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HRM: OVERWHELMED BY SUPPLY

Overall vacancy increases as new space continues to outpace demand

Halifax's office market weakens as new supply exceeds current demand. With additional supply coming to market throughout the City, how are submarkets, like Bedford or Burnside, comparing to the downtown core ... and what's in store for the year ahead? These are the questions raised from the latest of sixteen 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 298 office and industrial buildings, some as small as 5,000 ft.², with an aggregate rentable area of over 18.5 million ft.². The survey successfully collected information on 95% of the rental stock polled.

The overall vacancy for Halifax office space rose 3.24 percentage points from 8.53% in 2013 to 11.77% in 2014. This is mainly due to the large amount of new office space entering the market, especially in Bedford, Burnside/City of Lakes and Central Halifax (i.e. downtown). As a result of the new available space, the overall vacancy rate for Class A office space in Halifax almost doubled, rising 6.76 percentage points over the past twelve months from 7.43% to 14.19%. This is the largest increase in vacancy in Atlantic Canada and was driven by year-over-year increases in vacancy in five of the eight sub-markets surveyed. Only two submarkets have overall vacancy rates below the 10% mark: Central Halifax (9.79%) and suburban Halifax (6.00%). But even the relatively healthy-seeming downtown market is jeopardy in the year ahead: the cranes on the city skyline foretell more new supply coming to market. The overall vacancy rate in this submarket is held in check only by the 6.20% Class B vacancy rate: Class A and Class C are at 15.96% and 18.19%, respectively. New supply is forecast to outpace increases in demand, and tenants for the new buildings are likely to come from older Class A stock, or to move up from Class B space, with the trickledown effect resulting in increased vacancy across all classes of office space. How do the suburbs compare? Bedford has the highest overall vacancy at a whopping 32.97%, followed by Burnside/City of Lakes (16.54%), each of which has vacancy relatively evenly distributed across all classes of space. The overall vacancy for Halifax's Class B and C office space increased to double-digit territory as well, climbing 1.43 and 5.78 percentage points, respectively, to 10.63% and 12.46%. All told, seven of the eight sub-markets surveyed saw an increase in vacancy (only the suburban Halifax market dropped, from 9.09% in 2013). As for net rental rates, Class A showed some weakness, dropping (albeit only a cent) to \$17.46/ft.²; Class B increased 3.29% to \$13.51/ft.²; and Class C's rental rate increased 2.12% to \$11.07/ft.². Overall, the net rental rate climbed 3.39% to \$14.02/ft.².

Turner Drake & Partners Ltd. is a multi-disciplinary firm of real estate consultants offering valuation, property tax, counselling, planning, 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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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. 323 or email abairdallen@turnerdrake.com.