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## **OFFICE RENTS AND VACANCY UP IN ST. JOHN'S** **Which way in the market headed?**

The St. John's office market has been the darling of Atlantic Canada for more than five years, but 2012 saw the vacancy rate creep upwards at a rate comparable to other Atlantic Canadian cities. Is this the beginning of a downturn, or simply a case of new supply temporarily outpacing new demand? That is the question raised from the latest of fourteen 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 St. John's: a team of trained researchers collected rental, operating expense and vacancy data for 168 office and warehouse buildings, some as small as 5,000 ft.<sup>2</sup>, with an aggregate rentable area of over 5.5 million ft.<sup>2</sup>.

The overall vacancy rate for office space increased in all six of the major cities in Atlantic Canada in 2012, by a total of 3.14 percentage points. St. John's was no exception this time around: the overall vacancy rate for the City increased by 2.01 percentage points to 5.46%. Four percent is effectively full occupancy, since the vacant space is distributed across multiple buildings: this is the first time since 2009 that the vacancy rate in St. John's has risen above the 4% mark. Economic cycles mean that new construction often begins at the peak of the market, with new space entering the rental market just in time for a downturn. With cranes dotting the skyline of St. John's at the present, and demand slipping moderately in 2012, it is to be hoped that such is not the case in the capital city. Thus far, one positive sign has been the net rental rate: inversely correlated with the vacancy rate, net rents posted overall gains in line with the trend of the past four years, increasing 6.31% to \$17.01/ft.<sup>2</sup>. Still the highest in Atlantic Canada, St. John's boasts a \$3.40/ft.<sup>2</sup> premium over that of the region's largest city, Halifax, and \$3.28/ft.<sup>2</sup> premium for Class A space versus Halifax. However, with new space scheduled to come to market in the next year, landlords of Class C space in particular would do well to keep an eye on demand, as tenants will look to move up the ladder in the event surplus office space is sufficient to push down the net rental rate.

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