For immediate release

Canadian commercial markets post strong first half of 2012, as investor enthusiasm gains momentum, says RE/MAX

Mississauga, ON (October 17, 2012) – While residential housing sales may be slowing in some parts of the country, demand for commercial real estate continues to climb, according to a report released today by RE/MAX.

The RE/MAX Commercial Investor Report, highlighting trends and developments in nine Canadian centres—Greater Vancouver, Calgary, Edmonton, Regina, Winnipeg, London, Greater Toronto, Ottawa, and Halifax-Dartmouth—found that almost all markets saw an increase in commercial sales and dollar volume over the six-month period ending June 30, 2012. Canadian and foreign investors are behind the push, snapping-up apartment buildings and small strip malls given continuing low interest rates and a generally bullish tone for the Canadian economy. Private investors, in particular, have gained a serious foothold in recent years, spurring demand for entry-level properties such as multi-unit residential, suburban and urban retail storefronts, and smaller office buildings.

"Canada's commercial market has quickly shaken off the signs of recessionary sluggishness and roared back to life, with 2012 building on impressive gains reported in 2011," says Gurinder Sandhu, Executive Vice President and Regional Director, RE/MAX Ontario-Atlantic Canada. "Today's low interest rate environment, combined with lacklustre returns on GICs and volatility in the stock market, have renewed demand for commercial real estate at a time when sellers/landlords are holding on to their investments. With little product available in the market, upward pressure on pricing is expected to continue for the remainder of the year and into 2013."

No shortage of investors—small and large—exists in the commercial market. Multiple offers were noted in six of the nine markets examined, including all major markets in the east, Winnipeg and Edmonton. Pent-up demand is a serious concern in the investment, retail, land and multi-family segments. Realtors typically have buyers waiting in the wings, yet many properties never make it to the open market. The climate is fuelling buyer diversity, with foreign investment, in-migration and immigration playing an increasing role in nearly every market. The trend is helping to redirect money into Canada's hottest markets and serving to spur investment from overseas.

"Given the appetite for tangible investments with long-term revenue streams and potential for appreciation, commercial real estate has been gaining favour and is expected to be a top-performer well into the new year," says Elton Ash, Regional Executive Vice President, RE/MAX of Western Canada. "Despite the enthusiasm, demand is unlikely to be satisfied while those same benefits are prompting owners/landlords to hold on to their properties, especially with the prospect of capital gains taxes down the road. It's a push-pull situation, yet buyers are forging ahead, hoping to ride the wave of year-over-year double-digit equity gains a little while longer."

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Economic factors are at play in most markets, serving to bolster commercial activity. Alberta's economic outlook continues to improve while Saskatchewan remains red-hot. The $25 billion shipbuilding contract awarded to Halifax Shipyard in Halifax-Dartmouth has been a major catalyst. With solid economic fundamentals propping up business investment, industrial real estate is on the upswing in most markets, supporting growth requirements from warehouses and distribution centres to processing, manufacturing and production facilities. A shortage of industrial product exists throughout Western Canada, as well as in Ottawa and Halifax-Dartmouth, while the market returns to more balanced conditions in Southern Ontario, following a period of moderate oversupply.

"Strong consumer and business confidence remains another strong driver," says Sandhu. "While the role of interest rates cannot be ignored, investors face greater scrutiny from lenders in today's heated environment. Experienced investors have dominated much of the activity to date, but smaller investors are making the foray into the commercial world. The presence of doctors, dentists, small business owners, and teachers, for example, is an emerging trend and a sign of the times, given cutbacks to many pensions and the often slow-growth of self-directed models. The desire to build a nest egg has some considering mainstream alternatives like commercial real estate."

Multi-unit residential is the product of choice for smaller investors (duplex, triplex, fourplex, sixplex) and larger investors (apartment buildings) alike. Yet, limited supply has pushed values higher, particularly in markets where no new rental stock is available. Growing population, immigration, and the high cost of home ownership are expected to bolster demand for rental apartments in coming years—virtually guaranteeing a safe and secure long-term revenue stream. As a result, many owners in this asset class are choosing to hold on to their investment.

Land development remains a key segment in all major centres, especially in rapidly growing markets like the Greater Toronto Area and Calgary, while re-development properties are sought after in build-out markets like Greater Vancouver and London-St. Thomas. The trend toward revitalization exists across the board, with many older buildings being renovated, retrofitted or re-purposed, raising the quality of existing stock and re-igniting demand in tired core areas. The move to the mixed-use, higher-density development model has been well received and many are acknowledging the concept as the future of Canada's urban communities. As a result, investors, developers, retailers and businesses are rushing to get in on the ground floor—especially where projects have returned space to prime retail and office locations.

U.S. and multi-national retailers, making their moves into the Canadian marketplace, are fuelling robust activity in the retail segment of the market from coast to coast. American brands such as Nordstrom, Target, J. Crew, Marshalls, and numerous others have created a flurry of activity that is changing the Canadian real estate landscape. Shopping malls are moving to accommodate growth, perhaps best illustrated by Cadillac Fairview's application to add one-million square feet of mixed-use space to Calgary's Chinook Centre and by Oxford Properties' $220 million, 145,000 sq. ft. expansion at the Yorkdale Shopping Centre in Toronto. Competition is fierce in many parts of the country, despite higher lease rates. Big-box retailers are driving similar growth in suburban markets.

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Commercial/retail office towers are under construction in many downtown centres, including Calgary, Regina, Greater Toronto and Halifax-Dartmouth. Once completed, the pressure on vacancy rates is expected to be alleviated, and rental rates are forecast to come down to more traditional levels.

"With supply limited and prices on the rise in many segments, cap rates are edging downward, but investors remain undaunted," says Ash. "Most are opting for a long-term approach and banking on future equity gains, as well as a vibrant income stream in the interim. Institutional and other large investors are instilling the principles of economies of scale to offset costs, allowing them to snap up quality property when others may be stepping back. Price growth has done little to dampen the overall enthusiasm."

RE/MAX is Canada's leading real estate organization with nearly 18,900 sales associates situated throughout its more than 720 independently-owned and operated offices in Canada. The RE/MAX network, now in its 38th year, is a global real estate system operating in 87 countries, with close to 6,300 independently-owned offices and over 87,700 member sales associates. RE/MAX realtors lead the industry in professional designations, experience and production while providing real estate services in residential, commercial, referral, and asset management. For more information, visit: www.remax.ca.

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For more information:

Christine Martysiewicz
RE/MAX Ontario-Atlantic Canada
905.542.2400

Eva Blay/Charlene McAdam
Point Blank Communications
416.781.3911