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NET RENTAL RATE = VACANCY RATE IN CHARLOTTETOWN Both among highest in Maritimes

The Region's smallest major city boasts the highest average net rental rate for office space in the Maritimes – and the second highest vacancy rate, too. How long can the City sustain this imbalance? That is the question raised from the latest of seven rental surveys recently conducted throughout the six major city centres in Atlantic Canada.

The surveys are thought to be the most comprehensive ever conducted in Greater Charlottetown: a team of trained researchers collected rental, operating expense and vacancy data for 31 office and warehouse buildings, some as small as 5,000 ft.², with an aggregate rentable area of over 1.0 million ft.².

Each of the overall office vacancy and net rental rates increased in Charlottetown this year, defying the market forces which generally indicate that the two are inversely correlated. The units are different, but the figures are almost the same: vacancy, up 2.65 percentage points, now sits at 14.77%, second highest only to Saint John. Surprisingly, the city also boasted a 4.65% increase in the net rental rate, which now sits at \$14.64/ft.², the highest overall in the Maritimes. It is arguably the sort of situation which could only occur in a market small enough that a handful of lease transactions can have a significant impact on the overall figures, and one in which landlords can stand together to prevent net rent decreases in spite of high vacancy. It is a situation which has played out before: the 1990 recession saw rental rates crash in the region's largest city, Halifax, where a few Class A landlords could no longer tolerate paying the operating expenses on vacant office space. Net rents dropped into negative territory, with landlords effectively paying tenants to locate in their buildings, provided they picked up their share of the operating expenses. In turn, the rental rates came down in buildings across the city in order to prevent an exodus of tenants to the "free" Class A space. The smaller centres in the Maritimes, however, did not suffer the same fate: here landlords stood firmly together to prevent a drop in market rents. Whether this is the current situation in Charlottetown cannot presently be confirmed, but one thing is clear: the city's office market is not responding as "expected" to the laws of supply and demand.

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If you would like more information about this topic, or wish to schedule an interview with Mark Farrow, please call him at (902) 368-1811 ext. 324 or email mfarrow@turnerdrake.com.