



Contact: Alexandra Baird Allen
Tel: (902) 429-1811 Ext. 323
Email: abairdallen@turnerdrake.com
Website: www.turnerdrake.com

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HRM OFFICE VACANCY STILL ON THE RISE

The office vacancy rates in Halifax's Central Business District are continuing to climb. Despite a slight drop, Class A vacancy remains unsustainably high, while each of Class B and C vacancies increased. The numbers suggest Class B and C tenants are seizing the opportunity to move to Class A spaces as rental rates stagnate. These are just some of the conclusions reached by Turner Drake & Partners Ltd. as part of their Atlantic Canada June 2016 surveys.

The surveys are thought to be the most comprehensive ever conducted in the HRM: a team of trained researchers collected rental, operating expense and vacancy data for 317 office and warehouse buildings, some as small as 5,000 ft.², with an aggregate rentable area of more than 19.2 million ft.².

As vacancy rises, net rents slow, stagnate and even decline. Evidence of falling rental rates is emerging in some submarkets for some classes of office space, including the average net rental rate for Class A space, which dropped sixteen cents to \$17.28/ft.², though the overall average net rental rate/ft.² did increase slightly year over year, by six cents, to \$14.17/ft.².

HRM-wide, Class A vacancy dropped from 17.01% in 2015 to 15.96% in 2016. Class B and C vacancies both increased. Coupled with falling Class A rents, this suggests Class A space is capturing tenants away from Class B and C spaces. Class B vacancy climbed slightly from 12.52% to 14.91% as average net rents remained unchanged. Class C vacancy jumped from 13.36% to 17.85%, despite (or perhaps because of) a slight increase in the average net rental rate.

What will happen next? The overall vacancy is set to continue increasing in the next year as new space such as the Nova Centre is brought on stream. Increased supply will be met by moderate demand, exerting downward pressure on rental rates for Class B and C spaces but moderated by the fact that top-notch Class A space will buoy the overall average rates. This renters' market represents an excellent opportunity for tenants looking to locate in the city.

Turner Drake & Partners Ltd. is a multi-disciplinary firm of real estate consultants offering valuation, property tax, counselling, economic intelligence, planning and Lasercad™ space measurement advice, throughout Atlantic Canada and Ontario; 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 (902) 429-1811 ext. 323 or email abairdallen@turnerdrake.com.