

## Nick's Notes

# MARKET NEWS

### Waterloo Region



## Waterloo Region's Growth Extends Beyond Housing Market

With the real estate market booming in Waterloo Region, it's no surprise last year saw a leap in residential building activity and more than \$1-billion worth of permits.

What was less expected is the coinciding investment in the industrial sector (with 43.5 per cent more square footage than in 2015) and the lowest unemployment rate since the recession (at 5.5 per cent).

People are coming here to work because there is employment, and it's a desirable community to be in."

About 5,400 residential units were added — 50 per cent more than in 2015.

Manufacturing is largest industry in the area, representing one fifth of employment, with educational services industry the fastest growing since 2001 with an average annual growth of six per cent. Kitchener, Cambridge and Waterloo's participation rate (70 per cent), employment rate (66 per cent) and unemployment rate (5.5 per cent), are all better than provincial and national averages, as well as to neighbouring cities.

Source: The Record

## Canada: The World's New Safe Investment Haven?

The outlook is bright for Canadian commercial real estate investment. Low interest rates are fueling an explosion of investment activity, including robust owner-occupier demand for industrial property. We are seeing record foreign investment in Canadian commercial real estate;

in 2016, one of every four dollars came from cross-border investors.

Investors are keen to get a piece of the action. They see rising rents across CBD office and suburban industrial markets. Hungry investors are also going further afield, exploring opportunities in other major cities and smaller markets.

In this tight market, investors need hard data and street level intelligence to make smart decisions. Our capital markets experts, combined with our leading leasing professionals, offer the insight you need.

Source: C & W

## Featured Investment Opportunity

**100% Fully Leased**

**EXCLUSIVE INVESTMENT OFFERING FOR SALE**

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Senior Vice President\*  
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**CUSHMAN & WAKEFIELD**  
Waterloo Region

### Exclusive Investment Offering Region of Waterloo

Multi-tenanted industrial building  
with 100% Occupancy

- 122,000 SF
- Additional 7 acres for future development
- Strong covenants with all major tenants

For More Information Contact:

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## Portfolio Sales of Smaller Industrial Properties Surging as Institutional Investors Jump On 'Last Mile' Logistics Bandwagon

In recent months, major investors have increasingly turned their focus on light industrial properties capable of serving as 'last mile' conduits in the race to achieve same-day delivery by e-commerce firms.

Typically smaller, older and less efficient than their bulk warehouse counterparts, these buildings previously languished on the market. But thanks to recent outsized rent growth driven by strong demand from e-commerce and logistics providers, these formerly overlooked assets find themselves back in favor among investors in logistics hubs across the country.

## Vague Trade Plan After Trump's Tough Talk

The Trump administration has submitted a vague set of guidelines to Congress for renegotiating the North American Free Trade Agreement with Mexico and Canada, disappointing those who wanted a major overhaul of a decades-old trade deal that Trump described as "disaster" during the presidential campaign.

In an eight-page draft letter to Congress, acting U.S. Trade Rep. Stephen Vaughn wrote that the administration intends to start talking with Mexico and Canada about making changes to the pact, which took effect in 1994.

The letter spells out few details and sticks with broad principles. But it appears to keep much of the existing agreement in place.

The letter said the president wants to revamp rules on government contracts to allow the U.S. government to insist that U.S. contractors do more to "buy American" while nudging the Mexican and Canadian governments to buy more U.S. products, too.

The vague draft may reflect a Trump administration still figuring out its trade priorities.

Source: Industrial Distribution

## The Power Of The Second Mortgage

Many people think of second mortgages as an option reserved for riskier deals or under-capitalized borrowers.

The truth is it's a tool used by a wide cross-section of investors to serve many purposes. Cap rates continue to sink lower and drive prices higher.

### Loan Amounts Can't Always Follow

- So where sale prices rise, the loan amounts can't always follow. This has the effect of reducing Loan To Purchase ratios. Into this void steps the second mortgage.

### A Fictitious Property Purchase

- A fictitious property purchase yielding 6.00% demonstrates the power this type of second mortgage can have on your investment.
- Placing a 65% LTV loan at 3.50% interest raises your Internal Rate of Return (IRR) up to 8.69%. Adding an additional 10% LTV at an interest rate of 5.75% pushes the IRR up to 9.63% while reducing the amount of equity required from the borrower.

### The Vendor Take Back (VTB)

- The prevalence of Vendor Take Back (VTB) mortgages has increased as commercial real estate markets have become more heated. Most second mortgages will have a negative impact on investment yield, which will deter prospective buyers from paying top dollar for a property.
- This is where the VTB comes into play with their overly friendly terms. Interest rates for these are usually around 4.00%, but I've seen them as low as 0.00%.

### Loan Amount Has Remained Unchanged

- The available first mortgage loan amount has remained unchanged. The moderately leveraged IRR from our first example was 8.69%, but with the compression in the cap rates this has been reduced to 5.56%.
- This would deter many investors, but our aggressive vendor really wants to achieve a sale price based on a 5.00% cap. He decides to market the property with an available VTB second mortgage that would bring total leverage up to 75% of purchase price at a very attractive 2.50% interest rate.
- The IRR on the property is now 7.55% and investors will start circling. There can also be tax advantages to a vendor in receiving the payment over time, but I will leave the detailed explanation of that to a qualified expert.

Is there an increased risk with second mortgages? Absolutely, but second mortgages exist on a risk spectrum and can serve a variety of purposes. Used effectively, they can help smart real estate investors achieve their goals in a tight market.

Source: RENX

**“Portfolio Sales of Smaller Industrial Properties Surging” ...**

# Market News

## Available Properties



960 South Service Road,  
Stoney Creek



352 Maple Avenue,  
Kitchener



1426 Victoria Street,  
Kitchener



341 Marsland Drive,  
Waterloo

### Summary

AVAILABLE SF	Sale Price
299,665 SF	\$28,000,000

- Manufacturing/warehouse
- 15,262 SF of move-in ready office
- 9,950 SF of mezzanines
- 274,452 SF plant/warehouse
- 21.56 acres
- 26,600 KV: 12,000 amps
- 18 dock level
- 8 grade level doors
- 30'-8" clear height
- High visibility - Highway QEW
- 2 cranes – 50/20 tons
- Also available for Lease

### Summary

AVAILABLE SF	Sale Price
81,000 SF	\$2,400,000

- 3.54 acres of fenced paved storage
- Easy access to Highway #85
- Zoning - M-2
- Drive-In - 2 - 10 x 10
- Truck Level - 6 – 8 x 8
- Ceiling Height - 9' – 32'

### Summary

AVAILABLE	Sale Price
7,200 SF	\$995,000

- Freestanding 7,200 SF building on 0.41 acre lot
- Second floor offers 2,800 SF 5 bed apartment
- High traffic Victoria Street North.
- Currently used as automotive repair and car sales
- Newer roof. Newer siding
- Rear lot allows for possible storage
- Some equipment available
- M-3 Zoning.

### Summary

AVAILABLE SF	Sale Price
60,000 SF	\$6,900,000

- 60,000 SF single floor plate
- Room for expansion
- 5.84 acres – parking for 300
- Minutes from Wilfred Laurier University and University of Waterloo

## Canadian Manufacturing Sales Up For Third Month In A Row, Adding To Promising Data

Canadian manufacturing sales in January were better than expected, the latest in a series of promising reports for the economy.

Statistics Canada said that manufacturing sales climbed 0.6 per cent to \$53.8 billion, the third consecutive month of growth, helped by the petroleum and coal industry and the chemical industry.

Economists had expected a decline of 0.2 per cent for January

“Canadian manufacturing sales in January were better than expected”...

The stronger than expected manufacturing numbers followed a report last week that the unemployment rate dropped last month to its lowest level in more than two years and the economy created more jobs than expected.

Recent trade figures also indicated that the country posted a trade surplus for a third month in a row in January as exports hit a record.

Statistics Canada said Friday that manufacturing sales were up in 14 of 21 industries, representing 75.4 per cent of the manufacturing sector.

The petroleum and coal products industry climbed 7.0 per cent to \$5.5 billion, while the chemical manufacturing industry gained 2.5 per cent to \$4.5 billion.

Overall sales in constant dollars gained 0.7 per cent, suggesting a higher volume of goods sold.

Regionally, sales were up in seven provinces in January, led by Ontario which grew 1.0 per cent to \$25.9 billion.

Sales in Quebec fell 1.5 per cent to \$12.6 billion, following two consecutive monthly gains, due to lower production in the aerospace product and parts industry.

Source: The Canadian Press

# Market News

COMMERCIAL, INDUSTRIAL AND INVESTMENT REAL ESTATE SOLUTIONS.



## WHO WE ARE

- Our team of sales professionals provide custom tailored Real Estate solutions. We invest the time to understand our clients' short- and long-term business goals, allowing us to collaborate with our clients and in-house specialists, and then deliver highly customized real estate solutions. Our brokerage has the resources of a global leader and as the proven experience and success as a market leader in Waterloo Region.



## WHAT WE BELIEVE

- Deep local and global knowledge creates significant value for our clients
- Relentless curiosity delivers unseen opportunities
- Every touch point is an opportunity to deliver an exceptional experience for clients
- Diverse backgrounds, cultures, and expertise inspire breakthrough innovation
- Our brand and our people will be the envy of the industry
- Alone we are good; together we are great



## WHAT YOU CAN EXPECT FROM US

- A strong bias for action
- A rigorous focus on results
- Value created through insight
- The right people powered by the right platform



## CORE SERVICES

### Landlord Representation

- Property Analysis
- Location Analysis
- Market Analysis
- Target Market Analysis
- Property Positioning
- Marketing & Leasing Strategy
- Marketing & Sale Disposition Strategy
- Marketing Program Execution
- Negotiations

### Tenant Representation

- Market Assessment
- Strategy Development
- Demographic Analysis
- Site Selection Strategy
- Occupancy Cost Analysis
- Acquisition/Disposition
- Build-to-suit Planning
- Negotiations

## For more information contact:



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Nick has over 40 years of experience as a real estate professional and has been involved in some of the most prominent real estate transactions in Southwestern Ontario.

Our team of professionals provide custom tailored industrial, commercial and investment Real Estate solutions.

If you are in the market to **BUY, SELL, LEASE OR INVEST**, contact Nick and his team.

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