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DOWNTOWN HRM OFFICE SPACE GAINS POPULARITY

Does the future for the Central Business District hold a construction boom?

The geographic divide between rental rates and vacancy trends for HRM's office submarkets is widening and, prior to the recession, downtown space was starting to approach the rental premium it commanded before the 1990 recession, but its future may not be so rosy. That is the conclusion from the latest of seven 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 132 buildings, some as small as 10,000 square feet, with an aggregate rentable area of over 10 million square feet.

The vacancy rate for office space in HRM is up in four of the six major submarkets, bringing the overall vacancy rate from 6.3% in 2008 to 7.4% in June of this year. The gap between low vacancy on the Peninsula and higher vacancy in other areas continues to widen, from just 1 percentage point in 2005 to almost 8 percentage points in 2009. After the 1990 recession, there was a sea change in demand for office space, with tenants favouring less expensive suburban space over a central location. Fast forward two decades and it looks like the trend is reversing. Class A space is the premium space in its market, and the best indicator of tenant preferences. The rental rate for Class A space on the Peninsula has climbed 21.3% since 2005, accompanying a drop in the vacancy rate from 7.2% to just 2.8%. In other areas of the city, it's a different story: a rising vacancy rate – from 4.6% in 2005 to 7.5% today – and a rental rate increase of just 2.7%. Class A offices on the Peninsula now command a 19.7% premium over suburban areas, contrasted with a 1.3% premium in 2005. But the average \$18.57/ft.² net rent on the Peninsula remains shy of the reported \$25-\$30/ft.² needed to make construction feasible, and the overhang from increasing sublease space will keep the rental rates from rising. The 1990 recession changed the dynamic of the office rental market in Halifax; the direct impact on the downtown was felt for 7 years. The city will not emerge unscathed from the current recession: exactly what the full effects will be remains to be seen, but it is likely to be some time before many cranes are seen on the city skyline.

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

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If you would like more information about this topic, or wish to schedule an interview with Alexandra Baird Allen, please call her at (902) 429-1811 ext. 316 or email abairdallen@turnerdrake.com.