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## **URBAN VERSUS SUBURBAN: THE GREAT DEBATE**

### **The Case for Building in the 'Burbs?**

While the overall office market in Halifax showed some weakness over the past year, with vacancy increasing from 7.71% in 2011 to 8.21% in 2012, the most dramatic change is occurring in Class A office space, as demand follows new supply from downtown to the suburbs. If the downtown is the heart of the city, can the city survive the suburban drain? That is the question raised from the latest of six rental surveys recently completed by Halifax real estate counsellors Turner Drake & Partners Ltd.

The surveys are thought to be the most comprehensive ever conducted in HRM: a team of trained researchers collected rental, operating expense and vacancy data for 301 office and industrial buildings, some as small as 5,000 ft.<sup>2</sup>, with an aggregate rentable area of over 18.0 million ft.<sup>2</sup>.

The Class A vacancy rate in the Central Business District rose 5.31 percentage points to 11.85%, and net rents dropped almost 6%, from \$18.71/ft.<sup>2</sup> to \$17.63/ft.<sup>2</sup>. Meanwhile, the opposite is occurring in the suburbs. The Class A vacancy rate in suburban Halifax decreased by 3.49 percentage points to 7.04%: and net rents enjoyed a small increase, from \$16.14/ft.<sup>2</sup> to \$16.88/ft.<sup>2</sup>. Vacancy is one of the triggers of an increase in the rental rate. So too is new construction: shiny new space commands a rental premium. Add in lower property taxes and cheaper operating costs for new, energy efficient buildings and you've got a strong case for developing in the suburbs. Class A gross rents downtown versus in the suburbs back this up: in the CBD, where operating costs are climbing, landlords must pay out 48% of the total rent collected for bills. In suburban Halifax, however, the percentage of gross rent which covers operating expenses is just 41%, meaning landlords pocket an extra 7% of gross rent in the suburbs versus downtown.

Turner Drake & Partners Ltd. is a multi-disciplinary firm of real estate consultants offering valuation, property tax, counselling, economic intelligence, and Lasercad™ space measurement advice, throughout Atlantic Canada; together with brokerage (sales and leasing) services in Nova Scotia, New Brunswick and Prince Edward Island.

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