

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 large, dark-colored, beanbag-like chairs are arranged on the floor. A tall, dark planter with a green plant is positioned near the windows. The overall atmosphere is bright and professional.

# The Occupier

## Q4 2021 Edmonton Office Market Report

An Insight into the Edmonton Office Market

cresa



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# Market Overview

## Downtown & Suburban Office Market

If this is as bad as the office market is going to get, then things are looking up.

Q4 2021 ended much like Q4 2020. The overall (headlease and sublease) Q4 2021 Edmonton office vacancy decreased to 18.50% from 18.93% at the end of Q4 2020. The overall direct vacancy rate settled out at 16.38% down slightly from 16.60%. This stagnant vacancy trend can be interpreted two ways. First, the Edmonton office market has a long way to go before recovery takes place. The alternative viewpoint is that, after two years of a pandemic preceded by a deep recession, if this is as bad as the office market is going to get, then things are looking up. The low sublease vacancy rate of 2.13% further validates this second viewpoint.

Late in Q4 2021, there was a noticeable uptick in leasing and renewal activity. More leasing decisions were being made as decision makers planned for an easing of restrictions and acted to take advantage of the market while conditions were still in their favour. Most activity was related to lease renegotiations. As for lease relocations, the vast majority of this activity was related to users right sizing into newer, more efficient and smaller spaces.

However, this activity was tempered by the onset of inflation. By the end of Q4 2021, cost of construction for many projects were 30% higher than projected costs. Inflation will likely be a significant

influencer on real estate decision making and negotiations as 2022 progresses.

### Edmonton (Excluding Sherwood)

28,091,513 square feet

- Overall vacancy decreased from 18.81% to 18.62%
- Headlease vacancy increased to 16.42% from 16.37%
- Sublease vacancy decreased to 2.19% from 2.44%

### Downtown

#### Financial and Government Districts

17,721,586 square feet.

- Overall vacancy increased to 18.04% from 17.90%
- Headlease vacancy increased to 15.80% from 15.62%
- Sublease vacancy decreased to 2.25% from 2.28%

### Financial District

12,783,655 square feet

- Overall vacancy increased to 18.19% from 18.03%
- Headlease vacancy increased to 15.13% from 14.97%
- Sublease vacancy increased to 3.07% from 3.05%

Greater Edmonton  
Office Supply

29,633,684 sf



Greater Edmonton  
Overall Vacancy

18.50%



Downtown Vacancy

18.04%



Suburban Vacancy

19.59%



#### Government District

4,937,931 square feet

- Overall vacancy increased to 17.66% from 17.56%
- Headlease vacancy increased to 17.54% from 17.27%
- Sublease vacancy decreased from 0.29% down to 0.12%

#### Suburbs

10,369,927 square feet

- Overall vacancy decreased from 20.36% down to 19.59%
- Headlease vacancy decreased from 17.66% down to 17.49%
- Sublease vacancy decreased from 2.71% down to 2.11%

#### Sherwood Park

1,542,171 square feet

- Overall vacancy decreased from 21.17% down to 16.47%
- Headlease vacancy decreased from 20.78% down to 15.60%
- Sublease vacancy increased to 0.87% from 0.39%

#### Notable Transactions

Tenant	Building	Area (sf)
Covenant Health	112 Business Campus	75,000 sf
AMII	First & Jasper	51,000 sf
Microsoft	Bell Tower	12,000 sf
DES Engineering	Commerce South B	12,000 sf
Williams Engineering	First & Jasper	11,000 sf
Sequeira Partners	Bell Tower	4,500 sf

# Market Forecast

## Downtown & Suburban Projections

2022 should be an active year in the office market as pent-up demand is relieved and deals are completed. Nevertheless, vacancy rates could climb at that same time, given that increased activity does not always translate into increased demand for space. Many office users have realized that they can operate in less space as more employees demand a hybrid work model.

The public sector and not for profit organizations compose a large part of the office market. It is predicted that cuts in funding will continue to impact these users and their requirement for space. One glimmer of hope is that Innovate Edmonton recently announced it will be moving into 18,000 square feet at the former Royal Bank Building on Jasper Avenue. Local publicly funded incubators and accelerators are showing tremendous results in helping local entrepreneurs develop their business. This is a trend that will only help to further diversify Edmonton and absorb office space as the tech community continues to thrive.

One example is that Athabasca University has announced that it will no longer require space in Edmonton and is giving back its two floors in the Peace Hills Trust building on 109 Street and its suburban location on St. Albert Trail. Several examples exist of such users who are in jeopardy of defaulting on their rental obligations. Their landlords will be faced with the difficult decision of either reworking more affordable solutions for their tenants or leaving them to shut their doors.

The downtown market is about to witness some large relocations being announced, partly due to the phenomenon known as a 'flight to quality'. Several large users including the Canadian Western Bank (CWB) are reportedly about to make public their decision to relocate. CWB is rumored to have

secured 200,000 square feet in the Ice District that will involve the construction of new office tower, which will likely include an additional 60,000 to 80,000 square feet of spec space. However, CWB will be vacating up to 185,000 square feet at its location on Jasper Avenue.

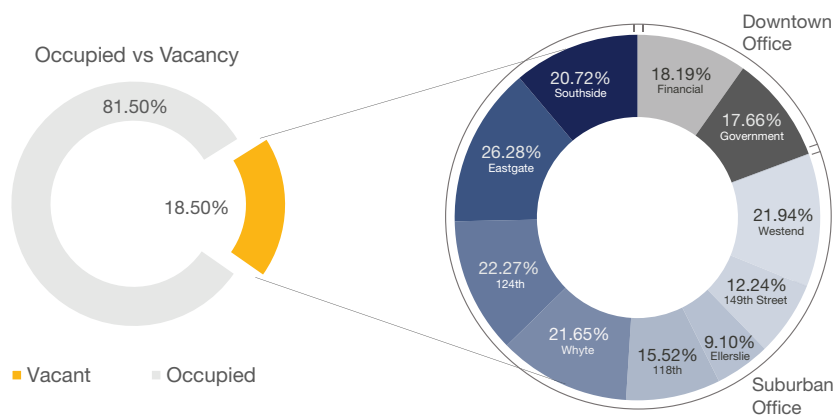
From the landlords' point of view, there will be winners and losers. Good quality built out space that is ready for tenancy, in quality properties, will lease the quickest. Tired, inefficient space in properties with outdated amenities will remain vacant. To compete, these building owners will need to invest in their properties, or they will become irrelevant and unleaseable at any price point.

In both the downtown and suburban office markets, landlords should continue to expect low single digit net effective rents on new leases. While an improvement in leasing activity through the first half of 2022 is expected, tenants will continue to demand long fixturing periods free of all rents, status quo rental rates, and increasing tenant improvement allowances to account for heavily inflated construction costs. To attract new tenants and retain existing ones, landlords will need to keep their pencils sharp and be mindful of the overall market position, even if their asset is doing reasonably well.

The common theme over the last few years has been that downtown Edmonton needs additional and much needed attention from City Council. The city needs to improve the environment with cleaning up the downtown core. This starts with committing to a healthy, safe and clean environment. This will promote activity for returning office employees and people to partake in the many entertainment options the core has to offer.

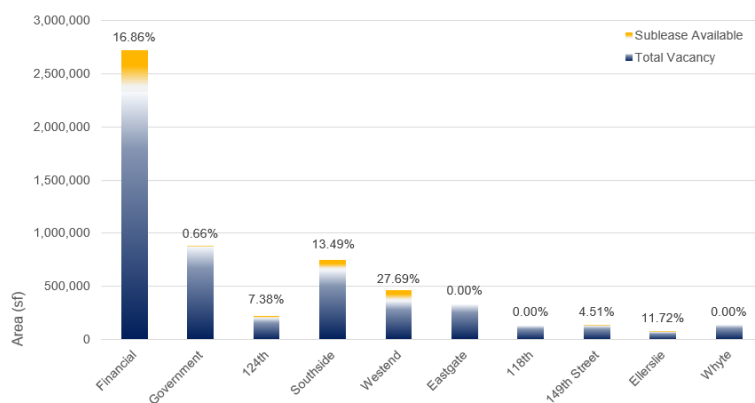
## Current Office Vacancy

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



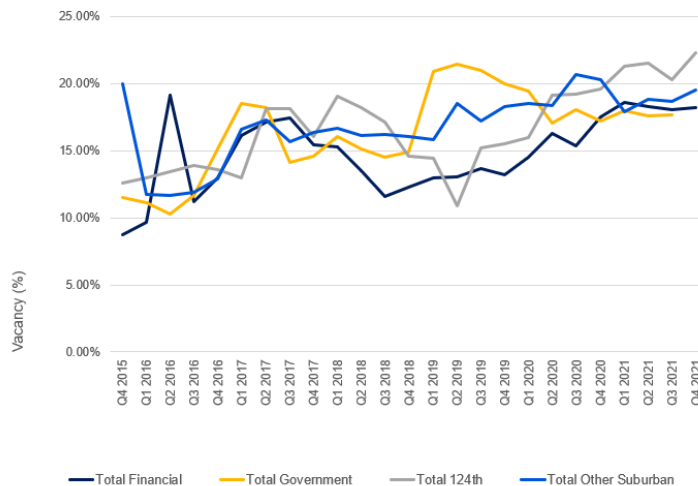
## Sublease Vacancy Index

Majority of the entire greater Edmonton sublease market continues to be located in class A & AA office towers in the Financial Core.

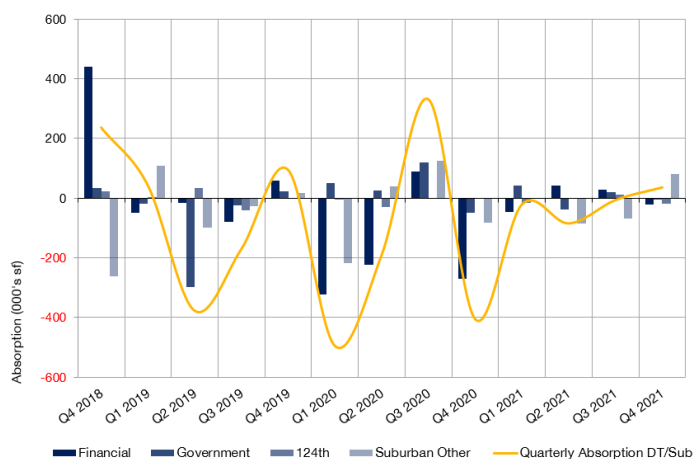


## Comparative Historical Vacancy

Vacancy continues to rise quarter over quarter. This trend may slow down through 2022.

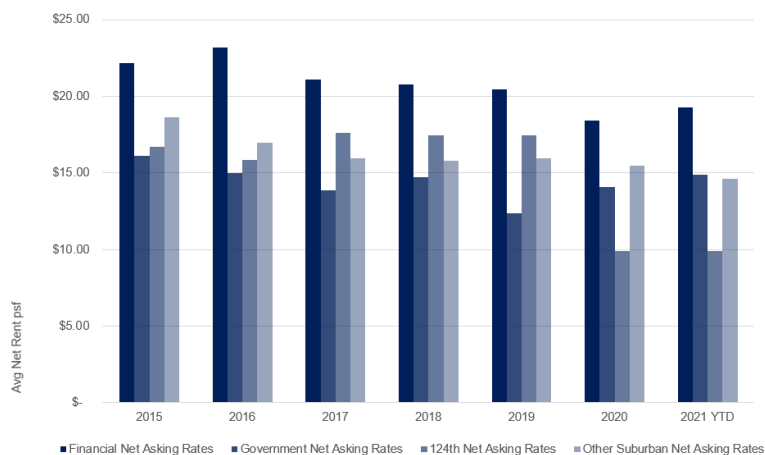






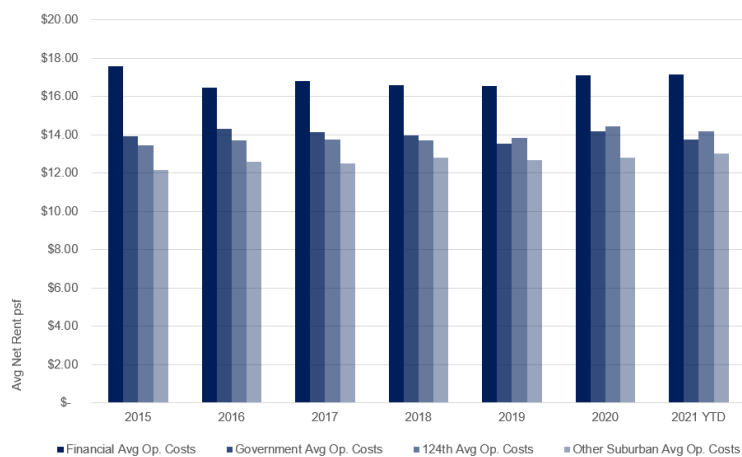
## Historical Office Absorption

Historical office absorption rates continue to fluctuate 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 Q4 2021. As building occupancy increases, operating costs will likely increase with new post-COVID protocols.

## Q4 2021 Vacancy Summary, Edmonton

SUBMARKET	TOTAL SPACE (sf)	LEASE (sf)	SUBLEASE (sf)	LEASE (%)	SUBLEASE (%)	TOTAL VACANCY
<b>FINANCIAL</b>						
Financial AA	4,196,691	373,100	213,445	8.89%	5.09%	13.98%
Financial A	6,534,213	1,200,630	154,228	18.37%	2.36%	20.73%
Financial B	1,701,504	308,195	561	18.11%	0.03%	18.15%
Financial C	351,247	51,848	18,141	14.76%	5.16%	19.93%
<b>Financial Total</b>	<b>12,783,655</b>	<b>1,933,773</b>	<b>392,166</b>	<b>15.13%</b>	<b>3.07%</b>	<b>18.19%</b>
<b>GOVERNMENT</b>						
GOVERNMENT A	2,276,308	466,756	0	20.50%	0.00%	20.50%
GOVERNMENT B	2,330,765	367,768	0	15.78%	0.00%	15.78%
GOVERNMENT C	330,858	31,551	5,791	9.54%	1.75%	11.29%
<b>GOVERNMENT TOTAL</b>	<b>4,937,931</b>	<b>866,075</b>	<b>5,791</b>	<b>17.54%</b>	<b>0.12%</b>	<b>17.66%</b>
<b>DOWNTOWN TOTAL</b>	<b>17,721,586</b>	<b>2,799,848</b>	<b>397,957</b>	<b>15.80%</b>	<b>2.25%</b>	<b>18.04%</b>
<b>SUBURBAN</b>						
124th A	358,196	20,453	9,485	5.71%	2.65%	8.36%
124th B	444,968	121,516	0	27.31%	0.00%	27.31%
124th C	118,005	48,081	5,651	40.74%	4.79%	45.53%
<b>124th Total</b>	<b>921,169</b>	<b>190,050</b>	<b>15,136</b>	<b>20.63%</b>	<b>1.64%</b>	<b>22.27%</b>
SOUTHSIDE	3,177,869	569,616	88,842	17.92%	2.80%	20.72%
WESTEND	1,651,468	261,966	100,293	15.86%	6.07%	21.94%
EASTGATE	1,267,512	333,117	0	26.28%	0.00%	26.28%
118TH	863,454	133,983	0	15.52%	0.00%	15.52%
149TH STREET	1,091,900	127,594	6,024	11.69%	0.55%	12.24%
ELLERSLIE	774,227	62,220	8,259	8.04%	1.07%	9.10%
WHYTE	622,328	134,722	0	21.65%	0.00%	21.65%
<b>SUBURBAN TOTAL</b>	<b>10,369,927</b>	<b>1,813,268</b>	<b>218,554</b>	<b>17.49%</b>	<b>2.11%</b>	<b>19.59%</b>
<b>EDMONTON TOTAL</b>	<b>28,091,513</b>	<b>4,613,116</b>	<b>616,511</b>	<b>16.42%</b>	<b>2.19%</b>	<b>18.62%</b>
SHERWOOD PARK	1,542,171	240,591	13,371	15.60%	0.87%	16.47%
<b>OVERALL EXISTING TOTAL</b>	<b>29,633,684</b>	<b>4,853,707</b>	<b>629,882</b>	<b>16.38%</b>	<b>2.13%</b>	<b>18.50%</b>



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strategically.**  
**Acting  
objectively.**