

Our Ref: 2116580:NB/ABA

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CONTACT:

Alexandra Baird Allen, Economic Intelligence Unit
Turner Drake & Partners Ltd.
Tel: (902) 429-1811 Ext. 323
Fax: (902) 429-1891
Email: abairdallen@turnerdrake.com
Website: www.turnerdrake.com

TURNER DRAKE & PARTNERS LTD.

Real Estate Counsellors, Brokers & Valuers
6182 North Street
Halifax NS B3K 1P5

Press Release

ATLANTIC CANADIAN WAREHOUSE MARKETS HOT; OFFICE MARKETS, NOT

Demand for office space fell in five of the six major cities in Atlantic Canada over the past year, with Halifax the only exception. As a result, office vacancy rates crept upward in four of the markets, and net rent increases were well below recent monthly rates of inflation. Meanwhile, demand for warehouse space increased in four of the six cities, held steady in one, and dipped in the sixth; changes in net rents ranged from 0% to 10%.

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 840 office and industrial buildings, some as small as 5,000 ft.², with an aggregate rentable area of over 41 million ft.².

Economic uncertainty, and a potentially deep recession, loom before us, coupled with doubt surrounding space utilisation as companies shift back to offices after working from home during the pandemic – or don't. A hybrid model is emerging as the apparent winner at least in the near term, with office workers having 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. On the industrial side, stay-at-home orders increased demand for online shopping, and hence warehousing space. Interest rates are up, out-of-the-house (and out of town) activities are back on the agenda, which should lead to a slowdown in consumer purchases as people tighten up on spending, so warehouse shortages may ease in the year ahead.

In Atlantic Canada, the latest figures on office space have Charlottetown with the lowest vacancy rate, at 8.72%, down 0.09 percentage points (pp) from 8.81% a year ago. Halifax was the only city to see an increase in demand for office space, at 1.51%, leading to a 0.10 pp decrease in the vacancy rate from 14.54% to 14.44%. A 2.66% contraction in demand for office space in Fredericton, together with new supply coming to market, pushed the vacancy rate up by 7.33 pp, from 9.48% to 16.81%. Moncton, too, saw a 3.35% decline in demand, sending the vacancy rate from 15.08% to 19.85%, rounding out the four cities who still enjoy vacancy below the 20% mark, even if barely. The vacancy rate in Saint John, NB edged up from 19.62% to 21.85% year-over-year as demand declined 1.24%. In St. John's NL, the vacancy rate held fairly steady, edging up just 0.04 pp from 23.33% to 23.37% with a 0.59% contraction in demand for office space.

All warehouse markets now have vacancy in single digits. Demand remained unchanged year-over-year in Charlottetown, at 3.76%; Halifax enjoyed a 3.58% increase in demand to push the vacancy rate from 5.25% to 3.82%. Fredericton alone saw a dip in demand: the 1.77% decline there led to a vacancy rate increase from 4.10% to 5.80%. The strongest increase in demand, at 14.07%, was in Moncton, where vacancy fell from 15.88% to just 5.93%. Saint John NB had the second highest demand factor, with an 8.55% increase leading to a 7.24 pp decrease in the vacancy rate, from 15.26% to 8.02%. St. John's NL saw a 3.68 pp decrease in vacancy, from 13.64% to 9.96%, driven by a 6.77% increase in demand.

The Atlantic Canadian office market saw across the board increases in average rents over the period June 2021 to June 2022. St. John's NL has the highest average net rental rate, at \$18.34/ft.², up 0.38% from \$18.27/ft.² a year ago. Class A net rents on average climbed from \$22.68/ft.² to \$22.96/ft.² over the same period. Charlottetown saw the largest percentage increase in net rents, up 2.82% from \$16.29/ft.² to \$16.75/ft.², with Class A rents ticking up from \$17.04/ft.² to \$17.31/ft.². Class A rents in Halifax held steady at \$18.08/ft.², while the overall average net rental rate edged up 2.80%, from \$14.64/ft.² to \$15.05/ft.². In New Brunswick, Fredericton's overall average net rental rate edged up to \$14.15/ft.² from \$13.99/ft.², while Class A settled at \$16.42/ft.² versus \$15.96/ft.² a year ago; Moncton's overall net rent moved from \$12.99/ft.² to \$13.31/ft.², despite a Class A drop from \$14.46/ft.² to \$14.43/ft.²; and Saint John climbed overall from \$13.10/ft.² to \$13.26/ft.², with Class A dropping from \$14.53/ft.² to \$14.08/ft.².

The warehouse market, too, saw increasing average net rents across the board. The largest supplier of space, Halifax, saw an 8% increase, from \$8.50/ft.² to \$9.18/ft.². In Moncton, the second largest warehouse market in Atlantic Canada; net rents edged up 3.46% from \$6.94/ft.² to \$7.18/ft.². A close third in terms of supply, St. John's NL saw rents creep up 1.45% from \$11.73/ft.² to \$11.90/ft.². Rents in Saint John, NB increased by 0.37% from \$8.15/ft.² to \$8.18/ft.²; Fredericton had the largest increase at 10.06%, from \$6.86/ft.² to \$7.55/ft.²; and in Charlottetown net rents held steady at \$10.66/ft.².

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.