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GTA NORTH EAST

OFFICE MARKET HIGHLIGHTS

Office leasing activity levels improved in select GTA North East markets during 2005. User demand was more consistent than in previous years with most tenants transitioning from contraction to growth in response to healthy, local economic conditions. Vacancy ended 2005 at 10.9%, a substantial decrease of 2.6% from 2004. Expect vacancy levels to decline further and occupied space to increase in 2006, albeit at a slower pace than in 2005, as new space is brought to market.

Occupied space increased by approximately 540,000 square feet during 2005, due in large part to the implementation of aggressive rental rate reduction and leasing incentive programs by many landlords. Tenants continue to take advantage of an economically priced marketplace, upgrading facility locations and effectively doubling new occupancy levels recorded in 2004. Overall market rental rates will remain relatively flat in the first half of 2006 as only a handful of landlords are expected to raise rental rate expectations in the next 6-12 months.

GREATER TORONTO MARKET AT A GLANCE

POPULATION
5.4 million

OFFICE INVENTORY
121.9 million sf

OFFICE VACANCY
10.7%

CBD CLASS A VACANCY
7.9%

INDUSTRIAL INVENTORY
687 million sf

INDUSTRIAL VACANCY
5.2%

As the supply of large-block vacancy continues to decrease, expect to see new construction starts in the latter half of 2006. In Markham/Richmond Hill, owner/developers with ready-to-go sites continue to pursue lead tenants and in some cases are prepared to reduce lease commitments for qualified prospects in order to kick-start construction.

INDUSTRIAL MARKET HIGHLIGHTS

Notwithstanding recent fluctuations in energy pricing, raw material costs and an appreciating Canadian dollar, overall demand for industrial product continues at a steady pace. Manufacturing growth curtailed in late 2005, however output activity is expected to rebound in 2006, which will boost transport and warehouse/distribution productivity for many North East service providers. Current overall vacancy is healthy at 5.3%, up 0.7% from 2004. Leasing

activity is stable however product available for tenants seeking large-scale expansion options continues to shrink. Speculative construction starts are limited in the North East, as developer interests have cooled once again.

Average rental rates increased in 2005 due to a progressive decrease in modern-class supply and an over-performing sales market. An increase in interest rates may push rental rates up in 2006 as more users compete to secure leased facilities, a transition that may trigger local landlord/developers to start building on 'spec' to accommodate user growth during 2006. As such, anticipate strong industrial growth during the next 6-12 months as the cross-section of tenant activity expands relative to product availability.

INVESTMENT MARKET HIGHLIGHTS

The pace of investment grade acquisition in the GTA North East intensified in 2005. Traditional investor demand continues to outpace supply; a function of low interest rates which, in turn, is pushing pricing higher and, in some cases, creating multiple offer scenarios facilitated via an RFP process as most properties are put on the market without an asking price. Similarly, decreasing cap rates have not deterred institutional investor appetites. Institutional demand is not expected to diminish substantially in 2006. Popular asset class investment continues to be focused on multi-tenant industrial, AAA leased retail and flagship office property.

RETAIL MARKET HIGHLIGHTS

Domestic and international large format retailers continue to complement residential expansion in the GTA North East. A slow down in residential construction volume did not discourage new store openings along regional arterial roads and 400-series highways in 2005. A stabilizing Canadian dollar and GTA population growth forecast at 2.0% per year to 2009, will trigger an increase in land sale activity and subsequent retail expansion and sales, continuing a pattern of urban sprawl beyond already defined suburban shopping centre nodes.

LAND MARKET HIGHLIGHTS

Notwithstanding servicing constraints, as well as the Oak Ridges Moraine and Greenbelt Legislation limiting development, purchasers continue to swiftly secure short-term and long-term land for commercial and residential development in the GTA North East. In-fill development is gaining popularity in suburban city centres; specifically for multi-residential development. However, industrial and retail users continue to search for centrally located serviced land, often intensifying competition and pricing. Developers continue to focus on outlying areas for future commercial and large-format retail development. Prices are escalating and have exceeded market value expectations in many cases. Prices range from the low \$100,000 per acre for undesignated land to \$800,000 per acre for draft approved high-density residential land in southern York Region.

