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Business in Vancouver March 27-April 2, 2007; issue 909

Appetite for portfolio deals defines B.C. market

Pace of commercial sales slackened in 2006, suggest statistics

Peter Mitham

Portfolio sales and major players set the tone for the B.C. real estate market last year, and early indications suggest the pattern will continue this year.

A number of portfolio sales announced in the first quarter of 2007 follow the lead of the biggest deals in 2006, such as the list-topping sale of the Fairmont Chateau Whistler and Fairmont Vancouver Airport hotels. The two properties sold for a total of \$484.9 million to Oxford Properties Group, a division of OMERS Realty Corp., as part of a disposition of seven Fairmont properties following Fairmont Hotels and Resorts' acquisition last spring by Saudi Prince al-Waleed bin Talal.

Oxford was typical of many buyers active in the B.C. marketplace, said Avtar Bains, executive vice-president with Colliers International. With stiff competition for assets, it was often the institutional investors and REITs that had the resources required to win properties, and more often than not, the winning bids were Canadian.

With global flows of capital stepping up competition last year for world-class assets able to command a premium, Bains said little love was lost in the market as buyers snapped up desirable assets with a potential to deliver solid returns.

Hotels, buoyed by a strengthening of the tourism sector, as well as the demand for real estate, were a case in point. Infrastructure assets, such as the US\$2.4-billion deal Ontario Teachers' Pension Plan announced in December for Deltaport and Centerm, were another example.

"The most frequent successes were from Canadian purchasers," Bains said. "It doesn't mean that people from all over the globe haven't been in the competition to purchase. They just may not be willing to pay the highest price at this point in time."

Another factor in the prominence of domestic investors is the shortage of available product.

CB Richard Ellis vice-president Jim Szabo observed at a recent industry meeting that B.C. is a desirable location for international buyers, but those looking to do major deals will be hard-pressed to find the product they're looking for. CB figures show the pace of commercial sales slackened in 2006, with just four more deals than a year earlier and a total sales value of \$3 billion versus \$2.9 billion in 2005.

The opportunities that were available were typically smaller, giving local investors room to play.

Only three real estate deals were greater than \$50 million, according to BIV research, a level that allowed some larger players to pick up items that could flesh out their portfolios or provide opportunities for future development, but which otherwise left the field to the smaller investor.

CHIP REIT re-entered the B.C. market last year, for example, picking up the Delta Victoria Ocean Pointe Resort and Spa as well as other properties for \$34 million, while LaSalle Investment Management acquired 777 West Broadway for \$22.8 million on behalf of Henderson Funds Management (Jersey) Ltd.

Those deals weren't necessarily a bad thing, either.

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“You have to concentrate on that mid-market if you’re going to have deal flow and productivity and yield,” Bains said, noting that the B.C. market needs to have more opportunities to offer investors.

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Following on last year's deal for the Fairmont properties, CB Richard Ellis is shopping around a portfolio of five Westin properties, including the Westin Bayshore Resort and Marina in Vancouver. Legacy Hotels REIT is also considering options for its hotel portfolio, which includes such B.C. landmarks as the Fairmont Empress, Fairmont Hotel Vancouver and Fairmont Waterfront.

“That would give someone a wonderful opportunity,” Bains said.

The real estate divisions of BMO Capital Markets and RBC Capital Markets are doing the same with a portfolio of nine federal office buildings that includes 401 Burrard Street and the Sinclair Centre at 757 West Hastings.

The recent entry of the Surrey Central City complex to the market will also feed investors' appetite.

Cushman & Wakefield LePage broker Kevin Meikle is handling the listing, and notes that the robust character of the Greater Vancouver market is spurring both domestic and foreign interest in the Surrey property and others.

The answer seems clear, as Peeter Wesik of Wesgroup Income Properties LP noted during a presentation to the Urban Development Institute in January.

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Referring to Ontario Teachers' acquisition of Deltaport and Centerm, the high value assigned to the facilities, which occupy leased land, underlined the strong prospects for the local market.

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“There's a lot of money out there looking for an inflation-hedged return,” he said. “It makes passive real estate investment in Vancouver look like a deal.”

US\$2.4 billion

December deal for Deltaport and Centerm ports

\$484.9 million

Sales of Fairmont Chateau Whistler and Fairmont Vancouver Airport hotels

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