Calgary Industrial Market Report

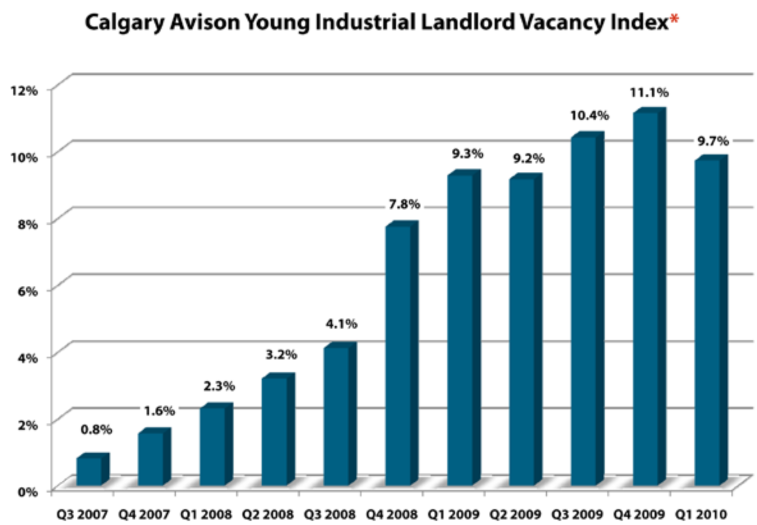
Spring 2010

AVISON YOUNG

Intelligent
Real Estate Solutions

Market Overview

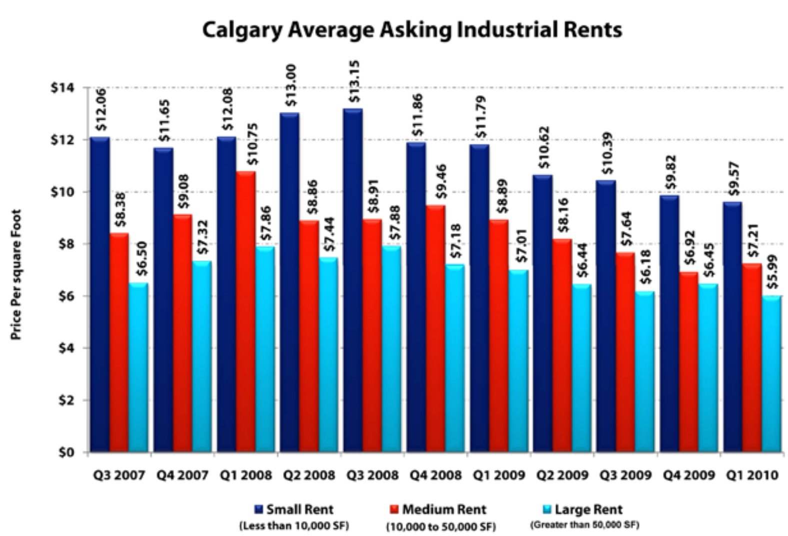
There are signs within the leasing sector of a recovery in the Calgary industrial market. However, it has not fully emerged from the rental rate reductions coupled with increased vacancy levels recently experienced. It is believed that a number of larger pockets of space will be leased this year. Speculative construction is once again being discussed, but no development company has yet to commit to a project. No new inventory is being added to the marketplace, and vacancy appears to have stabilized. Activity levels are not expected to grow significantly in the coming year, but the good news is no one is predicting any further significant downturn either.



There is long-term opportunity for tenants to benefit from current rents, with the ability to secure leases at lower rates than recorded several years ago. Landlords appear keen to complete deals right now and are aggressively competing in terms of rates and inducements. There are also more options today in terms of serviced, zoned industrial land than there have been for many years, as well as chances for owner-users to find an existing building for their operations. It is expected that transactions will increase landlords continue to entice tenants to make decisions.

Vacancy

Avison Young's Calgary Industrial Landlord Vacancy Index* for first quarter 2010 is 9.7%. This is down from 11.2% at the end of 2009, and up from 9.3% one year previous. Vacancy has hovered between 9% and 11%, averaging 10.0%, for the past five quarters. This most recent decline, while not enough of a trend to declare the worst of the fallout from the economic downturn over, is believed to be an indicator of more positives to come.



When examining the different sub-markets within the greater Calgary area, vacancy in northeast Calgary is 10.6%, southeast Calgary is 11.8% and the central portion of the city is 3.3%. This shows some distinct changes from first quarter 2009, when vacancy in the northeast was 12.2%, southeast Calgary was 9.4%, and the central portion of the city was 2.4%. This

* This index is a composite of the vacancies of the largest multi-tenant landlords in Calgary. These 21 Landlords represent the majority of the active leasing market.

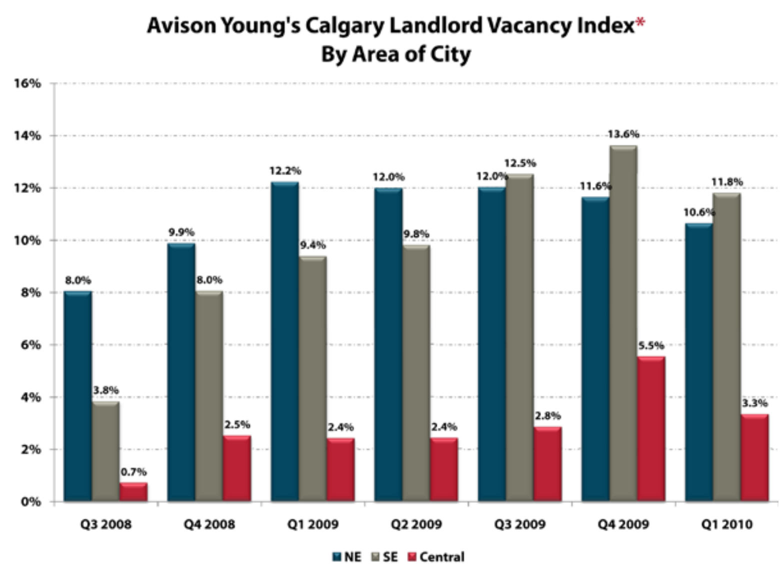
noticeable increase in vacancy for the southeast comes from a steady supply of space being returned to the market by a number of tenants who no longer required all or a portion of their space.

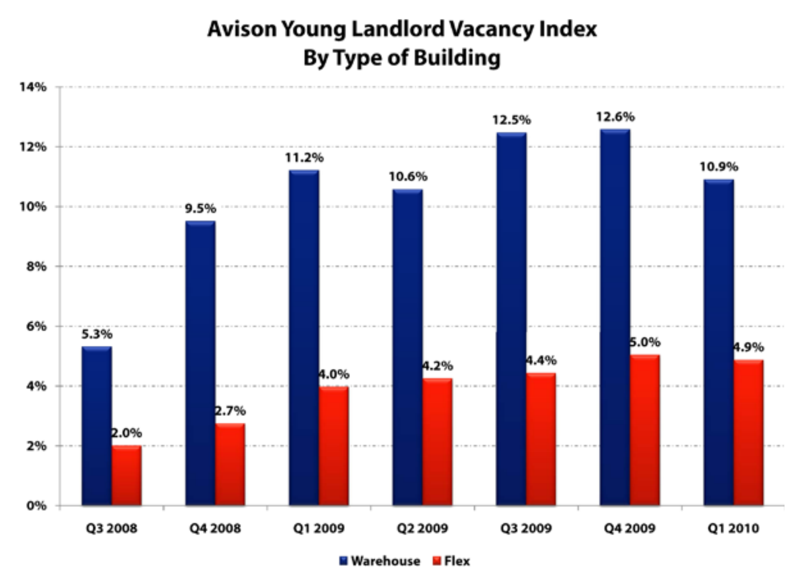
Vacancy by type of product has returned to numbers similar to those recorded before 2009. There are two main types of industrial space: flex and warehouse. Flex space is typically defined as smaller (less than 10,000 sf) bays with a higher proportion (greater than 25%) of showroom and/or office space, whereas warehouse space is typically in larger format buildings with relatively little office and/or showroom space. Warehouse style product currently has a vacancy of 10.9%, whereas flex style product has a vacancy of 4.9%. These numbers are down on the warehouse side, but up on the flex side from first quarter 2009, which recorded warehouse vacancy of 11.2% and flex vacancy of 4.0%, but are both down from the peaks recorded in fourth quarter 2009 of

NOTABLE 2010 INDUSTRIAL LEASE DEALS

Tenant	Building	Area Leased (SF)	Lease Type
3E Logistics	5600 - 22nd Street SE	137,260	New
Shanahan's Limited Partnership*	2550 - 61st Avenue SE	79,500	New
Metro Logistics	5160 - 68th Avenue SE	59,109	New
Dawn Food Products	6980 - 108th Avenue SE	53,474	New
Schlumberger Canada*	8087 - 54th Street SE	41,500	New

** Indicates transactions Avison Young was involved with.*





12.6% for warehouse product and 5.0% for flex space. The largest contiguous pocket of space in a warehouse building is 316,600 square feet (sf) in WAM's Stoney Industrial Centre 3. The largest contiguous pocket of space in a flex building is 31,470 sf in 6810 – 6th Street SE.

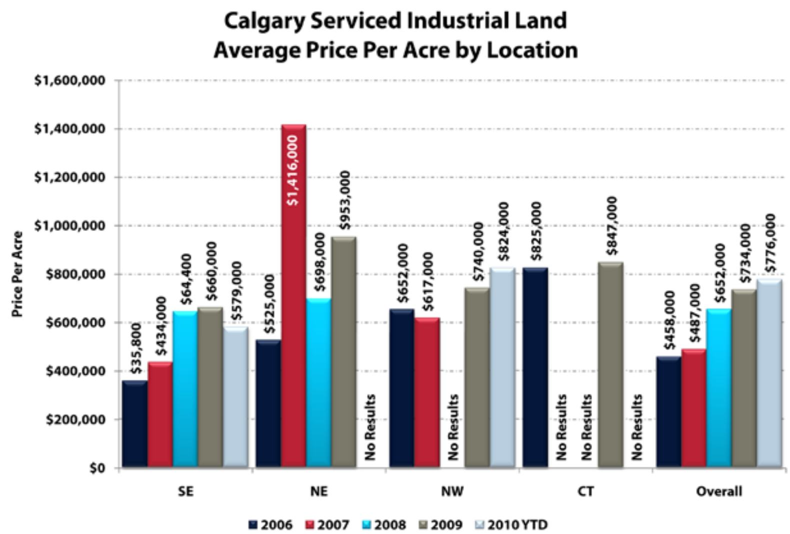
Rental Rates

Average asking rental rates for industrial properties in Calgary began to retreat in fourth quarter 2008 and have continued their decline throughout 2009 and into 2010. As of the end of first quarter 2010 for less than 10,000 sf, the average asking rate was $9.57 per square foot per annum (psf) net; for space between 10,000 and 50,000 sf the average asking rate was $7.21 psf net, and when looking at space greater than 50,000 sf the average asking rate was $5.99 psf net. Older, functionally-obsolete warehouse buildings are being quoted below $5.00 psf net. The overall average asking rate was $6.98 psf net.

When it comes to operational expenses, comprised primarily of taxes and operating costs, for less than 10,000 sf tenants can expect to pay an average of $3.87 psf per annum on top of their rent, for space between 10,000 and 50,000 sf the average is $3.10 psf and when looking at space greater than 50,000 sf the average is $2.20 psf. The overall average rate for taxes and operating costs across all surveyed properties in Calgary is $2.82 psf.

Land Availability and Pricing

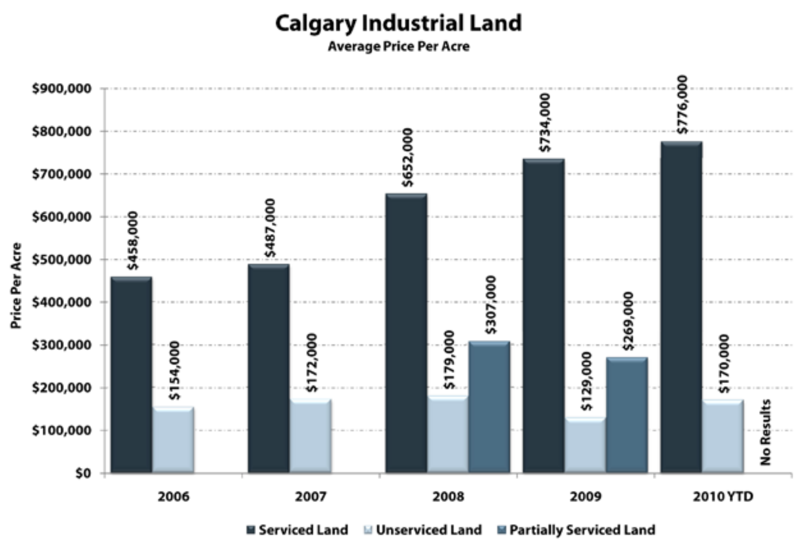
In spite of the market downturn and an increase in available inventory, the average price per acre for Calgary serviced industrial land has continued to rise. This has been the case across all areas of the city, except for the southeast. A large factor for this may be the general lack of sales, which has resulted in very few market comparables to analyze before offers are being made, forcing purchasers to rely on older, more expensive sales to evaluate properties. There are four distinct zones within the city for this type of land, and the pricing for each tends to be independent of the other areas. Out of 15 sales in 2009, six were for the city's newest industrial park Royal Vista, and three of the five sales recorded so far in 2010 were also in the same area. This quadrant of the city has not had available, zoned industrial land in over five years, resulting in these newly released lots commanding relatively high prices. The average for this area is currently $824,000 per acre.



In the older, more established central industrial area, there are few opportunities for bare land acquisitions. There were two sales recorded in 2009, with an average price per acre of $847,000. The southeast area of the city, on the other hand, has an abundance of zoned, serviced industrial land opportunities. This has resulted in prices being significantly lower, averaging $660,000 per acre in 2009 and $579,000 per acre so far in 2010. Meanwhile, there were no conventional industrial land sales recorded in the northeast portion of the city for 2009. But, there was one special-use site sold for a bottle depot, which was priced significantly above what industrial sites would be expected to sell for in the surrounding area, at $953,000 per acre. There has been no land sales recorded in the northeast in 2010 either.

In past years the overall average was $487,000 per acre in 2007, $652,000 per acre in 2008, $734,000 in 2009, and $776,000 year-to-date for 2010. Due to an overall lack of transactions, and those few transactions that have been occurring are in areas with limited supply and high demand, the average price has continued its increase.

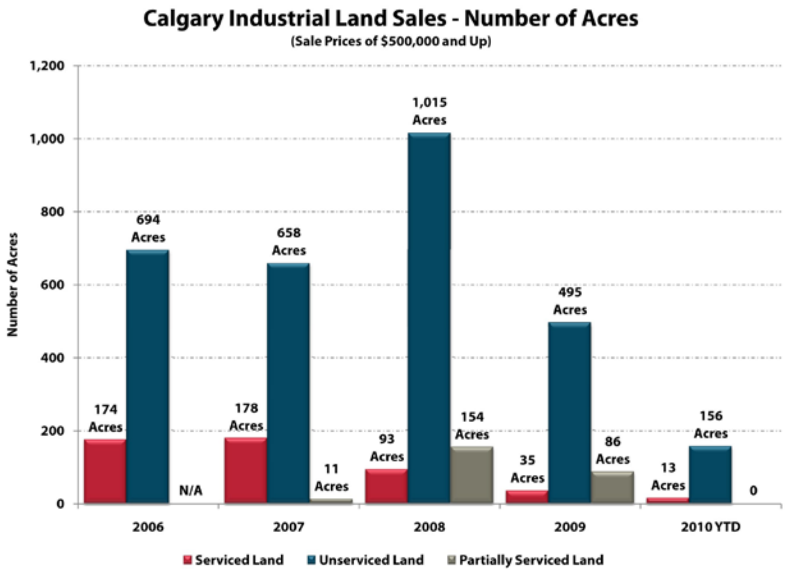
Meanwhile, unserviced industrial land (or long-term investment land) sales have dried-up. There were two recorded sales of unserviced industrial land inside the Calgary city limits in 2009, with an average price per acre of $129,000, and one so far in 2010 with a price per acre of $170,000. The uncertainty surrounding long-term growth of speculative land investment and development has caused investors to shy away from this type of product. The average price per acre in 2008 was $179,000, versus $172,000 per acre in 2007 and $154,000 per acre in 2006. Partially serviced lands, primarily those sites located along the eastern edge of the city, have not recorded any sales yet in 2010. They sold on average for $269,000 per acre in 2009, down from the average in 2008 of $307,000 per acre.



Attention is being shifted away from the markets surrounding Calgary. Locations such as Airdrie, Balzac and lands running

NOTABLE 2010 SERVICED INDUSTRIAL LAND SALES

Sale Date	Address	$/Acre (SF)	Total Price	Purchaser	Vendor
January 8, 2010	40 Royal Vista Drive NW	$872,660	$7,086,000	Canada Post Corporation	City of Calgary
February 25, 2010	37 Royal Vista Drive NW	$700,000	$1,197,000	597932 Alberta Ltd.	City of Calgary
March 16, 2010	28 Royal Vistat Drive NW	$696,864	$1,000,000	Schickedanz North Ltd.	City of Calgary
February 1, 2010	10911 - 50th Street SE	$815,380	$663,990	M4 Development Corporation	1015003 Alberta Ltd. & 876188 Alberta Ltd.
January 19, 2010	4600 - 112th Avenue SE	$775,000	$509,868	CMD Holdings Inc.	R-Cal Investments Ltd.



along the eastern edge of Calgary in Rocky View County are all sites with a significant amount of additional suitably zoned land (over 1,500 acres). While these areas offer some location and pricing advantages over those properties located inside the City of Calgary's industrial market, they are now competing with a larger number of properties, located closer to suppliers, clients and employees. Expect to see prices decrease further over the coming year as competition for purchasers intensifies and the economy pushes price expectations back down.

New Industrial Development

By the end of the first quarter of 2009, the flow of newly constructed industrial space into the Calgary market had been stopped. With the exception of some owner/user and design-build projects, almost no construction took place. This is good news for a market which is currently trying to absorb all the new space injected into the inventory. As vacancy begins to decrease, developers are starting to consider speculative construction once again. While the market may not immediately need space, if vacancy continues to decline, given the time required to complete a building for occupancy, the time to start building again may be coming soon.

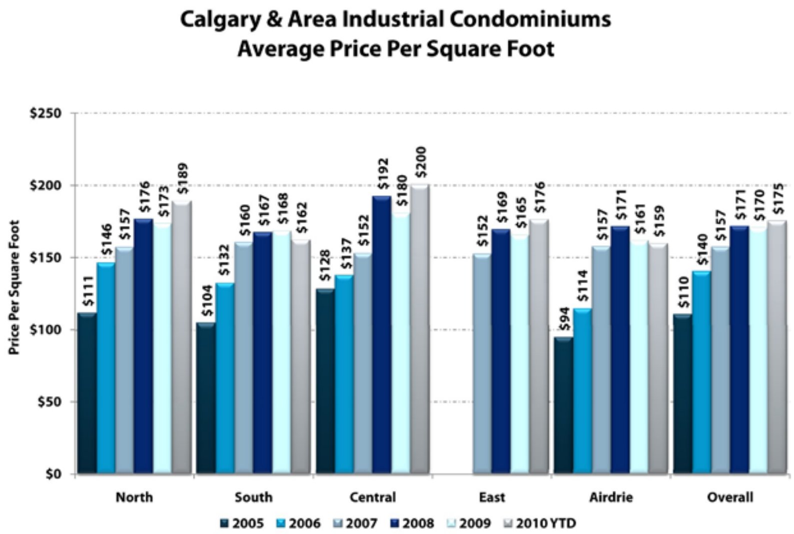
Industrial Building Sales and Investment

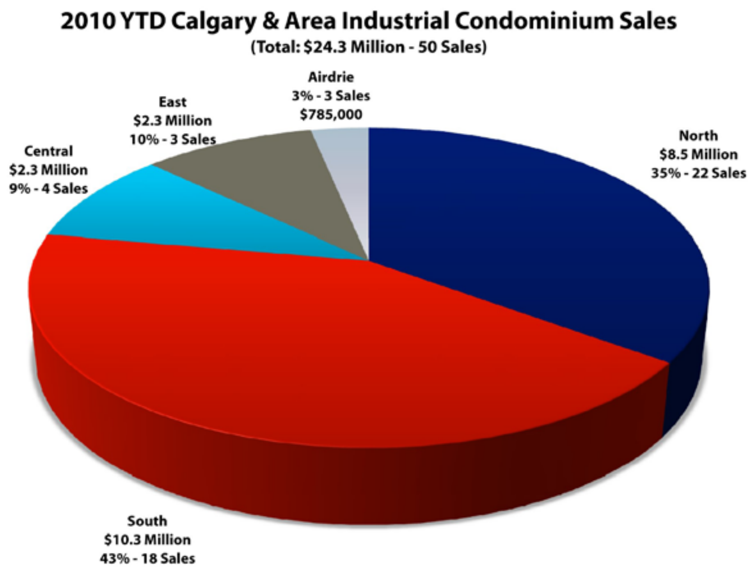
The Calgary industrial market experienced one of its slowest years in the past five years in 2009. Total industrial sales for the year were $228 million in 35 sales. This is 65% behind the record-setting dollar volume year experienced in 2008, and 50% behind the total dollar volume recorded in 2007. Year-to-date 2010 has seen 11 sales recorded, with a combined total selling price of $56 million.

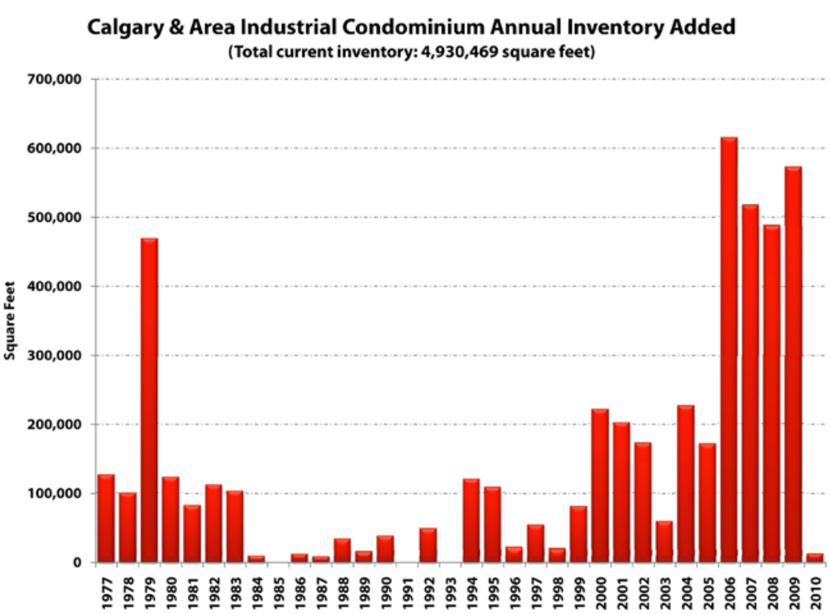
The largest industrial deal in 2009 was Tonko Realty Advisors' (acting on behalf of OPTrust) acquisition of Great Plains I (5801 – 72nd Avenue SE) from developer Hopewell Development Corporation in June 2009. With a purchase price of $40 million the resulting price per square foot was $97, and the capitalization rate was estimated to be approximately 8.2%. This brand new, 411,560 sf cross-dock facility includes approximately 40,000 sf of cooler and freezer space and will be the new Western Canadian distribution centre for Kraft Canada in addition to the home of Hopewell Distribution Services, a large Canadian logistics company.

NOTABLE 2010 INDUSTRIAL BUILDING SALES

Sale Date	Property	$/SF	Total Price	Purchaser	Vendor
March 3, 2010	850 - 16th Street SW	$85	$15,300,000	City of Calgary	Brewster Inc.
January 4, 2010	3451 Sunridge Way NE	$79	$10,250,000	1505906 Alberta Ltd.	The John Volken Foundation
January 15, 2010	1616 Meridian Road NE	$58	$4,800,000	Mike Myershak Management Ltd. & Caliber Ventures Inc.	Dreco Energy Services Ltd.
January 18, 2010	170 Glendeer Circle SE	$269	$4,150,000	Olympic Real Estate Development Corporation	Hyatt Auto Sales Ltd.
March 24, 2010	1520 - 12A Street SE	$164	$4,150,000	Rosen Canada Inc.	Datalog Technology Inc.







The largest industrial deal so far in 2010 is the City of Calgary's acquisition of the Greyhound Bus Depot (1660 – 9th Avenue SW), just to the west of the Downtown core. The total purchase price was $15,300,000, resulting in a price per square foot of $85. This purchase was the first in what is hoped to eventually be the city's new proposed West Village redevelopment project. The 4.1 acre site has been leased-back to Greyhound until 2014.

The 2009 average price per square foot was $121 (excluding condominium units), down 10% from the $135 psf average recorded in 2008, and up 3% from the $118 psf average recorded in 2007. The average price per sale was $6.5 million versus an average of $10.1 million in 2008. A noticeable shift away from investor purchases towards more owner-user acquisitions in the industrial market was observed in 2009. While 85% of the dollar volume transacting in 2008 was purchased by investors, and 75% in 2007, 61% of the dollar volume for 2009 was purchased by investors. This indicates that many investors sat on the sideline, waiting to see what would happen to the market, while in the meantime, owner-users capitalized on the opportunity to buy. For the year-to-date 2010 sales, the average price per sale is $5.3 million, with an average price per square foot of $100 and there is a 60-40 split for investor versus user purchasers.

Industrial Condominiums

Prices are currently averaging between $160 and $190 psf for typical new construction bays (less than 4,000 sf) inside the City of Calgary and $150 to $180 psf for secondary sales. Meanwhile, in areas surrounding the city the average price is between $135 and $180 psf. An abundance of newly completed industrial condominium buildings in the south and in Airdrie have driven prices down, whereas demand seems to be thriving in the north and east areas of the city causing prices to increase.

Year-to-date there has been 50 sales of industrial condominium units in Calgary and Airdrie, with a combined total price of $24.3 million. This is down 26% in dollar volume from the same 16-week period in 2009, which recorded $32.8 million in 58 sales. It is also down 34% in dollar volume from the same period in 2008, which recorded $36.9 million in 61 sales.

Condominium ownership remains attractive for investors and those users who can safely predict their operational requirements for the next few years. Buying is going to make more sense for businesses which are more established, who want to be in one location long-term and who have the financial resources to take on a real estate investment.

Wagon Wheel Business Park
Up to 450,000 sf
Balzac Industrial
Build-to-Suit Opportunity

4000 - 106th Avenue SE
up to 136,026 sf
Southeast Industrial
Sublease Opportunity

6110 - 44th Street SE
up to 85,000 sf
Southeast Industrial
Build-to-Suit Opportunity

1891 - 15th Street SE
up to 60,000 sf
Central Industrial
Leasing Opportunity

4907 & 4915 - 77th Ave SE
55,302 sf
Southeast Industrial
Building For Sale

4905 - 77th Avenue SE
31,790 sf
Southeast Industrial
Lease Opportunity

3451 Sunridge Way NE
29,000 sf
Northeast Industrial
Sublease Opportunity

31264 Highway 2A
26,184 sf
Didsbury Industrial
Leasing Opportunity

3737 - 64th Avenue SE
25,000 sf
Southeast Industrial
Headlease Opportunity

210 Grady Street
20,085 sf
Fort Macleod Industrial
Building For Sale

3611 - 60th Avenue SE
15,725 sf
Southeast Industrial
Leasing Opportunity

4216 - 12th Street NE
15,000 sf
Southeast Industrial
Leasing Opportunity

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