

# COMMERCIAL REAL ESTATE INVESTMENT ANALYSIS

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“In Calgary we trust! The entrance of institutional investors in the Calgary market, during a down period, demonstrates a renewed confidence in the future of the city. Adding additional appeal is the advanced process of industry diversification. The results of 2016 are of no surprise to prudent investors and to us Calgarians.”



David Wallach, CCIM, President & Broker  
Barclay Street Real Estate

*DURING THE SECOND HALF OF 2016, RAYS OF LIGHT BEGAN BREAKING THROUGH THE TWO-YEAR LONG GLOOM.* Though the Alberta economy continued moving at a slowed pace, several large financial institutions began forecasting a 2017 ‘long and low’ recovery for the province. In the third quarter of the year, investment activity in Calgary began percolating and a substantial uptick in CRE investment began - most notably, the combined \$535 million equity stake made by the Canadian Pension Plan Investment Board (CPPIB) in the Centennial Place East and West towers and Eau Claire Tower. This portfolio investment was followed by a 50% equity stake in TransCanada Tower for \$257.4 million by Healthcare of Ontario Pension Plan (HOOPP). These transactions, however, represent significant outliers, both in terms of dollar volume and type/quality of asset.

In comparison to 2015 when \$1.5 billion transacted across the Office, Retail, Industrial, Multi-Residential and ICI/Residential land asset classes,

approximately \$2.6 billion was invested during 2016. Several significant shifts in investor focus were noted: activity in the ICI Land asset class more than doubled on a year-over-year basis and the number of Retail transactions increased by more than one-fifth. In terms of dollar volume, investment in commercial office properties nearly tripled while Retail assets saw a doubling of capital inflow. Notably, Residential Land investment decreased dramatically to 63% of levels seen during 2015, which is reflective of considerably fewer big-ticket purchases of \$10 million and greater. Barclay Street tracks activity level (the number of transactions) by property price range, which yields data showing investor focus was more balanced than seen in the previous two years; a greater proportion of transactions took place in the price ranges of \$3 million to \$5 million and \$5 million to \$10 million.

Overall, a trend emerged of investors’ appetites ‘spreading out’ over a greater array of properties with larger price tags than the preceding year. This differed from 2015, which was characterised by small, cautious purchases primarily in

	2015	2016	Year-Over-Year Change
<b>Total Dollar Volume</b>	\$1,504,463,602	\$2,631,670,526	\$1,127,206,924
<b>Volume Excluding Residential Land</b>	\$1,135,491,736	\$2,400,004,964	\$1,264,513,228
<b>Residential Land Only</b>	\$368,971,866	\$231,665,562	(\$137,306,304)

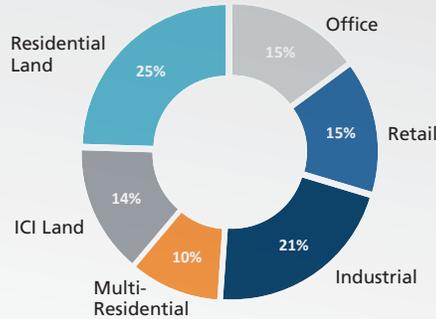
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BARCLAY STREET REAL ESTATE

Director of Research – Anthony B. Scott  
403-290-0178 • ascott@barclaystreet.com

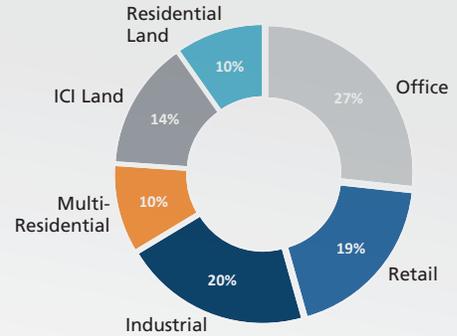


the \$1 million to \$3 million range across all asset classes as buyers sought-out better deals. Barclay Street continues to see long-term confidence in Calgary's investment market, as evidenced by the trends in prices paid per square foot and per unit (Multi-Residential) with the Land asset class posting a decrease in price per acre. What remains noteworthy, is that year-to-date prices remained above those of the previous recession of 2008/2009. With the exceptions of the Office and Land asset classes, increases in price per square foot and per unit rose above 2012/2013 levels.

2015 COMMERCIAL REAL ESTATE INVESTMENT SALES OF \$1 MILLION AND GREATER



2016 COMMERCIAL REAL ESTATE INVESTMENT SALES OF \$1 MILLION AND GREATER



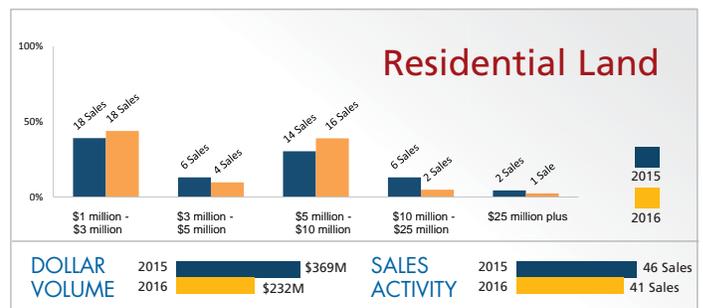
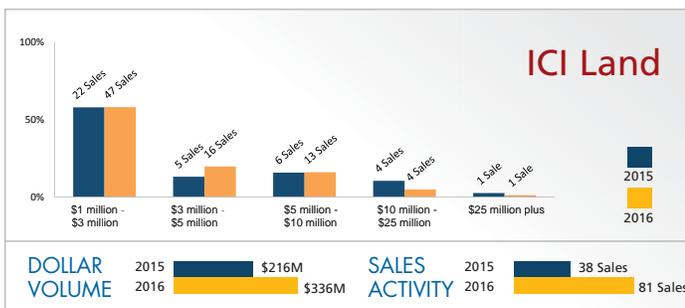
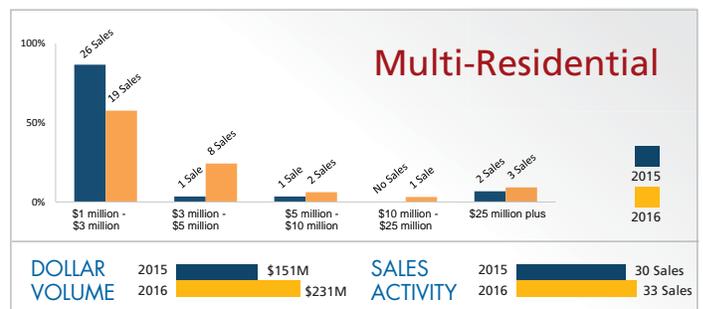
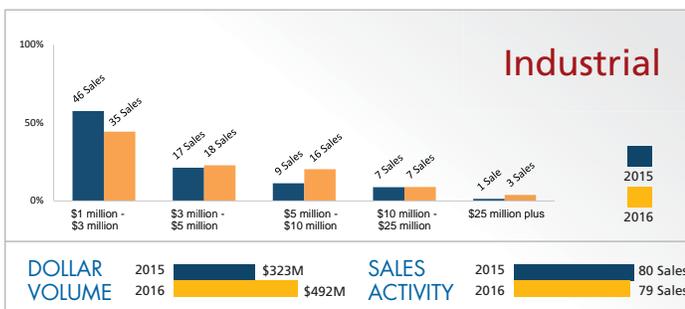
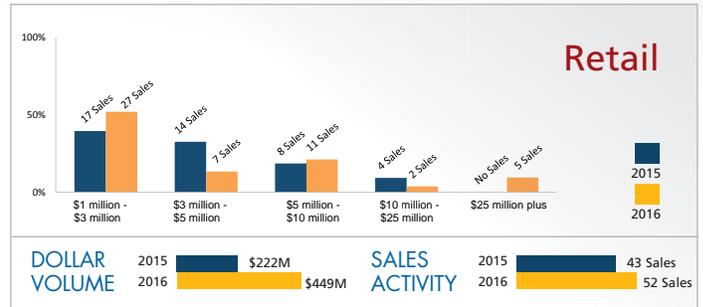
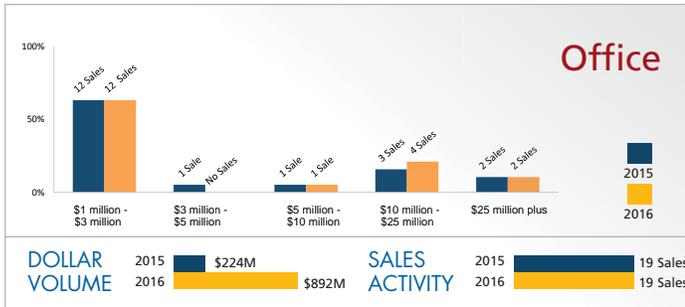
TOTAL DOLLAR VOLUME



TOTAL SALES ACTIVITY



2015 VS. 2016 TRANSACTION ACTIVITY DISTRIBUTION, PERCENTAGE OF TOTAL SALES



# Office Investment

*THE OFFICE INVESTMENT MARKET IN CALGARY SAW 19 OFFICE TRANSACTIONS EQUAL TO OR GREATER THAN \$1 MILLION, TOTALLING \$892 MILLION DURING 2016.*

This represents 34% of investment across all asset classes; more than double its share at the end of 2015. Calgary saw a major influx of institutional investor cash in the second half of the year, led by the Canadian Pension Plan Investment Board (CPPIB) who acquired a 50% Interest in an office portfolio from Oxford Properties Group. Included in the transaction were Centennial Place East and West towers and Eau Claire Tower. In October, the Healthcare of Ontario Pension Plan (HOOPP) purchased a similar 50% equity stake in TransCanada Tower. These transactions, however, represent significant outliers, both in terms of dollar volume and type/quality of asset. These two transactions comprised \$792.4 million, or 89%, of total annual dollar volume. In their absence, investment in this asset class would have been substantially lower than during 2015.

In the absence of the above-noted transactions, investor interest was generally focused on finding deals among lesser-quality assets. This is best shown by the dichotomy seen in commercial office transactions during the span of the year; the commercial office buildings changing hands were typically B Class and C Class while office condominiums were either in new developments or in upper-scale neighbourhoods of the city. On that point, True North Commercial REIT acquisition of North West Centre I and II; 77,600 sf 2-building office complex, which are B and C Class, falls in-line with the general type of office properties sought by investors during 2016.

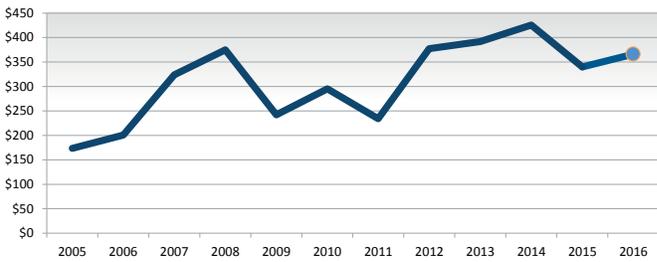
OFFICE TRANSACTIONS OVER \$1 MILLION (TOTAL ANNUAL)

	2012	2013	2014	2015	2016
Total \$ Volume	\$1,454,441,564	\$1,067,696,088	\$712,276,508	\$223,984,241	\$891,683,036
# of Transactions	44	34	24	19	19
Avg. Bldg. Price per Square Foot	\$377	\$392	\$426	\$340	\$366
Average Price Per Transaction	\$33,055,490	\$34,178,465	\$29,678,188	\$11,788,644	\$46,930,686
Average Building Size (sf)	87,603	82,556	69,722	44,035	167,501

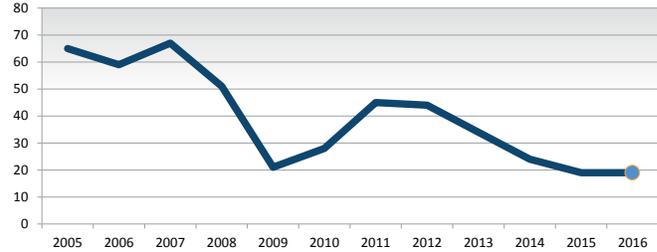
Source: RealNet.ca

The above-noted differences in quality were reflected in the pricing on a per square foot basis. Office condos transacted at an average of \$436 per square foot (p/sf) while office buildings went for \$348 p/sf. It should be noted that the year-to-date increase in average price per square foot was bolstered by two transactions with very high prices per square foot: 32 Royal Vista Drive NW which sold for \$601 p/sf and 1428 20th Avenue NW which sold for \$600 p/sf.

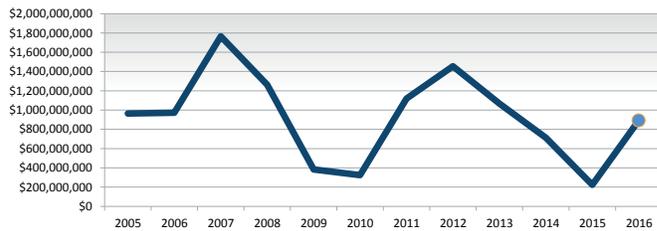
AVERAGE PRICE PER SQUARE FOOT



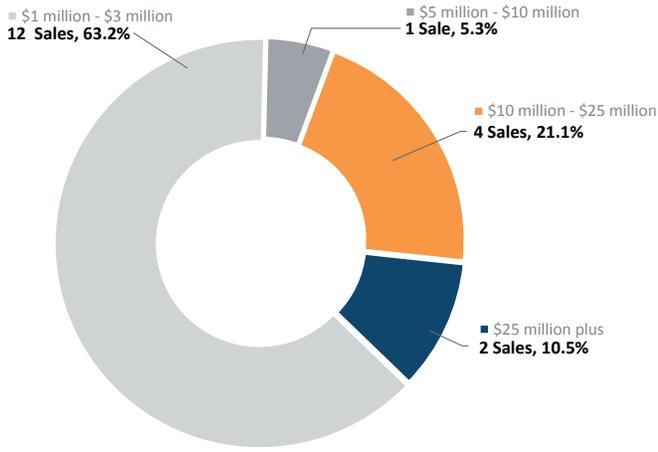
NUMBER OF TRANSACTIONS



TOTAL \$ VOLUME



2016 OFFICE INVESTMENT ACTIVITY DISTRIBUTION



# Retail Investment

*THE RETAIL SECTOR CONTINUED TO DEMONSTRATE ROBUSTNESS AS AN INVESTMENT ASSET CLASS, DRAWING DOUBLE THE TOTAL DOLLAR VOLUME SEEN DURING 2015 AT \$449 MILLION.*

This is due in large part to five transactions greater than \$25 million and it should be noted that no transactions in this price category occurred during 2015. The largest purchase of 2016 was made by RioCan, who acquired Beacon Hill Shopping Centre for \$106.5 million from the Canadian Pension Plan Investment Board (CPPIB). Crombie REIT was active, purchasing three properties but private investors were the primary driver of investment in 2016.

Barclay Street’s analysis shows that the majority of activity occurred with retail properties priced in the \$1 million to \$3 million dollar range, with sustained activity in the \$5 to \$10 million dollar range. Worth noting is that retail transactions were spread out more among the five price ranges we’ve defined than during 2015, which is a notable departure from investors’ shift to properties with small

RETAIL TRANSACTIONS OVER \$1 MILLION (TOTAL ANNUAL)

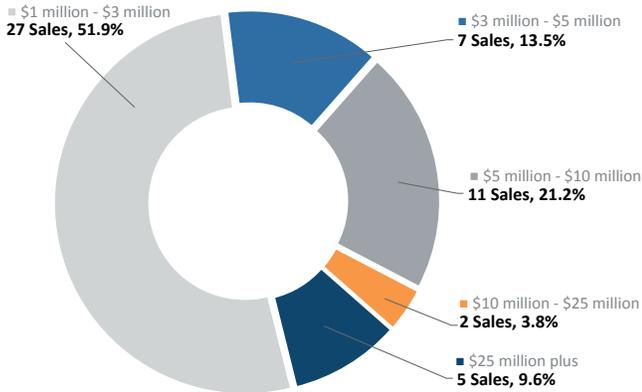
	2012	2013	2014	2015	2016
Total \$ Volume	\$485,217,641	\$249,741,704	\$392,663,729	\$222,026,567	\$449,222,745
# of Transactions	41	40	58	43	52
Avg. Bldg. Price per Square Foot	\$278	\$343	\$371	\$384	\$399
Average Price Per Transaction	\$11,834,577	\$6,243,543	\$6,770,064	\$5,163,409	\$8,638,899
Average Building Size (sf)	42,512	18,192	18,557	13,442	28,192

Source: RealNet.ca

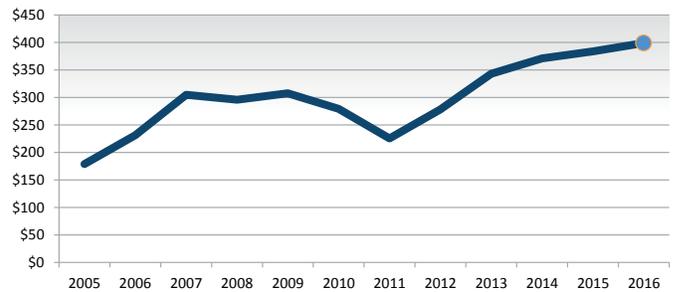
price tags. A notable contributor to this trend was Triovest Capital’s purchase of a derelict retail strip on Calgary’s Seventh Avenue S.W for \$12.27 million late in the year.

The continued demand for retail properties can be tied to the low vacancy rates in Calgary’s suburban markets and to a lesser degree, a renewed demand for retail spaces in the Central Business District which encompasses the Downtown and Beltline areas. At the depth of the economic downturn, Calgary’s retail vacancy rose to 3.5%. This was due mostly to store and restaurant closures which, in turn, were symptomatic of the decreased foot traffic resulting from multiple rounds of energy sector layoffs. Therein, however, lay opportunity for others to take advantage of decreasing market rental rates, which led to the opening of multiple new franchise locations. The second half of the year – the fourth quarter in particular – brought a noticeable upswing in leasing activity, particularly in long-vacant Central Business District (CBD) developments.

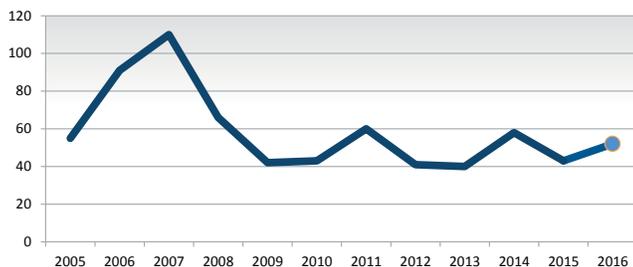
2016 RETAIL INVESTMENT ACTIVITY DISTRIBUTION



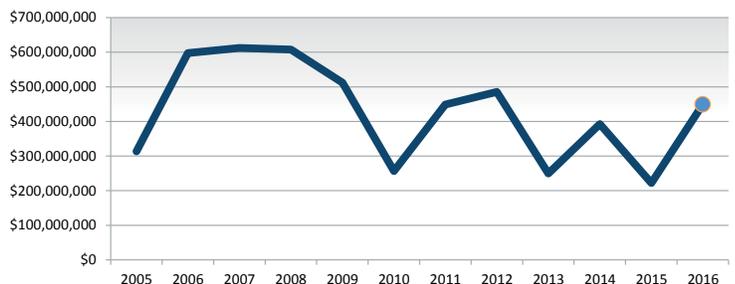
AVERAGE PRICE PER SQUARE FOOT



NUMBER OF TRANSACTIONS



TOTAL \$ VOLUME



For detailed Retail Leasing Analysis of the Calgary market go to [barclaystreet.com/research](http://barclaystreet.com/research)

# Industrial Investment

*CALGARY'S INDUSTRIAL ASSET CLASS, ON A DOLLAR VOLUME BASIS, SHOWED INCREASED APPEAL TO INVESTORS DURING 2016 AND DREW ROUGHLY A 50% YEAR-OVER-YEAR INCREASE OF \$169 MILLION.*

INDUSTRIAL TRANSACTIONS OVER \$1 MILLION (TOTAL ANNUAL)

	2012	2013	2014	2015	2016
Total \$ Volume	\$380,328,379	\$641,773,697	\$614,294,285	\$322,786,141	\$491,665,051
# of Transactions	82	85	94	80	79
Average Price per Square Foot	\$156	\$121	\$142	\$192	\$203
Average Price	\$4,638,151	\$7,550,279	\$6,535,046	\$4,034,827	\$6,223,608
Average Building Size (sf)	30,408	62,530	47,389	26,580	43,941

Source: RealNet.ca

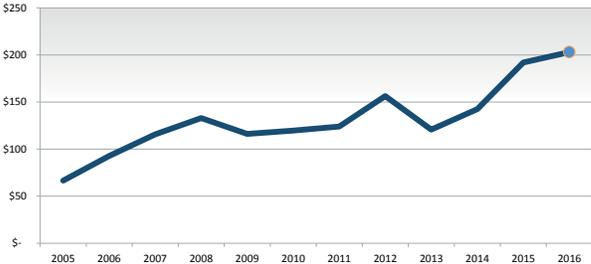
Barclay Street's analysis shows that activity was consistent among Industrial properties priced in the \$1 million to \$3 million dollar range, with sustained activity in the \$3 to \$5 million dollar range. However, a notable trend with Industrial properties, also seen in the Retail asset class, was a spreading-out of purchases among the five price ranges we've defined; this marks a departure from investors' defensive tactic of buying properties with small price tags during 2015.

Total dollar volume transacted in this asset class was \$492 million with an average sale price of \$203 per square foot (psf). This marks a moderate increase over \$192 for 2015. Significant contributors to this upward trend were the sales of 9223 23rd Street Southeast for the equivalent of \$678 p/sf and North Hill Bottle Depot for \$404 p/sf. In 2016 there were three transactions completed above \$25 million versus only one the previous year. Further, Industrial properties experienced a newfound place on the radar of institutional investors. This is best demonstrated by Toronto-based Pure Industrial Real Estate Trust, who purchased a portfolio of Alberta industrial buildings, many of which are in Calgary, covering 1.2 million square feet of leasable space in mid-fourth quarter.

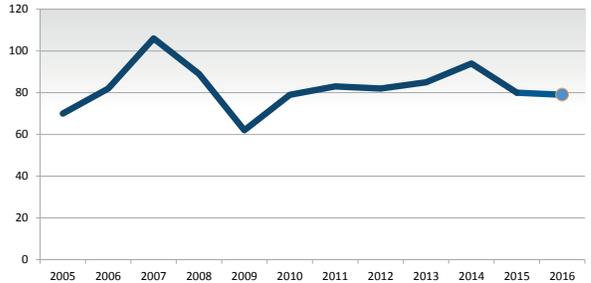
In terms of investment activity, the Industrial sector maintained 99% of sales concluded during 2015 with 79 transactions

completed versus 80. Referring to the distribution pie chart below, Barclay Street's analysis shows consistent activity occurring with properties priced below \$10 million dollars. Specifically, properties in the \$1 million to \$3 million dollar range were in greatest demand but as mentioned above, an diverse appetite for properties in all prices ranges was evident.

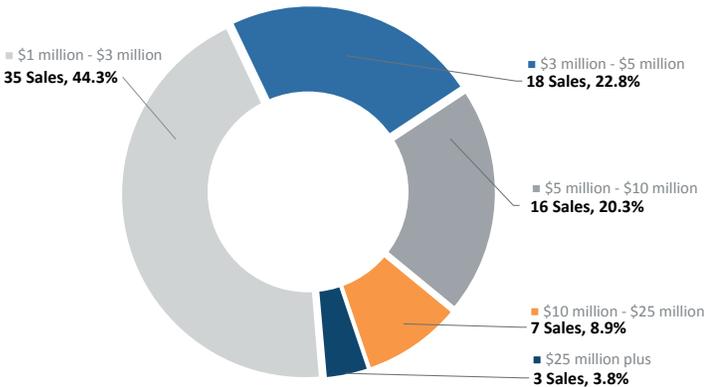
AVERAGE PRICE PER SQUARE FOOT



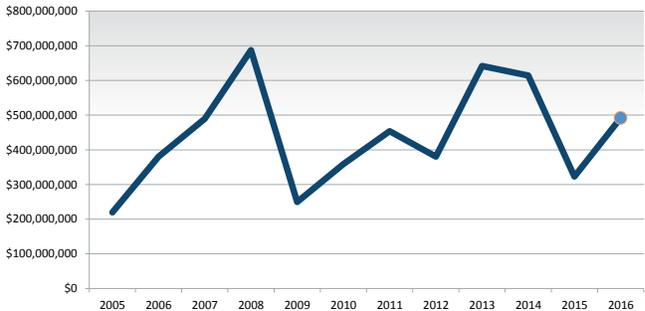
NUMBER OF TRANSACTIONS



2016 INDUSTRIAL INVESTMENT ACTIVITY DISTRIBUTION



TOTAL \$ VOLUME



# Multi-Residential Investment

ACTIVITY ON THE PART OF INVESTORS IN CALGARY'S MULTI-RESIDENTIAL MARKET INCREASED SLIGHTLY ON A YEAR-OVER-YEAR BASIS, AND THAT UPTICK IN TRANSACTIONS TRANSLATED INTO AN APPROXIMATE 50% INCREASE IN DOLLAR VOLUME.

Unlike 2015, when owners were largely unmotivated to divest themselves of assets, 2016 saw a broad variety of properties become available as owners responded to pent-up demand. As such, the market witnessed a marked increase of more than \$80 million dollars and surpassed previous economic recovery markers set in 2010 and 2014. The change is reflective of both a slight increase in the number of transactions versus 2015, as well as also the generally much larger size

MULTI-RESIDENTIAL TRANSACTIONS OVER \$1 MILLION (TOTAL ANNUAL)

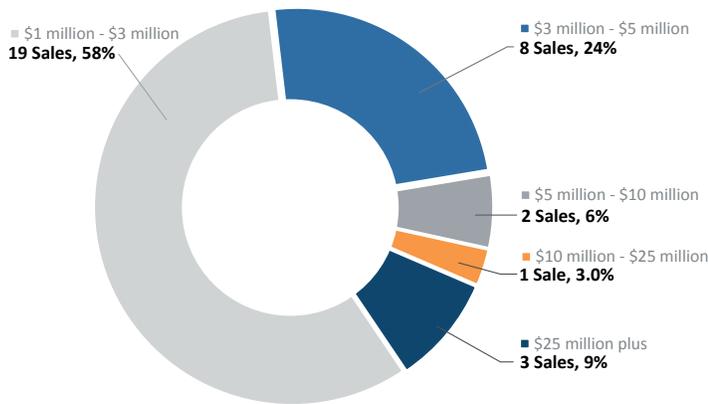
	2012	2013	2014	2015	2016
Total \$ Volume	\$406,429,820	\$184,119,075	\$195,877,359	\$150,944,958	\$231,084,167
# of Transactions	38	43	59	30	33
Average Price per Unit	\$172,655	\$170,323	\$183,922	\$264,816	\$230,970
Average Price	\$10,695,522	\$4,281,839	\$3,319,955	\$5,031,499	\$7,002,551
Average Building Size (Units)	65	25	18	19	33

Source: RealNet.ca

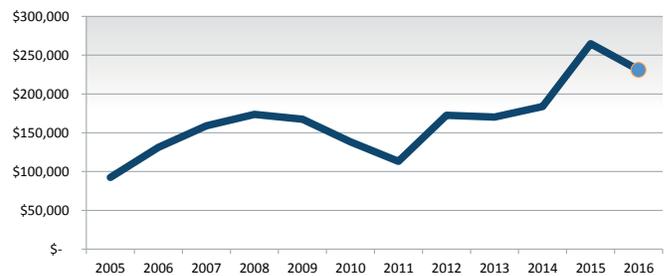
of properties purchased. In 2016, the average size of a multi-residential property was 32 units, versus 21 in 2015. Contributing to this overall increase were three transactions: Aura II which contains 158 units, The Birkenshaw which contains 215 units and Auburn Landing Apartments which comprises 238 units. In comparison, the largest properties transacted in 2015 were The Laurier (144 units) and Revera Retirement Living (154 units).

Referring to the distribution pie chart below, Barclay Street's analysis shows that majority activity in this asset class occurred with properties in the \$1 million to \$3 million dollar range. While this was expected, we also noted a significant year-over-year increase in activity in the \$3 million to \$5 million dollar range. This appears to be part of an emerging theme of 2016; that of investor activity spreading out among the five price ranges we've defined, which is a notable departure from investors' shift to properties at the low end of the price scale in 2015. The average price per unit, however, decreased during 2016 to \$230,970 from \$264,816 in 2015.

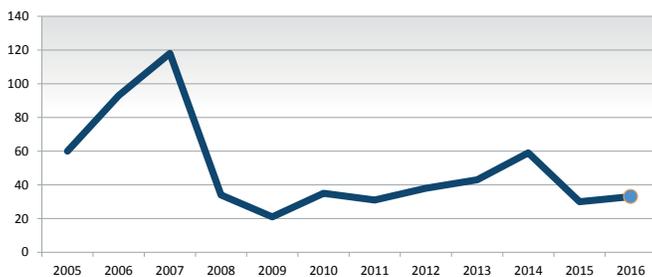
2016 MULTI-RESIDENTIAL INVESTMENT ACTIVITY DISTRIBUTION



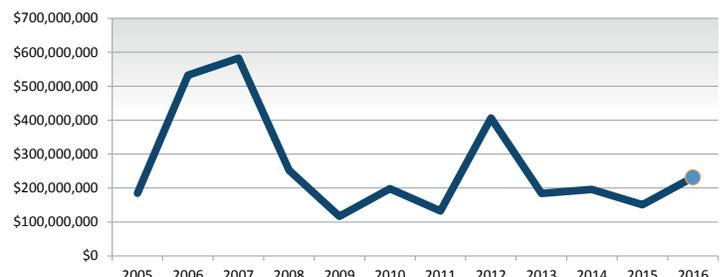
AVERAGE PRICE PER UNIT



NUMBER OF TRANSACTIONS



TOTAL \$ VOLUME



# ICI & Residential Land Investment

THE ICI LAND (INDUSTRIAL, COMMERCIAL AND INVESTMENT) SECTOR REPRESENTED THE MAJORITY OF LAND INVESTMENT SALES, CONTRIBUTING \$336 MILLION OF THE \$568 MILLION INVESTED IN THIS ASSET CLASS DURING 2016.

The average ICI transaction sat at \$4.15 million, which is down from \$5.7 million seen in 2015, driven by a large volume of transactions priced between \$1 million and \$3 million. Over the course of 2016, 47 transactions occurred in this category versus 22 during 2015. This asset class also witnessed significant increases in the number of transactions in the \$3 million to \$5 million dollar and \$5 million to \$10 million ranges, which doubled from 2015 levels, respectively.

The largest ICI Land transaction of 2016 was the \$26.2 million dollar purchase of industrial land at 12725 - 52nd Street Southeast

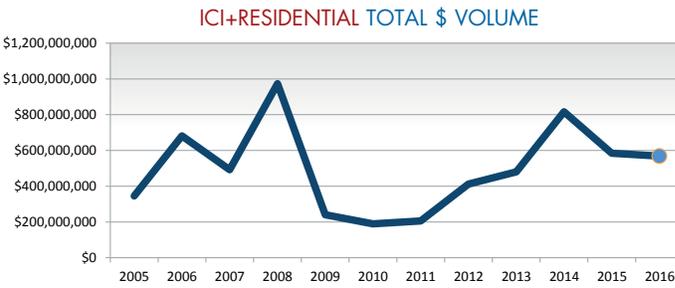
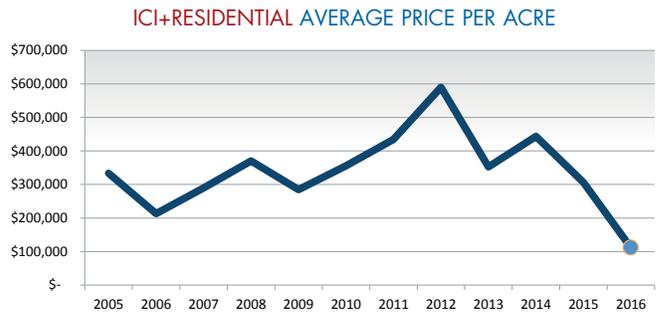
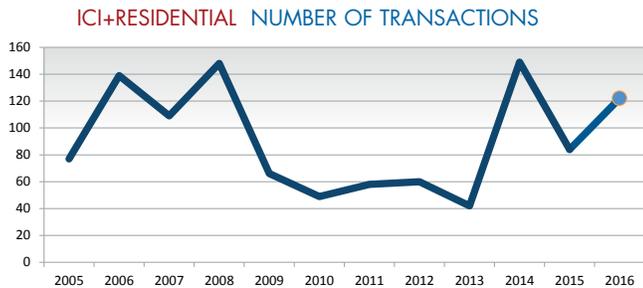
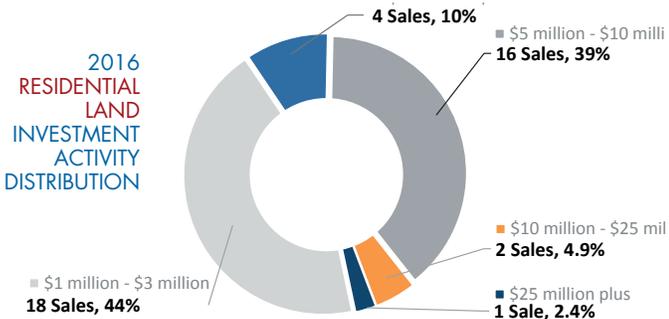
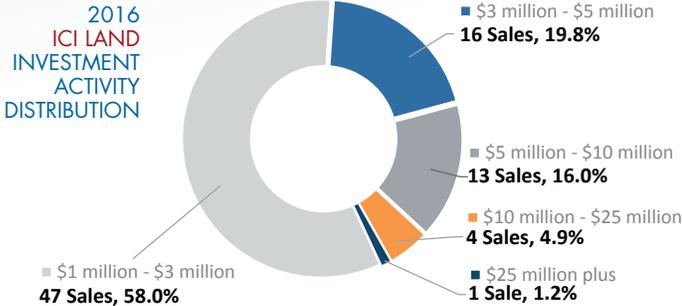
ICI+RESIDENTIAL LAND TRANSACTIONS OVER \$1 MILLION (TOTAL ANNUAL)

	2012	2013	2014	2015	2016
Total \$ Volume	\$412,082,148	\$480,240,938	\$816,045,293	\$584,721,695	\$568,015,527
# of Transactions	60	42	149	84	122
Average Price per Acre	\$589,902	\$352,378	\$443,601	\$306,527	\$111,752
Average Price	\$6,868,036	\$5,520,011	\$5,479,154	\$6,849,377	\$4,901,424
Total Land Area (Acres)	699	1363	1840	1770	5083
Average Land Area (Acres)	12	16	12	21	34

Source: RealNet.ca

by The City of Calgary from Telsec. In this transaction, 37 acres was bought, and marks a transition away from the focus on agricultural land we noted in the first half of the year. On that topic, 16 agricultural land purchases were completed over the course of the year with the average price per acre coming in at \$31,700. This low price, in addition to the aggregate 3,819 acres of agricultural land, had a significant moderating effect on average ICI Land prices. Per acre costs were \$864,682 for 2016.

At \$231 million, Residential Land sales during 2016 comprised approximately two-thirds of 2015 dollar volume. The value of the average transaction sat at \$5.6 million; down from the 2015 average of \$8 million. In terms of investor activity, however, sales among the various price ranges remained steady on a year-over-year basis. The most significant transaction of the year was the \$33 million purchase of 23.6 acres of land at 820 James McKeivitt Road Southwest by Graywood Developments.



← In terms investment activity, the ICI Land asset class saw more than double the number of transactions completed than during 2015, with 81 sales completed. Dollar volume was up 56% year-over-year. Referring to the distribution pie chart below, Barclay Street's analysis shows the majority of purchases occurring in the \$1 million to \$3 million dollar range, where 47 transactions were completed. As with several other asset classes in Calgary, investors were active in a broader array of price ranges.

Residential Land on the other hand, saw reduced activity as investors contended with an environment of slowed single family home sales & starts. Additionally, there was surplus inventory of multi-family product on the market and as servicing costs continued to rise, developers responded by exercising caution and reduced speculative residential lot development.

BARCLAY STREET REAL ESTATE INVESTMENT TEAM | 403-290-0178



KELLY CARVER

VICE PRESIDENT, ASSOCIATE BROKER  
kcarver@barclaystreet.com



GEORGE LARSON

VICE PRESIDENT  
glarson@barclaystreet.com



DOUG GRINDE

VICE PRESIDENT  
dgrinde@barclaystreet.com



JON MOOK

EXECUTIVE VICE PRESIDENT  
jmook@barclaystreet.com



CASEY STUART

VICE PRESIDENT  
cstuart@barclaystreet.com



DAN HARMSEN

VICE PRESIDENT, ASSOCIATE BROKER  
dharmsen@barclaystreet.com



NICHOLAS EARL

ASSOCIATE  
nearl@barclaystreet.com



KALINKA IVANOVA

RPA, CCIM, ASSOCIATE  
kivanova@barclaystreet.com



DAVID WALLACH

CCIM PRESIDENT, BROKER  
dwallach@barclaystreet.com

LOCAL EXPERTISE  
MATTERS



www.barclaystreet.com

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