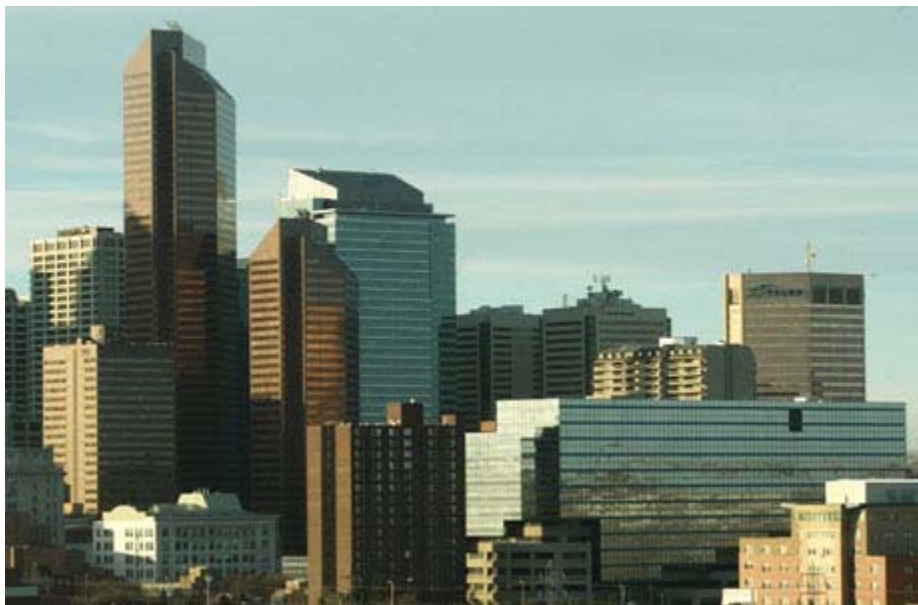


Commercial real estate deals decline nationwide, Calgary 'cautiously positive': Report

BY MARIO TONEGUZZI, CALGARY HERALD JANUARY 13, 2009



Commercial real estate transaction volumes will likely decline from coast to coast in 2009 - due to a slowdown in executive decision-making as many firms elect to stay put while riding out the economic downturn, says a national report released today.

Photograph by: Archive, Calgary Herald

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Avison Young (Canada) Inc.'s 2009 National Forecast said that in major markets, the addition of new inventory and a spike in sublease space may cause vacancy levels to rise through 2009, and tenants may see some relief with regard to rental rates. As is the case with cyclical downturns, aggressive investors will target distressed situations for higher, long-term yields. However, the Canadian markets continue to benefit from generally strong fundamentals and relatively constrained supply, and should look for improvement towards the second half of 2009, said the report.

According to the 2009 Forecast, the national office vacancy rate remains tight at 5.2 per cent (as of November 2008) but is anticipated to notch up to 6.7 per cent by year-end 2009, due mainly to curtailed demand across the board and significant new supply, particularly in Toronto. The national industrial vacancy is forecast to tick up to 6.4 per cent by the end of 2009 from 5.4 per cent in November 2008 as a result of new construction completions and limited tenant expansions, caused in part by the downturn in some manufacturing and resource-based industries.

With the addition of 3.3 million square feet to the overall office space inventory in 2008, the Calgary office market witnessed a climb in vacancy from a mere 1.8 per cent at the end of 2007 to 3.4 per cent by the end of 2008, said the report.

"Sublease space rose above the 1 per cent mark for the first time in more than two years and small decreases in rental rates for class B and C properties were also noticed," said Todd Thronson, Managing Director of Avison Young (Canada)'s Calgary office.

"Nonetheless, the overall outlook for the Calgary office market remains cautiously positive. Due to the level of uncertainty in the market as we begin 2009, tenant negotiations will likely be aggressive for both new space and renewals," he said. "A further retreat in class B and C class rental rates is expected, with class A properties also anticipating some negative momentum through 2009."

He said there will be "moderate vacancy rate increases" until several large new development projects come on stream at the end of the year.

In the industrial sector, the 3.8 million square feet of new industrial inventory added to the Calgary marketplace matched the 3.5 per cent increase in total space available in the market, said Thronson.

"However, Calgary remains among the top 10 cities in North America with the lowest industrial vacancy rates. Thus, asking rates are anticipated to maintain their current levels in 2009, but with higher incentives."

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