COMMERCIAL INVESTOR
2012

NOVA SCOTIA

News of the $25 billion shipbuilding contract awarded to the Halifax Shipyard late last year kickstarted virtually every segment of the commercial real estate market in the Halifax Regional Municipality. According to the Nova Soctia Association of Realtors (NSAR), commercial/multi-unit sales rose from 119 units in the first six months of 2011 to 162 units during the same period in 2012, representing an increase of 73.5 per cent. Dollar volume rose close to 62 per cent between January and June 2012, compared to the same period one year earlier, climbing from $30,618,618 to $49,522,700. While NSAR captures just 20 per cent of commercial transactions, the trend is indicative of overall market activity. Institutional investors have been most active over the past six months, driving demand for prime commercial, industrial, and office product throughout Halifax, Dartmouth, and surrounding areas. Private equity has also had an impact, with demand for properties greatest in the $350,000 to $500,000 price range. Some foreign investment in terms of large multi-unit residential development has been noted, but it represents a small percentage of the overall marketplace. A good selection of commercial product was available throughout much of the first half of 2012, with multi-unit residential most sought after. Stronger than usual demand put serious upward pressure on the pricing of duplex, triplex, and fourplex properties in the months following the announcement, with multiple offers pushing average values from $350,000 prior to the contract, to closer to $380,000 to $390,000 by mid-year. Attractive cap rates, ranging from 5.7 to 6.5 per cent on multi-unit residential, 7 to 7.5 per cent per cent on retail, and 6.75 to 7.5 per cent on offices, were also responsible for the uptick. Positive economic news, with Shell announcing a $1 billion investment in exploration for hydro-carbons off the coast of Nova Scotia, and Encana's Deep Panuke project—valued at close to $1 billion and set to move from construction to production—showcase the overall stability of the region. More than 130 major projects are underway in Nova Scotia, worth an estimated $32.7 billion, 75 of which are located within Halifax. Several significant sales have taken place since the be-

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ginning of the year, including two buildings that recently sold for $24.7 million. Numerous cranes dot the city's skyline, with the first major downtown office construction in 22 years underway with the ground-breaking for the Waterside Project. The Nova Centre (convention centre) has been approved by council and plans are underway to begin the TD building expansion sometime this year. Given the heated pace earlier in the year, inventory levels have drastically declined, with shortages now reported in every segment of commercial real estate. In spite of an influx of new listings with the advent of the traditional fall market, supply is expected to fall short of demand. A tighter market will emerge in the second half of 2012, characterized by consistent demand and limited supply for all commercial product. Prices are likely to climb, posting year-over-year gains of between five and 10 per cent, across the board. The enthusiasm evident today is expected to spill over into 2013, making the commercial real estate market in Halifax-Dartmouth one of the most vibrant in the country.

ONTARIO

London – St. Thomas

London's commercial market has held up relatively well through the first half of 2012, despite a challenging climate. The London-St. Thomas real estate board recorded 114 commercial transactions (including leasing and sales) in the first half of the year, compared to 120 during the same year-ago period. While capturing a portion of overall transactions, the stats are indicative of the overall trend, pointing to a stable market performing virtually on par with 2011 levels. London's economic climate, while increasingly diverse, has been impacted by the automotive and manufacturing sectors—both heavily influenced by the strong Canadian dollar. Job losses and a higher-than-average unemployment rate have factored into softened demand for office and industrial space, and a surplus of product has pulled down overall commercial performance. Yet, some high-powered, sophisticated buyers, with strong and diverse portfolios are snapping up large buildings. While the investment may not prove profitable for the average purchaser, economies of scale are allowing them to make a solid long-term investment at a good price. Tenants have been negotiating lower lease rates, but the office market is expected to level out, as most major re-negotiations have already taken place. Industrial space, too, is stabilizing, with better absorption of small-to-medium spaces. Dancor has been introducing large industrial buildings to the market, with various-sized units located within experiencing solid demand. In general, the greatest oversupply exists in large industrial space, given major closings such as the Ford plant—creating vacancies that can take years to fill. Other areas of the market continue to rattle and hum—most notably the new retail and multi-unit residential sectors. While the downtown and more established retail areas have remained relatively stable, strong demand exists in the city's new growth suburban markets. Big-box retailers and major chains are competing for space, while smaller chains and businesses vie for buildings/units as close as possible to the city's newer residential communities. The trend is reflected in retail lease rates as well, which have increased for newer, suburban product and have remained relatively flat or fallen slightly for older locations. Moving forward, London's older retail stock will move into a corrective phase, with many leases set to be renegotiated, while demand in the growth areas will remain vibrant. Owners/landlords are expected to hang in for the long-term, given the promised trend toward renewal in the city's core. Among the first to get in on the ground floor are owner-occupiers—including small business owners and entrepreneurs—who have demonstrated a preference for retail space in London's downtown area. The city's retail vacancy rate hovers around seven per cent. The investment side of the market continues to show good momentum, with a healthy buyer pool for properties that offer good cash flow. While cap rates have been coming down, the relative picture in terms of what alternate investments are producing continues to make London's commercial market a reasonable—even attractive—option. In fact, in some areas of retail and in the multi-family sector, multiple offers have been recorded on product offering cap rates between six and 10 per cent. Limited supply is the greatest factor, pushing up prices for sought-after product. In sectors

where rents are on the rise, few owners are willing to give up product unless buyers are willing to pay a premium. Many investors are banking on the city's future, and are content to outlay a fair price for a promising long-term hold. That type of confidence was best demonstrated by a $200 million transaction recorded just 18 months ago, when a large apartment complex was sold to a well-known REIT. The risk-return profile on the multi-family side remains positive, particularly given that the city has seen very little new rental construction in the last decade. As a university/college town, it's estimated that upwards of 15 per cent of the city's population can be attributed to the University of Western Ontario and Fanshawe College. With both these educational institutions undergoing expansion, London's commercial market will continue to benefit. Re-development and revitalization continue to impact the market—a trend started with the John Labatt Centre almost 10 years ago. Plenty of properties are being re-purposed or renovated, which has created a positive climate for growth in mixed-use product. Infill is occurring—land is at a premium—and builders have been encouraged by

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the lack of development charges in the downtown core. As a result, the higher-density and mixed-use residential models have slowly gained traction, which is now (slowly) starting to kickstart retail interest in the downtown core. Residential development land is exceedingly scarce in London, with much of the remaining acreage owned and controlled by a handful of major players—and few are willing to part with it, unless the price and project is right. What does become available is eagerly snapped up, despite the sticker price. As a result of the scarcity, some investors have set their sights on local farmland, as commodity values drive prices to record heights. Overall, the consumer base in London's commercial real estate market is becoming more diverse, with a mix of large players and smaller investors, as well as a small, but increasing foreign presence that is bringing in resources from overseas. The market is driven by local buyers, spurred by low interest rates and what they perceive as opportunity in the marketplace. While less heated than other large Canadian centres, London's commercial market is expected to hold steady in the coming months.

Greater Toronto Area

The commercial real estate sector continues to fire on all cylinders in the Greater Toronto Area, with investor enthusiasm propelling sales and development in all segments of the market. According to statistics from RealNet Canada, 955 asset sales greater than $1 million took place in Toronto during the first half of 2012, bringing the year-to-date investment volume to $5.9 billion. It further reported that "momentum is at a near-record level, with sustained strength evident over the past several quarters." While the pace is the strongest it's been in years, the rate of land accumulation in the core for condominium development has slowed as investors react to rising prices. Valuations have come down as a result, and are now more in line with market realities. Land development continues in the 905 area at a heated pace, with Brampton and Markham dominating the suburban markets in the both the commercial and residential segments. Overall, the Greater Toronto Area's future growth is decidedly "upward," with a focus on higher density. Despite strong price gains amid a considerable inventory crunch, serviceable land in close proximity to urban centres is coveted —even if it means paying a premium. Multiple offers are fairly common as a result. In the city's core, land redevelopment is gradually leading to the Manhattanization of Toronto, with condominiums sporting mixed-use retail and office space now the new standard. Many new projects throughout the city's hot pockets are advancing Toronto's image as a world-class metropolis, featuring a more upscale and modern flavour. While residential land assembly continues at slower pace, serious expansion is taking place in the city's business community in the form of retail space, office space, manufacturing, processing and production facilities, warehouses, distribution centres, hotels, restaurants and medical centres. Virtually every type of development imaginable is underway in Greater Toronto, as both investors and end-users seek out income and equity-building opportunities. Plexes, strip plazas and retail storefronts are particularly sought-after, especially among small investors who have gained a greater presence in the marketplace, diversifying the overall buyer pool. Their rising numbers are a result of the increased desire for tangible assets, against a backdrop of volatility in the stock/bonds markets and/or the lacklustre

performance of other potential investments. Ultimately, commercial activity is changing the face of Toronto, with retail and mixed use projects contributing to the city's ongoing evolution. Older buildings are being given a new lease on life—including some of the city's esteemed heritage properties —with product being renovated, retrofitted, restored or re-purposed. A prime example is the Market Street development by Woodcliffe Landmark Properties which mixed renovation, restoration and new building construction to transform the St. Lawrence Market neighbourhood into a trendy streetscape serving the needs of shoppers, foodies, pedestrians and architectural enthusiasts alike. One of the original buildings dated back to the 1880s. The location—once home to the famed Fish Market Restaurant—now stands as a testament to the success of urban revitalization. The momentum in retail sales and leasing continues unabated, with REITs, major investment firms and pension funds competing for premier product. Retailers themselves have also been driving sales—including international clients—focused on actively securing a position in the Toronto market as part of their overall urban retail strategy, with the realization that prices are only going up. Many are buying in now to avoid being priced out in the long run, and the actual property development is a secondary issue that can be addressed down the road. The demand for prime space is stronger than ever amid a climate of retail expansion. Major U.S. and foreign brands continue to make the foray, en masse, into the Canadian marketplace. The examples are almost too numerous to cite, but include Nordstrom, Ann Taylor, Kate Spade, TOPSHOP, Microsoft, Target, Marshalls, J. Crew, and a bevy of others. The flurry of activity—and its ensuing buzz—could prove more epic than the transformative debut of retail pioneer Walmart. The city's shopping centres are moving at near-light-speed to accommodate the growth, perhaps best illustrated by the $220 million expansion at Yorkdale, adding 145,000 sq. ft. to the already hulking facility. The Americanization of Canada's retail landscape will also see the introduction of giant U.S.-style outlet malls to the hot growth GTA suburbs—the crown jewel of which is probably Toronto Premium Outlets, located at Hwy. 401 and Trafalgar Rd. near Milton. The facility's first phase will accommodate more than 100 outlet stores spanning 360,000 sq. ft. These deals are just the tip of the iceberg however, with players such as RioCan, Calloway REIT, H&R, Boardwalk REIT, Dundee REIT, Oxford Properties, Allied Properties, and Cadillac Fairview—to name a few—continually diversifying their portfolios with substantial eight- and nine-figure transactions. Toronto's downtown retail market remains in tight supply, and there continues to be solid demand for prime locations such as Bloor Street, Yorkville Avenue, Yonge & Eglinton, Queen Street, etc. Toronto's mink mile—the stretch of Bloor St. between Yonge St. and Avenue Rd.—is highly coveted, with retail space exceedingly scarce. Because of the limited availability of top-quality retail space, the mindset is also changing, with retailers finally accepting the vertical concept—that retail spaces in the urban landscape will, out of necessity, be multi-level in design. Despite the heated activity, there are some concerns that retail investment may moderate moving forward due to a number of factors—including lower cap rates, higher prices, many retailers having already made their moves, and the possibility of lower retail spending, given the level of consumer debt and incomes that have not kept pace. However, that scenario has yet to come to fruition and the near-term forecast remains exceptionally healthy. Demand continues to outpace supply for quality Class-A office space in Toronto, with the downtown core's financial district and immediate periphery continuing to lead the charge. The financial services sector has been fuelling the central core, with expansions and relocations that reflect rising profits and, in the case of RBC, a desire to attract and retain leading talent to its ranks—something that proved challenging in the city's suburbs. The shift in some demand back to the core is reflected in contrasting vacancy rates, with downtown Toronto's vacancy rate running at less than half of the 905 municipalities, according to a report on economic indicators released by the City of Toronto. Yet, when it comes to the strength of the office sector, nothing underscores confidence like the record-breaking transaction by Dundee and H&R REITs who jointly acquired Toronto's Scotiabank Tower for $1.27 billion in May. Office buildings accounted for nearly half the GTA's commercial dollar volume during the first half of the year. New office development continues at a steady pace, with two major office towers expected to add close to four million sq. ft. of space to the market within two to four years. Meanwhile, positive absorption continues downtown, while suburban demand is more greatly focused in the west end. Prices will continue to trend upward, along with rents, as the

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limited supply on the Class-A side places pressure on alternative B and C product. The city's office market will remain robust well into 2013. Stability will characterize the city's industrial market into the new year, posting modest growth, with vacancy rates hovering near six per cent. Lease rates are expected to trend slightly downward, given an oversupply of smaller, industrial space, but solid demand exists for warehouses and distribution centres, in light of retail expansion. It's anticipated that global economic concerns and weakness south of the border may prove to be headwinds that could stymie overall development, as well as demand in the manufacturing end. In the more immediate future, recently introduced development charges in several regions throughout the GTA will do little to bolster the appeal of new product. While end-users are active, investor confidence is propping up the market. Undoubtedly the tightest segment of the GTA's commercial market is multi-unit residential, given a rental vacancy rate in the City of Toronto that hovers under two per cent. Virtually no new rental stock has been built in the city over the past 30 years, despite a steadily rising population, climbing house prices and higher immigration levels. In fact, the trend toward condominium conversions has actually removed existing stock from the mix. Conditions are ideal for investors, who are eagerly snapping up almost anything that comes to market, provided it is reasonably priced. Transactions include individual properties as small as a triplex to large blocks of units, ranging from several doors to more than a thousand. Price per door remains on an upward trajectory. New lending criteria in the residential sector will only serve as an enticement to multi-family investors, well aware of the fact that a new contingent of hopeful first-time buyers has been squeezed out of the running. On the whole, Greater Toronto's commercial market clearly continues to defy expectations. With solid fundamentals in place—including almost unparalleled demand—the market will remain poised for record annual investment volume heading into the second half, making further price growth a near-certainty.

Ottawa

Ottawa's commercial real estate market posted exceptionally solid activity in the first half of 2012, with prices on the upswing in every segment. Demand is outpacing supply for most types of product as purchasers look to assets that provide a good return on investment. The hottest segment of the market continues to be multi-family residential, with buyers snapping up listings as they become available. Inventory is a considerable challenge, and almost anything that is offered for sale in multi-family is moving fast. Purchasers are often found within a brokerage before the product ever makes it to the open market, and there are plenty waiting in the wings—not surprising, given Ottawa's lack of new rental construction over the past two decades. Cap rates in this segment now hover around five per cent, but have been trending lower. The industrial market has also been hampered by tight inventory and low vacancy rates. Demand, meanwhile, has been strong and steady, with an upswing in end-users. Buildings from 20,000 to 50,000 sq. ft. for small-scale manufacturing, typically selling at approximately $100 per sq. ft., are most sought after. Industrial and retail condominiums have been introduced to the market, selling for $150 to $175 per sq. ft. The concept has been well received, and demand exists if only more units were available, although a few leasing opportunities do occasionally arise. A shortage of industrial land for new construction is expected to keep prices in the industrial segment edging upward in the near-term, as supply remains short. The retail segment has been quite healthy, with strong demand for small plazas and shopping centres, up to 10 doors. Supply is an issue here as well. There is a solid contingent of owners and purchasers who covet this product for its income potential and good returns. Those who can secure the right property are investing in revitalization, which is pulling up the quality of product over time. There have been some instances of tear-down activity on strip malls—where the owners start fresh and rebuild—while other buildings have been completely re-purposed. Big-box stores are a growing phenomenon in the suburbs, with other retail tenants racing to secure locations in close proximity. The larger malls are always looking to expand or bring promising, new retail tenants into the mix. In fact, retail expansion and revitalization is a national trend occurring in several major markets, and Ottawa is no

exception. One of the largest projects underway is the $200 million expansion of the Bayshore Shopping Centre, which is slated to increase its footprint by 250,000 sq. ft. Meanwhile, new and existing retailers are fuelling growth with new openings, including the highly anticipated introduction of Nordstrom to Cadillac Fairview's Rideau Centre, and, at the other end of the spectrum, the introduction of U.S. giant, Target. The competition is fierce and has others scrambling to increase their presence. Stores like Walmart and Apple are introducing new stores to the marketplace. Rumour has it Holt Renfrew will be looking to expand or renovate to keep pace. There's no question that the retail segment is vibrant. Inventory remains adequate and the market is well balanced overall. Ottawa's office market is holding steady, despite fears that government cut backs would impact the demand for space in this segment. Lease rates are up year-over-year, but there could be room for negotiation if vacancies begin to rise in tandem with public sector layoffs. It's still early to gauge the full impact, but the resiliency thus far in Ottawa's office market has many believing that the effect will not be as considerable as anticipated. Demand for development land remains high, with purchasers seeking to buy any acreage serviceable within the next five to eight years. Urban land is commanding $130,000 to $140,000 an acre on average, but supply is very tight. Plenty of infill, revitalization and repurposing is occurring in the city. The move to density and mixed-use development has continued unabated, and Ottawa has emerged as a leading municipality in this regard. Those with an eye to future development have been enthusiastically snapping up farmland within close proximity to Ottawa's suburban areas. Farmland for this purpose is generally commanding $10,000 to $15,000 an acre and up to $50,000 to $60,000, depending on location. Investors remain active in all segments of the market, and most are experienced buyers. There has been a rise in the number of smaller investors looking to diversify, particularly as other assets have produced softer returns. Stability and income/profit potential are the primary drivers, but so too is the concept that the buyer has greater control over the investment. Most purchasers are locals, seeking out properties with a good income stream or Class-A tenants. Such properties are moving well, with some product selling in multiple-offer situations. Ottawa's commercial market is expected to maintain its momentum, provided the current economic picture holds steady. Consumer confidence remains buoyant. While some may be impacted by government cutbacks, the current health of the market suggests that for every buyer who bows out, another will gladly step up to the plate.

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MANITOBA

Demand for commercial real estate has been brisk in Winnipeg in 2012, with demand far outpacing supply in almost all segments. Low interest rates and equity gains of existing holdings have been strong drivers fuelling the market. National and U.S. retailers have been active, looking to secure prime locations in close proximity to new residential neighbourhoods, despite a sharp increase in retail rents over the past two years. Competition in the investment stream has been especially fierce, with product extremely limited. Multiple offers remain commonplace, with sought-after properties in the $1.5 million to $3 million range generating several bids if exposed to the open market. Multi-unit residential and large, quality retail properties —such as strip malls with an established anchor—are most coveted, along with multi-tenant industrial properties in the $7 million to $10 million range. Generally, properties with solid occupancies are drawing the greatest attention. Prices remain on the upswing, as increased demand has resulted in a major compression of cap rates and has influenced lease rates on renewal that investors are willing to accept. While there is a trend toward owner-occupied properties, the vast majority of buyers in today's market are seeking out more passive investments, chasing attractive income streams to add to their portfolios. Solid returns have stimulated ongoing demand, with many properties realizing double-digit equity gains year-over-year. Some have sold several times over the past two to three years and continue to set new benchmarks. The office market is the only segment that points toward some softening, given the large blocks of space coming on-stream that will take time to be absorbed, leading to a downward trending in net rental rates. Business relocation has favoured the suburbs—a fact that has impacted

the downtown core. In fact, the last time a high-rise office tower was built in the city, it took several buildings years to recover. The prohibitive cost of leasehold improvements involved in relocation is also holding some back from making their moves. Purchasers in the multi-unit residential segment are on a tear, acquiring properties for conversion to condominiums or rehabilitation. Despite Manitoba's tight rent controls, the appeal is considerable, especially in light of the city's rental vacancy rate—now hovering at a mere 0.5 per cent. The climate has also sparked a serious upswing in infill, with every piece of available vacant land or tear-down property being assembled for multi-unit residential infill projects. As a result, assembled land prices have escalated—now out of reach for some—as current owners take advantage of the opportunity. Lack of supply and falling cap rates throughout the passive income stream properties have driven more purchasers to consider multi-family than ever before. The price per door has risen exponentially. Multi-family sales represented more than 40 per cent of the $300 million in total investment sales in Winnipeg in 2011, and product is being snapped up as soon as it becomes available. Some have shied away in light of potential environmental concerns, although most are willing to look past the remediation costs once they are identified, given the strong climate that exists. A considerable amount of investment dollars are being funneled into revitalization, which is having a positive impact that radiates to all segments, including residential. Overall, very little inventory is hitting the open market for very long. Realtors typically have clients waiting in the wings for the right property to come on-stream, and they're willing to ante-up, although they can be discriminate. The buyer mix remains exceptionally diverse and includes everyone from the small, first-time investor to large investment trusts. A great deal of activity is originating from western markets, particularly Alberta or British Columbia as they search for attractive returns. The nominee program has prompted an increase in the investment dollars being redirected from foreign markets —not only in Winnipeg, but also in rural Manitoba—with those from Eastern Asia most prominent. Experienced buyers have re-entered the commercial market en masse and now dominate the landscape. Prices have not appeared to reach their peak, and as a result, the momentum is expected to continue unabated in the near-term. Slow growth in the United States and global economic concerns may see price growth moderate somewhat from the current pace, although given that Winnipeg remains undervalued in comparison to other major centres, the long-range outlook remains positive.

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SASKATCHEWAN

Immigration, in-migration and rising commodity values continue to drive demand for commercial real estate in resource-rich Saskatchewan to new levels. According to CLS (Commercial Listing Services) figures for Regina and the surrounding areas—which capture approximately 20 per cent of all activity—commercial sales are up 39 per cent in the first six months of 2012, compared to the same period one year ago, while dollar volume has climbed a significant 74 per cent to $45 million. The untold story is the overall number of transactions occurring in the marketplace that are not reported. Despite lower cap rates and tight inventory levels, the number of buyers waiting in the wings continues to grow. Demand for industrial land has been particularly brisk, with values climbing as a result of a shortage of available property. Just 18 months ago, an industrial acre could be purchased for $225,000 in the first phase of the city's Industrial Park. The same product in the second phase is expected to start at $400,000 an industrial acre. While the city is moving as fast as it can to accommodate rapid growth, difficulty in obtaining tenders for infrastructure has led to even greater pressure on pricing. Part of the problem is the massive commercial/residential undertaking of Harbour Landing has engaged many of the available trades. Another factor fuelling the market is historically low vacancy rates, which have propelled rental rates, particularly for industrial properties, from single- to double-digit per square foot territory. With rental rates at historical highs, many end-users are willing to pay a premium for product, with most purchasing buildings that are between 20 to 30 years old, at a price not far off from replacement value a few short years ago. Inventory remains a challenge as today's landlords capitalize on

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escalating rental rates and resist the urge to sell. Many multi-national companies/retailers that have moved into the area over the past five years are up for renewal in the days and months ahead and are likely to see a substantial upswing in rental rates. Yet, few options are available if they want to maintain a presence in Regina, given that vacancy rates are less than one per cent for most product, with multi-family residential especially tight at 0.5 per cent. The trend to convert rental accommodations to condominiums has all but stopped, with the city preventing conversions until residential vacancy rates rise above two per cent. With affordable housing a growing concern, the demand for multi-unit residential has surged, with values following in lockstep. In one sale alone, the cost per door almost doubled in a five-year period, rising from just over $60,000 to $115,000. While multi-unit residential has broad appeal, national REITs are particularly interested in this type of product, given the prospect of rental revenue over the long-term. Major construction projects—including a downtown office tower that is almost 100 per cent pre-leased and a second building—are underway. While the new space is expected to ease some of the pressure on office leasing in the core, the market has expanded to the airport area, close to the new transportation model. There are some office buildings on the city's perimeter but none in excess of 10,000 sq. ft. The cost of construction remains amongst the highest in the country given labour shortages, and the price per square foot can range from $150 to $200 on a 10,000 to 20,000 sq. ft. warehouse alone. Institutional investors have also been active in the market as of late, with REITs and pension funds vying for Regina's prime properties—malls, office buildings, etc. —with multi-tenant, multi-national firms. Smaller investors are also a force to be reckoned with, with many seeking smaller strip malls, multi-family apartment blocks—ideally priced under $2 million to $3 million—with good cap rates. The surge in activity over the past five years has driven up values to such a degree that the city is now competing with the rest of the country in terms of investment dollars. Foreign investors are now setting their sights on smaller markets in the province. European investors involved in land development have realized significant appreciation over the past five years. In the future, foreign investors will likely play a lesser role as prices rise and returns moderate. Clearly, the heated residential activity the market experienced three to four years ago has materialized in the city's commercial market with virtually all sectors firing on all cylinders. Credit risk management has taken on a whole new meaning in recent years and as such, many of the chartered banks have stepped back, allowing credit unions to excel as commercial lenders. Those who are credit-worthy will have no issues, but tighter lending criteria will impact some purchasers. The market has yet to react, because there is an abundance of credit-worthy buyers. If one purchaser doesn't buy, another is prepared to step in. Regina's commercial market will be characterized by strong demand and tight supply. Some cooling will occur, especially in the red-hot industrial segment as more product comes on-stream, forcing down monthly rental rates. Lease rates overall are expected to level. While the 100 to 200 per cent appreciation experienced over the past five years is unlikely to continue, consistent growth is expected to keep Regina at the forefront of commercial real estate.

ALBERTA

Edmonton

Edmonton's commercial real estate market continues to benefit from the province's solid economic footing and low unemployment rates. Business confidence has returned to post-recession levels, which is helping to bolster demand for office, commercial and retail space. As a result, vacancy rates are tightening across the board, particularly in the retail and multi-family segments which now hover around three per cent. The city—like most in Canada—experienced a significant pull-back in 2008/2009. A lot of that money is now coming off the sidelines in Edmonton, with purchasers actively seeking prime opportunities once again. Investors from within the province, as well as those from the Far East are particularly active, and all types of product are drawing interest—be it retail, industrial or commercial. One reason is the city's solid cap rates, which tend to be

higher than other areas of the country. In retail, the cap rate runs around seven per cent and often reaches 7.5 per cent in industrial. In areas outside of Edmonton, such as Fort Saskatchewan, Camrose and Redwater, cap rates can be as attractive as eight per cent. Raw land is becoming increasingly popular in and around the city and the major thoroughfares. The land development segment is on the upswing, with investors amassing for multi-family and industrial purposes. Some purchasers are owner-users looking to expand or relocate to Edmonton. Properties that are zoned and ready to go are highly sought after.

"The city—like most in Canada—experienced a significant pull-back in 2008/2009. A lot of that money is now coming off the sidelines in Edmonton, with purchasers actively seeking prime opportunities once again."

A great deal of demand is coming from oilfield-related companies and service providers, with many looking to expand into Edmonton's office and industrial areas. The office market is relatively stable, with the vacancy rate hovering in traditional territory, between nine and 10 per cent. The health of the office sector is quite remarkable given the flood of inventory it experienced post-recession—most of which has now been absorbed. The outlook going forward points to tighter conditions, particularly in the downtown core, where demand is currently concentrated. Few new office projects are being built and competition for quality space, along with rents, is expected to increase as a result. In the suburban areas, office vacancies are also contracting, as some purchasers are looking to alternate areas for value. Businesses tied to oil—refineries, upgraders, and production facilities—are also driving demand for industrial land in Edmonton's surrounding communities. Farmland has seen demand rise exponentially, in tandem with high commodity values and year-over-year double-digit price gains. Large multi-nationals have moved in to snap up inventory, but once again, supply remains an issue. Some bare land (for varying purposes), which couldn't sell from 2008 to 2010, is now often prompting multiple offers. The retail end is exceptionally strong in Edmonton, with businesses vying for quality space. Inventory is limited, given demand from U.S. retailers entering the Canadian market. At the larger malls, for example, some smaller businesses that have had a presence for years are having a hard time renewing their leases. As a result, there has been an increase in clients looking to buy retail buildings with an acre or two of land. There's also been a notable increase in owner-occupiers, who are often willing to pay a premium to secure the right property. The $900,000 to $1 million range (per acre of raw, serviced land) is very popular. In the retail, industrial and office sectors, anything that is priced between $2 million and $5 million and provides a seven to 7.5 per cent cap rate is drawing multiple offers. Residential construction has been positive, causing a ripple effect, which leads to greater commercial demand in Edmonton's growth communities. Sherwood Park—home to a future hospital—and St. Albert, both on the periphery of the downtown, are prime examples. These two communities have seen a spike in retail development to service the growing population. Multi-family residential is being snapped up, especially those buildings offering between 15 and 20 units. With a vacancy rate of 2.7 per cent, the price per door is now reaching upwards of $90,000 to $110,000. The age of the existing stock is holding some back, although experienced investors are less daunted and economies of scale are a definite factor easing the decision for some. The future of the city lies in mixed-use development, which is becoming ever more popular as the price of land increases and its availability diminishes. Rejuvenation and redevelopment of existing lands has been a concept that's been very well received. Land assembly is happening—primarily for retail and high-rise construction. It's particularly notable in East Downtown's Arena District. The $475 million arena project, if approved, is expected to break ground in the next two years, breathing new life into the community, and buyers are already keen on getting in on the action. Overall, Edmonton's commercial market is expected to remain vibrant in the months ahead. Concerns over the U.S. and global economies have prompted an increase in local and Canadian investors opting to park their money in safe assets closer to home, which will continue to bode well. Yet, Edmonton's long-term outlook will remain closely tied to the performance of the oil and gas sector, which tends to bolster or temper confidence.

Calgary

Vendors remain firmly in the driver's seat as Calgary's commercial real estate market exhibits strong momentum in the first half of 2012. Consumer confidence remains high, given the city's and province's solid economic footing, which continues to be bolstered by a robust oil sector. Most segments of the market are active, with the retail, office and investment components particularly busy. There has been a considerable uptick in U.S. retailers and national big-box chains setting up shop in the city, sparking serious competition among smaller retailers to secure good locations in close proximity to these anchors. The strong demand has some hoping to capitalize—Calgary's Chinook Centre, for example, has just applied for a land use amendment to expand its premises, combining a mix of residential, office and hotel space. The shopping centre is located in the heart of Calgary's commercial market—a location ideal for redevelopment and intensification. Investors from Ontario and Quebec have also been pursuing retail space with stable occupancies. As a result, prices have appreciated, while cap rates have been compressed. Still, rising rental rates and the income appeal continue to make this asset an attractive option. The office segment is also exceptionally healthy, with Calgary's downtown vacancy rate hovering around three per cent, while Class-A space is even tighter, running near one per cent. The strength has much to do with the active oil sands sector, which—with numerous projects on the go—is sparking an increase in demand for office and industrial space. While a growing number of organizations are establishing their corporate head offices in Calgary, many are opting to lease instead of buy in order to invest maximum capital in their operations. This suits investors just fine, as properties with solid long-term tenants command a premium. The downtown area and the beltline that immediately surrounds the city are most sought after. Conditions are expected to remain tight, with very few projects underway. While mixed-use development is a serious driver in the centre of the city, with Calgary bound and determined to increase density, the outlying areas have also seen commercial demand trend upward. Communities such as Airdrie, Okotoks, Strathmore and Cochrane have recorded a considerable rise in commercial, investment and industrial activity over the past several years due to lower land prices and lower taxes. Year-to-date 2012, the suburban office market has experienced a slight contraction in its vacancy rate. However, prices have appreciated more slowly on the periphery of Calgary because of a flood of office space that came on-stream almost a year ago. Looking forward, these areas may benefit in coming months, as there is a great deal of inventory under lease in the city that will face higher rental rates on renewal. This will cause some to look to more affordable B space within the city or consider the growing outlying communities. Demand for serviced city lots for residential development is exceptionally strong, although supply is limited. Meanwhile, developers, sensitive to the risk of oversupply, have shown a marked slowdown in the acquisition of land for condominium development. This is expected to be temporary, given that absorption rates on condominiums remains relatively healthy. Pent-up demand is evident in the multi-family residential sector—yet the expectations of vendors are getting 'lofty' in some instances, with prices posting significant double-digit gains. While these deals are becoming more difficult to broker, there are plenty of buyers willing to step in. Despite the climate—purchasers are vying for quality product in most segments and a great deal of product does not make it to the open market—multiple offers are not exceptionally common. Rather, the most sought-after properties are commanding top dollar and are moving quickly. Given the momentum and further room for price growth, Calgary's commercial market is expected to remain a frontrunner well into 2013.

"Pent-up demand is evident in the multi-family residential sector—yet the expectations of vendors are getting 'lofty' in some instances, with prices posting significant double-digit gains."

BRITISH COLUMBIA

Greater Vancouver

Demand for commercial real estate in the Greater Vancouver area remains strong, with both sales and dollar volume up over last year's levels. Nine hundred and fifty-five commercial properties, including commercial, industrial, multi-family and vacant land, changed hands between January 1 and June 30, 2012, up from 941 sales during the same period one year earlier. Dollar volume was up close to 24 per cent, rising from just over $2.2 billion to more than $2.7 billion year over year. The Commercial Edge figures, reporting closed deals, covers Abbotsford, Burnaby, Coquitlam, Delta, Langley, Maple Ridge, Mission, New Westminster, North Vancouver, Port Coquitlam, Port Moody, Richmond, Surrey, Vancouver, West Vancouver and White Rock. Vacant land was the top performer in the Greater Vancouver area, with sales well ahead of year-ago levels. Three hundred and nineteen properties sold in the first six months of the year, up from 242 during the first six months of 2011, as developers vied for prime product. Limited land mass and three major boundaries—the ocean, the border, and the mountains—will continue to buoy commercial values. Demand is expected to climb for re-development properties, with existing stock most coveted. Free-standing buildings in all asset classes are in high demand, yet limited supply has pushed values up in recent years. Revitalization is occurring at a steady clip, with suburban shopping centres and strip malls converted to higher-density, mixed-use or residential use. Downtown South is a prime example of the gentrification underway in the city, particularly near Burrard St. and Davie St. and Hornby St. and Davie St. Developments such as the Maddox, Salt, Bonds Group development, The West Bank project, the Amacon Modern building and the Pattison/Reliance Burrard Gateway project are transforming the tired neighbourhood into one of Vancouver's up-and-coming areas. The Brewery District in New Westminster is another example of an award-winning development that has breathed new life into an older community. The nine-acre master-planned, sustainable, work/live/play project includes retail, general and governmental offices, health services, residences including apartments, lofts, and live/work space (500 to 750 units), and amenities such as parks, plazas, and view decks. Transit is a key component of the overall strategy, and new commercial/retail/residential development is now occurring all along the rapid transit line. Commercial activity in the core remains strong, with low vacancy rates in office space, especially in AAA buildings. Industrial inventory has increased year-over-year, and some excellent opportunities exist for investors as a result. Demand is expected to build for downtown retail after a somewhat sluggish period. Greater Vancouver will see prices hold fairly steady—demand is well distributed amongst the asset classes. Triple A locations and properties will continue to command top dollar, best illustrated by the recent sale of the 3100 block of Edgemont Blvd. in North Vancouver which had a cap rate of under four per cent. Multi-unit residential buildings are trading at all-time low cap rates because of the inflationary equity growth experienced in the past 10 years. Demand remains high for

> **"Low interest rates should continue to spur higher prices but local and foreign purchasers from Hong Kong, Mainland China, Iran, Korea, Europe and the U.S. cannot be deterred."**

A-grade, well-maintained and well-located multi-family buildings. Low interest rates should continue to spur higher prices but local and foreign purchasers from Hong Kong, Mainland China, Iran, Korea, Europe and the U.S. cannot be deterred. Real estate continues to be one of the best investment vehicles in uncertain times, and given volatility in the stock markets, the allure of commercial assets is hard to resist.

COMMERCIAL INVESTOR

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