

JUNE, 2017

Prairie industrial: from “stable” to “struggling” markets

Big-city Alberta landlords continue to suffer from low oil prices while Regina and Winnipeg see vacancy rates falling and land prices holding firm

Western Investor June 1, 2017

Canada's two-billion-square-foot industrial real estate environment is in the midst of a moderate boom, with a national vacancy rate of 3.7 per cent and many regions – such as Vancouver and Toronto – nearing full occupancy

But the optics change in Alberta, according to **Avison Young**, where both Calgary and Edmonton still feel fallout from the collapse of oil prices.

Calgary's vacancy rate is 8.5 per cent, there is no industrial under construction and average lease rates, at \$8 per square foot, are the lowest in at least four years.

In a first-quarter survey, Calgary's **Barclay Street Real Estate** counted more than 17.7 million square feet of vacant or sublease industrial space available in Alberta's biggest city, out of a total inventory of 140 million square feet.

So far this year, only 8,845 square feet has been taken up in new leases.

“The next two quarters will show if we are at the bottom of the market with the oil and gas sectors, or not,” Barclay stated.

“Calgary continues to struggle,” Avison Young added, noting that the oil price slump extends into the overall economy.

The picture brightens slightly in Edmonton, where the industrial vacancy rate is now 6.3 per cent,



Acres of industrial space – including 17 million square feet in Calgary alone – are vacant in major Prairie cities. | PURE INDUSTRIAL REAL ESTATE TRUST

up from 4.5 per cent a year earlier, according to Avison Young.

However, there has been a mild increase in new investment, much of it tied to completion of heavy infrastructure projects such as Anthony Henday Drive and the nearly complete, \$8.5 billion first phase of the Redwater refinery.

The average industrial lease rate in Edmonton has fallen below \$10 for the first time in more than five years. But with just 66,000 square feet of new industrial space under construction – compared with more than three million square feet a year ago – the turnaround could come sooner than expected.

In the first quarter, nearly \$50 million in Edmonton industrial real estate was transacted and the average price per square foot increased to \$200 per square foot, matching the peak of mid-2015,

Regina

Saskatchewan's capital city has seen its industrial vacancy rate drop to 3.2 per cent this year, down from nearly 4 per cent a year earlier, and “continues to perform at a stable level,” Avison Young reports.

The average net lease rate, at \$11.45 per-square-foot, remains the highest on the Prairies but has been declining for five years.

In the first quarter of this year, total absorption of industrial space was less than 180,000 square feet, the lowest take-up in years.

Landlords are offering a variety of incentives to recruit and retain tenants, agents say.

A lack of interest in new construction has seen just 200,000 square feet of new space started

this year – down more than 60 per cent from the first quarter of 2016 – which may force a reduction in industrial land prices.

The **City of Regina** is still asking \$450,000 per acre for its industrial-zoned land. In comparison, neighbouring Sherwood, a rural municipality, has industrial land from \$160,000 to \$250,000 per acre.

Saskatoon

“It's been a long, hard road for the Saskatoon industrial real estate market,” said **Barry Stuart of ICR Commercial Real Estate**, Saskatoon. He noted that the industrial vacancy rate has ballooned from 4 per cent to more than 10 per cent with “a significant softening of lease rates” to an average of \$10.85 per square foot.

The Saskatoon industrial vacancy rate is currently 10.5 per cent, and absorption of space has gone negative, with more than 18,000 square feet shoved back onto the market in the first quarter.

Industrial makes up 53 per cent of all the non-residential real estate in Saskatoon, so it is seen as a harbinger for the city's economy.

The **City of Saskatoon** has 15 serviced industrial sites available, asking from \$480,033 to more than \$676,000 per acre. However, only one industrial construction permit was issued in Saskatoon in the first three months of this year, which may signal lower vacancy rates if supply continues to fall.

Winnipeg

Winnipeg is perhaps the most stable industrial market on the Prairies, with a 3.1 per cent vacancy rate and an increase in average rents to \$73.4 per square foot, according to Avison Young. This is the highest level in at least four years.

In the first quarter, the city posted 113,000 square feet of absorption, compared to negative levels in the same period last year. There is now about 160,000 square feet of new industrial space under construction, the highest level since 2014. Industrial land prices are just north of \$200,000 per acre and buildings are selling for \$65 to \$100 per square foot. ■