Our Ref: 1710616:SMC/ABA

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Press Release

RENTAL RATES FALL AS ST. JOHN'S OFFICE VACANCY SOARS

Leonard Cohen found the bright side when he said, "there's a crack in everything: that's how the light gets in." That crack may mean tenants looking for office space or renewing leases in St. John's may find themselves on the right side of a good deal on the rent…with plenty of space to choose from now that one-fifth of the office space downtown is vacant. New construction spurred by high oil prices and cheap money increased the supply of office space in the city by 22% over the past 5 years, and by 31% in the downtown Central Business District (CBD). These are the conclusions from the latest of 23 rental surveys recently completed by Atlantic Canadian real estate counsellors Turner Drake & Partners Ltd.

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 84 office buildings, some as small as 5,000 $ft.^2$, with an aggregate rentable area of over 3.8 million $ft.^2$

When oil prices began to drop three years ago, the office sector of St. John's at first appeared unscathed, with vacancy falling between 2014 and 2015 to bottom out in June 2015 at 4.84% overall, and just 3.83% in the CBD. Since then, the market has been hard hit: overall, rental offices are now 17.77% vacant. It's even worse in the CBD, where Class A vacancy climbed from 1.94% in June 2015 to 20.02% in June 2017. The overall CBD vacancy rate is now 20.31%...one-fifth of the space is empty. Now, tenants are starting to see the silver lining of a high vacancy rate: lower net rental rates. Vacancy is a product of supply and demand. Upward pressure on vacancy stems from falling demand (-2.9% year over year) and increasing supply (+ 4.7% year over year). High quality new space being brought to market has tempered the fall in net rents, but cracks are starting to appear. In the city overall, average net rents for Class A space fell 4.08% to $23.26/$ft.^2$, though Class B increases were sufficient to push the overall net rental rate up by 0.64% to $18.97/$ft.^2$. The CBD did not fare so well, with Class A rents dropping 6.68% to $26.96/$ft.^2$ and overall rents falling 3.77% to $21.46/$ft.^2$ – still the highest rates in Atlantic Canada, but now tracking in the tenants' favour. With the economy continuing to languish, it is likely that the market will see overall average rents decrease in the year ahead.

Turner Drake & Partners Ltd., a "home grown" Atlantic Canadian company, has provided real estate advice for over forty years. From their offices in Halifax, St. John's, Charlottetown, Saint John and Toronto they provide tenants and landlords with leasing, property tax, valuation, counselling, planning, economic intelligence, and Lasercad® space measurement advice.

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If you would like more information about this topic, or wish to schedule an interview with Matthew Smith, please call (709) 722-1811 ext. 316 or email msmith@turnerdrake.com.