



the **Q** investment report

your source from the street

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"A breath of fresh air - concise, readable and very insightful"

Frank A. Clayton, Ph.D.

LENNARD PERFORMANCE

Office Sale Pending
32 Atlantic Avenue

Purchase Price:
\$8.5 million

Size:
65,000 SF

Purchaser:
The Rose and Thistle Group Ltd.

Agent:
Dean Macaskill, Lennard Comm.



Overview

An interesting quarter has just past. We're not saying that it was boring but, other than a few notable exceptions, there were very few "Whoa" transactions recorded. So, if you're looking for action, you might want to wait until next quarter. The next quarter will likely detail whether Slate Properties issues an IPO or sells outright, with expected results in the range of \$800 million. We will see the fruits of Crown Realty Partners labour to sell 481 University Avenue, 415 Yonge Street, 161 Eglinton Avenue East and the Gateway Centre in Markham. The sale of the Toronto Parking Authority's 1 acre+ property at 50 Cumberland should also be complete to their second highest bidder after the first buyer dropped the deal.

We suggested in our last report that we should see a culling of B and C class assets by some of the major players. That didn't really materialize this past quarter. As of this writing, 555 Richmond Street West was reviewing offers tendered, while 901 King Street West was being prepared for market. A sale of the Slate Properties downtown portfolio would result in a significant chunk of B Class buildings in the downtown core coming to market. We also hear that 111 Peter Street will also be coming to market, having only sold a few short years ago. El Ad have 1500 Don Mills Road listed and are also bringing 5001 Yonge Street to the market shortly.

What is more notable this quarter is the departure of some major players. Gary Samuel is leaving Crown Realty Partners to renovate his home and will be breaking in his new golf clubs. Jamie Chisholm is leaving First Capital to spend the summer at the cottage and will start a new venture in the Fall. Others, such as Peter Aghar, formerly from KingSett, Michael Knowlton from Dundee and Glenn Shyba from Redcliff are sitting in their easy chairs contemplating their next moves.

Office Sales

There were 36 office sales in excess of \$1 million this past quarter. Only 6 trades were in excess of \$10 million. Compare this to last quarter's 29 trades overall with 12 properties selling for greater than \$10 million. Of the six larger transactions, the deal of the quarter, in terms of value, would be Crown Realty's acquisition of 155 Gordon Baker Road for only \$103 per square foot based upon a selling price

of \$25,250,000 for this 245,000 square foot building. The building was 75% occupied at the time of sale, with a going in cap rate of 7.5%. The building does need some attention with respect to capital repairs that will push up the final overall costs slightly.

Smaller buildings competing for value of the month include the Rose and Thistle Group's acquisition of 18 Wynford Drive for \$71 per square foot or \$8,119,445 based upon a building area of 115,000 square feet. Also in the mix, we find 60 West Drive in Brampton, a 53,880 square foot building trading for \$3,500,000 or \$65 per square foot, while 187 Main Street North, a 20,400 square foot office building in Newmarket, sold for only \$58 per square foot or \$1,175,000. Each of these transactions had different characteristics. Wynford Drive was an acquisition of part of a condominium office building, that was predominantly vacant. The purchaser was seeking both medical and typical office tenants to fill the space. 60 West Drive was sold vacant to an end user, the Catholic Family Services of Peel-Dufferin. The Newmarket building was predominantly leased to local businesses.



155 Gordon Baker Road was acquired by Crown Realty Partners for \$103 per square foot

Whiterock REIT carried on with their quarterly tradition of purchasing assets from TransGlobe with the acquisition of 2010 Winston Park Drive in Oakville, 10 Lower Spadina and 6501-6559 Mississauga Road for a total cost of \$54,900,000. These three trades account for half of the office product sales in the past quarter selling in excess of \$10 million. 2010 Winston Park is a 79,125 square foot office building with AON as its major tenant. The selling price was \$19,300,000 or \$244 per square foot. 10 Lower Spadina is located at the foot of Spadina at Lake Ontario. It measured 60,000 square feet and sold for \$12,800,000 or \$213 per square foot. 6501-6559 Mississauga Road consisted of 21 single storey office buildings. The properties had an aggregate area of 156,000 square feet, selling for \$22,800,000 or \$146 per square foot.

Manulife was active this quarter with their purchase of 5343-5353 Dundas Street West in Etobicoke for \$49 million or \$230 per square foot based upon a combined area of 212,917 square feet for a going in cap rate of 7.7%. The buildings were 95% leased at the time of sale and benefit from a location with



The first "Whoa" deal was the sale of Dundas Square at Yonge and Dundas.

close proximity to the Kipling Subway Station.

We started this section discussing the deal of the month; we end it with the most expensive deals. North West Value Partners' acquisition of the Malvern Medical Arts building on Malvern Drive in Scarborough for \$442 per square foot or \$16,750,000 is not unusual for a medical building acquisition. Generally the lab space and pharmacy within these buildings is leased at extraordinary rents, helping push up the price per square foot. The building measures 37,900 square feet. But this is not the most expensive deal. A small medical plaza sold at 20 Drewry Avenue in North York for \$2,700,000 or \$844 per square foot of building area. This 3,200 square foot building was purchased by one of the tenants in the facility. Keep in mind that this is by no means a high end neighbourhood, making this an astounding figure.

The dichotomy of values represented in this quarter demonstrates the variety of product trading in the market. It would appear for every high dollar trade, there is a corresponding, offsetting lower dollar value trade. Despite this range of value, we maintain that value trades will be elusive as the office market chugs along at full steam, with market vacancies dropping quickly. Tenants hoping for a killer lease deal have seen that train leave the station in the majority of submarkets.

Retail Sales

Seventy six retail sales were recorded this past quarter. As we outlined in our office section, very few trades, only 11 of the 76, were in excess of \$10 million, although two of them would meet the test of our "Whoa" criteria mentioned in our overview.

The first "Whoa" deal was the sale of Dundas Square at Yonge and Dundas. The selling price of this multi-level retail complex was \$226,000,000 or \$681 per square foot based upon 331,962 square feet of rentable area. The cap rate was 6.4% and the centre included AMC Theatres, Future Shop, Adidas, Milestones and Jack Astors. Despite a quarter billion dollar selling price, the property required three rounds of bidding. The initial bids resulted in a strong response so the players were asked to re-submit their best bids. When the second round of bids was reviewed, it was found that two participants had offered identical terms and conditions, requiring yet a third round to break the tie.

The second "Whoa" sale was Hillcrest Mall in Richmond Hill, sold by Cadillac Fairview to a joint venture consisting of Montez Corporation and Oxford, for \$185,000,000 or \$322 per square foot based upon 575,000 square feet of space. The centre is anchored by Zellers, the Bay and the Bank of Montreal.

An interesting sale to discuss is Bronte Village Mall in Burlington. This 75,000 square foot retail centre on Lakeshore Road West in Oakville sold for \$20,700,000 or \$276 per square foot. Where the deal gets interesting is the cap rate - 3.9%. This should not be construed as the new bar for food anchored retail centres but it makes for good

conversation. We are often asked what the current market cap rates are for various product classes. The problem with this question is that it results in generalization and not specifics. Some reading a 3.9% cap rate on this transaction may wonder what Goldmanco, the purchaser, was thinking. When you dig a little deeper, you find that rents were well below market and there will be significant upside on renewals and/or new leasing.

As many know, Sam's Club announced in February 2009 that they would close their southern Ontario stores. Their location at 1604 The Queensway in Etobicoke sold during the quarter to Lowe's. The selling price of \$34,662,075 represents a price of \$255 per square foot based upon a building area of 135,750 square feet.

Looking at some of the smaller transactions this past quarter, on the extraordinary side of the ledger, we note the sale of 9825 Yonge Street in Richmond Hill. The property is improved with a small 3,770 square foot building on 0.42 acres of land. The selling price of \$3,400,000 represents a selling price equivalent to \$902 per square foot. Assuming 25% site coverage, the owner might be able to expand the building by another 2,000 square feet which still puts the price beyond imagination for this node. The purchaser will utilize the building for its own restaurant business. The potential loser in the deal might be the vendor as they took back a 5 year mortgage on the property for \$2.8 million.

Golfour Group acquired 6585 Airport Road from LaSalle during the quarter. The property is improved with Wendy's and Country Style Donuts and occupies a total area of 5,650 square feet. The selling price of \$3,350,000 represents a selling price of \$593 per square foot



Dundas Square at Yonge and Dundas sold for \$226,000,000 or \$681 per square foot based upon 331,962 square feet of rentable area.

and a going-in cap rate of 7.2%. There is some risk in the deal, likely resulting in the relatively high cap rate. Both leases expire in November, 2012. What might mitigate the risk is the fact that there is little food service in the neighbourhood, although the current rents, in the \$36 range, suggest there might be limited room to improve cash flow.

The Forest Hill Village strip along Spadina Road, measuring less than a quarter of a kilometre, caters to a well heeled captive audience that frequents its quaint restaurants on a regular basis. All of the major banks have operations in this strip and it is rare to see properties trade in this node. When they do, generally they go for large money. The sale of 394-396 Spadina Road reflects this



There were 22 high rise sites sold in the past quarter, 8 of which were in excess of \$10 million.

statement. The selling price of \$3,900,000 for this 4,818 square foot building indicates a price per square foot of \$809 per square foot. Current tenants include Flight Centre and Subway, the remaining tenants would be characterized as local and not what you would call trophy tenants.

Finally, it is interesting to keep abreast of the Queen West market. Normally we examine the Queen strip from Simcoe to Spadina. This quarter we examine a sale further west, past Bathurst Street at 693 Queen Street West. This property consists of a 2,200 square foot, three storey building selling for \$1,495,000 or \$680 per square foot. The property only had 20.75 feet of frontage. The second and third floors contained a total area of 1,400 square feet, comprised of office and apartment space, leaving only 800 square feet of vacant ground floor retail area. Suggesting that the office and apartment would rent in the \$15 per square foot range, the purchaser would have to achieve a rent in the range of \$70 per square foot for the retail space to provide a 6% return. Market rents are not there yet.

Industrial Sales

As usual, the industrial market remains robust with 94 sales in excess of \$1 million recorded, with only two sales exceeding \$10 million. One of the larger sales was 2495-2501 Stanfield Road in Mississauga. The site is improved with three buildings totalling 245,000 square feet. The selling price was \$16,250,010 or \$67 per square foot. The cap rate was 7.8% and the buildings were 94% leased at the time. The higher than expected cap rate can be partly explained by the fact that these were older buildings purchased from Revlon by the vendor in 2003. They subsequently put in some capital improvements which included a new façade but this can not hide the relatively low ceiling heights within the buildings that ranged from 15 to 25 feet. Further, the tenant covenants within the complex can be characterized as B quality.

The next larger sale was transacted at 8500 Keele Street in Vaughan. The offering consisted of a 205,567 square foot, multi-tenant structure constructed in 1987. The selling price was \$10,500,000 representing a price of \$51 per square foot. Ceiling heights averaged 20 feet and there were no national tenants within the facility. Of note was the vendor take back mortgage ("VIB") for 75% of the selling price with a term of ten years, abnormally long for a typical VIB.

From our "Believe it or not" file, we will examine the sale of 130 Industrial Road in Richmond Hill. The site, consisting of 0.70 acres of land, is improved with a 10,000 square foot industrial building



2495-2501 Stanfield Road with three buildings totalling 245,000 square feet sold for \$16,250,010 or \$67 per square foot.

built circa 1958. The ceiling height, typical of the era, was only 14 feet. The selling price was \$1,438,000 or \$1,438 per square foot of building area. That was not a typing error. This represents one of the highest per square foot values we've seen regardless of asset class, since we started this report. In addition, this property is located in the heart of an industrial park so alternative uses, like high rise residential, are out of the question.

When scanning the sales, it is not unusual to find transactions exceeding \$100 per square foot. Of the 94 industrial sales, we note 36 sales exceeding this amount. Virtually all of these sales consist of properties less than 20,000 square feet and typically are purchased by users. We see values as high as \$325 per square foot (4 acres of excess land contributes to this high price), with the average being \$130 per square foot.

The lowest priced sale was recorded at 645 Coronation Drive in Scarborough. This 15.68 acre site was improved with a 99,951 square foot building constructed in 1965 with a 21 foot ceiling height. The selling price of \$2,645,000 indicates a value equivalent to \$26 per square foot. The building was vacant at the time of sale and it appears that a user has acquired the property.

We note that it is getting more difficult to locate product for less than \$50 per square foot, with \$75 per square foot becoming close to an average cost. These prices are not too dissimilar to the percentage increase in values for all asset classes and reflect our times.

High Density Residential Land Sales

There were 22 high rise sites sold in the past quarter, 8 of which were in excess of \$10 million. The highest priced deal was the 3.73 acre acquisition of by Empire Communities of 2183 Lakeshore Boulevard West in Etobicoke. The selling price of \$45 million equates to \$45 per square foot of buildable area. 975 residential units are planned for the site, to be encompassed within two high rise towers of 40 and 55 storeys each, three low rise towers between 11 to 13 storeys each and a four storey amenity building which will include 21,000 square feet of commercial space. A total development just under 1 million square feet will be built. The selling price equates to just over \$12 million per acre.

Lanterra Developments purchased 501 Yonge Street, a collection of street retail buildings owned by Chen and Sons, located just north of Carlton Street. The site measures 0.865 acres and sold for \$38,500,000. At the time of writing, a concept plan of the proposed development was not available. The selling price equates to \$44,500.00 per acre.

Greenpark Homes have been assembling land on Richmond Street West. By the end of this quarter, they had assembled 324, 326, 328 and 332 Richmond. The assembled area measures 0.369 acres with a total investment of \$13,250,000 equating to \$36 million per acre. By comparison, Andrew Hoffman, from Centrecourt



As hot as our market has become, it just appears to be warming up.

Developments, making his second acquisition since departing Menkes, purchased 328 Adelaide Street West at a price of \$10,170,000 for 0.238 acres of land. Centrecourt also acquired 340 Adelaide Street West in February this year for \$2 million for this 0.048 acre land parcel. The assembly has a combined land value equivalent to \$42,550,000 per acre. Centrecourt are contemplating a 40 storey tower on the site, with 330 units. The total development will encompass 296,387 square feet and will also include 2,863 square feet of retail space and 16,673 square feet of office space. The application to rezone was submitted prior to the closing of the transaction. Greenpark's plans for their assembly have not been announced.

Build Toronto have entered into an agreement with Tridel to jointly develop 120-130 Harbour Square. Build Toronto had asked for expressions of interest to develop the site last Fall. The site measures 0.63 acres. Although the address may not be familiar to some, if you ever had your vehicle towed downtown, you likely visited the site to fetch your vehicle as this property is jointly operated by the Toronto Police Service as an impound yard and by the Toronto Parking Authority as a surface lot. While talking about the Toronto Parking Authority, their sale of 50 Cumberland Avenue in Yorkville has been delayed due to a change of players. The original purchaser may have been somewhat overzealous in their bidding and have dropped the deal. The second place purchaser has negotiated a contract and are in due diligence.

As a gauge to measure market activity, the Waddington Auctioneer building at 111 Bathurst Street attracted 21 offers. This led to three rounds of bidding with the purchaser being Carterra, who had been in private discussions to purchase the site prior to its listing. The Staples store, located at 250 Front Street East, also was on the market at the same time. It attracted approximately 10 bidders. The difficulty with this property is the fact that Staples still have close to 8 years remaining on their lease and have little interest in moving from this profitable location. Rumour on the street indicates that Greenpark was the successful bidder.

The high rise residential market offered some interesting activity this quarter. It is quite obvious that this sector of the industry is not showing any signs of slowing down. Surface lots are disappearing as quickly as the Central American Rainforest and are on an endangered species list. That is why we are now seeing many in-fill sites represented by the assembly of street retail properties such as the Adelaide and Richmond Street properties highlighted in our report. These assemblies are very expensive. You are generally dealing with small frontage properties that sell at premium prices, i.e. Queen Street west of Bathurst for over \$600 per square foot. The assembled sites tend to be small, resulting in difficulties for excavation and construction, adding further costs to the pro-forma.

Investment Market Conclusions

As hot as our market has become, it just appears to be warming up. Vendors are taking advantage of market conditions and are bringing product to market. We don't expect this flood of product will cause cap rates to rise; there is just too much money in the system chasing the product. Many of the players in our market are sitting on over a billion dollars in cash.

As we noted earlier, next quarter should provide the results of a significant number of office building transactions while the retail market continues to chug along at full speed. There are a reported 375 companies active in high rise development within the GTA, keeping that sector well fuelled. Although the number of trades within the industrial sector remains strong, there have been few trophy sales. One can assume that KingSett is likely reviewing their stock of acquisitions from the ING purchase and will release product to the market after they tidy up some of the assets.

The one class that may suffer this year might be "turf" real estate, i.e. golf courses. A wet spring this year means you likely can count on one hand how many times you have hit the links in the GTA. Normally our industry becomes quite quiet over the sunshine months, so with the wet weather keeping everyone indoors working on deals, we could see one of our most active deal making quarters yet.

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Contact Information

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