

FIRST QUARTER MARKET REPORT
2021

GREATER EDMONTON, ALBERTA

Q1



Economic Outlook

Despite an ongoing pandemic with no end in sight, Edmonton's economy and commercial real estate markets continue to show resiliency in the first quarter of 2021. The pandemic left its mark on every sector of the economy, having a particularly devastating impact on the hospitality industry. However, the most recent employment data by industry (March 2021) shows that the recovery strengthened as the year began. Employment is now above pre-pandemic levels, with growth coming from Edmonton's stable business and professional sector as well as the greater public sector. The Conference Board of Canada is forecasting the region's economy to rebound by 6.3% in 2021.

The outlook for Alberta's energy sector has also improved significantly over the past few months. Although demand for oil and gas is not expected to return to pre-pandemic levels until 2022, there is optimism, thanks to a surge in global economic activity along side increased vaccinations. Energy prices have risen steadily over the past few months. The WTI price is now back to pre-recession levels, hovering around \$63.33 USD/barrel. Higher oil prices and increased expected future demand will provide much needed cash relief. Additionally, work on the Trans Mountain expansion project is well underway. This will further support Edmonton's energy service sector.

At the start of the pandemic, the Bank of Canada pledged to keep interest rates low until at least 2023 to support economic growth. However, economic activity has improved faster than expected. This has prompted

the central bank to consider interest rate increases in the second half of 2022. Long term bonds have risen and are now above pre-pandemic levels. The velocity of the increase reflects underlying concerns about mounting inflationary pressures. This is particularly noticeable in construction prices, which have seen 30-40% increases over the past few weeks and are likely to continue to climb. However, although interest rates are moving higher, they will continue to be near historical lows.

The velocity of the recent COVID-19 third wave, driven by variants of the virus, is likely to cause further restrictions throughout Alberta's capital city. This will slow down the economic recovery in the short-term. However, there are multiple reasons for optimism. In early April, the Alberta government administered 300,000 vaccine doses each week. Beyond this, Edmonton's long term economic recovery will be driven by growing value-add industries. There is tremendous potential from the hydrocarbon processing industry with projects such as Inter Pipeline's \$4-billion petrochemical plant. The region is also well positioned to become a global hydrogen leader. In early April, the three levels of government announced \$2 million in funding to kick-start the development of the local hydrogen economy. Additionally, Edmonton continues to be a global leader in artificial intelligence with a buzzing technology sector. A recent report from Alberta Enterprise Corporation revealed that there are over 1,200 tech companies in the province since 2018, which are looking to fill 9,000 new tech-sector jobs by 2023.

2021-Q1 Greater Edmonton Market Highlights

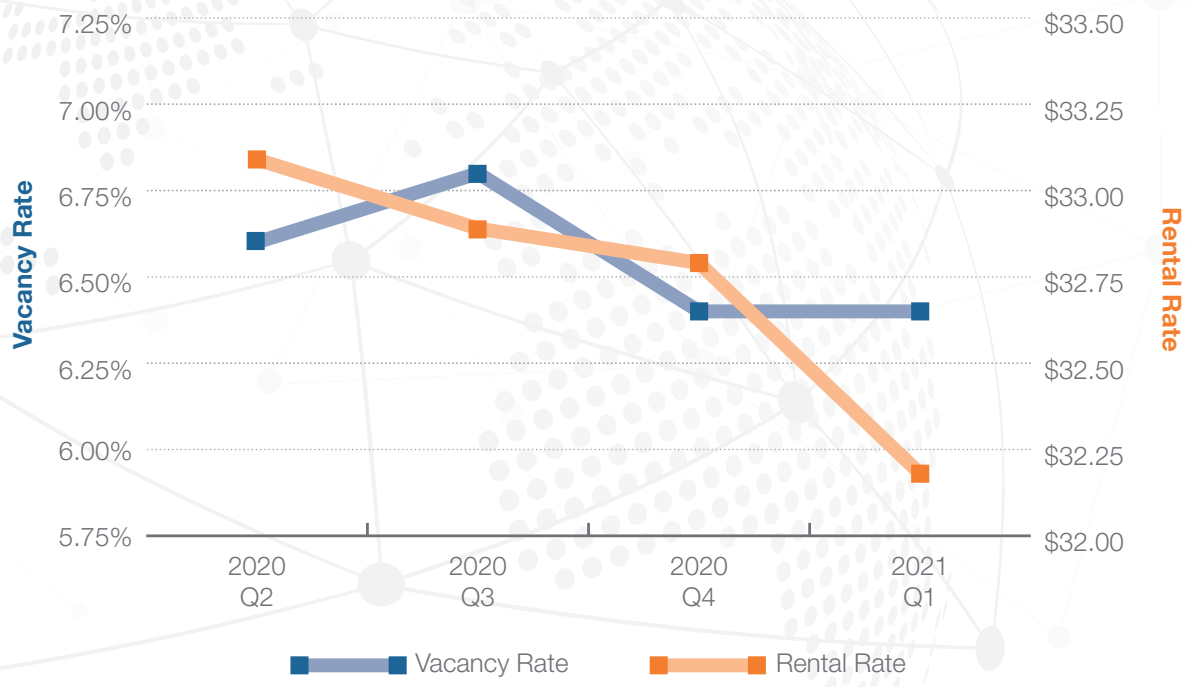
GREATER EDMONTON AT A GLANCE OVERALL VACANCY TRENDS

Buildings Surveyed: 11,235
Existing SF: 311M

2020-Q2	2020-Q3	2020-Q4	2021-Q1
6.6%	6.8%	6.4%	6.4%

Average Rental Rates vs. Vacancy

GREATER EDMONTON AT A GLANCE OVER THE PAST 12 MONTHS



About NAI Commercial

<https://www.naiedmonton.com/about-us/>

NAI Commercial is a market-leading, full service commercial real estate brokerage providing exceptional service and expertise in Edmonton and surrounding areas since 1966. We are your ideal partner given our depth of local market knowledge and the transaction volume we close on year after year for our clients.

We build our network of successful relationships based on trust and loyalty, and many of our clients choose to deal with us exclusively for all their commercial real estate needs. We offer trusted advice in Edmonton, across Canada and around the world.





Retail Market

Despite a fair share of challenges, including mandatory store closures, reduced operating hours, lower capacity, limited foot traffic and bankruptcies, Edmonton's retail real estate market has fared better than expected. The overall market vacancy rate increased to 5.3% for the first quarter of 2021, 100 basis points higher compared to the same period last year. It is important to note that many tenants have avoided bankruptcy thanks to government programs, many of which expire in the second quarter of 2021. However, the recent federal budget is proposing to extend many of the benefits for businesses until the fall of 2021.

Although Edmonton's retail sales in 2020 were 1.4% lower compared to 2019 levels, sales rebounded strongly throughout the second half of the year. Unfortunately, the recovery of the retail market will likely experience a setback in light of the rising cases of COVID-19. In early April 2021, the Government of Alberta re-instated restrictions limiting capacity on restaurants, retail stores and fitness facilities. While there is short-term pain on the horizon, Edmonton's retail market is likely to see a strong recovery into 2022. The Conference Board of Canada expects Edmonton retail sales to rise by 3.4% in 2021 with growth accelerating to 10.3% in 2022. Low borrowing costs and households flush with cash, due to a lack of spending opportunities and government stimulus programs, will likely fuel retail demand in the upcoming months.

Edmonton is full of entrepreneurs which helped the region experience its fourth consecutive quarter of positive absorption with 118,556 SF leased through Q1 2021.

While there are some pockets of weakness throughout the city, tenants are quickly backfilling vacant spaces. Despite increased restrictions for indoor dining, there continues to be strong interest from restaurants, particularly from local groups. Tenants are taking advantage of move-in ready spaces and users in the business and professional sector, such as lawyers or accountants, have also been a source of demand securing high traffic spaces traditionally reserved for retail tenants.

Grocery stores continue to be active in the market with the new Costco Wholesale Business Centre opening in Sunwapta Centre as well as the upcoming openings for the Superstore at Harvest Hills Market and the Italian Centre at Emerald Hills Urban Village. However, these deals were negotiated prior to the pandemic. Big box tenants, who were very active in the market prior to the pandemic, continue to be notoriously absent in the market. Additionally, new construction leasing will remain challenging for the foreseeable future.

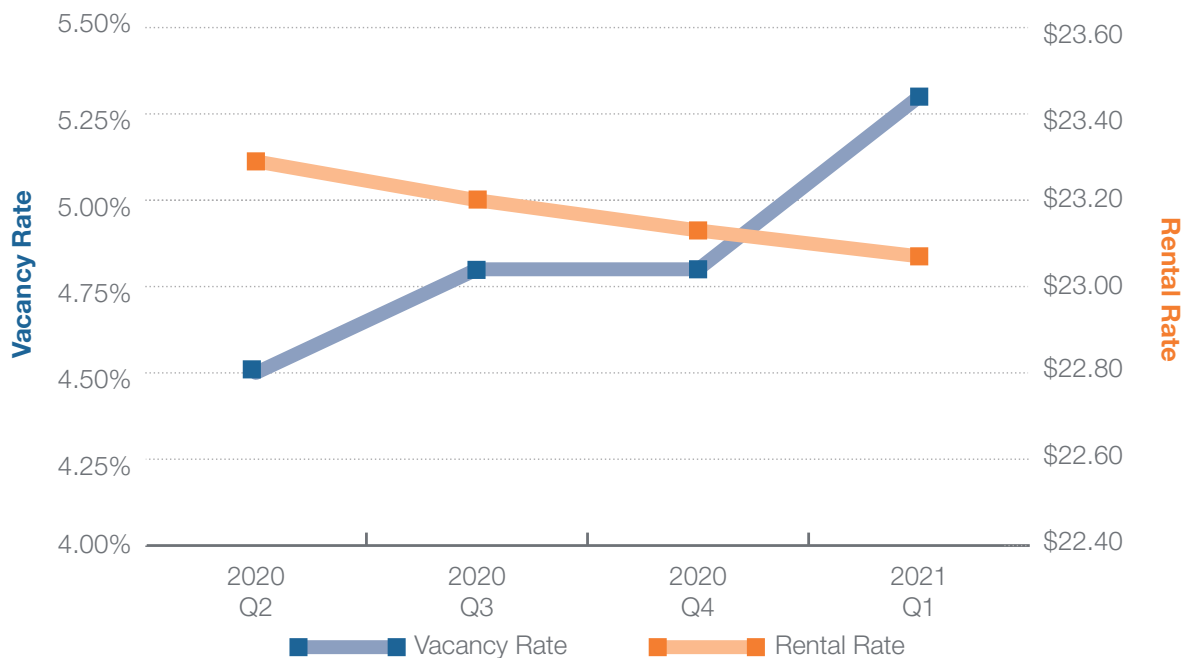
Despite uncertain economic conditions, rental rates have remained relatively flat. Retail space is less of a commodity and much more site specific, making it slightly more immune to decrease in prices due to increased vacancy. However, landlords continue to be aggressive by offering strong rent inducements, particularly longer free rent and fixturing periods. Additionally, to avoid higher vacancy rates, some property owners have become more lenient in leasing to industries that would not be acceptable in the past or by taking on tenants with weaker financials.

RETAIL Vacancy Trends

	2020-Q2	2020-Q3	2020-Q4	2021-Q1
GREATER EDMONTON Buildings Surveyed: 4,308 Existing SF: 67.8M	4.5%	4.8%	4.8%	5.3%
EDMONTON WEST Buildings Surveyed: 1,071 Existing SF: 18M	5.3%	5.6%	5.3%	5.6%
EDMONTON SOUTH Buildings Surveyed: 1,328 Existing SF: 22.2M	4.2%	4.9%	5.1%	5.6%
EDMONTON CENTRAL Buildings Surveyed: 584 Existing SF: 6.2M	6.5%	6.8%	6.5%	6.6%
LEDUC Buildings Surveyed: 145 Existing SF: 1.9M	2.1%	4.6%	4.2%	4.4%
ST. ALBERT Buildings Surveyed: 205 Existing SF: 3.6M	3.8%	4.0%	5.0%	5.8%
SHERWOOD PARK / FORT SASKATCHEWAN Buildings Surveyed: 328 Existing SF: 5.6M	5.3%	5.8%	5.3%	5.4%
WHYTE AVENUE / GARNEAU Buildings Surveyed: 195 Existing SF: 1.5M	5.0%	6.1%	6.5%	9.4%

Average Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS





Office Market

Edmonton's office market registered 86,832 SF of negative absorption in the first quarter of 2021, after three consecutive quarters of positive leasing activity. Overall vacancy increased 20 basis points compared to Q4 2020 and is now 9.0%. Despite this, office demand is likely to increase over the coming months, as touring activity has increased substantially. This has been driven by demand from tenants who pushed decision making during the pandemic, as well as tenants looking to take advantage of today's market opportunities. Landlords are proving to be motivated, offering high tenant inducement allowances, long free rent periods and accepting commencement dates over 12 months into the future. Building owners are willing to accept \$2-\$3 dollar NERs looking to avoid having vacancies in their buildings.

The business and professional sector as well as tech companies continue to be the driving force of activity in the market with transactions such as Bitcoin Well relocation to the downtown core leasing 35,531 SF at Cecil Place as well as Invistec relocation and expansion to 103 Street Centre. Government and engineering firms, which have traditionally absorbed large blocks of space, continue to be somewhat absent in the market. Yet there are some signs of life from these occupiers, such as the recent 23,000 SF lease at Prospect Place by Silvacom, as well as the 23,000 SF absorbed at the Voice building by a company in the resource sector. Additionally, the Province of Alberta has recently leased 17,000 SF in the Queen Mary Park region.

High vacancy rates, combined with low demand from institutional buyers, has pushed office values well below replacement costs. This has provided an opportunity for owner-users to get into a position of equity. The most notable of these transactions was the recent purchase of the 50th Street Atria by the Catholic Church Board. The 189,000 SF building will consolidate six administrative units housing 300 employees under one roof. Additionally, recent transactions include the purchase of the former College and Association of Registered Nurses of Alberta building by Treaty 8 First Nations, as well as the 44,318 SF three building portfolio on Calgary Trail by a technology company. Office prices have decreased substantially since 2014 and are near or at bottom levels.

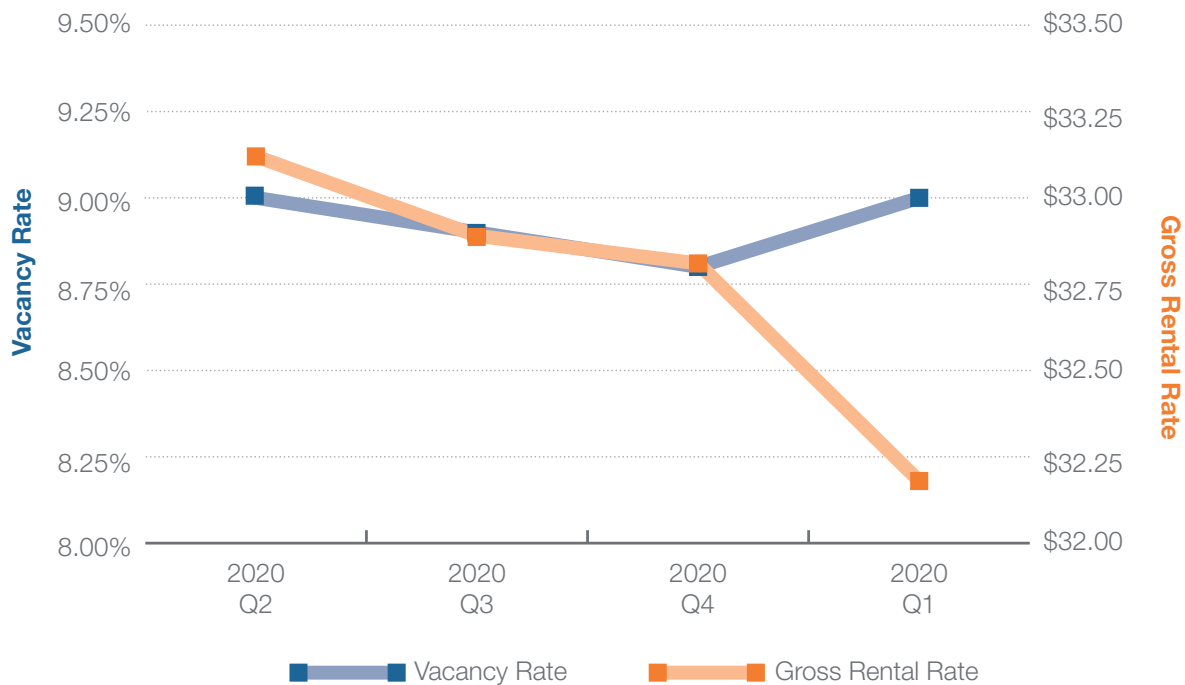
An interesting trend to watch over the coming months is whether remote working is here to stay. A return to the office, likely in a hybrid model is expected as companies are concerned with a loss of productivity. The successful lease-up of Edmonton's new office towers also showcases that companies leverage office space to attract and retain talent. A recent survey by KMPG found that most global companies are expecting a return to the office. Only 17% of the executives surveyed plan to cut back on office space. Data from countries such as New Zealand, which has been more successful at containing the virus, shows that virtual meetings have dropped substantially as employees and students are returning to the office and school.

OFFICE Vacancy Trends

	2020-Q2	2020-Q3	2020-Q4	2021-Q1
GREATER EDMONTON Buildings Surveyed: 1,297 Existing SF: 51M	9.0%	8.9%	8.8%	9.0%
EDMONTON DOWNTOWN Buildings Surveyed: 283 Existing SF: 26M	9.2%	9.4%	8.8%	9.4%
EDMONTON SUBURBAN Buildings Surveyed: 450 Existing SF: 11M	9.6%	9.6%	9.6%	10.2%
WINDERMERE / SUMMERSIDE Buildings Surveyed: 70 Existing SF: 2.1M	4.6%	4.5%	4.4%	4.1%
UNIVERSITY / GARNEAU Buildings Surveyed: 57 Existing SF: 1M	10.5%	11.5%	11.8%	11.4%

Average Gross Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS





Industrial Market

Edmonton's industrial market continues to exceed expectations fueled by ecommerce and business to consumer distribution. The overall market registered 596,865 SF of positive absorption in the first quarter of 2021. The market vacancy rate declined 30 basis points compared to Q4 2020 and is now 6.1%.

Throughout 2020, the market saw a dramatic slow down as companies renewed on short-term basis or even put decision making entirely on hold. Pent up demand combined with improved economic fundamentals has unleashed demand on almost every sector of Edmonton's industrial market. While still weaker, demand from the oil and gas sector is slowly showing signs of life as oil prices increase and construction of the Trans Mountain pipeline is well underway. Many tenants are still giving aggressive offers in search for COVID deals, which never really existed in the first place. However, the tables are slowly turning in favour of landlords. Rental rates are not likely to see strong increases over the next few months. However, property owners are pushing back on unrealistic offers and are slowly decreasing the amount of inducements offered to tenants. While not the norm, is not uncommon to see competing offers for functional, well located spaces.

Space constraints across the country, particularly in the Greater Toronto and Greater Vancouver areas have pushed users to secondary markets such as Edmonton in search of large blocks of space. Additionally, demand has been exacerbated in light of the pandemic shortages as companies are re-evaluating supply chains to build larger inventory buffers. This has led to solid demand for distribution space in the region. There is no contiguous

vacancy for distribution space larger than 150,000 SF currently available in the market. Despite this, Edmonton's industrial market remains well positioned as we enter 2021, as there is enough land availability, particularly outside of the city limits. Strong demand has encouraged developers to bring in additional supply on speculative construction. The most notable projects currently under development include Monarch 5 (400,000 SF), Horizon Business Park (214,000 SF), Anthony Henday Business park (196,700 SF) and Southport Building 3 (154,000 SF).

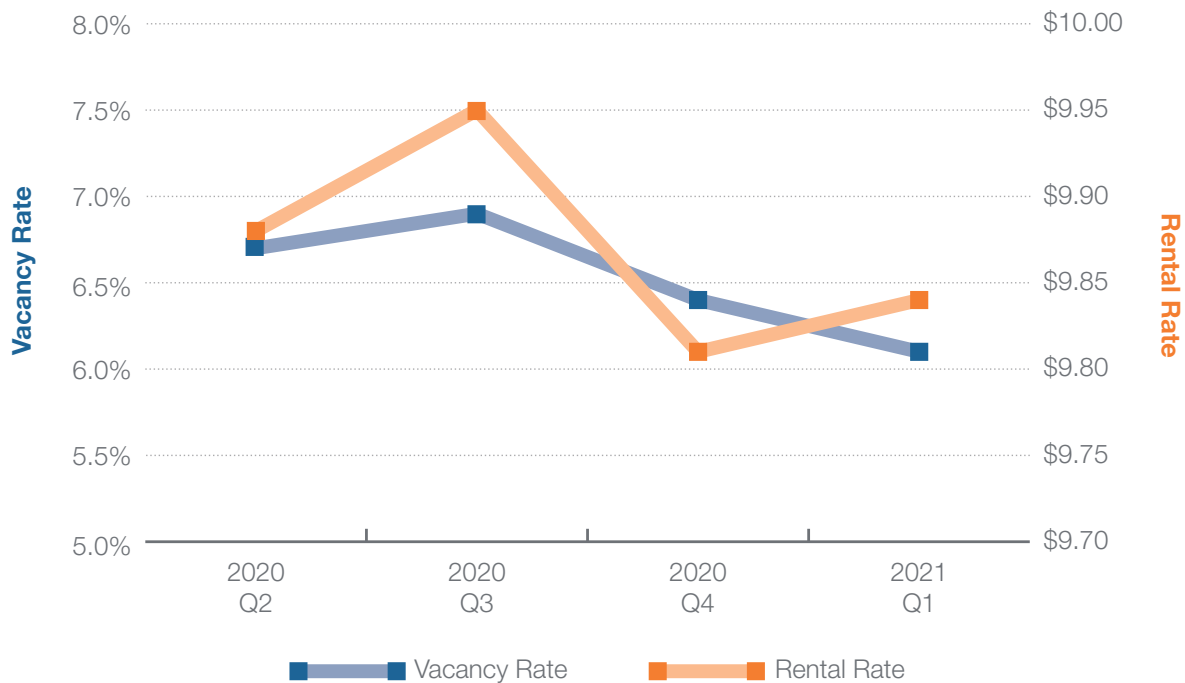
Multiple large transactions were concluded over the past few months. This includes York Realty leasing over 250,000 SF at Monarch Business Park to food related tenants with a large portion in pre-construction stage. One Properties has successfully leased 219,380 SF at Border Business Park to Canada Cartage and Panattoni has leased 115,983 SF at Apex Business park. Additionally, there are multiple requirements currently in the market in excess of 100,000 SF each which should transact in the next few quarters. 2021 could be the largest year on record for positive absorption in the Edmonton industrial market, subject to the completion of some large projects currently under construction. This includes Amazon's 2.9 million SF distribution facility currently under development by Panattoni as well as Uline's new 600,000 SF warehouse in St. Albert. It is important to note that most of the new development is happening outside of the City of Edmonton proper boundaries. The capital city lags competitiveness with almost double the property tax mill rates compared to surrounding municipalities, along side substantially more red tape.

INDUSTRIAL Vacancy Trends

	2020-Q2	2020-Q3	2020-Q4	2021-Q1
GREATER EDMONTON Buildings Surveyed: 5,629 Existing SF: 191M	6.7%	6.9%	6.4%	6.1%
EDMONTON WEST Buildings Surveyed: 1,870 Existing SF: 70M	7.7%	7.1%	6.1%	5.7%
EDMONTON SOUTH Buildings Surveyed: 1,729 Existing SF: 66.4M	6.4%	6.7%	6.5%	5.9%
SHERWOOD PARK / FORT SASKATCHEWAN Buildings Surveyed: 317 Existing SF: 10M	10.6%	11.1%	11.3%	11.4%
LEDUC / NISKU Buildings Surveyed: 768 Existing SF: 22.7M	5.7%	6.8%	7.8%	8.7%

Average Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS



Notable Transactions in the Market

PROPERTIES SOLD

PROUDLY SOLD BY NAI COMMERCIAL



502 - 25 Avenue
Price: \$15,427,261
 \$108.70/sq.ft.

Area: Nisku
Property Type: Industrial
Size: 141,930 sq.ft.
 on 11.34 acres



2130 - 121 Avenue NE
Price: \$12,500,000
 \$94.04/sq.ft.

Area: Clover Bar Area
Property Type: Retail
Size: 132,919 sq.ft.
 on 12.28 acres



9712 - 54 Avenue
Price: \$8,100,000
 \$150.00/sq.ft.

Area: Coronet Industrial
Property Type: Industrial
Size: 54,000 sq.ft.
 3.31 acres



5425 Calgary Trail
Price: \$7,577,500
 \$170.98/sq.ft.

Area: Calgary Trail
Property Type: Industrial
Size: 44,318 sq.ft.
 3.26 acres



182 Sturgeon Way
Price: \$5,775,000
 \$225.15/sq.ft.

Area: Sturgeon County
Property Type: Industrial
Size: 25,650 sq.ft.
 on 7 acres



16815 Stony Plain Road
Price: \$3,700,000
 \$269.09/sq.ft.

Area: Glenwood
Property Type: Retail
Size: 13,750 sq.ft.



11904 21 Street NE
Price: \$2,925,000
 \$145.67/sq.ft.

Area: Clover Bar Area
Property Type: Industrial
Size: 20,080 sq.ft.
 on 2.92 acres



13630 - 159 Street
Price: \$2,900,000
 \$124.55/sq.ft.

Area: Mistatim Industrial
Property Type: Industrial
Size: 23,283 sq.ft.
 on 2.84 acres

NAI Listing Highlights

AVAILABLE PROPERTIES **FOR SALE AND/OR LEASE**



15625 Stony Plain Road
Sale Price: \$4,225,000
Area: Glenwood
Property Type: Retail/Office
Size: 12,074 sq.ft.±
 on 0.35 acres±



15620 - 111 Avenue
Sale Price: \$2,400,000
Lease Rate: \$9.50/sq.ft.
Area: Sheffield Industrial
Property Type: Industrial
Size: 22,080 sq.ft.±
 on 2.92 acres±



9728 - 111 Street
Sale Price: \$2,196,400
Area: Oliver
Property Type: Land
Size: 0.26 acres±



214 St. Albert Trail
Sale Price: From \$325/sq.ft.
Area: St. Albert
Property Type: Office/Retail
Size: 817 - 15,000 sq.ft.
 on 0.91 acres±

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