
Edmonton Investment Outlook 2010

- The Edmonton investment market was negatively impacted by world economic events from 2008 and 2009 although less significantly than the rest of the country.
- While capitalization rates increased from the unusually low sub 6% days, capitalization rates of 7% and 8% are now normal with good quality income producing properties selling at the low end of the range for smaller properties that the local investor could afford to the mid 7% range for quality property that required more capital.
- The investment market came back very aggressively in late 2009 and early 2010 with REIT's Private Investors and Development Companies all being supplied with ample capital to undertake almost any size in investment.
- Those purchasers who were waiting for the bottom to fall out of the investment market, and for foreclosure sales were left waiting only to see cap rates sink and good product remain very scarce.
- While demand for good income producing properties remains high in 2010, demand is very low for "land" and "projects" that should not have been purchased or started in 2008 and 2009. The challenge for 2010 will be to find good properties that can be purchased at reasonable prices.
- A lack of investment grade properties available for sale will be the hallmark of 2010.
- Purchasing retail properties remains the primary investment objective, with office and industrial properties not as in as high demand although also not available for purchase.
- Apartment demand is strong and will remain so throughout 2010, with little product being available.
- There will be ample land available for sale however the very limited demand will put downward pressure on land prices. Syndicates that purchased land for development into subdivisions will be looking to sell to buyers who are non existent, further depressing land values.

Edmonton Industrial Outlook 2010

- Industrial and retail segments are leading the market back to recovery. In Q1 2010 there have been numerous large transactions which is outpacing the sublease space hitting the market on the opposite end of the spectrum. This is following Q4 2009 where we also saw several large lease transactions coming on the market. Because of this trend we are seeing vacancy rates decline for the first time in 18 months. Expect vacancy to continue to decline slightly throughout the year as there are no new projects coming on the market.
- Major projects in the oil sands and infrastructure are pushing things forward. As we wait for natural gas prices to come back to a profitable level, capital is easier to come by as banks are lending again. The one area of the market that has not shown signs of recovery yet is land sales. We hit record levels in 2007 and this was followed by an over 50 percent decrease in total transaction in 2008 and another 50% decrease in 2009. Prices were simply too high and as land values stabilize in the area of \$450-\$550,000/acre we should start to see some movement throughout 2010.
- The market is now a buyer/tenant market and this will not change too quickly as vacancy rates are still above 4.5%. Both buyers and tenants are moving forward, but are doing so with caution. This is a great opportunity for tenants to lock in their rates long term in a market that surely will be rebounding shortly.

Edmonton Office Outlook 2010

- The Edmonton office market has drastically changed over the last two years. In 2007 the market was one of the most active in the country, leading to an exponential rise in rental rates driven by steadily declining vacancy rates and increasing demand. The economics of the situation led to the most explosive office building development in nearly 25 years. Developers could not develop space fast enough to accommodate the demand. The need for space was fuelled by oil and gas, engineering, education and all three levels of government. The boom however was short lived and in 2010 we are experiencing an increase in office inventories, as developers finished projects started several years prior. This over development is particularly relevant in the south side suburban market area.
- The new inventory, company reorganizations, and with lack of new demand has led to increase in overall vacancy by 6.7% between Q4 2007 and Q1 2010. Rental rates have dropped an average of 25% and in some cases over 30% in some of the Class A properties downtown where rates peaked at \$38.00 per square foot. We are expecting this trend to continue through Q2 and Q3 of 2010. By the end of the year, vacancy and rental rates are expected to stabilize.
- The increase in vacancy and softening of rents has balanced the market. As at Q1 2010 the overall vacancy rate in Edmonton is 9.94%. The vacancy, while not pleasant for landlords, offers a balanced market, and provides tenants with more options in the market place than in previous years. The balance however is in jeopardy and the scale ready to tip towards a tenant market.
- As businesses downsize and consolidate, the amount of sublease space available in the market has increased significantly over the last twelve months. We suspect this trend to continue. Sub-landlords are very aggressive and have discounted the rates on their space to levels that landlords are unable to compete with. The sublet market is adding additional pressure on Edmonton landlords in marketing of their head lease space. The quality of the sublease space on the market and lengthy residual lease terms in excess of a year or two are becoming attractive alternatives for tenants to consider.
- In addition to the attention the sublease market will get in 2010, we are continuing to monitor "big block" office alternatives available in the market. As at the end of 2007, there were only three buildings that could accommodate occupiers greater than 30,000 square feet and two different options that could house a user of 20,000 square feet. This was the catalyst that led to the exponential rise in rates to historical levels. Heading into 2010 the number of options available to large users will increase significantly and change the dynamics of the lease renewal process and ultimately impact market rates. Large occupiers will use this to their advantage, leveraging their negotiating position with the current landlord's and if pushed could lead to a few major relocation.
- The office outlook for 2010 is optimistic yet cautious. Companies are still feeling the effects of the global recession and are carefully calculating their next move in terms of expenditure and growth. Landlords are attempting to lock in their tenants early, while tenants are spending more time than they ever have before monitoring the market waiting to make decision in hopes that it will result in lower rents and higher inducements. By year end we expect the market to be stabilized, however it will take a few years for the market to rebound to previous levels.

Edmonton Retail Outlook 2010

- 2010 brings a brighter future ahead. There has been a lot of concern on where our market would go and the economy in general. Retailers have survived this uncertainty and look poised to bounce back forward in 2010. Retail sales are on the rise and Tenants are once again looking for space.
- Edmonton continues to see new centres being constructed and existing space being marketed at rental rates that appeal to a larger base of retailers. In North Edmonton we have seen the relocation of Shoppers Drug Mart to their new format at Nanao Centre South. In late 2009 we have also seen the opening of North Town Mall, a redevelopment, with the line up of Bed Bath & Beyond, T&T Supermarkets, Chapters and the reopening of London Drugs.
- West Edmonton still shows some slag in its lease up. There continues to be larger pockets of space still available in the major 170 Street Corridor. Mayfield Common, Terra Losa and Westgate Centre have seen large pockets come back to them but the interest in the area has been renewed and activity has picked up. We expect the vacancy rate level to drop back down to its historic numbers in the second quarter of 2010.
- South Edmonton continues to push along with a low vacancy rate and the push of the final stages of South Edmonton Common. The south fashion district opened in 2009 in South Edmonton Common and Windermere has seen the growth in sales at both Wal-Mart and Home Depot. Several financial institutions are now open with Canadian Tire and London Drugs beginning construction this spring.
- East Edmonton has seen the addition of a grocery anchored project in the Meadows area and RioCan has continued to fill the remaining vacancies. Superstore has opened their grocery and liquor store at their development on Whitemud Drive and 17 Street.
- Retail space along Whyte Avenue continues to cater to a variety of local, western Canadian and National tenants all looking to locate on our popular strip. Retail vacancy traditionally has been very low along the avenue for many years and if a vacancy pops up it is usually leased in short order. Current vacancies in the area range from as small as 1,000 sq ft and we have seen space as large as 3,000 sq ft. Landlords have become very patient and more selective on the retailers they will lease space to. Net rents along the strip range from \$25.00 per sq ft to \$60.00 per sq ft.
- Downtown Edmonton has seen major changes in the 2007 - 2009 with the addition of Sobey's and Rexall. Procura Developments is moving forward with its Mayfair Village project which will add approximately 708 residential units with 16,000 square feet of retail space along Jasper Avenue and 109 Street.
- 2010 brings optimism back into the minds of retailers and consumers. Slow and steady growth is the key to retailers positioning themselves in today's economic environment and a return to fundamentals of real estate seem to be the recipe for success. Landlord's main concern going forward is covenant and the longevity of the retailer in the centre and therefore is being more selective in the Tenant's they are allowing to lease space in their assets.
- With comments from economists and the conference Board of Canada indicating that Alberta will lead the growth in 2011 we have made the transition from a time filled primarily with negative media reports to one of cautious optimism and we have seen the return to fundamentals from both sides of the table.

Source: DTZ Barnicke Edmonton and The Network