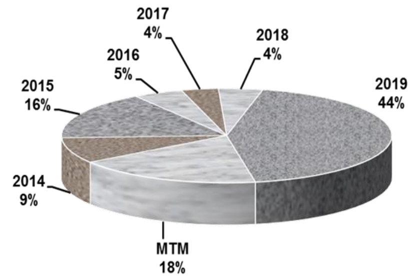
OUR NEW LISTINGS FOR SALE

27 Carlton Street, Toronto

The 8,719 sft. site with 51 ft. double frontage on Carlton St. and on Granby St. to the south is improved with a five story plus basement 24,846 sft. renovated office building. Net income is $395,000 approx. and is leased to 23 tenants with an attractive maturity schedule as per this pie chart

ASKING PRICE $8,750,000 (4.5% Cap). Offers will be reviewed after 12 o'clock noon Tuesday November 25th 2014 and should be emailed to PGagne@PetrusRealty.ca **Call us for details**



3107 Bloor Street West, Toronto

NOI $356,739 including parking. Fully leased corner property.
ASKING PRICE: $7,250,000 (5.0% Cap). **Call us for details**

OTHER RELATED OFFICE PROPERTY SALES - 2014

460 King Street West, Toronto – 20,000 sf building located at Spadina Avenue. Closed on August 18th, 2014 at $15,000,000 or $750 per sf.	**30-30A Hazelton Ave. Toronto –** 12,780 sf building located east of Avenue Rd. and north of Bloor Street West. Closed on July 31st, 2014 at $8,000,000 or $626 per sf.
50 Richmond St East, Toronto – 14,527 sf building located west of Church St Closed on July 7th, 2014 at $5,000,000 (5.9% Cap) or $344 per sf.	**160 John Street, Toronto –** 20,804 sf building located south of Queen Street West. Closed on July 2nd, 2014 at $6,300,000 (4.3% Cap) or $303 per sf.
635 Queen Street East, Toronto – 29,100 sf building located west of Broadview Avenue. Closed on June 16th, 2014 at $5,750,000 (6.3% Cap) or $198 per sf.	**663 King Street West, Toronto –** 39,800 sf building located at Bathurst St. Closed on July 7th, 2014 at $15,000,000 (4.3% Cap) or $377 per sf.
573 King Street East, Toronto – 18,148 sf building located west of Bayview Ave. Closed on September 15th, 2014 at $9,500,000 or $523 per sf.	**247 Spadina Avenue, Toronto –** 40,650 sf building located south of Dundas St. West. Closed on March 31st, 2014 at $18,100,000 (5.8% Cap) or $445 per sf.

INDUSTRY COMMENTARY:

Battling Obsolescence - New Threats, Weapons and Tactic

"The battle begins with the choices made - location, design, image, tenant mix and management strategy. And the battle never stops. Even when demand exceeds supply, vacancy is low, tenant retention is high and rents are climbing - the battle with obsolescence continues. Some time ago occupants, investors and managers viewed office space as a commodity, but if once true, this is no longer an accurate view".

Source credit to Sandy McNair, Altus InSite and Informa Canada

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THE ALTUS REPORT

Sandy McNair

BATTLING OBSOLESCENCE

New Threats, Weapons and Tactics

The battle starts before opening day, even before the ground breaking ceremony.

By Sandy McNair

The battle begins with the choices made - location, design, image, tenant mix and management strategy.

And the battle never stops. Even when demand exceeds supply, vacancy is low, tenant retention is high and rents are climbing - the battle with obsolescence continues.

Some time ago occupants, investors and managers viewed office space as a commodity, but if once true, this is no longer an accurate view.

To better understand past and current dynamics as well as outlooks for future performance, industry participants have often segmented the market – most frequently by building image and location. For many the thinking has been if the behaviours and resulting performance of an appropriate peer group can be understood then the future performance of a specific building can be anticipated.

Age and Design

During the past eleven decades breakthrough innovations in elevators, air conditioning and curtain wall resulted in leaps in design of office buildings and the occupiers spaces within them. During the 1970's, 1980's and 1990's the pace and impact of innovation on the design of office buildings slowed even though occupiers use of the space continued to evolve. The past decade has seen a new leap in design and use of both office space and office buildings, resulting in a keen interest by many occupants in new versus existing buildings.

Most new office buildings (typically those larger buildings under construction and built since 2000) have more daylight, better and more personal control of HVAC systems, increased capacity for more people and equipment and lower operating costs on a per square foot and per employee basis.

Improving and updating the design, layout, materials, functionality, image and performance of the tenants' premises most often requires a move to different floors in the same building or to a different building, be it a new or existing office building.

1. Telus Garden, Vancouver, Q3 2014, 477,185 sq. ft., 2. 745 Thurlow Street, Vancouver, Q2 2015, 368,080 sq. ft.
3. The Exchange, Vancouver, Q4 2016, 357,379 sq. ft. 4. Kelly Ramsey, Edmonton, Q3 2016, 595,000 sq. ft.,
5. Calgary City Centre, Calgary, Q2 2015, 810,987 sq. ft. 6. 707 5th Street SW, Calgary, Q2 2017, 542,300 sq. ft.

"One vocal and visible segment of the market is moving from densities in existing office buildings of 160 square feet per person to new buildings that have been designed to accommodate densities of 100 square feet per person."

Sandy McNair, Altus InSite

Battle for Talent and Density

Decision makers have become increasingly focused on attracting, growing and retaining key employees – the best and brightest. The design, image and performance of both the tenants' premises and the entire office building are weapons in the battle for talent. Increasing density (more people in the same space, the same people in less space or more people in less space) is an accelerating theme in many industries (banking, professional services, telecommunications) and in most all downtown and suburban markets across Canada, even though the current and desired densities vary widely.

One size does not fit all and one strategy will not be chosen by all occupiers.

One vocal and visible segment of the market is moving from densities in existing office buildings of 160 square feet per person to new buildings that have been designed to accommodate densities of 100 square feet per person. The specifics vary widely from building to building but many existing buildings, including many in the best locations and with the best classifications, have a density limit of 135 to 150 square feet per person. A building's density limit is impacted by the capacity of HVAC and electrical systems, the elevators and the washrooms, but the density limit is most often determined by the capacity (width) of the fire stairs.

Age and New Supply Impacts

To varying degrees each of Canada's major office markets have experienced a spike in new supply. As the chart below indicates, a significant portion of the total inventory has been completed since 2000. Once again, the specific timing, location (downtown, midtown or suburbs) and design details vary from building to building, but in most all cases these new buildings were filled and remain well occupied by taking tenants from older, existing inventory.

New Supply of Office Space Since 2000

	Vancouver	Edmonton	Calgary	Toronto	Montreal
Total New Supply Since 2000 (sq. ft.)	11,778,684	3,084,392	20,164,922	27,993,734	13,544,577
% of Existing Inventory	22.5%	13.1%	31.6%	16.3%	14.6%

As of March 16, 2014. Altus InSite © Altus Group Limited 1998-2014

Driven in part by the continuing investment appeal of commercial real estate, new supply is being accelerated by pressure to place capital, the desire of those with large portfolios to add new to their existing and the belief that there are even more occupiers who seek new and/or more densely occupied premises. The chart below identifies the total amount of office space that is currently under construction and expresses it as a percentage of the existing inventory.

Office Space Currently Under Construction

	Vancouver	Edmonton	Calgary	Toronto	Montreal
Total Currently Under Construction (sq. ft.)	4,617,961	1,489,859	7,044,639	7,329,089	2,755,090
% of Existing Inventory	8.8%	6.3%	11.0%	4.3%	3.0%

As of March 16, 2014. Altus InSite © Altus Group Limited 1998-2014

Tenants will be moving out of their existing premises and into these new buildings on a staggered basis – some later this year and some not until 2018. The specifics of each market, district and node vary widely. Since white collar job growth is moderate and occupant densities are increasing or stable at best, the impact on the existing inventory of this backfill will be material. Initially the pain / opportunity will be focused on the donor building, but as occupiers move into some or all of the initial backfill the leasing risk and renewal rental rate risk becomes felt by a growing portion of the entire existing inventory.

Traditional market dynamics have meant that the pain cascades through the market place with the B- buildings being most impacted with lower vacancy and rental rates. That view is anchored by the belief that office space and office buildings are largely homogeneous. The link to that anchor may have been broken in some markets more than others by the segmentation of occupants in a distinctly different way.

The newest buildings are often being occupied by tenants moving out of existing buildings that have traditionally been viewed as 'top-of-the-market' – those with some of the best locations and classifications. Tenants who currently occupy class B buildings may be unwilling to move to the top-of-market buildings no matter the inducement or rental rate – the image may simply be inappropriate for them and their clients. Relocating tenants from smaller, funky or heritage buildings and office premises into top-of-market buildings may also be difficult due to even greater image and battle for talent reasons. The resulting impact may be that the Class A and Class A- buildings may feel the greatest impact of the current and continuing spike in new supply. The specifics and magnitude of the impact will vary widely by market, district and node.

Weapons and Tactics

Doing nothing beyond riding the wave is a strategy that has rewarded some owners, managers, lenders and advisors over the past decade as cap rates have compressed with stable or growing rent rolls. However we believe the market is pivoting and will reward those with a more proactive approach to tenant engagement, service, asset and image differentiation and upgrades and more to battle complacency and obsolescence.

1. EY Tower, Toronto, Q2 2017, 899,064 sq. ft. 2. Bay-Adelaide East, Toronto, Q1 2016, 1,012,388 sq. ft. 3. 1 York Street, Toronto, Q2 2016, 800,000 sq. ft. 4. Aimia Tower, Montreal. Q1 2014, 240,425 sq. ft. 5. Deloitte Tower, Montreal. Q3 2015, 495,067 sq. ft. 6. 1960 101 Street NW, Edmonton, Q3 2016, 572,000 sq. ft.

During a market peak it is easy to be lulled into complacency and actively listen to your tenants less often or with less interest and passion for action. If you haven't already, now is the time to step up your listening, communication and actions plans. It is clear that tenant retention, referral and recommendation of your buildings and your management services are the key to superior performance.

Do you have formal processes to identify and communicate your strengths, positioning and image as well as recognize and address your weaknesses, as perceived by your tenants? What combination of improvements, if any, to your communication channels, your service offerings and your capital plans will have optimum impact on tenant retention while achieving superior rental rates? To do this well, requires much more than a periodic lunch or a review of the dispatch log as a lease expiry approaches.

In 2014 and for the next several years the key to success will be retaining and stealing tenants. It would be unwise and risky to wait for incremental demand to fill or keep your building(s) full. The winners will be those teams and firms that are proactively listening to their tenants and are able to identify, communicate and implement the optimum bundle of services, physical experience and differentiated image to retain their current tenants and recruit new ones at desirable relative rents.

A Decade of Progress

Ten years ago fully one third of all office building occupants in Vancouver, Edmonton, Montreal and across Canada did not report their building and property management related concerns or problems to anyone. Today that figure has been cut in half. Significantly, awareness, use, satisfaction and referral of centralized customer service and dispatch functions have climbed across the industry. However the gains are not evenly shared across the industry – the design and implementation of these programs varies widely from one manager to another with the result that some managers have experienced huge gains compared to others and the industry benchmarks.

Communication Channels is the first of a family of performance metrics that address Tenant Retention. The full family includes a series of forward looking performance measurement and industry benchmarks focused on each of:

- Communication Channels,
- Issue Resolution Rates,
- Overall Satisfaction, Momentum,
- Refer and Recommend this Building and
- Refer and Recommend this Manager – that is, interest in moving to another building managed by the same management company.

The result is that building owners and building managers now have the ability to measure the intention of tenants to stay and their willingness to pay a premium to do so. Also identified are the key property-specific actions needed to increase the tenants' intention to say and willingness to pay a premium.

Performance Measurement and Industry Benchmarks

The Industry Benchmarks vary from city to city and from year to year based upon market dynamics – the office market in Vancouver is very different from Edmonton's or Montreal's in terms of tenant mix, service requirements, manager capabilities, leasing conditions and so on, resulting in very different expectations and levels of perceived performance.

Very rare is the firm or team that has the people and money to do everything they can think of, let alone at a very high level of performance. So the key has been and will continue to be focus. Focusing your communication initiatives, service refinements and capital budgets on the two or three key items and programs where they will have optimum impact on your tenants' intention to stay and pay a premium to do so, is essential to success.

As you enter the 2015 and 2016 planning cycles for your properties and portfolios, choose your Tenant Retention Initiatives well. For some, that may mean boosting your performance measurement and benchmarking capabilities. ■

Sandy McNair is the President of Altus InSite, a division of Altus Group. Since 1997 Altus InSite has conducted more than 1.7 million tenant satisfaction surveys for many of Canada's leading office building owners and managers.
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