

GTA North East

*Statistics refer to
Greater Toronto Area

Population*	Office vacancy*	Industrial inventory*
5.3 million	7.60%	680.5 million sq ft
Office inventory*	CBD Class A vacancy*	Industrial vacancy*
123.8 million sq ft	4.50%	5.80%



Paul Langer



Office market

The office market showed renewed strength in 2007 with overall vacancy on the decline. While select submarkets continued to fair better than others, activity levels picked up across the board. Even some of the more challenged nodes in this market saw significant improvement as landlords became more aggressive with their pricing in order to attract cost sensitive tenants and fill large block vacancies. Vacancy was 12% at the end of Q3 2007, down 1.1% year over year. Over 600,000 square feet of positive absorption took place over the past year. In 2008, anticipate similar activity with a consistent level of vacancy even though several new buildings are presently under construction.

In 2008, a number of large tenants such as Marshall Macklin Monaghan, Sport Alliance of Ontario and Celestica will be vacating their present facilities. This will likely offset any gains in occupied space due to healthy lease velocity. As a result, rental rates will remain stable.

Two speculative buildings in Markham that began construction in 2006, and came online in 2007, were received positively in the marketplace. Two additional new buildings are presently under construction but with lead tenants already in place. Expect to see more new developments break ground in 2008 but not without significant pre-leasing in place. LEED certification is growing in popularity with both tenants and owners. As such, owners of existing buildings are examining ways of making their product more energy efficient and 'green' through programs like 'BOMA Go Green'.

Industrial market

Industrial vacancy increased 1.5% year over year to end Q3 2007 at 6.8%. Vacancy will likely remain flat through 2008, as industrial users continue to contend with the strong Canadian dollar and a softer US economic climate. These factors will have a dampening effect on industrial demand. In 2007 the size of deals varied depending on the submarket. The average deal size in Vaughan was 60,000 square feet, 25,000 square feet in Scarborough and 35-40,000 square feet in Markham/Richmond Hill.

Rental rates in the industrial market have been increasing in newer facilities while older buildings are continuing to yield steady rates. This trend is expected to continue in 2008 as the balance of power remains in the favour of landlords.

Development in the industrial market is still active, but slowing. Though some large developers are continuing to build in the GTA North East, construction levels over the last few years have shown a steady decrease. With land increasing in cost and decreasing in supply, retrofitting and expansions are more likely than new development.

The needs of industrial users continue to change and one trend worth noting is the increased interest in cubic feet versus square feet. Higher clear height means more vertical storage can be achieved in the same square footage, thus keeping costs down. This poses a challenge for older buildings with below average clear heights in competing for tenants in the market.

Investment market

Demand for investment properties remained high in 2007 with retail being the product of choice. Several large office developments changed hands including Slough Office Park in Markham, part of the Dundee REIT/GE Capital portfolio transaction, and Parkway Corporate Centre on Consumers Road in the DVP/401 node. OMERS purchased the Royal Group Technologies portfolio of six industrial buildings in Vaughan, entering into a sale leaseback on four of the six buildings. In 2008, as demand will continue to outpace supply, expect to see increased sale leaseback activity for both industrial and office product. Smaller investors will continue to have difficulty locating suitable opportunities and sellers may not be able to find properties in which to reinvest.

Land market

Interest in land remained high throughout 2007. Government regulations and legislation including the Oak Ridges Moraine Act, the Greenbelt Act and the Places to Grow Act are having a dramatic impact on the land market throughout the GTA North East. This legislation restricts the amount of developable land and drives the price upward. Land outside the 'greenbelt' is becoming more attractive to investors and developers, although servicing costs and timing are limiting factors to the development of these lands. All of these trends are likely to continue in 2008.