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Commercial real estate trends point to pending slowdown, Cushman & Wakefield

By: **The Canadian Press**Posted: **09/16/2011 3:32 PM** | Comments: **0** (including replies)g

TORONTO - Commercial real estate trends in the third quarter suggest an improved U.S. economy is beginning to make itself felt in Canada while the domestic financial sector is downsizing, consulting firm Cushman & Wakefield said Friday.

The company's real estate vacancy report showed office buildings in suburban areas — favoured by U.S. and other multinationals — and which had stood vacant for years are now starting to fill up.

Meanwhile, demand remains high in downtown markets, Cushman & Wakefield said, adding trends in Toronto shed light on recent restructuring in the financial sector.

National average vacancy rates for suburban areas fell to 9.9 per cent, down from 10.4 per cent in the previous quarter.

Paul Morse, senior managing director of office leasing, said suburban spaces are usually favoured by foreign companies trying to gain a foothold in the Canadian market.

In the Toronto suburban market, the Canadian subsidiaries of IBM, American Express, Staples, HP and many other companies, have their headquarters, distribution terminals and other operations.

Starting in 2008, economic turmoil south of the border sapped strength from many U.S. companies that had already expanded into Canada or may have contemplated doing so, Morse said.

The result was a weak suburban commercial real estate market that lasted until this year.

This trend has finally begun to shift, he said. Economic momentum that took effect before August's stock market turbulence helped stimulate activity once again.

"In the last quarter we're seeing evidence of activity, where people are actually making decisions, feel confident with these decisions," Morse said. "That's the first bit good news we've seen in the suburban market in close to two years."

Morse cited Target as an example of an American corporate giant dipping its toes in Canadian waters. The company has inked a deal to lease 200,000 square feet of office space in suburban Toronto, though it has not taken possession of the space yet.

The discount retailer has also committed to opening at least 150 stores across the country after its purchase of Zellers outlets from the Hudson's Bay company.

Demand for downtown real estate remains strong, with the national central area vacancy rate slipping to

5.8 per cent from 6.4 per cent in the previous quarter.

Industries that focus on downtown areas are already feeling the squeeze as desirable office space is snapped up, Morse said, adding the demand is particularly high in Toronto.

The crunch may start to ease in the coming months, he said. as financial and professional service firms that were forced to restructure or downsize during the past few years have begun moving out of their downtown offices and freeing up some prime real estate.

Morse said some of the efforts to streamline office space have come as a result of steeply rising property taxes in the downtown core, an issue the country's major banks have voiced complaints about for years.

Cushman & Wakefield expects 1.8 million square feet of space to free up in Toronto in the next two years.

Real estate vacancies are a lagging indicator of economic strength and generally reflect decisions taken some months before the results are issued.

Downtown real estate in Calgary was particularly strong during the third quarter as oil and gas companies snapped up what office space remains. The city's vacancy rate tumbled to 6.4 per cent from 9.1 per cent in the second quarter.

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