder of the year in Calgary's commercial market, with the market gaining momentum in tandem with economic recovery.

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Regina's commercial market continues to experience serious growth, with all sectors reporting high demand and limited supply.

Tight market conditions are reflected in the Association of Regina Realtor's commercial statistics for the first half of the year, showing a 10 to 20 per cent decline in sales, while volume was down 42 per cent. Development land represents the greatest challenge, with almost no product available, while multi-unit residential is hovering at a one per cent vacancy rate. Demand for industrial properties has reached new heights over the past year, given that the City of Regina, the largest industrial landlord, continues to face obstacles in terms of servicing land. Cost of infrastructure has skyrocketed as a result of the labour shortages that continue to plague the city. The opening of phase two of the city's industrial park, adding approximately 65 acres, sold out within a 90-day period, at a price per acre of $435,000, more than $200,000 ahead of the price per acre obtained just five years ago. It's anticipated that the resale value on the product will command upwards of $500,000 per acre. Owner-operators are vying against investors for warehousing facilities, often willing to pay a premium to close the deal. Rental rates have increased accordingly. The price per square foot has risen from $5–$6 to $12–$14 over the past few years. Some ambitious investors have built industrial warehousing on spec, which has also contributed to the increase in rental rates. Regina's global transportation hub eases demand to some degree, although users need to meet with the hub's approval. Cap rates are dropping as demand places upward pressure on prices for product across the board. Various investors just purchased four different retail malls within the city at a six per cent cap rate. Multi-unit residential is highly sought-after, but product is seldom available. Apartment buildings with 12 suites and more are most desired by investor groups, while smaller players tend to favour four and six-plex properties. Rental rates have doubled over the past five years, adding further incentive for purchasers across the board. Retail product

> **"Cap rates are dropping as demand places upward pressure on prices for product across the board."**

—particularly small strip malls—are increasingly coveted, with new rental rates making the prospect of ownership worthwhile. Today's purchasers will happily buy plazas that are half-empty. Retail storefront—especially along the major transportation arteries—is landlocked, with no additional product coming on stream. Institutional investors and Real Estate Investment Trusts (REITs) are most active in the larger retail complexes, with big box and power centres expanding at a serious clip in the area. Cap rates currently range from four to five per cent on owner-occupied buildings due to high demand for such limited inventory. Foreign investment continues in all asset classes, but investors remain challenged by product availability. Land is now coming on stream, with price per acre approaching $1 million for high-density, multi-family usage. With lending institutions introducing more stringent policies, those purchasing land will need deep pockets. Regina is experiencing serious growing pains as the city plays catch-up. Economic investment announced in the city alone this year tops $500 million—with the announcement of a $278 million football stadium and $224 million water treatment plan. Regina is trying to annex substantial land parcels west, southeast, and northwest of the city to keep up with their vision for long-term growth and population target of 500,000. Zoning and bylaws are being changed to allow greater density in the city—prompting more vertical growth in terms of mixed-use residential/commercial development. Diversity, combined with population growth and commitment to infrastructure, should keep Regina's economic engine on high gear for many years to come.

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Demand for commercial real estate remains solid in Winnipeg, despite more than a decade of consecutive price growth.

Tight market conditions, however, have hampered momentum, with a shortage of product across all segments. Purchasers—from individuals to large institutional investors—are now sitting on the sidelines for the right property. There were 117 sales that occurred between January and June 2013 versus 137 during the same period in 2012—a decrease of approxiamately 15 per cent. Yet, dollar volume climbed nine per cent, according to the Johnson Report. Competition remains strong, with quality listings often snapped up as soon as they hit the market. Multiple offers continue to occur, especially on multi-unit residential product and owner-occupied buildings. Off-market deals are also commonplace. The $2 million to $10 million range accounts for the lion's share of demand. The bulk of buyers hail from Western Canadian markets, but there has been a considerable influx of overseas investors in recent years. Industrial real estate is highly sought-after, with owner-occupiers driving approximately half of all industrial sales. With listings few and far between, many are now looking to leasing to fill their needs. In response, a wave of new construction is underway, but with the current 3.5 per cent vacancy rate in this segment, there is concern that by the time this product comes on stream, building activity will have gotten slightly ahead of demand. In the meantime, new product will help alleviate some of the supply crunch. On the retail end, while vacancy rates have edged up—hovering near four per cent—the amount of available space remains in line with the 10-year average. The introduction of new brands to the marketplace and expansion by existing retailers has propped up activity in this sector, along with ongoing residential development, which has bolstered the need for shopping and amenities. The latter driver has been particularly notable in Southwest Winnipeg, which continues to be the hottest area for retail and industrial development. Purchasers seeking out office space in Winnipeg are favouring the immediate periphery of the downtown core. Smaller properties in good locations, offering approximately 5,000 sq. ft. of space, are coveted and drawing multiple bids. Vacancy rates on Class A and B

"Bare land remains a hot commodity in Winnipeg, with prices climbing as much as 25 per cent year-over-year."

office space hover between seven and 7.5 per cent. As such, new construction is generally occurring by need on a company-by-company basis. Some new office towers had been discussed for the downtown core, but to date, plans have not moved forward. Bare land remains a hot commodity in Winnipeg, with prices climbing as much as 25 per cent year-over-year. Developers continue to acquire quality land on the periphery of the city, especially if it is serviceable in the next five years, as well as infill properties within the city proper. It is estimated that some developers have acquired enough land to represent a 60-year land bank. Yet, as further annexation of the city occurs, additional price growth will be inevitable, and most are firm in the belief that land acquisition will leave them well-positioned for the future. Multi-family residential properties are also drawing serious interest among both new and seasoned investors. Larger buyers, including the Real Estate Investment Trusts (REITs) are particularly keen, looking to snap up significant blocks of 100 doors or more. Plenty of small investors exist, active under the $2 million range, with most looking for strip malls or two-to-three-tenant buildings. Given increasing values and the compression on cap rates, the crown jewel or trophy properties tend to be trading at cap rates that hover between five and six per cent. Banks have become more stringent in their lending policies, but most buyers are able to satisfy requirements. Solid economic fundamentals will continue to support the commercial sector in the months ahead—particularly as interest rates remain low—with the current momentum holding steady. An air of caution is beginning to emerge, given the unprecedented length of the run-up on commercial real estate. As a result, price appreciation is expected to climb at a more moderate pace.

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Supply continues to be a challenge for purchasers across most commercial real estate segments in Ottawa this year.

Some buyers are choosing to move to the sidelines—waiting for the right product—while others look to lease in the interim. End users have been very active in the market to date, driving demand for small office, warehouse product, strip malls, and various other retail options. Industrial properties, in particular, have been especially sought-after, but also among the most difficult to secure. Building activity has also been limited by the greenbelt and rising land prices—now commanding upwards of $600,000 an acre on the east side of Ottawa and $400,000 to $500,000 outside the greenbelt. Those who do move forward are looking to towns on the peripherals, including Kemptville, Arnprior, Cornwall, Brockville, etc. These areas have experienced a sharp rise in demand in recent years, given both availability and affordability. Prices are expected to remain on the upswing for well-located industrial product. Purchasers continue to acquire land for residential development, primarily in suburban communities outside the greenbelt, including Barrhaven South, Kanata West, and Orleans East. Land assembly for condominium development is also occurring, although projects typically take three to four years to get a shovel in the ground. Earlier this year, one site at Dow's Lake—at less than an acre in size—was zoned for a 45-storey residential condominium development—the tallest approved in Ottawa to date. Some smaller builders are buying up lots for infill projects, where available. The market for development land remains competitive, with off-market, exclusive deals accounting for as much as 90 per cent of transactions. An air of caution has started to emerge, although the city's larger builders have demonstrated greater confidence. The multi-family side is starting to balance out, with more inventory coming on stream.

"End users have been very active in the market to date, driving demand for small office, warehouse product, strip malls, and various other retail options."

Within the downtown core, however—where units command approximately $150,000 per door for a two bedroom—the vacancy rate remains next to nil. Cap rates on multi-family currently hover around five per cent. Supply has been building in Ottawa's office segment, with government consolidating office space. While prices are holding firm for newer product, rental rates have fallen slightly. The sector may experience further downward trending, if supply continues to build. The exception may be office/lab space catering to the city's high-tech sector—product for which vacancy rates have drastically improved. Once at 35 per cent at the height of the tech meltdown, office/lab space in the city now hovers at a 12 per cent vacancy—still high, but contracting. While Ottawa's commercial real estate sector has slowed moderately this year, the market will continue to be driven by its largest players, including Real Estate Investment Trusts (REITs), pension funds and insurance companies. Foreign investment will remain solid, with activity most notable among Asian, South Asian and Middle Eastern purchasers. Smaller investors remain cautiously optimistic, but the right deal will generally reignite their enthusiasm. Overall, a healthy commercial market is forecast for 2014, with momentum expected to be slightly off year-ago levels. Prices will continue to rise in most segments, albeit at a more muted pace.

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Although strong demand exists for commercial product within the Greater Toronto Area, year-to-date sales are hampered by limited availability.

Inventory levels continue to present a challenge, with virtually all segments of the commercial market reporting shortages. Year-over-year sales have fallen to 886 units over the $1 million price point as a result in 2013, down from 955 units between January and June one year earlier. Dollar volume, however, has surged ahead in 2013, climbing to $7.7 billion—a 28 per cent increase over 2012 levels—according to RealNet Canada. Industrial properties located in the Toronto peripherals are of particular concern, with buildings in the 5,000 to 10,000 sq. ft. range becoming increasingly rare. Accounting for 80 per cent of total space leased in the third quarter of 2013, industrial buildings in close proximity to major arteries and the airport are most coveted, including downtown Toronto (Gardiner), Mississauga (Hurontario), the top end of the city along the 401, and properties parallel to the 427, 403, and the Highway 7 corridor in York Region. Prime locations with strong covenant tenants remain the most desired properties for investors looking for better cash flow opportunities, although industrial, retail, and office end users represent the vast majority of purchasers. According to a recent report by the Toronto Real Estate Board, the strongest growth in sales was experienced by the commercial/retail market segment, with the number of deals up by 25 per cent year-over-year. Average selling prices reported on a "per square foot" basis—for transactions with pricing disclosed—were up for all major property types. In fact, the demand for high quality retail product, including storefront properties along subway lines, remains unabated. Evidence of the trend can be found in area shopping malls, with expansion topping the list of priorities. Yorkdale Shopping Centre—with 1.6 million sq. ft. in retail space—recently announced a further addition of close to

"Prime locations with strong covenant tenants remain the most desired properties for inventors looking for better cash flow opportunities, although industrial, retail, and office end users represent the vast majority of purchasers."

300,000 sq. ft., anchored by American retailer Nordstrom that will commence in 2014. American-based brands are expected to continue to enter the Canadian marketplace in the coming years, creating both competition and jobs within the service sector. Retail storefront has also generated a following, with product on trendy major arteries, including Bayview Ave., Mount Pleasant Rd., Yonge St., Avenue Rd., Bloor St., Danforth Ave. and Queen St. garnering top dollar. End users are deciding to buy instead of lease, and the trend to live above a storefront property is making a comeback in many large urban centres. Smaller purchasers and foreign buyers have also been active in the market, with most looking for investments in the $700,000 - $1,200,000 range, but product is few and far between. Unprecedented demand for multi-unit residential and hotels also characterized the first six months of the year. Toronto's appeal is on the upswing with wealthier nations looking to safeguard their money in stable markets such as Canada, while the global marketplace improves. Large Real Estate Investment Trusts (REITs), pension funds, and private investors are actively acquiring large apartment blocks, with at least three multi-unit residential deals moving over the $100 million price point in the GTA this year. Vacancy rates of under one per cent in the city are also behind the push, contributing to demand for rental product. Overall investors were most interested in properties with an upside—those that provided an opportunity to create more positive cash flow that allow them to justify their acquisition costs and subsequent improvement expenses. End users were willing to up the ante for buildings with less than eight units in prime, blue-chip neighbourhoods, while foreign investors were looking to cash in on student housing opportunities in the GTA and in university towns across Ontario. As demand continues to outstrip supply, the pressure to bring more rental accommodations to the marketplace is ever increasing, especially given the upward trending in rental rates. Up and coming areas are expected to emerge as a result of constant demand. One such area already in transition is Toronto's lower east side, site of the Athletes Village for the 2015 Pan Am games. All the major walking routes from the subway are expected to experience an upswing in demand by both retailers and investors wanting to take part in the continued gentrification of the Distillery District and waterfront. Just north of the city, the new Cadillac Fairview mixed-use redevelopment project, including residential, office, retail, hotel and convention facilities—at the site of the 170-acre former Buttonville Airport—should provide an additional boost to commercial activity in York Region. Transportation infrastructure in the form of new VIVA Rapid Transit routes is expected to vastly improve travel along the busy Highway 7 corridor. The Highway 7 East/Markham and Richmond Hill project is currently under construction and the first phase of the Highway 7 West/Vaughan route is expected to be completed in 2016/2018. While tight market conditions exist in almost all commercial sectors, tenants/purchasers looking to buy or lease office space are exceptionally well-positioned. Lease rates have been under pressure from the increase in new A grade product—approximately 100,000 sq. ft. of prime office space has come on-stream in 2013 and another 1.59 million sq. ft. is expected in 2014. Ten high-rise towers, including office condominiums, are planned for the downtown core, bringing millions of additional Class A space to the market, with most buildings scheduled for completion by 2017. Office vacancy rates in the business centre now hover at about five per cent, up over one year ago, and forecast to climb further in 2014. Attractive mortgage rates have proven to be a strong incentive in the sale of all commercial product, and in spite of tighter lending criteria, purchasers appear to have no issues financing properties. The low interest rate environment has fuelled activity to some extent, prompting purchasers to look for alternatives to leaving money in the bank. Land values in the central business district are expected to steadily increase as high-rise, high-density buildings are constructed to accommodate population growth. While most increases in property value to date have gone hand in hand with CPI/inflation, there have been some instances where it jumped as much as five per cent. Commercial product closest to infrastructure like subways, airports and major highways is expected to experience the greatest demand in coming years, although with little product available, downward pressure on cap rates will continue in 2014. Overall, healthy market conditions are forecast to prevail in most segments, given solid confidence levels and stable economic fundamentals.

Hamilton – Burlington

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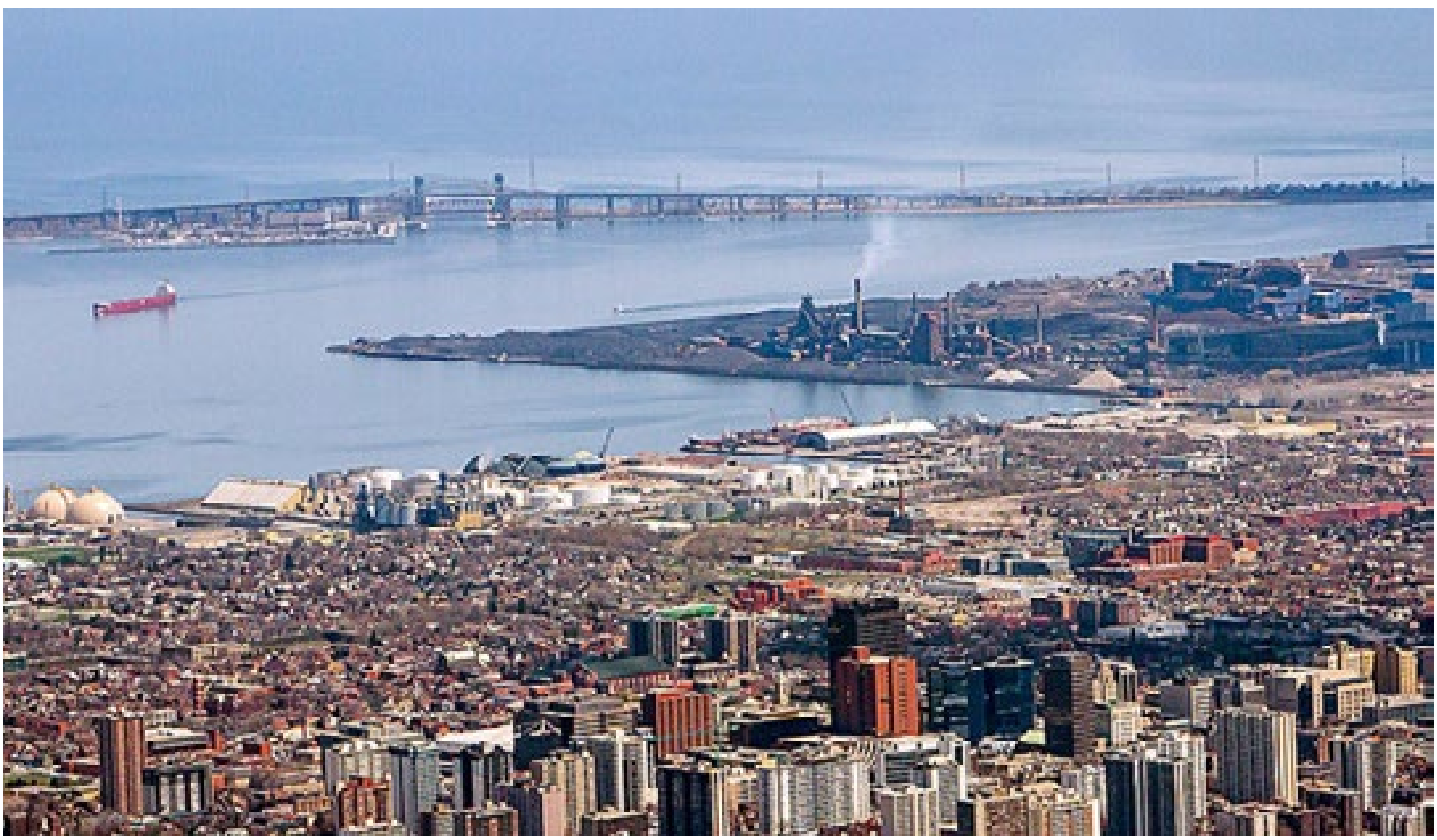
Greater Toronto Area's strong economic engine continues to fuel demand for commercial product in Hamilton-Burlington, with overall sales up 15 percent in the first six months of 2013.

Two-hundred and seventy-eight commercial properties changed hands between January and June, up from 241 units during the same period one year earlier, according to the Hamilton-Burlington Real Estate Board. Mixed-use and multi-unit residential have experienced the greatest percentage increases, with sales in those particular segments up 20 per cent year-over-year. Investors have finally honed in on Hamilton's investment potential after bypassing inventory for years. The first wave of purchasers sought out multi-unit residential and retail storefront on Locke, Ottawa, and James St. South—streets that now possess a certain cachet. Embers are now burning on James St. North, where revitalization is just taking hold. Inventory levels are extremely tight as a result, placing serious upward pressure on values. Low vacancy rates—under two per cent—have also contributed to growing demand. Duplexes and triplexes priced between $250,000 and $300,000 are a popular choice, with most selling in multiple offers. Some of the larger multi-unit residential properties—those offering between 15 and 30 units—are purchased by buyers from the Greater Toronto Area and to a lesser extent, foreign investors. End users are largely behind the push for retail storefront, with most intending to live in one unit and work in another. Cap rates typically hover at six to seven per cent in the Hamilton area, although they can rise as high as eight to 10 in neighbourhoods undergoing transition. Demand for industrial product in Burlington has also been brisk, with the number of properties sold 26 per cent ahead of 2012 levels. Many of the purchasers are end users from Toronto, capitalizing on lower real estate values in one of the top mid-sized cities in Canada. Transportation access is also an added incentive, given the proximity to major

"Inventory levels are dwindling as a result of the surge in activity, with just over 250 active listings available in industrial, offices, retail, mixed-use, and multi-unit residential."

arteries and the U.S. border. The Hamilton-Burlington area has entered a growth phase in terms of commercial activity, a fact reflected in all segments. Prices are up across the board, placing greater downward pressure on cap rates. Inventory levels are dwindling as a result of the surge in activity, with just over 250 active listings available in industrial, offices, retail, mixed-use, and multi-unit residential. The tightest segment continues to be office in both Hamilton and Burlington, where 15 and 3 listings are available respectively. Industrial follows with just 34 listings for sale in Hamilton and seven in Burlington. Emerging communities are attracting the lion's share of smaller purchasers, many who are looking for introductory product. Real estate trusts have also demonstrated their confidence in the market, as evidenced by the abundance of big box retail/power centres springing up throughout the Hamilton-Burlington corridor. Almost a million square feet is in its planning stage or under construction (Centennial Parkway, Fifty Rd., Wilson). Land assembly continues from Burlington to Hamilton, particularly in areas like Aldershot, Northeast, and Southwest Burlington. Some tired retail product has also been accumulated for future use, clearing the way for mixed-use residential/retail development. Affordability will continue to be the hallmark of the Hamilton-Burlington commercial market, but the proximity to the GTA will place upward pressure on values for years to come.



London – St. Thomas

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The upswing in Ontario's automotive sector has bolstered demand for commercial real estate in London–St. Thomas this year.

The industrial sector has benefited most, with product ideal for auto manufacturing or its related services, experiencing a resurgence. Inventory, while still reflecting an oversupply, is contracting. Prices have held firm, but on the leasing side, rates have experienced some softening. Construction continues unabated on the commercial/retail end, raising concerns regarding saturation down the road. While the market remains relatively balanced at present, the city continues to grant approvals, resulting in a leapfrogging trend, where tenants are moving from older B and C spaces into newer product. The rationale appears to be along the lines of "if-you-build-it, they-will-come." So far, the mantra has proven correct, with an exodus to newer areas evident. With more inventory poised to come on stream—especially in the southwest end of London—some are wondering how a city with 365,000 residents can support further retail/commercial growth. For now, the segment is holding its own, with some downward trending in rents likely on older product. The downtown core is benefitting from ongoing revitalization, especially with respect to the area south of Horton (SoHo), which is gaining popularity among new technology and gaming upstarts. Infill projects, conversions and the repurposing of older spaces have created an increasingly trendy vibe, resulting in climbing demand. The northwest area of the city has also become a vibrant pocket, with solid desire for commercial product following a wave of new home development. The neighbourhood has given rise to all kinds of new retail spaces, including box stores and strip plazas. The multi-unit residential segment remains solid, with demand strong and steady, be it from individuals buying single units to institutional investors hoping to secure large blocks. Yet supply remains tight, given the product's reliable income stream and attractive returns, coupled with London's status as a university town, making multi-unit all the more favourable. Land sales, along with housing starts, have slowed in 2013. Inventory remains almost a moot point, however, since the area's

> **"The downtown core is benefitting from ongoing revitalization. Infill projects, conversions and the repurposing of older spaces have created an increasingly trendy vibe, resulting in climbing demand."**

major players—just a handful of purchasers—tend to snap up whatever comes to market. It has become exceedingly difficult for others to compete. Real Estate Investment Trusts (REITs) and pension funds have stepped back, having already made substantial moves in recent years. Overall, the market is now largely being driven by small and mid-market investors. According to the London–St. Thomas Association of Realtors, commercial sales are almost even with last year's pace (149 vs. 157), while dollar volume is down five per cent year-to-date (June). Although MLS sales capture just a portion of commercial market activity, it is reflective of the overall trending. Stability is forecast for London-St. Thomas' commercial real estate sector in the months ahead. Prospects are positive moving forward, especially given transportation infrastructure improvements—a new interchange/cloverleaf is planned for the 401, which will further open up areas south of the 401 for development.

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While evidence of a construction boom is obvious from the profusion of cranes clearly visible across the Halifax skyline, the commercial market itself has slowed considerably from last year's steady pace.

More competitive market conditions have emerged in the sector, given a paradigm shift in the supply of commercial product. Several projects are nearing completion, including the Waterside Centre (2013/2014) and TD Centre Halifax (2014), both of which are expected to bring on an estimated 200,000 sq. ft. of Class A office space to the open market for the first time in more than 20 years. The completion of the Nova Centre in 2016—the largest, integrated development project in the city's history with one million sq. ft. of mixed-use space—will result in yet another financial centre, luxury hotel, and residential component. While rental rates have remained stable thus far, leasehold improvements and other incentives are being re-introduced in response to the increased availability of product. Vacancy rates for Class A space are now well ahead of the industry average—hovering at 13 per cent in downtown Halifax and between nine to 10 per cent in suburban areas. ICI sales overall have softened year-over-year, with just 99 units reported sold by the Halifax-Dartmouth Real Estate Board in the first six months of 2013, compared to 156 units during the same period in 2012. Granted, the board stats represent just a fraction of transactions in the marketplace (20 to 30 per cent), but the trending is a fair representation of activity. Absorption has been of particular concern in the multi-unit residential segment, although activity has fared slightly better. Multi-unit sales are off last year's levels by about 30 per cent, prompting many institutional buyers and Real Estate Investment Trusts (REITs) to pullback. Private local and foreign investors from Asia and the Middle East have stepped up while values have plateaued, driving demand for older, multi-unit buildings. Vacancy rates

"Absorption will be key in the year ahead, with institutional investors adopting a wait-and-see approach, while local and foreign investment remain strong and optimistic."

nearing four per cent have proven to be a challenge. One area of commercial real estate that has held up exceedingly well during this year is the industrial warehousing segment. Demand for warehousing continues to be brisk, particularly in the

Burnside Industrial Park, with the supply of product limited. After the 2010-2012 flurry of real estate investment in the Halifax marketplace—activity has waned. The threat of higher interest rates, increased inventory levels, and rising vacancies have all contributed to softer demand. Lending institutions have also adopted tighter lending criteria and are being more prudent with paperwork, financial statements and client information. Absorption will be key in the year ahead, with institutional investors adopting a wait-and-see approach, while local and foreign investment remain strong and optimistic. Overall economic fundamentals remain sound in the Atlantic centre, with as many as 75 small- to large-scale projects underway. Some are nearing completion in the coming months, such as the new Halifax Library on Spring Garden Rd, the Citadel Redevelopment project on Brunswick Street, and the completion of the second condominium building—the Anchorage—at Kings Wharf, a 15-20 year first class award winning development project on the Dartmouth Waterfront. Builders and developers continue to acquire land in and around the city for future developments, in some cases in bidding wars, putting upward pressure on pricing. Yard upgrades have now started at Irving Shipbuilding in preparation for the $25 billion shipbuilding contract, and construction has begun at the long-awaited Nova Centre in Downtown Halifax. Other notable projects include the redevelopment of the former Bank of Canada site on Hollis Street by Southwest Properties, construction at the Mary-Ann site off Spring Garden Road by Banc Properties, Royal Hemlocks Phase 2 development by Clayton Developments, and the continued expansion of Bedford West. A number of other high profile projects coming down the pipe include the Shell Offshore Exploration Project, valued at $1 billion, and the IBM/Government of Nova Scotia partnership designed to bring more than 500 jobs to the area over the next eight years. Given the range and scope of projects in the area, Halifax-Dartmouth's commercial market holds much promise for the future.

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St. John's

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A thriving natural resource sector—including oil, gas and mining—has been the strongest driver of St. John's commercial real estate market this year.

Several other positive factors are also bolstering activity throughout the city and province, including steady population growth, upward momentum in personal incomes, healthy gains in retail sales, an increase in skilled trades and professionals, as well as ongoing residential and non-residential investment—to name a few. St. John's commercial sector boasts a diverse buyer pool, with investment dollars pouring in from across the country—particularly Western Canada—and from within the province of Newfoundland & Labrador itself, with some international investment noted. The city of St. John's has been in a growth phase for more than a decade, with renewal, new construction and expansion evident in just about every corner of the city and its surrounding areas. Consumer confidence has been building steadily, as the province elevated its status from a 'have not' to a 'have' province. As a result, demand for all kinds of commercial product exists. From January to June, 11 commercial properties changed hands in St. John's and area through MLS, compared to 10 properties during the same period one year earlier. While capturing just a small component of the market, the steady pace is reflective of overall trending. By far, the strongest segment of the market remains industrial/warehousing and retail. The former has been supported by ongoing expansion of companies servicing the oil, gas and mining sectors, yet inventory has been tight. As a result, new product is coming on stream, including 14 warehouse buildings, ranging from 10,000 to 40,000 sq. ft., currently under construction. Prices have climbed by as much as 20 to 25 per cent year-over-year, rising from $110 – $130 per sq. ft. in 2012 to $140 – $160 at present. This has not impacted demand, given the need that exists. The price of commercial land has also climbed significantly, now moving for as much as $375,000 to $425,000 per acre—doubling over the last seven to eight years. Even in smaller towns outside of the city proper, building lots now command $120,000 to $160,000 (for 5,000 sq. ft.). Five years ago, these properties would have moved for between $80,000 and $95,000. The upswing has

"The price of commercial land has also climbed significantly, yet buyers remain undaunted as they continue to demonstrate confidence in the future of the city."

been very pronounced, yet buyers remain undaunted as they continue to demonstrate confidence in the future of the city. In some cases, the rise in prices has given way to more creative options, such as the advent of the commercial condominiums, now increasing in popularity among investors and owner-operators. Residential construction and growth in small towns just outside of St. John's—including Paradise and Conception Bay South—have given way to a proliferation of new retail product. However, new projects and renovations are breathing new life into the downtown core—from office buildings and hotels to the expansion of the St. John's Convention Centre. Overall, the trend has been toward recently-built product in peripheral towns, particularly as big box and power centres emerge or expand. With demand high, lease rates have been creeping upward, with Class A space commanding $24 to $28 per sq. ft., Class B at $18 to $20 per sq. ft., and Class C at $12 to $16 per sq. ft. Office space continues to see strong demand, although the city's vacancy rate has been on the upswing. There has been some movement—and more is anticipated—from Class B to Class A space, as more product comes on stream. Two new office towers are expected to bring approximately 300,000 sq. ft. of space to the market by 2014, although much of that space is already spoken for. Rents have held strong and little concern exists for this sector, as it is felt that new space will be easily absorbed, particularly given its quality. Redevelopment is still occurring, supported by high lease rates, with older buildings being revitalized and reclassified. Land for commercial development continues to move well, with 26 transactions recorded over MLS in the past year expected to give rise to a mix of industrial, warehousing, and retail establishments. Land assembly for residential development has slowed, although a number of major projects continue to make their way through the process. The most talked about is Glencrest, which involves over 2,200 acres of land that will result in a mixed-use community combining commercial, industrial, retail, single-family residential, condominiums, and assisted-living spaces. All in all, most investors continue to have an eye to the future, and quality land in areas prime for expansion will be snapped up. The market for multi-unit residential is exceedingly tight, with very little available for sale. Supply has been exacerbated by the trend toward condo conversion. While some smaller investors have looked to individual condo units, many have pulled back over concerns that the market is approaching saturation. On the whole, the momentum that exists in St. John's is expected to continue, especially in light of the positive economic outlook for the city and the province.

COMMERCIAL INVESTOR 2013

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