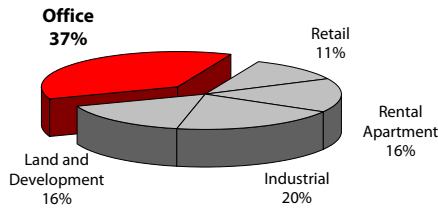




### Pierre Gagné's Historic Scope of Business



The corporate branding exercise that we commissioned earlier this year for P.G. Gagné Commercial Real Estate Corp. revealed that different clients have a different understanding of the scope of business covered by the firm. We are clearly identified as GTA experts advising and assisting in the sale of mid-market assets of \$5 to \$25 million. Many clients however associate our asset class mainly along the lines of their own scope of business. P.G. Gagné Commercial Real Estate Corp. covers all main asset classes. **This week's newsletter addresses the office sector.**



### This Time It Is Different...Or Is It? - An Office Sale Case Study

Many of us have seen more than one real estate cycle and will rely on such experience to evaluate current and future market conditions. Rising markets have elicited a recurrent theme: "This time it is different" with the corollary response: "or is it?" -[READ MORE](#)-

### Recent Office Building Sales in the GTA

1. **106 Front Street, Toronto.** \$6,200,000.
2. **720 Bay Street, Toronto.** \$25,400,000 (50% of sale).
3. **30 St. Clair Avenue West, Toronto.** \$30,200,000.
4. **1450 Meyerside Drive, Mississauga.** \$5,700,000.
5. **384 Adelaide Street West, Toronto.** \$4,050,000.
6. **800 Bay Street, Toronto.** \$25,000,000.
7. **99-123 Queen St. East and 92-114 Richmond St. East, Toronto.** \$39,500,000.
8. **7065 Woodbine Ave. and 3100 Steeles Ave. East, Markham.** \$33,200,000.
9. **435 North Service Road, Oakville.** \$10,996,912.
10. **55 Renfrew Drive, Markham.** \$5,013,763.
11. **1849 Yonge Street and 30 Merton Street, Toronto.** \$21,600,000.
12. **259 Yorkland Road, Toronto.** \$3,493,333.
13. **2920 Matheson Blvd. East, Mississauga.** \$20,750,000.
14. **48 Yonge Street, Toronto.** \$15,040,000.
15. **1243 Islington Avenue, Etobicoke.** \$11,750,000

For more [DETAILS](#) on any of these sales [Click Here](#).

### Related Links

#### Investment Property Database - IPD



Returns on direct real estate investment in Canada were 8.4% in 2003, according to The ICREIM/IPD Canadian Property Index, produced by [Investment Property Databank \(IPD\)](#) in conjunction with the Canadian Institute of Real Estate Investment Managers (ICREIM). The ICREIM/IPD Index replaced the Russell Canadian Property Index at the end of 2002.

A total of 15 Canadian pension funds, life insurance companies and real estate managers contribute property level information on their direct property investments to the IPD databank on a quarterly basis. At the end of 2003, the databank contained almost 1,700 properties, with a capital value of about \$45 billion. The databank maintains detailed information on investment returns by property type and geographic area, as well as other market data including vacancy rates, value and rent per square foot, and purchase/sales activity.



For further info contact:  
Patricia Arsenault, [Clayton Research](#) (IPD's local partner in Canada) 416-699-5645.

#### NAIOP Legislative News – Canada Update

November 5, 2004 -[READ MORE](#)-



- Canadian Commercial Real Estate Market Stronger than U.S., According to Review
- Building Vacancy Rates Released

### Life Lessons at P.G. Gagné Commercial Real Estate Corp. – Lesson #9

Over tip the breakfast waitress and give a token tip when unexpected.



#### Recent Office Buildings Sales in the GTA

1. **106 Front Street** - a 33,265 square foot building located on the north side of Front Street, east of Church Street in Toronto. Closed May 04, 2004 at \$6,200,000 or \$186 per square foot or 8.9% cap rate.
2. **720 Bay Street** - a 220,000 square foot building located on the west side of Bay Street, north of Gerrard Street in Toronto. Closed May 05, 2004, a sale of 50% for \$25,400,000 or \$205 per square foot.
3. **30 St. Clair Avenue West** - a 171,175 square foot building located on the north side of St. Clair Avenue West, west of Yonge Street in Toronto. Closed May 05, 2004 at \$30,200,000 or \$176 per square foot or 8.2% cap rate.
4. **1450 Meyerside Drive** - a 87,683 square foot building located south of Courtney Park Drive East, west of Dixie Road in Mississauga. Closed May 06, 2004 at \$5,700,000 or \$65 per square foot.
5. **384 Adelaide Street West** - a 40,000 square foot building located on the north side of Adelaide Street West, east of Spadina Avenue in Toronto. Closed May 07, 2004 at \$4,050,000 or \$101 per square foot.
6. **800 Bay Street** - a 162,397 square foot building located on the north west corner of College Street and Bay Street in Toronto. Closed May 31, 2004 at \$25,000,000 or \$154 per square foot or 9.7% cap rate.
7. **99-123 Queen Street East and 92-114 Richmond Street East** - a 223,588 square foot building fronting on both Queen Street East and Richmond Street East between Church Street and Jarvis Street in Toronto. Closed June 3, 2004 at \$39,500,000 or \$177 per square foot.
8. **7065 Woodbine Avenue and 3100 Steeles Avenue East** - two buildings totaling 235,271 square foot located on the northeast corner of Woodbine Avenue and Steeles Avenue in Markham. Closed June 11, 2004 at \$33,200,000 or \$141 per square foot.
9. **435 North Service Road** - a 50,561 square foot building located on the south side of North Service Road west of Dorval Drive in Oakville. Closed June 16, 2004 at \$10,996,912 or \$217 per square foot.
10. **55 Renfrew Drive** - a 56,608 square foot building located on the corner of Renfrew Drive and Valleywood Drive in Markham. Closed June 22, 2004 at \$5,013,763 or \$89 per square foot.
11. **1849 Yonge Street and 30 Merton Street** - a building and parking garage totaling 70,000 square feet located on the east side of Yonge Street north of St. Clair Avenue in Toronto. Close June 30, 2004 at \$21,600,000 or \$309 per square foot.
12. **259 Yorkland Road** - a 28,700 square foot building located on Yorkland Road south of Sheppard Avenue East in Toronto. Closed July 19, 2004 at \$3,493,333 of \$122 per square foot.
13. **2920 Matheson Blvd. East** - a 231,583 square foot building located on the north side of Matheson Blvd. and west side of Renforth Drive in Mississauga. Closed August 25, 2004 at \$20,750,000 or \$179 per square foot.
14. **48 Yonge Street** - a 190,402 square foot building with vacancy of 40% located on the east side of Yonge Street on the north corner of Wellington Street in Toronto. Closed September 2, 2004 at \$15,040,000 or \$137 per square foot.
15. **1243 Islington Avenue** - a 104,000 square foot building located on the east side of Islington Avenue north of Bloor Street in Etobicoke. Closed September 21, 2004 at \$11,750,000 or \$113 per square foot.



## **Legislative News - CANADA UPDATE**

### **Canadian Commercial Real Estate Market Stronger than U.S., According to Review**

According to a semi-annual review by Moody's Investors Service, the Canadian commercial real estate market continues to be stronger than the U.S. commercial market. On a scale of 100, the composite score for Canada was 79, compared with 68 in the U.S. Multi-family housing is Canada's strongest sector with a score of 89. Industrial has a score of 83, down from 85 six months ago. Seven of eight industrial markets were in the green zone of 67 to 100, with Halifax the exception at 22. The retail sector and central business district office buildings scored 78 and suburban office buildings 71.

The composite scores for seven of Canada's eight major cities were in the green zone. Montreal ranked first at 81, down from 82 in 2003. Edmonton was second at 79, followed by Vancouver and Winnipeg at 78, Ottawa at 77, Toronto at 75, Calgary at 72 and Halifax at 58.

### **Building Vacancy Rates Released**

Imperial Oil Ltd. will shift its headquarters to Calgary from Toronto by the summer of 2005, which could lead to the construction of a new office tower. According to CB Richard Ellis Alberta Ltd., Calgary's downtown office vacancy rate was 12.4 percent at the start of 2004 and is projected to fall to about nine percent by the end of the year. The national rate is 11.6 percent, with Calgary ranked second after Ottawa.

Toronto has a vacancy rate of 14.2 percent. Plans for five new office buildings in Calgary are underway and construction could begin by the end of 2005, says CB Richard Ellis. The largest proposed development, the 1.7-million-square-foot Penny Lane project, calls for one 50-storey building and one 40-storey building adjacent to the two Bankers Hall buildings.

According to Colliers International, more than two million square feet of office space have been absorbed in Calgary in the past seven quarters and vacancy rates are at the lowest level since 1997.

**<http://www.naiop.org>**

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# "THIS TIME IT'S DIFFERENT" - OR IS IT? An Office Sale Case Study



**1855 and 1875 Buckhorne Gate, Mississauga**

Many of us have seen more than one real estate cycle and rely on our past experience to evaluate current and future market conditions. Rising markets have brought up a recurrent theme: "This time it is different", with the corollary response: "or is it?"

Real estate values are strongly influenced by the supply and cost of debt financing. We focussed on the relationship between interest rates and

cap rates in the rental apartment sector, in the September 20, 2004 Greater Toronto Real Estate Report Volume #10.10. The lack of convergence across the office sector makes such a relationship more difficult to isolate. However, two recent Airport Corporate Centre sales of newly constructed Suburban 'A' Class office complexes provide an excellent example of a close relationship between interest rates and valuation. Although the cap rates of the two sales were different, at 7.07% and 7.625%, both sales show identical cash on cash returns when similar financing structures are applied.



**4720 and 4880 Tahoe Boulevard, Mississauga**

The first sale is for the office complex located at 4720 and 4880 Tahoe Boulevard in Mississauga, comprised of 301,421 square feet, closed on December 31, 2002 at \$182 per square foot, which was an estimated 7.625% cap rate. The second sale is for the office complex at 1855 and 1875 Buckhorne Gate comprised of 304,274 square feet, closed on June 25, 2004 at \$187 per square foot, which was an estimated cap rate of 7.070%. Both complexes were sold subject to a 15-year leaseback from TD Bank and are for practical purposes similar in nature.

## Comparison

The Q4 2002 cap rate of 7.625% is obviously more attractive to an investor than the Q2 2004 purchase at a 7.070% cap. However, after adjusting for the differing financing structures, both sales show similar cash on cash returns at approximately 6.8% and 6.3% respectively.

The actual financing for the two properties differs in terms of interest rate, amortization period and loan to value ratio. We have created a "proxy mortgage" for the Q4 2002 sale to isolate the effect of interest rates at the time of sale, so that the amortization and loan to value ratio are the same as those for the Q2 2004 sale. The adjusted cash on cash returns for the two sales are similar at 6.8% and 6.3% respectively in year one. In other words, the pricing difference between the two properties might have been a function of interest rates only.

# "THIS TIME IT'S DIFFERENT" - OR IS IT? An Office Sale Case Study

		Q4 2002	Q2 2004	Delta
Cap Rate:	As per Marsh Net	0.076	0.070	
	As per Altus Group	0.0765	0.0714	
	<b>Average</b>	<b>0.07625</b>	<b>0.07070</b>	<b>(55.5 bps)</b>
Actual Financing	Nominal Mortgage Interest Rate	0.06693	0.0571	
	Effective Mortgage Interest Rate	<b>0.0660</b>	<b>0.0564</b>	
	Positive Leverage Spread	<b>0.01025</b>	<b>0.0143</b>	
	Term/Amortization	(15yr/19yr)	(10yr/25yr)	
	Constant (K)	0.09249	0.07472	
	LTV	80.0%	65.0%	
	Actual cash on cash return	1.1%	6.3%	
	Estimated cash on cash return assuming proxy mortgage**	6.8%**		50 bps

\*\* Note: assume proxy mortgage 65% LTV 10yr/25yr @ 6.5% (or K=0.080379) in 4Q 2002.

"So what?" you say. Well, I say that current market dynamics and valuation trends will continue until the negative leverage approach to investing of the late eighties re-emerges. This change would be the bad omen hiding under the pretension of an overly optimistic growth scenario.

Breaking that leveraging frontier would be the turning point. We would unfortunately have to admit at that time that markets are really no different from one cycle to the other. Until then however, until that high level watermark is reached, until the time when positive returns are eroded by a higher amortized debt repayment constant, these perceived paradigm shifts in valuation criteria will remain.

The current pricing for real estate appears aggressive today only in relationship to the long gone but classical "10% cap". But remember that this demand from capital arises from sophisticated market participants with good business judgement, reasonable investment guidelines and with diversified investment options that still do not offer better risk/return than real estate.

Finally, "Is This Time Different"? I think it is different to a certain extent. This current cycle is the only time since 1980 where relatively lower cap rates that are giving some of us concerns are matched with much lower cost of debt.

Now, I ask you. Where do you think 5 year and 10 year interest rates are heading?