

SECOND QUARTER MARKET REPORT
2019

GREATER EDMONTON, ALBERTA



Economic Outlook

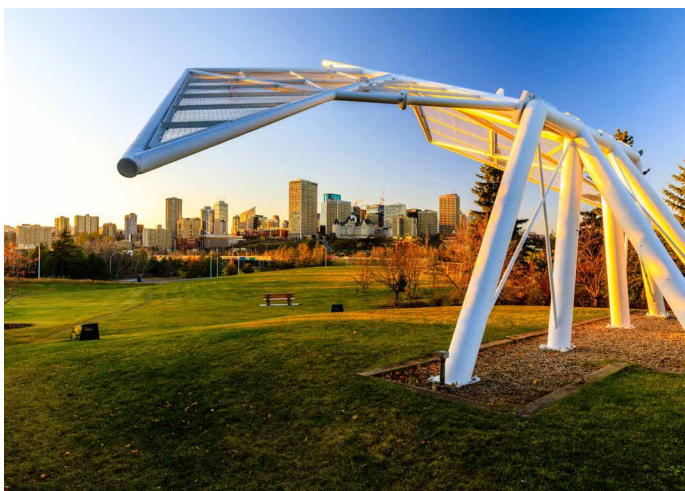
The public will is clear. Pipelines are needed. Canada needs its resources to reach new markets. However, the continued theme remains: How long will it take to have the capacity increased and more oil flowing?

Now two months after our provincial election, it is forecasted that Alberta's GDP will grow 0.7 per cent in 2019 (1.3 per cent in Edmonton). Even if this modest projection holds true, it should not be overlooked that the province's economy is on track to return to its pre-recession level, when the province had the strongest GDP in its history at \$338 billion. Unemployment rates continue to drop, now down to 6.7 per cent, after the figure rose as high as 7.2 per cent in 2018. These small trends are often glazed over by mainstream headlines that instead seek out charged issues such as pipelines or climate debate. The recent news of the TMX re-approval, the stated federal support, and our positive provincial data trends give real reason for optimism that Alberta's unemployment rate will continue to regress. Furthermore, average weekly wage growth, currently at a year over year gain of 3.6 per cent, will continue to rise.



Albertans have given a clear call for action shown by the huge win of the United Conservative Party (UCP) and its promised mandate of job-creation and a return to a pro-business climate. Energy is no longer just a Western issue, but now a Canadian issue, and the stage is being set for meaningful economic moves in that direction. Action may be resisted for the next few months preceding the upcoming federal election, but Canada's need to get its energy resources to market has become a federal election grandstand.

Canada's next Prime Minister must take steps toward solving Canada's energy capacity crisis. However, until the votes are in, the need to appease both sides of the debate will continue. Although opposition and obstacles remain, the majority of Canadians can understand the need for Canada to grow its energy infrastructure to export beyond the US. So political climate aside, Alberta's job growth, wage growth, and the data since the provincial election point to an Alberta economy that is moving slowly, but surely, in the right direction.



Commercial Real Estate Outlook

While many business owners this year were eager to see a change in the provincial government, modified tax policies and funding or reduced provincial spending take time to enact. However, this year has other major issues on the horizon and specific hurdles including, the federal election, climate concerns and unknown pipeline completions. With a number of these hurdles becoming clearer by October, many businesses are holding purchasing decisions, expansion plans, leading to a domino effect of less business to business activity.

While each area of the market will vary under this pressure, we expect vacancies to hold or increase over the next six months, while rental rates will continue to stay flat as

increased inducements are offered. It is an ideal time for tenants to renegotiate leases, renewals, or locate new property with willing landlords. It is also an opportunity to purchase property if a specific business unit is stable or has been awaiting opportunities to surface. However, barring any major moves by the government, we expect the public and business community at large to remain in a holding pattern until the election in the fall.

It is our outlook that developers, investors and business leaders will be in position to make the biggest gains as the public regains clarity, a lot of business will be done once the outcome is known.

MARKET HIGHLIGHTS

| GREATER EDMONTON AT A GLANCE OVERALL VACANCY TRENDS | 2018-Q3 | 2018-Q4 | 2019-Q1 | 2019-Q2 | Q1-Q2 TREND |
|--|---------|---------|---------|---------|----------------|
| Buildings Surveyed: 10,389 Existing SF: 294,351,565 sq. ft. | 5.5% | 5.6% | 5.8% | 5.9% | ↑ |

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

Retail vacancy rates in Greater Edmonton has increased slightly overall to 3.2 per cent over the past quarter, leading to average rental rates decreasing since Q1 2019. Notable transactions include the 27,000 sf fully leased 3 storey property on the iconic SE corner of Whyte Avenue & 104th Street and the renovated and redesigned 109 Garneau building, done by Beljan Developments bought for \$3.85 million in 2016 and now sold for 7.6 million, and the Staples sale-leaseback of its 23,000 sf property on a 15-year term shadow anchored by Home Depot at an impressive 8.45% cap rate.

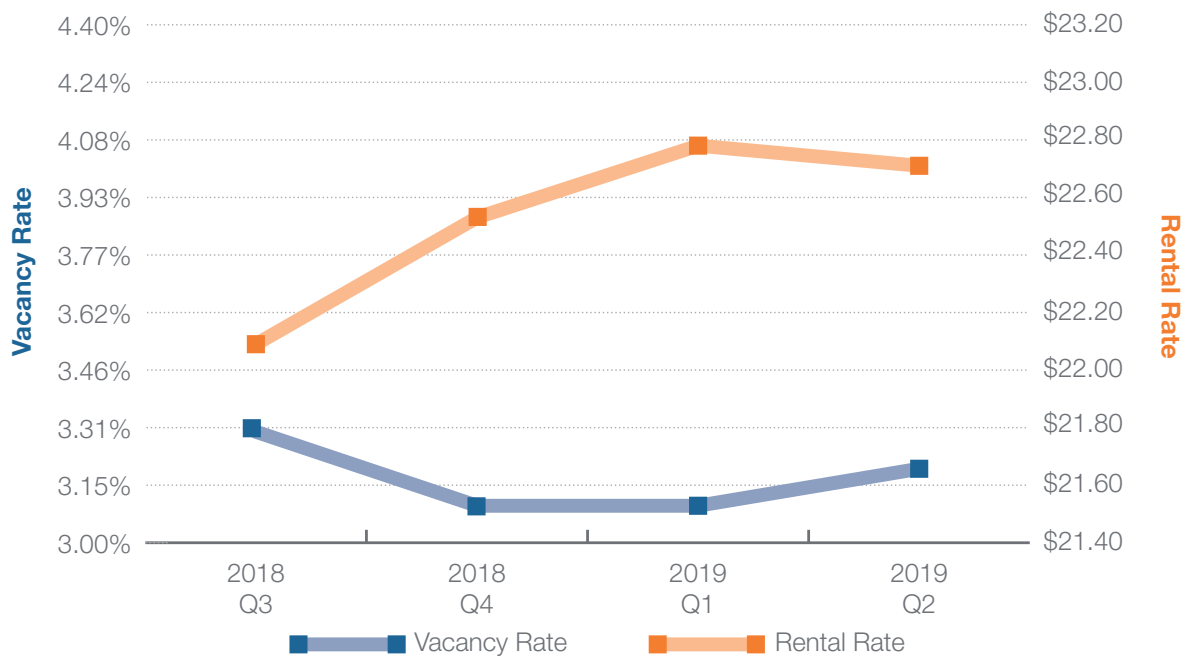
With the increases in average weekly wages, improving job numbers (tempered by consumer confidence) we anticipate the retail rental market will still have a successful year with holding rental rates and a fairly flat vacancy rate in the near term. Retail trade in Alberta grew 2.1 per cent year over year and cannabis retailers will continue to announce retail stores throughout all of 2019, adding more jobs to the sector. The highly anticipated construction of the one-million square-foot Amazon distribution centre adds greater optimism to the market and is a trailblazer for major retailers who want to reach a demographic that consistently ranks amongst the highest average disposable income in the country.

RETAIL Vacancy Trends

| | 2018-Q3 | 2018-Q4 | 2019-Q1 | 2019-Q2 | Q1-Q2 TREND |
|---|---------|---------|---------|---------|----------------|
| GREATER EDMONTON Buildings Surveyed: 3,845 Existing SF: 63,529,324 sq. ft. | 3.3% | 3.1% | 3.1% | 3.2% | ↑ |
| EDMONTON WEST Buildings Surveyed: 976 Existing SF: 18,530,016 sq. ft. | 3.5% | 3.2% | 3.4% | 3.6% | ↑ |
| EDMONTON SOUTH Buildings Surveyed: 1,174 Existing SF: 20,362,136 sq. ft. | 2.4% | 2.3% | 2.3% | 2.5% | ↑ |
| EDMONTON CENTRAL Buildings Surveyed: 568 Existing SF: 6,811,174 sq. ft. | 3.7% | 3.6% | 4.9% | 5.1% | ↑ |
| LEDUC Buildings Surveyed: 133 Existing SF: 1,687,539 sq. ft. | 3.9% | 2.8% | 3.0% | 3.1% | ↑ |
| ST. ALBERT Buildings Surveyed: 149 Existing SF: 3,156,889 sq. ft. | 2.9% | 3.3% | 3.4% | 3.2% | ↓ |
| SHERWOOD PARK / FORT SASKATCHEWAN Buildings Surveyed: 255 Existing SF: 4,803,573 sq. ft. | 6.7% | 5.7% | 5.6% | 4.7% | ↓ |
| WHYTE AVENUE / GARNEAU Buildings Surveyed: 189 Existing SF: 1,434,347 sq. ft. | 5.6% | 5.5% | 4.0% | 4.3% | ↑ |

Average Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS



Office

While this past quarter has been active, many businesses seeking efficiencies with reduced footprints have seen the vacancy rate climb in almost every area of the city this past quarter. The office sector is a prime example of businesses holding on expansion plans with many key elections, future funding and related business in question throughout this year. We expect this trend to continue for the short term however, many business owners are starting take advantage of this period by making key moves with repositioned terms in their favor. In particular, the Suburban market has seen a number of sales to owner-users and investors intent on buying at price levels that now allow for redevelopment.

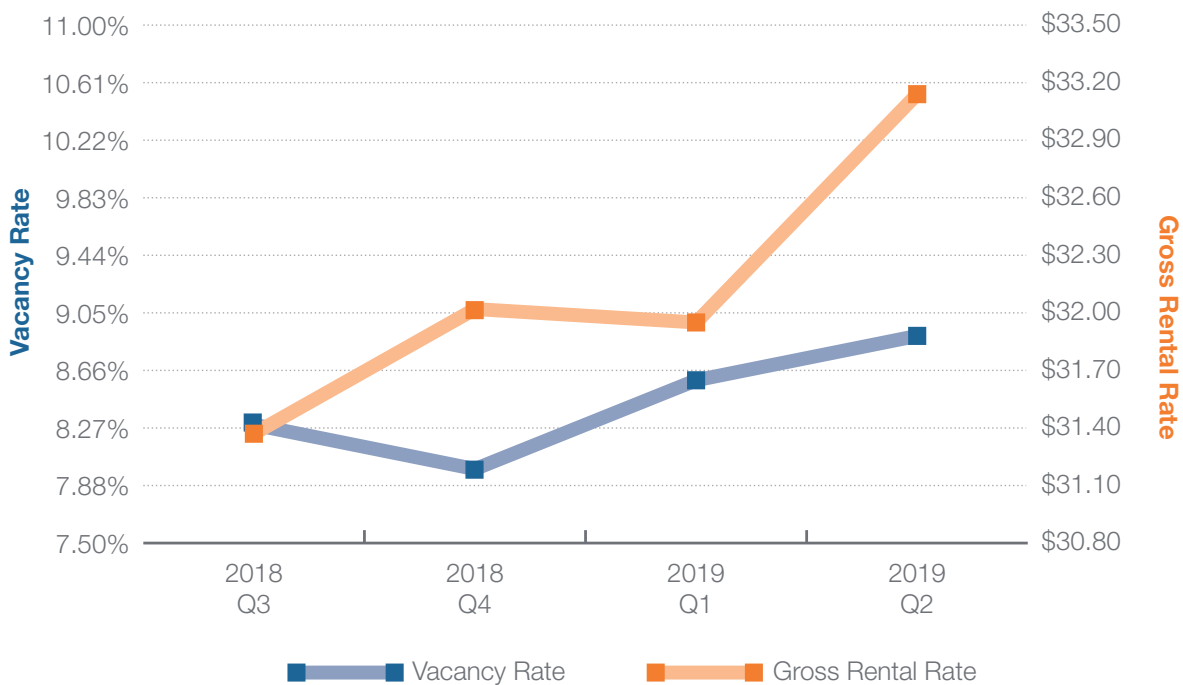
While it has been a slow first half to 2019 for Edmonton's Office market, with job numbers improving, and new construction slowing, the suburban markets vacancy should stabilize in the next quarter with an expectation that average rental rates could increase for the fourth straight quarter. Downtown office vacancy is still expected to increase due to ongoing projects still being completed, new inventory, and the delay of decision making by the business community.

OFFICE Vacancy Trends

| | 2018-Q3 | 2018-Q4 | 2019-Q1 | 2019-Q2 | Q1-Q2 TREND |
|--|---------|---------|---------|---------|----------------|
| GREATER EDMONTON Buildings Surveyed: 1,202 Existing SF: 48,271,420 sq. ft. | 8.3% | 8.0% | 8.6% | 8.9% | ↑ |
| EDMONTON DOWNTOWN Buildings Surveyed: 276 Existing SF: 24,135,726 sq. ft. | 9.1% | 8.4% | 8.7% | 9.4% | ↑ |
| EDMONTON SUBURBAN Buildings Surveyed: 1,003 Existing SF: 44,470,488 sq. ft. | 8.1% | 8.1% | 8.6% | 9.0% | ↑ |
| WINDERMERE / SUMMERSIDE Buildings Surveyed: 69 Existing SF: 2,105,811 sq. ft. | 8.2% | 9.5% | 11.0% | 11.8% | ↑ |
| UNIVERSITY / GARNEAU Buildings Surveyed: 51 Existing SF: 1,028,529 sq. ft. | 8.4% | 8.3% | 9.4% | 14.1% | ↑ |

Average Gross Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS





Industrial

Following a strong 2018 in Edmonton's industrial market, there has been significant activity to the first half of 2019. Highlighted transactions such as the \$24.5 million dollar sale of a 218,000 sf, six building portfolio of warehouses, purchased at a 6.99 per cent cap rate by GPM Real Property Inc. Other major deals include the 170,000 sf Sherwood Business Centre sold to FEIGEL Investments Ltd. at a 6.75 per cent cap rate after adjusting for the vacancy at the time of sale. The 148,000 sf, fully leased Winfield Distribution Centre sold at a 5.85 per cent cap rate with four long-term tenants in place, and the 110,000 sf Norali Business Park which was recently re-sold for \$11.8 million - \$1.3 million above the purchase price paid less than 10 months before. These sales are true examples of investors' long-term confidence in Edmonton's industrial market.

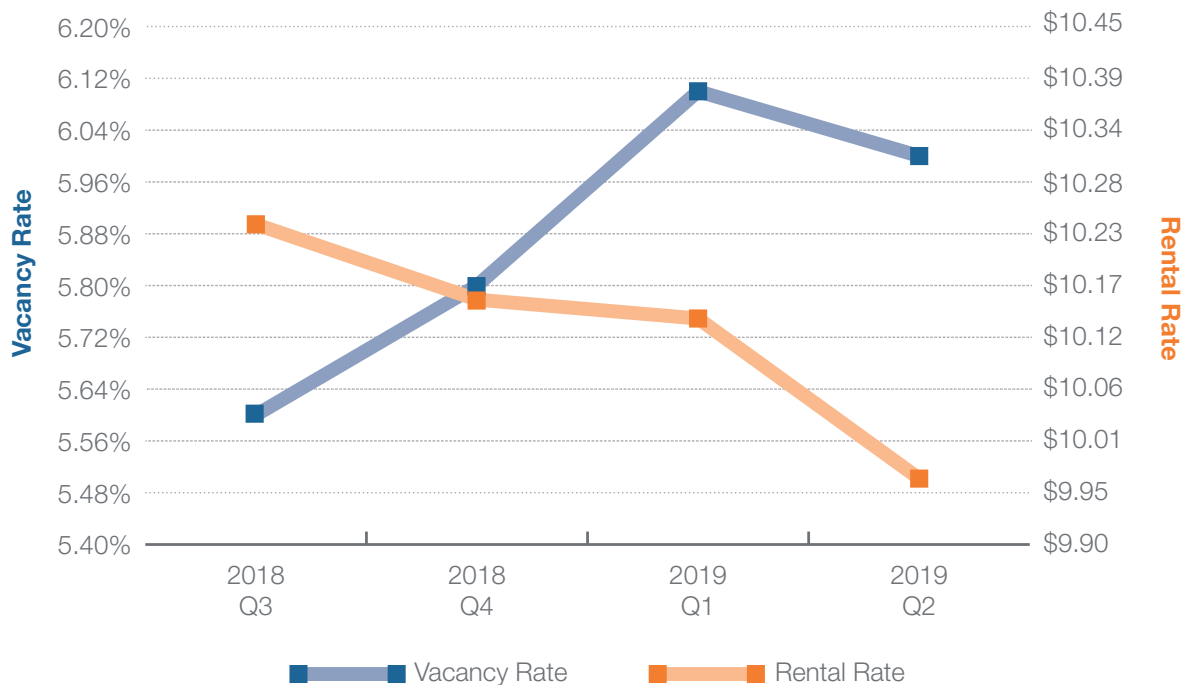
Industrial vacancy rates dropped marginally after increasing for two straight quarters, likely as a result of average rental rates falling once again. It is worth highlighting that most of this vacancy is made up of large special use facilities, while the majority of multi-tenant inventory is still seeing healthy activity. Many tenants are looking to take advantage of lower rental rates by exploring expansions and moving to newer product. Further, with the number of special use larger facilities available, there are opportunities for owner-users to return to a market where existing buildings can be purchased for prices well below the cost of building new. While there is downward pressure on the industrial market, this is a great time for companies to take advantage of lower prices and configure their business needs in advance of the economy picking up again.

INDUSTRIAL Vacancy Trends

| | 2018-Q3 | 2018-Q4 | 2019-Q1 | 2019-Q2 | Q1-Q2 TREND |
|---|---------|---------|---------|---------|----------------|
| GREATER EDMONTON Buildings Surveyed: 5,395 Existing SF: 182,573,939 sq. ft. | 5.6% | 5.8% | 6.1% | 6.0% | ↓ |
| EDMONTON WEST Buildings Surveyed: 1,825 Existing SF: 67,849,915 sq. ft. | 6.5% | 6.5% | 7.0% | 6.4% | ↓ |
| EDMONTON SOUTH Buildings Surveyed: 1,668 Existing SF: 65,141,304 sq. ft. | 5.6% | 6.4% | 6.7% | 5.9% | ↓ |
| SHERWOOD PARK / FORT SASKATCHEWAN Buildings Surveyed: 295 Existing SF: 9,845,383 sq. ft. | 9.4% | 8.1% | 8.9% | 12.4% | ↑ |
| LEDUC / NISKU Buildings Surveyed: 742 Existing SF: 20,419,024 sq. ft. | 4.7% | 4.9% | 5.0% | 4.9% | ↓ |

Average Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS



Recent Transactions

PROPERTIES SOLD



10151 - 179 Street
Price: \$9,100,000
 \$549.28/sq.ft.
Area: Morin Industrial
Property Type: Retail
Size: 16,567 sq.ft.
 on 2.83 acres



4303 - 167 Avenue
Price: \$4,300,000
 \$355.14/sq.ft.
Area: Brintnell
Property Type: Retail
Size: 12,108 sq.ft.



15820 - 111 Avenue
Price: \$2,425,000
 \$306.18/sq.ft.
Area: Sheffield Industrial
Property Type: Industrial
Size: 7,920 sq.ft.
 on 0.81 acres



504 - 19 Avenue
Price: \$2,425,000
 \$306.18/sq.ft.
Area: Nisku
Property Type: Industrial
Size: 5,750 sq.ft.
 on 2.88 acres



1524 - 91 Street SW
Price: \$1,825,000
 \$331.82/sq.ft.
Area: Ellerslie Industrial
Property Type: Office
Size: 5,500 sq.ft.



8402 - 109 Street
Price: \$7,600,000
 \$490.04/sq.ft.
Area: Garneau
Property Type: Commercial
Size: 15,509 sq.ft.
 on 14,850 sq.ft.



9125 - 63 Avenue
Price: \$2,650,000
 \$619.16/sq.ft.
Area: Rosedale Industrial
Property Type: Industrial
Size: 4,280 sq.ft.
 on 2.62 acres



5568 Windermere Blvd.
Price: \$815,000
 \$501.54/sq.ft.
Area: Windermere
Property Type: Retail
Size: 1,625 sq.ft.

Listing Highlights

AVAILABLE PROPERTIES FOR SALE AND/OR LEASE



182 Sturgeon Way
Sale Price: \$8,499,000
Lease Rate: \$10.35/sq.ft.
Area: Fort Saskatchewan
Property Type: Industrial
Size: 27,850 sq.ft.± (total)
 on 15.15 acres±



3305 - 74 Avenue
Sale Price: \$5,071,950
Lease Rate: \$13.50/sq.ft.
Area: Nisku
Property Type: Industrial
Size: 19,890 sq.ft.± (total)
 on 2.03 acres±



2705 - 64 Street
Sale Price: \$3,890,000
Lease Rate: \$12.75/sq.ft.
Area: Drayton Valley
Property Type: Industrial
Size: 28,116 sq.ft.± (total)
 on 2.69 acres±



180 Mistatim Road NW
Sale Price: \$395.00/sq.ft. (Currently)
Lease Rate: \$32.00/sq.ft.
Area: Mistatim Industrial
Property Type: Retail
Size: 958 - 10,000 sq.ft.±

THE INFORMATION CONTAINED HEREIN HAS BEEN OBTAINED FROM SOURCES DEEMED RELIABLE. WHILE EVERY REASONABLE EFFORT HAS BEEN MADE TO ENSURE ITS ACCURACY, WE CANNOT GUARANTEE IT. NO RESPONSIBILITY IS ASSUMED FOR ANY INACCURACIES. READERS ARE ENCOURAGED TO CONSULT THEIR PROFESSIONAL ADVISORS PRIOR TO ACTING ON ANY OF THE MATERIAL CONTAINED IN THIS REPORT.

©2019 NAI Commercial Real Estate Inc.