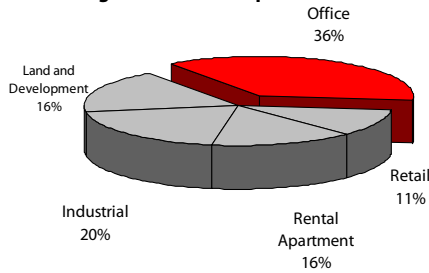


Pierre Gagné's Historic Scope of Business



The corporate branding exercise that we have commissioned 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. Many clients however associate our asset class mainly along the lines of their own scope of business. P.G. Gagné Commercial Real Estate Corp. however covers all main asset classes.

www.gagnerealestate.ca

NEW LISTINGS



1071 KING STREET WEST, Toronto, Ontario

The property offers the unique opportunity to develop additional commercial density of 69,059 square feet on site subject to usual municipal regulations while collecting cash flow from the City of Toronto Economic Development Corporation providing an average return in excess of 7% until August 31, 2009. The 24,780 square foot corner site zoned CR T4.1 C 4.1 R4.1 with ample on-site parking is improved with an office building of 26,925.78 total rentable square feet. **Asking Price: \$3,650,000**

[Find out more...](#)



MARKET TOWER - 151 DUNDAS STREET, London, Ontario

The acquisition of Market Tower located at 151 Dundas Street in London, Ontario offers a unique opportunity to invest in a newly upgraded quality class 'B' office building at an attractive return of 10.6% after lease-up and secured in major part by triple 'A' covenants such as The City of London and McDonald's. **Asking Price: \$8,750,000**

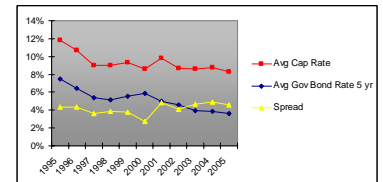
[Find out more...](#)



INDUSTRY COMMENTARY – What is in a Cap Rate After All?

The premise of this commentary is that a cap rate is a "short cut" as it relates to multi period analysis. Value is not "caused" by applying a cap rate; one's estimate of value is the result of one's detailed analysis.

[Find out more...](#)



RECENT OFFICE SALES

2599 Speakman Drive – a 114,000 square foot building located just east of Winston Churchill Blvd. in Mississauga. Closed January 13, 2005 at \$9,250,000 or \$81 per square foot or 10.7% cap rate.

121 Bloor Street East – a 231,709 square foot building located just west of Church Street in Toronto. Closed February 15, 2005 at \$46,500,000 or \$201 per square foot or a cap rate of 6.1%.

204 King Street East – a 134,972 square foot building located just west of Sherbourne Street in Toronto. Closed February 25, 2005 at \$20,000,000 or \$148 per square foot.

130 Bloor Street West – a 191,182 square foot building located just east of Avenue Road in Toronto. Closed April 18, 2005 at \$5,700,000 or \$30 per square foot or a cap rate of 7.7%.

FORUM - Your Feedback and Comments on "Volume #11.04 - Asset Focus: Vaughan Residential Lots"

Subdivision Development: Risk, Profit and Developer Survey by Tony Sevelka

There are some communities across North America in which it is relatively easy to achieve draft or preliminary subdivision plan approval, but which carry onerous and costly conditions for final subdivision approval. Land carried to the subdivision draft-approval stage will often remain dormant for years until the developer is reasonably sure that the proposed subdivision (concept plan) will be financially successful. But with the passage of time, the concept plan may have to be revised to reflect changes in demand for new housing.

[Find out more...](#)

Life Lessons at P.G. Gagné Commercial Real Estate Corp. – Lesson #15

"When one door closes another door opens; but we so often look so long and so regretfully upon the closed door, that we do not see the ones which open for us." Helen Keller

What is in a Cap Rate After All? Will Cap Rates Continue to Compress?

The premise of this commentary is that a cap rate is a “short cut” as it relates to multi period analysis. Value is not “caused” by applying a cap rate; one’s estimate of value is the result of one’s detailed analysis. Now that this is out in the open, let’s acknowledge that the cap rate is useful and is shaped by 1. debt markets (bond rates, spreads, required loan-to-value, amortization); 2. required equity return; and 3. risk profile.

This acknowledgement will obviously point to a compressing cap rate environment. My question this week is whether cap rates will continue to compress. Assume for the purpose of this commentary that we are looking at assets within the same risk profile category so that we can focus on debt-markets and total return.

The Band of Investment model suggests (with other minor refinements) that:

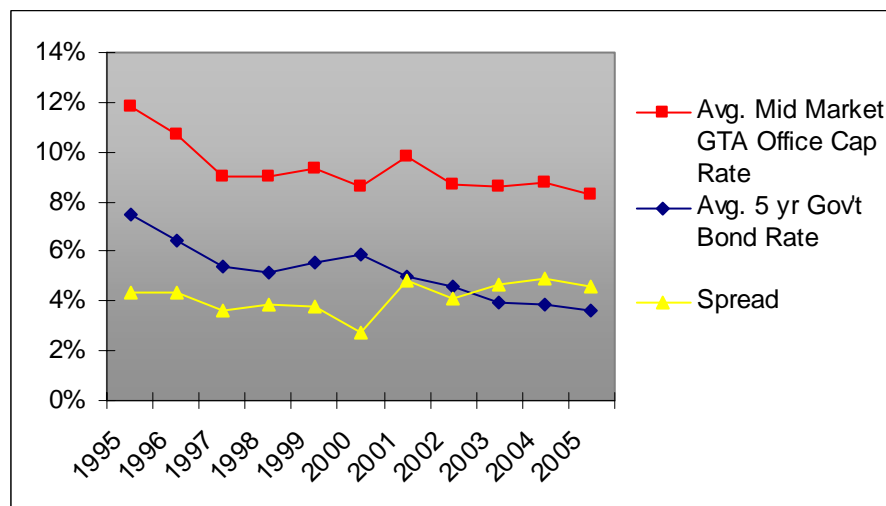
$$\text{Cap Rate} = (\text{LTV Ratio} \times \text{Mortgage Coefficient}) + (\text{Equity to Value Ratio} \times \text{Required Equity Return})$$

If the investor is satisfied with a 9% equity return and obtains 75% financing amortized over 25 years @ 5.25% the mortgage coefficient to amortize the principal is 0.0715 and the formula indicates a cap rate of 7.6%.

The financing should have an obvious disproportionate influence on the cap rate by way of its 75% LTV. As such, why do we feel challenged by compressing cap rates? Investment real estate remains one of the few asset class enabling the use of positive returns. In addition, the required equity return is also moving in the same directions because alternative investments are not producing as attractive returns.

As shown in the following chart, the evidence suggests that cap rates are likely to continue to decline. The five year Canada Bond yield has decreased at a faster rate than the average actual cap rate for mid-market office assets since 2000 (see Figure 1). The spread for example has started to increase after 2000.

That, my friend, in 30 seconds (faster if you are a speed reader) tells me that low cap rates are here to stay and that there is room for further compression even if interest rates don’t move.



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Avg. Mid Market GTA Office Cap Rate *	11.80%	10.72%	9.02%	9.01%	9.37%	8.62%	9.81%	8.65%	8.59%	8.73%	8.25%
Avg. 5 yr Gov't Bond Rate	7.47%	6.41%	5.41%	5.12%	5.56%	5.88%	4.96%	4.57%	3.96%	3.86%	3.66%
Spread	4.33%	4.31%	3.61%	3.89%	3.81%	2.74%	4.85%	4.08%	4.63%	4.87%	4.59%

* as per MarshNet