

# Commercial real estate likely peaked in '08: analysis

BY DERRICK PENNER, VANCOUVER SUN MARCH 10, 2009 2:02 PM

Last year likely represented the peak for Metro Vancouver's commercial real estate market, according to the assessment of one commercial realtor released Tuesday.

Avison Young Canada Inc. released its 2008 investment review, which showed an increase in transactions from 2007, but with an outlook that deteriorated in the last few months of the year.

The future, Avison Young's report concluded, will see the global credit crisis squeeze commercial transactions.

"What is important to note is the majority of the deals that completed in the second half of 2008 were negotiated in the early part of 2008," Avison Young principal Michael Gill said in a news release.

Prices during 2008, he added, did not reflect effects of the global implosion of credit markets following investment bank Lehman Bros. bankruptcy filing.

Market fundamentals in B.C.'s commercial markets are among the strongest in North America, Gill said, but "the crisis of confidence has permeated the commercial real estate market."

"In the final two months of 2008, many deals fell apart," Gill said.

Metro Vancouver saw \$1.27 billion in commercial real estate trade in 2008, according to Avison Young, up from \$967 million in 2007 and \$1 billion in 2006.

Avison Young, in the report, recorded \$734 million of those 2008 transactions closed in the second half of the year, \$535 million closed in the first half.

However, the Avison Young analysts expect activity in the market to decrease substantially in the first part of 2009 as executive decision-making slows and the expectations between buyers and sellers readjusts.

Bob Levine, another of Avison's principals, said buyers have increased their expectations for return on capital, or cap rate, for what they spend on commercial real estate.

In recent years, deals were done at relatively low cap rates, but Levine said now buyers are looking for cap rates of more than seven per cent on prime Class A office buildings, and eight per cent or more for lesser quality Class B and C buildings.

Gill added that the commercial market in 2009 is being driven by vendors who need to raise capital to

offset debt maturities or meet the redemption calls of investors that want out of the commercial property market.

Robert Gritten, another of Avison Young's principals, said investors that need high leverage might be pushed out of the market right now, "but there are still plenty of interested buyers waiting in the wings."

[depenner@vancouver.sun.com](mailto:depenner@vancouver.sun.com)

© Copyright (c) The Vancouver Sun