

Population 387,000	Office vacancy 7.6%	Industrial inventory 5.75 million sq ft
Office inventory 9.2 million sq ft	CBD Class A vacancy 8.5%	Industrial vacancy 7.7%

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## Market overview

Halifax and the surrounding area have benefited from robust consumer spending, a boost in natural gas output and a return to full-year production at Stora Enso, resulting in economic growth of 2.2% in 2007. With these last two factors absent in 2008, economic growth is expected to be somewhat weaker at about 1.8%.

Development of the Deep Panuke project, growth in the aerospace and defence sector and higher retail sales will help offset the slowdown. However, the strong Canadian dollar and weak US economy will continue to challenge manufacturers and the tourism sector. Housing markets improved in 2007 and are expected to again show moderate growth with starts improving 1% in 2008.

## Office market

Market vacancy decreased 1% in 2007 to 6.7% and is predicted to drop to 6% by the end of 2008. Absorption for 2007 was a positive 150,000 square feet. The completion of the new building for Research in Motion (RIM) and leasing activity by the Halifax Herald will cause a bump in absorption for 2008.

Tenant demand remains stable with new demand coming from technology and financial services firms new to metro Halifax. The rental rate increase that began in 2007 will

continue throughout 2008 as demand edges up. However, there is enough vacancy to protect against a large upswing in rental rates for 2008. The major challenge in 2008 will be for large tenants requiring expansion to find accommodation in the downtown core.

A number of new buildings remain on the drawing board, awaiting pre-leasing by tenants who may be unable to expand with their existing landlord and who can afford a higher rental level. The environmental agenda is a growing trend with LEED certified buildings being planned.

## Industrial market

The industrial market has been very active. Although a few large and financially strong landlords dominate the market, several new buildings have been built and partially pre-leased. While absorption in 2007 was in excess of 200,000 square feet, more than twice that of 2006, vacancy increased to 7.7% as a result of the new supply. Anticipate vacancy in 2008 to moderate somewhat with absorption catching up to supply. Demand is broadly based reflecting the diversity of the metro economy.

Rental rates for new construction are reaching new highs. However, older existing buildings will be able to hold their rates by having a price advantage. New buildings are being built to accommodate large tenants, differentiating

themselves from older existing product. The largest challenge to the industrial market going forward is the significant shortage of serviced land in the region.

## Investment market

The overall investment climate is strong, limited only by the supply of suitable product. On the buy side, the market has been dominated by local and national private equity. Nevertheless, there has been some interest from life insurance companies. On the sell side, private sellers have been the norm.

There is strong demand for all product types, particularly for high quality income opportunities. While the level of activity has decreased somewhat this year, this reflects the increased institutionalization of larger properties, the bump in interest rates and the continued high expectations of sellers. With debt scarcer and more expensive, and reduced loan to value lender restrictions, expect an increase in cap rates and an opportunity for cash to mortgage buyers in 2008.

Although yields decreased in 2007, we expect that they will likely increase in 2008. This dynamic will pose a greater challenge until buyers understand the impact of global forces on the cost and supply of capital.

## Retail market

The retail landscape changed dramatically in Metro Halifax in 2007. The stable economy fuelled demand for more sophisticated goods and services. This is especially evident in Halifax where wage gains, tight retail vacancy levels and increased retail sales continue to attract national retailer interest.

The opening of the major new retail centre at Dartmouth Crossing increased the retail inventory in greater Halifax. As well, the smaller Bedford Commons will bring additional big box activity to the Bedford area. Big box centres continue to be developed throughout Atlantic Canada in an attempt to saturate smaller population markets.

