

INDUSTRIAL MARKET REVIEW

Park Capital Inc., Brokerage

COMMERCIAL

Q1 - 2010

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Waterloo Region's economy poised for strong growth



WATERLOO REGION – Waterloo Region's economy is poised for a big rebound this year, says the Conference Board of Canada.

The local economy is expected to grow 3.3 per cent this year after and an average of 4.2 per cent from 2011 to 2014, the board said today (January 28, 2010) in its Metropolitan Outlook report.

"This is forecast to ultimately fuel stronger hikes in employment, population and housing starts, particularly starting in 2011," the board said in the report.

Unemployment, which averaged 9.4 per cent in 2009, the highest on record, will slowly ease as employment grows, falling to 6.9 per cent in 2012 and 5.8 per cent in 2013, the board said.

The strong growth comes after a year in which the area's GDP (gross domestic product) plunged 3.4 per cent, the board said.

Source: The Record

It also will give the region the third strongest economic growth among the 27 urban centres featured in the report. For the coming year, it will be topped only by Vancouver, at 4.5 per cent, and Toronto, at 3.5 per cent.

The local forecast is for the Kitchener census metropolitan area, which includes all of Waterloo Region except for Wellesley and Wilmot townships.

The region's hard hit manufacturing sector will play a big role in the recovery, the board said. Manufacturing output declined by an estimated 13.6 per cent in 2009, but the sector is stabilizing and showing signs of revival, it said.

Companies such as Toyota, Com Dev International, Innovative Steam Technologies and Heroux-Devtek are expanding production, helping power the manufacturing sector to forecasted growth of 3.2 per cent this year and an average of 6.2 per cent from 2011 to 2014.

Bank of Canada maintains overnight rate at 1/4%

On March 2, 2010, the Bank of Canada announced that it is maintaining its target for the overnight rate at 1/4% and reiterated its conditional commitment to hold current policy rate until the end of the second quarter 2010. The level of economic activity was slightly higher than expected by the BoC, at an annual growth rate of 5% for the fourth quarter of 2009. The underlying factors supporting Canada's recovery are largely unchanged - policy stimulus, increased confidence, improved financial conditions, global growth, and higher terms of trade. At the same time, the persistent strength of the Canadian dollar and the low absolute level of U.S. demand continue to act as significant drags on economic activity in Canada. The next scheduled date for announcing the overnight target rate is April 20, 2010.



Selected Government of Canada Benchmark Bond Yields	
2 Year	1.73%
3 Year	2.03%
5 Year	2.90%
7 Year	3.10%
10 Year	3.56%

Rates as of March 31, 2010
Source: Bank of Canada

Economic Indicators			
	2008	2009F	2010F
Real GDP Change	0.4%	-2.6%	3.1%
CPI Change	2.4%	0.3%	1.7%
Unemployment Rate	6.2%	8.3%	8.1%

Source: TD Bank Financial Group



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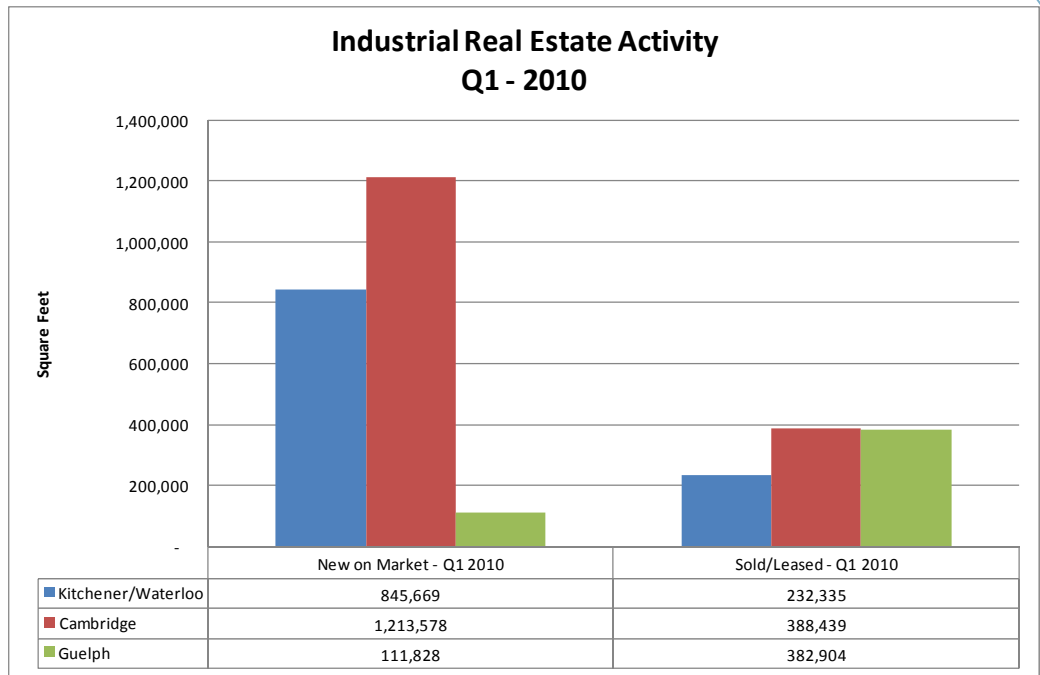
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Source: Kitchener/Waterloo Real Estate Board, Guelph & District Association of Realtors, Realtrack

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As indicated in our Q4-2009 report, the region's industrial market appears to be slow to respond to the renewed sense of confidence in economy. While overall activity in all three markets increased this quarter, the amount of buildings which became available still far exceeded what was absorbed in the market. The exception to this was the sale of a 344,310 SF building in Guelph, which created positive absorption in that market for the quarter. While we did see some larger buildings change hands this quarter, the majority of the transactions were still for spaces in the smaller size range (< 20,000 SF). Net rental rates in the region appear to be declining slowly, in an attempt by Landlords to fill the vacancies. The average asking rates were \$5.41/SF, \$4.93/SF and \$5.50/SF for Kitchener/Waterloo, Cambridge, and Guelph, respectively. It is anticipated that lease rates will have to continue to decline to reverse the ongoing trend of negative absorption. With the current oversupply of industrial space, no new construction is anticipated in the near future, especially on a speculative basis.

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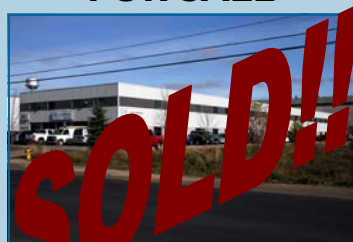
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SIGNIFICANT Q4 2009 SALE TRANSACTIONS

BUILDING	SQ.FT.	DEAL PRICE	PSF
Cambridge	121,550	\$3,500,000.00	\$28.79
Waterloo	59,700	\$2,500,000.00	\$41.82
Cambridge	56,760	\$2,590,000.00	\$45.63

Source: Kitchener/Waterloo Real Estate Board, Realtrack

FOR SALE



31 Arrow Rd., Guelph
+/- 1,235 Sq.Ft.

FOR LEASE



7026 Wellington Rd. 124, Guelph-Eramosa
+/- 24,300 Sq.Ft.

FOR LEASE



76 Dawson Rd., Guelph
+/- 27,000 Sq.Ft.