

Colliers International Canada Cap Rate Report



About the Report

Each quarter we survey our top investors, more than 250 commercial property brokers and 30 registered commercial appraisers covering all major markets in Canada regarding current market conditions. The following capitalization rates are based on the responses they provided for the second quarter of 2013.

Capitalization Rates Stabilizing

Potential increase in interest rates remains top concern for owners and investors.

The Q2 2013 survey overall indicates a stabilization of expectations for returns on real estate assets throughout Canada. Capitalization rates have had ample time to adjust to current economic conditions and ongoing low interest rates. Despite this general stabilization, there were some notable changes of capitalization rates from Q1 to Q2 throughout the country.

Capitalization rates for office product nationally remained, for the most part, consistent through the first two quarters of 2013. The most notable change is an increase in minimum return expectations in the city of Ottawa of 0.50% for Class B downtown office product as well as for suburban office product. Toronto, however, saw a slight decrease in minimum capitalization rates for both A and B Class suburban office space.

Multi-tenant industrial capitalization rates in Vancouver, Edmonton, Toronto, Ottawa and Halifax saw decreases, while rates of return for single tenant buildings also decreased in Edmonton, Toronto and Ottawa. Ottawa saw a large decrease in return expectations for B Class multi-tenant industrial. In Q1, the range for Class B Industrial was from 7.00% to 8.00%; in Q2 our survey demonstrated a range of from 6.00% to 6.50%. This is a result of strong market dynamics for industrial space in Ottawa, with a limited supply of available space and limited available land for new industrial development. There were some minor reductions in expectations for A and B industrial space in Toronto, while the other markets remained consistent. *Continued on Page 2*





This quarter's survey indicates a slight drop in return expectations for retail assets in Vancouver, Edmonton, Toronto, and Halifax. Again, Ottawa demonstrated a large drop in return expectations for retail. Q1 2013 saw a range of 5.75% to 6.50% for regional/power centers while community centers saw a range of from 6.50% to 7.00%. In Q2 these ranges dropped to from 5.00% and 5.50% and from 6.00% to 6.50% respectively. This drop in retail capitalization rates in the Ottawa region can be attributed to the influx of new national tenants throughout the city, as well as a limited availability of product. Furthermore, REIT's and foreign investors have become more interested in Ottawa as a result of its stable dynamics.

Capitalization rates for multi-residential assets were mostly stable in Q2, though Vancouver saw some increase (0.25%) in return expectations. Despite this, overall multi-residential return rates in this market remain very low. A reduction in the high end of return expectations for multi-residential in Ottawa was also noted. The multi-residential market in Canada remains an attractive asset class as many national investors are interested in expanding their stake in the market, with some considering developing existing land holdings.

In conclusion, capitalization rates are expected to remain consistent moving forward. Fundamentals in Canadian real estate remain strong with most markets demonstrating relatively low vacancy and stable rental rates. Most investors are anticipating an eventual rise in interest rates, though the time line for this to occur still remains very unclear. The Bank of Canada has held the policy rate at 1.00% since September of 2010 and based on recent comments from Bank of Canada Governor Stephen Poloz, there seems to be limited potential for interest rates to rise in the short term. Existing capitalizations rates evident in the survey seem to indicate that most owners are confident that low interest rates will remain for the foreseeable future. Nonetheless, the potential for increases in interest rates remains the primary area of concern for owners and investors.

DOWNTOWN OFFICE					
MARKET	A		B		TREND
CANADIAN CITY	LOW	HIGH	LOW	HIGH	
Vancouver	4.75%	5.50%	5.25%	6.25%	▶
Calgary	5.25%	5.75%	5.75%	6.50%	▶
Edmonton	5.50%	6.50%	6.00%	7.25%	▶
Toronto	5.00%	5.50%	5.50%	6.50%	▶
Ottawa	5.00%	5.50%	6.50%	7.00%	▶
Montreal	5.75%	6.50%	6.00%	6.50%	▶
Winnipeg	6.50%	7.00%	6.75%	7.50%	▶
Halifax	6.25%	7.00%	7.00%	7.75%	▶
Victoria	6.00%	6.25%	5.90%	6.50%	▶

SUBURBAN OFFICE					
MARKET	A		B		TREND
CANADIAN CITY	LOW	HIGH	LOW	HIGH	
Vancouver	5.75%	6.50%	6.00%	6.75%	▶
Calgary	5.50%	5.75%	6.00%	6.75%	▶
Edmonton	6.00%	7.00%	6.50%	7.50%	▶
Toronto	6.00%	7.00%	6.75%	7.75%	▶
Ottawa	6.00%	6.50%	7.00%	7.50%	▶
Montreal	6.75%	7.75%	7.25%	8.25%	▶
Winnipeg	-	-	6.75%	7.50%	▶
Halifax	6.50%	7.00%	7.00%	7.75%	▶
Victoria	6.00%	6.25%	6.25%	6.50%	▶

INDUSTRIAL					
MARKET	MULTI-TENANT B		SINGLE-TENANT A		TREND
CANADIAN CITY	LOW	HIGH	LOW	HIGH	
Vancouver	5.50%	6.50%	5.25%	6.00%	▶
Calgary	6.00%	6.50%	5.75%	6.25%	▶
Edmonton	5.75%	6.50%	5.75%	6.75%	▶
Toronto	6.00%	7.00%	5.50%	6.00%	▶
Ottawa	6.00%	6.50%	5.75%	6.25%	▶
Montreal	7.00%	7.75%	6.75%	7.50%	▶
Winnipeg	6.75%	7.50%	6.50%	7.00%	▶
Halifax	7.25%	7.75%	6.75%	7.25%	▶
Victoria	6.50%	6.75%	6.00%	6.50%	▶





482 offices in 62 countries on 6 continents

- > \$2 billion US in annual revenue
- > 1.12 billion square feet under management
- > More than 13,500 professionals

RETAIL							TREND
MARKET	REGIONAL / POWER		COMMUNITY		STRIP MALL		
CANADIAN CITY	LOW	HIGH	LOW	HIGH	LOW	HIGH	
Vancouver	4.75%	5.50%	5.00%	6.00%	5.25%	6.00%	▶
Calgary	5.50%	6.00%	6.00%	6.75%	6.25%	7.00%	▶
Edmonton	4.75%	5.75%	5.50%	6.50%	6.00%	6.75%	▶
Toronto	4.75%	5.75%	6.00%	6.75%	5.75%	6.75%	▶
Ottawa	5.00%	5.50%	6.00%	6.50%	7.00%	7.50%	▶
Montreal	5.75%	6.75%	6.90%	7.75%	7.00%	7.75%	▶
Winnipeg	6.00%	6.50%	6.50%	7.00%	6.75%	7.25%	▶
Halifax	5.50%	6.25%	6.50%	7.50%	6.00%	6.50%	▶
Victoria	6.00%	6.25%	6.25%	6.50%	6.00%	6.50%	▶

MULTI-FAMILY					TREND
MARKET	HIGH-RISE		LOW-RISE		
CANADIAN CITY	LOW	HIGH	LOW	HIGH	
Vancouver	3.25%	4.00%	3.75%	4.75%	▶
Calgary	4.25%	4.50%	4.50%	5.00%	▶
Edmonton	5.00%	5.50%	6.00%	6.75%	▶
Toronto	3.75%	4.75%	4.75%	5.50%	▶
Ottawa	4.25%	4.50%	4.75%	5.25%	▶
Montreal	5.00%	6.00%	6.00%	6.75%	▶
Winnipeg	5.00%	5.75%	5.25%	6.25%	▶
Halifax	5.25%	5.50%	5.40%	7.00%	▶
Victoria	4.00%	4.25%	4.25%	5.25%	▶

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