

Calgary's industrial vacancies up in Q1: Avison Young

BY MARIO TONEGUZZI, CALGARY HERALD MAY 7, 2009 1:51 PM

CALGARY - Calgary's industrial real estate market continued to soften over the course of the first quarter of this year, says Avison Young Commercial Real Estate.

"Any hope of a quick recovery has been deferred by the deepening global economic recession which has taken a firm hold on every corner of the world," said the company's Calgary Industrial Market Report Spring 2009 by research manager Susan Thompson.

But there is long-term opportunity to capitalize on declining rents with the ability to secure leases at lower rates, said the report, adding that landlords are keen to complete deals right now and are aggressively competing in terms of rates and inducements. There are also more options today for serviced, zoned industrial land than there have been in several years.

"The momentum in the Calgary industrial market will carry through the difficult times ahead and business will continue to take place just as it has through every previous economic downturn," said the report.

Avison Young's Calgary Industrial Landlord Vacancy Index rose to 9.3 per cent in the first quarter. That is up from 7.8 per cent in the fourth quarter of 2008 and from the 2.3 per cent in the first quarter of 2008.

The vacancy index has risen steadily from when it was just under one per cent in the third quarter of 2007.

This is an index of the portfolios of 20 significant Calgary industrial landlords. While the index is believed to be representative of the market, Avison Young said it is not a full survey of the Calgary industrial real estate market.

The majority of this increase is in large-bay, warehouse type product, which has a vacancy of 11.3 per cent, said Avison Young.

More than five million square feet of this type of space was added to the market during 2007 and 2008.

"Small-bay or flex space on the other hand only has a vacancy of 4.1 per cent, a noticeably more balanced situation," said the commercial real estate firm. "Investment in industrial buildings, condominium units and land has started the year slowly, but other than for a few small private investors, there is not a sense of need or urgency to sell.

"Large investment portfolios are even being withdrawn from the market until prices come back into line with vendor expectations. The good news is that there are a variety of options to choose from now, especially when it comes to land, a luxury simply not available this time last year."

The report said the price per acre for fully-serviced land overall in the city is now \$709,000. In past

years, it was \$652,000 per acre in 2008; \$487,000 per acre in 2007; and \$458,000 per acre in 2006.

More than 1.2 million square feet of new industrial space was completed in 2007 and another 3.8 million square feet was completed last year. An additional 573,000 square feet of space was completed in the first quarter of 2009.

"However, construction of any of the 22 million square feet currently being proposed or marketed for pre-leasing will likely be held back until the market starts to recover and sufficient leasing is in place," said the report.

After smashing records for both dollar volume and number of sales in the early portion of 2008, "Calgary's superheated industrial investment market took a plunge to almost insignificant levels over the last six months," said Avison Young.

Year-to-date sales in 2009 total \$14 million in four sales for those transactions valued at \$2 million and greater. This is \$161 million (or 92 per cent) behind the same three-month period in 2008 which had \$175 million in 20 sales and \$59 million (or 81 per cent) behind the \$73 million in 13 sales for 2007 in the first quarter.

mtoneguzzi@theherald.canwest.com

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