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SASKATOON

MARKET OVERVIEW & FORECAST

Saskatoon recorded impressive growth in all sectors for 2005 with GDP rising by 7.0%. Overall building permits were up 30.0% and although economic growth will moderate in 2006, it is anticipated that commercial construction, investment activity, new company starts, and job growth will remain strong.

Saskatoon was one of the hottest markets in Canada and, as such, business outlook is positive for 2006. Retail sales are above the national average and continue to show strength. A number of major investments will drive the economy in 2006 including a new \$160 million processing facility by Maple Leaf Foods, a \$15 million poultry processing plant by BC based Prairie Pride, Marriott Hotel's new 200 person reservation center, and Minacs Worldwide Inc's new 350 person call centre.

INDUSTRIAL MARKET HIGHLIGHTS

The city continues to be challenged to provide adequate serviced lands to meet increasing industrial demand. The industrial market leads all sectors, in part from local investment and new business attraction/expansion, but heavily fuelled by the development of the Alberta oil sands.

Industrial demand has put upward pressure on both land values and rental rates. Current land prices range from \$140,000 to \$190,000 per acre. Rental rates for industrial space are expected to remain stable with rates ranging between \$6.00 to \$7.50 per square foot for new buildings and \$4.50 to \$5.50 per square foot for existing buildings. Positive absorption for 2006 is expected to bring vacancy rates below the 5.0% level.

INVESTMENT MARKET HIGHLIGHTS

Demand for quality investment assets was tempered only by the lack of supply. Even with a lack of product there have been some major investments in industrial, multi-family, and healthcare facilities. Local and out-of-province investors are serious about cashing in on the economic boom projected for Saskatoon and are willing to accept lower cap rates than in previous years.

Multi-residential projects continue to be in high demand. Expect vacancy levels in rental projects to drop below 3.5%. Multi-tenant retail under \$5 million is also popular. Investor demand is expected to reach record levels in 2006.

RETAIL MARKET HIGHLIGHTS

The retail development boom experienced in 2005 is expected to continue throughout 2006. The city has been forced to open up more land for retail development in order to meet the demands of the growing population. Preston Crossing, Saskatoon's largest big-box development, is ready to enter into Phase III. First Pro received approval to develop a new big-box development on the south side of the city, which will also include a new Wal-Mart Store with over 150,000 square feet of additional retail.

The 8th Street corridor, Saskatoon's most prominent retail strip, continues to attract new tenants. Morguard successfully filled the void at the Centre at Circle and Eighth by relocating Zellers to the former Wal-Mart space for a new concept store of 110,000 square feet, with the balance of 30,000 square feet leased to Minacs Worldwide Inc. for a new call centre for Apple Computer.

With the start of development in the city's River Landing project and the Cineplex Galaxy 12 screen theatre complex, activity in the downtown core is heating up. The 21st Street and 2nd Avenue strips are still hubs of activity for high-end retailers. Expectations for the success of the South Downtown project will continue to fuel retail activity during 2006.

OFFICE MARKET HIGHLIGHTS

Limited leasing activity by small to medium size tenants continued in 2005. Landlords focused on tenant renewals by offering attractive lease terms. Several government expansions and relocations were announced in 2005 with occupancy dates set for 2006. With over 75,000 square feet of requirements currently out for proposals expect to see a substantial amount of absorption and new construction in 2006 to meet tenant demand.

Suburban leasing remained relatively stable throughout 2005 with rental rates in the range of \$8.00 to \$10.00 per square foot. Expect suburban leasing activity to increase throughout 2006 as tenant demand continues to improve.

SASKATOON MARKET AT A GLANCE

POPULATION
237,000

OFFICE INVENTORY
1.7 million sf

OFFICE VACANCY
12.2%

CBD CLASS A VACANCY
6.5%

INDUSTRIAL INVENTORY
19.5 million sf

INDUSTRIAL VACANCY
5.0%

The downtown core showed an increase in activity in Class A and B buildings, mostly as a result of a few large transactions carried over from 2004. With increased government requirements expect to see increased activity in 2006, which should bring vacancy levels down.

