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## Second-tier cities don't always play second fiddle

CHRIS ATCHISON - The Globe and Mail

When commercial property watchers and investors think about hot Canadian markets, they tend not to think about cities such as Saskatoon and St. John's.

That could be a significant oversight, experts say. For instance, yields in secondary markets can be nearly as strong as those in larger markets, says Robin White, the Toronto-based executive vice-president of real estate brokerage [Avison Young's](#) investment group.

"Investors tend to look at the major cities because that's where they see the most growth, and if they can buy commercial buildings and get an acceptable yield from them, they feel comfortable," Mr. White says. "When they have difficulty finding assets in those markets, they step to the next tier of cities."

With that in mind, experts outline the hottest secondary commercial property markets in Canada:

### Quebec City

Highlights: Quebec City has roughly 17.2 million square feet of office inventory with a vacancy rate of 5.8 per cent, virtually unchanged from the year before, says Louis Burgos, Montreal-based branch manager for commercial real estate brokerage Cushman & Wakefield. He adds that net rental rates for class A office space in new developments such as a planned 200,000-square-foot tower, set for occupancy in early 2013, are between \$18 and \$20 per square foot.

Why it's hot: "There's pressure in the marketplace for new stock," Mr. Burgos says. "Service industries like legal, accounting, insurance and engineering firms are an active component of this growth because it's a government town. We're seeing them out in the marketplace looking for space, so we expect market rates to creep up because the vacancy rates are so low."

Why it has a bright future: Mr. Burgos points out that with nearly half the available office space in the provincial capital occupied by government, critical cash flow stability remains an attractive lure for potential landlords. "I think the combination of low vacancy and upward pressure on rental rates makes Quebec City a good place to look for investors," he adds.

### Kitchener-Waterloo, Ont.

Highlights: A recent report by global real estate consultancy CB Richard Ellis noted that Kitchener-Waterloo's office inventory in the fourth-quarter of 2010 logged in at 13,941,600 square feet with a vacancy rate of just 5.4 per cent – down from 6.4 per cent the year before. Class A net office rental rates stood near \$12.30 a square foot.

Why it's hot: "There is a great deal of office expansion under way due to the high-tech industry and the expansion of local university and college bureaucracies," says Don Hughes, president of Ottawa-based Facilities Commercial Realty Inc. "Kitchener's downtown core, which used to be really depressed, is also being revitalized, with townfronts being improved and loft-style residential space being built."

Bright future: According to Mr. Hughes, increasing diversification and growing prominence of the high-tech sector will continue to drive demand for commercial office, retail and industrial space for the foreseeable future.

### Saskatoon

Highlights: A recent report by Saskatoon-based ICR Commercial Real Estate noted



that overall retail vacancy in the city notched in at just 3.3 per cent at the end of last year, with downtown rental rates hovering around \$30 a square foot. On the industrial front, net rental rates range from \$10 to \$13 a square foot, while industrial vacancy rates were down to just 2.7 per cent at the end of last year from 3.8 per cent in 2009. Class A office space is renting for between \$32 and \$34 a square foot, with a vacancy rate of less than 1 per cent in some parts of the city.

Why it's hot: The province's thriving resource economy is largely centred here, with two of the province's three major potash companies, BHP Billiton and Potash Corp. of Saskatchewan, occupying space in the city's downtown core, says Richard Jankowski, Regina-based managing director of [Avison Young's](#) Saskatchewan division.

Bright future: "Products like potash, oil, gas, uranium, precious metals, all of those things which are capital-intensive commodities and require long-term development, are prevalent here," says Mr. Jankowski. "(Saskatoon's) commercial property potential isn't a flash in the pan."

#### St. John's

Highlights: According to Cushman & Wakefield, the Newfoundland and Labrador capital boasts 2,772,717 square feet of available office space with a vacancy rate of 4.1 per cent in the first quarter of this year. Net rent on class A office space is around \$17.86 a square foot. The city's 2,706,946 square feet of available industrial space rents for an average net rate of \$8.65 a square foot, with overall vacancy rates of 4.1 per cent.

Why it's hot: "What's changed in the Newfoundland market is that it's now functioning very much like an oil economy," says Bill MacAvoy, Cushman & Wakefield Atlantic managing director. He adds that two of the stronger influences driving this market are commercial property investors looking for second-tier cities with stable fundamentals, as well as well capitalized Newfoundlanders returning home and looking for investment opportunities after working in places such as Alberta's oil sands region.

Bright future: "I think St. John's' economy offers a level of diversification that will take a lot of the risk out over time," Mr. MacAvoy adds. "As a region, (Atlantic Canada) withstood a lot of the 2008-2010 challenge better than most of North America."

#### Fort McMurray, Alta.

Highlights: While commercial property statistics for the Alberta boomtown are hard to come by, Terry Kilburn, an Edmonton-based real estate consultant with [Avison Young](#), says industrial space in the oil sands heartland typically hovers at between \$30 and \$40 a square foot, with office spaces at as much as \$30 a square foot. Vacancy rates in supply-starved Fort Mc-Murray are between 0 per cent and 2 per cent on average, he says.

Why it's hot: "Fort McMurray is a frontier market, an absolutely terrific market for people in the commercial and residential real estate business to go into," Mr. Kilburn says. "It's not an easy place to get established in because a lot of townspeople don't welcome people from the outside because they're used to doing things their way, but if you have foresight and vision, you'll probably be welcomed with open arms."

Bright future: As Mr. Kilburn points out, the town is driven almost entirely by the oil and gas industry. With oil prices climbing, Fort McMurray's fortunes show no signs of souring.

