

Slumping commercial real estate to recover by 2010

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EDMONTON - The deals will slow down, vacancy rates will rise and sublease space will spike, but Canada's commercial real estate will stabilize by mid-year and recover in 2010, predicts a new national report.

Many firms will opt to stay put in their existing quarters to ride out an economic downturn, Avison Young (Canada) Inc. said in its 2009 National Forecast released today.

That slowdown in executive decision-making will cut commercial real estate deal volumes.

In major markets, new inventory and rising sublease space may boost vacancy levels through 2009, and tenants could see relief from lower rental rates, the report said.

The commercial real estate firm predicts some aggressive investors will target distressed properties, but added Canadian markets are benefiting from strong fundamentals and relatively constrained supply.

Mark E. Rose, Avison Young Canada's chairman and CEO, said Canada held up better than most countries under the global credit crunch.

"... But the repercussions of global asset repricing and waning investor confidence will continue to affect our financial centres (Toronto) as well as oil-producing centres (Alberta and Saskatchewan) as was the case in the final quarter of 2008," Rose said in a release.

Transaction volumes will increase when decision-makers realize the underlying fundamentals of Canadian commercial real estate are still relatively healthy across most sectors and property types, he said.

"Although pricing and activity are assured of getting worse in the first half of 2009, we should see stability in the second half of 2009 and recovery in 2010."

Of 11 regions surveyed, most anticipate slight increases in office and industrial vacancy rates by year-end 2009, the report said.

In Edmonton, 2008 saw downtown vacancy rates remain strong at 5.6 per cent and net rental rates trend marginally upwards, said Cory Wosnack, principal at Avison Young's Edmonton office.

Net rental rates are expected to remain flat over the next six months, if the overall vacancy rate holds below seven per cent - citywide vacancy is now 6.5 per cent, the report said.

For Edmonton's industrial real estate market, new construction and lower

absorption levels bumped up the vacancy rate to a "still sparse" 1.5 per cent in December - the lowest industrial vacancy among Canadian major markets, said Rob Iwaschuk, principal Avison Young Edmonton.

New projects coming on in the year will meet some demand, he said.

After years of rising land values, prices began to plateau in 2008 and will correct in 2009, Iwaschuk predicted. Except for new developments, industrial rental rates will hold steady, he said.

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