Our Ref: 2116013:NB/ABA

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Press Release

ATLANTIC CANADIAN OFFICE & WAREHOUSE MARKETS: COULD BE WORSE

Additional office space on the market sent vacancy rates upward in each of Halifax, Moncton, Fredericton, Saint John, and St. John's over the past year, but it could have been worse: demand also increased in four of the five cities. The upside is for prospective tenants – there's plenty of space to choose from and average rental rates increased by percentages less than anticipated annual inflation. The Halifax warehouse market has the opposite problem: demand outpaced new supply, driving that market to effective full occupancy and sending average rents up by 7.6%, outpacing the anticipated annual change in the provincial consumer price index (CPI).

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 597 office and industrial buildings, some as small as 5,000 ft.², with an aggregate rentable area of over 30 million ft.².

Traditionally, recessions produce a sea change in how office space is utilised, triggering the shift from individual offices to cubicles in the early 1990s, and more recently to bull-pen style office design where space is shared collaboratively. Both represent a move to fewer square feet of office space per employee. The current recession – and its health-related root cause – is different. The rapidly executed shift to home offices will have staying power where individual businesses find the rewards outweigh the downsides. On the other hand, there is significant benefit to many companies of having workers together in one place where they are better able to collaborate. One emerging trend is a hybrid work environment, where office workers have flexibility to work from home or in the office; they may do much of their "heads down" work at home, but come to the office periodically for collaboration time with colleagues. Whether this is a short- or long-term trend remains to be seen. We expect that either way, the narrative on office design will continue to shift toward open spaces and away from traditional offices off corridors (or cubicles), meaning some older space may require significant renovation to compete for available demand.

In Atlantic Canada, the latest figures on office space have Halifax with the lowest vacancy rate, at 14.9%, up 1.2 percentage points (pp) from 13.7% a year ago. Demand increased as well, with a regionally leading absorption rate of 10.8%. Moncton, which matched Halifax's vacancy a year ago, saw a 1.96 pp increase, to 15.6% at the end of 2021 despite a 7.1% uptick in demand. Fredericton saw the largest increase in vacancy in the survey at 5.93 pps, driven by a significant amount of new Class A office space being brought to market but only a 2.5% increase in demand. From a regional low of 9.7% vacant a year ago, the New Brunswick capital's vacancy rate now sits at 15.7%. Saint John NB had the lowest increase in vacancy, at 1.08 pps, but this is small consolation given its 17.8% vacancy rate a year ago: the Port City closed out the year with 18.4% of its office space vacant. It was the only city to experience declining demand for office space, at a rate of 1.4%. St. John's NL mirrored the experience of Fredericton: a large addition of Class A office space pushed the vacancy rate up 5.51 pps, from 17.8% to 23.3%, despite a 5.7% increase in demand.

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 premium new space captures available demand and commands higher rental rates. The Atlantic Canadian office market saw across the board increases in average rents over the period December 2020 to December 2021. St. John's NL has the highest average net rental rate, at $18.51/ft², up 2.5% from $18.06/ft² a year ago. Class A net rents on average climbed from $22.08/ft² to 23.17/ft² over the same period. Class A rents in Halifax ticked up from $17.78/ft² to $18.34/ft², pushing the overall average net rental rate up 2.2%, from $14.34/ft² to $14.66/ft². In New Brunswick, Fredericton's overall average net rental rate edged up to $14.13/ft² from $13.88/ft², while Class A settled at $16.42/ft² versus $15.79/ft² a year ago; Moncton's overall net rent moved from $13.03/ft² to $13.35/ft², and Class A from $13.79/ft² to $14.35/ft²; and Saint John climbed overall from $13.16/ft² to $13.38/ft², with Class A dropping from $14.86/ft² to $14.53/ft².

Our survey also covered the Halifax industrial market. The pandemic has led to an increase in online shopping – one of the factors leading to a strong increase in demand for warehouse space. Four percent vacancy is considered full occupancy, since the available space is typically in small amounts spread out over a number of buildings. In Halifax, there is a supply crunch and the warehouse market is now effectively fully occupied: the vacancy rate is just 3.96%. The decrease from 6.64% a year ago was driven by a 7.08% increase in demand for warehouse space. There was a commensurate increase in average net rents, which climbed 7.62% year-over-year from $8.14/ft² to $8.76/ft².

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.