



## Commercial Real Estate Values in the GTA

*By Brian Madigan*

The large pension funds, public sector REIT's and private equity real estate firms are all looking for the same properties. That is, of course, prime

downtown Class A office space, located in Toronto's financial district within walking distance of the intersection of Bay and King. Right there, you will find the Canadian Head Offices of TD Canada Trust, BMO, Scotiabank and CIBC. One block away, in what might be considered to be a low rise office compared to the skyscrapers is the Royal Bank Plaza with real gold inlaid in its windows. Certainly, all the property within walking distance is good real estate by Canadian standards.

The major investors, whether they be pension funds, mutual funds or foreign entities are all seeking to diversify their portfolio holdings and that means "real estate". Naturally, it also includes venture capital, futures and other more speculative investments, but the tried and true investment with over 1,000 years of good historical performance is real estate.

There will always be the "hot property" or the "hot place to be", but traditionally if you examine long term performance the blue chip investments will be located at the heart of Canada's financial district.

For the last three year's running the annual sales volume has exceeded \$10 Billion. The market is not particularly functioning well. There's just no supply and lots of players with lots of money. Obviously, the prices get bid up, and the cap rates go down. So, while the actual total volume went down in 2006 (\$1.6 Billion) compared to 2005 (\$2.3 Billion). You might think that there was a lack of interest, but that's not true. The real story is that no one wanted to sell.

Just what do large properties command in terms of price? Here are a few recent transactions in 2006:

Wonderland ~ \$167 Million

Vaughan Mills ~ 202 Million

Hudson's Bay Centre ~ \$112 Million

Why are some of the world's largest financial institutions looking to invest here? Basically, because the land is cheap! Well, not really that cheap, but on the world stage, some of the most attractive real estate returns can be found in the GTA.

Here are some world based cap rates for comparison. The cap rate (capitalization rate) is essentially the net income of the property divided by the sale price.

8.0 Shanghai

6.5 Toronto

4.0 Paris

3.7 London

Investors are now turning to other types of properties in the GTA including industrial land, retail plazas and hotels.

One significant factor is the allocation of portfolios to real estate. The trend started in Canada about 20 years ago when large pension funds entered the real estate equity asset class. The percentage limit was about 5%, but very few reached that limit. Today, many large funds carry 10% or more of their investments in real estate. You might contrast this with UK based Pension Plans which frequently carry about 30% of their portfolios in real estate.

So, is real estate a good investment? The experts seem to think so.

Where are they looking now? The 905, because that's where the land is!

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