COMMERCIAL INVESTOR

REPORT 2017

WESTERN CANADA EDITION

RE/MAX COMMERCIAL®

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RE/MAX COMMERCIAL

EXECUTIVE SUMMARY

Both Calgary and Edmonton saw strong year-over-year increases in total dollar value of commercial property sales during the first half of 2017 as a result of the ongoing stabilization of the oil sector. In contrast, total dollar value of commercial real estate sales in Greater Vancouver declined by 37.5 per cent during the second quarter, indicating a return to market activity levels seen prior to 2016, which was a year of record-setting activity. Winnipeg's commercial market remained strong with high demand across almost all property types, while Regina and Saskatoon slowed due to the ongoing downturn in the commodity sector.

With the worst of Alberta's recession appearing to be over, the province's two largest markets have seen strong commercial property investment in 2017. The total dollar value of commercial real estate sales in Calgary in the first half of the year was $1.43 billion, an increase of 55 per cent over the $932 million total in the first half of 2016. Alberta's capital city also saw significant year-over-year growth in total sales value for commercial properties of 39 per cent, topping $1 billion at the mid-year point for the first time in three years.

In contrast to growth in Alberta, Greater Vancouver's commercial property market slowed during the first half of 2017 after significant total dollar value and activity increases during the same period in 2016. There were 595 commercial property sales in the second quarter of 2017, compared with 875 sales during the same period last year. The slowdown in activity is due to a lack of supply across the market, limiting opportunities for investors. New development projects around the waterfront and BC Place are anticipated to alleviate some of the pent-up demand in Greater Vancouver in the coming years. Demand continues to be primarily driven by local investors, but there is also strong interest from offshore buyers from Europe, Asia and the United States.

Virtually all commercial property types in Winnipeg are in high demand and investors view properties with passive income streams as most desirable. Continued low interest rates have fueled demand, and recent rate hikes from the Bank of Canada are unlikely to slow activity in the market as rates remain relatively low. Overall, the outlook for Winnipeg's commercial property market for the remainder of 2017 and 2018 is positive, with strong anticipated demand moving forward.

Similarly, there is optimism in Regina and Saskatoon's commercial markets despite slowed activity in 2017 due to the prolonged effects of the downturn of Saskatchewan's resource sector. The positive outlook for 2018 is fueled by the stabilization of the oil sector and the potash industry showing signs of growth over the last few months combined with a variety of development projects currently underway in both cities.

GREATER VANCOUVER

After record high activity in Greater Vancouver's commercial property market in 2016, the market has slowed slightly this year due to a lack of supply across the region. There were 595 commercial property sales in the second quarter of 2017, compared with 875 sales during the same period last year. The total dollar value of commercial real estate sales in Greater Vancouver in Q2 of 2017 was $2.89 billion, a decrease of 37.5 per cent from $4.62 billion in Q2 of 2016.

Overall, the market is primarily driven by local investors, but there continues to be strong interest from offshore buyers from Europe, Asia and the United States. Vacant land remains a rare and highly sought asset in Greater Vancouver's commercial real estate market. The total dollar value of land sales during the second quarter of 2017 declined 29 per cent to $1.51 billion compared to $2.12 billion during the same period in 2016.

The absorption rate for new office product remains high in the region and leasing activity for office space in Vancouver's downtown core has been brisk, with the vacancy rate sitting at approximately 6.7 per cent for A-class office space. The industrial sector has also experienced strong absorption, with over 700,000 square feet absorbed during Q2 2017, compared to just under 650,000 square feet absorbed during the second quarter of 2016.

Significant growth in Vancouver's tech sector has led to increased demand for both office space and industrial space throughout the region. In early October, online retailing giant Amazon leased 76,000 square feet of space from New York-based shared working space provider, WeWork, significantly lowering multi-floor opportunities in the city. At the same time, increasing numbers of students attending post-secondary institutions in Greater Vancouver have also led to continued high demand for additional school infrastructure space.

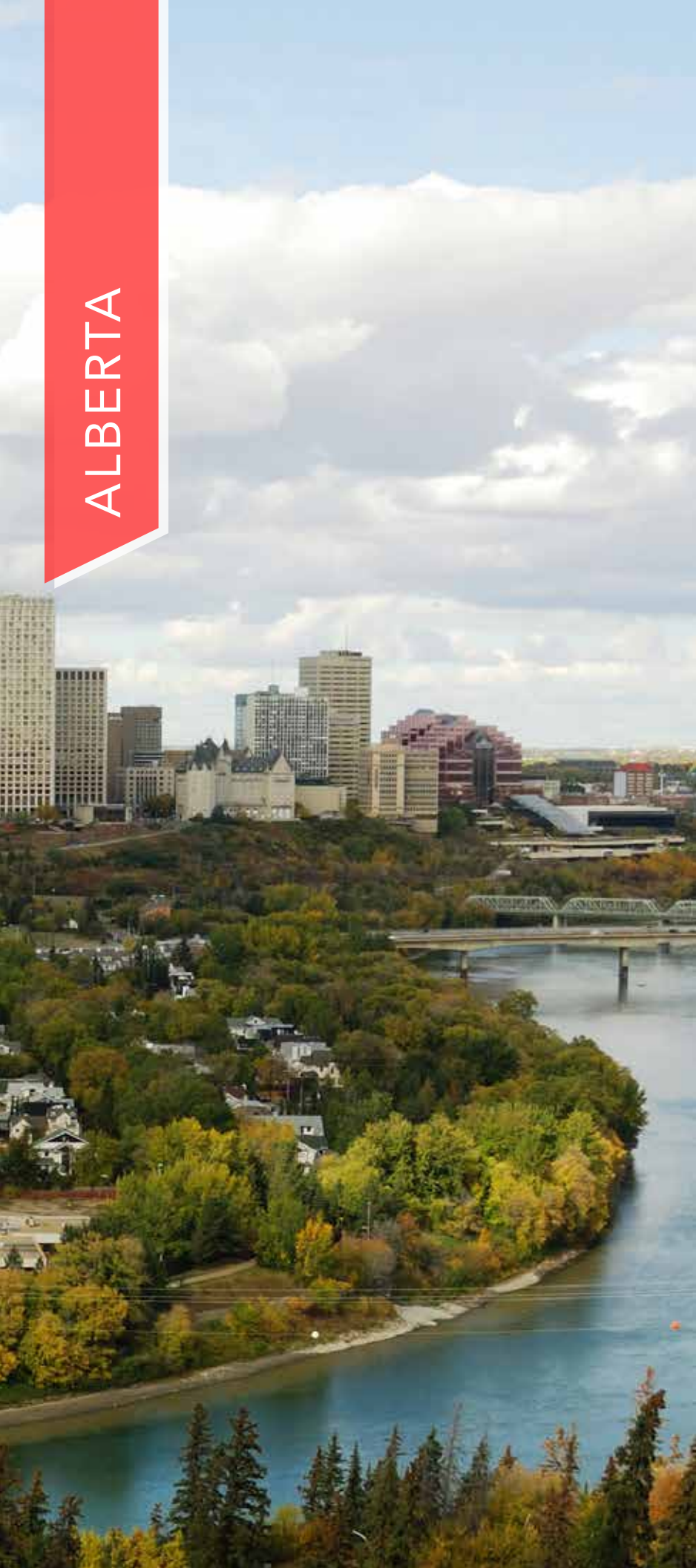
"The market is primarily driven by local investors, but there continues to be strong interest from offshore buyers from Europe, Asia and the United States."

New development projects, particularly around the waterfront and BC Place are anticipated to alleviate some of the pent up demand in the market in the coming years. The proposed 30-storey Bosa Waterfront Centre will feature 355,000 square feet of office space, while additional office towers are planned for sites on West Pender, West Hastings and Melville streets.

Public transportation expansion projects have led to increased demand for land outside of Vancouver's downtown core. Two such projects are the recently completed 10.9 kilometre Evergreen Extension to the Sky Train, connecting Burnaby to Coquitlam, and the proposed 27 kilometre light rail transit expansion between Surrey and Langley City. With tight inventory for vacant land throughout the region, land along transit lines is in high demand in Greater Vancouver and these expansion projects are expected to increase the value of agricultural, commercial and industrial properties along the new routes.

Recent interest rate increases by the Bank of Canada have not had a significant impact on the market to-date, as interest rates still remain relatively low. If the Bank of Canada continues to increase rates towards the end of 2017, prices for all commercial property types in Greater Vancouver may be impacted more significantly moving into 2018 and beyond.

Low supply and high demand are expected to continue to characterize the Greater Vancouver commercial property market throughout the remainder of 2017 and 2018.



EDMONTON

Numerous large property sales during the first two quarters of 2017 contributed to a 39 per cent increase in total sales value for commercial properties year-over-year in Edmonton. The total sales value for commercial properties topped $1 billion at the mid-year point for the first time in three years in the city.

Private investors are the most active buyers in Edmonton's commercial property market, while institutional investors have focused primarily on core retail and industrial properties. The vacancy rate for retail properties is five per cent, while the vacancy rate for industrial properties currently sits at nearly eight per cent. Retail property sales in particular continue to show strong investor interest with a total sales value during the first two quarters of the year of $331,872,034, up from the $158,933,000 in sales during the same period in 2016. Many investors are also actively reviewing land positions, indicating expectations for growth across different market segments in the future.

Total sales volume for office buildings saw a significant increase of 202 per cent year-over-year during the first half of 2017 largely due to a five-building office building portfolio sale. The vacancy rate for office space remains higher, however, than other commercial property segments, sitting at approximately 17 per cent. This is largely due to 1.8 million square feet of new office inventory entering the market downtown, as well as the major provincial office relocation to a government owned campus on the southside of the city. Increased vacancy rates have led some office space property owners to sell existing assets. This in turn has led to increased opportunities for buyers looking to add to their investment portfolios.

As the price of oil continues to stabilize, albeit at a slow pace, Edmonton's commercial property market is expected to continue to slowly recover, leading to cautious optimism amongst investors. This optimism is also fueled

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by the approval of two crude export pipelines (Trans Mountain and Keystone XL), which have the potential to increase employment and significantly impact Alberta's capital region's economy overall.

Increased levels of activity in the energy, manufacturing and construction sectors, as well as the province's net gain of approximately 5,500 people from all sources of migration during the second quarter of 2017, and expected GDP growth of nearly two-and-a-half per cent for both this year and next, are all positive indicators of a healthy commercial property market heading into 2018.

ALBERTA

CALGARY

Calgary's commercial real estate market has started to stabilize throughout 2017 following the extended downturn of Alberta's oil sector. Many economists have signaled that the worst of the province's recession has passed, but most do not anticipate the oil sector to return to previously seen levels. As a result, the commercial market in the city has experienced strong activity in some asset classes, while others continue to struggle. The total dollar value of commercial real estate sales in Calgary in the first half of the year was $1.43 billion, an increase of 55 per cent over the $932 million total in the first half of 2016.

Vacancy rates for office space currently sit at around 30 per cent, a lasting impact of the downturn of the oil sector. As a result, at least two office buildings in the downtown core have applied to be rezoned as apartments and this is a trend that is expected to increase moving forward. Tech companies moving into the region have helped to back fill some of the vacant office units. One such company is Silicon Valley-based accelerator for startups RocketSpace, which is in the process of renovating 75,000 square feet of space in the former Encana Place building. Even with this activity, office space demand is not expected to reach previously seen levels for the foreseeable future.

Demand for industrial space remains fairly strong, with the vacancy rate between 10 and 11 per cent, compared to traditional levels of approximately six per cent. The retail property market is quite active, particularly in the Beltline region, which has benefitted positively from adjustments made by the municipal government to ease the ability to secure building permits combined with softened lease rates. As a result, the vacancy rate for retail properties across Calgary currently sits at approximately six per cent.

Other political factors have, however, motivated some commercial property owners to sell during the first half of 2017. In particular, the $20 per tonne carbon tax introduced at the start of 2017 by the Alberta provincial government led many owners to consider

"Foreign investor activity has increased during 2017, as the low Canadian dollar combined with lower prices than in previous years have presented good opportunities for these buyers."

selling due to increased property operating costs. Increased property taxes in 2017 have also motivated owners to sell, as smaller players are unable to keep pace with rising rates from the municipal government.

Foreign investor activity has increased in the city during 2017, as the low Canadian dollar combined with lower prices than in previous years have presented favourable opportunities for these buyers. Industrial properties tend to be the most sought after property type for offshore investors, who are typically based in the United States and Europe.

Calgary continues to be a shipping and distribution hub, and distribution space continues to perform well. A number of large players have moved into the city over the course of the last year or so, leasing upwards of 100,000 square feet for distribution purposes.

The Tsuut'ina Trail (formerly Southwest Calgary Ring Road) road construction project has led to optimism in Calgary's commercial real estate sector. Stretching between Glenmore Trail and Highway 22X, the 31-kilometre ring road will include 14 interchanges, 49 bridges and three river crossings. There is additional optimism over the potential for Amazon to choose the city as its location for its planned HQ2 (second headquarters), which would generate up to 50,000 jobs in the city.

Overall, the retail market is expected to remain stable heading into 2018, as is demand for industrial distribution properties. Demand for manufacturing centres is expected to decline and vacancy rates for office buildings are anticipated to remain high.

SASKATCHEWAN

SASKATOON

The commercial real estate sector in Saskatoon has experienced reduced activity in 2017, largely due to the prolonged downturn in the resource sector. Investors have primarily focused on apartment buildings, retail and hotel development in 2017 and the market continues to see interest from Real Estate Investment Trusts (REITs) looking for portfolio investments and larger assets. Demand for commercial properties continues to be driven by out-of-province and overseas investors, largely from China, incentivized by lower prices.

Saskatoon's hotel sector has seen unprecedented development since 2015 and despite growth in each of the last two years, new inventory continues to enter the market. Two major projects scheduled for completion in 2018 will see 200 rooms added to the over 900 rooms developed over the past three years and Alt Hotels has begun construction of its new facility as part of the River Landing project in Saskatoon's downtown core. This expansion has fueled tourism and attracted multiple conventions to the city recently.

The apartment sector continues to experience strong demand, with increased total sales volume compared to 2016. The residential market on the other hand, experienced declining sales from overbuilding, which directly affects lot sales. Major developers and the city have focused on completion of existing development of new subdivisions, such as Kensington, Brighton, Elk Point, and the Meadows.

Ongoing development of new neighbourhoods, coupled with low vacancy rates, continues to drive a strong retail sector in Saskatoon. There are several new projects underway, including centres by DREAM, and the 400,000 square foot Meadows Market centre, by Arbutus Properties. The city is also in the planning stage for a new suburban centre on the west side of Saskatoon. Rental rates for retail properties have remained stable, with suburban property rental rates ranging from $28- $35 per square foot, with growth in this segment of the market

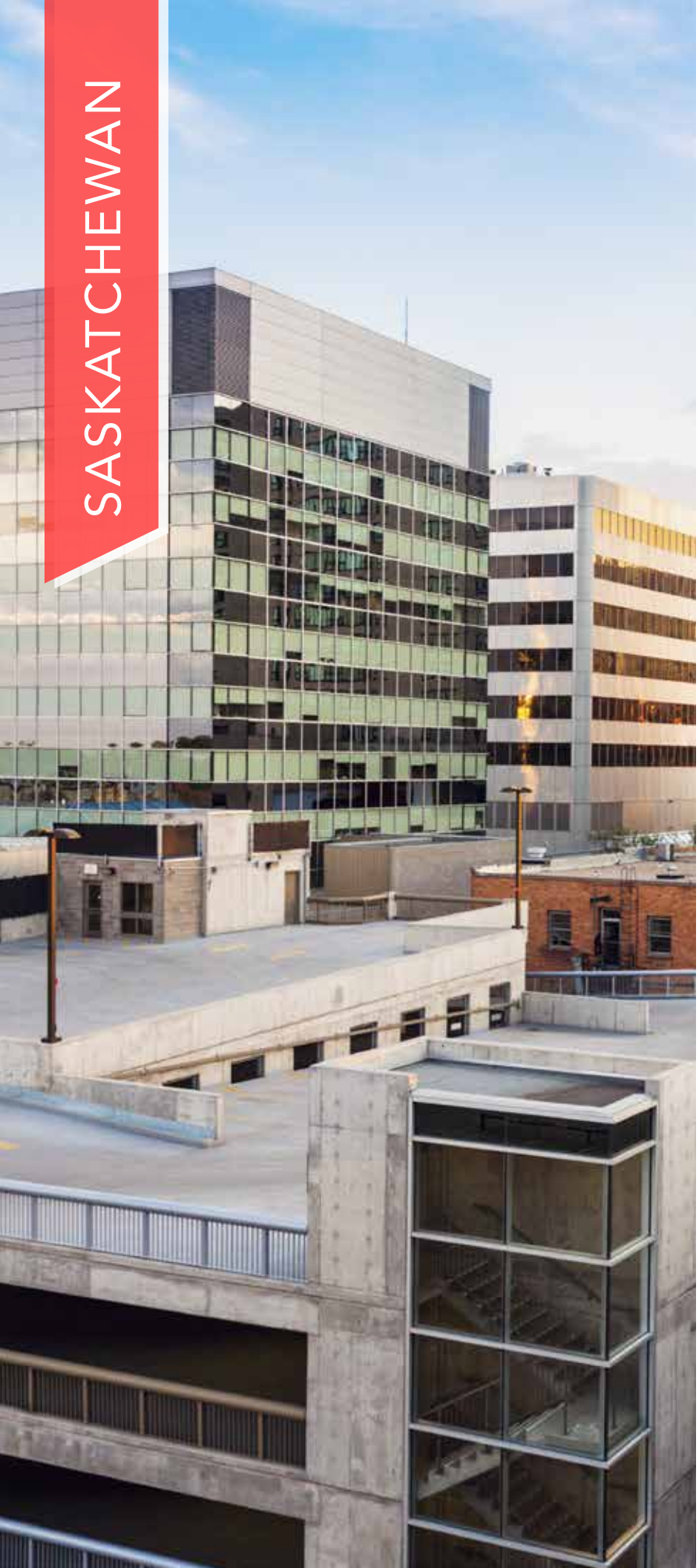
"The ongoing development of new neighbourhoods, coupled with low vacancy rates, continues to drive a strong retail property sector in Saskatoon."

putting downward pressure on downtown core rental rates.

Demand for office space continues to experience significant declines in 2017, with a vacancy rate at almost 20 per cent. Suburban office space has seen new development however, absorption is slow. Despite the lack of activity, two office projects are moving forward with construction. The first is the River Landing Towers development, which commenced in 2016 and will include two towers, 400,000 square feet of office space, a hotel, residential condominium tower, as well as various shops and restaurants. The second is the redevelopment of Saskatoon's former police station and construction of a $50 million office tower to be part of the World Trade Centers Association.

As a result of the downturn in the commodity sector, the industrial market has seen slow absorption and higher vacancy rates, leaving developers with significant levels of inventory. Vacancy rates could grow to over 10 per cent by the end of 2017. Additionally, land sales have declined and are expected to do so until there is a significant reduction in vacancy rates.

With the commodity sector slowly starting to recover and a variety of development projects currently underway, including the North Commuter Parkway and Traffic Bridge, the Remai Modern Art Gallery, River Landing Project and the new Children's hospital, there is a positive outlook for Saskatoon's economy generally. The Conference Board of Canada projects economic growth in the city of 3.6 per cent for 2017 and 2.8 per cent for 2018.



SASKATCHEWAN

REGINA

Regina's commercial real estate market has slowed in 2017 due to the continued downturn of Saskatchewan's commodity sector and government policy changes that have impacted development projects. The federal government's interest rate increase and implementation of a regulation that prohibits people from refinancing and taking equity out of their properties with insured mortgages, increased Provincial Sales Tax (PST) on construction and renovation projects, and rising city taxes have been among the top concerns for commercial property investors throughout 2017.

The vacancy rate for office buildings during the first two quarters of 2017 is down year-over-year by a modest amount compared to 2016 and currently sits at 12 per cent. Class- A office space average cost per square foot is between $20 to $24, while Class B through C buildings range from $10 to $18 per square foot.

Activity in Regina's industrial property market has declined year-over-year in 2017 and new build unit asking rates are down by as much as $.50 to $1.50 per square foot, while existing industrial space asking rates have declined by upwards of $2.00 per square foot. Most new builds are located outside the city centre, as many developers look to avoid the off-site levy fees and municipal taxes that have increased annually within the city limits. Regina's industrial vacancy rates are sitting at approximately six-and-a-half per cent, with newer units being absorbed at a slower rate than previous years.

Demand for apartment units continues to outstrip supply, as they are still considered to be a cash flow investment with equity gain potential and attractive for investors. Apartment blocks that are reasonably priced within the six to seven per cent cap rate range are selling quickly. The average price for apartment buildings with 12 units or more sits at $115,000 to $125,000 per door, with adjustments made for condition, rental rates and location. Vacancy rates for apartment

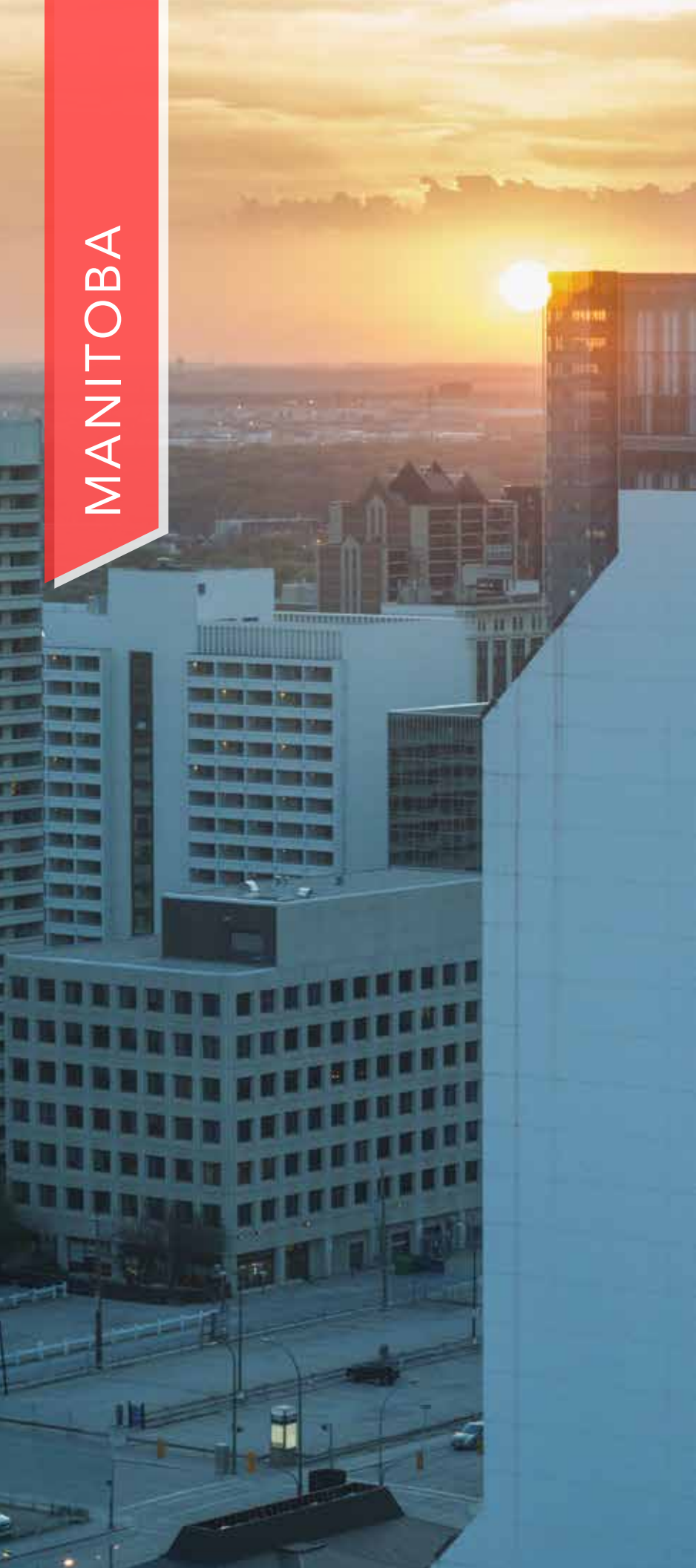
"Across the region there remain good opportunities for investors looking for properties that provide a steady passive income."

properties currently sit at five-and-a-half per cent.

The most active asset class in Regina's commercial market was retail space, with a four per cent vacancy rate. Both new and used developments continue to attract investors and renters alike. New development projects have been a driving force in this segment of the market, particularly the Acre 21 and the Aurora Retail Centre projects in the east, as well as the new Westerra subdivision in the west. The clearance of large retail spaces, such as furniture stores, Sears and Costco will contribute a large square footage of additional retail space to the market in the next year.

There is little supply of commercial land for sale within the city centre, driving most investors to create space from existing property by reworking the land or rezoning. Overall across the region, however, there remain good opportunities for investors looking for properties that provide a steady passive income.

The outlook for 2018 in Regina is optimistic, but will largely be dependent on the stabilization of commodity and resource prices. Provincial government policy around taxes and levees will also continue to play a large role in the direction of the commercial market in 2018 and will become a deciding factor regarding where commercial expansion in the region occurs in the years to come.



MANITOBA

WINNIPEG

Through the first two quarters of 2017, demand for commercial properties in Winnipeg has continued to outpace supply. Overall, sales were up in the first half of 2017 compared to 2016 as economic indicators suggest Winnipeg is a stable market that is well positioned for future growth. Virtually all commercial property types in Winnipeg are in high demand, with investors viewing properties with passive income streams as most desirable, while projects requiring a large influx of capital being passed on by some investors.

The high demand seen for commercial properties in the city has been primarily fueled by low interest rates, with the Bank of Canada's recent interest rate increases having little impact on Winnipeg's market. Continued relatively low rates, coupled with limited inventory levels have resulted in sellers realizing high returns, and in some cases seeing multiple offers and properties selling above asking price. The commercial market in Winnipeg is also seeing an increase in unsolicited offers as more buyers look for ways to enter this taut market.

Both experienced and new investors to commercial real estate are active in Winnipeg. The established buyers in the city are often looking to diversify their portfolios by refinancing their current properties in order to purchase new investments. Entry-level commercial buyers meanwhile are typically looking to purchase tenant – occupied buildings ranging from $1 to $1.5 million. Winnipeg is beginning to see increased foreign buyer activity, as well as higher levels of immigration through the Provincial Nominee Program. Many participants in this program are eager to build their investment portfolios and enter the commercial market.

The decline of Alberta's oil sector in the last few years has caused prospective buyers and developers to view Winnipeg's market as a more stable investment opportunity and resulted in contractors returning to the city, helping to keep construction pricing competitive.

"Virtually all commercial property types in Winnipeg are in high demand, with investors viewing properties with passive income streams as most desirable."

Proposed changes to the capital gains tax in 2018 by the federal government are creating some urgency among commercial property owners in Winnipeg, as they look to close their deals this year to avoid potentially higher fees in the future. The implementation of a municipal development fee on May 1, 2017 to focus on infill land and curb urban sprawl, is another policy change impacting commercial buyers, as developers are increasingly looking at communities outside city limits.

Vacancy rates in new and redeveloped buildings remain low, while only antiquated and functionally obsolete properties are seeing above average vacancy rates. There does continue to be interest from buyers in purchasing and redeveloping these obsolete properties at a discounted rate, however.

Until property owners begin selling their assets and exiting the market at higher prices it is expected that Winnipeg's commercial property market will see a decrease in current activity levels. With projected stable activity for the remainder of 2017 and into the new year, the outlook remains positive for Winnipeg's commercial property market for the foreseeable future.

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2017 RE/MAX COMMERCIAL INVESTOR REPORT:

The 2017 RE/MAX Commercial Investor Report includes data from local boards and brokerages. Brokers and agents are surveyed on trends, local development and features.

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