COMMERCIAL INVESTOR

REPORT 2014

RE/MAX COMMERCIAL

NATIONAL SUMMARY

Tighter lending criteria have impacted the commercial real estate market across Canada. While few deals are lost as a result, there is an increased burden to buyers, who must now be prepared to make a larger down payment.

Demand varies across the markets by building class and subcategory of real estate. The majority of the major markets are showing a trend in high demand, many of which do not have enough supply to support the rise in desire for commercial real estate.

In Greater Vancouver, momentum has remained in an upswing throughout the years, countered by a low inventory. The rise in commercial real estate activity has paralleled a strong economic growth of the area, with foreign investment driving the current sector.

In a heavily resource-driven Alberta, a high growth rate of the economy has contributed to the current market. Real GDP could grow to 3.6 per cent in 2014, significantly exceeding the national average of 2.7 per cent. The recent drop in oil prices may influence the market in months to come.

Calgary's lack of inventory can be attributed to rising values, thereby increasing the demand for commercial real estate. In Edmonton, however, the market has seen a sustained period of exceptionally low vacancy rates, creating a hospitable environment for real estate investment.

In a rare situation, Regina's commercial lease and sale markets are sitting at opposite ends of the spectrum. To date, 2014 has shown a limited supply across the purchasing market, while there is a high demand for rental property. The construction of more than 1,000 new doors between 2013 and 2015 will also increase vacancy.

With one of the highest employment rates in the country, Saskatoon is experiencing a period of unprecedented growth. Office vacancies have risen slightly in Class B buildings at 6.2 per cent, while Class A buildings are still showing the lowest vacancy at 3.8 per cent. The city's growing population is driving an increase in business investment, where local and national investors are acquiring investments in the $2 million - $5 million range.

Moving east, Winnipeg's demand for commercial real estate remains stable, with a limited supply of products in all segments. For intention of holding, rehabilitation or conversion to condominiums, the market for multi-unit residential is extremely competitive. Many of these properties have been in the 10,000-square-foot range, and have been purchased for around $100 per square foot.

Higher commercial lease and sale prices across the Greater Toronto Area are a result of attractive interest rates. Driven by a combination of low interest rates and a low Canadian dollar, there is a strong demand for commercial properties. Commercial lease rates have reached $19.01 per square foot net in Q3 of this year, up from $16.79 in 2013's third quarter.

GREATER VANCOUVER

Commercial real estate activity continued to rise throughout 2014, trending to a stronger market as economic growth continues

Momentum has remained constant year-over-year as low interest rates prevail but market supply has decreased

Greater Vancouver is trending to a stronger market as the economy grows from increased job creation and housing. Investor demand for commercial real estate remains strong in 2014, while a lack of overall supply is creating tight competition for well-located real estate. Land sales helped boost the commercial sector for most of the first half of the year.

During the first two quarters of 2014 there were nearly 900 commercial real estate sales in the region, marking a 4.5 per cent increase over the same period in 2013. Just under half of these commercial transactions took place in Q2, which is a 7.3 per cent decline over the second quarter last year. In the second quarter of 2014, the total dollar value of commercial sales in the region was $1.1 billion: A 15.1 per cent decline over the second quarter of 2013. The Real Estate Board of Greater Vancouver notes this as the lowest quarterly dollar value for the region since the beginning of 2013.

Momentum has remained constant year-over-year as low interest rates prevail but market supply has decreased, with 146 office and retail sales in the region in Q2 2014, a 10.4 per cent decline from the 163 office and retail sales in Q2 2013. The dollar value of these sales in Q2 of 2014 was $287 million, down by 23.3 per cent over same period last year.

Population growth, immigration, the availability of capital from institutional, foreign and local investors, and the low cost of borrowing is contributing to demand for commercial real estate that is significantly exceeding supply and driving property values up generally over all market segments. High housing demand is driving land sales, keeping town home and single family land at a premium price.

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Tighter lending criteria from banks has had minimal impact on the commercial market and foreign investment is increasingly driving the sector, both in Downtown Vancouver and in the suburban areas. Foreigners are increasingly choosing Canada as a safe place to invest money and placing high value in the Lower Mainland's real estate.

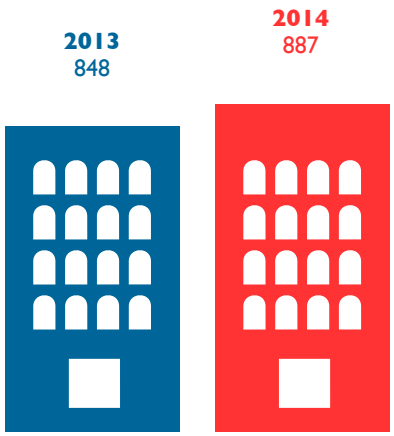
There is little opportunity in Greater Vancouver for user-owned retail space. Demand for storefront retail, mostly controlled by landlords, has been weak as small business looks to anchored shopping centres to generate traffic. Consequently, vacancy rates are up and lease rates are down for street front retail in B and C class locations.

Vacancy rates for offices in Downtown Vancouver will continue to rise with new product in the market and limited absorption from new tenants entering the market.

The greatest demand for any property type is that with re-development potential. Increasingly, investors are turning to smaller commercial real estate to be accumulated for future residential mixed-use development as city planners try to integrate living and working environments and maximize density. Downtown South continues to gentrify, as does False Creek in Vancouver, with municipalities of Surrey, Langley, Richmond and Coquitlam seeing the busiest commercial re-development.

Baby boomers will have an impact on the commercial market in the coming years as they near retirement and consider selling their businesses and properties. Demand for quality commercial real estate is so strong that pricing is anticipated to keep increasing for apartments, land and quality investment grade properties. Increasing development costs and municipal requirements could, however, impact the price of land as developers face pressure to meet increasing municipal development charges and requirements affecting development yield.

TOTAL SALES (Q1-Q2)



Source: Real Estate Board of Greater Vancouver