

Population*
1 million

Office vacancy
3.86%

Industrial inventory
80.6 million sq ft

Office inventory
22.5 million sq ft

CBD Class A vacancy
2.3%

Industrial vacancy
1.12%



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Market overview

The economic news for Alberta, and specifically Edmonton and its northern regions, remains extremely positive. The Major Projects List published by the provincial government lists \$169 billion in proposed, announced, recently completed or under construction projects in Alberta. These figures are being revised upwards on a weekly basis. The northern region of Alberta represents \$70 billion of this activity while the Edmonton region represents \$42 billion.

Demand for goods and services in Edmonton and the surrounding area is expected to remain healthy for years to come. Due to strong oil sands activity in northern Alberta, strong investment activity in and around the Edmonton region, increased government spending on infrastructure projects and the spill-over effects of the surge in population growth between 2005-06, the economy expanded an estimated 5.8% in 2007 and is forecast to grow by 5% in 2008.

Office market

2007 was an exciting time for landlords and a challenging one for tenants. Overall, office vacancy has reached historical lows, with unprecedented rental rates being achieved in both the downtown core and suburban office markets. Tenants are having to quickly adapt to these changing times.

Overall vacancy was less than 4% at the end of Q3 2007, down 2.5% from 2006. The most

significant change has been in the downtown office market where vacancy sits below 2.4% for Class A properties. Government, health authorities and post secondary educational facilities are driving the demand for space. For the first time, private sector tenants are anticipating their needs for future space a year or two in advance.

Rental rates increased substantially over the year and by third quarter downtown landlords were asking \$30-\$36 per square foot, a 76% increase from the start of the year. Similar pressure was felt in the suburbs. With this sticker shock, smaller tenants are looking to purchase their own buildings to avoid future rental rate increases.

Industrial market

Edmonton's industrial market continued to set records in 2007 due largely to the oil sands development near Fort McMurray. This activity should continue as oil prices remain strong and new projects come on stream. The overall industrial vacancy rate in Edmonton dropped to 1.1% over 2007 with declines in vacancy in virtually all city sectors. However vacancy may rise slightly in 2008 as new developments come on stream. Over 2 million square feet was absorbed in the first half of 2007, on par with 2006 activity levels. Vacancy in freestanding buildings and buildings with yard storage is virtually non-existent, as is smaller bay availability.

The shortage of product combined with high servicing and construction costs has put upward pressure on rental rates. Newly constructed buildings are leasing in the \$7-\$9 per square foot range for raw space. These rates increase with office build out, and the addition of cranes or outside storage to \$10-\$14 per square foot. Older product is achieving \$6-\$9 per square foot.

Demand for industrial land is at an all-time high, which is pushing prices to record levels. Expect to pay \$550,000-\$650,000 and up per acre within city limits and \$325,000-\$500,000 per acre in the surrounding areas.

Investment market

Demand for leasing and investment product in Edmonton continues to outpace existing supply and investors continue to pay aggressive prices in anticipation of higher rents and higher asset values in the years ahead.

Going forward, we anticipate investment interest to remain strong with financing restraints shaking out weak and underfinanced investors. A major reduction in cap rates from their 2007 lows is not expected. There will be a minor increase in cap rates for the best quality product, up from 6.5% to closer to 7%. Good quality real estate will remain in short supply and in high demand throughout 2008.

Retail market

Activity remains very strong in Edmonton with a number of new suburban retail developments taking place including the expansion of South Edmonton Common; the relocation of Wal-Mart to their new supercentres location; phase 2 of 'The District', South Edmonton Common's newest fashion wing; Windermere, Edmonton's only lifestyle centre; and North Edmonton's south phase of Nameo Centre. Strong development continues in grocery-anchored shopping centres in suburban Edmonton with Sobeys and Save-On-Foods leading the way.

