

A photograph of a modern office interior. The space features large windows with dark frames, providing a view of a cityscape and greenery. The floor is made of light-colored, polished tiles. Several potted plants are arranged along the windows, including a tall, dark, geometric planter with a green plant and several smaller, rounded, light-colored planters. The overall atmosphere is bright and professional.

The Office Occupier

Q3 2021 Edmonton Office Market Report

An Insight into the Edmonton Office Market

cresa

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Market Overview

Downtown & Suburban Office Market

There is no clear driver for office space demand in the immediate future.

There was little change in the overall Edmonton office vacancy rate in Q3, 2021, with a slight decrease from 19.64% down to 18.93%; certainly not the same level of activity that Edmonton witnessed in the industrial market, but at least something positive to talk about.

Ask any long-term office landlord in this market, and most will grudgingly confirm that to expect anything more in this market would be wishful thinking. By national and international standards Edmonton is considered a tertiary office market. Our economy and health care system continues to struggle because of the fourth wave of COVID, and there is no clear driver for office space demand in the immediate future.

Worth noting is that much of the Q3 vacancy was attributed to headlease vacancy, with a sublease vacancy rate of only 2.13%. This would strongly suggest that most office users weathered the pandemic quite well to that point, no doubt in large part to the Canada Emergency Wage Subsidy (CEWS) and Canada Emergency Rent Subsidy (CERS) programs that were made available. With these programs ending and inflation growing, the sublease market may increase slightly, but nothing substantial.

The bigger issue for landlords is the overall headlease rate and the long-term prospects of trying to attract new tenancy

to a market where the average-sized office tenant remains between 2,500 and 3,500 square feet. From a tenant's perspective, these conditions will continue to offer opportunities for users who are properly positioned to renegotiate lease renewals or strike out to find new space.

Downtown

Financial and Government Districts

17,721,586 square feet.

- Overall vacancy decreased to 17.90%, from 18.18%
- Headlease vacancy increased to 15.62% up from 15.50%
- Sublease vacancy decreased slightly to 2.28% down from 2.63%,

Financial District

12,783,655 square feet

- Overall vacancy decreased slightly to 18.03% from 18.26%
- Headlease vacancy increased to 14.97%, up from 14.65%
- Sublease vacancy decreased slightly to 3.05% from 3.60%

Government District

4,937,931 square feet

- Overall vacancy increased to 17.56% from 17.34%

Office Supply
29,091,846 sf

Overall Vacancy
18.81%

Downtown Vacancy
17.90%

Suburban Vacancy
20.36%



- Headlease vacancy decreased from 17.68% down to 17.27%
- Sublease vacancy remained at .29%

Suburbs

10,370,260 square feet

- Overall vacancy increased to 20.36% up from 19.71%
- Headlease vacancy decreased to 17.66% down from 17.72%
- Sublease vacancy increased to 2.71% up from 1.57%

Sherwood Park

1,542,171 square feet

- Overall vacancy increased to 21.17%, up from 21.10%
- Headlease vacancy increased to 20.78%, up from 20.70%
- Sublease vacancy remained at .39%

Lease Options Available in Greater Edmonton

50,000 square feet or more = 18

30,000 to 50,000 square feet = 27

20,000 to 20,000 square feet = 43

10,000 to 20,000 square feet = 79

Notable Transactions

Tenant	Building	Area (sf)
Catholic Social Services	Alberta Park	25,000 sf
Capital Engineering	Ford Credit	22,000 sf
James H. Brown & Associates	Sunlife Place	16,000 sf
Translational Research in Oncology	9925 109 Street	12,000 sf
Ducks Unlimited Canada	Mayfield Business Centre	10,000 sf

Market Forecast

Downtown & Suburban Projections

Historically, the average-sized private sector Edmonton office tenant is only 2,500 to 3,500 square feet. This is not going to change, especially while recovering from a pandemic with inflation over 4%.

Quick Response (QR) code is becoming a mainstay phrase in our daily language. This technology and increased work mandated vaccinations mean more employees are returning to their offices, which in turn is leading to stability and giving office users more comfort in making long-term decisions about real estate. However, do not expect the overall vacancy rate to come down anytime soon.

Absent from the Edmonton office market is a major driver that will create demand for office space. Historically, the average-sized private sector Edmonton office tenant is only 2,500 to 3,500 square feet. This is not going to change, especially while recovering from a pandemic with inflation of over 4%. Increased demand could come from the Municipal, and Federal governments, given their penchant for uncontrollable spending. However, even this type of spending will not dramatically impact the office market.

At the current pace for locally driven demand for office space, the driver for office space will have to originate from outside of Edmonton, much like the industrial market. This is where Edmonton is excelling because of its geographical location to major international markets, and the marketing efforts by organizations such as Edmonton Global which needs to be commended for its efforts in promoting and securing this type of growth. One only must drive out the Edmonton International Airport to witness the success of their marketing strategies.

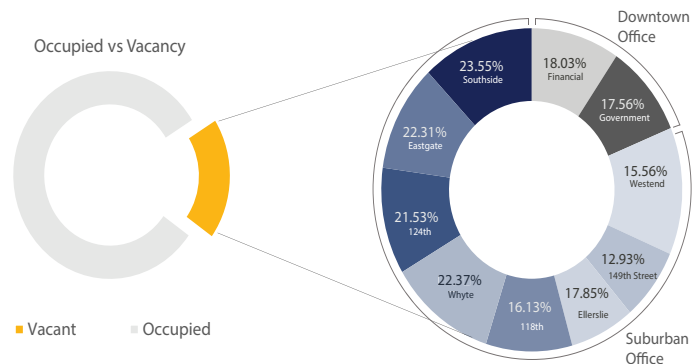
A great deal has been made about tech companies locating to Edmonton because the city is viewed as a Smart City. Granted the market is seeing some growth in the Edmonton core, but at the current pace, these relocations are having little impact on the office vacancy rate. It is easy to get caught up in the local hype of what our city can offer to the technology industry, but the sobering fact is that Edmonton is competing with many national and international cosmopolitan urban centers that are all claiming to be smart cities with a highly educated population that can support high tech, most of which have superior air connections. It is going to take more than bike lanes, a new NHL arena, and an indoor garden to attract this kind of tenancy.

Edmonton city council needs to take an aggressive leadership role in promoting the private sector. It is no secret that the health of Edmonton's Financial Core is suffering, not just because of the pandemic, but because of safety issues and constant disruptions brought on due to poorly coordinated, delayed road and LRT construction projects with major cost overruns. Landlord morale is suffering and there is growing awareness that businesses are going to start relocating from the Core unless the city council immediately acts to provide a viable, attractive, safe, and accessible environment that people want to work and live in.

Meanwhile, existing office tenants will continue to take advantage of the lagging office market.

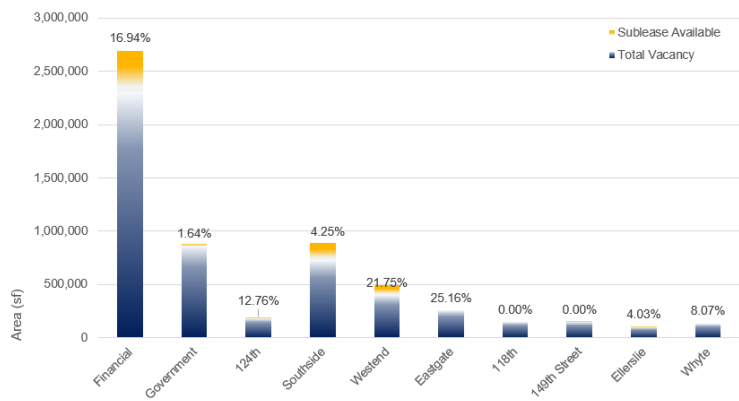
Current Office Vacancy

Overall, the greater Edmonton vacancy rates continue to rise across all sectors.



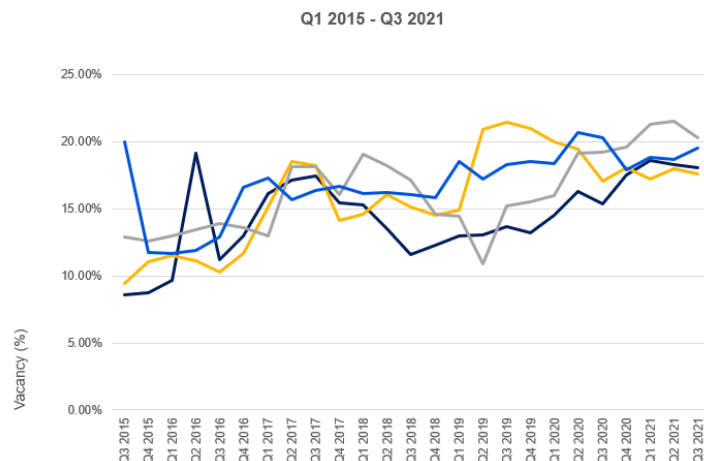
Sublease Vacancy Index

56.45% of the entire greater Edmonton sublease market is located in class A & AA office towers in the Financial Core.

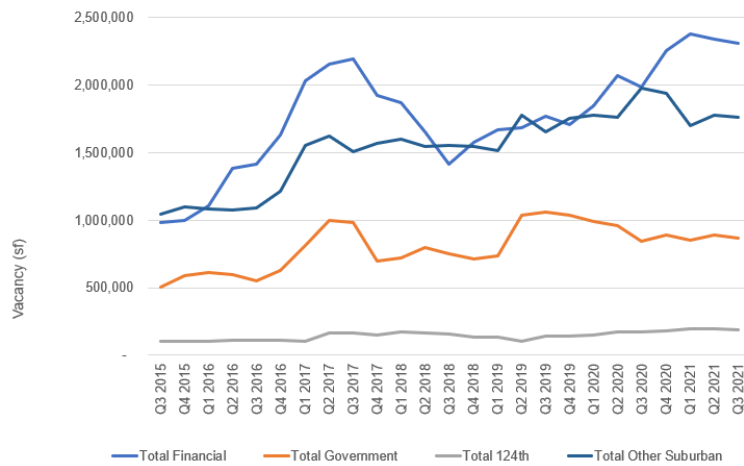


Comparative Historical Vacancy

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

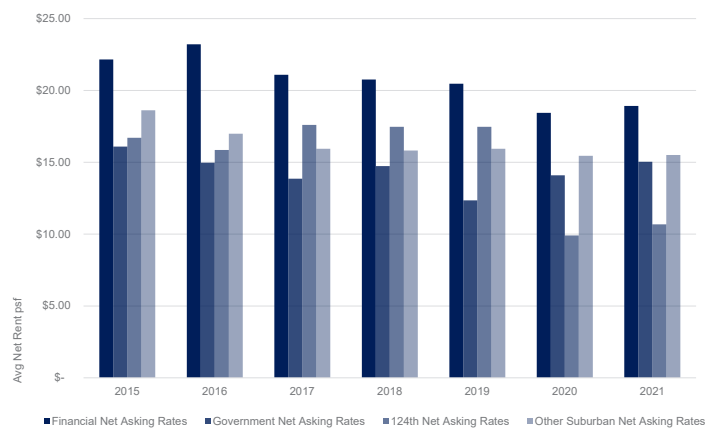


Q1 2015 - Q3 2021



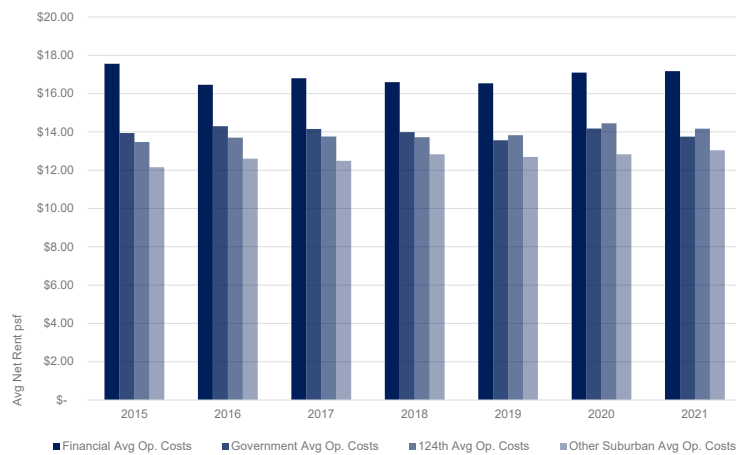
Historical Office Absorption

Historical office absorption rates continue to fluxuate into Q4 2021.



Average Asking Net Rental Rates

Asking rates continue to hold steady, but tenant inducements continue to grow.



Average Historical Operating Costs

Operating costs held steady in Q3 2021 with little indication that there will be further increases in the next 12 months.

Q3 2021 Vacancy Summary, Edmonton

SUBMARKET	TOTAL SPACE (sf)	LEASE (sf)	SUBLEASE (sf)	LEASE (%)	SUBLEASE (%)	TOTAL VACANCY
Financial AA	4,196,691	498,353	213,445	9.73%	5.09%	14.82%
Financial A	6,534,213	1,164,299	158,808	17.82%	2.43%	20.25%
Financial B	1,701,504	300,550	0	17.66%	0.00%	17.66%
Financial C	351,247	41,148	18,141	11.71%	5.16%	16/88%
Financial Total	12,783,655	1,914,350	390,394	14.97%	3.05%	18.03%
Government A	2,276,308	466,756	0	20.50%	0.00%	20.50%
Government B	2,330,765	353,362	10,337	15.16%	0.44%	15.60%
Government C	330,858	32,817	3,926	9.92%	1.19%	11.11%
Government Total	4,937,931	852,935	14,263	17.27%	0.29%	17.59%
DOWNTOWN TOTAL	17,721,586	2,746,285	404,657	15.62%	2.28%	17.90%
124th A	358,196	25,579	2,290	7.14%	0.64%	7.78%
124th B	444,968	114,293	0	25.69%	0.00%	25.69%
124th C	118,005	38,862	5,651	32.93%	4.79%	37.72%
124th Total	921,169	178,734	7,941	19.40%	0.86%	20.27%
Southside	3,178,202	569,616	158,359	17.92%	4.98%	22.91%
Westend	1,651,468	298,359	100,293	18.07%	6.07%	24.14%
Eastgate	1,267,512	258,154	0	20.37%	0.00%	20.37%
118th	863,454	151,793	0	17.58%	0.00%	17.58%
149th Street	1,091,900	143,409	6,024	13.13%	0.55%	13.69%
Ellerslie	774,227	94,132	8,259	12.16%	1.07%	13.22%
Whyte	622,328	136,798	0	21.98%	0.00%	21.98%
SUBURBAN TOTAL	10,370,260	1,830,995	280,876	17.66%	2.71%	20.36%
EDMONTON TOTAL	28,091,846	4,598,280	685,533	16.37%	2.44%	18.81%
Sherwood Park	1,542,171	320,445	6,071	20.78%	0.39%	21.17%
OVERALL EXISTING TOTAL	29,634,017	4,918,725	691,604	16.60%	2.33%	18.93%

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