

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%



Jim Murray

Office market

Office market vacancy decreased 0.8% year over year to end Q3 2007 at 9.1%. Vacancy is anticipated to level off in 2008, as new speculative product is added to the market. The GTA West saw positive absorption of over 416,000 square feet at the end of Q3 2007. Many of the new buildings coming to market are over 50% pre-leased. This trend is anticipated to continue in 2008. The new deals being completed are mostly renewals, with existing tenants continuing to expand.

Rental rates have generally increased across the board. However, rates are expected to stabilize over the near term, with no significant increases expected in the near future.

Moderate build to suit and speculative construction activity is prominent with approximately 830,000 square feet of new supply added to the market in 2007. Notable build to suit projects include new facilities for Maple Leaf Foods, Amgen and Becton Dickinson and Company. Expect to see additional speculative construction in the future.

There are a number of noteworthy trends occurring in the market. Many landlords are looking at capital improvement projects for their existing buildings in order to better compete with newer construction. With construction costs rising, tenants are requiring additional tenant inducement (TI) allowances to offset these costs. Larger floor plates and higher parking ratios are also in demand by today's tenants.

Industrial market

Industrial vacancy increased by 0.1% year over year to end Q3 2007 at 7.4%. With softer demand conditions vacancy is expected to increase again in 2008. Transactional velocity was down slightly in 2007 and is expected to slow further in 2008. The state of the US economy, the strong Canadian dollar and the growing influence from offshore markets such as China and India are dampening industrial demand in the GTA. Most deals being done in the GTA West are below 25,000 square feet, due to user demand. Larger blocks of space (70,000-100,000 square feet) are taking longer to lease. However, the leasing activity for facilities over 200,000 square feet remains steady.

Rental rates remained fairly flat through 2007, likely due to the balance between product supply and demand through the first six months of the year. In the near future, anticipate rental rates to decrease slightly due to rising vacancy rates and softening demand.

In general, construction is fairly strong in Milton, Mississauga, Vaughan and Brampton. Orlando Corporation, Menkes Developments Inc, ProLogis, Erin Mills Development Corporation and AMB Property Corporation are all actively developing product in the GTA West. While there are a number of projects underway, the level of construction activity has declined significantly from 2006. Speculative development is expected to slow in 2008 until the existing supply has been absorbed. Design build activity will continue to be driven by consumer demand.

Investment market

The investment market is healthy with demand continuing to exceed supply. Multiple bids for quality product are quite commonplace, as well as unsolicited bids for product not on the market. The most active players in this market are REITs, pension funds, and US developers. All product classes are heavily sought after, led by retail, industrial and land.

In 2008, demand will continue to outpace supply. Inventory levels of available product will continue to shrink, causing upward pressure on prices. The lack of availability of product, due to the reluctance of owners to sell, is a big challenge for the investment market.

Retail market

Retail activity remained strong through 2007. Development is continuing in the big box and local strip centre categories. As long as the economy remains healthy, retailers will continue to pay for new construction. With land and construction costs continuing to rise, rental rates will also rise. The average rent for new space is now \$30 per square foot, at least for the short term.

Leasing activity remains solid across the market, with a very rapid turnaround for vacant existing product to be re-leased. Sale transactions continue to be extremely popular in the retail sector, as the cost to borrow money and the strength of the market creates a reliable and fair return for investors' money. This trend is expected to continue through 2008. From a development perspective, the most active players are SmartCentres, RioCan and First Capital Realty. Other than the much anticipated entry of Lowe's into the GTA, there have been no significant new retailers to open locations.

