



BOB MOSS
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NANAIMO

MARKET OVERVIEW & FORECAST

Nanaimo is one of British Columbia's most livable cities and provides an ideal location to live, work, and invest. Throughout 2005, Nanaimo continued to experience steady in-migration, which led to record levels of residential housing sales and a 25.0% increase in the average price for a single family home. The continued growth in the development industry and steady growth in the tourism sector have had a positive impact on employment gains throughout the region.

The positive economic outlook for British Columbia, coupled with lifestyle driven in-migration to the region, will result in a high level of development activity and continued demand for all types of real estate in Nanaimo throughout 2006.

The Nanaimo downtown revitalization effort is well underway. Both the \$100 million New Nanaimo Centre and the 141-unit high-rise waterfront condominium project by Cape Development are expected to have a very positive influence on Nanaimo's economy. Included in the New Nanaimo

Centre project is a 1,000 seat conference centre, 140 room hotel, new museum, public auditorium, 15,000 square feet of retail space, and 300 new residential condominium units. In addition to the long-term benefits to regional tourism, these new developments will boost residential and commercial activity throughout the city core.

OFFICE MARKET HIGHLIGHTS

Nanaimo is a regional centre serving both the city itself and the larger population of central Vancouver Island. The current demand for office space is largely driven by organizations providing local and regional services. These include professional, health care, insurance, finance, and government uses. Demand for space improved slightly throughout the city during 2005 resulting in positive net absorption. However, net rental rates for Class B space remained largely unchanged ranging from \$8.00 per square foot Downtown to \$14.00 per square foot in the North Nanaimo area. As a result there were no significant additions to the office inventory.

It is anticipated that office vacancy will continue to gradually decline throughout 2006 as demand for space by the provincial government returns and professional firms address their expansion needs. In addition, increasing lease rates in neighboring centres such as Vancouver and Victoria will give businesses a reason to consider Nanaimo as an economically feasible alternative. While positive for Nanaimo, this new demand is unlikely to generate sufficient enough rental rate increases to prompt new construction at this time.

INDUSTRIAL MARKET HIGHLIGHTS

Nanaimo is centrally positioned to serve as a supply centre for Vancouver Island. Demand for industrial real estate remained strong during 2005. Supply is very limited, particularly for buildings with higher ceiling heights and efficient loading. Vacancy is expected to maintain low levels throughout 2006 as users struggle to find adequate opportunities.

With net rental rates for newer buildings in the range of \$7.00 to \$9.00 per square foot, expect to see increasing build-to-suit activity during 2006. An example of this activity is the single tenant 36,000 square foot warehouse/distribution centre recently completed at Duke Point. The lack of industrially zoned land will continue to pose a challenge for the Nanaimo industrial marketplace.

INVESTMENT MARKET HIGHLIGHTS

Nanaimo was the beneficiary of continued investor interest by Canadian and US investors alike in secondary and tertiary markets and this level of demand is expected to continue throughout 2006. Transaction volume is limited only by a shortage of available investment product, as current owners are reluctant to part with properties providing positive returns.

While the value of most transactions in the market was less than \$2 million, one transaction worth noting was the resale of 34,400 square feet at Westhill Shopping Centre for a price that indicated a cap rate of 8.7%.

RETAIL MARKET HIGHLIGHTS

The retail market continued to outperform all other forms of commercial real estate in Nanaimo; a trend expected to continue in 2006. The majority of the retail expansion has been focused on North Nanaimo, which saw the introduction of several large national retailers including PetsMart, HomeSense, and Home Outfitters. Together, these retailers occupy a newly constructed 75,550 square foot retail centre developed by Watt Ventures Ltd. Retail vacancy rates continue to decrease throughout Nanaimo due to strong demand, particularly in the emerging Downtown and South Nanaimo areas.

NANAIMO MARKET AT A GLANCE

POPULATION
134,000

OFFICE INVENTORY
800,000 sf

OFFICE VACANCY
19.0%

INDUSTRIAL INVENTORY
1.9 million sf

INDUSTRIAL VACANCY
3.0%

