

Edmonton



Inside Report

An interview with York Realty President Matt Woolsey on real estate brokerage, the state of the market, and York's key to success.

UNDER CONSTRUCTION



1,769,474 SF

VACANCY

Greater Edmonton Area



6.7%

AVERAGE LAND VALUES

City of Edmonton

\$700,000 PER ACRE

Market Highlights

Overall industrial vacancy in the Greater Edmonton Area rose again in 2017, gaining 30 basis points over the year to close at 6.7%. Over the two and a half year period from 2015 to mid-2017, the vacancy rate rose from 3.0% to 7.3% but appears to have plateaued, with a reduction in the most recent quarter. Most of the area's **negative absorption was concentrated in Edmonton's Northwest sub-market with 870,000 additional vacant space** relative to one year ago.

The recovery of Edmonton's economy outpaced most pre-2017 projections with **4.1% GDP growth over the year** according to RBC Economics. The high growth figure is due in part to the recessionary conditions faced in 2016, but is nonetheless an encouraging sign that the city is on track for sustainable growth going forward.

Oil prices generally stabilized after a tumultuous period following the 2014 decline, enabling **provincial production of 1.16 billion barrels of oil in 2017, up 9.2% from the previous year.** WTI and WCS prices closed the year at \$60 and \$44 USD per barrel respectively.

The Government of Alberta's economic diversification plan will play a role in major projects in Sturgeon and Strathcona Counties. The projects will be awarded a combined \$500 million in royalty credits as part of the Petrochemicals Diversification Program. **Canada Kuwait Petrochemical Corporation will begin construction in 2019 on a \$4 billion Polypropylene Complex** in Sturgeon County that will create 150 full time jobs. Similarly, **Inter Pipeline green-lit a \$3.5 billion petrochemical plant in late 2017.** The facility, to be completed in 2021 in Strathcona County, will process 22,000 barrels of propane per day into propylene to be used in plastic manufacturing.

Construction on Aurora Sky's 800,000 sf cannabis production facility began in June. Located at the Edmonton International Airport, the facility will be the largest of its kind in Western Canada and employ state-of-the-art robotics and automation processes with the capacity to produce 100,000 kg per year. Aurora Sky currently produces and distributes medical cannabis, but is preparing to service the consumer market as Alberta awaits legalization.

Interview

Through 25 years of growth, York Realty has established deep involvement in Edmonton's industrial real estate market. By concentrating on redevelopment projects, joint ventures, and build-to-suit facilities, they have positioned themselves as innovation leaders in the area. Their client-focused service and commitment to tenants have been pillars to their success and has led them to own and manage over five million square feet throughout Edmonton and Western Canada with an asset mix of office buildings, retail space, industrial facilities and raw land.

Avison Young's Industrial Team sat down with York Realty President Matt Woolsey to discuss the state of the market, oncoming trends, and insights into the company's success.



Matt Woolsey
President



To you, what makes a good broker and why are they, or aren't they, important in the market?

For me a good broker is one with the ability to create value, as opposed to an order taker. If there is a broker that understands how to create added value for York, that is the type of broker we look forward to working with. There's no reason real estate cannot be a fungible good like any other commodity. Consider a distribution space for example; it can become a race to the bottom. To avoid being part of the race for cost savings, a good broker needs to put bids and asks together in a creative way to develop solutions.

With significant holdings in every sub-market within greater Edmonton area, you have a unique position in watching various industrial sectors evolve. In which areas are you seeing greater activity right now, and which do you anticipate trending up through 2018?

I watch what's happening in Calgary with big distribution space and I wonder how that activity may trickle to Edmonton. Calgary is clearly becoming a big box distribution market and they have a connection with Vancouver. I think because we are seeing a lack of supply in Vancouver and rental rates rising, costs begin to make sense in Calgary. It's worth watching to see if Edmonton will be a beneficiary of Calgary's growth or will remain a distribution submarket.

Geographically speaking, anything outside of the city boundaries will see activity because of the preferable taxes. Acheson is getting busier and becoming a serious sub-market. I know Nisku-Leduc does well to make doing business easy. Parkland County also works hard to make things easy.

Have you seen any surprising diversification in the market over the past year? Are there new uses or new users to the market that jump out at you?

The liberalization of liquor laws has changed things. For instance, tenants absorbed about 60,000 sf in our portfolio where they wouldn't have otherwise. In 2016, we saw indoor playgrounds taking up big spaces from developers.

Emerging markets to watch out for are cannabis and data centres. Right now, the pathway to profitability is unclear but it will be something to keep an eye on as the tenants become investment grade.

York Realty own and manage over
5 MILLION SF
throughout Edmonton & Western Canada

Would you be open to a cannabis deal?

Yes, absolutely. We understand it will be a rapidly emerging market, however there are still many questions surrounding profitability and legislation at this point. As the industry develops, we'll see the demand for space increasing.

You have shown a proclivity to build using a concrete panel system, why have you chosen to go this way versus conventional construction?

The quality and flexibility for several types of buildings and uses are what provide an advantage. The real interesting piece is the ability to build modular - building better, faster, and in a controlled environment. That type of construction allows us to quickly build with a build-to-suit tenant in mind and compete in deals we may otherwise not have. In terms of cost, I think it is cost-neutral but the efficiency and precision is valuable. The automation process reduces the margin of error, with all the tolerances down to the millimetre. The value add also comes from a fully integrated design team on the construction plan with all systems working together. I think in general we will see construction moving in this direction.

Interview (continued)

There is speculation that the Bank of Canada will continue to raise interest rates in 2018. How does that impact your growth plans?

That's the most important question I think about. I wonder where cap rates will be a year from now. We anticipate they will have to increase. If you're competing with other developers that can price in a lower cap rate, you can lose if not careful.

A point difference on a mortgage makes a significant difference on a valuation. Values will have to come down or incomes will come up, and I think the answer is probably somewhere in between. Our markets got beat up in recent years so I'd rather be going into this with the values already being eroded so there is less of a distance to fall. The question is, if we're building new based on this year's cap rate, will those conditions be the same in a year or two? It means we will build less and grow slower. We will have to fill that hole with cash and cash is precious for growth.



On October 19, employees in Avison Young's 80 offices in Canada, the U.S., Mexico and Europe dedicated the day to volunteer activities on behalf of local community organizations. The Edmonton office volunteered at the Edmonton Food Bank.

Over the past few years, and specifically in Leduc Business Park, York has continued building with successful lease ups while others who have built or become vacant have failed to attract those tenants. What has been the significant factor in attracting those deals, even in instances where York was unlikely to be the lowest priced option?

"It is our vision to be the absolute path of least resistance for brokers. We want to offer full service to make things easy."

We are invested and motivated to look after our properties. There is a pride of ownership with us. We understand we must maintain flexibility where other landlords may not be able to. It is our vision to be the absolute path of least resistance for brokers. We want to offer full service to make things easy for brokers to work and go to their tenants with proposals. At the end of the day, most importantly, we are deal junkies. We enjoy figuring out solutions and making things work to get deals done.

York Realty currently owns and manages 5.5 million square feet, where do you want to be in a few years?

If we can get to 12-14 million square feet by 2030 we'd be very happy. We can't compete with merchant developers with massive buildings, so instead we rely on leasing agents bringing value to us. We will have to do more smaller deals at higher yields and chip away at it, but we think we're a strong position to meet our goals.

Notable Building Sale Transactions (October, November, December)

Location	Subdivision	Sale Date	Property	Sale Price	Unit Price (psf)	Vendor	Purchaser
5918 Roper Road	Roper Industrial	15-Nov-17	114,434 sf on 5.15 acres	\$13,660,000	\$119.37	Whitemud Place Properties Ltd.	Thermon Heating Systems Inc.
10811/21 209 Street	Winterburn Industrial Area East	18-Oct-17	17,837 sf on 5.61 acres	\$5,100,000	\$285.92	Redco Properties Ltd.	180685 Alberta Ltd.
8207 - 39 Street	Leduc	16-Nov-17	23,040 sf on 2.01 acres	\$4,350,000	\$188.80	Cudel #1 Properties Ltd.	Private Owner
11528 160 Street	Alberta Park Industrial	03-Nov-17	45,734 sf on 4.52 acres	\$4,300,000	\$94.02	SDLP Snowcat Ltd.	Tin Tara Properties Ltd.
670 Acheson Road	Acheson	17-Oct-17	24,800 sf on 4.65 acres	\$4,150,000	\$167.34	720665 Alberta Ltd.	2063444 Alberta Ltd.
22603 - 112 Avenue	Winterburn Industrial	21-Dec-17	13,000 sf on 2.94 acres	\$3,037,500	\$233.65	Jamboree Transport Ltd.	Ingenuity Holdings Ltd.*

*Completed by Avison Young

Feature Listings

7730 - 34 STREET

Edmonton, AB



FOR LEASE

WAREHOUSE: 25,000 sf
OFFICE: 5,000 sf
 • Excellent curb appeal. Access to Sherwood Park Freeway, Whitemud Drive, and Anthony Henday Drive.

53251 RANGE ROAD 232

Sherwood Park, AB



APPROXIMATELY 55 ACRES FOR LEASE

SITE AREA: 55 acres
 • Adjacent to CN Rail and close proximity to Highway 16 and Anthony Henday Drive.

1609/1611 - 8 STREET

Nisku, AB



FOR SALE/LEASE

BUILDING AREA: 39,000 sf
SITE AREA: 7.4 acres
 • Access to 8th Street and 9th Street. Grade loading. Heavy power and crane capabilities.

HORIZON BUSINESS PARK

12832 - 184 Street, Edmonton, AB



FOR LEASE

BUILDING AREA: 14,978 sf
 • Quality development includes office space. Modern amenities and building features. Clear span bay providing ultimate flexibility.

HOMENUK FARMS LAND

19060 - 118A Avenue, Edmonton, AB



FOR SALE

SITE AREA: 15.63 acres
 • Close proximity to Anthony Henday Drive, Yellowhead Trail and 184 Street. Excellent access/egress with all directional interchange.

RAMPART BUSINESS PARK

15828 - 142 Street, Edmonton, AB



FOR LEASE

BUILDING AREA: 121,000 sf
 • Building 4; ready for tenant improvements Fall 2018. Excellent access and egress. Attractive design and curb appeal.

Notable Lease Transactions (October, November, December)

Location	Commencement	Size (sf)	Tenant
53251 Range Road 232	01-Mar-18	93,272	Tanks-A-Lot* 
Northwest Business Park	01-Aug-18	77,215	North Country Tire Distributors Ltd.* 
Horizon Business Park	01-Nov-18	59,210	Custom Truck Parts
11714 - 180 Street	01-Jul-18	40,634	Blue Water Alberta LP* 
2103 - 8 Street Nisku	01-Feb-18	38,279	Distinct Infrastructure Group Inc.* 

*Completed by Avison Young



Market By The Numbers

	Total Inventory	Direct Vacancy	Sublease Vacancy	Vacancy Rate	Vacancy Direct	Vacancy Sublease	Serviced Land Cost
CITY OF EDMONTON							
South/Southeast	53,591,208	3,502,471	334,670	7.2% ▼ (0.6%)	6.5% ▼ (0.4%)	0.6% ▼ (0.3%)	\$650,000 - \$800,000
Northwest	60,164,037	3,640,299	205,987	6.4% ▼ (0.3%)	6.1% ▼ (0.1%)	0.3% ▼ (0.2%)	\$700,000 - \$800,000
Northeast	6,493,830	58,405	-	0.9% ▼ (0.1%)	0.9% ▼ (0.1%)	- - -	\$525,000 - \$650,000
Central	3,738,414	68,942	48,188	3.1% ▲ 0.1%	1.8% ▲ 0.1%	1.3% - -	-

SURROUNDING DISTRICTS							
Acheson	7,844,536	301,300	11,825	4.0% ▼ (1.6%)	3.8% ▼ (1.6%)	0.2% - -	\$400,000 - \$500,000
Sherwood Park	6,365,000	334,104	-	5.2% ▼ (2.9%)	5.2% ▼ (2.6%)	- ▼ (0.3%)	\$650,000 - \$750,000
Nisku/Leduc	12,464,668	1,364,032	25,322	11.1% ▲ 0.1%	10.9% ▲ 0.9%	0.2% ▼ (0.8%)	\$450,000 - \$500,000

TOTALS							
City	123,987,489	7,270,117	588,845	6.3% ▼ (0.4%)	5.9% ▼ (0.2%)	0.4% ▼ (0.3%)	-
Surrounding	26,674,204	1,999,436	37,147	7.6% ▼ (2.1%)	7.5% ▼ (1.9%)	0.1% ▼ (0.2%)	-
Overall	150,661,693	9,269,553	625,992	6.7% ▼ (0.6%)	6.3% ▼ (0.4%)	0.4% ▼ (0.2%)	-

Net Asking Rent By Bay Size:	Southeast		Northwest		Northeast		Leduc/Nisku		Sherwood Park		Acheson	
	Multi - Tenant	Freestanding										
0 - 5,000 sf	\$10.25	\$10.75	\$10.25	\$14.00	\$9.50	\$12.00	\$11.25	\$14.00	\$14.75	\$15.00	\$11.00	\$14.00
5,001 sf - 10,000 sf	\$9.50	\$12.50	\$9.75	\$11.00	\$9.00	\$10.00	\$11.25	\$14.00	\$12.00	\$15.00	\$10.00	\$15.00
10,001 sf - 20,000 sf	\$10.00	\$11.75	\$9.00	\$10.50	\$8.50	\$10.00	\$11.75	\$12.75	\$13.00	\$14.00	\$9.50	\$12.50
20,001 sf - 50,000 sf	\$9.25	\$10.00	\$7.75	\$9.50	\$7.50	\$10.00	\$12.50	\$13.00	\$14.00	\$8.00	\$9.00	\$13.00
50,001 sf & Up	\$8.00	\$7.25	\$8.00	\$6.50	\$6.50	\$8.00	\$12.00	\$15.00	\$11.50	\$6.50	\$9.00	\$10.00



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