

Q1 2021 Point of View

Edmonton Office Market



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Market Overview

Downtown & Suburban Office Market

Landlords who were willing to engage in negotiations were faced with some very difficult challenges.

Q1 2021 was a significant threshold to pass through in the Edmonton office market with March 17th marking the first anniversary of the health emergency declared by the Government of Alberta due to the COVID-19 pandemic. It should come as no surprise that the greater Edmonton overall vacancy rate continued to increase, but this increase cannot be described as significant given the amount of stress that the Edmonton economy has gone through over the last year (especially if you compare the Edmonton market to that of Calgary's with an overall vacancy rate of almost 30%). Not all was doom and gloom this quarter, with a collective realization by industry professionals that tour activity had increased, and more lease negotiations were occurring. It is debatable whether this uptick signals the beginning of a recovery, but no doubt some of it is being driven by savvy office tenants realizing that now is the time to take advantage of the current market conditions before they turn in favor of landlords. Take for example Bitcoin Well leasing 35,000 sf at Cecil Place on 104 Street & Jasper Avenue.

The Greater Edmonton office vacancy increased to 18.34% from 18.2%. This overall rate includes headlease and sublease vacancy. The headlease vacancy increased to 16.43% from 15.79%, and the sublease vacancy decreased slightly to 2.29% down from 2.41%.

Downtown

The Downtown market is composed of Financial and Government Districts totaling 17,721,586 sf. The headlease vacancy increased to 18.34%, while the sublease vacancy decreased slightly to 2.92%, for an overall vacancy rate of 18.34%.

In the financial district (12,705,938 sf), the overall vacancy increased to 18.43%, and the sublease vacancy rate to 3.93%. In the Financial AA sector, the overall vacancy stood at 18.20%, with the highest sublease rate in the Edmonton market at 6.23% (over 261,519 sf). In the Financial A sector, the overall vacancy was slightly less at 18.74%, with 3.51% sublease vacancy. Combined, these two financial sublease classes had over 490,583 sf of vacant space, representing over 72% of all the sublease space in greater Edmonton. This is a significant number, given how small a geographical footprint that Edmonton's financial district occupies (four by four city blocks). Almost half of this vacancy can be attributed to Stantec, Enbridge and Telus looking to shed additional unused space.

The Government District fared no better, with an overall vacancy rate of 18.10%. The Government A sector showed a headlease vacancy rate of 21.84%, which was directly impacted by provincial government budgets being drastically cut.



Office Supply
29,634,017



Downtown Vacancy
18.34%



Q1 2021 Downtown Office Absorption
-4,349 sf



Suburban Vacancy
18.94%



Q1 2021 Suburban Office Absorption
-1,437 sf



Cecil Place

Landlords who were willing to engage in negotiations were faced with some very difficult challenges. There were many examples of landlords agreeing to new blend and extend lease terms with existing tenants at reduced rental rates for existing terms with multiple years left. In the Financial A sector, new deals were being agreed to a mid to high teen rental rates, with improvement allowances as high as \$70.00 to \$80.00 per square foot and free early occupancy periods extending a full year out. In the Government District, some Class B landlords were willing to retain tenants at high single-digit rental rates.

Suburbs

The overall suburban vacancy rate increased slightly to 18.94%, up from 18.87%. The headlease rate was 17.42% and sublease rate at 1.52%. The largest suburban market, the Southside (3,178,202 sf), saw a slight decrease to 23.39%, down from 24.32% with the headlease and sublease vacancy rates dropping slightly to 19.4% and 3.99%. In the Westend market, the overall vacancy rate increased to 14.94%, up from 11.44%.

Virtually all this increase can be attributed to the headlease market, with a sublease vacancy rate of only .31%. The third-largest suburban submarket, Eastgate, saw a slight decrease in the vacancy rate from 23.65% down to 21.91%.

Sherwood Park

The Sherwood Park market is over 1,540,000 sf in size. It is usually a good barometer for measuring the health of the oil and gas market, because of the large service sector component that makes up the Sherwood Park office market. In Q1, 2021 the overall vacancy rate increased to 21.76%, up to two percent from the end of 2020. The headlease vacancy jumped to 21.76%, up from 17.66% with the sublease rate virtually unchanged.

Market Forecast

Downtown & Suburban Projections

Savvy office users with leases coming due in the next two to three years have recognized this time as a great opportunity to lock in very favorable lease terms.

No one can truly project when the pandemic will end, and this is what continues to delay decision-making on office space requirements. Until the future becomes clear, the market is going to continue to bump along at the same flat trajectory that has been happening for the last several quarters.

Vacancy rates will likely increase over the next few quarters; however, it seems, that Edmonton has fared the worst of the storm and that the current office market will probably be the strongest tenant market that users will experience in the next 5-10 years.

The use of office space will likely change, and there will be residual effects of the pandemic on the use of office space. Our society will likely see more remote working, however, to what is extent is not yet known. Numerous national and international surveys reveal that most participants surveyed would like to return to their office because of the stresses of working remotely. Many companies in various industries have realized the shortcomings of trying to mentor and train staff remotely, so remote working is not the end-all-be-all.

Very shortly, Canada is about to witness how a successful national vaccination program will impact

the recovery of the economy as the United States continues to vaccinate over three million citizens per day. It is safe to conclude that soon, the Edmonton economy will start opening and employees will begin returning to places of work. When this happens, Landlord rental expectations will likely increase, thereby widening the gap between landlord and tenant expectations in negotiations.

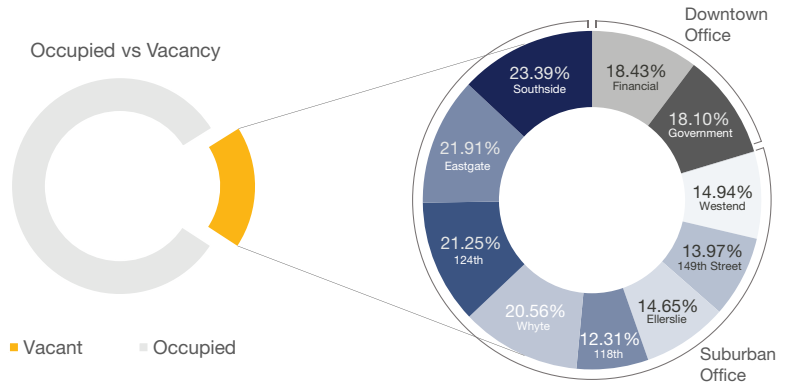
Savvy office users with leases coming due in the next two to three years have recognized this time as a great opportunity to lock in very favorable lease terms. As an exclusive tenant advisory provider, Cresa has been very effective at securing long-term cost-effective solutions for clients, that have positively contributed to their financial recovery while securing workspace that will meet their changing requirements. If possible, now is the time to take stock of your office requirements and engage your landlord and the market in discussions. For this exact reason, in the Financial District, there are a handful of larger users engaged in the market and with their landlords, examining what opportunities may exist, trying to take advantage of a very competitive market. Given the current market conditions, it is better to engage earlier rather than later.

Notable Transactions

<u>Tenant</u>	<u>Building</u>	<u>Area (sf)</u>
Bitcoin Well	Cecil Place	35,000 sf

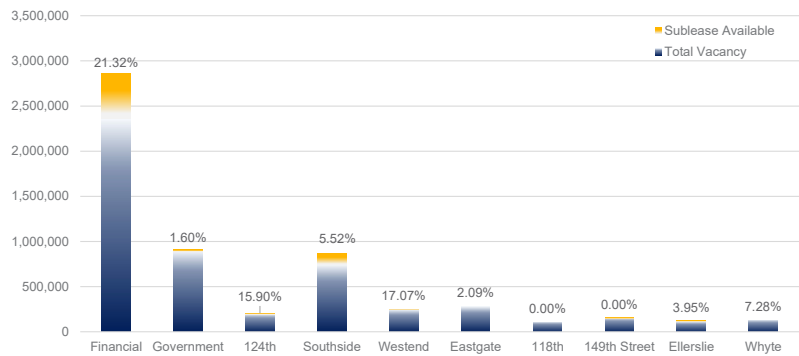
Current Office Vacancy

Overall, the greater Edmonton vacancy rates continue to rise.



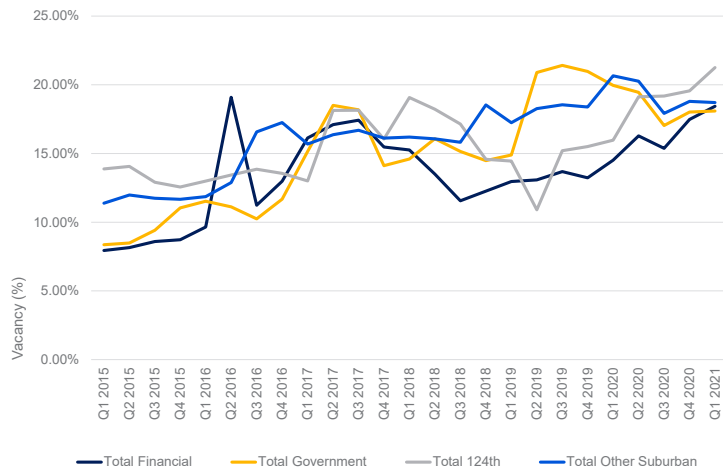
Sublease Vacancy Index

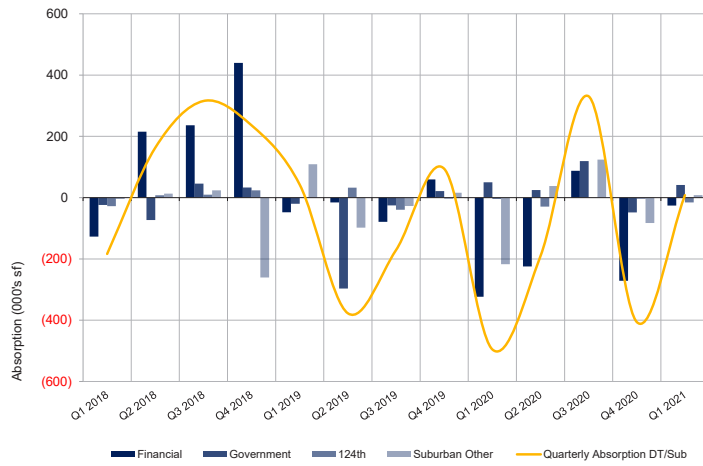
Over 72% of the entire greater Edmonton sublease market is located in class A & AA office towers in the Financial Core.



Comparative Historical Vacancy

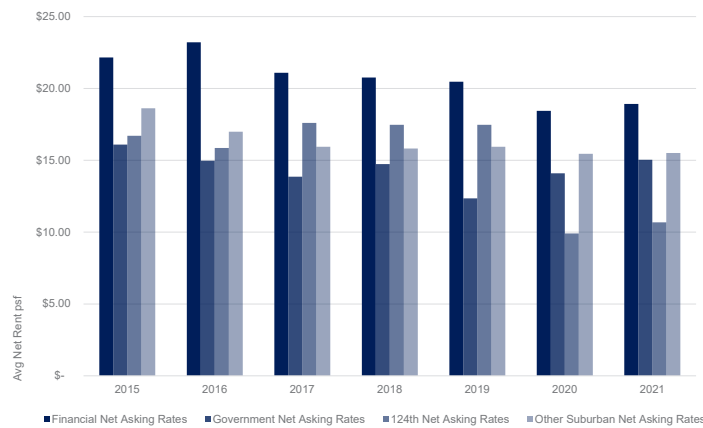
Vacancy continues to rise quarter over quarter and we anticipate this trend will not see an end any time soon.





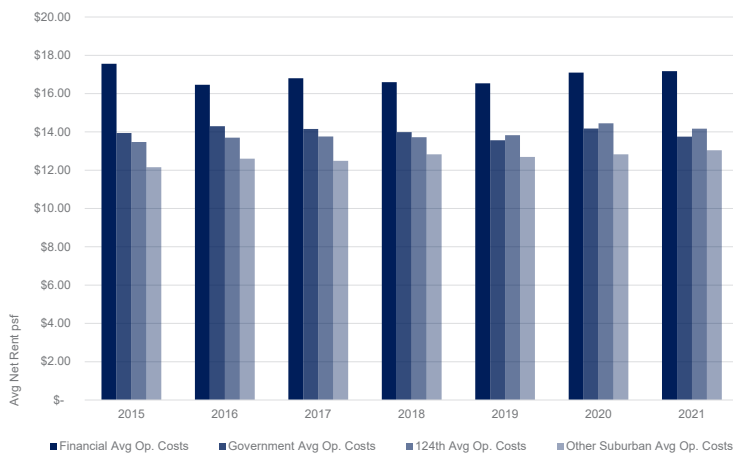
Historical Office Absorption

The Q1 2021 YTD absorption for the overall downtown market was -4,349, meaning not all of the vacancy can be absorbed in the market under the current market conditions.



Average Asking Net Rental Rates

Asking rates continue to hold steady, but tenant inducements continue to grow.



Average Historical Operating Costs

Operating costs have held steady in Q1 2021 with little indication that there will be further increases in the next 12 months.

Q1 2021 Vacancy Summary, Edmonton

SUBMARKET	TOTAL SPACE (sf)	LEASE (sf)	SUBLEASE (sf)	LEASE (%)	SUBLEASE (%)	TOTAL VACANCY
Financial AA	4,196,691	502,144	261,519	11.97%	6.23%	18.20%
Financial A	6,534,213	995,617	229,064	15.24%	3.51%	18.74%
Financial B	1,701,504	309,838	2,416	18.21%	0.14%	18.35%
Financial C	351,247	46,607	9,375	13.27%	2.67%	15.94%
Financial Total	12,783,655	1,854,206	502,374	14.50%	3.93%	18.43%
Government A	2,276,308	497,126	0	21.84%	0.00%	21.84%
Government B	2,330,765	356,745	10,337	15.31%	0.44%	15.75%
Government C	330,858	25,492	3,926	7.70%	1.19%	8.89%
Government Total	4,937,931	879,363	14,263	17.81%	0.29%	18.10%
DOWNTOWN TOTAL	17,721,586	2,733,569	516,637	15.43%	2.92%	18.34%
124th A	358,196	24,972	2,290	6.97%	0.64%	7.61%
124th B	444,968	121,140	2,868	27.22%	0.64%	27.87%
124th C	118,005	38,862	5,651	32.93%	4.79%	37.72%
124th Total	921,169	184,974	10,809	20.08%	1.17%	21.25%
Southside	3,178,202	616,492	126,932	19.40%	3.99%	23.39%
Westend	1,651,468	241,565	5,160	14.63%	0.31%	14.94%
Eastgate	1,267,512	277,721	0	21.91%	0.00%	21.91%
118th	863,454	106,318	0	12.31%	0.00%	12.31%
149th Street	1,091,900	146,533	6,024	13.42%	0.55%	13.97%
Ellerslie	774,227	105,176	8,259	13.58%	1.07%	14.65%
Whyte	622,328	127,967	0	20.56%	0.00%	20.56%
SUBURBAN TOTAL	10,370,260	1,806,746	157,184	17.42%	1.52%	18.94%
EDMONTON TOTAL	28,091,846	4,540,315	673,821	16.16%	2.40%	18.56%
Sherwood Park	1,542,171	329,470	6,071	21.36%	0.39%	21.76%
OVERALL EXISTING TOTAL	29,634,017	4,869,785	679,892	16.43%	2.29%	18.73%

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**Thinking
strategically.**

**Acting
objectively.**