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Canadian Office Markets Fare Better Than Many

By *Bob Howard*

Regina Centre Crossing

VANCOUVER-No geographic market or property sector has been exempt from the recession, but Canadian markets have proven resilient. This theme is brought home in detail in a new report from Avison Young Commercial Real Estate, Canada's largest independently-owned commercial real estate services company. The semi-annual report covers current trends in all property sectors of the commercial real estate industry

Among the highlights of the report in terms of the markets that Avison Young tracks is that the country's office markets generally are faring considerably better than those in the US. However, office vacancies have risen, producing a "flight to quality," the report points out.

The flight to quality "has been driven by the reduction in rents in better quality buildings," Avison Young points out in the portion of the report focusing on Calgary. The move up "also been influenced by the strong fundamentals of many businesses and their willingness to pay a premium to be in better quality space," the report stats. This strategy has been sparked by the perception that two to three years ago tenants were paying between \$30 to \$50 per square foot (per square foot) net for Downtown office space in Calgary, with class C space being at the \$30 level. Today, tenants can be located in the best buildings in Calgary for that same \$30 per square foot. "Companies planned for these types of rates in their budgets and are now able to justify paying for some of the best space in town, accommodating their business strategy and improving conditions for their staff," the report explains." It says that the opportunity to be in affordable new space "was too tempting a prospect to pass up." for these tenants.

In Regina, the market is posting some of the lowest vacancy rates in major markets across Canada, with class A vacancy of less than a quarter of a percent and class B space at less than 4%. Since new construction of major significance will not be ready for two or three years, low vacancy rates are here to stay for some time," Avison Young says. However, changes are on the way.

The report cites a number of new projects, including Regina Centre Crossing, which is nearing completion just north of the downtown core. It is a 12-acre redevelopment of close to 120,000 square feet of space and has approximately 35,000 sf available with numerous office-retail spaces committed to new tenants.

Another project is a four-story, 80,000-square-foot building at Albert Street and 11th Avenue where construction is planned for 2010 with occupancy in 2011. Pasqua Street and Dewdney Avenue will be home to a new three-story, 37,000-square-foot mixed-use office building, which will be located adjacent to the Pasqua Hospital and is expected to attract healthcare-related tenants. Also, Avison Young notes, "Discussions related to at least two major downtown highrise office towers have continued over the past year and a firm announcement on construction plans is expected in 2010, so that the inventory will come onto the market in 2012 or 2013."

In the Markham market, Honda Canada has decided to build a new build-to-suit head office in the market, which bills itself as Canada's high-tech capital and is home to other corporate head offices, including IBM and American Express. Along Highway 404, auto maker BMW has chosen Richmond Hill for its Canadian head office, where it will relocate from Ajax.

Even when Canadian office markets show some signs of weakening, they often remain relatively strong. For example, Ottawa's office leasing market has some vacancy for the first time in many months, but as Avison Young reports: "No, the sky is not falling and net effective rental rates inside the greenbelt are not on the decline ?at least, not yet. However, for the first time in a long time,

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tenants, who previously had few alternatives to lease renewals due to a lack of available product, now have other options to consider. " The report adds that, "While the vacancy statistics that result from this softening would still be the envy of any major metropolitan center in the country, they do give local landlords pause to reflect. "

In Quebec City, approximately one million square feet of new office space remains to be absorbed because of the recent addition of several new buildings. "Based on recent history, this challenge should not be insurmountable," the report states. It points out that, on the whole, the world economy is performing better, and the Quebec City office market faces fewer economic risks than it did a year ago. The city's office occupancy levels remain among the highest in the country, the report points out, and Quebec City's high concentration of employment in relatively recession-proof industries, such as public administration, hospitals, and post-secondary education, "should add even more stability during today's less difficult economic times."

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