

MARKET REPORT TENANT'S GUIDE

T O R O N T O M A R K E T | S E C O N D Q U A R T E R 2 0 1 0

EXPERIENCE

Saving Money in the Age of Institutional Real Estate

Dean Newman

Despite the reality of high vacancy, landlords' asking rental rates have not fallen or varied significantly over the last few years. In fact, many tenants have discovered that their landlords are even more difficult to deal with in this economic downturn. To understand why, one must look at the nature of the landlord community. Gone are the days of the entrepreneurial cash flow driven developer/landlord and in its place are the institutional pension fund manager and long term investor. Today's landlord is an asset manager who is most concerned about maintaining the value of a property and that means keeping rental rates high. This may even come at the expense of letting tenants leave the building before dropping prices and in effect admitting that the revenue assumptions promised to pensioners are offside. Does any of this really make sense and will these landlords really ever recover the lost cash flow of vacant periods? Probably not in the conventional sense, but that is small comfort to the tenant trying to do a deal with a seemingly obstinate property company.

So what is a tenant to do when trying to get the maximum financial concessions while renewing a lease or relocating? The first thing is to understand the landlord mentality upfront and go after the many concessions available to tenants

attacking landlord profits centres. For instance, many landlords will concede a gross rent free period that could be as much as 3 to 12 months corresponding to the lease up time for empty space. Also, any landlord's work or tenant improvement allowances can reduce the tenant's financial outlay. Careful analysis of space utilization requirements versus taking a larger piece of space that is already demised can also reduce real estate expenditures by 10 per cent or more. Negotiation of operating expense caps and exclusions and space measurement formulas can also yield significant savings.

Resist the urge to comply with inflexible pricing policies and bully landlords. Everything is still negotiable to the well advised tenant who is prepared to be aggressive in offering what makes sense for their business! Find alternatives with landlords hungry to do business with you. Ensure that there is a competition among landlords for your tenancy. Lastly, but most importantly, work with an advisor who represents tenants only and is therefore not afraid to draw the institutional asset manager out of his lair and push him off of his "list price" platform. At CresaPartners we work for you, not the landlord, and we don't take no for an answer when it comes to exceeding your expectations!

DISCIPLINE

Sibley & Associates Inc.

OVERVIEW

Established in 1992, Canadian-owned and operated Sibley & Associates ("Sibley") are leaders in the field of disability management. In terms of real estate, Sibley's primary goals were to manage costs, encourage growth, and enable flexibility. Sibley occupied one major head office facility, spread across three non-contiguous floors in Burlington in addition to its 16 branches, most of which were also located in Ontario.

APPROACH

CresaPartners was engaged by Sibley to conduct an extensive study analyzing its premises needs, utilization and areas of potential savings across the portfolio. Together, CresaPartners and Sibley determined the actual use of facilities and which locations could be merged or



SERVICES PROVIDED

- Strategic Planning
- Space Planning
- Financial Analysis
- Market Analysis
- Lease Transaction

closed while still meeting the access needs for its employees and customers. Each component of the offices was reviewed in an effort to find the most cost effective way of meeting Sibley's needs by leveraging technology and more efficient space planning. Three facilities were shortlisted and aggressively negotiated to handle Sibley's ongoing growth.

RESULT

After careful review and negotiation, the decision was made for Sibley to relocate to a new premises where its assessment facilities would be conveniently located on the ground floor with their office premises consolidated on higher floors. Sibley engaged CresaPartners' integrated Design and Project Management services, allowing for a smooth transition and a new Sibley brand.

DISCOVER

SECTOR INSIGHT

The Kidney Foundation honoured the past and celebrated the future on April 7th, 2010 with Galabration. CresaPartners was proud to attend while honorary chair, Mr. John Bitove of the Bitove Foundation, led the evening with dinner, dancing and fun-filled entertainment.



CresaPartners

TRANSACTIONS

TENANT & ADDRESS	SIZE SQ.FT.	TYPE
Sibley & Associates Inc. 1122 International Boulevard	24,230	Relocation
MMM Group Limited 2410 Meadowpine Boulevard	8,056	Renewal
Larden Muniak Consulting Inc. 10 Four Seasons Place	8,059	Relocation
King Reed & Associates Inc. 155 Gordon Baker Road	12,080	Relocation
EMC Corporation 1111 International Boulevard	64,347	Renewal
Technicolour Canada Inc. Industrial	149,629	Direct Lease
Cookie Jar Entertainment Inc. 266 King Street West	12,442	Renewal
HOK Inc. 720 King Street West	6,921	Disposition
Hilborn Ellis Grant LLP 401 Bay Street	9,727	Renewal
Kaz Canada, Inc. 510 Bronte Street South Industrial	42,114	Renewal

MARKET REPORT TENANT'S GUIDE

T O R O N T O M A R K E T | S E C O N D Q U A R T E R 2 0 1 0

Overview

While there were some reasons for optimism in the Canadian economy and a few positive signs in the commercial real estate market, the first quarter of 2010 saw the continued trend of rising availability rates in the Greater Toronto Area ("GTA") that was firmly established in 2009. Overall, availability rose from 11.4% in Q4 2009 to 11.7% in Q1 2010 across the GTA. Availability rose in each of the three suburban districts with the West seeing the largest quarterly increase from 12.4% to 13.5%. On the other hand, the North District saw only a marginal increase in availability (9.2% vs. 9.1% in Q4 2009) and the CBD saw the first decrease in availability since the first quarter of 2008 (12.4% vs. 12.7% in Q4 2009).

Despite the rising availability rates in most areas of the city, landlords are beginning to take a more positive view of their portfolios. This is reflected by the fact that average rental rates increased in all submarkets during Q1 2010. The average gross rental rate in the CBD is now \$53.12 psf after falling to \$52.96 at the end of 2009. Average prices for Class A space in the CBD rose during the first quarter and now average \$56.61 psf; however, Class B space experienced a decline to \$45.22 psf from \$45.35 in Q4



2009. While this price increase is encouraging for landlords, there is still a ways to go before they equal the peak achieved in early 2008.

MARKET TRENDS

- After a rapid increase in available space for the better part of the last two years, the sublease market appears to have leveled off.
- There has been positive absorption for the last two quarters in the GTA core, including a solid 526,000 sq.ft. gain for Class A space in the CBD.

Tenant's Perspective

Despite a general sense that the worst may be over, the optimism in the GTA market should be tempered with caution. The Canadian economy remains closely linked to that in the United States, and worrisome employment data and a lack of demand from our neighbours could limit any Canadian expansion. While landlords appear to be starting to get slightly more bullish about their assets, it remains a tenant's market, particularly in the suburbs where certain nodes continue to experience extremely high vacancy.

AVAILABILITY RATE



MAJOR MARKET TRANSACTIONS

Q1 2010

TENANT/BUYER	SIZE SQ.FT.	TYPE	LEASE/SALE
Golder & Associates	125,000	Office	Lease
Toronto Dominion Bank	74,321	Office	Lease
EMC Corporation	64,347	Office	Lease
Lafarge	60,000	Office	Lease
Cole Engineering Group Limited	52,588	Office	Lease
PricewaterhouseCoopers	52,000	Office	Lease
City of Toronto	47,480	Office	Lease
Toronto Transit Commission	37,118	Office	Lease

AVERAGE RENTAL RATES

Q1 2010 (IN CDN\$)

CBD	Class A	Class B
	\$56.61	\$45.22
SUBURBAN	Class A	Class B
	\$30.21	\$25.73

CONTACT US

CresaPartners

CORPORATE REAL ESTATE SERVICE ADVISORS

170 University Avenue

Suite 1100

Toronto, Ontario

M5H 3B3

tel 416.862.2666

fax 416.862.2360

lrobinson@cresapartners.com

www.cresapartners.com

LNR Corporation, Brokerage

CresaPartners

CORPORATE REAL ESTATE SERVICE ADVISORS