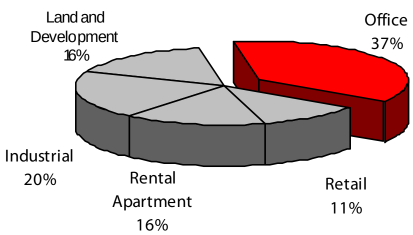
Greater Toronto Real Estate Report

Asset Focus: Office

February 08, 2005 Volume #11.02

Pierre Gagné's Historic Scope of Business



The corporate branding exercise that we commissioned last year for P.G. Gagné Commercial Real Estate Corp. revealed that different clients have a different understanding of the scope of business covered by the firm. We are clearly identified as GTA experts advising and assisting in the sale of mid-market assets. Many clients however associate our asset class mainly along the lines of their own scope of business. P.G. Gagné Commercial Real Estate Corp. covers all main asset classes. **This week's newsletter addresses the office sector**. **Check our website www.gagnerealestate.ca**

NEW LISTING

Market Tower - 151 Dundas Street, London, Ontario

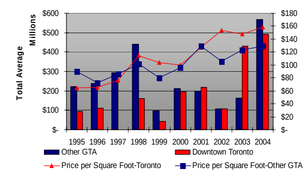
The acquisition of Market Tower located at 151 Dundas Street in London, Ontario offers a unique opportunity to invest in a newly upgraded quality class 'B' office building at an attractive return of 10.6% after lease-up and secured in major part by triple 'A' covenants such as The City of London and McDonald's.

Find out more…

How Do We Price Risk in the Office Sector?

Investor surveys have suggested historical cap rate differential in Downtown vs. Suburban office building investments. The GTA aggregate actual sales results suggest on average 135 bps higher cap rate in the GTA Suburbs over the 1995-2004 period.

Find out more…



Recent Sales in the GTA

443 University Avenue – A 39,770 square foot office building located on the south east corner of University Avenue and Dundas Street West in Toronto. Closed October 25, 2004 at $6,100,000 or $154 per square foot.

20 Toronto Street – A 155,400 square foot office building located on the west side of Toronto Street north of King Street West in Toronto. Closed November 5, 2004 at $25,000,000 or $161 per square foot or 8.6% cap rate.

5945 & 5889 Airport Road – Two office buildings of 161,080 square feet and a 7,100 square feet located just south of Hwy 409 in Mississauga. Closed November 18, 2004 at $20,000,000 or $119 per square foot.

137 Yonge Street, 74 Victoria Street – A 247,000 sqaure foot office building located on the east side of Yonge at the intersection of Temperance Street extending eastward to Victoria Street. Closed November 19, 2004 at $27,975,000 or $113 per square foot or 8.4% cap rate.

55 York Street – a 125,112 square foot office building located on the east side of York Street north of Front Street West in Toronto. Closed December 15, 2004 at $18,000,000 or $144 per square foot.

3100 Steeles Avenue West – A 65,965 square foot office building located on Steeles Avenue West just west of Jane Street. Closed October 29, 2004 at $6,250,000 or $95 per square foot.

372 Bay Street – a 0.130 acre site improved with a 91,447 square foot office building located on the south west corner of Bay Street and Richmond Street West in Toronto. Closed November 15, 2004 at $16,750,000 or $183 per square foot.

110 Eglinton Avenue East – an 80,300 square foot office building located just east of Yonge Street in Toronto. Closed December 9, 2004 at $8,160,000 or $102 per square foot.

181, 185 & 195 The West Mall – a 444,815 sqaure foot portfolio located on the east side of The West Mall just south of Dundas Street West in Etobicoke. Closed December 15, 2004 at $49,825,000 or $112 per square foot.

2599 Speakman Drive – a 114,000 square foot office building located just east of Winston Churchill Blvd. in Mississauga. Closed January 13, 2005 at $9,250,000 or $81 per square foot or 10.7% cap rate.

Your Feedback and Comments on "Food Anchor vs. Non Food Anchor Retail Centres - Volume #11.01"

"An interesting piece of research…I think there are some other factors…I think the investment profile is bi modal based on size/lower cap rates for smaller properties and lower cap rates for food anchored centres. Are food anchored centres really credit tenants… is it not a credit thing rather than a food distribution thing? Regardless, well done. I look forward to reading your opinion on other issues." F.C. **Click to view Volume #11.01**

Life Lessons at P.G. Gagné Commercial Real Estate Corp. – Lesson #11

"The right word may be effective, but no word was ever as effective as a rightly timed pause." - Mark Twain

For more quotes from Mark Twain visit **www.quotationspage.com.**

P.G. GAGNÉ COMMERCIAL REAL ESTATE CORP., 220 Bay Street, 9th Floor, Toronto, Ontario, M5J 2W4 ● Tel: 416-955-1885 Fax: 416-862-2136 ● pierre@gagnerealestate.ca

Figure #1 – Volume of Office Sales
Downtown Toronto vs. Other GTA
$5 to $50 million

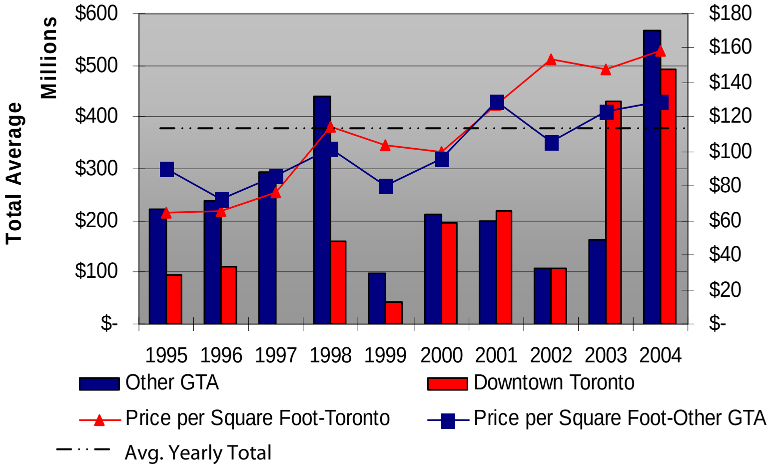


Figure #2 - Average Cap Rate
Downtown Toronto vs. Other GTA
$5 to $50 million

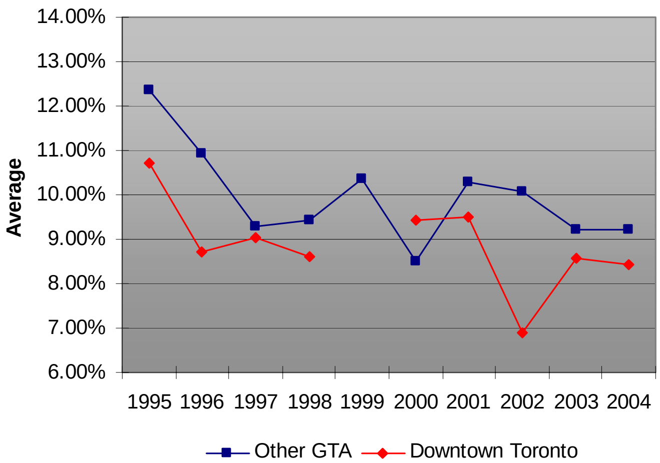
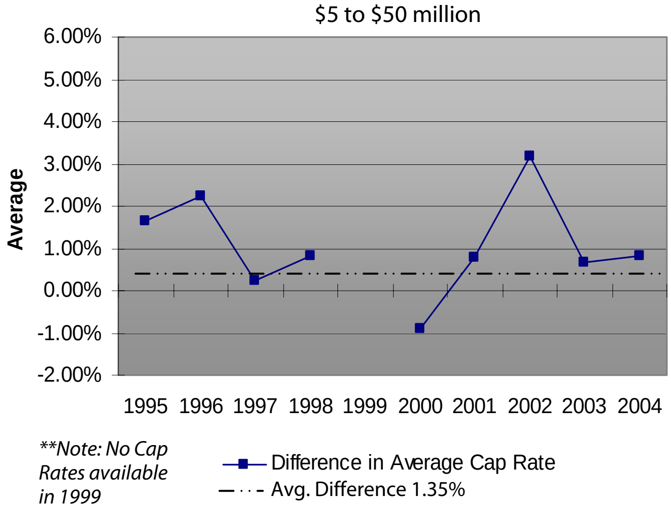


Figure #3 – Difference in Average Cap Rate
Downtown Toronto vs. Other GTA
$5 to $50 million



***Note: No Cap Rates available in 1999*

How Do We Price Risk in the Office Sector?

Investor surveys have suggested an historical cap rate differential between downtown and suburban office building investments. The GTA aggregate actual sales results indicate an average differential of 135 bps over the 1995-2004 period.

This differential points to a lower risk profile in downtown office buildings. Longer development cycles, higher construction costs and lower average vacancies provide barriers to entry to forthcoming leasing competition as well as lesser volatility in the fundamentals.

The last ten year period has witnessed an impressive average total volume of sales of approximately $430 million for all GTA office buildings in the $5 to $50 million range (Figure 1). Year one cap rates have been generally – but not consistently - higher in suburban locations, with the differential ranging from a reversed -91bps in 2000 to a high of 318 bps in 2002, with an average of 135 bps (Figures 2 and 3).

This data is sourced from aggregates of actual sales data in the Marshnet© database. We have not excluded any sales, and have made no attempt to "smooth" the curve. Some sales are user buildings with no indication of a cap rate. The sampling is admittedly limited and provides an erratic curve. Visit www.gwlra.com for additional information.

***Note**: Hey, wake up and smell the coffee! Compare these prices per square foot to construction costs. The office sector offers the largest gap between market sale price per square foot and construction cost of all major asset classes. In addition, rental rates are no higher than 1990 levels, if not below. We may address this price differential in more detail in a future Real Estate Report but for now I'll just point to the office sector as your next long term capital growth area; perhaps similar to the growth pattern we saw in the GTA apartment sector from 1995 to 2000. The politically inclined may even argue the expropriation of property rights through excessive downtown municipal taxation when addressing this price differential.*