NAI Commercial

FIRST QUARTER MARKET REPORT **2022**

GREATER EDMONTON, ALBERTA

Economic Outlook

On the horizon of the pandemic's two-year anniversary, the first quarter of 2022 saw continued economic improvement in Alberta, despite a bevy of emerging national issues in the form of inflation hitting a 30-year high; international supply chain issues; and geopolitical impacts on pricing and product sourcing, largely resulting from the Russian invasion of Ukraine.

The end of 2021 saw an economic bounce-back that rolled into 2022, largely as expected. Alberta's unemployment rate improved to 6.5% in March, falling to the lowest rate since before the pandemic, according to Statistics Canada. The jobless rate drop was reflected by an increase in building permits taken out throughout the province, an increase in year-over-year company incorporation numbers, and faster transactions and debt placements throughout the province. It further garnered a 9.8-point rise in consumer confidence in Alberta, according to the Conference Board of Canada.

Edmonton is currently considered a national powerhouse in economic recovery, with Oxford Economics projecting GDP growth at 5.6% throughout 2022, behind only Calgary in Canada, largely attributed to improvements in the oil and gas sector, and ongoing diversification efforts. Oil and gas investment is projected to skyrocket 22% this year, to $32.8 billion, according to the Canadian Association of Petroleum Producers, with 80% of that growth expected to take place in Alberta. Oil prices are evidence of that energy industry bounce-back. By the end of the first quarter of 2022, Western Canadian Select, the industry benchmark for Alberta oil prices, had risen above $85 per barrel, while WTI Crude pricing had climbed north of $100 per barrel.

Though a rebounding oil and gas sector is not projected to have the positive impact on industrial and commercial real estate that would typically be expected, diversification efforts are filling those spaces, with distribution of goods leading the charge. Net absorption of industrial space is set to surpass 4.5-million square feet in 2022, with rental rates increasing to pre-pandemic levels.

Office vacancy, too, is expected to decrease, based on a survey by the Edmonton Downtown Business Association, which notes downtown workers are planning a return to the office in Q2 of 2022. This echoes a vacancy rate improvement in Calgary, pointing to positive movement throughout the province. Altogether, the commercial market improvement, combined with a more stable industrial vacancy rate, accounts for a projected $56.7 billion in spending on non-residential projects in Alberta throughout the year, according to Statistics Canada.

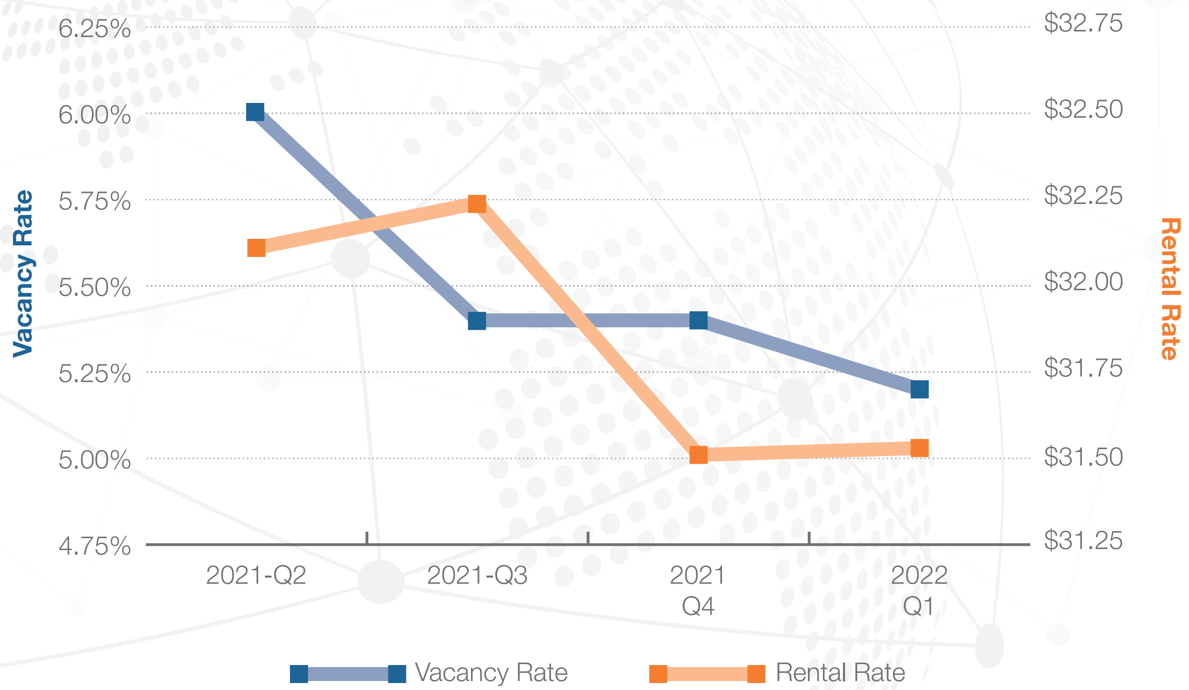
While 2022 is highlighted as a year of stabilization, though, rumblings are now creating the sense that this may be somewhat of a calm before the storm. Economic improvements and consumer trends have buoyed a strong housing market, with the Alberta Real Estate Association noting a 9.9% average home price climb to $443,398, year-over-year, largely driven by market supply. Those prices, however, are expected to be relatively short-lived, and could lead to economic hardships in the years to come. Oxford Economics projects a national residential average price drop of nearly 25% by 2024, with top-level projections placing that plummet closer to 40%. While economists' projections can change if either scenario holds true, the Canada-wide economic fallout would be significant, and is likely to have a ripple effect on all industries and markets.

2022-Q1 Greater Edmonton
Market Highlights

GREATER EDMONTON AT A GLANCE OVERALL VACANCY TRENDS	2021-Q2	2021-Q3	2021-Q4	2022-Q1
Buildings Surveyed: 11,577 Existing SF: 319M	**6.0%**	**5.4%**	**5.4%**	**5.2%**

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 pandemic turbulence, and new issues arising through global supply chain uncertainty, the retail market has performed better than many anticipated in early-2022. While office vacancy throughout the Edmonton Region has increased through the past three quarters, retail vacancy has actually decreased since the end of 2021, to 4.2%. This marks the fifth straight quarter in which there has been a decrease in vacancy, falling from a high of 5.2% in early 2021.

Such improvements have been echoed across different markets within the Edmonton Region, though vacancy rates remain noteworthy in certain areas. The Whyte Avenue-Garneau stretch of Edmonton, for example, held an above-average vacancy rate of 7.3% in early-2022; however, that still marks a noted decrease from a high of 8.4% at the same time last year. Meanwhile, the retail vacancy rate in Sherwood Park–Fort Saskatchewan dropped to 4.1% in early 2022, down from a high that came much earlier in the pandemic, when the area's vacancy rate reached 5.9% in mid-2020. St. Albert has seen the most notable recovery, from 5.8% in early 2021, to 2.3% in early-2022, which proves to be the suburb's lowest vacancy rate since before 2019.

The continued shift towards e-commerce has created problems for retail tenants unable to adapt and take on a larger digital presence. According to retail firm DIG360, a number of retail bankruptcies are anticipated in 2022, with the outlook alluding to those closures as "disproportionately" impacting independent operations. Large traditional outlets have shut down consistently since 2020, including Le Chateau, Ann Taylor, and Thyme Maternity. However, such closures slowed in 2021, and continue to relent into 2022, as owners have adapted to challenges presented throughout the pandemic.

Of particular impact on the retail sector, DIG360 cites ongoing staffing challenges and supply chain issues expected to continue into 2023. This could further pit corporations against 'the little guy,' with compounding challenges becoming insurmountable to some independent owners. Large retailers, such as Walmart, Costco, and Best Buy (which opened a new location in Sherwood Park in early 2022) have largely thrived throughout the pandemic, gaining additional ground over smaller competitors. Niche outlets, though, such as athleisure and loungewear retailers, have proven notably immune to pandemic woes, with COVID-related trends working in their favour.

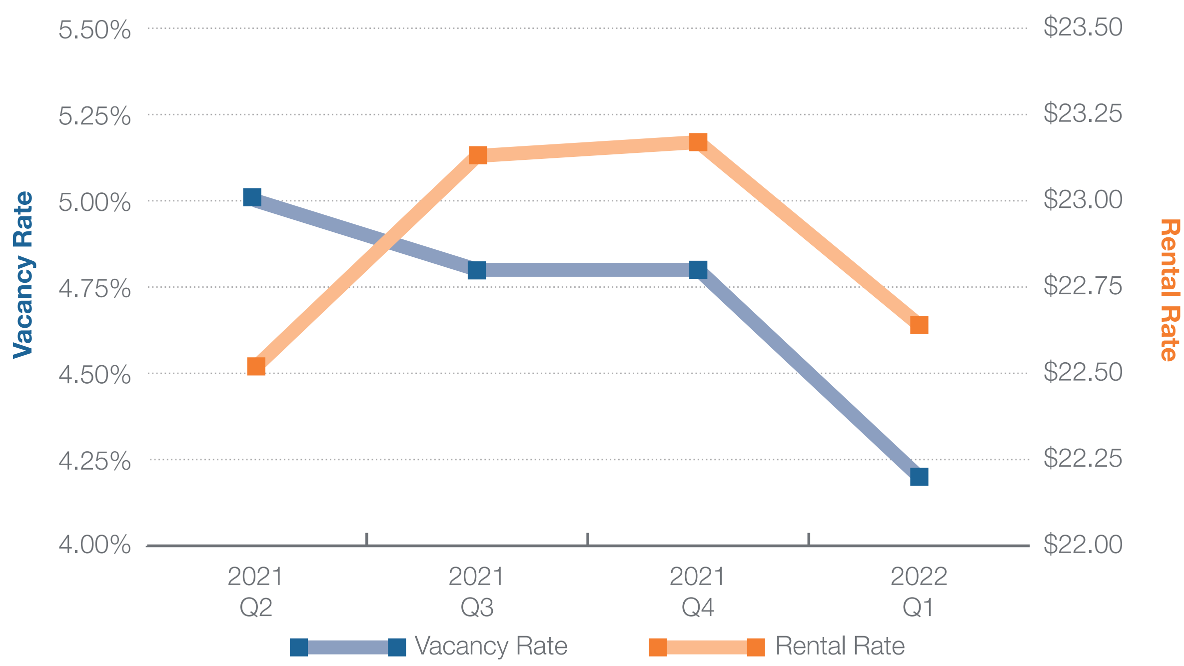
Along with the previously mentioned vacancy rate improvement, the City of Edmonton continues to work towards incubating retail opportunities, with numerous grant programs for storefront improvement projects (up to $50,000), and programs focused on development incentives (up to $100,000). This somewhat reflects the ongoing trend in which shoppers expect an "experience" when going to brick-and-mortar locations nowadays, as noted by the J.C. Williams Group. Along those same lines, retail trends for 2022 are expected to include 'pop-up' retailers filling vacancies left behind after closures. This should help to keep vacancies low, even as retailers continue to navigate an ever-changing marketplace, and worsening supply chain issues.

RETAIL Vacancy Trends

	2021-Q2	2021-Q3	2021-Q4	2022-Q1
GREATER EDMONTON Buildings Surveyed: 4,471 Existing SF: 69.9M	5.0%	4.8%	4.8%	4.2%
EDMONTON WEST Buildings Surveyed: 1,092 Existing SF: 19M	5.5%	5.1%	6.1%	5.3%
EDMONTON SOUTH Buildings Surveyed: 1,380 Existing SF: 22.7M	5.4%	5.1%	5.0%	4.5%
EDMONTON CENTRAL Buildings Surveyed: 583 Existing SF: 6.8M	5.3%	4.9%	5.8%	6.0%
LEDUC Buildings Surveyed: 147 Existing SF: 1.9M	5.0%	4.0%	4.1%	3.8%
ST. ALBERT Buildings Surveyed: 215 Existing SF: 3.7M	4.6%	4.2%	3.3%	2.3%
SHERWOOD PARK / FORT SASKATCHEWAN Buildings Surveyed: 389 Existing SF: 6.3M	5.8%	5.4%	4.8%	4.1%
WHYTE AVENUE / GARNEAU Buildings Surveyed: 194 Existing SF: 1.5M	9.0%	7.1%	7.6%	7.3%

Average Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS



Office Market

The office real estate market has shown some promise in the early months of 2022, but has fallen short of the optimism that accompanies the industrial market. While Edmonton's office vacancy rates remain high, these numbers do not come as a surprise; rather, they mirror cross-Canada rates that have plagued the landscape for eight straight quarters.

There are numerous reasons cited for ongoing high vacancy rates, though one major contributor seems to be the sharp increase in the number of companies offering remote working setups for their employees. That trend is likely to persist in many regions, reducing the need for brick-and-mortar office space, but Edmonton could prove the exception. While more than half of managers participating in a recent Robert Half Inc. survey stated they want their staff to return to in-office work on a full-time basis, over 50% of employees polled said they would search for a new job if that proved to be the case. Meanwhile, a recent survey executed by the Edmonton Downtown Business Association suggests a notable majority of downtown workers are hoping to return to the office on a full-time basis in early to mid-2022.

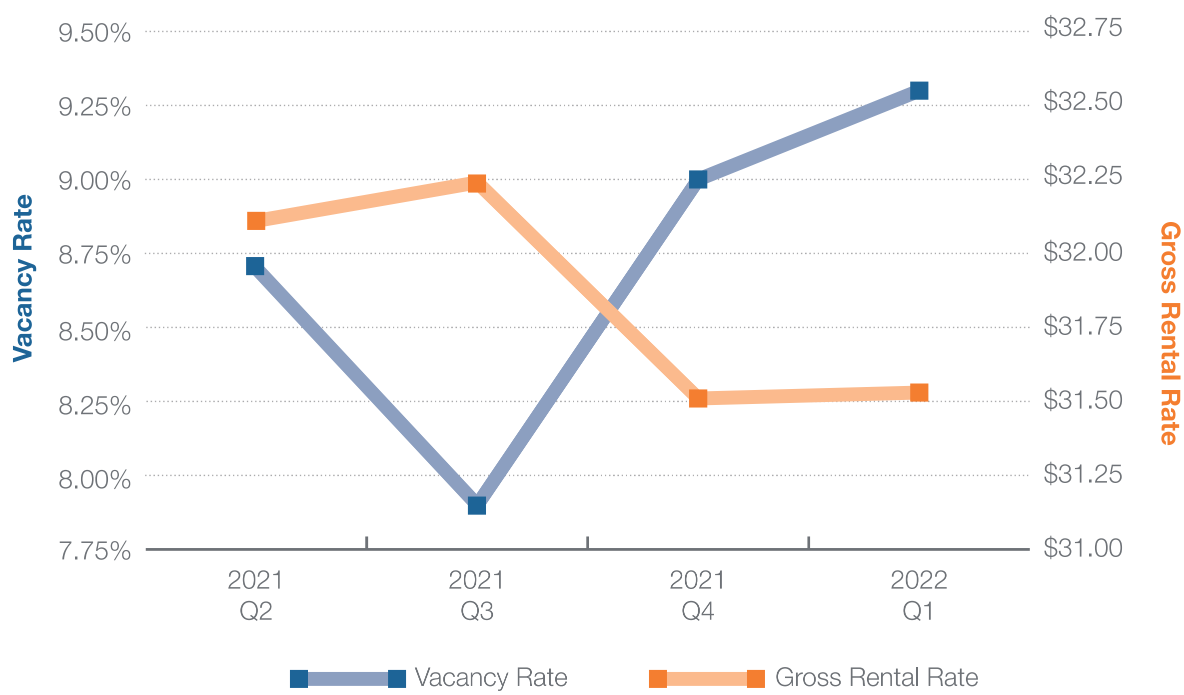
It will be interesting to see how large metro centres like Edmonton handle these shifts moving forward. Office vacancy levels run a wide gamut across the country, with major centres including Vancouver, Ottawa, Toronto, Montreal, and Winnipeg playing host to vacancy rates between 7.7% and 15.6%. Edmonton's downtown core, meanwhile, has an office vacancy rate of 10.1% for the first quarter of 2022, when factoring in all office spaces in the downtown area. Edmonton's downtown office vacancy rate is notably higher than the region as a whole, but only slightly, with the entire metropolitan region's vacancy rate increasing steadily since Q3 of 2021, rising from 8.4% to 9.3% by the end of March. The desire to return to office spaces, combined with an active effort by the Urban Development Institute to increase Downtown Edmonton occupancy and activity, could speed up Edmonton's recovery significantly, and help to close the vacancy gap between the downtown core and other areas within the region.

Regardless of current struggles, Canada's office real estate market is expected to stabilize following two years of pandemic woes. Numerous reports have outlined an anticipated return to pre-pandemic occupancy rates in 2022, resulting in a surge of optimism in the marketplace. While vacancy rates vary significantly not only from province to province, but also from city to city, Edmonton is expected to be one of the top three beneficiaries of office market growth throughout the remainder of the year (along with Montreal and Waterloo). That comes in the midst of projections for a 15-year-high national net absorption rate of 6.2-million square feet in 2023.

OFFICE
Vacancy Trends

	2021-Q2	2021-Q3	2021-Q4	2022-Q1
GREATER EDMONTON Buildings Surveyed: 1,337 Existing SF: 53.8M	8.7%	7.9%	9.0%	9.3%
EDMONTON DOWNTOWN Buildings Surveyed: 284 Existing SF: 27.4M	9.5%	8.3%	10.1%	10.9%
EDMONTON SUBURBAN Buildings Surveyed: 821 Existing SF: 21.8M	8.5%	7.6%	7.8%	7.8%
WINDERMERE / SUMMERSIDE Buildings Surveyed: 68 Existing SF: 2M	4.3%	3.6%	4.4%	4.3%
UNIVERSITY / GARNEAU Buildings Surveyed: 59 Existing SF: 1.1M	13.8%	15.0%	14.5%	14.8%

Average Gross Rental Rates vs. Vacancy
GREATER EDMONTON OVER THE PAST 12 MONTHS



Industrial Market

While improved performance in the oil and gas sector has spurred optimism throughout Alberta, industrial real estate occupancy trends point to the energy sector rebound not yet having a major impact on industrial vacancy rates. Instead, current swings show industrial diversification efforts as filling that void, including an influx of large-scale delivery outfits.

Amazon is a good example of growth in that space, including the corporation's relatively new distribution centre in Edmonton, along with a 2.9-million-square-foot Amazon fulfillment centre in Acheson that's currently under construction, and the 600,000-square foot automated fulfillment centre in Parkland County, slated to open later this year. These accompany another major project in Panattoni's 545,000-square foot build in the city's northwest. An increased distribution presence in Edmonton aligns nicely with consumer habits that were already trending upwards ahead of the arrival of COVID-19, but which were bolstered considerably as a direct result of the pandemic, including a massive increase in online purchasing.

Industrial vacancy rates have fallen by more than 2% across the region, driven not by oil and gas, but by a growth in distribution, to 4.3% at the end of the first quarter of 2022. While the most significant decrease in vacancy has been seen in the City of Edmonton, similar shifts have extended to the areas on the outskirts of the city, such as Sherwood Park, Fort Saskatchewan, and Leduc. The latter may play host to further industrial market indulgence through the relaunching of the 'Port Alberta' concept — an international shipping and logistics hub that's currently seen as adjacent to the Edmonton International Airport. However, Edmonton Global, a regional economic development group made up of municipal representation from throughout the Edmonton Metropolitan Region, has noted this hub could expand significantly in the near future, as the City holds the title of the northern-most major municipal centre in North America. This position is supported by the notable local rail, road, and air corridors that can be leveraged for economic growth.

These evolving areas of industrial focus have helped unburden the region's industrial market, despite continued high office vacancy rates. Last year saw Edmonton's industrial market play witness to 2.1-million square-feet of positive net absorption, the highest level since 2013, with that trend continuing into 2022. This positive shift has been mirrored in other major centres including Calgary, Toronto, Montreal, and Vancouver.

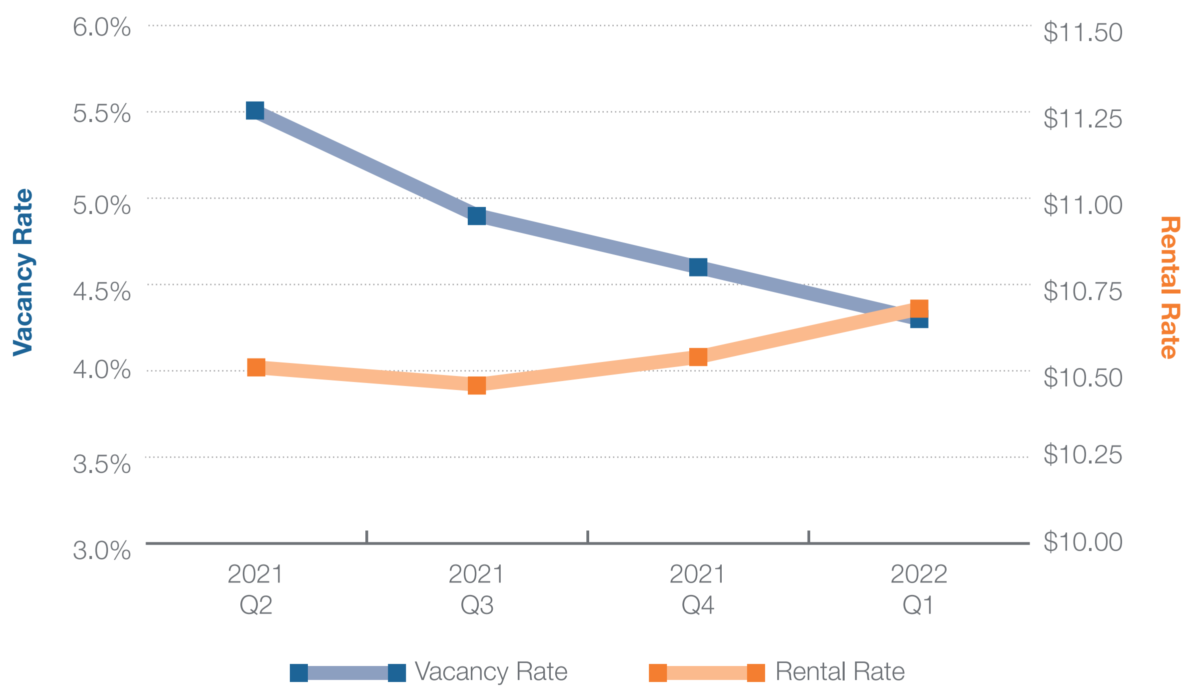
Anchored by Amazon's massive undertakings in the area, the Edmonton region is playing host to 4.6-million square feet of space under construction, marking a seven-year high and adding to what has largely been noted as a tightening supply of available industrial space. This is despite Edmonton's industrial space inventory of 143.1-million square feet, the fourth highest in Canada. These Capital City properties carry the most expensive industrial lease rates in Alberta, at more than $10 per square foot, compared to around $8.50/sq.ft. in Calgary. As of the end of 2021, the average sales price of industrial space in Edmonton came in below $140 per square foot, while the national average was closer to $215 per square foot. This pricing has proven largely consistent to date in 2022.

Projections point to continued low vacancy rates for the Edmonton Region, combined with increased industrial space inventory. Unrelenting online purchasing trends, and supply chain issues created by the pandemic and Russia's invasion of Ukraine, mean that a shift towards distribution-related uses of industrial space in the Edmonton area is likely to continue.

INDUSTRIAL
Vacancy Trends

	2021-Q2	2021-Q3	2021-Q4	2022-Q1
GREATER EDMONTON Buildings Surveyed: 5,767 Existing SF: 195M	**5.5%**	**4.9%**	**4.6%**	**4.3%**
EDMONTON WEST Buildings Surveyed: 1,886 Existing SF: 71.1M	**5.5%**	**4.5%**	**4.0%**	**3.5%**
EDMONTON SOUTH Buildings Surveyed: 1,747 Existing SF: 66.6M	**5.7%**	**5.2%**	**4.9%**	**4.7%**
SHERWOOD PARK / FORT SASKATCHEWAN Buildings Surveyed: 350 Existing SF: 10.2M	**8.1%**	**6.4%**	**6.6%**	**5.6%**
LEDUC / NISKU Buildings Surveyed: 775 Existing SF: 22.8M	**7.4%**	**6.9%**	**6.7%**	**6.5%**

Average Rental Rates vs. Vacancy
GREATER EDMONTON OVER THE PAST 12 MONTHS



Notable Transactions in the Market

PROPERTIES **SOLD**

PROUDLY SOLD BY NAI COMMERCIAL

4950 101 Avenue
Price: $14,450,000
$554.60/sq.ft.
Area: Gold Bar
Property Type: Retail
Size: 26,055 sq.ft.
on 3.44 acres

2130 - 121 Avenue NE
Price: $14,000,000
$163.99/sq.ft.
Area: Nisku
Property Type: Industrail
Size: 85,367 sq.ft.
on 4.62 acres

1003 Parsons Road SW
Price: $9,000,000
$165.44/sq.ft.
Area: Ellerslie Industrial
Property Type: Retail
Size: 54,402 sq.ft.
8.69 acres

2003 76 Avenue
Price: $6,250,000
$287.89/sq.ft.
Area: Southeast Industrial
Property Type: Industrial
Size: 21,710 sq.ft.
9.77 acres

5705 103A Street
Price: $5,350,000
$87.25/sq.ft.
Area: Calgary Trail North
Property Type: Industrial
Size: 61,321 sq.ft.
on 2.93 acres

4219 - 99 Street
Price: $4,000,000
$165.69/sq.ft.
Area: Strathcona Ind. Park
Property Type: Industrial
Size: 24,142 sq.ft.
on 1.2 acres

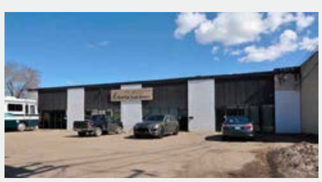
13520 - 156 Street
Price: $4,375,000
$270.75/sq.ft.
Area: Mistatim Industrial
Property Type: Industrial
Size: 16,159 sq.ft.
on 5.29 acres

11661 Bevington Road
Price: $3,350,000
$233.33/sq.ft.
Area: Acheson
Property Type: Industrial
Size: 15,000 sq.ft.
on 1.65 acres

NAI Listing Highlights

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

10010 - 88 Avenue
Sale Price: $4,340,000
Area: Fort Saskatchewan
Property Type: Retail/Office
Size: 10,522 sq.ft.±
on 0.54 acres±



5817 - 97 Street
Sale Price: $1,815,000
Area: Coronet Industrial
Property Type: Industrial
Size: 11,000 sq.ft.±
on 0.51 acres±

107 Avenue Building
Sale Price: $3,265,000
Area: Central McDougall
Property Type: Retail/Office
Size: 0.17 acres±

7315 - 50 Street
Sale Price: From $325/sq.ft.
Lease Rate: From $9.75/sq.ft.
Area: Weir Industrial
Property Type: Industrial/Office
Size: 817 - 15,000 sq.ft.
on 0.91 acres±