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## Avison Young releases 2010 national real estate forecast for Canada, U.S.:

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Canadian real estate market fundamentals, though shaken, remain relatively intact while U.S. markets continue to shoulder the brunt of the downturn with recovery expected to be longer and drawn out

TORONTO, Jan. 13 /CNW/ - Recessionary headwinds took their toll on real estate markets on both sides of the border in 2009, with the U.S. continuing to shoulder the worst of the storm. Now several quarters into it, the Canadian real estate sector has not been entirely immune, but appears to be weathering the downturn thanks to relatively sound, though shaken, market fundamentals.

These are some of the key trends noted in Avison Young's 2010 National Forecast, released today. The annual report covers the Office, Industrial, Retail and Investment markets in 13 regions: Vancouver, Calgary, Edmonton, Regina, Winnipeg, Toronto, GTA West/Mississauga, Ottawa, Montreal, Quebec City, Halifax, Chicago and Washington, DC.

"If anyone needs to be reminded, commercial real estate is a cyclical industry," comments Mark E. Rose, Avison Young's Chair and CEO. "In our 2009 Forecast last January, we predicted one overriding theme - decision-making would grind to a halt until key metrics stabilized and new trends appeared. The dislocation in real estate lending and investing was so severe in March and April that the markets looked to be on the verge of collapse. Canada weathered the storm better than the U.S. and activity was down, but transactions were executed."

Rose continues: "Due to government intervention, the concept of distressed selling and buying did not materialize anywhere in North America. The U.S. government put money into the major banks, which in turn extended every loan they could to avoid realizing losses. The Securities and Exchange Commission watched from the sidelines and allowed the impacted lenders to postpone the inevitable."

"2010 is shaping up to be more of the same, but with a slightly positive bias," he says. "Fundamentals have firmed, decision makers are getting their sea legs back and the second half of 2010 should produce favourable comparisons to 2009. This, in turn, will drive the confidence we have been sorely missing and allow for activity to return to more normal levels. With that said, before recovery can occur in 2010, private markets must solve their own problems, even if that means capitulation; the bid and ask spreads need to narrow; and we must see job growth in North America."

### CANADA


According to the report, the national vacancy rate for office space in Canada is up 270 basis points (bps) to 9.0% since the close of 2008 and is poised to climb to the 10% range by year-end 2010. Markets nationwide have experienced increases in vacancy as a result of less than stellar leasing velocity, which muted overall demand levels. The two strongest markets in Canada recently, Calgary (vacancy rate +410 bps to 10.1%) and Toronto (vacancy rate +340 bps to 10.5%), turned in the poorest performances, largely impacted by the delivery of new supply. In contrast, two of the smallest markets, Regina and Winnipeg, witnessed nominal increases in vacancy, rising to 1.5% and 5.4%, respectively, from 1.2% and 4.8%.

The leasing market for industrial space was also hit hard, experiencing escalating vacancy rates on average across Canada. With nearly 1.9 billion square feet (sf) of space distributed across Canada's 11 largest cities, the national industrial market saw its vacancy rate climb 110 bps from year-end 2008 to close 2009 at 6.3%. With the exception of Montreal (vacancy +200 bps to 8.0%) in the east, the most notable change in vacancy occurred in the western markets of Edmonton (+300 bps to 4.2%), Vancouver (+200 bps to 4.4%) and Calgary (+140 bps to 5.2%). This was tempered by the relative performance of the Ontario markets (Toronto, Mississauga and Ottawa), which witnessed marginal increases in vacancy of between 20 and 70 bps. As the industrial market continues to recalibrate, the national vacancy rate is expected to push beyond 7.0% over the next year.

Investment sales transaction volume was down 55% to \$5.4 billion through

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**Market Snapshot**

**GSPTSE** 11,734.97 ↑ 49.60 (0.42%)



<a href="#">S&amp;P TSX</a>	11,734.97	+49.60	(+0.42%)
<a href="#">S&amp;P TSX-V</a>	1,602.24	+8.77	(+0.55%)
<a href="#">Dow</a>	10,609.65	-100.90	(-0.94%)
<a href="#">Nasdaq</a>	2,287.99	-28.75	(-1.24%)
<a href="#">S&amp;P 500</a>	1,136.03	-12.43	(-1.08%)

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the first nine months of 2009 as investor caution, a scarcity of willing lenders, and owners' increased reluctance to sell devalued assets in the current climate proved to be barriers to the flow of transactions. Interest from foreign investors, especially the Germans, remained a key factor in the investment sales market, demonstrating Canada's relatively strong real estate fundamentals and enduring appeal to overseas capital. This international interest, along with a surge in capital raisings and a number of notable acquisitions in the closing months of 2009 by the domestic REIT community, is perhaps a good omen of things to come.

On the retail front, consumer spending was more resilient in Canada than south of the border through 2009. While some national chains fell victim to the recession, extensive discounting by retailers attempting to lure customers was common, especially in the months leading up to the all-important holiday shopping season. Though the final tally has yet to be determined on the overall performance in 2009, the outlook for the retail market is for stability or modest growth this year.

"Opinion remains divided on the question of whether Canada's economy will see the beginning of a sustainable recovery in 2010, or whether a further correction is to come before things start to look up," notes Bill Argeropoulos, Avison Young's VP and Director of Research (Canada). "Notwithstanding this, Canada remains in better shape than its neighbour to the south and many other real estate markets around the world, and is poised for a more rapid recovery. Ultimately, markets are expected to rebound as the economic cycle starts its next upswing."

U.S.

Mounting job losses in the corporate arena and the corresponding fall in the demand for office space have led to higher vacancy rates in markets across the U.S. Avison Young's coverage of its two U.S. markets of Chicago and Washington, DC revealed vacancy rates of 15.3% and 13.5%, respectively, up from 13.2% and 11.3% in 2008. These rates are indicative of the double-digit vacancy rates in other major US markets. For the year ahead, vacancy is expected to stabilize, trending slightly higher for Chicago (+50 bps) while falling marginally in Washington, DC (-50 bps).

A sharp decline in retail sales, the result of conservative spending from consumers, has driven up nationwide vacancy rates for retail space.

Occupancy of industrial space is also down, with some markets harder hit than others. While Washington, DC will see its vacancy rate retreat to 10% this year, Chicago's is anticipated to rise slightly above 12%. In all, demand for industrial space is variable by location even within a given market, and demand for certain types of well-located industrial property remains robust.

In the investment market, asset values continue to drop, particularly when compared to peak values experienced in 2007, and financing remains difficult to secure. It appears 2009 may very well mark the trough for real estate investment volume in the U.S.

The prognosis for the coming year is not overly optimistic. Many indicators appear to have hit cyclical lows; however, the recovery process remains slow and drawn out, and significant progress is not projected for 2010.

"The U.S. market continues to be in a falling-value state where asset values have dropped from their peaks in 2007 by between 35% and 50%, depending on the type of property and the market," explains Earl Webb, President, U.S. Operations, Avison Young. "Sales transaction volume has continued to decline, down approximately 70% from 2008 which, in itself, was down almost 80% from 2007. Financing continues to be scarce for office, industrial, retail and hotel properties, especially when seeking loans in excess of \$50 million. Multi-family assets continue to attract significant industry attention due to the available financing through U.S. government-sponsored enterprises (GSEs) (i.e. FNMA and FHMC, also known as "Fannie Mae" and "Freddie Mac")."

"We expect 2010 to be another difficult year for real estate fundamentals, although the dramatic drop in transaction volume has undoubtedly reached a cyclical low-point. Rents, while remaining well below their peaks in 2006-2007, appear to have settled out at cyclical lows in most markets and asset classes," he says. "The good news is that the construction of new supply was relatively contained in the prior up-cycle and there will not be a significant overhang of new deliveries in the next several years as (it is hoped) absorption picks up."

Webb adds: "Employment statistics are the leading indicator of real estate recovery, and the U.S. has yet to see any uptick in employment. Should the economy continue to lose jobs during 2010, real estate fundamentals will continue to feel pressure. Even with moderate employment gains, there will be sufficient shadow vacancy in most markets to absorb any additional employees without the need for additional space, at least through 2010."

The following is a snapshot of the Office and Industrial markets in some

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of the major regions:  
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VANCOUVER

Office  
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Metro Vancouver's overall office vacancy rate is expected to notch up in 2010, encroaching 8% - almost three percentage points higher than the year-end 2008 level. The downtown market should remain relatively strong, but due to distinct fundamentals in outlying areas, conditions will likely vary from submarket to submarket. The overall rise in vacancy over the past year



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from 5.0% to 7.4% was attributed mainly to the increase in sublease space, particularly in the first half of 2009. "The economic downturn stifled demand for space, especially in suburban locations," says Avison Young Principal Darrell Hurst. "But overall, the Metro Vancouver office market is still quite healthy compared to other Canadian and international markets."

He says while the downtown market remains tight, with no new major office tower expected to come on stream until 2014, suburban office submarkets will face many challenges. "Generally, there is no sign of tremendous pent-up demand in the submarkets. Business failures are rare; however, if companies continue to reduce staff considerably, landlords will have to work with tenants to ensure that their businesses and lease agreements remain viable."

#### Industrial

Metro Vancouver's traditionally low industrial vacancy ticked upward in 2009. But the 4.4% vacancy rate recorded in the latter part of the year remained among the lowest in North America. "Demand remains relatively tight amidst a growing perception that the worst of the recession is over," comments Avison Young Principal John Lecky. "Despite the downturn, there is still a lack of available industrial product for sale."

He says during most of 2009, the industrial market was inactive due to a lack of buyer confidence that stemmed from the after-effects of the global financial meltdown. But the year finished off with a resurgence of demand in all sectors. "The end of 2009 also saw a resurgence of demand on the user side. Owner-users were still sitting on the fence in late 2009 as they waited for the global economic smoke to clear, but they are likely to climb down off the fence and become active buyers if they have a greater sense of clarity in their own businesses."

#### CALGARY

##### Office

2009 was a dramatic departure from the relatively stable, low-level vacancy Calgary experienced over the previous three to four years. Following 24 quarters of positive absorption, Calgary experienced three consecutive quarters of negative absorption last year (first quarter of 2009 to third quarter of 2009). "The overall vacancy for the city rose to 10.1% at the end of the third quarter in 2009, up from 6.0% at the end of 2008, and is expected to continue to rise for at least the next 18 to 24 months," comments Avison Young Principal Todd Thronson.

"Office vacancy for the entire Calgary market is anticipated to reach 16% by the end of 2010 and peak close to 18% by spring 2012. The increase is due in part to approximately 7 million square feet (msf) of new space that remains under construction, which will add to the supply of vacant, available space in the city as it becomes available," he says. "In addition, as long as vacancy continues to rise, the downward pressure on rental rates will continue, causing them to decrease even further."

##### Industrial

The Calgary industrial market continued to soften over the course of 2009. While no new inventory was constructed over the year, with the exception of a few owner-user buildings, vacancy continued to rise. Vacancy reached 5.2% at the end of the third quarter of 2009, up from 3.8% at the end of 2008, and is expected to reach approximately 7.5% by the end of 2010.

"We anticipate activity levels will remain flat this year, which will continue to apply pressure on rental rates due to this lack of demand," notes Thronson. "Construction of any of the 22 msf currently being proposed or marketed for preleasing will likely be held back until the market starts to recover and sufficient preleasing is in place. Furthermore, prices for serviced industrial land are projected to continue falling, as an abundance of opportunities are now available to the market."

#### EDMONTON

##### Office

"A slow first half of 2009 set the office market back as companies focused on protecting their bottom-line costs. However, during the final two quarters we saw some encouraging signs as tenants are now positioning themselves to benefit from the current tenant-friendly market conditions that we haven't seen in the last few years," comments Avison Young Principal Cory Wosnack. "Higher vacancy rates, and particularly the amount of sublease space available, put significant downward pressure on rental rates at the start of the year."

The most significant movement in net rental rates occurred in class AA properties downtown, which reached \$32 per square foot (psf), down almost \$5 psf from the end of 2008. Class A and B buildings downtown also witnessed decreases in rental rates, which closed the year at \$27 psf for class A buildings and \$20 psf for class B buildings. "In light of increased competition for quality tenants, we are also seeing larger inducement packages provided by landlords to potential tenants," says Wosnack.

##### Industrial

"Despite a significant increase in the overall vacancy rate for industrial space, the Edmonton market is still showing healthy demand for functional industrial space with competitive lease rates," says Avison Young Principal Rob Iwaschuk. "The amount of sublease space released to the market in the

past 12 months has put downward pressure on rental rates and, as is the case in other sectors of the market, industrial landlords are now offering increased incentive packages to attract quality tenants to their developments."

As prices of energy commodities continue to rise and activity in the market increases, the vacancy rate is expected to stabilize. "And as a result of tempered levels of construction in 2009, vacancy may even begin to see marginal decreases in the later stages of 2010, provided the sublease market does not grow significantly," adds Iwaschuk. "We anticipate that the market will show some signs of recovery and some positive growth in the medium-to-long term."

#### REGINA

##### Office -----

2009 proved to be a year of wait-and-see for the downtown office market while global financial woes continued and economic uncertainty prevailed. "The suburban office market experienced moderate growth based on pre-existing commitments while vacancy rates downtown remained very low at 0.24% for class A and 3.9% for class B+ and B space," states Avison Young Principal Dale Griesser.

"These rates were the lowest of major Canadian markets. We need to see development occur soon to bring supply-demand balance back to the market. Less than 1% vacancy is considered an unhealthy situation for tenants wanting to expand or locate to the region," notes Griesser. "The City of Regina has released its new Build Form Framework, which will drive building development standards in the central business district (CBD) for years to come. However, it is not solving supply issues. Vacancy rates will remain at historic lows for all classes or product while rental rates will draw premium prices."

##### Industrial -----

The Regina industrial real estate market remained strong throughout 2009 despite an above-average year of construction activity. "New construction remained fairly steady throughout the year with a number of projects commencing or completing construction," says Avison Young Principal Richard Jankowski. "However, high absorption levels pulled down vacancy rates from 4.0% to less than 2.0% at year-end, the lowest industrial vacancy rate in the country among major markets."

"Following a few years of upward pressure on land values, prices dropped slightly in 2009 and we expect them to hold at the current level for 2010," he says. "Rental rates are also expected to hold steady in 2009." Jankowski predicts the wait-and-see attitude will carry on for some time as tenants adjust to the new rental rates. He adds that development of the Global Transportation Hub inter-modal facility is underway and will alleviate pressure on future inventory demand. "The 2,000-acre major development west of the city is, arguably, the biggest catalyst to supply-demand balancing and will drive the industrial market for the next several years."

#### WINNIPEG

##### Office -----

Throughout 2009, vacancy levels in the Downtown Winnipeg office market averaged 7.5%, which represents approximately a 25% increase from 2008. "A constant supply of sublease space entered the market and closed off the year with an offering of over 100,000 sf. Transactional volume was less than boisterous," says Avison Young broker Linda Capar. The smaller cost-conscious tenants dominated, which resulted in the class C market representing over 50% of the overall reported leased square footage. Net rental rates offered remained untouched throughout 2009, averaging \$15.75 per square foot (psf) for class A, \$12.25 psf for class B and less than \$10 psf for class C.

"Encouragingly, the 2010 transactional volume is expected to rise as a dramatic increase of formal inquiries was experienced throughout the fourth quarter of 2009," adds Capar, who says the majority of interest was expressed for properties in the 15,000- to 20,000-sf range which, if contracted, could effectively resurrect the class B market. "The cost of office build-out is becoming an important factor in deciding which space is best for a tenant."

##### Industrial -----

"With the exception of some U.S.-based tenants and companies supplying U.S. manufacturers, our market remains quite recession-proof with non-stop activity in most areas," comments Avison Young Principal Wes Schollenberg. "Sales of full and empty buildings are still very brisk with many soliciting multiple bids. The lack of product for end-users has resulted in climbing values."

Schollenberg says the modern higher-ceiling locations in proximity to the Winnipeg Centre Port initiative are commanding the highest rent. These higher rents are also pushing up property taxes. With industrial vacancy hovering around 3%, new construction is still taking place despite record price increases in serviced industrial land. "The land shortage is causing redevelopment of older stock," he says. "There are not a lot of options for users who want to buy or build."

#### TORONTO

##### Office

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The economic downturn has brought an end to five years of rising rents and falling vacancy in the Toronto office market. Overall office vacancy across the Toronto area is at a three-year high of 10.5% due to lower than expected leasing velocity and the completion of new building stock. Much of that construction was well underway before the financial upheaval took hold of the market in late 2008.

"We expect the new buildings, such as Bay Adelaide Centre, RBC Centre and TELUS Tower in Downtown Toronto, to attract much of the attention and to lease up before the large-block vacancy in the existing older stock does," explains Avison Young Principal Mark Fieder. "The new developments offer the latest in building-system technology, workplace efficiency and lower operating costs. More importantly, the new towers will continue to be used as negotiating pawns by tenants to secure more economical terms when considering relocation or renewal of premises."

The outlook for 2010 on the Toronto real estate scene is one of cautious optimism for recovery. Soft market conditions will prevail as a further 3 million square feet of new building projects are scheduled for completion, which will nudge vacancy higher.

"Landlords who find themselves with large blocks of existing or pending vacant space on their hands will need to be more aggressive as well as innovative to remain competitive in the market's shifting landscape," adds Fieder. "For tenants, on the other hand, there has never been a better time as the leasing window remains open - for now."

#### GTA WEST/MISSISSAUGA

##### Office -----

Some bright spots in the GTA West office market in 2009 included the Meadowvale and Mississauga City Centre submarkets, which managed to hold their vacancy rates below double digits. The Airport Corporate Centre (ACC) was punished as its vacancy rate rose by 800 basis points to 17.7%. Current levels of unemployment in the service sector will provide a dampening effect on office absorption throughout 2010.

"We will continue to see a noticeable gap in the asking rents of newly constructed LEED-certified office space and older office product, as we expect to see a flight to quality and, more importantly, efficiency," comments Avison Young Principal Martin Dockrill. "The ACC submarket will be an office market to monitor this year as there is the possibility of a further increase in vacancy." He says it will also be interesting to see the lease-up of HOOPP's Aero Centre V (5550 Explorer Drive). "This LEED gold office building will be completed this year and its success or failure will provide a harbinger of tenant demand throughout the year."

##### Industrial -----

2009 was a difficult year for the GTA industrial market. "Availability rates in warehousing and distribution facilities increased across the board not only as a result of company closures, but also weaker consumer spending, which is a driving factor in warehousing demand," notes Dockrill. Some submarkets ended the year well into the double-digit availability figures, such as Caledon, which ended with an availability rate of approximately 15%. The increased availability caused a decrease of approximately 53 cents per square foot over the course of the year.

He adds: "2010 will be an interesting year in the GTA industrial market. While the industrial market is expected to tighten somewhat over the course of the year, there is risk of a further increase in availability. The amount of shadow vacancy being held by third-party logistics companies will pose a threat to the availability rate should there be large amounts of space brought back to market in 2010."

#### OTTAWA

##### Office -----

Ottawa's office market continued to be one of the most stable markets in Canada in 2009. "Bolstered by the continuing strong federal government requirement for upgraded office product, the capital region continues to provide consistent returns to investors who have made Ottawa a place to invest," states Avison Young Principal Michael Church. He says current proposal calls from Public Works and Government Services Canada (PWGSC) in 2010 will ultimately add more inventory to the core market in years to come, but in the meantime, core vacancy is expected to hover in the 3% to 4% range in 2010.

"Suburban vacancies continue to tell a tale of two inner cities - with the technology-dominated West End market continuing to face uncertainty as venture capital continues to be scarce," says Church. "The East End, on the other hand, continues to see sub-5% vacancy rates - with no relief in sight in 2010."

##### Industrial -----

As a just-in-time delivery market serviced by the Toronto/Montreal distribution centers, Ottawa's industrial market is dominated by older warehouse facilities that compete within a narrow price band. "Newer product continues to take longer to lease, as has been the case with some newer West and East End product," notes Church.

He says 2010 will continue to see the trend of older inventory converted to

office space as an alternative to sitting vacant as product becomes obsolete. "New construction should be limited to public tenders for municipal works and tender calls from PWGSC in 2010," he adds.

#### MONTREAL

##### Office

Leasing activity was affected by the impact of the recession on corporations in 2009. "Companies were generally looking to reduce expenses by rationalizing their operations when and where they could," says Avison Young Principal Bernard Poliquin. "Tenants with lease expiries and options to reduce their occupancy did just that while renewals were often concluded for short terms of three to five years. In this context, the vacancy rate in Downtown Montreal increased by nearly three percentage points from a low of 5.1% in the third quarter of 2008 to 7.9% in the third quarter of 2009." Although this increase is significant, he says the resulting vacancy in Montreal still projects a relatively healthy picture, due in part to the restraint in new developments.

Tenants who were holding back in 2009 are expected to look at their lease situation in a more positive and confident way in 2010. "Vacancy levels are up, and with a return to a mid- to long-term state of mind, decision makers will look to secure advantageous tenancy lease terms upon expiry," Poliquin says. "The Montreal economy is unlikely to generate significant absorption in 2010, but the downward trend will give way to a plateau before things start picking up again later in the year and in 2011."

##### Industrial

"The industrial market served as both a landlord's market and a tenant's market in 2009," notes Poliquin. He says large vacancies accumulated following the closing of manufacturing plants. This led to reductions in rental rates, which became advantageous to tenants. Properties that maintained higher-than-usual vacancy rates were smaller, more specialized facilities. Warehouse spaces with 18 feet of clear height or less were more readily available, while spaces with clear heights of 24 feet or more were better able to maintain their overall occupancy levels. "Some landlords became very aggressive with both tenant inducements and reductions in rental rates, while others did not."

He adds: "Tenants will continue to delay decision-making on any long-term commitments until they see a clearer picture of the recovery. Tenants with good covenants will continue to have the greatest bargaining power with landlords." Vacancy rates in Montreal's industrial market are expected to remain relatively stable. Vacancy rates for specialized industrial buildings are forecast to remain high whereas manufacturing and warehousing spaces are anticipated to recover more quickly.

#### QUEBEC CITY

##### Office

"It is business as usual for Quebec City's office market as demand for office space continues to sustain itself," comments Avison Young VP Claude Pellicelli. "With government infrastructure expenditures and a high concentration of employment in relatively recession-proof industries, such as public administration, hospitals, and post-secondary education, Quebec City's economy was not impacted by the downturn in the same manner as those of other large cities. "Employment levels remained relatively healthy throughout 2009 and, despite the addition of several hundred thousand square feet of new office space, so did the vacancy rates."

"With no recent announcements of new plans to build and several projects still in preleasing mode, activity surrounding office construction will taper off significantly in 2010," he says. "The preleasing of any new projects that have not yet begun construction will become more of a challenge in 2010. Meanwhile, vacant space remains in some of the buildings that reached completion in the last half of 2009. As such, 2010 will be a year of consolidation and stabilization."

##### Industrial

"Few changes have taken place over the past few years in Quebec City's industrial real estate market, as manufacturing has not been a major component of the local economy," says Pellicelli. "Some new construction activity took place in the Quebec Metro High Tech Park - mostly to suit owner-occupants, but supply and demand for industrial leasing have remained stable for several years. This lack of activity has caused rental rates to stay quite low relative to other Canadian industrial markets."

The industrial market is likely to remain flat. There have been no announcements of new projects for 2010, and market demand does not justify any speculative investments in the sector. "Discussions of attracting more pharmaceutical firms to the Quebec City region could boost its industrial market," he says.

#### HALIFAX

##### Office

The Halifax office leasing market experienced a marginal 2009. "Activity in the first half of 2009 was minimal with business decisions coming to a standstill as companies dealt with the impact of the financial meltdown. But activity did increase by year-end," comments Avison Young Principal Kenzie MacDonald.

"Most demand for office space came from the finance and defence sectors, and we fully expect these industries to continue performing well in 2010," he says. "This demand was for both tenant expansions and new space as Halifax was able to capitalize on its highly-educated workforce and relatively low business costs to attract new tenants."

#### Industrial

Industrial construction slowed in 2009 as a number of projects were completed in the latter part of 2008. "Vacancy rates dropped to the 7.5% range by the end of 2009," says MacDonald, adding that "tenant expansions appeared to be fuelling the demand for additional space as well as the desire to move into newer properties." Rental rates remained relatively flat during the period. MacDonald says he expects to see rates move up in 2010 along with increased construction activity.

#### CHICAGO

##### Office

The central business district (CBD) saw negative absorption in 2009, demonstrating that even the strongest markets could be affected by the economic downturn. Tenants went on the offensive, extracting concessions such as free rent and signage rights in their renegotiated leases. "Most tenants are trying to downsize to save on infrastructure costs, so there is still activity in the market, but tenants are pushing hard against landlords' asking rents," points out Avison Young Principal Michael McKiernan.

2010 is likely to be another slow year as companies await a sustained recovery. "The job market here in Chicago is lagging behind the general economy and, like other markets, we expect the demand for new space to be tied directly to hiring trends," he says.

##### Industrial

Although businesses and brokers were becoming more hopeful that the recessionary effects were nearing their end, it was a difficult year in the Chicago industrial market. "Due to a relatively disciplined developer community, vacant speculative space is starting to decrease. That, in conjunction with aggressive rental rates in favour of the tenants, is having a further positive impact on industrial vacancy," explains McKiernan.

"The prospects for 2010 are far from rosy. With high vacancy rates, a large surplus of industrial space and a weakened manufacturing sector, a rapid recovery is not expected. Still, there is hope that Chicago's standing as one of the top distribution locations in America will increase the speed of recovery in line with manufacturing growth," notes McKiernan, who says the O'Hare submarket will most likely see the quickest recovery because of its proximity to the airport and the current depressed asking rates. "Energy costs will continue to be a driving force behind real estate decisions with companies choosing to be closer to the city in order to reduce fuel costs."

#### WASHINGTON, DC

##### Office

After sliding through the economic slowdown relatively unscathed in 2008, Washington's commercial real estate sector felt it in a big way last year. Tenants around the region hunkered down to wait out the storm and inked renewals that, by and large, eschewed long-term commitments. "As in previous downturns, big lease deals came via the federal government," comments Avison Young Principal Keith Lipton.

"The American Recovery and Reinvestment Act of 2009 and managed stimulus spending are expected to keep federal government activity at the forefront in 2010 as well," he says. "Federal government leasing alone will not eliminate the effect of the scheduled delivery of new office buildings under construction. In DC, where nearly 5 million square feet (msf) are set to come online, expect the class A vacancy rate to climb to the upper teens. Office statistics could recover first in the suburbs where construction has slowed to a trickle."

##### Industrial

2009 continued a two-year trend of rising vacancy rates in the industrial market sector. Tenant contraction resulted in negative net absorption of nearly 3 msf and double-digit vacancy rates. Vacancy in flex space - which office occupiers utilized when the office market was tight mid-decade - was even higher.

The good news, says Lipton, is that the construction pipeline has dried up. "Suburban Maryland, the region's hotspot for biotech research and where the Food and Drug Administration (FDA), National Institutes of Health (NIH), and other healthcare, life sciences and biotech leaders are located, could see a surge in demand for flex and research-and-development buildings. In submarkets near Dulles Airport, the elevated vacancy in industrial inventory will keep development at a standstill. As occurred last year, renewals should lead the leasing activity in 2010."

Founded in 1978, Avison Young is Canada's largest independently-owned commercial real estate services company and the only national, Canadian-owned, principal-managed real estate brokerage firm in the country. Headquartered in Toronto, Ontario and ranked among Canada's leading national commercial real estate organizations, Avison Young is a full-service commercial real estate company comprising more than 500 real estate

professionals in 15 offices across Canada and in the U.S. The company provides value-added, client-centric investment sales, leasing, advisory, management and financial services to owners and users of commercial, industrial and multi-residential real estate properties.

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- Click here to view Avison Young's national office and industrial vacancy rate graphs (3 graphs):

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