INDUSTRIAL MARKETPLACE

Is the shrinking inventory going to lead to more spec activity and land sales or is there an opportunity to invest in less functional buildings and repurposing? How do we see this playing out over the next twelve months?

The Edmonton industrial sector appears to be at a crossroads. The Anthony Henday Ring Road has been completed and it has shortened drive times to all geographical sectors of the City. Along with this fundamental change, industrial areas within the Anthony Henday are approaching full build-out and there is a significant cost differential related to property tax expenses being less outside of the City of Edmonton.

With the recent recession and general slowdown in the energy sector, rents and land pricing per acre have generally been flat over the past five years.

On a positive note, over the past twelve months, sales volumes for Owner/User, Multi-bay and land have been moving to higher levels. We believe that the trade off on this is that pricing per square foot has moved lower due to a softening in the rental rates on sold product. We do not foresee that there will be much upward pressure on pricing over the next twelve months unless net operating incomes increase significantly.

The increasing land sales volumes may reflect a belief that leasing activity is getting healthier and developers are getting ready for a new development phase as vacancy levels moderate and local users are becoming more active. At this point in time, it appears the market is being driven by local buyers and users that are anticipating increasing business activity.

Two significant trends that we anticipate will begin to change the market fundamentals are that the Leduc/Nisku sector will continue to attract big users due to its lower tax cost and proximity to transportation and the airport. The second being that inner City properties are going to have downward pressure on pricing due to age and higher tax cost. Evidence of this trend has been the recent transactions for the Ford Distribution Centre and Amazon Fulfillment Centre in the Leduc area.

We believe that pricing is going to be flat over the next twelve months and vacancy is going to continue to decrease slowly in the modern warehouse product category. There will be challenges with older inner city product and there might be opportunities to convert properties that could be purchased at a price points below $100 psf and utilized by local services firms with rents in the $6.00 to $8.00 range.

The Edmonton industrial market has reached a critical mass that will allow it to be less affected by swings in the oil and gas sector but it will take time for institutional investors to understand this and begin to adjust their perceptions of the market. During this transition, we expect long term hold players will be vending some properties in order to cull portfolios with Alberta weighting as we believe these owners do not see enough upside or have the local expertise to repurpose these assets.

Most out of province investors see risk in Alberta and they need higher returns than what is in play now and that has been part of the reason for the flat market over the past two years.

CUSHMAN & WAKEFIELD
Edmonton

INDUSTRIAL MARKETPLACE

NO UPWARD PRESSURE ON PRICING

UNLESS NET OPERATING INCOMES INCREASE SIGNIFICANTLY

THE INCREASING LAND SALES VOLUMES INDICATE **LEASING ACTIVITY IS GETTING HEALTHIER**

LEDUC/NISKU SECTOR

WILL CONTINUE TO ATTRACT BIG USERS

PRICING DUE TO AGE AND HIGHER TAX COST

DOWNWARDS PRESSURE ON INNER CITY PROPERTIES

LONG TERM HOLD PLAYERS WILL BE VENDING SOME PROPERTIES

IN ORDER TO CULL PORTFOLIOS WITH ALBERTA WEIGHTING

MOST OUT OF PROVINCE INVESTORS

SEE RISK IN ALBERTA AND THEY WANT HIGHER RETURNS