

National Post

Commercial real estate back in favour

Tue Nov 9 2010
Page: FP4
Section: Financial Post
Column: National Report
Source: Financial Post

Major players in commercial real estate say the market has hit bottom and they are preparing to add to their portfolios, according to Colliers International. Expecting a rebound over the next 12 months, eight in 10 Canadian respondents to a global survey of 200 major real estate investors with a combined portfolio of \$710-billion said they expect to expand or rebalance their portfolios. Colliers, a global real estate services company, said Canadian players see good opportunities investing at home, with Toronto at the top of their list and 26% of investors listing it as their preferred investment destination. It was followed by Vancouver (18%), Calgary (14%), Ottawa (9%) and Montreal (7%). Canadians also see opportunities abroad.

Calgary Herald

Industrial land sales gain steam

Tue Nov 9 2010
Page: D3
Section: Calgary Business
Source: Calgary Herald

Buyers are still cautious for Calgary and area industrial land sales this year, but interest is beginning to pick up.

So far this year 53.4 hectares of industrial land have sold in the Calgary area for a total of \$70.8 million.

Last year, virtually the same amount of land sold for \$59.7 million.

"It's still cautious, I guess, but there is activity. There's people looking and there are deals happening," said Luke Stiles, partner and associate with Advent Commercial Real Estate Group in Calgary.

"It's positive. People aren't waiting anymore. They're really looking at the numbers hard and they're trying to get a good deal going and they want to proceed. And we're hearing that."

A report by Advent said 31.2 hectares of fully serviced industrial land has sold this year for \$50.1 million or \$605,864 per acre inside the city limits.

The current vacancy rate in the industrial real estate market is 4.81 per cent in an inventory of close to 118.5 million square feet. In 2009, the vacancy rate was at 6.6 per cent.

Canada Newswire

RSA Canada Confirmed as Southcore Financial Centre's Newest Tenant

Tue Nov 9 2010, 8:30am ET
Dateline: TORONTO, Nov. 9

TORONTO, Nov. 9 /CNW/ - British Columbia Investment Management Corporation (bcIMC) announced today that RSA Canada has signed a long-term lease for 108,000 square feet of office space at 18 York Street, the first of two office towers at Southcore Financial Centre (SFC), a major mixed-use complex being built in Toronto's emerging southcore financial district.

RSA Canada joins PricewaterhouseCoopers, anchor tenant at 18 York Street which is scheduled for completion in the fall of 2011. The tower is now 78% leased.

"We are delighted to welcome RSA Canada to SFC and are pleased they have chosen our building for their corporate headquarters," said Chuck Swanson, Vice President, Real Estate, bcIMC. "The complex's unique location and connection to Union Station and the Metro Toronto Convention Centre makes SFC a leading new address for business."

Encompassing a full block in the southern part of downtown Toronto from York Street to Lower Simcoe Street, and within walking distance of King and Bay, SFC will include 18 York Street and two soon-to-be constructed buildings: the 30 storey, 700,000 sq. ft. Bremner Office Tower and a new generation, premium 4-star Delta Toronto hotel. SFC is targeting LEED Gold certification and is designed by the award-winning firm KPMB Architects.

RSA Canada, a leading property, automobile and commercial insurance group, expects to relocate to the new office in 2012. The relocation by RSA Canada moves the company's head office from 10 Wellington Street East.

"We are excited about moving our head office to 18 York Street," says Rowan Saunders, President and CEO of RSA Canada. "This move is good for our employees, strategic partners and the environment. Our relocation underscores RSA's progress, strength in the market and continued focus on corporate responsibility. As soon-to-be the fourth largest P&C insurer in Canada, it's imperative that we have a new location that can keep up with our growth and business needs while offering the best amenities to our people."

The project is being developed by GWL Realty Advisors Inc. with the ground breaking for the next phase scheduled later this year. The full block is scheduled for completion in 2014.

To learn more about Southcore Financial Centre, visit www.southcore.ca.

About bcIMC

bcIMC is an investment management corporation based in Victoria, British Columbia, and manages a global investment portfolio of \$80 billion. Supported by industry-leading expertise, bcIMC invests in all major asset classes, including infrastructure and other strategic types of assets. Its clients include public-sector pension plans, the Province of British Columbia, public trusts and insurance funds. For more information, visit www.bcimc.com.

About GWL Realty Advisors

GWL Realty Advisors Inc. is a leading real estate investment advisor providing comprehensive asset management, property management, development and specialized real estate advisory services to pension funds and institutional clients. For more information, visit www.gwlra.com.

© 2010 CNW Group Ltd.

Canada Newswire

Canadian commercial real estate investment market gains traction as year-to-date sales surpass 2009 totals

Tue Nov 9 2010, 9:00am ET
Dateline: TORONTO, Nov. 9

TORONTO, Nov. 9 /CNW/ - Due to a strong appetite for retail properties and an active real estate investment trust (REIT) sector, commercial real estate investment sales dollar volume in Canada has already exceeded its 2009 year-end total.

By the end of the third quarter of 2010, over \$12 billion in commercial real estate assets had changed hands - up 57% over the same nine-month period one year ago.

While retail has been the most sought-after property type among investors, Toronto has been the most active and Vancouver the most expensive market.

These are some of the key trends noted in an internal study recently completed by Avison Young. The quarterly Investment Market Monitor tracks office, industrial, retail, land, and multi-residential property sales transactions greater than \$1 million, as well as capitalization rates (cap rates) and spreads to 10-year Canada bonds.

"With the recent closing of the ING portfolio comprising some 400 industrial properties across the country and the Nortel campus in Ottawa, to name a few, we can expect overall investment volume in Canada to reach the \$16-billion range in 2010 - barring any deal closings being pushed into 2011," comments Bill Argeropoulos, Vice-President and Director of Research (Canada) for Avison Young.

"This is a significant improvement over the \$11 billion worth of investment sale transactions completed in 2009, but is still shy of the \$21 billion recorded in 2008 and the \$30 billion in properties that changed hands at the peak of the market in 2007."

According to the study, retail was not only the most actively-traded asset class in Canada in the first nine months of 2010, but it also posted the greatest improvement over the same period in 2009. In all, \$3.8 billion (+207%) worth of retail properties changed hands, capturing 31% of the overall investment dollar volume. Office (\$2.3 billion / +35% / 19% share), land (\$2.1 billion / +7% / 18% share) and industrial (\$2.0 billion / +31% / 17% share) trailed, while multi-residential finished at \$1.8 billion (+53%) and a 15% market share.

"Compared to last year, the results to date are a welcome sign that the commercial real estate investment market is gaining traction in Canada," continues Argeropoulos. "This upswing is attributed to a number of factors, including stable and improving market fundamentals, historically-low borrowing costs, high availability of debt, a narrowing bid-ask gap and the emergence of REITs

as active buyers."

Investors favoured Toronto over any other market as Canada's largest city recorded \$4.7 billion in commercial real estate sales, up 92% over the same nine-month period in 2009 - accounting for 39% of the total sales volume. Vancouver, at \$2.4 billion (+34%) was second, capturing 20% of the total investment volume. Montreal (\$1.8 billion / +56% / 15% share), Calgary (\$1.6 billion / +31% / 13% share) and Edmonton (\$1.0 billion / +56% / 8% share) followed, while Ottawa lagged behind. The nation's capital was the only market not to crack the \$1 billion mark, finishing with \$436 million (+22%) and a 4% market share.

"The uptick in sales volume and the increased competition for assets across the country have certainly placed downward pressure on cap rates, at least for well-leased, quality-grade properties in prime locations," says Argeropoulos.

The results show that, on a year-over-year basis, the national average cap rate for major property types has declined 50 basis points (bps) to 6.75% at the end of the third quarter of 2010, but is still approximately 80 bps above where it was when the market peaked in the summer/fall of 2007.

Overall, cap rates range from an average low of 5.97% for multi-residential properties to a high of 7.47% for multi-tenant industrial buildings. While multi-residential properties are viewed as the most expensive asset among investors, Vancouver is the highest-priced market in Canada with an overall average cap rate of 6.12%, which is poised to fall further.

"Given the increased bids for assets lately, coupled with historically low interest rates, ample liquidity and, more importantly, a steady flow of product to the market, we can expect further cap rate compression," notes Robin White, Avison Young's Executive Vice-President, Capital Markets Group.

"Cap rates may also be driven artificially lower out of pure frustration by those buyers who have been shut out and are eager to deploy their capital that has been sitting on the sidelines," adds Argeropoulos.

According to Avison Young Principal Michael Church in Ottawa, investment interest in the National Capital Region continues unabated. "Appetite for solid class A and B product continues to be very strong, with multiple bids being the norm rather than the exception. The entrance into the market by Public Works and Government Services Canada (PWGSC), with its acquisition of the former Nortel campus,

should spur interest in west-suburban properties by investors - when or if they are brought to market in the coming year."

In Montreal, "significant amounts of capital are looking for a place to go," notes Avison Young Principal Tom Godber. "With more product coming to market in the last quarter of 2010 than we have seen for several years, Montreal will remain frustrating for value buyers - but great for sellers."

Similarly, Avison Young Principal John Rosssays there is an abundance of capital in the Edmonton marketplace, with "good quality assets garnering interest from all investor classes, including private, pension, public and REIT players. Multiple bids are not at all uncommon across virtually every asset class."

Given the robust and sustained turnaround in the Calgary office leasing market, the investment market has followed suit in strong sales activity. "Although many industry people, other than Avison Young, anticipated a damaged Calgary marketplace in 2010 and onwards, the leasing challenges have not developed in any of the commercial markets, and as such, the investment market for all asset types is brisk and getting stronger," notes Avison Young Principal James Miller. "This fact is best articulated in highlighting Canada's largest single asset transaction of 2010, which will be Calgary's high-end regional Southcentre Mall at effectively just over \$460 million."

Meanwhile, in Vancouver, "the recent influx of foreign capital from Europe, the Far East and the Middle East, together with competition from local investor capital, has applied further pressure to already declining cap rates for the premier assets," says Avison Young Principal Mike Gill.

Founded in 1978, Avison Young is Canada's largest independently-owned commercial real estate services company and the only national, Canadian-owned, principal-managed real estate brokerage firm in the country. Headquartered in Toronto, Ontario and ranked among Canada's leading national commercial real estate organizations, Avison Young is a full-service commercial real estate company comprising more than 700 real estate professionals in 23 offices across Canada and in the U.S. The company provides value-added, client-centric investment sales, leasing, advisory, management, financing and mortgage placement services to owners and occupiers of office, retail, industrial and multi-residential properties.

Editors/Reporters

? Please click on link to view Canada Commercial Real Estate Investment Volume chart:

(www.avisonyoung.com)

© 2010 CNW Group Ltd.

The Globe and Mail

The incredible shrinking grocery store; New downtown outlets adopt smaller footprints as fewer people cook and aging customers tire of navigating huge locations

Tue Nov 9 2010
Page: B11
Section: Report on Business: Canadian
Byline: Rasha Mourtada

When it comes to grocery stores, size matters.

The big-box chains such as Wal-Mart, who have established themselves as competitive food retailers, aren't quite passé yet. But a new trend has emerged - driven on one end by aging customers who are downsizing and on the other by urbanites, often childless, who make cooking only an occasional habit.

What it's adding up to is a shift toward smaller stores, particularly in urban centres. Grocers are moving away from 100,000-square-foot monster spaces (which is where the average Wal-Mart or Highland Farms grocery stores sits) to stores in the 30,000- to 50,000-square-foot range, with boutique operators coming in at 15,000.

"We're seeing size come down a bit," says John Scott, head of the Canadian Federation of Independent Grocers. "The consumer doesn't want to feel like they're going up and down a football field," he adds, speaking specifically about baby boomers crossing the threshold into retirement.

Today's urban shoppers - whether they're 35 or 65 - are generally looking for two things in a grocery store: prepared food that tastes homemade and household staples such as paper towels and dishwashing detergent. They want a shopping experience that's more contained but still meets all their needs.

"These people don't want to make all their own meals, and they have small pantries, so they're not stocking up on food," says Mr. Scott.

"But they need to buy toilet paper, too. They just sure as hell aren't going to get into a car and go to a suburb to pick it up," he says.

"Big chains and independent stores are saying, 'How do I satisfy that demand?'" says Mr. Scott. "And so we're seeing combination stores with prepared foods and traditional shopping items."

Chains are recognizing that their future depends on smaller, better organized, better supplied stores, says consumer behaviour researcher Paco Underhill, who has been consulting on grocery store developments for some 25 years, including the newly opened Longo's flagship store in downtown Toronto.

Improved supply-chain management, he says, makes it possible for grocers to carry a wide range of

products - from pre-made lasagna to laundry soap - without using valuable retail space for storage.

The new Longo's flagship location, which opened its doors in the basement of the Maple Leaf Square office-residential-hotel complex to much fanfare in October, strikes the balance that urban consumers are demanding, says Mr. Scott. It offers a vast selection of prepared food as well as aisles well-stocked with household staples.

At 48,000 square feet it's much larger than Longo's Market stores, which target office workers on lunch breaks and busy commuters en route to their homes. But it's a far cry from a Loblaw's-run Real Canadian Superstore, which can be as large as 200,000 square feet.

Longo's satisfies customers' demands for prepared food with a stone oven churning out pizzas, a 40-item salad bar and a glass display case featuring about a dozen high-end, house-made dishes such as stuffed chicken breast and cranberry-studded rice. (Customers will find dozens more pre-packaged meals throughout the store.)

Grocers are dedicating more space to prepared food, says Mr. Underhill, not only in response to condo living but also as a direct result of the changing status of women.

Back in the 1930s, "I could have stopped a woman on a Tuesday and she'd know what she was feeding her kids for dinner on Thursday," says Mr. Underhill, author of the recently published consumer behaviour book *What Women Want: The Global Market Turns Female Friendly*. "Today, if I stop a woman she probably doesn't know what she's feeding her kids tonight."

The 70 per cent of women working outside the home in North America still need to feed their families, he says, and that's where stores like Longo's, with an emphasis on high quality prepared food, come in.

But simply packaging food made behind the scenes won't cut it in the increasingly competitive grocery space, says Mr. Underhill (Longo's set up shop within walking distance of Loblaw's and Sobeys stores).

"We're seeing these offerings as entertainment," he says, "meaning it's a sensual experience."

Which is why Longo's oven churns out pizzas in the middle of its store, easily visible to shoppers making

their way through the aisles.

And in the back of the store is an area known as the Loft, with a Starbucks, cooking class area and a fully functioning bar called Corks with a sizable seating area.

To make room for all that prepared food, grocers are shrinking space devoted to non-food items. Sales on such goods as laundry soap, storage bags and aluminum foil are falling by roughly 5 per cent a year, says Mr. Underhill.

"We've trained people to shop for these things in a wide cross-section of places, and mass merchant retailers are selling these at aggressive discounts."

On the flip side of all of this, Mr. Underhill sees suburban stores going in a different direction altogether.

"Globally we're seeing them trending toward customers e-mailing or calling in a shopping list and then picking it up at the door."

WHAT'S IN STORE

What grocery guru Paco Underhill expects to see in North American supermarkets:

Hybrid services

Think part traditional shopping, part Internet shopping. People will shorten trips by submitting shopping lists in advance and selecting only certain items - produce and meat, for instance - in person when they pick up their order.

Refillable containers

He expects a bulk shopping model - widespread today for dry goods - to take off for household supplies such as laundry soap, where shoppers will bring back large containers for refills.

Private label 'stores'

Imagine all of Loblaws' President's Choice products in one spot. "Rather than shelving these products throughout the store, they're concentrated in one area, so the shopper looking for the best price sees it all together," says Mr. Underhill.

Rasha Mourtada

© 2010 CTVglobemedia Publishing Inc. All Rights Reserved.

The New York Times

Bank Chiefs Say Growth In Economies Is Still Uneven

Tue Nov 9 2010
Page: 4
Section: Business/Financial
Byline: JACK EWING

BASEL, Switzerland -- Central bank chiefs warned Monday that economic growth remained uneven, especially in industrial countries, as new data reinforced fears of a slowdown in Germany, Europe's biggest economy.

"There is a degree of uncertainty which is the mark of the present time," the European Central Bank president, Jean-Claude Trichet, said in a news conference after a meeting of central bankers, held under the auspices of the Bank for International Settlements. "Colleagues share this sentiment that we have to accept we are in a universe where there are risks."

Mr. Trichet, serving as spokesman for the group, did not refer to any specific countries but said there was a divergence between the advanced economies and "impressive" growth in emerging markets.

In Europe, Germany's export strength has been helping to lift growth across the Continent and compensate for the negative effects of the sovereign debt crisis. Data released Monday, however, showed that German industrial production fell 0.8 percent in September from August, as a decline in manufacturing outweighed gains in construction and energy.

At the same time, German exports, which include services and financial transfers as well as manufactured goods, rose 3 percent from August, the Federal Statistical Office said.

"The upswing in industry has clearly lost considerable momentum in the past few months," Ralph Solveen, an economist at Commerzbank in Frankfurt, said in a note. "The growth rates of the first half of the year are unlikely to be achieved again that quickly."

Rolf Schneider, an economist at the insurer Allianz, noted, however, that while the upswing might have "come off the boil" recently, "this does not alter the still positive economic outlook."

During his news conference here, Mr. Trichet avoided criticizing the decision by the Federal Reserve last week to pump more liquidity into the United States economy by purchasing hundreds of billions of dollars worth of Treasury securities.

Other countries have complained that the move will push the dollar lower and stoke inflation. Wolfgang Schauble, the German finance minister, last week called the policy "clueless."

But Mr. Trichet, while declining to discuss any

specific country, said central bankers agreed on the need to hold inflation below 2 percent.

"All central bankers in the world have a unity of purpose in terms of anchoring inflation expectations in line with their definition of price stability," he said.

"The word 'currency wars' was not pronounced at all," Mr. Trichet added. "Absolutely no country mentioned they were pursuing weak currency policies."

Mr. Trichet seemed to put little stock in a call by Robert Zoellick, president of the World Bank, for a return to a modified gold standard as a way to control currency movements. Mr. Zoellick made the comments in an article written for The Financial Times on Monday.

Mr. Trichet noted that such proposals had been made for decades. "We did not discuss the reintroduction of the gold standard," he said.

© 2010 by the New York Times Company

The Globe and Mail

Investing for the long, long, long term; Yield-hungry investors are snapping up 50-year and 100-year bonds despite the dangers

Tue Nov 9 2010
Page: B15
Section: Report on Business: Globe Investor Markets
Byline: Martin Mittelstaedt

Goldman Sachs Group Inc. just issued a 50-year bond. The Government of Mexico, U.S. railway giant Norfolk Southern Corp., and Dutch banking conglomerate Rabobank Group did one better. They all recently issued bonds with the stupendous term of 100 years.

The clamour from investors for these ultralong bonds is raising eyebrows in the capital market. The Goldman issue is slated to return investors their money way off in 2060, while 100-year bonds won't pay back their principal until a century from now.

Bonds are basically just a way to lend money, but until recently it was unusual for any investor to be so trusting as to lend money for up to a century. During such an extended period, bond issuers can run into revolutions, depressions, bankruptcies and all manner of other reasons for defaulting. Up until now, normal terms for long bonds were considered to be 10 and 20 years.

Despite the risks, yield-hungry investors are snapping up these superlong-term securities. While 10-year government bonds are yielding around 2.75 per cent, Goldman and the other issuers of long, long bonds are offering the tempting inducement of rates around 6 per cent.

The high yields explain the popularity of the offerings, but the bonds' terms are so extreme that many market pros believe they are a signal that the long-running bull market in fixed-income securities has reached the limits of rationality. Investors fixated on finding a good yield are ignoring the dangers that go along with investing in bonds that won't mature for a couple of generations or more.

"Some of these deals are going to go very, very wrong," frets Ric Palombi, a fixed-income portfolio manager at McLean & Partners Wealth Management, who oversees about \$1-billion in assets.

Mr. Palombi isn't buying the bonds for his clients, and is surprised they've become a hit. "I never thought they would be so prevalent."

The Goldman issue is a poster child for the continuing frenzy in the capital market for long-dated instruments. The Wall Street bank originally hoped investors might have the appetite for \$250-million (U.S.) worth of the securities, according to market chatter at the time of the issue last month.

But Goldman sold more than five times as much - \$1.3-billion. Ordinary ma and pa investors were the target buyers, signified by Goldman chopping the

bonds into minuscule \$25 amounts to make them affordable to small investors. Bonds typically trade in minimum multiples of \$1,000.

It's not clear how many small investors realize the fine points of the deal. According to the prospectus, Goldman has reserved for itself the right to redeem the bonds at their face value of \$25 on five days' written notice any time after Nov. 1, 2015.

If interest rates stay low, Goldman, which didn't respond to a request for comment, will likely "call" the bonds and pay off investors. Those seemingly high yields will then vanish.

Meanwhile, if market interest rates return to more normal levels because the economy recovers or inflation resumes, it's likely that the cost of borrowing for extremely long terms could rise well above the 6.125 per cent that Goldman is paying. In that case, Goldman won't redeem them, and buyers will be stuck with losses because bond prices move inversely to interest rates.

It's telling that, while Goldman has the right to redeem, buyers weren't given the same right to force Goldman to buy back the securities if interest rates surge.

While investors in any long-term bond face the risk of the issuer defaulting, any strong uptrend in interest rates also poses a problem - something many investors appear to have forgotten.

Bond prices are in the midst of the longest bull market on record, having rallied in the U.S. for the better part of 29 years. Back in 1981, when the bull run began, 10-year U.S. Treasuries were yielding about 15 per cent and were shunned as "certificates of confiscation" by investors. Now the yield is a tad under 3 per cent and investors are snapping up bonds.

Nothing goes up forever, some analysts caution. "Within a couple of years, the bond market probably is going to be entering some kind of [long-term] bear market," says Frank Hracs, who compiles the Canadian Mutual Fund Analyst, a publication that tracks fund inflows and has found the hottest area is now in bonds.

Mr. Hracs worries that the "long-term outlook for bond capital gains is negative."

The losses owing to any rise in rates could be devastating. If rates revisit their 1981 levels, the 50-year and 100-year bonds will fall in value by about 60 per cent.

