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ST. JOHN'S OFFICE MARKET CATCHING UP TO HALIFAX

Does the increasing strength of the St. John's market threaten Halifax's downtown?

A comparison between the two capital cities emphasizes the growth in St. John's is in contrast to the slowing of the Halifax office market. That is the conclusion from the latest of nine 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 138 buildings, some as small as 10,000 square feet, with an aggregate rentable area of over 10 million square feet.

Overall vacancy in the Halifax office market climbed in 2010, from 7.4% in 2009 to the current 7.6%. In contrast, St. John's NL saw its vacancy rate drop from 4.5% to 3.9% during the same period. Both cities saw an increase in their average net rental rate, though the increase for St. John's was much more dramatic: up 5.6%, to \$14.36/ft², versus 1.6%, to \$13.28, for Halifax. The Newfoundland capital's average net rental rate is now 8% higher than Halifax's, compared to a 4% spread in 2009. To ensure an "apples to apples" comparison, we zoomed in on downtown, Class A office space for each market, and here Halifax still holds the edge, though maybe not for long. The vacancy rate for this sub-category in Halifax rose, from 2.8% in 2009 to 4.7% in 2010, while the rate in St. John's bottomed out: it now sits at 0%, down from 0.4% in 2009. The net rental rate in downtown Halifax saw no movement at all in the past year, remaining stagnant at \$18.86/ft². In St. John's, there was a 7.7% increase, to \$17.50/ft² - still below that of Halifax, but catching up. In fact, since June 2006, the first year Turner Drake conducted this survey, St. John's has experienced an average annual compound increase in the rental rate for downtown Class A office space of 5.5%, versus 4.6% in Halifax. This has resulted in the spread between the two cities shrinking from 11.5% then to 7.8% now. Is growth in St. John's occurring at Halifax's expense? With talk of new office construction for the downtowns of both cities, the race is on to see where developers will build first. If it is a question of one or the other, St. John's is still behind Halifax in terms of net rents, but may prove to be the dark horse as the city's overall net rental rate is projected to increase, while the slight contraction forecast for Halifax in the year ahead could make all the difference.

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.

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