



Q4 2020 Point of View

Edmonton Office Market

An Insight into the Edmonton Office Market

cresa 

Table of Contents

1. Market Overview
2. Market Forecast
3. Additional Graphs and Tables
 - Current Office Vacancy
 - Sublease Vacancy Index
 - Comparative Historical Vacancy
 - Historical Office Absorption
 - Average Asking Net Rental Rates
 - Average Historical Operating Costs



Introduction to Cresa

Who We Are

Cresa is Alberta's (and North America's) largest corporate real estate firm exclusively focused on representing occupiers and users of office and industrial real estate. Having opened our Edmonton office just over a year ago, we service users of all sizes and in all industries – no landlords, no developers - just tenants, so we can be completely objective, focused and minimize conflict. By concentrating single-mindedly on occupier issues, we provide our clients with the perspective and the experience to level the playing field in landlord-tenant relations. Cresa is in the tenant's corner, and with vacancy climbing amidst continued uncertainty this unique service offering has never been of more importance.

In addition to Cresa's unbiased corporate model, our approach to real estate is entirely strategic. Before we think about space, we think about the business needs behind them. This targeted focus is supported by a complete array of integrated services that cover every stage of the real estate life cycle: from workplace intelligence; transaction management and negotiation; and finally, project management including construction and relocation. These services drive the tactical execution behind our strategic thinking, and lead directly to solutions that reduce costs, improve operations, enhance the performance and culture of your workforce.

We pride ourselves on delivering a consultative approach and standing shoulder to shoulder in partnership with our clients. To that end, our literature is crafted in the same way – the straight goods from the tenant's perspective. We hope it proves a refreshing read.

We are pleased to present this inaugural issue of our Edmonton Office Market Report. The following pages offers a comprehensive look at what is currently happening in our market and what we anticipate will be coming in the following months. We hope this report provides some valuable information to you and look forward to delivering more insights to you in the future.



Market Overview

Downtown & Suburban Office Market

Even though Edmonton is not directly dependent on oil and gas, the challenges in the energy business spin off and impact engineering, construction, related supply chains and overall market sentiment.

2020 is a year that will not soon be forgotten. From a commodity crash caused by global oil conflicts, threat of renewed war in the middle east, downed passenger airliners, social and political disorder south of the border, stalled pipelines, COVID-19, work from home, flex schedules, and layoffs, 2020 has touched everyone in some way shape or form and will be one for the record books.

After several years of strong leasing activity, the Edmonton office market began to slow in the back half of 2019 and into early 2020. The new office buildings, Stantec, Edmonton and Enbridge Towers were mostly leased and most of the larger players in the market were settled. 2020 began with overall vacancy rates just over 16% and by all account, a very tenant favorable market. The market was stratified with buildings ranging from nearly full occupancy down to properties with greater than 50% availability. There were several large subleases available from firms such as Worley Parsons which attempted to leave the market altogether but nothing like what has been seen in Calgary where overall vacancy has approached 30% for the last handful of years.

Even though Edmonton is not directly dependent on oil and gas, the challenges in the energy business spin off and impact engineering, construction, related supply chains and overall market sentiment. This introduced uncertainty into the market which was already slowing down decision

making when COVID-19 came crashing to the fore front. As 2020 finished, overall vacancy topped out at 18.08% representing an increase in availability of 456,725 square feet, 203,614 square feet of which was direct vacancy.

Downtown

The downtown office market makes up most of the office space in Edmonton with 17.8 million out of 29.8 million square feet. At the beginning of 2020 downtown vacancy between the Financial and Government markets was 15.37%, 13.23% of which was Financial and 20.97% Government.

With the construction of new office towers several years prior, a distinct AA market emerged with a low vacancy of 10% in downtown's best buildings. The trend over the last few years has been a flight to quality which drove the AA vacancy to among the lowest in the city. By the end of 2020, there was a dramatic change as COVID-19 drove employees' home and left organizations pondering the future of their office real estate.

Closing out 2020 the downtown market vacancy was 17.63%, up almost 2.5%. Most surprising was where that vacancy hit the market – the AA class inventory. AA vacancy increased to 17.26%, representing an additional 295,206 square feet of available space for lease. This is primarily due to Stantec dumping 150,000 square feet into

Office Supply
28,197,845 sf

Downtown Vacancy
17.63%

Q4 2020 Downtown
Office Absorption
-319,747 sf

Suburban Vacancy
18.87%

Q4 2020 Suburban
Office Absorption
-86,172 sf



the sublease market at Stantec Tower plus several large blocks of previously available sublease space from Enbridge and TELUS. Rounding out 2020, the Government district was relatively unchanged.

Several office towers changed hands in 2020 including Sunlife Place and Canadian Western Bank Place. Sunlife was purchased by Slate Asset Management's SCREO II fund and Canadian Western Bank by Red Stone Group. With these two sales Bentall / Sunlife, a longtime pillar of the downtown office market is completely out of the game.

In 2021, the largest mover and shaker will be Canadian Western Bank which is in the market for 200,000 square feet. Should CWB decide to relocate this will likely kick off another new tower. Many of the same landlord/developer sites will be in the game that bid on Enbridge, Stantec and City of Edmonton requirements several years ago.

Notable New Lease/Relocations, Downtown

Tenant	Building	Area (sf)
BDO	103 Street Centre	30,000
Richardson GMP	Manulife Place	22,000
Emery Jamieson LLP	MNP Tower	20,000
SMP Law	Bell Tower	16,000
McCuaig Desrochers LLP	TD Tower	16,000
AltaML	103 Street Centre	15,000
Barr Picard LLP	Sunlife Place	11,000
We Know Training	103 Street Centre	11,000
One Properties	103 Street Centre	11,000
Biamonte Law	102A Tower	9,000
David Alpin	ATB Place	5,000

Notable Sales, Downtown

Building	Seller	Buyer	Sale Price
Sunlife Place	Sunlife Financial	Slate (SCREO II)	\$32.5 million or \$112.80 per sf
Canadian Western Bank	Bentall	Red Stone Group	\$96.4 million or \$235 per sf
CN Tower	Strategic Group	Trez CN Tower Holdings	\$10 & assumption of \$64 million of debt

Suburbs

The suburban office market is made of seven submarkets totaling 10.37 million square feet. Entering 2020 the suburban total vacancy was 18.13% broken down as 17.87% direct vacancy and 0.26% sublease vacancy. This totaled 1.87 million square feet of direct vacancy and 27,000 square feet of sublease. As 2020 ended the total vacancy increased to 18.87% or 1.96 million square feet of availability, broken down as 17% direct vacancy and 1.86% sublease. This represents 1.763 million square feet of direct vacancy and 193,000 square feet of sublease availability. The largest reason for the overall increase was Worley Parsons introducing 150,000 square feet of sublease space at Commerce South office park.

In 2020, several notable sale transactions took place with TD Greystone selling the 104,000 square foot Greystone Office Park to Greystone Management. Greystone Office Park is located at 97 Street and 42 Avenue. In the West End the College and Association of Registered Nurses of Alberta sold their 30,000 square foot building to the North Peace Tribal Council.

Notable Sales, Suburban

Building	Seller	Buyer	Sale Price
Greystone Office Park - SouthSide	TD Greystone	Greystone Management	\$9 million or \$87 per sf
CARNA Building	CARNA - West End	North Peace Tribal Council	\$4.65 million or \$146 per sf

Notable New Lease/Relocations, Suburban

Tenant	Building	Area (sf)
Alberta Retired Teachers Association	Former Stuart Olson Building - 149 Street	30,000
Alberta Health Services	Richfield Building - South Side	25,000
Silvacom	Prospect Place - South Side	16,000
All Type Electric	Gasland Centre - West End	14,000
Realtors Association of Edmonton	CX Place - West End	13,000
ZGM Marketing	Raymond Block - Whyte Avenue	11,000



Market Forecast

Downtown & Suburban Projections

In the words of English historian Thomas Fuller, “The darkest hour is just before dawn.” General market activity ground to a halt as business leaders attempted to make sense of the new reality. Work from home and flexible work environments quickly took hold and offices for the most part sat empty.

Businesses deferred leasing decisions and kicked major restructures down the line where possible. Institutional landlords typically rely on three-year budget cycles which were rendered instantaneously irrelevant. Landlords naively expected COVID-19 interruptions to be somewhat temporary in nature and as a group did not adjust their rental rates expectations. This led to an increasing divergence between tenant and landlord expectations and made consummating deals challenging for both sides.

Entering 2021, the market has now had almost a full year of COVID-19 and time to adjust expectations. Tenants still expect aggressive deals, but landlords finally realize that to keep existing tenants and attract new ones, they need to be even more aggressive. Expect to see asking rates drop through 2021, especially in vacancy challenged buildings. Expect tenant inducements to remain high and landlords to offer ever increasing amount of rent-free fixturing periods to entice tenants into new deals.

We expect to see the trend of rationalizing office space to accelerate as business looks to maximize their use of space and keep costs as low as possible. Once staff return to the office, the timing of which will likely be based on public health policy, expect to see a hybrid work environment where only permanent employees have full time space allocated and workers on a flex schedule share hoteling stations. This trend is not new in Edmonton and started back in 2014 when commodity prices crashed, and business started paying more attention to the bottom line. Most new deals in the market, outside of growth industries such as tech, have been taking this approach by increasing density and flexibility. COVID-19 is simply accelerating the process

for firms that have not yet restructured their office real estate.

While some organizations may opt to work remotely in the long term and give up their office space, most business leaders we speak with intend to return to the office as soon as possible. The common theme discussed is that a business can be run remotely but it is impossible to grow one under such circumstances. Given the challenges of the last year growth is the top priority. As vaccines are rolled out over the first half of the year expect pent up demand and a flurry of leasing activity to close out 2021.

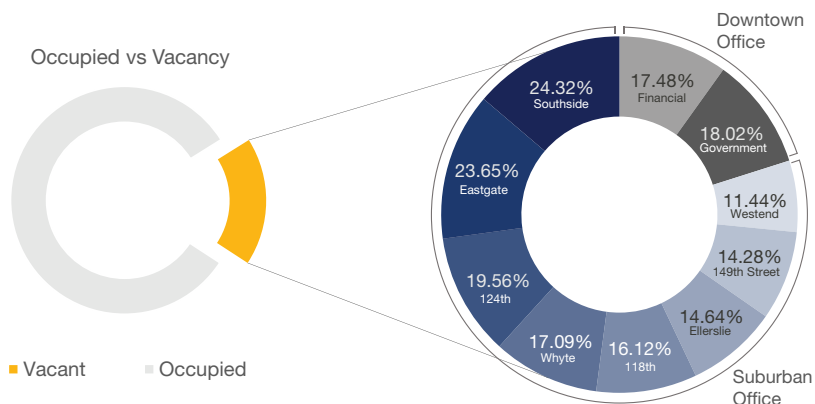
2021 and Beyond

As we move into 2021 one major question asked is downtown dead? After many years of rebuilding a vibrant downtown with the entertainment district, an explosion of local restaurants, bars, and residential development, downtown is struggling to survive. Prior to COVID-19, downtown began losing its luxury retailers such as Holt Renfrew, Escada, and Rolex, but anyone that has not been downtown for some time would be shocked at the vacancy when walking through Commerce Place, Manulife Place and City Centre. The Bay will soon be closing in City Centre and row after row of stores have been closed and it is tough to believe some of these retailers will ever be back.

With the lack of businesspeople and normal hustle about downtown, the homeless situation is more apparent. Many people do not feel safe coming downtown anymore because you do not know what you will encounter in parkades, stairwells or even “secure” office tower washrooms, let alone on the streets. With a civic election this year city council needs to prioritize making downtown accessible and safe for everyone so that once business returns to normal everyday people want to come back. Never ending construction projects need to be finished to increase walkability, safety, and appearance. We believe in downtown, but it is going to take commitments and action from government and business to make it happen.

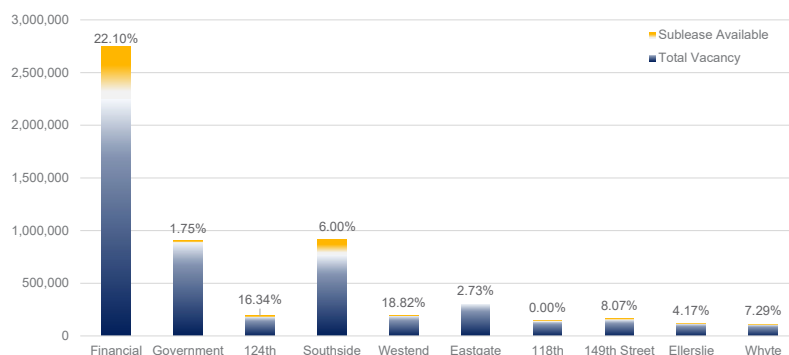
Current Office Vacancy

Overall vacancy has risen slightly from last quarter to 18.08% for the entire market.



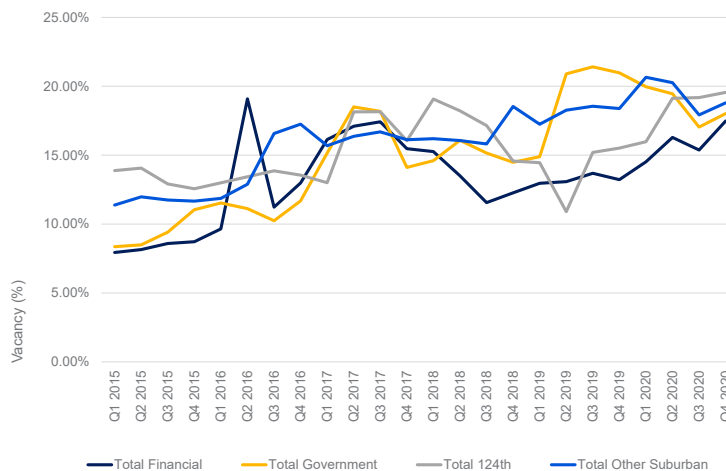
Sublease Vacancy Index

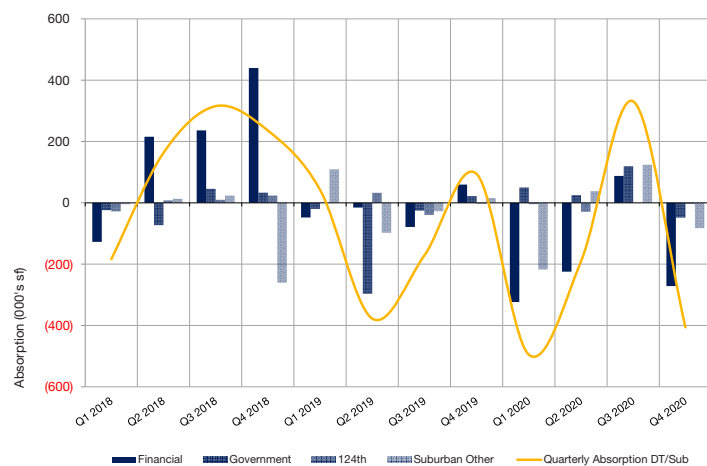
The mix of Headlease vs Sublease space on the market leans towards Headlease availability. The Financial sector has the highest amount of Sublease space on the market as compared to total vacancy for that sector.



Comparative Historical Vacancy

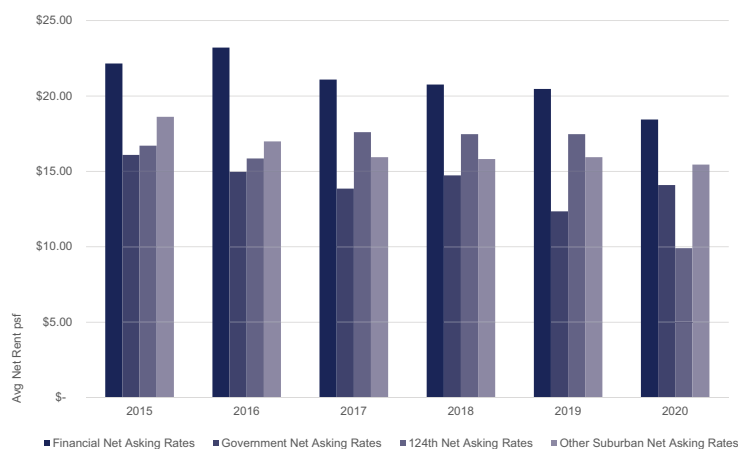
Vacancy continues to rise quarter over quarter and we anticipate this trend will not see an end any time soon.





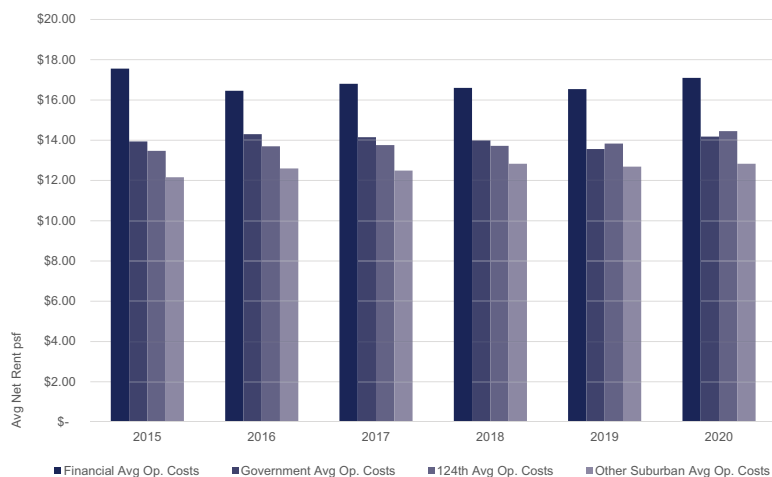
Historical Office Absorption

Expect negative absorption to be the trend though 2021.



Average Asking Net Rental Rates

Asking rates have held steady for the last four years. Expect a reduction in asking rates over the next 12 months.



Average Historical Operating Costs

Expect operating costs to stay level as increases to building efficiency is offset by rising property taxes and Covid-related expenses.

Q4 2020 Vacancy Summary, Edmonton

SUBMARKET	TOTAL SPACE (sf)	LEASE (sf)	SUBLEASE (sf)	LEASE (%)	SUBLEASE (%)	TOTAL VACANCY
Financial AA	4,196,691	467,437	256,996	11.14%	6.12%	17.26%
Financial A	6,456,495	939,362	229,064	14.55%	3.55%	18.10%
Financial B	1,885,221	308,642	2,416	16.37%	0.13%	16.50%
Financial C	351,247	39,721	9,375	11.31%	2.67%	13.98%
Financial Total	12,889,654	1,755,162	497,851	13.62%	3.86%	17.48%
Government A	2,276,308	491,182	0	21.58%	0.00%	21.58%
Government B	2,330,765	362,565	11,600	15.56%	0.50%	16.05%
Government C	330,858	20,450	3,926	6.18%	1.19%	7.37%
Government Total	4,937,931	874,197	15,526	17.70%	0.31%	18.02%
DOWNTOWN TOTAL	17,827,585	2,629,359	513,377	14.75%	2.88%	17.63%
124th A	358,196	28,510	2,290	7.96%	0.64%	8.60%
124th B	444,968	100,805	2,868	22.65%	0.64%	23.30%
124th C	118,005	40,018	5,651	33.91%	4.79%	38.70%
124th Total	921,169	169,333	10,809	18.38%	1.17%	19.56%
Southside	3,178,202	627,332	145,478	19.74%	4.58%	24.32%
Westend	1,651,468	183,714	5,160	11.12%	0.31%	11.44%
Eastgate	1,267,512	299,795	0	23.65%	0.00%	23.65%
118th	863,454	127,970	11,228	14.82%	1.30%	16.12%
149th Street	1,091,900	149,477	6,500	13.69%	0.60%	14.28%
Ellerslie	774,227	105,072	8,259	13.57%	1.07%	14.64%
Whyte	622,328	100,931	5,411	16.22%	0.87%	17.09%
SUBURBAN TOTAL	10,370,260	1,763,624	192,845	17.01%	1.86%	18.87%
EDMONTON TOTAL	28,197,845	4,392,983	706,222	15.58%	2.50%	18.08%
Sherwood Park	1,542,171	272,722	6,071	17.68%	0.39%	18.08%
OVERALL EXISTING TOTAL	29,740,016	4,665,705	712,293	15.69%	2.40%	18.08%

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**Thinking
strategically.**
**Acting
objectively.**