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Press Release

TENANTS REAP THE REWARD OF RISING VACANCY

The impact of steeply climbing vacancy rates in the St. John's rental office market is now being felt in the net rental rate. Overall office vacancy climbed to 15.57% in December 2017, up from 12.98% a year ago, and is now the highest of the six major centres in Atlantic Canada. Driven by a construction boom which started when oil prices were high, but which saw buildings coming on stream just as oil prices tumbled and the economy contracted accordingly, there is now a surplus of vacant office space, especially in the top two tiers, Class A and B. Class A vacancy climbed from 12.48% in December 2016 to 14.99% in December 2017, while Class B vacancy went from 13.82% to 16.67% over the same period. Class C, which represents a much smaller inventory to start with, saw vacancy increase from 12.62% to 14.90%.

Tenants are now seeing the silver lining of a high vacancy rate: lower net rental rates. Vacancy is a product of supply and demand; upward pressure on that rate stems from increasing supply (3.1% year over year) outpacing increasing demand (0.04% year over year). As leases are typically 3 to 5 years, it can take some time before the impact of the slowing economy and increased size of the office market is felt in the net rental rate, especially since high quality new space being brought to market had prevented net rents from falling on average overall. But in 2017, the overall net average net rental rate per square foot fell 1.26%, from \$19.05 to \$18.81. The sharpest decline was for Class A space, which dropped 4.51% from \$23.71/ft.^{2} to \$22.64/ft.^{2}. Class B nudged upward slightly, by less than a percent from \$17.95/ft.^{2} to \$18.09/ft.^{2}, while Class C saw a drop from \$16.11/ft.^{2} to \$15.97/ft.^{2} (-0.87%).

The downtown submarket reflected the overall market to the extreme: here, overall vacancy jumped from 16.95% to 21.81% and the average net rent per square foot fell 6.86% from \$21.86 to \$20.36. Class A vacancy shot up to 21.42% from 15.08% a year ago, with net rental rates dropping 8.15% from \$28.46 on average per square foot to \$26.14 – still the highest in Atlantic Canada. Class B space continues to languish with 43.05% vacancy, up from 40.06% a year ago; the net rental rate fell for the second consecutive year, from \$16.86/ft.^{2} in 2016 to \$15.19/ft.^{2} in 2017, an 8.15% decrease. At first glance, Class C appears to have fared better, with vacancy dropping from 22.74% to 19.12% and the net rental rate inching up 0.72% to \$16.79/ft.^{2} from \$16.67/ft.^{2} …but given that this is on average now higher than the rental rate for Class B, it is clearly unsustainable. Tenants should watch the market carefully for opportunities to lock in leases at bargain rates as vacancy remains high.

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.