# INTERNATIONAL INDUSTRIAL MARKET OVERVIEW

This year's edition of *Comparative Statistics* includes reports on eight international markets, in Canada, Mexico, Brazil, and South Africa. The NAFTA markets (Canada and Mexico) offer the most detail in terms of statistics. Six markets north and south of the U.S. border contain a substantial 1.4 billion square feet of space, with Toronto (681 million sq. ft.), Montreal (387 million sq. ft.), and Vancouver (147 million sq. ft.) the largest concentration. Toronto and Vancouver, in fact, would rank in the top ten in size if the NAFTA markets were combined.

On balance, the Canadian markets are stronger than their U.S. counterparts. All reporting markets from Canada have a single-digit vacancy rate. All but Toronto post a positive net absorption for 2002. The Canadian economy is benefiting right now from the low exchange rate with the U.S., which boosts Canadian exports significantly. Canada is the United States' biggest trading partner.

Juarez, Mexico, on the other hand, is struggling with some of the same issues that we find in the Texas markets. The growth of the maquiladora industry in the 1990s caused a boom in capacity in Juarez, and the slowdown in U.S. manufacturing and trade sliced demand for industrial space in northern Mexico accordingly.

Sao Paulo, Brazil, like other Latin American markets, had a turbulent 2002. Neighboring Argentina suffered a banking and currency crisis that actually saw its financial system shut down for a period of time. This was also an election year in Brazil, with the victorious candidate a populist with policies suspect to most industrialists. Johannesburg, South Africa, meanwhile, reports solid gains in rents and industrial sales prices, gaining six to ten percent. Local currency depreciation did constrict the yield to investors from such gains, but should have the longer term benefit of bolstering South Africa's manufacturing exports.

Globalization affects industrial real estate as much or more than any other commercial property type. A brief look at this handful of international markets will offer the reader some excellent insights into the similarities to and differences from U.S. market conditions.

# INTERNATIONAL OFFICE MARKET OVERVIEW

Eight international markets—five from Canada, and one apiece from Brazil, South Africa, and Russia—round out the statistical picture for 2002. These markets range in size from 94.5 million square feet in Toronto to 1.9 million square feet in Moscow, and total 330 million square feet of inventory in all. On the whole, these markets have a lower vacancy rate than the U.S., with a combined vacancy rate of 12.3 percent. Net absorption was negative in the international sample, as in the U.S., with occupancy loss at 1.3 percent of total inventory. Subleasing, however, was much less of a problem, with only 6.1 million square feet, or 1.8 percent of total, compared with 3.4 percent in the United States. Construction remains fairly active across these eight world markets, with 10 million square feet reported under development, equating to a 3.0 percent expansion of inventory.

As might be expected, comments from Canada echo many of the observations of U.S. SIORs. Toronto speaks of corporate consolidation and space being returned to the market, while Vancouver has some of the same difficulties in the technology industry as U.S. markets from the Pacific Northwest. Edmonton and Montreal have the tightest conditions of the Canadian markets, with 9.6 percent and 9.4 percent vacancies, respectively.

Sao Paolo, Brazil, is buffeted by the economic dislocations that hit neighboring Argentina and the uncertainty arising from its own change in government late in 2002. Sao Paolo has a 19.6 percent vacancy rate, and does not look for any immediate relief in 2003. Johannesburg, South Africa has a large 71.8 million square foot office market with a 15.9 percent vacancy rate. While most of the world has seen declining interest rates, the South African prime rate has risen. Nominal rents in Johannesburg have declined, and capitalization rates gone up – signs of weakness in the commercial space market. Moscow, Russia's capital city, has a small and comparatively healthy office market, with 1.9 million square feet in inventory and overall vacancy of 9.7 percent. Demand comes mainly from domestic finance and energy companies.