

Industrial real estate market dips

Land prices up while overall demand slows

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Calgary's industrial real estate market experienced a significant softening in demand in 2008, but at the same time prices for land jumped, according to a report by **Inducor Real Estate Solutions Inc.**

The Calgary company said 4.4 acres of industrial land sold in 2008 with an average selling price of \$612,348 per acre, compared with 330 acres selling in 2007 for an average of \$322,431 per acre.

"These were significant increases in value compared to the pre-boom average of \$237,815 per acre for 308 acres in 2004," said the report.

The report said vacancy rates rose moderately over the course of 2008, but are still low relative to most other markets in North America. The current vacancy rate is in the four per cent range.

Inducor, citing **RealNet Canada** data, said sales of industrial buildings rose from \$509.2 million (109 transactions over \$1 million) in 2007 to \$652.1 million (94 transactions) in 2008 — a 28 per cent hike in dollar volume but a 14 per cent decline in transactions.

For industrial investment sales dollar volume, there was a year-over-year increase of 47 per cent from \$302.3 million in 2007 to \$444.6 million in 2008. The number of transactions over \$1 million dropped by 21 per cent from 38 in 2007 to 30 in 2008.

For industrial buildings owner/user sales, the dollar volume rose 0.2 per cent from \$207 million in 2007 to \$207.5 million in 2008 while the number of transactions fell by 10 per cent to 64 in 2008 from 71 in 2007.

The owner/user purchasers buy



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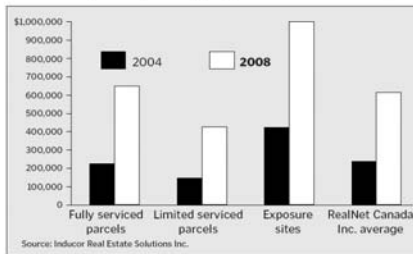
"It will be a period of slow growth or minimal growth (in 2009)," says Chris Saunders of Inducor Real Estate Solutions.

the property for the purpose of using/occupying it for their business operations, and investment properties are bought by purchasers for the purpose of the income that's derived from the tenants that occupy the property.

Inducor is forecasting there will be a decrease in investment, land, and owner/user sales volume and transactions in 2009 compared with 2008.

"It will be a period of slow growth or minimal growth (in 2009)," said Chris Saunders, managing partner of Inducor in Calgary.

"I think the market will start to turn toward the end of 2009 and activity will begin to increase toward the end of the year again. A lot of our market is still heavily made up of logistics and transportation companies and they're in



the business of moving goods, and goods will still be moving with groceries and needs that people have in order to live."

Saunders said Calgary's industrial real estate market experienced tremendous growth in the

last few years and now is in an "adjustment period."

"The amount of land absorbed for 2009, especially the first half, will be very minimal. It should start to increase in the last half of 2009 for developers that are

positioning for the next phase of growth and for owner/users who develop more renewed confidence in the economy," he said. "And the lending markets should hopefully start to turn around by the end of the year, so it will be a little bit easier for them to get financing to build their own properties."

The Inducor report said there will be downward pressure on land values in 2009.

"Developers will not be prepared to build on speculation at the same levels we have experienced since 2004 due to lack of leasing confidence in the market and a very restrictive borrowing climate, significantly lowering fully serviced land absorption," said the report.

A December Calgary Industrial Survey by **DTZ Barnicke's** Brent

Johannesen, senior vice-president/associate in Calgary, said the vacancy rate in the industrial real estate market remains relatively low at 3.2 per cent in spite of a steady climb since June 2006.

"Coupled with high construction costs and a traditional lack of readily available serviced land, lease rates have also remained strong. In the past quarter, however, demand has been declining, deal volume and market activity has slowed down across the board," said the survey.

In 2009, the supply of industrial land in and around Calgary will continue to be added to and improved, said Johannesen.

"The infrastructure is being put in place and many new projects are scheduled for completion," he said in his survey.

"Pricing of land with limited services outside the Calgary municipality starts at \$200,000 per acre and has approached \$385,000 per acre closer to the city's border.

"Fully serviced land inside Calgary starts at around \$600,000 per acre while in areas surrounding Calgary the cost of fully serviced land starts at \$450,000 per acre. More options are being made available in various lot sizes and in different areas both inside Calgary and in the surrounding communities."

A Winter 2008 Calgary Industrial Market Report by **Avision Young Commercial Real Estate (Alberta)** said more than 1.2 million square feet of new industrial space was completed in 2007 and a further 3.8 million square feet will be completed in 2008. An additional 662,000 square feet of space is under construction for completion in 2009.

However, construction of any of the 2.4 million square feet being pre-leased will likely be held back until sufficient leasing is in place and it's possible many of the proposed projects will be delayed, said the report.