2012 TRENDS | REAL ESTATE

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CANADA REMAINS A SAFE HAVEN

The Canadian economy and commercial real estate markets continue to be envied for their prosperity and stability by international investors. According to the World Economic Forum, the Canadian banking system is the soundest in the world. Canadian debt levels remain low compared to similar countries, and Canada's job growth has been better than any other G7 country. Canada's resource- and commodity-based economy continues to weather the global financial crisis better than almost all other developed economies. *Forbes magazine*, in an October 2011 study of 134 countries, ranked Canada as the best country in the world to do business. Canada remains a highly desired investment location, valued for its transparency, strong private property rights and low volatility.

CONTINUING UPTURN IN VOLUME

Investment in Canadian commercial real estate continued to rebound in 2011, approaching par with the level of activity in 2008. Core assets, such as the Metro Toronto Convention Centre, the Bell Tower in Edmonton and the Blackstone office portfolio, led the way for investors. Balanced supply and stable demand are expected to generate new growth in 2012. Cap rates are expected to compress on quality assets, driven by competitive pressure. Real estate investment trusts, Canadian pension funds and other Canadian institutional investors are expected to dominate the 2012 commercial real estate investment market in 2012, with foreign investors keen to participate, usually by means of a joint venture with a Canadian partner.

URBAN CORES ATTRACTIVE FOR OFFICE

Strong commodity prices in Western Canada and the expansion and consolidation of financial services in Toronto led to strong demand for and absorption of office space in 2011. Downtown markets were the primary beneficiaries of this trend, as tenants preferred class A space, which is mostly located in Canada's urban cores. Downtown office markets will likely continue to thrive in 2012 as employers look to locations with developed infrastructure and transit, plus nearby amenities for workers. New office developments are expected in downtown Vancouver, Calgary and Toronto. Downtown class A buildings are expected to experience continuing rental growth, with class B and C buildings obtaining growth as well due to the shortage of class A supply in many markets.

FOREIGN RETAILERS

Canada remains a destination of choice for foreign retailers, contributing significantly to the generation of record retail sales in 2011. Target will arrive in 2013, and many landlords have initiated plans to adjust tenant mix and to expand premises in anticipation of its launch. Large Canadian retail centres may continue to expand in 2012, and opportunities for new space may become available for many tenants.

DISTRIBUTION-STYLE INDUSTRIAL BUILDINGS

Canadian industrial markets are expected to switch away from manufacturing-based properties and smaller 20,000 to 50,000 square-foot multiples to large warehouse and distribution-based facilities. This follows recent trends in retail buying habits as many consumers opt for e-commerce instead of in-store purchases. Large single-tenant 500,000 sq. ft. facilities are expected to become a new focus, including the development of new industrial sites based on this model.

MULTI-FAMILY RESIDENTIAL PROPERTIES

Multi-family residential properties continue to be prized by investors due to their stability. Supply remains constricted, however, as little new construction of this asset class has been undertaken across the country and existing owners are reluctant to sell due to the lack of suitable alternatives for income generation and the spectre of large capital gains arising from long years of ownership.

CALGARY

Calgary's commercial real estate market thrived in 2011, driven by renewed activity in Alberta's energy sector. The Calgary market absorbed a record amount of new commercial space in 2011, and rising employment, wages and disposable income are expected to generate continuing growth in 2012. Although the 1.7 million sq. ft. The Bow tower will come onstream in early 2012, further office demand is anticipated.

DEBT

The size of the Canadian commercial mortgage market continued to grow during 2011 notwithstanding the global financial crisis. Although Canadian lenders remain conservative and some have insisted upon lower loan-to-value ratios, historically low interest rates have fuelled steady debt growth and can be expected to stimulate further growth in 2012. Some commentators have also suggested that the new International Financial Reporting Standards rules will result in more investors wishing to increase debt levels. Canada has not experienced any significant default or realization activity on commercial mortgages.

GREEN PRACTICES

The push to reduce greenhouse gases and to adopt sustainable environmental practices continues to motivate owners and users of Canadian real property. Reducing operating costs by proactive energy management and other efficiencies continues to be a growing focus for both landlords and tenants. New class A office buildings are the principal beneficiaries of this trend, as these are being constructed with the new efficiencies built-in. Owners of older class A buildings and class B and C properties are being forced to undertake significant upgrades, often on a non-recoverable basis, simply to keep up.