

Niagara

Population
420,000

Office vacancy
11%

Industrial inventory
16 million sq ft

CBD Class A vacancy
14%

Industrial vacancy
9%



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Market overview

Coming off a weak performance in 2006, Niagara's economy is in a state of transition. Job losses continue in the manufacturing sector and the tourism sector is struggling due to the high value of the Canadian dollar. The economy expanded by a mere 0.9% in 2007. Although forecast to expand by 2.5% in 2008, more subdued growth will continue if the dollar stays high.

The local economy is being driven by a strong greenhouse market and construction of hotels and tourism facilities. Of significance, Casino Niagara extended its lease for an additional 10 years and a new \$100 million convention centre has been approved.

Office market

Office market vacancy decreased marginally in the CBD to 14% and the trend should hold for 2008. Suburban growth is expanding with the development of the first new office building in four years, already 60% leased. The majority of leasing deals in the market are either relocations or expansions, with very little new demand for space. Financial, legal and government services are driving demand.

Rental rates are decreasing due to the competition for a small number of available tenants. Cost is not the sole motivating factor for tenants, as parking, ground floor space

and signage seem to be the driving factors to maintain employee retention. Rates should continue to decrease in the CBD and hold firm in the suburban markets in 2008.

There are a number of new developments on the horizon, including a proposed multi-storey medical centre and a 40,000 square foot office building currently under construction. The call centre industry continues to grow with former large format retail stores (Kmart, Zellers) and large light industrial building conversions due to the availability of land and parking.

Industrial market

The industrial market improved in 2007 although vacancy did increase. While demand increased slightly from new tenants, most of the demand for space in the market is coming from local tenants expanding or consolidating. Rental rates are holding firm for good quality product.

There are a number of new developments planned for flex warehousing in 2008. Build to suit projects are also on the rise with six to eight new projects completed in 2007. The pace of new construction will slow down in 2008 as the strength of the Canadian dollar continues to impact the market.

A substantial amount of space will come to the market in 2008 with the closing of Dana Corporation (450,000 square feet) and the

recent sale of Metrus' 270,000 square foot facility in St. Catharines.

Challenges ahead include the conversion costs of bringing these former large, single user, buildings into multi-tenanted facilities as the current manufacturing base does not require large facilities. Warehousing needs for the wine industry continue to expand as Vincor Canada recently marked the completion of phase 1 of a multi-phase \$21 million expansion of their Niagara Falls facility.

Investment market

Niagara is a very desirable area for investment with cap rates for strip plazas now in the 8-8.5% range. Most of the active players are local owners ready to retire and selling to out of town buyers. Multiple offers are received on quality, well tenanted, product. Multi-tenant industrial properties and single-tenant buildings with long-term tenants are in high demand. Strip plazas are the most sought after asset class.

Investment activity in 2007 was up from the previous year, however, it is not expected that 2008 will see further transaction growth. The ability to fund both equity and debt components of investment assets has become a significant issue. Loan to value ratios have decreased while at the same time yields have been compressed. Challenges facing the market in 2008 will be to marry seller's expectations with the reality of more financially restricted buyers.

Retail market

The retail sector continues to grow with the expansion of Riocan and SmartCentres' big box sites in both St. Catharines and Niagara Falls. Increased cross-border shopping activity eroded the sales of local retailers in 2007 and this trend will continue to be the biggest challenge for Niagara retailers in 2008.

New retailers, either under construction or committed, include Sobeys, Rona, Canadian Tire, Mandarin, Addition Elle, Wal-Mart and Petro-Canada. Rental rates had stabilized but downward pressure began to be felt in the latter part of 2007. We expect a decrease in rents by 8%-10% for 2008.

