



## MARKET OVERVIEW & FORECAST

The economy of the Waterloo Region continues to perform well and this trend is expected to continue throughout 2006. Growth in the Waterloo Region is the strongest it has been in six years. With the Provincial Government's "Places to Grow" strategy, communities like Kitchener, Waterloo, Cambridge, Guelph, and Brantford will be the future development hot spots in Southwestern Ontario, while growth in traditional GTA centres will be heavily restricted by limited land supply and rising prices. In anticipation of supply constraints going forward, GTA developers, investors and build-to-suit specialists have been seeking out development land opportunities in these smaller communities. As such, the real estate market in the region has been extremely active, with such industry giants as Procter & Gamble, Ferrero Group, and Tim Hortons taking advantage of the cost differential this market has to offer. Recently, the Waterloo Region was ranked the most cost effective location in Canada.

In 2005, Toyota announced that it would be investing \$800 million in a new manufacturing facility on 1,000 acres in Woodstock for production starting in 2008. With the Waterloo Region already home to Toyota and a number of its suppliers, the area is in an excellent growth position. As a result, there have been subsequent announcements that will bring about significant industrial development between Cambridge and Woodstock. A number of speculative developments are currently underway. With relatively inexpensive land and supportive local municipalities, there is no doubt that the region is experiencing a building boom that will continue through 2006.

In keeping with the Region of Waterloo's growth management strategy, expect to see the approval of a 2,000 acre industrial park near the Region of Waterloo International Airport in 2006.

## OFFICE MARKET HIGHLIGHTS

With overall office vacancy in the Kitchener/Waterloo area at 4.3%, medium sized blocks of ready-to-go space are becoming more difficult to find. All sectors of the local office market continue to grow with financial, technology, and service businesses continuing to expand and outgrow their existing locations. With increased demand for space and limited supply, net office rents in the suburban market continue to increase providing economic justification for the construction of new office product. Strong demand for new office space has also put upward pressure on land values. Many developers are buying infill properties to accommodate this growth.

## INDUSTRIAL MARKET HIGHLIGHTS

The region's industrial market remained strong throughout 2005 and is likely to expand further in 2006. Expect to see the construction of new industrial product as tenant demand continues to steadily increase.

The Toyota announcement is expected to bring new parts suppliers and warehouse users to the region. As a result, demand for industrial land is likely to increase in coming years. The supply of well-located, serviced industrial land is becoming tight. Although land prices are anticipated to increase in the Waterloo Region by approximately 20%, they will remain relatively low in comparison to other Ontario markets.

## INVESTMENT MARKET HIGHLIGHTS

Investors continue to search for quality product within Southwestern Ontario. For all product types, cap rates continue to be pressured downwards. As with most markets across the country, demand for quality investment product continues to outpace available supply.

Notable transactions for 2005 include the 30,000 square foot Deloitte office building which sold for \$206.00 per square foot at a 8.25% cap rate; the Waterloo Tech Campus office project in north Waterloo, which sold to an offshore investor; and the Renwick Cambridge industrial portfolio, which had multiple offers.

## RETAIL MARKET HIGHLIGHTS

Retail development continues to expand. Many developers have been buying infill/re-use sites throughout the region to accommodate new retail projects. Canadian Tire, Shoppers Drug Mart, Zehrs, and a host of restaurant chains are all vying for these redevelopment sites. First Gulf has done a wonderful job on the former Waterloo Town Square in Uptown Waterloo. Retail leasing is strong and RBC and KPMG will anchor two new office buildings within this development.

### WATERLOO MARKET AT A GLANCE

POPULATION

595,344

OFFICE INVENTORY

5.2 million sf

OFFICE VACANCY

9.5%

INDUSTRIAL INVENTORY

83.9 million sf

INDUSTRIAL VACANCY

2.2%

