

Our Ref: 2115566:LNW/ABA

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Press Release

ATLANTIC CANADIAN OFFICE & WAREHOUSE MARKETS: ROAD TO RECOVERY?

Office markets in most of Atlantic Canada appear to be on the road to recovery, emerging from the pandemic relatively unscathed. The region's warehouse markets are in some cases better off now than they were prior to the pandemic, with consumers reallocating their travel budgets to shopping online and home renovation projects.

These are the conclusions from the latest rental market surveys completed by Halifax real estate counsellors Turner Drake & Partners Ltd. The surveys are thought to be the most comprehensive ever conducted in Atlantic Canada: a team of trained researchers collected rental, operating expense and vacancy data for 852 office and industrial buildings, some as small as 5,000 ft.², with an aggregate rentable area of over 40 million ft.², located in the region's six major cities.

Sixteen months after Covid-19 sent us scrambling to set up home offices and embrace the appearance of kids and pets at online meetings, discussion remains focussed on "will they, or won't they?" with regard to workers returning to offices. The consensus (at the moment) seems to be that "yes, they will", albeit possibly in a modified format with enhanced flexibility to work from home some of the time. Office landlords may have escaped the direst predictions of an office-free world – though we do note that since typical office leases are on a 5-year term, we may not know the full impact of the pandemic for another few years yet.

In Atlantic Canada, half of the six major office markets saw demand recover from the reduced levels of last year. In Halifax demand jumped from a year-over-year change of 0.5% between 2019 and 2020, to 11.9% between 2020 and 2021. Moncton climbed 6.7%, versus a 0.1% increase the year prior, and in Charlottetown, demand rebounded from a -0.5% change in 2020 to 2.9% growth in 2021. Fredericton's growth, at 3.0% for 2021, was slightly below the 3.5% for 2020. Demand contracted in each of Saint John and St. John's. The Port City lost ground they gained in the first year of the pandemic: a 3.1% increase in 2020 flipped to a -6.7% decline in 2021, while the Newfoundland capital picked up the pace of declining demand for rental office space, from -2.6% in 2020 to -3.5% in 2021.

Supply (up in every city except Saint John) minus demand leads to the vacancy rate: the latest figures on office space show Charlottetown at the head of the pack, with 7.52% vacancy, down from 8.50% a year ago. Fredericton is also in the single digit club, despite a jump to 9.48% vacancy from 5.85% a year ago. Halifax joins Charlottetown as the only other city to enjoy a drop in vacancy, however small, from 14.64% to 14.56%. Moncton's rate ticked up from 13.61% to 14.40%. Saint John climbed from 16.47% to 19.54%, but managed to remain just shy of the 20% mark, while St. John's climbed further above it: 23.26% versus 20.30% a year ago; Class A vacancy there edged over the 30% mark, to 31.85% vacancy.

Vacancy and the net rental rate are inversely correlated: as vacancy falls, net rental rates are expected to climb, and vice versa. But sometimes there is a lag between cause and effect, with both moving in the same direction, possibly as landlords lower their rents to attract tenants, and sometimes because of changing market conditions during the period. Average net rents were up across the board in Atlantic Canada between June 2020 and June 2021. St. John's NL still has the highest average net rental rate, at \$18.43/ft², up 1.3% from \$18.20/ft² a year ago. Charlottetown had the largest increase and second highest rental rates, up 4.4% to \$16.27/ft² in 2021 from \$15.59/ft² in 2020. Rents in Halifax climbed 1.8% from \$14.41/ft² to \$14.67/ft². Despite year-over-year increases, the best deals on rents are still in New Brunswick. Moncton's average was up 1.3% to \$13.15/ft² from \$12.85/ft²; Saint John was up 2.7% from \$12.76/ft² to \$13.10/ft²; and Fredericton nudged up 0.7% to \$13.99/ft² from \$13.89/ft².

The industrial market has been strong during the pandemic, which shifted buying patterns at an increasing rate to online shopping and in favour of consumer goods and renovation materials in lieu of travel spending. Five of the six cities saw increased demand for rental warehouse space, with Saint John (primarily an owner-occupied warehouse market) leading the charge with a 24.4% increase in demand for rental warehouse space. Halifax, by far the largest supplier of rental warehouse space in the region, was second, with a 5.8% increase, followed by Moncton's 4.1% increase. Demand grew by 2.6% in Charlottetown and by 0.9% in St. John's. Only Fredericton saw a decline: demand there fell -0.8%. The current vacancy rates for rental warehouse space by city are: Halifax 6.26%, down from 8.79% in 2020; St. John's 13.70%, up from 10.14% a year ago; Charlottetown 3.76%, down from 6.23%; Moncton 15.88%, up from 11.45%; Saint John 15.26%, down from 17.30%; and Fredericton, still low at 4.10%, up from 3.36% last year. Average net rental rates per square foot were down year-over-year in Saint John and Fredericton but up in the four other cities. The current rates are: Halifax \$8.52 (+5.8%); St. John's \$11.66 (+1.2%); Charlottetown \$10.66 (+9.0%); Moncton \$6.94 (+0.7%); Saint John \$8.15 (-0.2%); and Fredericton \$6.86 (-1.0%).

Turner Drake & Partners Ltd., a "home grown" Atlantic Canadian company, has provided real estate property advice for over forty years. From their offices in Halifax, St. John's, Charlottetown, Saint John and Toronto they service clients owning property across Canada.

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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 her at (902) 429-1811 ext. 323 or email abairdallen@turnerdrake.com.