London/Windsor/Sarnia

Rick Gleed

Tom Rudell

Population (London) 457,720	Office vacancy 15.75%	Industrial inventory 32.2 million sq ft
Office inventory 5.42 million sq ft	CBD Class A vacancy 11.5%	Industrial vacancy 7.45%

Market overview
Overall, the London economy improved in 2007, expanding 2.2%, with growth driven by solid domestic demand and a rebound in the goods producing sector. The manufacturing outlook should remain positive over the medium term. A cooling of new housing starts, coupled with a decline in non-residential construction activity, resulted in a 2.7% decline in construction output in 2007. Non-residential activity is set to rebound in 2008 with a number of new projects planned. The London economy is forecast to accelerate in 2008 and average 2.8% growth during the 2008-2011 period.

Office market
2007 saw vacancy increase slightly, resulting in softer demand and a modest decrease in occupied space over the year. While there were more contractions in the marketplace, a few notable deals helped offset the losses.

Asking rates have increased marginally to $10.27 per square foot. There has been minimal new development in the London area as the economic rents are not sufficient to justify new construction. However, new supply has been delivered to the market through the conversion of retail properties, such as the experience of the Galleria Mall.

Large amounts of office space are hitting the market, including the One London Place (Citi Cards), Bell Building at 100 Dundas Street (contracting back over 200,000 square feet) and Westmount Mall, which is converting 50,000 square feet of retail space to office. London will continue to be challenged with high vacancy as limited absorption is expected over the near term.

Industrial market
Industrial market vacancy in London was fairly steady through 2007. With the continued growth of Toyota in Woodstock and automotive-related spin-offs in the region, absorption is predicted to increase in 2008. Rental rates decreased slightly to $5.18 per square foot though it remains a landlord market due to the rise in taxes and operating costs.

Since the early part of 2007, development activity has been on the rise, and there has been renewed interest in speculative development. A number of new developments are planned, currently under construction or recently completed. These include: ING Real Estate Canada's 100,000 square feet of multi tenant warehousing on Roxborough Road; O.R.E's 693,000 square feet two-phased development in the Highbury Business Park; and IDI's 457,000 square feet spread over two buildings in Woodstock being built by First Gulf. The majority of London deals are in the range of 25,000 to 30,000 square feet, while activity in Woodstock is predominantly driven by owner users like Toyota Boshoku.

Investment market
The investment climate in the London area is very active. Product that is priced appropriately moves quickly in this market. Products most in demand in 2007 were shopping centres with large anchor tenants and apartment buildings. Expect continued solid investment activity in 2008. While yields had experienced further compression earlier in the year, expect to see this reverse due to higher expectations from buyers as money markets tighten.

Some notable sale transactions include: 380 Wellington Street/272 Dundas Street, London ($50.5 million), 297 Baseline Road West, London ($21.6 million), 350 North Centre Road, London ($20.5 million), 244, 252, 254, 256 Pall Mall Street, London ($20.2 million) and 1010 Talbot Street, St. Thomas ($14.4 million).

Retail market
Though retail activity dipped slightly in the third quarter, the overall retail climate has been healthy and the outlook for 2008 remains positive. There continues to be a lot of development with local demographics supporting rapid growth. Underperforming enclosed malls continue to feel the pressure from the growing large format retail sector. Vacancy is up and activity is down as many retailers are looking to relocate or expand in new retail developments. In response, Westmount Mall and Galleria Mall have undergone some conversion of retail space to office as a means of filling some of the void left by vacating tenancy.

SmartCentres and big box retailers such as Canadian Tire and Home Depot are very active. Retail development continues to grow with the opening of a Home Depot and Lastman's Bad Boy on Wharncliffe Road South.

Rental rates have increased slightly to $14.65 per square foot with taxes and operating costs up to $7.75 per square foot.