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Chris Saunders, managing partner with Inducor Real Estate Solutions, says reduced rents will help Calgary businesses struggling in the face of the global recession.

Industrial market cheaper

Real estate more affordable as values decline

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CALGARY HERALD

Calgary's industrial real estate market is regaining affordability for tenants and purchasers as values have been steadily declining this year, says a report by **Inducor Real Estate Solutions**.

The report said the balance of this year will see a continuation of declining rental rates and purchase values.

"We expect values to decline another 10 per cent overall in the lease and sale market throughout the balance of 2009 before stabilizing in the first quarter of 2010," said the report.

The vacancy rate in the industrial real estate market has increased to five per cent in June from the 1.5 per cent in the boom period of June 2007, said Chris Saunders, managing partner of Inducor.

"What's contributing to the va-

cancy is a combination of sublease space, new speculative developments coming to the market and existing inventory being left vacant due to facility closures, bankruptcies and downsizing," said Saunders.

The decrease in rental rates and values has prompted increased activity in recent months and "it will help make businesses more sustainable during this part of our (economic) cycle," said Saunders.

Calgary's industrial real estate market is much better positioned than other industrial markets in Canada, and especially those in the U.S., because the vacancy rate is relatively low and the city still has a moderate level of demand compared with other markets.

"Demand should maintain its current level of moderate to good activity in the coming months and it might even increase in some segments," said Saunders.

"There is still a lot of facility closures and downsizing we expect to cycle through our market in the next six to 12 months, which demand will keep pace with. It will likely cause another 10 to 15 per cent decline in rental rates and values."

The Inducor report suggests clas-

sic demand and supply forces are shaping a new equilibrium on lease rates and sale prices, said Richard Pootmans, business development manager for real estate for Calgary Economic Development.

"Lease rates are dropping, but vacancy rates are not escalating at the same rate as the office market. The downtown office market typically has a much longer lead time than industrial developments, and therefore the industrial developer can be more responsive to changes in the economy and adapt quickly by not enhancing the supply of new buildings," he said.

Pootmans said industrial real estate activity levels are low, but as the city's costs for new entrants decline, opportunities are presenting themselves for businesses that have sat on the sidelines for the past few years.

Average asking prices per square foot for industrial properties have dropped in the past year by 24 per cent (for properties of 50,000 square feet and more), by eight per cent (for 20,000 to 50,000 square feet) and by 22 per cent (5,000 to 20,000 square feet).

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