DTZ Barnicke

Calgary Industrial Report

Q4 2009

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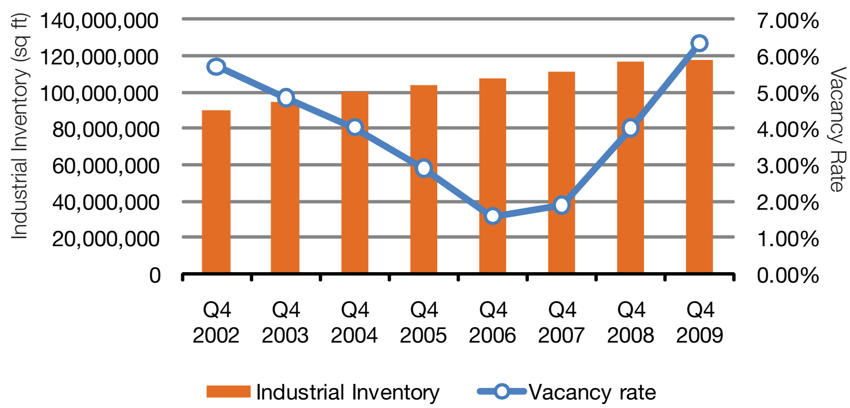
Economic Summary

Slowly but surely Canada's economy had emerged from the "Great Recession" of 2008-2009. Canada's Real GDP expanded in the last quarter of 2009, the first gain since the Q3 of 2008. Growth was led by domestic consumption and expenditures, both personal and business. The Canadian employment picture also continues to be stronger than anticipated: the latest figures show employment rose by 79,000 positions, bringing the employment rate down 0.1 percentage points to 8.5%. Canada's housing sector continues show gains; housing prices have climbed 16.8% nationally from their January 2009 lows, aided by low interest rates and pent up demand. Going forward, Canada's economy is expected to expand by 2.6% in 2010 and 3.9% in 2011 based on increased world trade, strong domestic demand and a stabilization of resource prices. Canada's high dollar and uncertainty surrounding the US economy are impediments to a Canadian recovery.

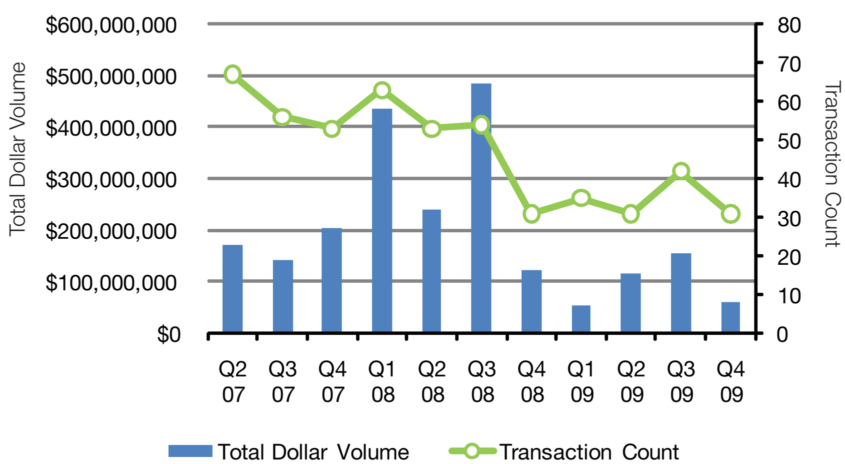
In 2009 Alberta's GDP contracted by 2.8%, the second largest provincial contraction in the nation. Decreased capital spending, particularly in oil and gas sector has reduced the demand for labor, sending the provincial unemployment rate to a 13 year high of 7.4%. Alberta's economy is expected to rebound in 2010 with growth of 2.4% and build momentum into 2011 where growth is expected to accelerate to 4.4%.

Calgary's economy experienced a decline in 2009; Real GDP contracted 2.5% and the unemployment rate increased to 7.0%, up from 3. 4% in 2008. City of Calgary building permits totalled $3.7 billion for 2009, down from the high of 2007 but still above the 10 year average. Led by government and institutional spending, non-residential permits accounted for $2.21 billion of the total dollar volume. Industrial building permits totalled $31 million in 2009, down from $248 million the prior year. Calgary's economy is expected to expand by 1.2% in 2010 led by housing and stronger world demand for Alberta's resources.

Vacancy and Industrial Inventory



Investment in Industrial Real Estate



Source: RealNet Canada

Calgary Industrial Market Summary

The vacancy rate in the Calgary industrial market continued to edge higher in Q4, rising 57 basis points to 6.34%. In response to a reduced demand for industrial real estate inventory growth has slowed dramatically and the vacancy rate continues to rise. The amount of sublease space on the market accounts for approximately 15% of the total space available, putting downward pressure on rental rates across the city in all size categories. Net absorption for the year was -418,812 sq ft, as tenants gave space back to the market and landlords continued to search for new tenants to absorb the existing product.

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The most positive development for the industrial real estate market has been the improved business sentiment and optimism going forward among users and business owners. There has been a noticeable uptick in the amount of tours and general interest in the past two quarters, reflecting renewed optimism in the economy and future growth prospects. The owner occupied segment of the market has been relatively active; many of the companies, shut out of the market in past years due to scarcity of product, are now looking to take advantage of the depressed prices and increased selection. That said, decision makers are still scrutinizing any real estate transactions closely; completing extensive due diligence and ensuring that their businesses can support any expansion.

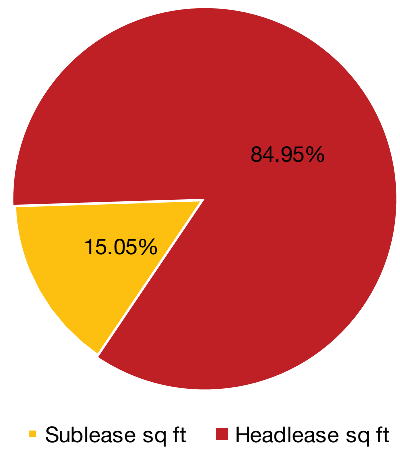
Developers and landlords have quickly reacted to a more competitive marketplace. With fewer tenants, more bankruptcies and increased competition from sublease space, many landlords have become more flexible and accommodating when dealing with tenants. The spread between asking rates and rates at which transactions occur has narrowed considerably in the past 2 quarters. Developers and landlords have been creative when dealing with tenants possessing strong covenants and a willingness to transact immediately.

Any speculative construction has stopped or has been delayed in response to the lack of growth and number of expanding tenants. This sudden change should help contain the vacancy rate for industrial product on a go forward basis. Development underway has likely been designed for a specific user or tenant; projects such as the recently completed UPS facility or the new Bartle & Gibson's project underway in northeast Calgary are examples.

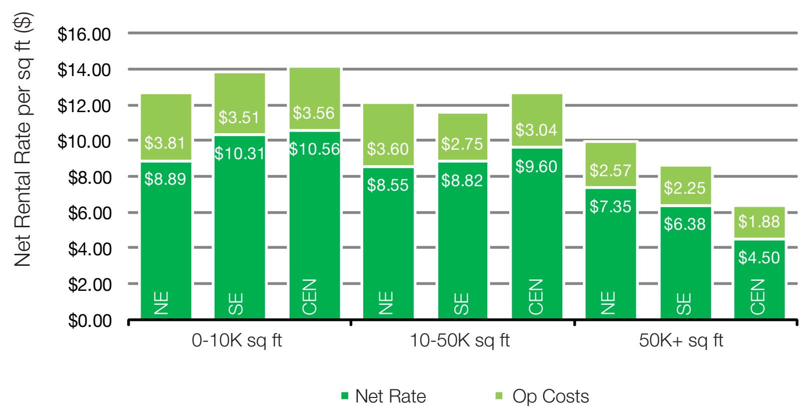
After three quarters of declining lease rates, asking rates remained stable in Q4. While there was a small decrease in the small bay category, many landlords had already lowered their rates in response to an increasingly competitive marketplace. This stabilization of rates may indicate that new "market prices" are being established and it is anticipated that in the future downward pressure on rates will be less intense.

Vacancy Rate in Industrial Area		
	Q4 2009	Trend
Northeast	6.70%	↑
Southeast	7.69%	↑
Central	4.14%	↓
City Wide	6.34%	↑
2009 Net Absorption	-418,182 sq ft	

Ratio of Space by Lease Type



Average Gross Rental Rate (Asking)



Headlease vs Sublease Rates

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Sales of industrial product have also rebounded from the lows of Q1 2009. The number of transactions has picked up and the dollar volume has increased. On average industrial condos continue to trade for $140-$170 per sq ft for undeveloped space and $170-$200 per sq ft for developed space. Larger buildings continue to trade in a much larger spread, between $80-$130 per sq ft. The larger spread can be attributed to specific factors such as lot size, location, building age and re-development potential.

Demand for industrial land remains relatively subdued. In the past, the lack of vacancy and availability of existing product within the city has substantially increased demand for developable land in Calgary and the surrounding area. In contrast, the higher vacancy rate and increase in other existing real estate options has seen the demand for industrial land diminish. We can therefore expect demand for industrial land to remain low until some of the existing inventory has been absorbed and users once again see the benefits of developing new versus relocating to an existing facility. Serviced lots within the city limit start at $500,000 per acre and climb to over $800,000 for prime location. Semi-serviced land along the 84th street corridor starts at $265,000 per acre. In Airdrie/Balzac, serviced land starts at $425,000 per acre but can be priced as high as $650,000 per acre depending upon access and exposure.

Existing New Development				
Project	Developer	Size	Area Vacant	Percent Leased
Stoney Industrial Centre	WAM Developments	1,111,627 sq ft	316,435 sq ft	71%
Great Plains Distribution	ING-OPUS	657,800 sq ft	473,000 sq ft	28%
TCC AirFreight & Logistics Centre	Trammell Crow	503,729 sq ft	234,619 sq ft	55%
Rangewinds Industrial	Sun Life Financial	456,461 sq ft	137,260 sq ft	70%
Hopewell Airport Park	Hopewell Development	308,832 sq ft	112,319 sq ft	63%
Canal Industrial Park - Building A	Bentall LLP	226,897 sq ft	53,474 sq ft	76%

Planned Industrial Developments			
Project	Address	Developer	Size
Canal Industrial Park - Building B	68th Street & 108th Avenue SE	Bentall LLP	404,077 sq ft
Hopewell Distribution Park - Phase II	5855 - 68th Avenue & 7000 57th Avenue SE	Hopewell Development	853,780 sq ft
Wagon Wheel Industrial	261216 Wagon Wheel Road	One World Developments	310,150 sq ft
Wagon Wheel Industrial	SW 11 Blk 3 Lots 1, 2, 6 & 7	GPM	456,300 sq ft

Planned Industrial Parks			
Project	Address	Developer	Size
Points North Business Park	HWII & HW 567	Centron-Homburg	130 acres
Saddleridge Business Park	80th Avenue & 40th Street NE	Verus/ING	300 acres
Oxford Airport Park	HW II & Airport Trail NE	Oxford Properties	201 acres
Stonegate Landing	HW II & Country Hills Boulevard NE	WAM Developments	1,100 acres
Frontier Industrial Park-Phase 1	Township Road 240 & 84th Street SE	Remington Development Corporation	160 acres
Wesview Business Park	100th Street SE & Glenmore Trail	Wesgroup	118 acres

Top Industrial Sales - Q4 2009				
Address	Size	Price	Price/sq ft	Lot Size
700 33rd Street NE	59,573	$6,000,000	$101	3.56 acres
3 Kingsview Road SE	25,474	$4,600,000	$181	4.46 acres
3680 44th Avenue SE	8,955	$4,500,000	$164	4.33 acres
2115 27th Avenue NE	49,985	$4,150,000	$83	2.14 acres
1245 73rd Avenue SE	31,494	$4,100,000	$130	1.4 acres

Source: RealNet Canada

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2009 Year in Review

Looking back, 2009 represented a dramatic change of fortune for the Calgary industrial market. After years of unprecedented growth, booming development and robust leasing, these trends quickly reversed in response to a depressed global economy. In terms of transaction size, velocity and dollar volume 2009 was a down year for Calgary industrial real estate.

Q1 and Q2 2009 were especially slow. Tenants, developers and landlords all pulled back sharply, waiting to assess the damage from the recession. In 2009, net absorption was -418,182 sq ft and the vacancy rate climbed from 4.96% to 6.34%. The amount of sublease space on the market rose as tenants attempted to give space back to the market. Rental rates decreased across all size categories, pushed lower by sublease competition and a decrease in tenants in the marketplace.

Confidence and general business sentiment picked up in Q3 and Q4. Landlords adjusted their rates down and user's confidence began to return. Although still below levels seen in year passed, touring, RFPs and deal velocity all increased in the latter half of 2009.

While Calgary experienced a difficult and changing business climate in 2009, it was not alone in the Canadian marketplace. East coast cities such as Toronto (7.76%) and Montreal (7.3%) saw their vacancy climb, and western centers like Vancouver (4.6%) and Edmonton (4.02%) also saw their rates increase in response to a weaker economy.

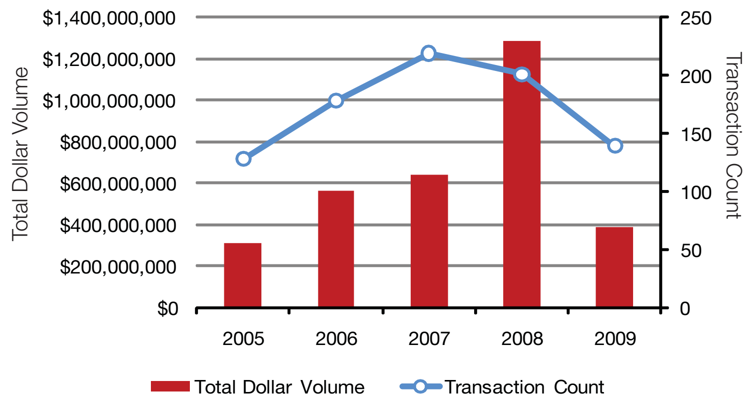
Looking Ahead to 2010

Looking ahead to 2010 we can expect to see a continued increase in the number of transactions taking place in the industrial marketplace, a further stabilization of rental rates, and a narrowing of spreads between asking and transaction prices.

The industrial vacancy rate should fall towards the end of 2010 as a result of available product being absorbed and a shortage of planned new construction. Currently, much of the vacancy within the Calgary market is in the large bay distribution category. Given the lead time it takes to plan and develop this type of real estate, combined with the lack of new space scheduled to be brought on to the market, the availability could be reduced quickly with a relatively small number of transactions.

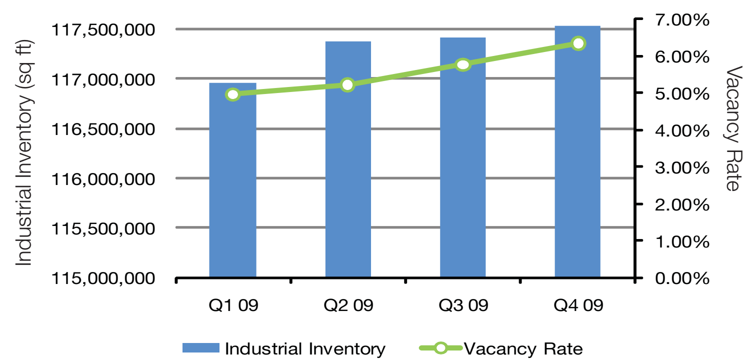
For tenants and owner/users that are in a strong financial position, 2010 should be a year of opportunities. The depressed prices, lower lease rates and increased product selection could provide a chance to acquire, expand, and reposition real estate on terms more favorable than in previous years.

Investment in Industrial Real Estate: 2005-2009

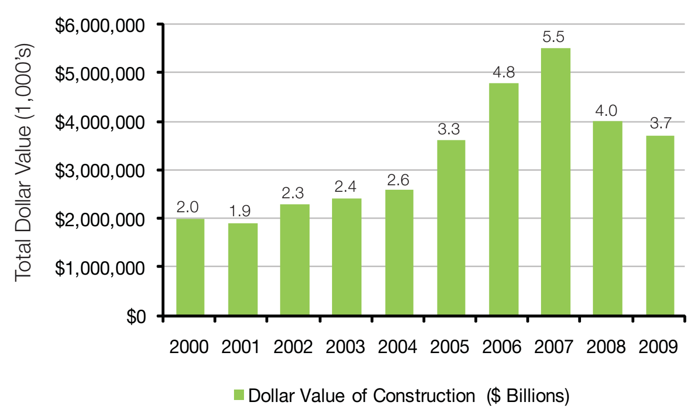


Source: RealNet Canada

Vacancy and Industrial Inventory: 2009



$ Value of Building Permits: 2000-2009



Source: City of Calgary

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