



# Greater Edmonton

INDUSTRIAL | SECOND QUARTER | 2009

## MARKET INDICATORS

	Q1	Q2
VACANCY	↑	↑
NET ABSORPTION	↑	↓
NEW CONSTRUCTION COMPLETED	↑	↔
RENTAL RATE	↑	↓
OPERATING COSTS	↑	↑

## EDMONTON INDICATORS

### Labour Force (Unadjusted)

2008 (June)	642,700
2009 (June)	666,000

### Unemployment Rate (Unadjusted)

2008 (June)	3.7%
2009 (June)	6.7%

### Average Residential Selling Price

June 2008	\$341,376
June 2009	\$328,285

### Canadian Dollar

June 2008	101.67
June 2009	112.65

### WTI Oil (US\$/bbl)

June 2008	\$134.04
June 2009	\$69.70

Source: Statistics Canada  
Edmonton Real Estate Board  
Alberta Finance

## ECONOMIC HIGHLIGHTS

- Edmonton's unemployment rate has risen nearly three percentage points since January 2009, and as of June 2009 sits at 6.7%. The number of Albertans receiving regular employment insurance benefits had grown to 57,350 individuals by May 2009 from only 15,900 individuals in May of last year. In the same time frame, the number of individuals in Edmonton receiving benefits grew 277.4% or to 16,040 individuals.
- In the light of increased competition from the U.S. gas discoveries and depressed natural gas prices, the Province, in an attempt to encourage drilling and exploration, has elected to issue a \$1.5 billion royalty break to natural gas companies.
- In mid-July, the Bank of Canada advised that the Canadian economy would pull out of its recession by the end of 2009. BoC is now projecting a third quarter growth of 1.3 percent, instead of the earlier forecast of a one percent decline, and three percent in the fourth quarter. This will end three straight quarters of decline.

## A Market Transitioning from Landlord/Vendor to Tenant/Purchaser.

## MARKET HIGHLIGHTS

While Alberta may not be suffering from the worldwide recession to the same extent as elsewhere, the economic downturn has worked through various industries and forced decisions that resulted in a significant reduction in activity in the Edmonton industrial market. Q2 2009 saw record low activity levels in leasing, building sales, land sales, and new development of any kind. If it was not certain after the first quarter of 2009 that the Edmonton industrial market was changing from a "Landlord/Vendor" market to a "Tenant/Purchaser" market, it seems clear after Q2 that this transition is almost complete. Typically, we would not declare a market a "Tenant/Purchaser" market when the vacancy rate is still relatively low at 3.80% as measured in Greater Edmonton; however, it is the upward trend that cannot be ignored as it was only 18 months ago that the vacancy rate was 1.51%.

The lack of tangible activity in the leasing market has put significant downward pressure on lease rates; however, the reaction amongst landlords and developers has not been consistent. The developers of recently constructed, speculative projects continue to hold onto their pro forma and target lease rates, while offering increased free rent incentives in order to remain competitive. Landlords of existing, older facilities have more flexibility to adjust lease rates due to their historical cost base. The majority of these landlords have lowered lease rates across the board. Some landlords have made a clear decision that it is more important to get or keep space occupied than to wait to maximize lease rates. In some instances, functional warehouse space is being offered as low as \$4 per square foot. Today, the leasing market offers excellent opportunities to those tenants looking for a facility or looking to secure their existing facility for the long term.

With the exception of Northwest Edmonton and Sherwood Park, building sales are substantially behind the pace of 2008 in all districts. There are no geographic

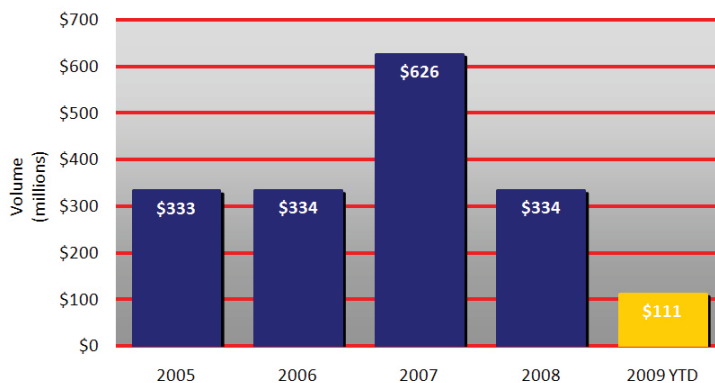
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exceptions to the land market where sales activity might best be described as stagnant.

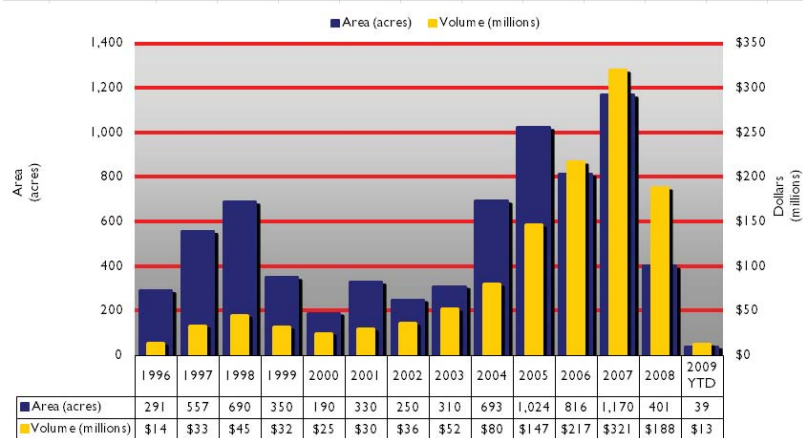
So is it all negative news in this market? Absolutely not. The economy has created many challenges, but it has also presented opportunity for those able to look far enough ahead. The major players in the oil and gas sector have taken advantage to correct many of the costs that were, arguably, spiraling out of control 18 months ago. This bodes well for the future. Construction costs have declined 15-20% since the second and third quarters of 2008. Tenants and purchasers have far more selection today. The second quarter of 2009 may be remembered as the time when the economic reality already present in the rest of the world arrived in the Greater Edmonton industrial market. Capital spending plans have been scaled back, postponed, or even cancelled. Employment has been negatively impacted and uncertainty remains along with a new cost conscious approach going forward. But in March 2009, did you expect that over the next three months you would see stock markets rally and recover to the extent they have, the price of oil recover to \$60-\$70 per barrel, and consumer confidence improve with a sense that the “bottom” has already been reached?

For the foreseeable future, Colliers believes a sense of caution and prudence will rule all participants in this market. An appreciation of value has returned and should allow for sustainable growth when the economy recovers. The fundamentals of real estate are once again the driving force in establishing market value and therefore reaching some measure of equilibrium.

**GREATER EDMONTON BUILDING SALES**



**GREATER EDMONTON LAND SALES**



**Q2 - 2009 NOTABLE SALE TRANSACTIONS**

**LAND SALE ACTIVITY**

PROPERTY ADDRESS	SUBDIVISION	PURCHASER	LAND USE	SIZE (ACRES)	SALE PRICE	UNIT PRICE (\$/ACRE)
159 Street & 136 Avenue	Mistatim Industrial	Edmonton Salvage Disposal Ltd.	IM	7.71	\$2,698,500.00	\$350,000.00
9325 - 62 Avenue	Rosedale Industrial	Royal West Property Corp.	IH	4.08	\$2,250,000.00	\$551,470.59
11103 - 205 Street	Winterburn Ind Area East	1458452 Alberta Ltd.	IM	2.45	\$550,000.00	\$224,489.80
78 Avenue & 43 Street	Leduc	Canadian Pacific Railway Company	MI	1.08	\$216,800.00	\$200,740.74

**BUILDING SALE ACTIVITY**

PROPERTY ADDRESS	SUBDIVISION	PURCHASER	SIZE (SQ.FT.)	SIZE (ACRES)	SALE PRICE	UNIT PRICE (\$/SQ.FT.)
2103 - 64 Avenue	Southeast Industrial	Gregg Properties Co. Ltd.	251,959	14.04	\$18,400,000.00	\$73.03
26223 Twp. Road 530A	Acheson	Alberta Infrastructure	78,104	20.45	\$12,000,000.00	\$153.64
4810 - 93 Street	Papaschase Industrial	1290239 Alberta Ltd.	29,982	4.25	\$3,400,000.00	\$113.40
12150 - 154 Street	Mitchell Industrial	Construction Workers Building And Benevolent Society of Edmonton	18,104	2.11	\$2,800,000.00	\$154.66
15816 - 112 Avenue	Sheffield Industrial	401865 Alberta Ltd.	18,079	1.52	\$1,000,000.00	\$55.31
15438 - 131 Avenue	Mistatim Industrial	1456348 Alberta Ltd.	7,475	3.48	\$1,000,000.00	\$133.78
12230 - 163 Street	Carleton Square Industrial	BML Power Systems Ltd.	7,410	0.99	\$1,350,000.00	\$182.19

## BUILDING SALES

At no point in the last six or seven years have there been as many properties available for sale in the Greater Edmonton industrial market as in the second quarter of 2009. This includes vacant properties and, especially, income producing properties. Despite this new availability of product, sales are down as compared to 2008. As it has been since late 2007, securing financing remains a prevalent problem. Perhaps, the main reason for the decline in activity is the widening gap between purchasers' budgets and vendors' expectations. The sale market is in transition as both sides struggle to determine what market value is today. If the basic laws of supply and demand are at work, it seems reasonable to expect prices to continue their downward trend over the next few months.

## LAND SALES

The Greater Edmonton industrial land market has seen 39 acres sold so far in 2009. This level of activity has not been experienced since the early to mid 1980s. It is very likely that more than just the recession needs to be considered as the cause of decline in activity. Perhaps, the land market is a classic example of a real estate bubble bursting.

Ten years ago, serviced industrial land could be purchased for \$150,000-\$200,000 per acre. The Edmonton land market was considered the best value within Canada. Over the following five years, land values rose approximately 25-30% while sale volumes were consistent. A dramatic change took place over the next three years as the "boom" arrived. Land values more than doubled rising from 130% to 180%. New industrial developments required increased lease rates reflective of the new cost base in terms of land and vertical construction. It was the "boom economy" that drove this rapid rise in land prices. Today, the "boom" has left and many are now questioning whether serviced industrial land was ever truly "worth" the high water marks in pricing of \$750,000-\$850,000 per acre. To counter this point of view, it is important to remember that any supply of newly serviced land incurred record high construction costs when services were installed.

## Q2 - 2009 NOTABLE LEASE TRANSACTIONS

## BUILDING LEASE ACTIVITY

PROPERTY ADDRESS	PROPERTY NAME	SUBMARKET	TENANT	SIZE (SQ.FT.)	TYPE
5543 42 Street	Pylypow V	Pylypow Industrial	A.M. Castle & Co (Canada) Inc.	50,553	Head Lease
3907 75 Avenue	Leduc Multi-Tenant III	Leduc	Bri-Chem Corp.	36,000	Head Lease
9503 28 Avenue	Parsons Business Centre	Parsons Industrial	T.D.Williams Canada ULC	25,640	Renewal
8108 McIntyre Road	Ensign Building	McIntyre Industrial	Ensign	9,202	Sublease
6735 50 Street	Capital Industrial "G"	Pylypow Industrial	Alpha Power and Controls Ltd.	5,600	Head Lease
1803 8 Street	Nisku Facility	Nisku	IPS	5,300	Head Lease
9635 63 Avenue	Mr. Transmission Building	Rosedale Industrial	ISIS Ceramic and Porcelain Inc.	5,250	Head Lease
11448 149 Street	Former Cleartech	Garside Industrial	Wesclean Equipment & Cleaning Supplies Ltd.	5,124	Sublease

## AVERAGE ASKING NET RENTAL RATE PER BAY SIZE

	NORTHEAST	NORTHWEST	SOUTHEAST	CENTRAL
RANGE SQ.FT.	Net Rent	Net Rent	Net Rent	Net Rent
0-5,000	N/A	\$7.75	\$9.55	\$10.15
5,001-10,000	N/A	\$10.00	\$9.50	\$9.90
10,001-20,000	N/A	\$9.75	\$10.65	\$8.00
20,001-50,000	N/A	\$7.15	\$8.70	\$6.75
50,001 & up	N/A	\$7.25	\$10.60	\$7.90
	ST. ALBERT	ACHESON	SHERWOOD PARK	LEDUC / NISKU
RANGE SQ.FT.	Net Rent	Net Rent	Net Rent	Net Rent
0-5,000	N/A	\$10.50	\$8.00	N/A
5,001-10,000	N/A	N/A	\$16.75	\$12.00
10,001-20,000	N/A	N/A	N/A	\$12.00
20,001-50,000	N/A	N/A	N/A	\$12.50
50,001 & up	N/A	N/A	N/A	N/A

VACANCY

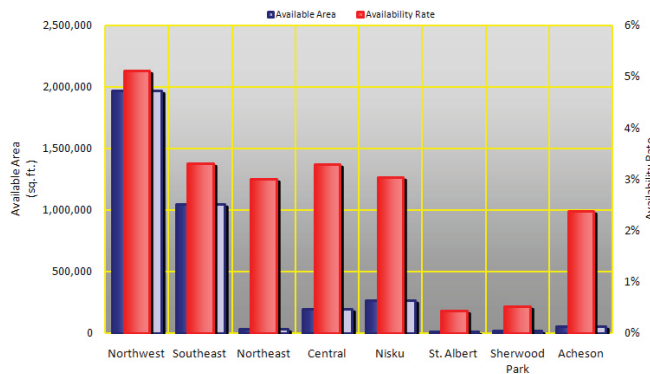
While the first quarter vacancy rate surprised all when it unexpectedly decreased, the second quarter vacancy rate reflects results anticipated in a recession. The vacancy rate increased to 3.80% from 2.99% in the first quarter and from 3.17% at the end of 2008.

The amount of available space in Greater Edmonton increased by 769,253 square feet and currently there is 3,609,454 square feet available. This increase is significant because there was zero new construction completed in the second quarter. Therefore, the entire growth in vacancy comes from existing facilities. It must be noted that 30% of the new vacant or available space added during the second quarter is in the form of sublease space, as an additional 235,094 square feet is now available for sublease than in the previous quarter. Since none of the increase in vacancy resulted from new product, we can conclude that tenants are being forced by the current economic reality to downsize or shut down operations. Clearly, the Greater Edmonton industrial market is not immune to the global economic downturn.

One of the largest components of the inventory of vacant space remains large, unleased portions of brand new developments. These speculative projects have been challenged by the downturn in the economy and a new cost conscious approach by tenants. These developers need to achieve a certain minimum lease rate that reflects a reasonable return on their investment, which very likely incurred high construction costs and land costs. Unfortunately, tenants are less and less likely or able to pay these desired lease rates. A sizeable gap has developed between the budgets of tenants and the target rates of developers/landlords.

The second quarter was the worst performing quarter in terms of leasing activity in more than a decade. Colliers is optimistic that the balance of the year will see more positive results as tenants and landlords approach some semblance of equilibrium. There are tenants looking for space, but only at rates that make sense to them.

GREATER EDMONTON INDUSTRIAL AVAILABILITY



VACANCY

INDUSTRIAL DISTRICT	UNIVERSE (SQ.FT.)	Q1 2009		Q2 2009	
		VACANT (SQ.FT.)	VACANCY RATE	VACANCY (SQ.FT.)	VACANCY RATE
Northwest Edmonton (NW)	38,447,914	1,554,442	4.04%	1,968,350	5.12%
Southeast Edmonton (SE)	31,629,512	885,206	2.80%	1,049,504	3.32%
Northeast Edmonton (NE)	1,284,872	0	0.00%	38,600	3.00%
Central Edmonton (C)	5,961,376	135,932	2.28%	196,632	3.30%
Edmonton Proper	77,323,674	2,575,580	3.33%	3,253,086	4.21%
Leduc / Nisku (LN)	8,800,000	142,250	1.62%	267,700	3.04%
St. Albert (St.A)	2,503,000	10,900	0.44%	10,900	0.44%
Sherwood Park (SP)	4,025,800	54,457	1.35%	20,754	0.52%
Acheson (Ach)	2,399,103	57,014	2.38%	57,014	2.38%
Surrounding Districts	17,727,903	264,621	1.49%	356,368	2.01%
<b>GREATER EDMONTON TOTAL</b>	<b>95,051,577</b>	<b>2,840,201</b>	<b>2.99%</b>	<b>3,609,454</b>	<b>3.80%</b>

294 OFFICES IN 61 COUNTRIES ON 6 CONTINENTS

- 133 Americas
  - 94 United States
  - 22 Canada
  - 17 Latin America
- 97 Europe, Middle East & Africa
- 64 Asia Pacific

\$1.6 billion in annual revenue

1.1 billion square feet under management

12,749 professionals

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