Despite US housing woes Canadian real estate remains upbeat

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Leading real estate experts are predicting the US commercial real estate market will slow in 2008 and follow a similar pattern as the current residential market. However, according to the annual Emerging Trends in Real Estate(R) 2008 report, released by PricewaterhouseCoopers (PwC) and the Urban Land Institute (ULI), their Canadian counterparts are much more upbeat.

Now in its 29th year, Emerging Trends is the oldest, most highly regarded annual industry outlook for the real estate industry. The report reflects interviews with and surveys of more than 600 of the industry's leading real estate experts, including investors, developers, property company representatives, lenders, brokers and consultants in both Canada and the US. Emerging Trends in Real Estate Europe and Emerging Trends in Real Estate Asia Pacific are also published each year addressing the outlook for these real estate markets.

According to Chris Potter, PwC partner and leader of the firm's Canadian Real Estate Tax practice, Canada benefits from a more conservative investment environment than the US. 'In Canada, institution-dominated markets appear to be avoiding 'transaction mania', but real estate values have reached record highs and a strong economy has accelerated tenant demand for space.'

According to American respondents, a healthy correction south of the border will likely bypass long-term investors but penalize late-to-the-game speculators and overleveraged buyers. Canadian respondents to the survey remain positive about sidestepping any serious impacts of this possible US correction. Close to 36% view their prospects for profitability in 2008 to be very good and a further 22.4% say they're excellent.

The strongest areas of real estate business activity for Canadian respondents are predicted to be within real estate services, followed by commercial/multifamily development and homebuilding/residential land development. All property sectors share positive prospects across the country especially industrial and retail with respondents, on average, stating development prospects are expected to be modestly good to good. The residential for-sale market is also expected to fair well, but might need to take a breather as homebuilders cannot keep up with the current pace and single-family housing looks overpriced.

Office stock is seeing limited inventories and dated product fill up with tenants. Except for Montreal, where office vacancies are nearing 9%. Canadian metropolitan areas boast below 5% vacancies, and rents have room to push higher. The survey is also showing that costs and land scarcity is limiting new development. Hotel investment and development prospects are modestly good, and most respondents rate this sector either a buy or a hold. Rental apartments are doing well in major cities with high immigration flows. Primary western cities-Vancouver, Calgary, and Edmonton-are veering toward housing shortages as workers, attracted by a plethora of well-paying jobs, pour into the energy zone. Apartment occupancies are soaring in these areas. Development in other regions remains difficult because of costs and land scarcity.

Canadian Markets to Watch

The report comments on how Canadians like to live and work in central cities, as long as they can afford it. If housing is too pricey in 24-hour neighbourhoods, people move to inner-ring suburbs or beyond and commute back into the cores. Investors, especially the institutions, are concentrated in downtown areas too. Planners and developers focus on infill and more vertical projects, which reinforce the urban cores. The hot-growth energy cities out west-Calgary and Edmonton-score the highest ratings for investment prospects, development, and for-sale housing, although it is not certain whether Alberta's recent announcements on oil and gas royalties will have any effect on this. Toronto-Canada's premier global pathway city-and Vancouver also have high ratings. Ottawa and Montreal follow, with Halifax lagging.

Calgary/Edmonton

Calgary is the Canada's resource capital and North America's number-one boomtown. Survey respondents foresee strong buys for all sectors: 53.5% give a buy recommendation for hotel property, 52.8% for industrial/distribution, 48.1% for retail and apartment residential and 44.6% for office property. Furthermore, on average the majority of respondents see Calgary for-sale homebuilding prospects as very good. Edmonton is closely mimicking the Calgary-style growth wave and as long as demand for energy resources stays strong, this market will continue to do well.

Vancouver

Vancouver's diversified economy is roaring, the mining industry is booming and the city provides a large port and a high-tech center. Outrageous real estate prices frustrate homebuyers and commercial investors and the market is extremely hard to crack. The 2010 Winter Olympic Games is also a growth driver and accordingly 44.7% of respondents give Vancouver a buy recommendation for hotel property. A further 43.5% give a buy to retail, 41.3% for industrial/distribution and 36.7% for office property followed by 34.1% for apartment residential property. Vancouver also ranks in the good to very good mark for for-sale homebuilding prospects.

Toronto

Toronto ranks as a major global pathway destination, 24-hour city, and manufacturing hub. Compared with other national financial centers, the city is relatively inexpensive. However, the rising loonie is hurting manufacturing industries, and clouds over the US economy threaten to stall out momentum. Three new office towers are under construction, adding 3 million new square feet of office space. Notably, office (49.1%), industrial (46.2%) and apartments (40.8%) are given solid buys.

Montreal

Montreal continues to face concerns about market stability and overall growth prospects as major companies no longer choose it as a place to set up shop. But, plenty of government offices fill space. Of the larger cities in Canada, Montreal ranks lowest as a buy recommendation in all real estate sectors. However, respondents generally rated all Montreal real estate sectors higher as a hold recommendation.

The report notes that best bets for investors for the coming years include a focus on all property sectors in the high-growth western energy markets, hold on central business district office space, develop infill condos near subways stops in Toronto, buy infill sites wherever you can and invest overseas. Potter concludes, ’Domestic opportunities are too limited at current prices.’

A copy of Emerging Trends in Real Estate 2008 is available at www.uli.org or www.pwc.com/imre.

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The Urban Land Institute (www.uli.org) is a nonprofit education and research institute supported by its members. Its mission is to provide leadership in the responsible use of land and in sustaining and creating thriving communities worldwide. Established in 1936, the Institute has more than 38,000 members representing all aspects of land use and development disciplines.

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