

Regina

Population	Office vacancy	Industrial inventory
200,000	3.2%	14.89 million sq ft
Office inventory	CBD Class A vacancy	Industrial vacancy
3.2 million sq ft	2.17%	2.8%



Mike Hogan

Market overview

With Saskatchewan booming, Regina is enjoying its strongest rate of economic growth in a decade. The economy expanded by 3.5% in 2007 and is forecast to grow by 2.8% in 2008. Economic growth in the city and province is being led by strong employment growth, positive in-migration, a strong goods and services sector, above average housing starts and robust retail sales. Industries leading the way include manufacturing, transportation, communications, and wholesale and retail trade.

Construction output will gain further ground in 2008 and beyond with a number of developments in the works including: development of the \$1 billion Harbour Landing commercial and residential project over the next 10 years, \$172 million in upgrades at Regina's Exhibition Park over the next several years and Ipsco's planned \$60.8 million expansion of a large-diameter pipe-making plant.

Office market

Office vacancy decreased steadily throughout 2007 to end the year at 3.2%. This trend is expected to continue in 2008. Absorption has been positive and tenant demand for office space should remain strong in 2008 with moderate activity from the provincial and federal governments expected. Renewals, new deals and expansion of existing users from the downtown core and the suburbs drive leasing activity in the market. With increased demand, rental rates will moderately rise across all building classes.

Low vacancy, firming of rental rates and talk of significant sized tenants from outside Regina may jumpstart new construction to satisfy demand. It is expected that the former Superstore just outside of downtown will see a retail / office complex redevelopment with freestanding pad opportunities (128,000 square foot building on 12 acres). The lack of big block office space in excess of 10,000 square feet is a concern at this time.



Industrial market

Industrial vacancy has hovered in the 3% range for the past few years and will likely decline to the 2% range in 2008. Lease rates have increased steadily over the last couple of years, while new construction activity has increased as much as 40%.

The city of Regina has been the primary developer of industrial land and, over the past 36 months, has sold the majority of its lands holdings with roughly 90 additional acres set to come to market in 2008. Serviced industrial land is in high demand and average prices have increased from \$90,000 per acre to \$140,000 per acre. A recent industrial growth study projected that Regina requires 400-600 acres to meet forecasted demand to 2031.

Investment market

With Saskatchewan's healthy economic environment, interest in investment grade assets has increased. However, the lack of product available in the Regina market will continue to be a challenge in 2008. This is contributing to an escalation in demand and prices across all disciplines. Cap rates have compressed over the past 12 months but this may subside in 2008.

There has been equal activity among REITs, and institutional and private interests on the buy side.

Retail market

Regina's overall growth has led to increased sales per square foot in the retail sector. 2008 should maintain this trend. East Regina and northwest Regina lead the way in generating the majority of retail activity. Retail stores continue to relocate from enclosed malls and existing sites into the remaining retail pockets in these areas. New retail development sites are expected to commence construction in the southwest sector of the city. This area has been on the drawing board for some time, but increased residential building activity should provide the impetus to kick off construction starts in 2008. South Albert, south of the Trans-Canada highway overpass, is another area that may see increased development activity in the future.

Increased investment activity in retail centres has driven cap rates down which will have an impact on rental rates going forward. Increased construction costs are also having an impact, driving rental rates up by 15%-20% for new construction. Retail growth for Regina in 2008 should remain strong as the rural population continues to shop in the major centres.