

Population 152,358	Office vacancy 8.7%	Industrial inventory 7.1 million sq ft
Office inventory 1.8 million sq ft	CBD Class A vacancy 7.7%	Industrial vacancy 11.5%

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## Market overview

Kingston was rated one of the three fastest growing economies in Canada in 2005. In 2006, Kingston was named one of the Canadian Business 'Top 40' Best Cities for Business and in 2007 Kingston ranked sixth in their Best Places to Live ranking.

Kingston is entering a new era of growth. Public sector investment in infrastructure and capital projects totalling over \$1 billion is either under development or planned for the next two years. These investments benefit the entire community and include: education expansions, health care expansions, tourism development, utilities and entertainment facilities. In addition, there are multiple private sector developments underway that are driving the local economy.

Similar growth is being experienced across the 401 Corridor, supported in part by government initiatives targeting the eastern Ontario region. Cornwall is anticipating an investment of at least \$200 million in diversified projects, Brockville \$310 million, Lennox and Addington \$210 million and Quinte/Belleville/Trenton more than \$500 million. With so much planned investment in the region, Kingston and the 401 Corridor should experience deliberate, sustained growth over the next two years. GDP for the

region decreased slightly in 2007 to 1.5%, but is forecast to bounce back by 2.4% in 2008. Retail sales are estimated at \$1.8 billion, a 4.5% increase from 2006. Retail sales should remain steady in 2008.

## Office market

Office vacancy increased slightly in 2007 from 8.2% to 8.7%. Absorption is expected to remain relatively stable for 2008. Tenant demand is coming primarily from renewals and the expansion of existing businesses, with some growth in the call centre and institutional sectors.

Rental rates have been holding firm at \$14.00 per square foot net, which is below the economic threshold required to build new product in this market. However, office product is getting closer to the point of limited supply which may result in marginal rental growth in 2008. Although there has been some public sector build to suit activity, the development levels have not changed over those seen in 2006 and are expected to hold steady in 2008.

## Industrial market

Vacancy decreased in 2007 from 12.5% to 11.5%, but is expected to increase slightly in 2008 due to speculative development and the recent announcement of three plant

closures. Activity and absorption was positive in 2007 with service industries, distribution and warehousing sectors driving demand. Industrial rental rates in 2007 averaged \$6.30 per square foot net and are expected to remain stable in 2008.

Kingston and the 401 Corridor are seeing some speculative development for the first time in a decade. Construction is booming with infrastructure projects, build to suit and public sector driving demand. This trend is expected to continue into 2008. Most lease deals are occurring in the 5,000-20,000 square foot range. The biggest challenge for the future is the growing scarcity of serviced zoned industrial land.

## Investment market

Overall demand for investment product exceeds supply. The most active buyers in the market are industrial investors, insurance companies, small-cap REITs and owner/users. Single tenant retail, and new construction retail strips with national tenants, are most in demand. Activity levels were up in 2007 and expected to remain stable into 2008. While yields have decreased to the mid 6% range (depending on product and quality), a rise of 50-75 basis points is anticipated for 2008. Looking ahead, a scarcity of product will make meeting demand a challenge.

## Retail market

The retail market is exceeding expectations. Kingston's downtown core has been active and is expected to remain so into next year. Big box retail remains strong along the Corridor and a new centre totalling approximately 600,000 square feet is in the planning process in Kingston, with construction expected to commence in 2008. Other retail developments are also in the early planning stage.

Rental rates have been stable overall and are expected to remain steady in 2008. The exception is the downtown core where rents are increasing. A challenge for 2008 will be the addition of substantial new supply, which may take some time to absorb.

