



# 2011 TRENDS

*Blakes*  
CANADIAN LAWYERS

**REAL ESTATE**

## CANADA SEEN AS SAFE HAVEN

Canada continues to be one of the top acquisition targets for international investors. The World Economic Forum has again named Canada as having the world's soundest banking system. Canada's debt levels are the lowest of the developed world. Its resource commodity-based economy weathered the global recession better than almost all developed economies. Canada remains a highly desirable investment location valued for its high transparency, strong private property rights and low volatility. With the flight to quality, safety and stability that has occurred since the global credit crunch and worldwide recession, Canada remains a highly favoured destination for international real estate investors. Canada is again being recognized by European high-net-worth families who have a concern for the continued strength of the Euro as a desirable location for diversifying their portfolios.

## UPTURN IN VOLUME

In 2010, there was a notable upturn in large transactions with large retail malls, the ING industrial portfolio sale and office transactions leading the way. Though the high level of transactions experienced in 2007 has not yet been regained, there has been a marked upturn in investment quality real estate transactions across Canada.

## JOINT VENTURES AND MANAGEMENT FEE STRUCTURES

Due to some bad experiences international investors have had with managers and advisers who are in a position to obtain substantial fees whether or not the properties they are managing are performing well, there is a notable trend to investing with advisers who have substantial "skin in the game" and who are not simply fee-driven.

## THE EXPANDING "CORE"

As core pricing continues to increase due to the large amounts of capital-seeking safe havens, the definition of core is expanding from the CBD Office to include the other asset classes. Investors are looking at acquiring assets that are insulated from economic shocks, including food-anchored retail, assisted housing and infrastructure. It has now become very difficult to acquire multi-family assets due to the high demand by private investors, institutional investors and REITs. In the major urban centres, infill housing and retail continues to be a popular growth area.

## DEBT

With some assets being appraised at lower values and lenders insisting on lower loan-to-value ratios, real estate is still being deleveraged. Also, there is a lower demand for debt for some investors who want to reduce their debt exposure. Despite the historically low interest rates, most borrowers are not leveraging up as equity has been available on attractive terms and does not entail exposure to the expected interest rate hikes. However, some investors see this as an appropriate time to take on fixed-rate debt to improve returns as almost all commentators agree that interest rates will go up. In addition, some commentators suggest the new IFRS rules will result in more investors wishing to increase debt levels.

## GREENING

The push to reduce greenhouse gases and adopt sustainable practices has become more mainstream. Reducing operating costs by proactive energy management and other efficiencies continues to be a growing focus for landlords and tenants. Certainly the move to use less office space and other premises for operations has reduced space needs as tenants are reluctant to take up new space with economic forecasts still unsettled.

## FINANCIAL INSTITUTIONS EXPANDING

Though American headquartered tenants may have downsized and pulled out of some markets, especially affecting office space in the suburbs, Canadian financial institutions have grown and have been leasing additional space.

## UPGRADES

Some of the central business district office buildings are in need of substantial upgrades, with some institutional landlords investing large non-recoverable sums in such work. Some buyers are concerned that only recently constructed buildings can sustain cash flow without requiring such major refurbishment expenses.