



Q2 2021 Point of View

Edmonton Office Market

Table of Contents

1. Market Overview
2. Market Forecast
3. Additional Graphs and Tables
 - Current Office Vacancy
 - Sublease Vacancy Index
 - Comparative Historical Vacancy
 - Historical Office Absorption
 - Average Asking Net Rental Rates
 - Average Historical Operating Costs



Market Overview

Downtown & Suburban Office Market

It is still early days on the road to economic recovery, but confidence is quickly returning with more long-term optimism as reflected in an uptick in leasing activity in Q2 in the Greater Edmonton office market.

Q2, 2021 marked the beginning of the Covid recovery in the Alberta economy, with the surprisingly rapid and dramatic drop in Covid positivity rates. At the time of this writing, over 50% of Canadian citizens have been fully vaccinated with 79% having received one shot which is one of the highest vaccination rates in the world. In one word, the mood of the Alberta economy can be described as relieved.

It is still early days on the road to economic recovery, but confidence is quickly returning with more long-term optimism as reflected in an uptick in leasing activity in Q2 in the Greater Edmonton office market. Much of this was related to early lease renewals, driven by users hedging on changing market conditions and by users who had been previously delaying real estate decisions due to uncertainty.

The Greater Edmonton office market emerged from the pandemic in relatively good shape, with vacancy only slightly increasing to 19.64% from 18.97% in Q2. This overall rate includes headlease and sublease vacancy, with the headlease vacancy increasing to 16.96% from 16.17%, and the sublease vacancy decreasing slightly to 2.68% from 2.80%.

Downtown

The Downtown market is composed of Financial and Government Districts totaling 17,721,586 square feet. The headlease vacancy increased to 15.50%, while the sublease vacancy decreased slightly to 2.68%, for an overall vacancy rate of 18.18%.

In the Financial District (12,783,655 square feet), the overall vacancy increased to 18.26% from 17.77% with headlease vacancy increasing to 14.65% from 13.84%. The sublease rate decreased to 3.60% from 3.93%. The Financial AA vacancy decreased to 15.30% from 16.17% as the sublease rate decreased to 6.16% from 6.17%. The overall Financial A vacancy trended in the same direction with an increase of almost 2% to 20.55%. However, the sublease rate dropped to 2.91% from 3.51%.

Combined, these two financial sublease classes have over 490,583 square feet 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, Telus, and Enbridge looking to shed additional unused space.

Office Supply

29,091,846 sf



Downtown Vacancy

18.18%



Q1 2021 Downtown Office Absorption

3,847 sf



Suburban Vacancy

19.71%



Q2 2021 Suburban Office Absorption

-89,045 sf



Vacancy in the Government District dropped to 17.96% from 18.10%, with a headlease rate of 17.68% and sublease rate holding steady at .29%.

Suburbs

The overall suburban vacancy rate increased to 19.71%, from 18.26%. Headlease vacancy jumped to 18.14% from 15.86%, with a small sublease vacancy decrease to 1.57% from 2.40%. The largest suburban market, the Southside (3,178, 202 square feet), held steady at 23.55%, with very small changes in the headlease and sublease rates of 19.63% and 3.91%. 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, showed a .4% increase to 22.31%, all the vacancies being headlease space.

Sherwood Park

The Sherwood Park market is over 1,540,000 square feet in size. As mentioned in the Q1 report, Sherwood Park is a good barometer for measuring the health of the oil and gas market, with the large service sector and consulting component that makes up the Sherwood Park office market. Although oil prices have climbed over the last quarter very little movement took place in the vacancy rate, decreasing from 21.75% to 21.10%.

Notable Transactions

Tenant	Building	Area (sf)
Catholic Social Services	Alberta Park	27,000
Trans Mountain Pipeline	Voice Building	25,000
EP Financial	Devonian	10,000
Ballad Consulting	Bell Tower	8,005

Market Forecast

Downtown & Suburban Projections

Company culture and close employee interaction play a big role in the success of many organizations in delivering an effective service or product in their industry.

There are several trends to watch for over the next two quarters. Expect landlords to push back on rental rates and inducement expectations as they look to take advantage of the economic recovery. The market may continue to see a period of diverging tenant and landlord expectations before a new market equilibrium is reached. The vacancy was high pre covid and the only correcting force we are seeing is market optimism. If some landlords push too hard many others are willing to be more aggressive to fill long-term vacant spaces.

In the last month, inflation has occurred as the global supply chain geared up to meet increased spending and pent-up demand for electrical components and construction materials required for the reactivation of all facets of the global economy. While the price of lumber has started to drop, contractors are reporting increasing costs with all types of building materials required for the build-out of office space. In some cases, contractors have reported been given only 48 hours for firm price quotes for the purchase of materials. It is difficult to project how long this trend will occur; perhaps anywhere between five to six months.

In the private sector remote working and hybrid office space will emerge in the Edmonton office market, but likely not to the degree that has been anticipated by some experts. Despite hundreds of surveys showing a demand for remote working, the source of the surveys and who the people are that are being surveyed must be considered. Some employees may want to work remotely, but it is also readily apparent that many companies and firms expect their employees back in the office full time at some point soon.

Company culture and close employee interaction play a big role in the success of many organizations in delivering an effective service or product in their industry. Technology platforms like Zoom meetings and Microsoft Teams have limitations on achieving the type of employee interaction that many companies require to succeed.

Second, in larger suburban markets like Toronto and Vancouver, remote working and hybrid office layouts may play a bigger role simply because commuting is more difficult for employees compared to smaller centers like Edmonton and the cost of office space is much higher.

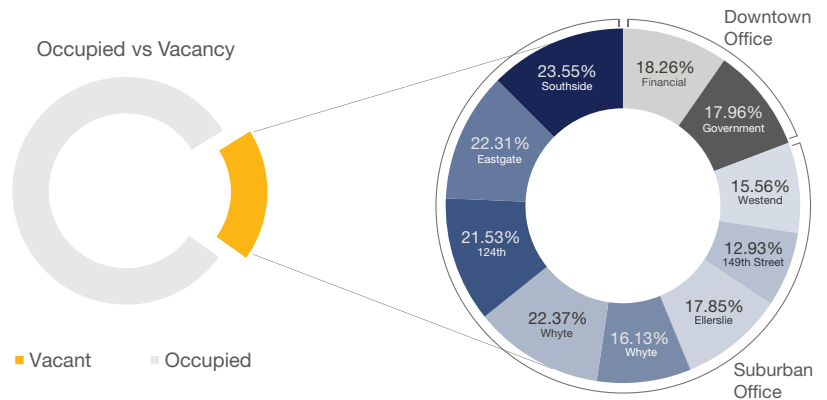
There is also a growing realization that reverting to remote working and hybrid office space could be a costly endeavor for companies as they try to appease the whims of employees wanting to work remotely part-time while retaining their own private space in the office. If employees are not open to shared workspaces and hotelling employers may not see any reduction in their need for office space.

Remote working may play a bigger role in the public sector with the Municipal, Provincial and Federal departments that lease office space. With most of these departments located in the core, what they choose to mandate for employees will have a significant impact on the recovery in downtown Edmonton. Government and government-related entities make up 40% of all office space in the downtown market.

If we want to see a vibrant downtown return, the three levels of government need to show leadership and mandate staff return to their offices.

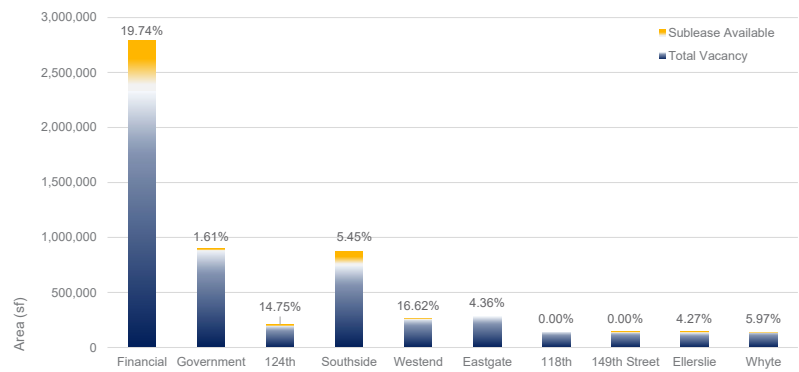
Current Office Vacancy

Overall, the greater Edmonton vacancy rates continue to rise across all sectors.



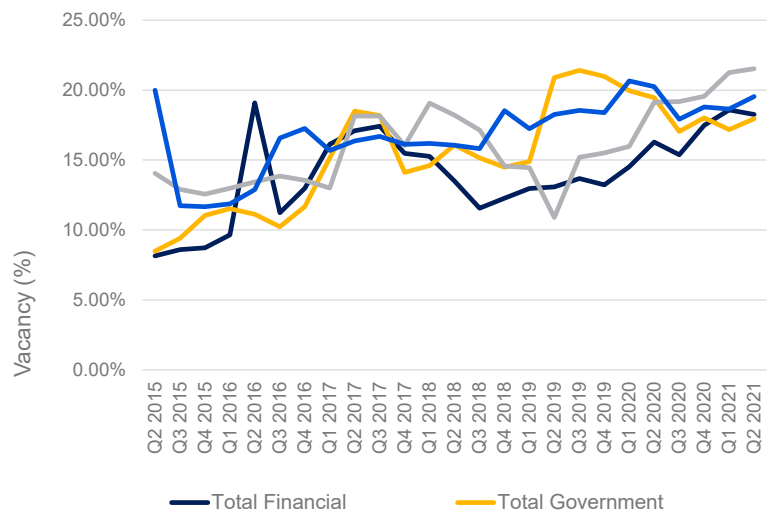
Sublease Vacancy Index

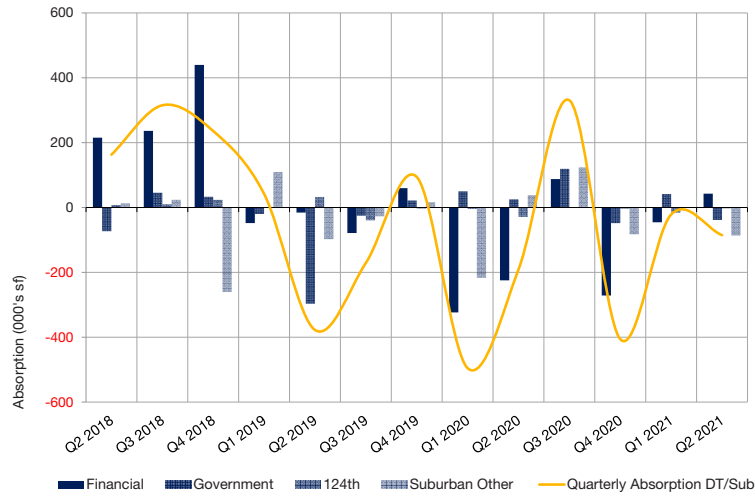
Over 72% of the entire greater Edmonton sublease market is located in class A & AA office towers in the Financial Core.



Comparative Historical Vacancy

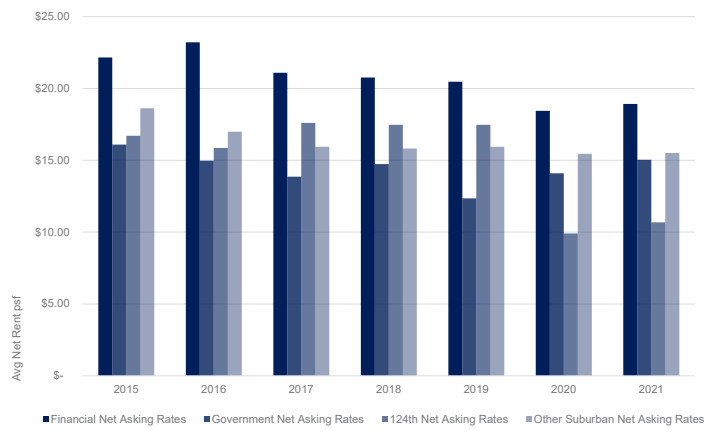
Vacancy continues to rise quarter over quarter and we anticipate this trend will not see an end any time soon.





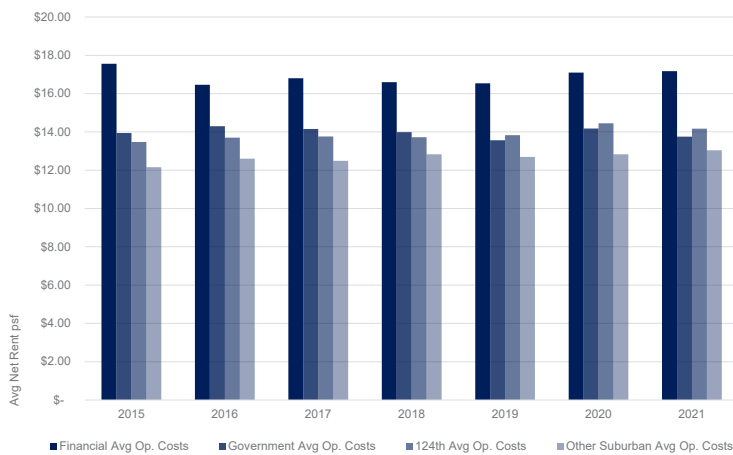
Historical Office Absorption

Q2 2021 YTD net absorption for the overall downtown market was -475, 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 Q2 2021 with little indication that there will be further increases in the next 12 months.

Q2 2021 Vacancy Summary, Edmonton

SUBMARKET	TOTAL SPACE (sf)	LEASE (sf)	SUBLEASE (sf)	LEASE (%)	SUBLEASE (%)	TOTAL VACANCY
Financial AA	4,196,691	383,954	258,342	9.15%	6.16%	15.30%
Financial A	6,534,213	1,152,600	189,977	17.64%	2.91%	20.55%
Financial B	1,701,504	299,007	2,977	17.57%	0.17%	17.75%
Financial C	351,247	37,612	9,375	10.71%	2.67%	13.38%
Financial Total	12,783,655	1,187,173	460,671	14.65%	3.60%	18.26%
Government A	2,276,308	501,491	0	0	0.00%	20.03%
Government B	2,330,765	350,881	10,337	15.50%	0.44%	15.50%
Government C	330,858	20,450	3,926	6.97%	1.19%	7.37%
Government Total	4,937,931	872,822	14,263	17.68%	0.29%	17.96%
DOWNTOWN TOTAL	17,721,586	2,745,995	474,934	15.50%	2.68%	18.18%
124th A	358,196	24,972	2,290	6.97%	0.64%	7.61%
124th B	444,968	123,657	2,868	27.79%	0.64%	28.43%
124th C	118,005	38,862	5,651	32.93%	4.79%	37.72%
124th Total	921,169	187,491	10,809	20.35%	1.17%	21.53%
Southside	3,178,202	624,025	124,359	19.63%	3.91%	23.55%
Westend	1,651,468	245,772	11,213	14.88%	0.68%	15.56%
Eastgate	1,267,512	282,774	0	22.31%	0.00%	22.31%
118th	863,454	139,317	0	16.13%	0.00%	16.13%
149th Street	1,091,900	135,186	6,024	12.38%	0.55%	12.93%
Ellerslie	774,227	129,967	8,259	16.79%	1.07%	17.85%
Whyte	622,328	136,798	2,444	21.98%	0.39%	22.37%
SUBURBAN TOTAL	10,370,260	1,881,330	163,104	18.14%	1.57%	19.71%
EDMONTON TOTAL	28,091,846	4,627,325	638,038	16.47%	2.27%	18.74%
Sherwood Park	1,542,171	319,304	6,071	20.70%	0.39%	21.10%
OVERALL EXISTING TOTAL	29,634,017	4,946,629	644,109	16.67%	2.17%	18.87%

CONTACT INFORMATION

TRANSACTION MANAGEMENT ADVISORY TEAM

Byron Wakeling
780.993.2367
bwakeling@cresa.com

Todd Walker
780.952.8331
twalker@cresa.com

Nicholas Farnden
780.938.7343
nfarnden@cresa.com

Cresa
10088 - 102 Avenue, Suite 1409 | Edmonton, AB T5J 2Z1
main 780.900.8781

606 - 4 Street SW, Suite 1400 | Calgary, AB T2P 1T1
main 403.571.8080

cresa.com

Cresa is an international corporate real estate advisory firm that exclusively represents tenants and specializes in the delivery of fully integrated real estate services, including: Workplace Intelligence, Transaction Management, Project Management, Consulting, Lease Administration, Location Strategy & Economic Incentives, Facilities Management, Global Portfolio Solutions and Investment Banking. For more information, visit www.cresa.com.

Even though obtained from sources deemed reliable, no warranty or representation, express or implied, is made as to the accuracy of the information herein, and it is subject to errors, omissions, change of price, rental or other conditions, withdrawal without notice, and to any special listing conditions imposed by our principals.

All material in this publication is, unless otherwise stated, the property of Cresa. Copyright and other intellectual property laws protect these materials. Reproduction or retransmission of the materials, in whole or in part, in any manner, without the prior written consent of Cresa is strictly prohibited.

cresa 



**Thinking
strategically.**

**Acting
objectively.**