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**Press Release**

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# DOWNTOWN ST. JOHN'S OFFICE VACANCY OVER 25%

The office vacancy rate in St. John's rose again year over year, and now sits at 17.21% overall, up from 15.96% a year ago. The St. John's market is broken down into 5 submarkets: two of them enjoyed falling vacancy between December 2017 and December 2018, whilst the other 3, including the St. John's Central Business District (CBD), saw increases. This marks the fifth straight year of vacancy increases for the city, which had a balanced market as recently as 2014, indicated by a vacancy rate of 4.97%. 2019 is the first year of the province's three year assessment cycle and diligent owners of property in the City of St. John's still have the opportunity to seek reductions in their assessed property values, reflective of the weakened economic conditions since the last assessment date, provided they act quickly: the appeal period deadline is January 31st at midnight.

These are the conclusions from the latest rental market 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 88 office buildings, some as small as 5,000 ft.², with an aggregate rentable area of almost 4 million ft.²

The two smallest submarkets in St. John's, Central and Mount Pearl, each saw vacancy drop year over year. Central fell from 10.83% to 7.37%. Mount Pearl enjoyed a 6 percentage point drop in vacancy, from 16.57% to 10.41%. Together, these submarkets represent less than 20% of the total gross leasable area (GLA) in the rental market. 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 the remaining submarkets. Recent years have seen additions to supply totalling over 800,000 ft.² in these submarkets, resulting in a Downtown vacancy rate of 26.69%, up from 22.15% a year ago, a vacancy rate of 16.31% in North St. John's, up from 14.85% a year ago, and a comparatively moderate 11.12% vacancy rate in the East & West submarket, up from 10.17% in 2017.

Office buildings are categorised by class. Class A buildings command the highest rents in their community and have distinctive design and lobbies. Class B buildings offer "no frills" modern, air conditioned space. Class C buildings make up the remainder of the office rental market. Year over year, Class A vacancy climbed from 14.99% to 19.26%. Classes B and C fared better, with vacancy for Class B space dropping from 17.06% to 14.77% and from 16.92% to 15.91% for Class C. Vacancy and rental rates are correlated: falling vacancy typically pushes the net rental rate upwards, but the reverse may also be true, and a falling rental rate may attract new tenants and thereby push vacancy downward. St. John's may be in a period of stasis as the tipping point is reached: overall average net rents barely moved over the past year, edging up just 0.16%...or 3 cents per square foot. On average, Class A rents held steady at $22.64/ft.²; Class B rents dropped slightly to $18.34/ft.² from $18.40/ft.²; and Class C rents lost a penny per square foot, settling at $15.40/ft.². These average net rental rates remain the highest in Atlantic Canada. Downtown Class A space represents the hallmark of the city: the average net rental rate for it declined for the third year in a row, from a peak of $28.79/ft.² in 2015 to $25.86/ft.² in 2018.

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.