Globe and Mail
National daily newspaper
Toronto, ON
April 28, 2009

Property Report

ᴇCESSION RIPPLES » INDUSTRIAL SPACE

ʼhe fundamentals of the Canadian market are essentially sound,' says Mike Hanna, vice-president and general manager of ORE Development Co., which focuses on industrial rojects in Southern Ontario such as this 330,000-square-foot building in Milton. 'The chief challenge is uncertainty.' PETER POWER/THE GLOBE AND MAIL

Uncertainty erodes a solid base

ɴew projects stall as players across the country take a wait-and-see attitude amid economic cutbacks

Y TERRENCE BELFORD

Just a year ago, Mike Hanna says, he was busier than a beaver. As vice-president nd general manager of ORE ɔevelopment Corp., he helped ring the Mississauga-based ompany, a division of Minne-polis-based Opus Group, to ɛanada to cash in on the in-ustrial development boom.

During the previous two ears, ORE had built and then ɛased or sold about 2.5 million quare feet of new industrial pace in Southern Ontario.

But the economy has hanged the picture. Creating ɪew industrial space – that ɔusiness is now dead in the vater.

"In the past, I could count on inancial backing from U.S. in-titutions and banks but all hat financing has dried up," ʌr. Hanna said.

And yet, he adds, the Cana-lian industrial market has ared far better than that south f the border. "Up here, the hief challenge is uncertainty. n fact, the fundamentals of he Canadian market are es-entially sound. It is just that ɪobody knows what will hap-ɔen next."

Those twin themes, a funda-nentally sound sector but one vhere activity is stalled by un-ertainty, are common right ɪcross Canada, according to eal estate brokers.

"Yes, activity is down; yes, here is unabsorbed supply, ɔut it is only marginal when ou consider how much we ɪave in total," said Mark Stain-r, industrial national practice eader at Cushman & Wake-eld LePage Inc. in Toronto.

One of the chief problems, specially in Ontario, is that oth the manufacturing and distribution sides of the indus-trial market are affected by the recession, says Stefan Ciotlos, president of CB Richard Ellis Ltd.

"In the past, as manufactur-ing declined in favour of out-sourcing overseas, distribution demand rose because we were importing more," Mr. Ciotlos said. "Right now, both sides of the equation are down."

Yet, balancing off a drop in demand for industrial space, the sector entered the year without a large oversupply. Va-cancy rates across Canada, in fact, are remarkably low. At the end of the first quarter, they stood at 4.9 per cent na-tionally, according to CB Rich-ard Ellis Ltd.

In Halifax, they were 5.3 per cent; in Montreal, 8.8 per cent; in Toronto, 3.8 per cent; in Cal-gary, 3.7 per cent; in Edmon-ton, 2.9 per cent; and, in Vancouver, 2.8 per cent. A landlord's market is consid-ered anything under 8 per cent, industry experts say.

Experts predict vacancy rates will rise and rental rates drop as the recession deepens. On-tario, and especially the Grea-ter Toronto market, are certain to be heavily affected by what happens in the auto industry.

"If GM pulls out of Windsor, for example, it will have a pro-found impact," Mr. Ciotlos said.

In some areas near Toronto, the economic slowdown has already hit home. In Bolton, for example, which was the fo-cus of many U.S. developers creating industrial properties on spec, vacancy rates have al-ready hit 35 per cent, Mr. Stainer said.

"At the same time, I have 58 agents working for me and they are all busy," he said.

"The best we can do is deal with the situation quarter by quarter, and maintain a cau-tious optimism."

In Halifax, a diverse econom-ic base and a conservative ap-proach by the small industrial development community seems to have shielded the sector from any significant swing, said Bob Mussett, sen-ior vice-president at CB Rich-ard Ellis.

"The average size of industri-al tenants here is about 6,000 square feet," he said. "And there are 1,500 of them at Burnside, our major industrial park. That means no one ten-ant is going to wash you over-board."

A solid base of distribution companies coupled with little speculative building in the past leaves the Halifax market sitting on a solid foundation, said Bill MacAvoy, managing director for Atlantic Canada at Cushman & Wakefield LePage.

"We also benefit from the fact that about 80 per cent of industrial space is in the hands of just four or five developers," he said. "They have resisted the urge to build speculatively and only went ahead with new construction when they were certain of tenants."

The Montreal scene shares those same basics, said Sté-phane Tessier, managing direc-tor, Montreal industrial, at Cushman & Wakefield. "It has been pretty stable here for the past 10 years. Deals are still getting done but each seems to differ from the others; each seems to depend on the unique circumstances of buyers, sellers and tenants."

Government spending on in-frastructure and projects such as Bombardier Inc.'s new C Se-ries long-range jet program are fuelling both employment and demand for industrial space, said Brett Miller, executive vice-president at CB Richard Ellis in Montreal.

> **"The best we can do is deal with the situation quarter by quarter, and maintain a cautious optimism.**
>
> Stefan Ciotlos, president of CB Richard Ellis Ltd.

"We don't have the big man-ufacturing companies like the auto industry here so we are not deeply affected by a down-turn in any one sector," he said. "All and all, industrial is surprisingly stable."

Even in Calgary and Edmon-ton, where both the office and residential markets have been hit hard by a huge drop in de-mand for oil and natural gas, the industrial market seems to have escaped any major im-pact, said Greg Kwong, region-al managing director for CB Richard Ellis.

"Any project still on paper has been cancelled; there is no speculative building, rents have dropped between 10 per cent and 20 per cent since 2008, but we are slowly ab-sorbing the rush of space that was built last year," he said. "The biggest impact has been on land prices. They are down 40 per cent to 50 per cent from the highs they hit about two years ago."

Growth in the distribution and logistics sector that started in the early years of this dec-ade is helping see Calgary through economic hard times, said Chris Anderson, Calgary managing director for Cush-man Wakefield.

"Volumes of shipments may be down but people still need the basics," he said. "And a lot of things that head for the U.S. Midwest now come through Calgary."

Vancouver's situation is simi-lar to Calgary. Residential and office markets may have been deeply affected by the reces-sion but the industrial market only marginally so.

"Space has always been very tight here," said Hendrik Zes-sel, senior managing director at Cushman & Wakefield. "At the same time, there has been terrific demand."

While Vancouver faced al-most 1.2 million square feet of unabsorbed industrial space at the end of the first quarter – second only to Toronto's 4.2 million square feet – almost all that space will find takers in coming months, Mr. Zessel predicts. "It will take a while but the supply has been so re-stricted for so long, there will be tenants for it."

Vancouver's industrial mar-ket vacancies rates are skewed by a rush of vacant sublease space, said Rob Gritton, a prin-cipal at Avison Young. At the same time, two big industrial-space users (Home Depot and Brewers Distributor Ltd.) have just taken a total of one mil-lion square feet of new space.

"There is still leasing activity and sales taking place," Mr. Gritton said. "But each deal is one-of-a-kind. If companies need space now, they take it; if they need to renew leases, they will do it on a one- to three-year term. What it all comes down to is a wait-and-see attitude."

» *Special to The Globe and Mail*

Realty stock monitor

Biggest one-week gainers

	April 24 close	Weekly change	Volume '000
H&R REIT	$9.66	11.7%	2,666.1
Melcor Developments	$4.95	12.5%	88.4

Biggest one-week decliners

	April 24 close	Weekly change	Volume '000
Whiterock REIT	$15.00	-10.2%	484.8
Amica Mature Lifestyles	$3.30	-2.9%	715.7

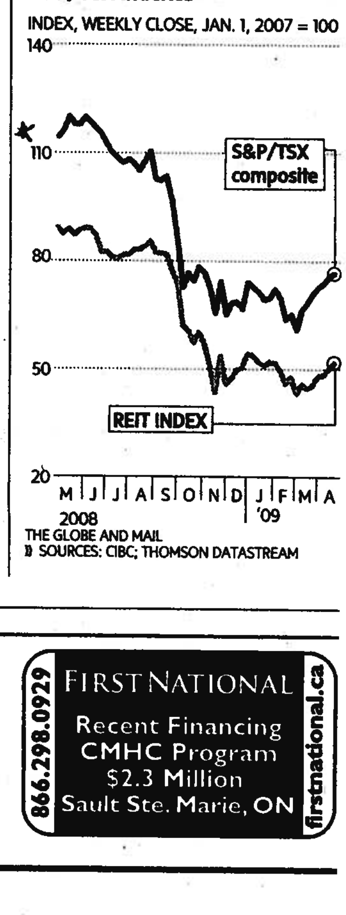
REIT watch*

	April 24 close	Yield	Y-to-d total return
Allied Properties	$13.38	9.9%	9.2%
Artis	$6.18	17.5%	-13.6%
Boardwalk	$27.00	6.7%	6.8%
Calloway	$10.87	14.2%	-2.0%
CAP	$12.59	8.6%	-18.9%
Chartwell	$4.50	16.4%	-14.4%
Cominar	$13.45	10.7%	-14.5%
CREIT	$19.97	6.8%	-10.5%
Crombie	$7.00	12.7%	-7.9%
Dundee	$13.64	16.1%	11.2%
Extendicare	$4.90	17.1%	-13.8%
H&R	$9.66	7.5%	32.1%
Holloway Lodging	$0.80	26.3%	-4.0%
Huntingdon	$0.20	na.	0.0%
InnVest	$3.73	20.1%	-0.1%
InterRent	$1.56	7.7%	56.4%
Lanesborough	$0.91	26.4%	-56.4%
Morguard	$9.79	9.2%	-13.6%
Northern Prpty	$17.24	8.6%	7.9%
Primaris	$11.20	10.9%	6.6%
Retrocom Mid-Mkt	$1.91	23.6%	32.3%
RioCan	$14.60	9.5%	8.6%
Royal Host	$2.88	22.9%	-8.8%
Scott's	$4.55	18.7%	14.4%
Whiterock	$15.00	22.4%	20.0%

* All REIT unit values and corresponding calculations are on a fully paid basis

S&P/TSX indexes

INDEX, WEEKLY CLOSE, JAN. 1, 2007 = 100



THE GLOBE AND MAIL
» SOURCES: CIBC; THOMSON DATASTREAM