

COVER: REITs, pensions challenged as foreign investors roll into Vancouver

# INVEST 2014

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While big, institutional investors, including **BC Management Corp.** and the **Ontario Municipal Employees Retirement System**, back large, new office towers, Vancouver commercial real estate is seeing a growing surge of offshore investors.

Foreign buyers have accounted for 60 to 65 per cent of all the retail real estate and half of the office buildings sold in downtown Vancouver over the past 15 months, according to a survey by Vancouver commercial real estate firm **CBRE** that looked at all sales priced to \$50 million.

Nearly all of those buyers came from mainland China or the Middle East, according to **Jim Szabo**, vice-chairman of the national investment team at **CBRE**.

"Foreign investors are switching from residential to commercial" as they gain more confidence in the Vancouver market, Szabo told a Vancouver real estate conference in late November, adding that the foreign buyer characteristics are a long horizon, a search for core locations and aggressive pricing.

When selling commercial real estate to foreign investors in Vancouver, Burnaby and Richmond, Szabo found that, in all cases, "they outbid local buyers by quite a margin."

He provided some downtown Vancouver examples: an unnamed "foreign buyer" paid \$1,803 per square foot for a 13,200-square-foot retail building on Robson Street while another offshore buyer shelled out nearly

\$500 per square foot for an older, eight-storey office tower on West Pender Street. Both values are considered at the high end of the price range.

Foreign buyers are also snapping up land, but are in no hurry to build.

"It is a different mindset [than with local investors]," Szabo explained. "They may be looking at development in 10 or even 20 years."

The **Pricewaterhouse Coopers (PwC)/Urban Land Institute's** Real Estate Outlook 2014, held at the Vancouver Convention Centre, also heard that higher mortgage rates, which hammered real estate investment trusts in 2013, have aided cash-heavy foreign buyers by reducing competition.

According to **PWC**, foreign investors will outspend REITs this year and are second only to institutional investors (such as pension funds) in primary Canadian markets like Vancouver.

Middle Eastern buyers are primarily from Iran, but Dubai money has also been flowing into Vancouver, the conference was told.

## Outbid

The ability of deep-pocket players to bid up prices is reflected in recent commercial real estate investment action in Metro Vancouver.

Simply put, less property is selling but at much higher prices.

In the last three months of 2013, for instance, the total number of commercial transactions plunged 17.4 per cent from the same period a year earlier but the dollar vol-



Photo: Dominic Schaefer

**Oxford Properties, the real estate arm of the Ontario Municipal Employees Retirement System, is building a 35-storey Vancouver office tower. Above: Oxford Properties' leasing director Chuck We shows off the tower model.**

ume soared 35.7 per cent, to \$1.41 billion. And most of the heavy money went into the two markets – retail and office – that are now attracting more foreign investors.

The *Commercial Edge*, compiled by the **Real Estate Board of Greater Vancouver (REBGV)**, tracks all Metro commercial real estate transactions that have been registered with the provincial **Land Title and Survey Authority (LTSA)** since 2009.

"The total number of commercial sales in the region this year continues to trend behind what we saw between 2010 and 2012," confirmed REBGV president **Sandra Wyant**.

The following is a breakdown of the commercial real estate action in the third quarter (Q3) of 2013, as reported by the board:

- Land: there were 131 commercial land sales, down 10.9 per cent from Q3 2012. The dollar value of land sales was \$479 million, down 16.5 per cent from Q3 2012;

- Office and retail: there were 141 office and retail sales, a 15.1 per cent decline from Q3 2012, yet the dollar value was \$575 million, a 95.6 per cent increase from the same quarter in 2012;

- Industrial: there were 92 industrial-land sales, down 30.8 per cent from Q3 2012. The dollar value of industrial sales in Q3 2013 was \$226 million, a 5.3 per cent decrease from \$239 million in Q3 2012; and

- Multi-family: there were 29 multi-family (rental apartment building) sales in Q3 2013, which is virtually unchanged from the 30 sales in Q3 2012. However, the dollar value of multi-family sales was \$131 million, a 26 per cent increase from \$104 million in Q2 2012. ♦

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