



FIRST QUARTER MARKET REPORT **2023**

GREATER EDMONTON, ALBERTA





Economic Outlook

The Edmonton area's commercial real estate market carries short-term optimism and long-term uncertainty, with continued growth in Edmonton's suburban communities throughout Quarter 1 of 2023, and shifting perceptions around office vacancies.

This is the fourth quarter in a row carrying a strong suburban narrative. Sherwood Park-Fort Saskatchewan has seen consistent commercial occupancy rates climbing steadily across the board, including in the recent announcement that a former RONA store will be converted into a market grocery store with two dedicated restaurants. Meanwhile, new development growth may be on the horizon for Leduc-Nisku, where the retail vacancy has sat below 2% for three consecutive quarters, and the industrial vacancy rate has held at just 4.3% for two straight quarters.

The city core, though, continues to see some issues, as Edmonton City Council has begun to explore ways in which to battle the continued high downtown vacancy numbers. Though the region's office vacancy rate dipped below double digits at the end of 2022, the number has risen back up to 10.4% — not helped in the slightest by the downtown area's 13.6% office vacancy (unchanged quarter-over-quarter). New ideas being put forward are rejuvenating some excitement for what's to come in downtown Edmonton, though, supported by increased activity in the area as the warmer weather brings festivals with it and the Edmonton Oilers enter NHL playoffs.

The most consistent commercial real estate sector in the region for quite some time now has been the Edmonton

area's industrial performance. Industrial occupancy still reigns as a clear positive, with the vacancy rate dipping to just 3.5% — a new record low since before 2019, and a figure on which it's worth hanging a hard hat. The biggest problem with industrial has actually become that supply can't keep up with demand.

New retail opportunities may emerge from American big box stores closing their doors. Nordstrom's early-March announcement that it will be pulling out of Canada follows announcements of similar closures by Bed Bath and Beyond (and, as a result, BuyBuy Baby). This is resulting in large spaces becoming vacant, which may take some time to fill, but could drive innovative retail or office solutions. Some of the American big-box failures have been attributed to ongoing global supply chain challenges, which may contribute to further retail turbulence in the future, if problems persist.

Alongside supply chain issues, continued inflation rates have created ongoing hurdles for the office, retail, and industrial sectors, but not to a prohibitive extent. Steadied rates would go a long way in renewing certainty in the region, but the issue isn't exclusive to Alberta, with inflation turbulence impacting markets across North America, and across the globe.

In all, retail and industrial markets are expected to remain relatively stable over the next quarter, with a boost for each being seen in Quarter 1 of 2023. The bigger unknown remains the office scape, the success of which will largely depend on political decisions made in response to the hybrid work model that has resulted in so many downtown vacancies.

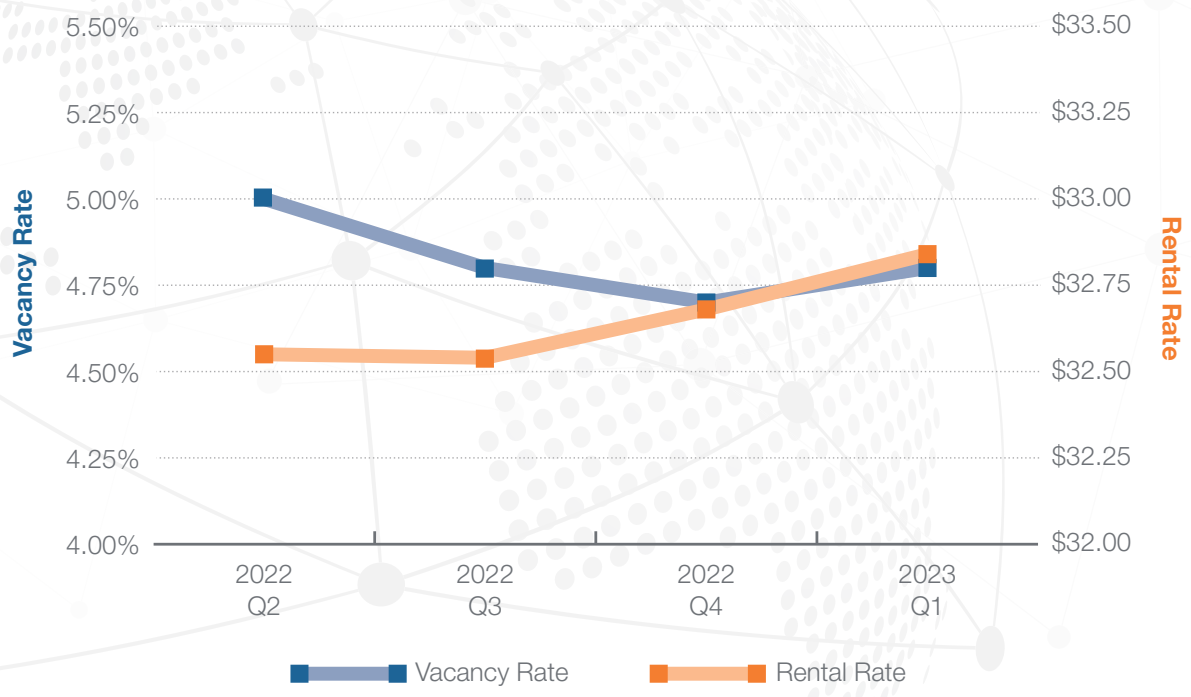
GREATER EDMONTON AT A GLANCE OVERALL VACANCY TRENDS

Buildings Surveyed: 11,747
Existing SF: 321.59M

	2022-Q2	2022-Q3	2022-Q4	2023-Q1
Vacancy Rate	5.0%	4.8%	4.7%	4.8%

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

A steady retail occupancy rate throughout the region continues to drive optimism for improvement in the Edmonton area, with vacancy rates in the region reaching 4.3% in Quarter 1 of 2023 — with only a 0.1% change from Quarter 1 of 2022.

Much of the identified opportunities are coming from innovation. For a long time, occupancy rates have suffered in traditional shopping centres, such as malls; but some ownership groups have begun identifying “alternative tenants” for their spaces, resulting in improved vacancy rates. While traditional stores have begun to vacate shopping centres, community groups and niche clubs have begun filling these spaces.

Meanwhile, big box stores have been closing up shop throughout the city. American retailers in particular — such as Nordstrom and Bed Bath and Beyond — have been pulling out across the country, leaving large spaces vacant in Edmonton and the surrounding region. Hudson’s Bay is closing two large department stores in Alberta this summer, including one in Edmonton. However, this is a trend rather than a rule. While the American outlets have been retreating, Canadian outlets have expanded, with the B.C.-based liquidator, Big Box Outlet Store, expanding into Alberta for the first time, with an opening in Edmonton.

In Sherwood Park, a large vacant space left behind by Rona will soon be filled, with the announcement of a large-scale grocery market and two dedicated restaurant spaces. These innovative space uses are driving improved retail vacancy rates throughout the region, and they’re likely to continue in the wake of a sweep of retail closures both during the pandemic and since then.

The positive outlook is extending throughout the region of Sherwood Park-Fort Saskatchewan, with the Fort set to welcome a significant amount of new retail centres, covering a 20-acre scape at an investment of \$270 million.

South of the capital city, Leduc-Nisku has seen a retail vacancy rate below 2% for the past three quarters, which could drive increased development activity. Much as the area’s industrial supply is failing to meet demand, the Leduc-Nisku retail scape seems, too, to be falling short of the thriving demand in the area.

Despite the exciting stories emerging throughout the region, Edmonton’s downtown core continues to present challenges. Rising safety concerns in the area have resulted in retailers pulling up stakes and leaving the downtown centre. The problem, which has been called a ‘crisis’ by downtown stakeholders, has persisted for some time now, and the City is working to find solutions. More money has been given to the Downtown Business Association (DBA) to host festivals, while money has been committed to downtown improvements. The DBA has implied some of these funds will go towards a retail attraction initiative.

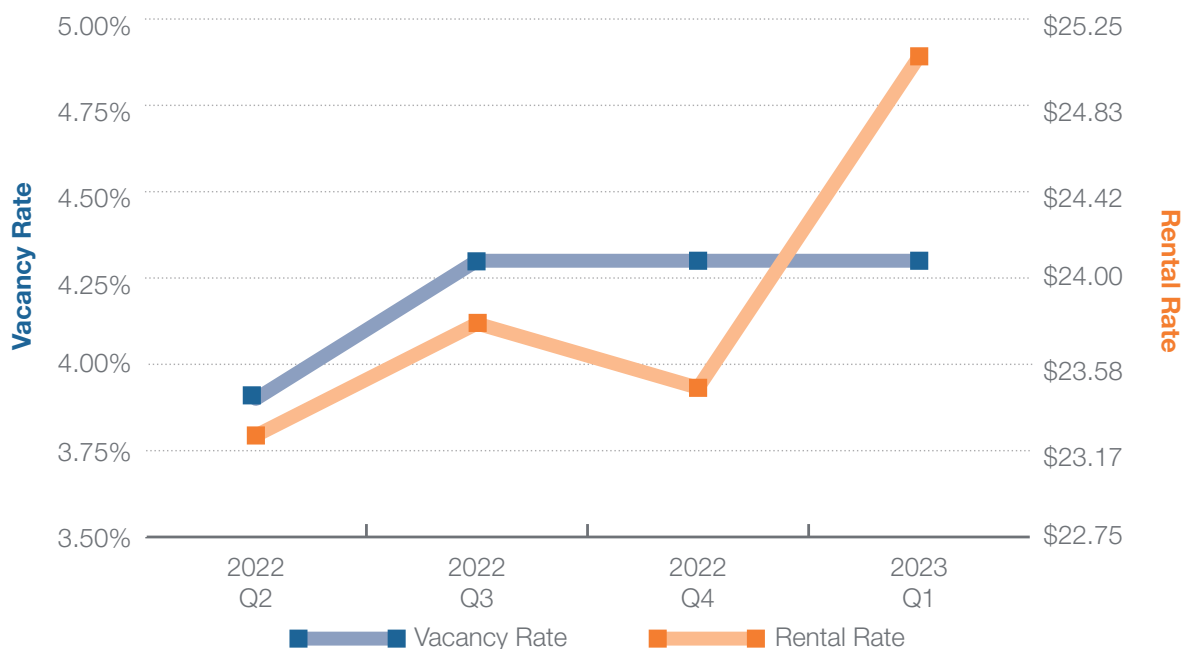
In all, there’s little ‘doom and gloom’ when it comes to the retail space. The suburbs continue to thrive, and many pockets throughout the city have seen revived retail occupancy since the most challenging stretches of the COVID-19 pandemic. At the same time, plans are being put in place to revive areas that continue to face obstacles. If these plans are realized, continued improvements are anticipated by Quarter 4 of 2023 and beyond.

RETAIL Vacancy Trends

	2022-Q2	2022-Q3	2022-Q4	2023-Q1
GREATER EDMONTON Buildings Surveyed: 4,565 Existing SF: 70.01M	3.9%	4.3%	4.3%	4.3%
EDMONTON WEST Buildings Surveyed: 1,097 Existing SF: 18.49M	4.9%	6.1%	5.9%	5.9%
EDMONTON SOUTH Buildings Surveyed: 1,429 Existing SF: 23.42M	3.6%	3.7%	3.5%	3.8%
EDMONTON CENTRAL Buildings Surveyed: 580 Existing SF: 6.22M	5.9%	6.0%	5.7%	5.6%
LEDUC Buildings Surveyed: 147 Existing SF: 1.88M	3.0%	1.2%	1.1%	1.7%
ST. ALBERT Buildings Surveyed: 222 Existing SF: 3.50M	3.0%	3.5%	3.7%	3.1%
SHERWOOD PARK / FORT SASKATCHEWAN Buildings Surveyed: 399 Existing SF: 6.01M	4.0%	3.5%	3.4%	3.4%
WHYTE AVENUE / GARNEAU Buildings Surveyed: 190 Existing SF: 1.54M	6.6%	6.6%	6.3%	8.3%

Average Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS





Office Market

The office real estate market remains the most impacted sector coming out of the COVID-19 pandemic, with the mass shift to work-from-home and hybrid work structures continuing to impact companies' need for traditional office space, and shifting how that space is used.

Though there have been claims of an office vacancy rate of 23.5% in Edmonton alone, that number fails to account for government buildings, which must be accounted for if we are to gain a proper understanding of the challenges at hand. Taking government buildings into account, the true office vacancy rate for the greater Edmonton region has reached a still-high 10.4%, largely driven by the downtown core's vacancy rate of 13.6%.

Other areas of Edmonton span the gamut of occupancy. With total office inventory dipping below one million square feet for the first time in recent memory, the University-Garneau area hosts an office vacancy rate of a record-high 19.2%. Meanwhile, city outskirts continue to see strong markets, with the Windermere-Summerside centre carrying a record-low vacancy rate of 2.6%.

The inclusion of government space is important, as government, too, has implemented hybrid work models in various areas, resulting in a shift in government building vacancy. At 20% vacancy, office centres begin to lose viability; the true current vacancy rate of 13.6% provides important context into the city's current state.

As the City of Edmonton deals with a housing crisis, thought is being put into the conversion of downtown office space into residential space — an initiative that's been publicly supported by the Association for Commercial Real Estate Development in Edmonton,

noting that ongoing office vacancies could drive down property values. The Downtown Edmonton Community League, too, has supported the idea, while the province's Edmonton Metro Region Economic Recovery Working Group recently released a report calling for residential construction grants. Many experts have said the space conversion is 'easier said than done,' which means this will be an ongoing story for the City of Edmonton, likely for quite some time.

Despite all the uncertainty, the downtown core has hosted an upward trend in office vacancy space since Quarter 3 of 2022 — albeit only slightly. Regardless, talks about the need for change downtown are increasing rapidly, with potential side effects of office vacancies beginning to create concerns. Some retail outlets, including restaurants and coffee shops, have begun reducing hours — and staffing — with reduced foot traffic downtown, driven by the lack of workers returning to the physical workspace.

The downtown dilemma, though, doesn't tell the whole story. The suburban office landscape has proven quite steady, with a vacancy rate dip to 8% at the close of Quarter 1 of 2023, from 7.6% at the end of 2022. That comes with an inventory increase of nearly 90,000 square feet. Encouragingly, the suburban vacancy rate hasn't fallen further than 9.5% since before 2019 — weathering the turbulence of the COVID-19 pandemic, and work-from-home trends, quite well.

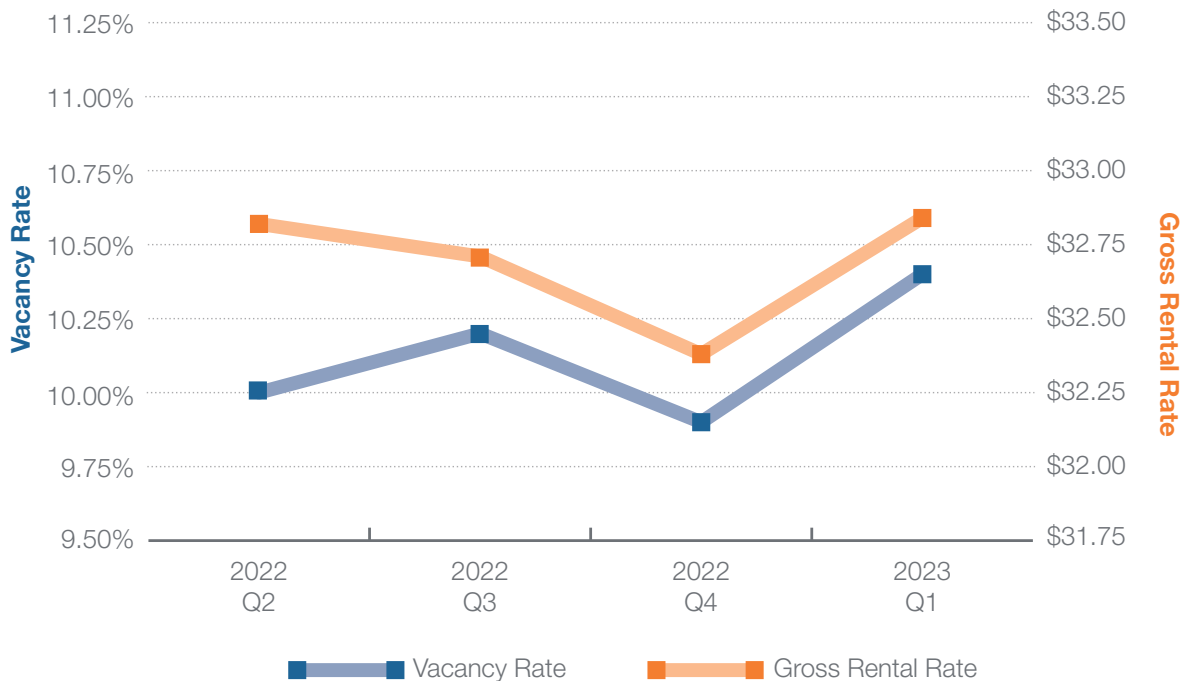
On the whole, optimism is still holding steady. Office occupancy rates are expected to improve throughout 2023. It's not unlikely, though, that the prolonged high vacancy rate will drive innovations in commercial real estate, particularly in the downtown core.

OFFICE Vacancy Trends

	2022-Q2	2022-Q3	2022-Q4	2023-Q1
GREATER EDMONTON Buildings Surveyed: 1,363 Existing SF: 51.60M	10.0%	10.2%	9.9%	10.4%
EDMONTON DOWNTOWN Buildings Surveyed: 284 Existing SF: 25.07M	11.2%	11.7%	13.1%	13.6%
EDMONTON SUBURBAN Buildings Surveyed: 823 Existing SF: 21.01M	8.4%	8.2%	7.6%	8.0%
WINDERMERE / SUMMERSIDE Buildings Surveyed: 69 Existing SF: 2.09M	5.0%	4.2%	3.0%	2.6%
UNIVERSITY / GARNEAU Buildings Surveyed: 59 Existing SF: 906K	16.7%	15.2%	15.1%	19.2%

Average Gross Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS





Industrial Market

The Edmonton region's biggest problem with its industrial sector is simply that there isn't enough supply to meet demand. It's not a fun problem to have, but it does mean that a recent steadying of vacancy rates isn't an indication of slowed market interest.

The Leduc-Nisku region is the perfect example of this effect, where vacancy rates fell from 8.2% in Quarter 1 of 2021, to just 4.3% at the end of 2022. That's not to mention the area's high vacancy rate of 11.7% going back to 2016. It may seem surprising then — with how consistently the vacancy rate has tumbled — to see an unchanged occupancy rate quarter-over-quarter by the end of March 2023. However, that's in line with the need for new industrial space, as the inventory supply increasing by only four buildings in the area, quarter-over-quarter.

Sherwood Park-Fort Saskatchewan, meanwhile, has seen its vacancy rate decrease to 4.4% at the end of Quarter 1 of 2023, from 4.6% the quarter previous — but the industrial space inventory has sat unchanged for three consecutive quarters. It's very likely that without an increase in industrial inventory, the vacancy rate in Sherwood Park-Fort Saskatchewan won't dip below 4.0%.

This supply issue is the story across the region. Total industrial vacancy throughout the Edmonton area has fallen to 3.5% (the lowest since before 2019), but inventory has remained consistent quarter after quarter, with only little change from year to year.

As industrial immigration continues, with British Columbia-based companies shifting their operations to Alberta, there is plenty of opportunity for new industrial space to pick up quick occupancy. Developers are hard at work in building new industrial space, but everything takes time, and new space isn't expected to become available until the end of Quarter 2 of 2023, leading into early-Quarter 3.

To that point, at the beginning of 2023, Panattoni Development purchased 152 acres of industrial land in Acheson, just outside Edmonton, for the development of a new business park — building out an already impressive industrial scape in Acheson, anchored by Amazon's 2.9-million-square-foot distribution centre. An additional 3.7-million square feet of industrial space under construction is on its way, with nearly 40% of that space already pre-leased.

That said, the region maintains its industrial standing despite the supply delay, with the surge of shipping and logistics space needs being supported by the Edmonton area's proximity to major transportation and shipping options. The capital city has become a distribution hub.

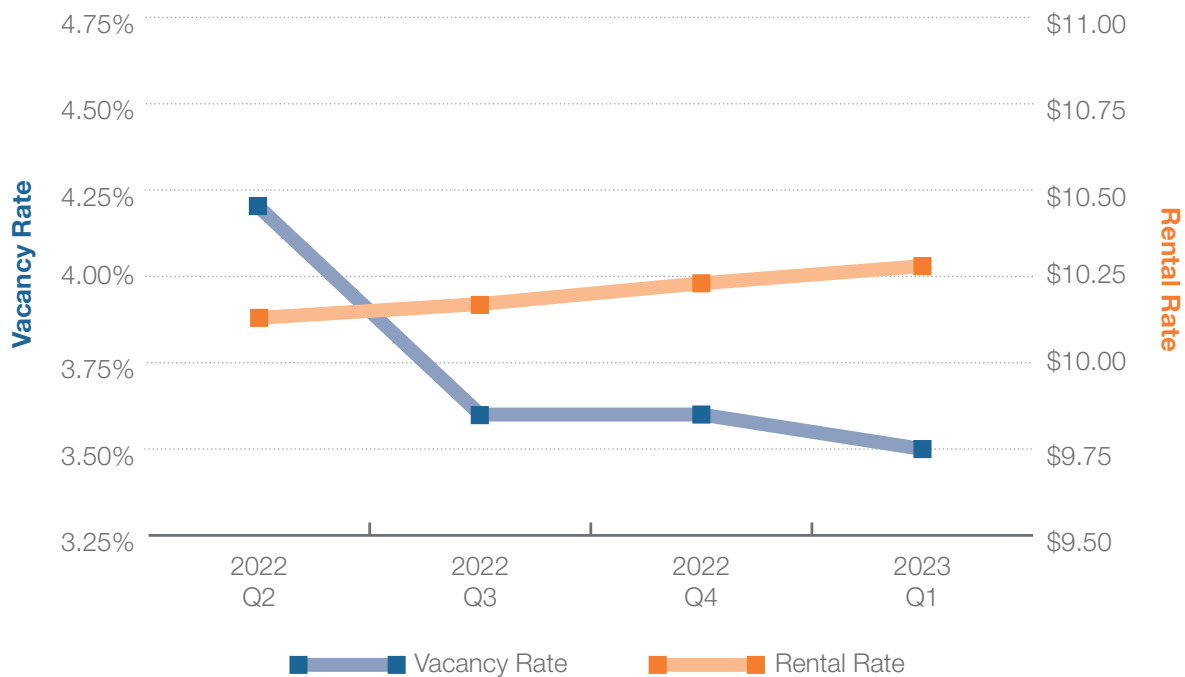
Edmonton, and surrounding areas, have overtaken the Calgary area's prominence in distribution, meaning that local-area activity should continue. That's especially true considering the high availability of qualified labour and trade skills, and a relatively low cost of living compared to areas like Vancouver, where companies are moving from.

INDUSTRIAL Vacancy Trends

	2022-Q2	2022-Q3	2022-Q4	2023-Q1
GREATER EDMONTON Buildings Surveyed: 5,816 Existing SF: 199.98M	4.2%	3.6%	3.6%	3.5%
EDMONTON WEST Buildings Surveyed: 1,883 Existing SF: 71.34M	3.7%	3.2%	3.4%	3.0%
EDMONTON SOUTH Buildings Surveyed: 1,746 Existing SF: 66.31M	4.4%	4.1%	4.3%	4.3%
SHERWOOD PARK / FORT SASKATCHEWAN Buildings Surveyed: 371 Existing SF: 11.63M	4.2%	4.8%	4.6%	4.4%
LEDUC / NISKU Buildings Surveyed: 829 Existing SF: 25.07M	5.7%	4.7%	4.3%	4.3%

Average Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS



Notable Transactions in the Market

PROPERTIES SOLD

4 NOTES PROUDLY SOLD BY NAI COMMERCIAL



12345 - 121 Street

Price: \$17,785,000
\$71.78/sq.ft.

Area: Blatchford Area

Property Type: Industrial

Size: 247,719 sq.ft.
on 24.56 acres



8743 - 50 Avenue

Price: \$15,750,000
\$218.48/sq.ft.

Area: McIntyre Industrial

Property Type: Industrial

Size: 72,088 sq.ft.
on 5.66 acres



2460 - 132 Avenue NE

Price: \$11,000,000
\$383.61/sq.ft.

Area: Clover Bar Area

Property Type: Industrial

Size: 28,675 sq.ft.
7.98 acres



5607 - 67 Street

Price: \$5,900,000
\$184.51/sq.ft.

Area: Roper Industrial

Property Type: Industrial

Size: 31,976 sq.ft.
2.1 acres



321/347 Saskatchewan Ave

Price: \$4,525,000
\$370.90/sq.ft.

Area: Spruce Grove

Property Type: Industrial

Size: 12,200 sq.ft. on 1.51 acres
11,000 sq.ft. on 1.36 acres



11842 - 145 Avenue

Price: \$4,200,000
\$248.28/sq.ft.

Area: Caernarvon

Property Type: Retail

Size: 16,916 sq.ft.
on 1.5 acres



7121/25 - 109 Street

Price: \$4,000,000
\$340.37/sq.ft.

Area: Queen Alexandra

Property Type: Office

Size: 11,752 sq.ft.
on 0.51 acres



10104 - 149 Street

Price: \$3,600,000
\$225.92/sq.ft.

Area: Canora

Property Type: Retail

Size: 15,935 sq.ft.
on acres

NAI Listing Highlights

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



4523 - 94 Street

Sale Price: \$3,000,000

Area: Papaschase Industrial

Property Type: Industrial

Size: 15,400 sq.ft.±
on 0.93 acres±



Cougar Creek Cabins & Campground

Sale Price: \$1,430,000

Area: Yellowhead County

Property Type: Business

Size: 18.51 acres±



10503 - 81 Avenue

Sale Price: \$3,600,000

Area: Queen Alexandra

Property Type: Retail

Size: 17,600 sq.ft.±
on 9,505 sq.ft.±



3601/04 - 82 Avenue

Sale Price: \$25,500,000

Area: Leduc

Property Type: Industrial

Size: 192,643 sq.ft.±
on 11.05 acres±

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