COLLIERS INTERNATIONAL | MARKET REPORT

HALIFAX NOVA SCOTIA

ATLANTIC MARKET: Colliers International has two offices: Halifax, Nova Scotia and Moncton, New Brunswick which services all provinces in Atlantic Canada.

MARKET INDICATORS

	2011 Q3	2011 Q4
VACANCY	▼	▼
NET ABSORPTION	▼	▼
CONSTRUCTION	◀▶	◀▶
RENTAL RATE	▲	▲

Canadian Market Overview

It was said by many that Canada was one of the best places to be in 2011, particularly so for those engaged in the commercial property market. The commercial property markets have remained solid across all asset types, supported by employment growth and a healthy domestic economy. Investment activity has been strong, with uncertainty in other markets undoubtedly making Canadian commercial property look attractive.

A hot new topic in the domestic economy is the level of household debt, coupled with a modest pull-back in housing starts could point to a softening in retail spending in some areas.

Overall, 2012 looks to be shaping up as a relatively stable year, with muted growth in GDP across all provinces and a similar pullback in employment growth. All forecasts currently hang on the outcome of the European debt crisis, the strength of the emerging Nation's economies and the next Black Swan to swim into view.

Halifax Market Overview

All Parks posted small positive gains during fourth quarter, with the exception of Bayers/ Ragged Lakes. Industrial leasing was considerably less robust during the last quarter of 2011, with the entire market posting 17,000 SF of positive net absorption. The overall industrial vacancy rate fell 20 basis points to 5.9%.

A new multi-tenant industrial building is completing construction and will be ready for its first new tenant in March 2012. The new 91,500 SF project by HOOPP Realty Inc. and Eastport Properties is on John Savage Avenue and is being built to LEED certification standards. There is considerable new construction underway in Burnside; however, the majority is owner-occupied, design-built construction. On Garland Avenue the Blood Services building is up with interior work underway, and the new Medical Examiner offices and laboratory has commenced construction. A new building is going up in the Logistics Park and a new street is being completed off Wilkinson Avenue, allowing HRM to create and sell smaller lots in Burnside which are in demand.

Owner-occupied, design-built construction maintains its popularity,

City of Lakes Business & Burnside Industrial Parks

THE MARKET

City of Lakes Business Park posted minor positive absorption of 6,700 SF pushing the vacancy rate down to 4.9% at year end 2011. The Burnside Industrial Park saw a slump in leasing activity over last quarter, posting 18,000 SF of positive net absorption, down from 77,000 SF last quarter. The Burnside vacancy rate fell 30 basis points to 6.1%.

TRENDS

Space available for sublet rose during the final quarter of 2011, up 10% over the amount available last quarter. There were no major moves by large tenants during Q4, with tenants under 5,000 SF creating the positive absorption. Activity is expected to pick up during the first and second quarters of 2012.

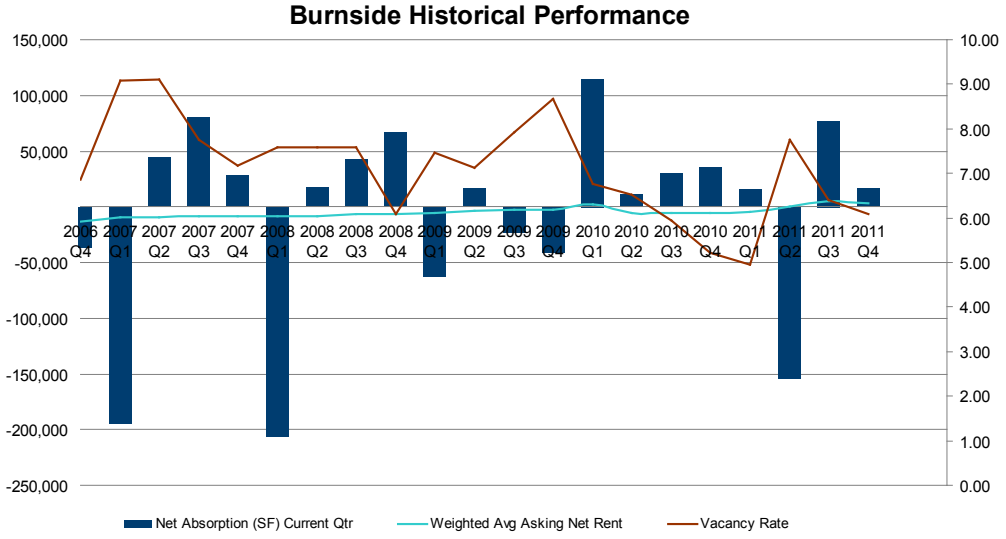
INVESTMENT

C2C Industrial Properties Inc. purchased an industrial portfolio of eight properties in the Burnside Industrial Park from OPB Realty for approximately $56 million. This portfolio totalled over 600,000 SF of prime industrial properties that were 97% occupied by local, regional and national tenants.

FORECAST

Leasing activity is expected to be more robust during the first quarter of 2012. With the addition of over 91,000 SF of new multi-tenant warehouse space, the industrial vacancy rate will rise temporarily until the new building is fully leased. Absorption of new inventory can take up to one year until fully occupied, depending on demand and the number of options available. One tenant is moving into the new John Savage building during Q1 and interest in the building is strong, with the anticipation that the building should be fully leased by the end of 2012.

A new design-built project is going up in the Logistics Park. Velocity Machining & Welding Inc. moved into a design-built facility on Dorey Avenue during Q4. Site work is to begin in the Spring/Summer for the new DASC Industries facility, also being built on Dorey Avenue. Demand is high for owner-occupied design-built buildings as mortgage rates remain low and smaller lots of land are being made available by HRM.



Bayers Lake, Ragged Lake, Bedford & Sackville

THE MARKET

The vacancy rate increased for the second quarter in a row in Bayers/Ragged Lake Parks. As noted in our last report, tenants continue to move to retail/service space from warehouse space, which will affect vacancy rates over the long term in this market. The Halifax Parks reported 19,000 SF of negative net absorption, increasing the vacancy rate to 7.9%, up from 5.0% at Q3. This is a temporary increase as approximately half of the newly available space is said to be leased in early 2012. The Bedford Parks reported 11,000 SF of positive net absorption, decreasing the vacancy rate to 2.3%, down from 5.4% at Q3. Sackville's one vacancy was leased during Q4, bringing its vacancy rate to zero.

TRENDS

Land is available for development along Hobsons Lake Drive in Bayers Lake; however, the trend for this area is leaning toward service/retail space. The new building by Armco Capital Inc. at 73 Hobson's Lake Drive is fully leased and will be ready for occupancy by the end of Q1 2012. More multi-tenant development is planned for this area. All other business parks are at land capacity and very little development or re-development can take place.

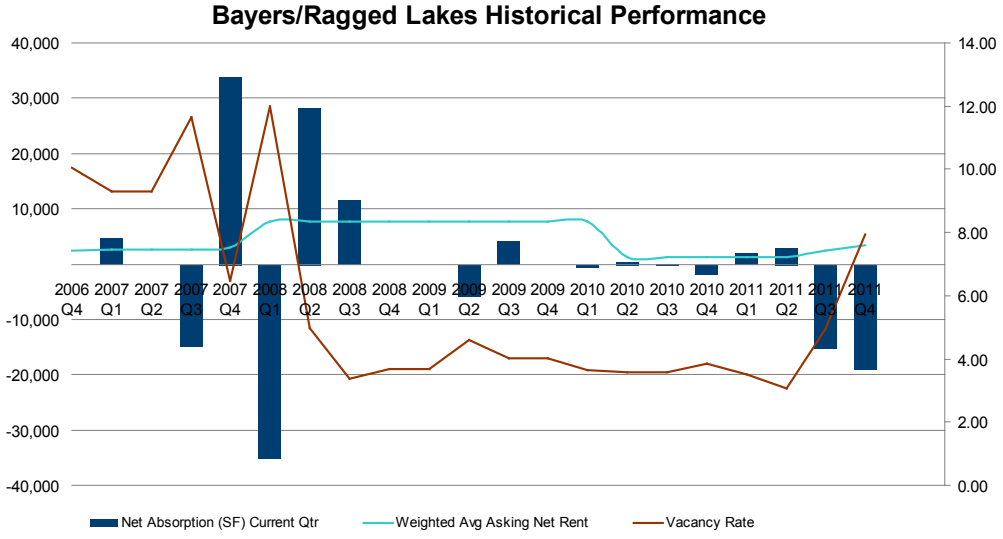
INVESTMENT

A building in the Lakeside Industrial Park was traded. The 60,000 SF building had been vacated by Loblaws some time ago and was purchased by a commercial laundry services firm expanding within HRM.

FORECAST

The smaller markets will face rapidly rising and falling vacancy rates unless more land can be made available. Bayers Lake is currently the only park, outside of Burnside, with land available for development. Ragged Lake, the Bedford Parks and Sackville are not expected to have any land available for development within the next couple of years. The suburban sprawl has changed these smaller markets into service/retail nodes, with industrial buildings converted to showroom space, retail space, and even office space.

Quasi retail/service tenants are relocating from industrial to retail facilities, driving up the vacancy rates.



In follow-up to the dialogue started on the last page of our Q3 industrial report regarding the minimal growth in the industrial marketplace of metropolital Halifax, below are the supporting statistics for leased industrial space:

FIVE YEAR INDUSTRIAL GROWTH					
	City of Lakes	Burnside	Halifax	Bedford	Sackville
2006	491,869	5,202,053	649,432	376,296	31,000
2011	749,950	5,383,576	632,613	353,865	54,700
5 yr growth (by SF)	258,081	181,523	(16,819)	(22,431)	23,700
5 yr growth (by %)	52%	3%	-3%	-6%	76%

The dramatic rise in the City of Lakes Business Park was the redevelopment of land on the Wright Avenue extension, of which the south side is City of Lakes and the north side of Wright Avenue is Burnside. The decline in inventory in the Halifax and Bedford Parks is the reclassification of industrial space to retail use. As the Lower Sackville submarket is small, the addition of two new buildings caused what looks like a major increase in growth, when in fact the square footage was minimal.

Growth in owner-occupied premises in the Burnside Industrial Park is estimated to have almost doubled within the past decade. The establishment of the Logistics Park and the large distribution facilities built for Armour Logistics and Consolidated FastFrate, and the plant by Rendan Fabricators Ltd., as well as smaller buildings for six other firms has enlarged the owner-occupied industrial inventory by approximately 325,000 SF over the past four years. It is difficult to gather information on owner-occupied premises as information on the buildings is not public. The amount of owner-occupied space in Burnside is roughly estimated at 1.5 million square feet.

Nationally, Halifax has one of the lowest industrial vacancy rates in Canada, and has enjoyed a long-term stable economy. These factors coupled with the recent award of the federal shipbuilding contract is testament to the growth potential for this market. Demand apparently is in growth mode, and at the present time, industrial supply is not.

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