



Marcus & Millichap

2023

Western Canada

NNN Investment Sales Overview

2023 NNN Investment Sales Year in Review

Reflecting on 2023, our Western Canada NNN Investment Sales Group identified several key factors that shaped the market and influenced our approach and activity within this specific sub-asset class.

Tale of Two Stories - Cap Rates & Cost of Borrowing: Cap rates experienced upward pressure throughout the year, driven in large part by the increased cost of borrowing, but not all commercial real estate ("CRE") asset classes responded the same. While many investors demanded higher yields for CRE investments, triple-net ("NNN") leased properties fared comparatively well, seeing less upward pressure, driven in large part by the strength of long-term, high credit tenancies, often paired with leases stipulating little to no landlord management required. Within our focus of NNN properties, we anecdotally saw cap rates increase by 50 - 100 BPS from the lows achieved in late 2021 and early 2022; during the same period we saw lending rates increase by 250 to 350 BPS.

Smaller Transactions: 2023 saw a significant increase in the volume of NNN transactions in the sub \$5M range. This surge in activity underscores the attractiveness of smaller-scale investments and the competition for such opportunities, particularly when lending conditions are more constrained. This trend was driven, in large part, by well-capitalized investor's ability to close without traditional financing.

Assumable Financing: An important consideration in the 2023 environment was the value of assumable mortgages with favorable terms that commenced prior to the significant rate increase seen throughout the second half of 2022. These mortgages played a crucial role in maintaining property pricing and structuring profitable transactions.

Perceived Value in Long-Term, Secure Covenants: Investors placed an increased premium on long-term, secure covenants. Leases with dependable tenants with resilient business models and strong creditworthiness were highly sought after, reflecting a growing appreciation for stability.

Flight to Primary Markets: Investors were increasingly drawn to well-located properties in primary markets, including Metro Vancouver, Calgary, and Edmonton, as well as robust secondary markets like Kelowna, Kamloops, Victoria, and Nanaimo. These markets routinely promise to provide growth and stability even during periods of economic fluctuations. In 2021 and 2022, we observed 10 and 6 deals, respectively, in markets with populations of 15,000 people or less. However, in 2023, we completed only five transactions in smaller secondary, or tertiary markets, all of which with pricing of sub \$5M.

Upward Pressure on Rental Rates: Rental rates experienced noteworthy upward pressure due to the escalating costs of construction and financing, positioning existing properties more favourably in the face of constrained supply in many markets. Despite economic challenges and unpredictable cap rates due to ongoing interest rate increases, our Investment Sales Group maintained strong transaction momentum by focusing on the key trends that drove activity throughout the year.

Transitioning into 2024, we anticipate that interest rates will stabilize and possibly soften, as inflation pressures ease across most sectors. NNN leased properties in British Columbia are expected to remain a preferred choice for many private investors, seeking security and liquidity. Cash remains a coveted asset and investors in pursuit of higher returns may discover appealing opportunities in Alberta or Saskatchewan. Given demand for higher yield, often found further east, our group has expanded into Saskatchewan.

While caution remains warranted, there is significant capital that is available to be deployed. Following a tempered 2023, we anticipate a resurgence in investment activity in 2024, particularly in the latter half as inflation is anticipated to dissipate and lending conditions become more accommodative.

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Visit [NNNGroup.ca](https://www.nnngroup.ca)

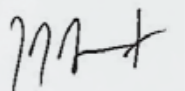
Our competitive advantage lies in operating as a collaborative, boutique brokerage with the horsepower of an international brokerage. Our specialization in NNN assets has allowed our group to develop one of the most extensive databases of national, regional, and local investors, tenants, and landlords.



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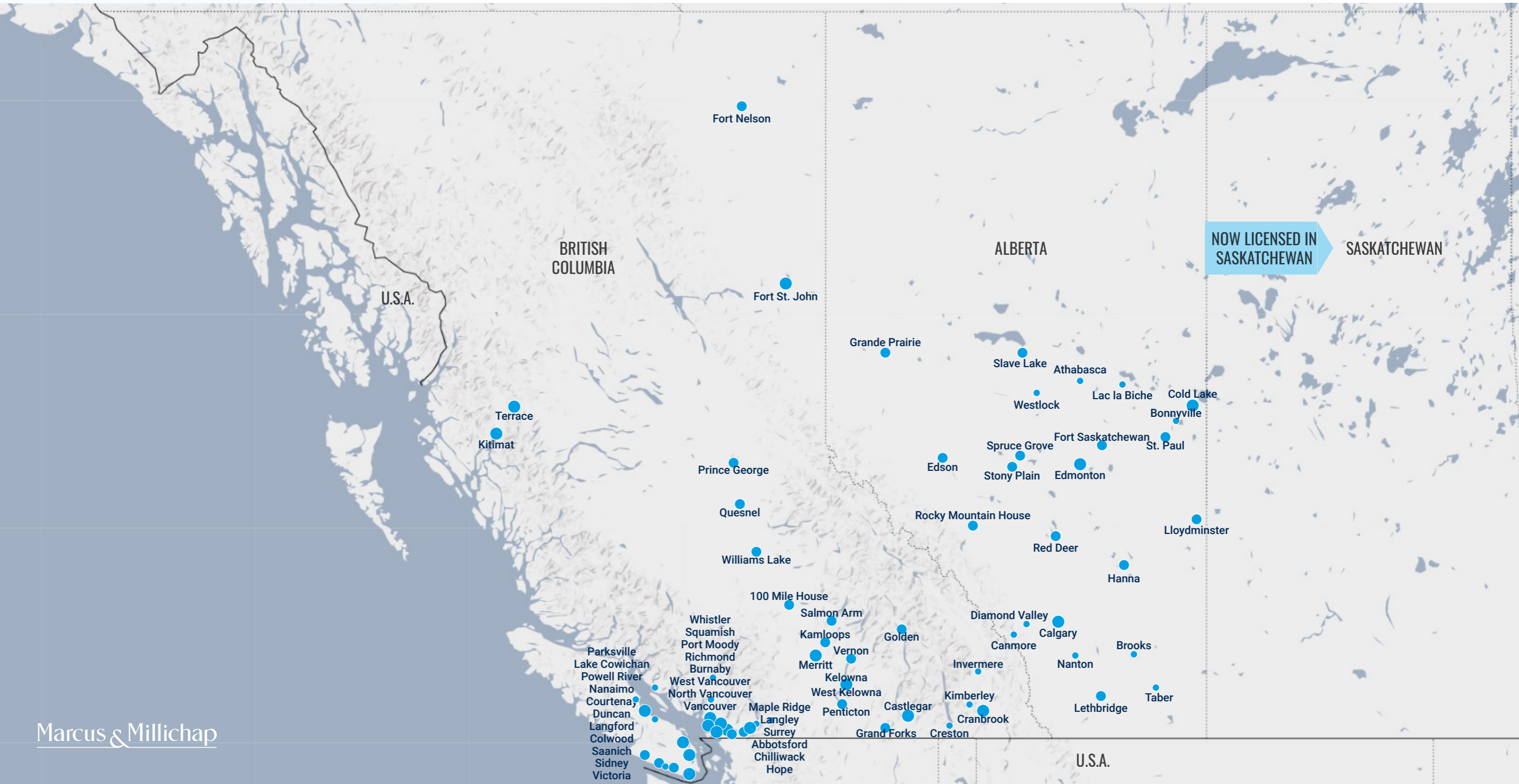
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Market Presence

	Sales Volume	Transactions	Different Markets
2023 Overview	\$101.6 M	22	17
Trailing 6 Years 2018-2023	\$572.2 M	125	63

In Categories Including:

- Automotive / Gas Stations
- Industrial
- Cinema / Entertainment
- Large Format Retailer
- Drug / Pharmacy
- Mid-box / Discount Retailer
- Financial Institution
- Office
- Fitness
- Quick Service Restaurant (Drive-Thru)
- Grocery
- Restaurants (Sit-Down)
- Government



Metro Vancouver Highlights (Trailing 6 Years)



Sales Volume

\$200.6 M



Transactions

34



Cap Rate Range

1.66% - 5.12%

Featured Listing: 1164 Robson Street, Vancouver, B.C.*



*Completed in conjunction with Mario Negris and Martin Moriarty



Single-Tenant landmark building in the heart of Downtown Vancouver's most prominent retail destination



Recently renovated, comprised of a 4,175 SF building with mezzanine, well-positioned for additional value-add



The property is leased to PAUL Bakery, a renowned French bakery-cafe with steady and long-term income



Interior / Northern B.C. Highlights (Trailing 6 Years)



Sales Volume

\$86.4 M



Transactions

31



Cap Rate Range

2.86% - 11.30%

Featured Listing: 222 Collis Street, Creston, B.C.



Brand-new, single-tenant McDonald's drive-thru located in the desirable Kootenay region



Secured by McDonald's Restaurants of Canada Ltd., on a 20-year NNN lease



Single-tenant 4,812 SF building with dual lane drive-thru and 31 surface parking stalls

Vancouver Island Highlights (Trailing 6 Years)



Sales Volume

\$104.9 M



Transactions

20



Cap Rate Range

3.90% - 6.56%

Featured Listing: 2464 Beacon Avenue, Sidney, B.C.



Single-tenant RBC in Sidney's densifying downtown core



Recently completed 10-year renewal with scheduled rent escalations



Secured by NNN lease with RBC, Canada's largest bank

Alberta Highlights

(Trailing 6 Years)



Sales Volume

\$180.3 M



Transactions

40



Cap Rate Range

4.53% - 10.26%

Featured Listing: 11447 42 Street SE, Calgary, AB



Single-tenant industrial property occupied by United Rentals on a triple-net lease



Freestanding commercial building comprised of 14,042 SF of leasable area on a 4.27-acre site



Well-located property with frontage along 114 Ave SE nearby Barlow Trail SE providing efficient access to major thoroughfares Deerfoot Trail SE, Glenmore Trail SE, and Stoney Trail SE

Company & Group Overview

Visit [NNNGroup.ca](https://www.NNNGroup.ca)

We are a commercial real estate brokerage group that specializes in the acquisition and disposition of NNN properties in Western Canada.

Our goal is to continue to build trustworthy, longstanding relationships with our clients and support them through strong market research and insight into market activity, valuations, comparable lease rates, and other strategic discussions regarding NNN properties.

We are the leading experts in the industry given our NNN Investment Sales Group is the most active in Western Canada. We provide:



Expert market updates, and NNN lease advisory services



Market sale comparables in your region to help value your property



Both on-market and off-market opportunities for further investment

Our competitive advantage lies in operating as a collaborative, boutique, retail-focused brokerage with the horsepower of an international brokerage. Our specialization in retail assets has allowed our group to develop one of the most extensive databases of relationships with national, regional, and local investors, retailers, and landlords.

Marcus & Millichap REIS Canada Inc. is a leading commercial real estate brokerage with offices across Canada and the United States. From the start, the company's entire business model has been focused on one goal: matching every property with the largest pool of qualified buyers. Achieving this, one property at a time, requires a combination of unique features and commitments that we make to our clients, including:



Most active single-tenant net lease investment sales group in Western Canada



Trusted advisors for the sale of >\$572 M in commercial real estate during the trailing six years



Notable 2023 Transactions



Deer Park Crossing
Spruce Grove, AB



735 Goldstream Avenue
Victoria, B.C.



Sandalwood Plaza
Kelowna, B.C.



4303 Macleod Trail SW
Calgary, AB



394 Lerwick Road
Courtenay, B.C.



6401 Kingsway
Burnaby, B.C.

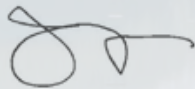


100 & 150 3 Street NE
Diamond Valley, AB



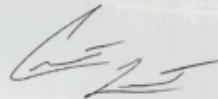
201 2550 16 Avenue
Cold Lake, AB

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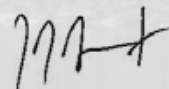
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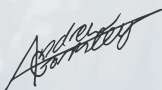
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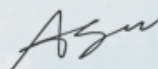
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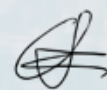
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