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Editors/Reporters

• Please click on link to view and download Avison Young's Mid-Year 2018 BC Real Estate Investment Review:

https://www.avisonyoung.ca/documents/95750/17687307/BCInvestmentReview_MidYear2018

British Columbia investment market's impressive first half of 2018 reveals signs of continued bull run as sales activity persists

Avison Young releases Mid-Year 2018 BC Real Estate Investment Review

Vancouver, BC – BC commercial real estate investment activity continued its bull run in the first half of 2018 with 102 deals valued at \$3.04 billion – the second highest total on record in terms of both deal and dollar volume. However, a pause in the residential land market connected to heightened political uncertainty, rising construction costs and affordability issues is starting to foster a more cautious approach from buyers and lenders alike. The record for BC investment sales was set in the first half of 2017, which involved 109 transactions valued at \$5.09 billion. While questions surrounding current land values, particularly in Vancouver, may have led to a slowing of deal velocity in the land and multi-family markets as we moved into the second half of 2018, demand in the commercial real estate investment market for industrial, office and retail assets continues largely undiminished.

These are some of the key trends noted in **Avison Young's Mid-Year 2018 BC Real Estate Investment Review**, released today. The semi-annual report tracks BC office, industrial, retail and multi-family property sale transactions greater than \$5 million.

In terms of BC commercial real estate asset sales, the largest sale of the first half was the disposition of the Gateway Casinos portfolio for \$501 million, which included the Starlight Casino, Cascades Casino and the Grand Villa Casino and Hotel. (This sale has been considered a retail transaction for research purposes.) The sale of a 50% interest in CF Richmond Centre, a shopping centre about to be redeveloped in Richmond, BC, for \$392 million was the largest deal for a standalone asset in the province in the first half. A number of shopping centres located in secondary markets were also sold outside the Lower Mainland, including Aberdeen Mall (Kamloops), Cowichan Commons (Duncan) and Dilworth Shopping Centre (Kelowna). The largest retail sale located in Vancouver was the \$80.5 million acquisition of retail units in the Capers Building in the 2200-block of West 4th Avenue in Kitsilano.

Office sales in Burnaby made up more than 45% of total BC office sales dollar volume in the first half of 2018, which included the purchase of Willingdon Park in Burnaby for \$179.4 million and

the subsequent flipping of select buildings in Willingdon Park to another buyer for \$48.25 million. Other deals included the sale of select buildings in Canada Way Business Park for \$106.5 million, the sale of Imperial Square for \$24 million and the disposition of Production Court for \$100.5 million. More than \$465 million was spent acquiring Burnaby office properties in the first half of 2018.

“Rising land values had the effect of increasing the cost of not only land, but any and all commercial real estate assets that included a land play,” comments Avison Young Principal **Bal Atwal**. “This has been one of the contributing factors of cap rate compression for a large majority of investment sale transactions over the last few years. As the land market now starts to take a slight breath, it remains to be seen over the next few months if the market will maintain its recent upward trajectory, stabilize at current levels or begin to falter.”

Private purchasers remained the most dominant buyer group in BC in the first half of 2018 in terms of the number of deals completed (87%), with their share of overall dollar volume surging to 63.7% after plunging to a cyclical low of 36% a year earlier and just 46% at year-end 2017. Prior to 2017, the last time that private buyers were responsible for less than 50% of overall dollar volume was in 2012 when they accounted for 72% of total purchases, but just 38% of the \$2.35 billion invested that year. While institutions remained active in the first half of 2018 and were involved in 10% of the total number of deals, they still captured 32.9% of total dollar volume.

Private vendors accounted for just 53% of total proceeds in the first half of 2018 despite being involved in 81% of the deals completed. However, this marked a massive shift in fortunes from the first half of 2017 when private sellers accounted for a record low of 22% of the proceeds (even as they participated in 70% of the deals). The previous low was 23%, which occurred at year-end 2008. Institutions, which were very active sellers in 2017, were still involved in 11% of BC investment sales as vendors in the first half of 2018 and captured 34% of the total proceeds

Sector Investment Review Highlights:

Office

Office investment sales activity in BC generated more than \$1 billion in the first half of 2018 with 23 transactions valued at \$1.04 billion, including the \$179.4-million sale of a suburban office park in Metro Vancouver and the subsequent \$48.25-million resale of select buildings from within that portfolio. While office assets captured 23% of the total number of investment deals in the province, sale proceeds from office assets represented 34% of the overall \$3.04 billion in dollar volume in the first half of 2018.

Retail

The sale of BC retail assets remained exceptionally strong in the first half of 2018 with 43 transactions valued at \$1.55 billion following the record-smashing retail investment sales performance of 2017. While the retail investment market activity in the first half of 2018 marked a significant decline from the record first half of 2017 (55 deals/\$2.77 billion), retail sales dollar volume in first-half 2018 totalled more than the retail sales dollar volume of 2014 to 2016 combined. Retail deals in first-half 2018 captured 51% of overall BC dollar volume of \$3.04 billion while also making up 42% of the total number of deals completed in the first half.

Industrial

Market demand for industrial investment properties remains extraordinarily strong in BC with lack of supply the primary factor limiting what would likely have been a more substantial first half in

terms of deal and dollar volume. Industrial investment activity still remained strong in the first six months of 2018 with 36 industrial transactions valued at \$449 million – a slight decline from the first half of 2017 when 37 deals valued at \$456 million were completed. However, industrial investment activity in first-half 2018 declined significantly when compared with the record-setting second half of 2017 when an astonishing 51 deals valued at \$746 million closed. While the industrial share of overall dollar volume in first-half 2018 was just 15%, industrial sales did represent 35% of the total number of deals completed.

Multi-Family

Sales activity of BC multi-family assets remained at historic heights with 42 transactions valued at \$674 million in the first half of 2018 with the number of deals falling just short of the first half of 2017 (46) but with greater dollar volume (\$652 million) than what was recorded a year ago. However, the first half of 2018 did surpass the second half of 2017, which had registered 43 deals valued at \$624 million. While the number of transactions in 2017, 89, marked a new record, dollar volume of \$1.275 billion fell short of the record set in 2015 when 80 properties valued at \$1.41 billion traded hands. Despite the strong start to the year, a new record for multi-family investment is not anticipated to be set in 2018.

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