

## FirstService wins stake in Colliers

Company was rumoured to be on the market for years

**Garry Marr**  
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The largest member of the Colliers International Network, CMN International Inc., is about to get a healthy infusion of cash that should make it a more dominant player in Canada and abroad.



Jay Hennick: Colliers management "own a piece of the rock"

The real estate company, which operates under the Colliers brand in Canada, is selling a 70% stake in itself to FirstService Corp. for US\$10.06 a share or US\$88-million. The rest of the company will be held by senior management, active brokers and employees of CMN, and will be exchanged for shares of a newly created subsidiary of FirstService.

CMN has been rumoured to be on the market for years with some of the company's competitors suggesting its lagging operations in Asia had them looking for a cash infusion.

One potential suitor mentioned in the past was Royal LePage Commercial Inc.

"We actually first approached them in 1996, that's how far back this relationship goes," said Jay Hennick, chief executive of FirstService Corp. "It's a significant platform with a leading brand."

CMN is the largest member in the Colliers International network, with 80 offices in 20 countries. The company employs 4,100 people and has annual revenue of US\$280-million. It handled US\$11-billion in transactions last year.

Mr. Hennick said FirstService likes that CMN is owned by management and the co-operating brokers.

"All the other competitors are publicly traded companies, professionally managed where the brokers work for the company and if they don't like it, they leave. In the case of CMN and Colliers, these guys own a piece of the rock."

In the end, management of CMN is said to have wanted to continue to own a piece of the company and that wasn't going to happen with LePage. Ultimately, LePage did not bid and FirstService outbid some private equity players.

The purchase should lead to an expansion and to a beefing up of the Colliers brand where CMN operates, which includes the Canadian market.

"They are in 20 countries, so there is significant opportunity," Mr. Hennick said.

"Using Canada as an example, they are not No. 1 in every market. So there is opportunity in core

brokerage. They have a strong property management but only on the west coast. Now they have access to capital through us and they can grow."

Doug Frye, chief executive officer of CMN, also sees opportunity to take on competitors.

"As a FirstService company, we will continue to enhance the Colliers International brand worldwide and grow our business organically and through acquisition."

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O&Y Real Estate Investment Trust's early renewal of 160,000 square feet of space in the Enbridge Tower in Edmonton could be an early indication of improving office market, said Gail Mifsud, an analyst with Raymond James Ltd.

Enbridge Pipelines Inc. renewed 160,000 square feet of space until 2019, even though its lease was not set to expire until 2008.

The REIT acquired 100% interest in the tower between 2002 and 2003.

The renewal demonstrates "an improvement in the office market" and fits in with O&Y's strategy of dealing with future leasing exposure.

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This week's purchase of the Marche Central retail power centre in Montreal by the British Columbia Investment Management Corp. is causing some analysts to reconsider how they value commercial assets.

The pension fund, which provides professional funds management services for public bodies and publicly administered trust funds in British Columbia, paid \$303-million for the centre. The cap rate was estimated by analysts at Desjardins Securities to be below 6%.

"While we recognize this asset is in an exceptionally strong location and the potential for additional development could bring the cap rate to the 8% range over time, the going-in return is exceptionally low and suggests we were too conservative in our previous forecast," said analysts Frank Mayer and Mark Rothschild in a note.

The two also pointed out that takeovers in the U.S. real estate investment trust world are occurring at historically low cap rates.

Ultimately, it means the net asset values some analysts are putting on REITs are probably lower than they should be.