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MARKET OVERVIEW & FORECAST

Atlantic Canada's economic growth lagged behind the national average in 2005 and, with the exception of Newfoundland & Labrador, this trend is expected to continue through 2006. However, the expanding manufacturing sector in Atlantic Canada has partially offset the temporary slowdown in the resource industry.

Nova Scotia's economy grew by roughly 2.4% in 2005 and is expected to expand by 2.7% in 2006. The Nova Scotia economy continues to show gains in employment, commercial construction, and increases in manufacturing shipments and retail sales, however there are signs of softness in residential construction activity. Newfoundland and Labrador's economy softened slightly in 2005 with growth of 2.3%. This economy is forecast to expand by 6.5% in 2006 as the production and export phases of Voisey's Bay and White Rose kick in. New Brunswick's economy grew by 2.5% in 2005 and is anticipated to expand by 2.6% in 2006. The US exchange rate and higher energy prices will continue to negatively impact New Brunswick's wholesale and manufacturing exports in 2006. Prince Edward Island's economy

is expected to grow a modest 2.0% in 2006. Solid job growth should translate into increased consumer demand and retail sales.

In Nova Scotia, Greater Halifax (HRM) continues to benefit from its diverse economy centered on regional business services, medical and high-tech research, government, medical and educational services, military, and tourism.

OFFICE MARKET HIGHLIGHTS

Overall CBD vacancy in the HRM ended 2005 in the range of 8.5%, with Class A vacancy at roughly 9.5% and Class B at roughly 8.0% as robust leasing activity limited the availability of opportunities in the market. HRM's overall office vacancy rate is anticipated to decline further during 2006.

Net rental rates in HRM are expected to firm up as vacancies continue to decrease. No new office construction was added to the CBD in 2005 and none is anticipated during 2006.

However, up to 125,000 square feet of new office construction is anticipated for the suburban markets.

INDUSTRIAL MARKET HIGHLIGHTS

The HRM industrial market continued to expand as supply increased by 220,000 square feet in the Burnside Industrial Park during the first half of 2005. Absorption slowed during the balance of the year, however, landlords are ready to increase the supply by up to 200,000 square feet in the Burnside Industrial Park as vacancies decline and new tenants are identified to absorb new construction. The industrial vacancy rate ended 2005 in the range of 6.0% and is expected to tighten further in 2006.

New construction for owner-occupied industrial property will see continued growth throughout 2006. Asking lease rates for new construction remain in the \$6.75 per square foot range although some discounting continues to occur.

RETAIL MARKET HIGHLIGHTS

The retail market has shown continued buoyancy throughout HRM. Interest in retail investment properties and retail expansion by developers has been fuelled by tight retail vacancy rates and increased national retailer interest in Atlantic Canada. The addition of national branded stores like Old Navy, HomeSense, Linens 'n Things, and three new furniture stores (Ashley Furniture Homestore, The Brick, and Lane Home Furnishings) in Bayers Lake during the second half of 2005, has greatly enhanced the retail experience for shoppers in the Halifax area.

In the Dartmouth area, Phase 1 of the \$270 million North American/Centrecorp Dartmouth Crossing Power Centre project has started and is anticipated to add 1.0 million square feet of retail space commencing fall 2006.

INVESTMENT MARKET HIGHLIGHTS

Investor interest across Atlantic Canada continues, reflecting confidence in the steady regional economic growth, strong financial investment returns, low interest rates, and the security of capital. Across all property categories, available capital outstrips the supply of quality investment grade opportunities in the region. Increased competition for the limited supply has created seller favoured market conditions putting downward pressure on cap rates and increasing prices. Expect this trend to continue through 2006.

Interest from institutional and foreign investors is greatest for large high quality properties and property portfolios across all classes. Although Halifax remains the preferred market for investors in Atlantic Canada, there is growing interest in other key regional cities.

HALIFAX MARKET AT A GLANCE

POPULATION
385,000

OFFICE INVENTORY
8.9 million sf

OFFICE VACANCY
8.5%

CBD CLASS A VACANCY
9.5%

INDUSTRIAL INVENTORY
5.2 million sf

INDUSTRIAL VACANCY
6.0%

