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Press Release

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OFFICE VACANCY TOPS 20% IN ST. JOHN'S

The office vacancy rate in St. John's rose again year over year, and now sits at 20.01% overall, up from 18.01% a year ago. The St. John's market is broken down into 5 submarkets: 2 of them enjoyed falling vacancy between June 2017 and June 2018, whilst the other 3, including the St. John's Central Business District (CBD), saw increases. This marks the third straight year of vacancy increases for the city, which had a balanced market as recently as 2015, indicated by a vacancy rate of 4.96%. This is also the third year of the province's three-year assessment cycle, so landlords will have the opportunity to seek reductions in their assessed property values, reflective of the weakened economic conditions since the last assessment date.

These are the conclusions from the latest of 25 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 St. John's: a team of trained researchers collected rental, operating expense and vacancy data for 85 office buildings, some as small as 5,000 ft.², with an aggregate rentable area of almost 4 million ft.²

The St. John's East & West and Mount Pearl submarkets were the two submarkets to see vacancy drop year over year. East & West saw a drop from 13.44% to 12.18%. Mount Pearl, a small submarket comprising just 8% of the total rentable office space in Greater St. John's, enjoyed a 4 percentage point drop in vacancy...but with a starting point of 40.70%, vacancy remains sky-high at 36.69%. The 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, is felt particularly in each of Downtown and North St. John's. Recent years have seen additions to supply in excess of 300,000 ft.² in each of these submarkets, resulting in a Downtown vacancy rate of 26.97%, up from 20.31% a year ago, and a vacancy rate of 17.75% in North St. John's, similar to the 17.52% a year ago. The small Central submarket, which represents just 9% of the overall market in terms of rentable area, has the city's healthiest vacancy rate, at 6.78%, up from 3.50% a year ago.

The construction boom of recent years has led to an overall increase of Class A space, as well as an increase in the proportion of the total market which is Class A space. In 2013, Class A space represented 49.15% of the total gross leasable area (GLA) in the office market, while Class B accounted for 35.98% and Class C just 14.87%. In 2018, Class A makes up 51.80% of the total GLA, while Class B comprises 36.21% and Class C, 11.99%. Year over year, vacancy by class of office space in the overall St. John's market rose for Class A and C and remained stable for Class B. Class B vacancy dropped from 15.87% in 2017 to 15.86% in 2018. Class A, which had the largest increase in inventory, increased from 19.58% to 23.06%, while Class C climbed from 17.79% to 19.37%. Vacancy and rental rates are correlated: increasing vacancy puts downward pressure on the net rental rate. There is evidence of this at play in the St. John's market, where the overall average net rental rate dropped 1.00% from \$19.07/ft.² to \$18.88/ft.². Class A saw its net rental rate drop from \$23.01/ft.² to \$22.55/ft.² and Class B went from \$18.18/ft.² to \$18.11/ft.². Only Class C held steady, with the average net rental rate remaining unchanged at \$16.00/ft.². These average net rental rates remain the highest in Atlantic Canada.

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 landlords and tenants with property tax, valuation, counselling, planning, economic intelligence, Lasercad® space measurement and commercial brokerage advice.

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If you would like more information about this topic, or wish to schedule an interview with Greg Kerry, please call him at (902) 429-1811 ext. 332 or email gkerry@turnerdrake.com.