

# SECOND QUARTER MARKET REPORT 2020

GREATER EDMONTON, ALBERTA





## Economic Outlook

After a challenging 2019, the beginning of 2020 was shaping up to be a year of recovery for the Edmonton economy. Encouraging signs were popping up in every corner including a healthy labour market, strong manufacturing production and rising home sales. Even the energy sector experienced an uptick in activity driven by a resurgence in rigs drilling and an increase in overall oil production. However, the recent COVID-19 pandemic brought the region's economy to a halt like a hit from a bucket of cold water.

Edmonton is entering its worst economic slump in recent memory. Mandatory closures of all non-essential businesses have impacted most businesses in the region. While it's too early to quantify the impact of the pandemic, the recent job numbers provide a snapshot of the damage to the economy. The city's unemployment rate shot to a historical high of 13.9% in May 2020. Edmonton now has the 3rd highest unemployment rate among all cities in Canada. So far, the region has lost more than 116,000 jobs since the beginning of the pandemic in January 2020. This erases almost a decade of employment creation. A large portion of the jobs are likely to come back as the economy reopens. However, historical evidence points out that some positions disappear forever following a recession, as companies implement technological changes to survive during a downturn. Preliminary figures from the Conference Board of Canada estimate that in 2020, Edmonton's economy will decline 5.6%.

Edmonton's economy got the ultimate double whammy. Global oil demand is falling to levels not seen since 2014. Demand is expected to drop by an average of 9.07 million barrels per day in 2020. This combined with the market

share war between Russia and Saudi Arabia pushed global prices to levels not seen in the new millennia. In late April, the price for Canadian oil was below zero for the first time in history. COVID-19 is providing a glimpse into a future where fossil fuel demand is declining.

On the bright side, early indicators for the month of May left reasons for some cautious optimism. The number of cases of COVID-19 appear to have peaked and it looks like we have past the bottom of the economic downturn. Oil prices have rallied after bottoming in late April, as most economies began to gradually ease lockdown measures. However, oil prices remain below pre-pandemic levels. Business and consumer confidence in Alberta is also picking up after plunging to a record low.

All levels of government have started discussing how to breathe life into the economy. Council at the City of Edmonton has unanimously agreed to create a new authority to help diversify the economy. While this is easier said than done, the region has seen recent investments in refining capacity, innovations in sustainable fuel technology, pharmaceutical and health sciences as well as increases in food exports. Edmonton is also a global leader in artificial intelligence.

With no certain end date for social distancing measures or the crisis at large, both medium and long-term economic recovery strategies are being created. Local politicians are also preparing to lobby for additional support at the provincial and federal levels. Already there has been an unprecedented level of economic measures announced at all levels of government. While the stimulus will not halt a recession, it will ease the impact and provide a strong base for recovery.

# 2020-Q2 Greater Edmonton Market Highlights

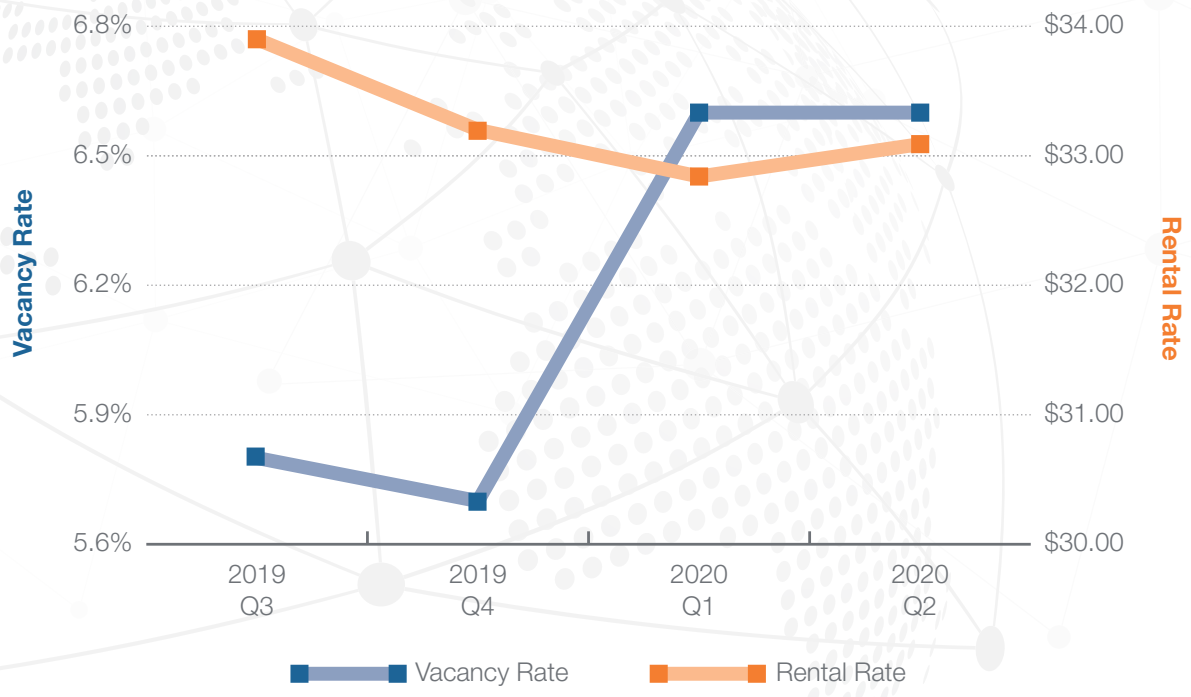
## GREATER EDMONTON AT A GLANCE OVERALL VACANCY TRENDS

Buildings Surveyed: 10,947  
Existing SF: 306 M

2019-Q3	2019-Q4	2020-Q1	2020-Q2
5.8%	5.7%	6.6%	6.6%

## 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

After years of financial hardship, highly indebted Albertan households are facing new challenges. The COVID-19 pandemic caused a plunge in the stock markets and a further collapse in the energy sector, both of which have sharply reduced household income and overall wealth in the first quarter of 2020.

The mandatory closure of non-essential businesses has forced many retailers to have their doors closed for almost 3 months with limited to no-cashflow. Landlords are increasingly becoming an “equity partner” for many tenants financing rent obligations during the pandemic. Shadow vacancy is expected to increase as Landlords avoid terminating tenants but are ready to pull the plug for a better covenant.

Some landlords in the market are willing to do deals at reduced rates with extended free base rent periods to quickly fill vacancies. Covenant continues to be an issue and landlords are hesitant to provide large tenant inducement allowances. Increased vacancies are already putting downward pressure on rental rates. However, the downturn is also creating a new wave of entrepreneurs, who faced with employment losses, are starting their own business. As companies close their doors, market conditions are creating opportunities to lease “quasi-turnkey” spaces at minimal costs.

The most recent statistics show that retail sales in Edmonton dropped by 18.0% in March 2020, the largest year-over-year decline on record. Preliminary figures for April estimate an additional drop of 15.6% nationwide. Year-over-year grocery store sales rose 28.5% while cannabis stores jumped by 160.4% during the same period. The largest percentage decline was in the clothing stores category with sales down by 56.9%. Motor vehicle and parts dealers were down by 43.6% and gas station sales fell by 13.6%.

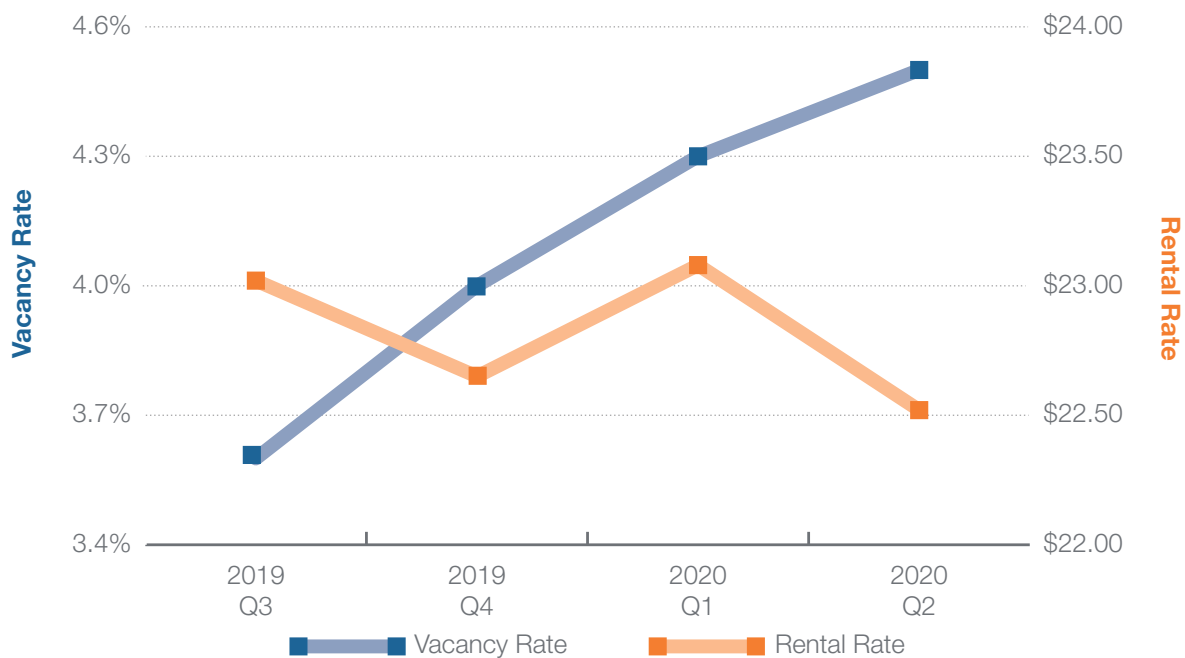
The shift in consumer spending patterns is strongly reflected in Edmonton’s retail real estate market. There are a number of cannabis groups in the market looking to expand or establish a presence. Medical tenants and liquor stores continue to make deals albeit at a cautious pace. Restaurants and businesses in industries such as clothing & electronics, where consumers can quickly shop online, have been particularly impacted during the pandemic, especially big box tenants. Retailers cannot do much to make up for lost sales. The market is expected to see some short-term pain and increased vacancies. However, consumers have been slowly returning to the stores as the lockdown is relaxed. Whether these trends persist in the coming months is subject to how fast the economy recovers.

## RETAIL Vacancy Trends

	2019-Q3	2019-Q4	2020-Q1	2020-Q2
<b>GREATER EDMONTON</b> Buildings Surveyed: 4,159 Existing SF: 65.7M	3.6%	4.0%	4.3%	4.5%
<b>EDMONTON WEST</b> Buildings Surveyed: 1,035 Existing SF: 16.2M	4.1%	4.6%	5.2%	5.7%
<b>EDMONTON SOUTH</b> Buildings Surveyed: 1,280 Existing SF: 23M	3.2%	3.5%	3.6%	4.0%
<b>EDMONTON CENTRAL</b> Buildings Surveyed: 585 Existing SF: 6.2M	5.6%	6.0%	6.1%	6.7%
<b>LEDUC</b> Buildings Surveyed: 136 Existing SF: 1.8M	4.5%	3.2%	3.1%	2.1%
<b>ST. ALBERT</b> Buildings Surveyed: 195 Existing SF: 3.3M	2.6%	4.2%	4.1%	4.1%
<b>SHERWOOD PARK / FORT SASKATCHEWAN</b> Buildings Surveyed: 307 Existing SF: 5.4M	4.9%	5.0%	5.6%	5.3%
<b>WHYTE AVENUE / GARNEAU</b> Buildings Surveyed: 193 Existing SF: 1.4M	4.2%	4.8%	5.3%	5.1%

## Average Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS





## Office Market

COVID-19 is a paradigm shift to Edmonton's office demand. Physical distancing measures have forced many to temporarily work from home, most people for the first time ever. In the immediate future, businesses are learning how to use technology and communication to find new ways to provide services. Workers are expected to return to the workplace once social distancing rules are relaxed. However, a recent report by Statistics Canada estimates that four in ten jobs can plausibly be performed remotely. The pandemic will likely change the way companies view real estate going forward as companies all over the world are planning to keep workers at home after COVID-19. The move is led by technology giants such as Shopify, Facebook, Twitter, etc.

The long term implications of the pandemic on office demand are uncertain. On the one hand, some are leveraging technology to drastically reduce their office footprint. Others are considering whether they will need more space to allow for proper social distancing going forward.

While there are tenants in the market, office demand in the greater Edmonton area has been subdued even prior to the pandemic. Several deals transacted in the downtown core in the first quarter of 2020. This includes BDO's relocation from the south side, AltaML's new head quarters and the relocation of Centre High. However, these deals were negotiated before COVID-19. The provincial government and Alberta Health Services have done several lease renewals in 2020. The public sector has a large real estate footprint throughout the core. However, it is likely that there will be a downsize from a number of government agencies. The greater public sector (public administration, health care and education) has shed over 32,000 jobs between May 2019 and May 2020.

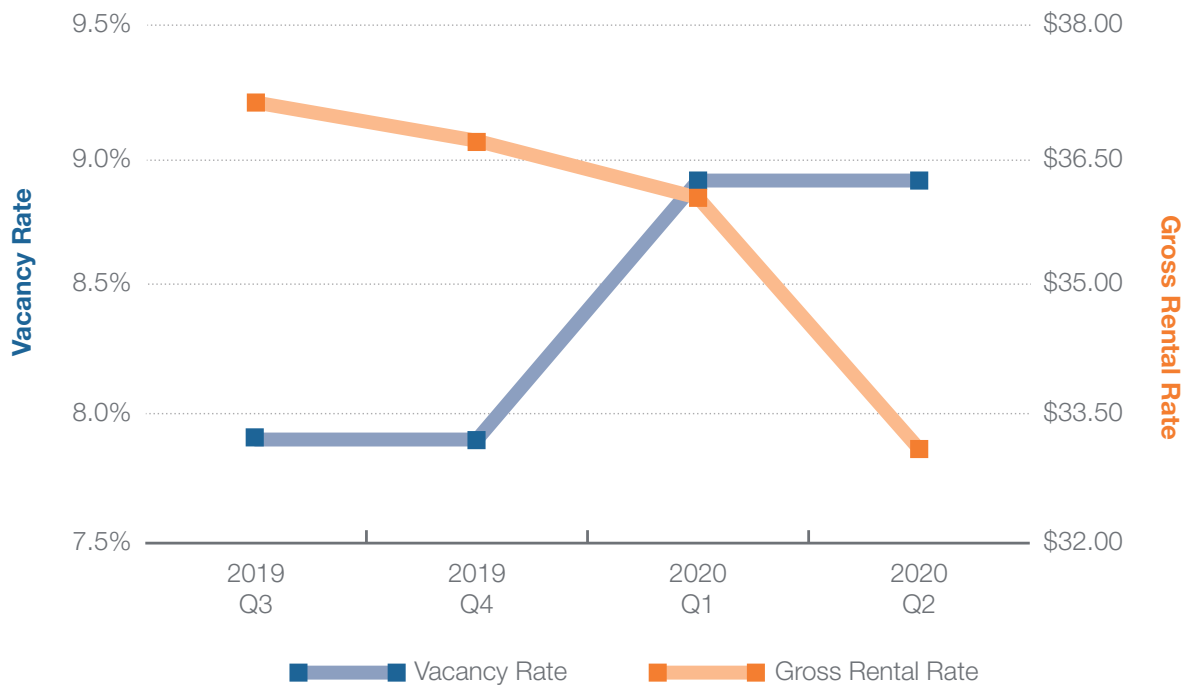
The suburban market has seen a slight uptick in activity compared to the downtown core. Several local engineering firms are looking to increase their footprint in the west end and the south side. However, there is too much uncertainty in the marketplace, and many are staying put waiting to see further developments in the economy.

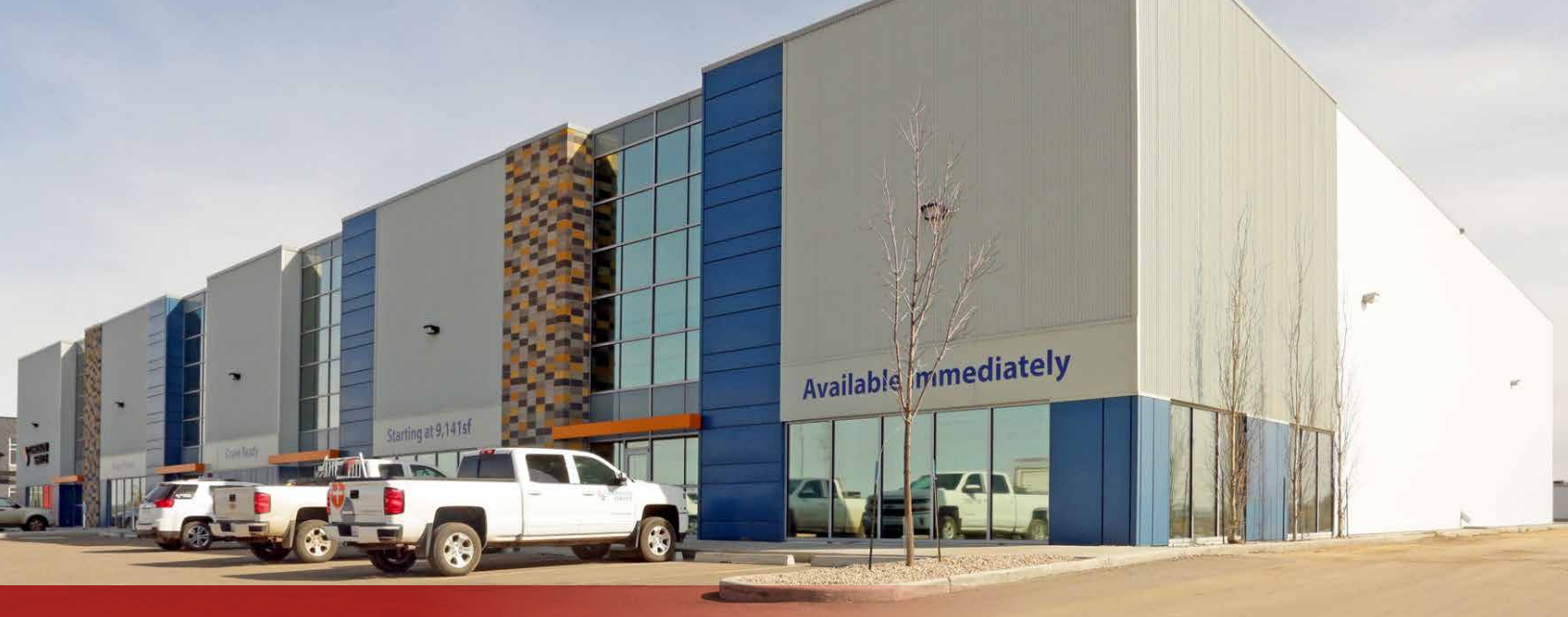
## OFFICE Vacancy Trends

	2019-Q3	2019-Q4	2020-Q1	2020-Q2
<b>GREATER EDMONTON</b> Buildings Surveyed: 1,267 Existing SF: 52.5M	7.9%	7.9%	8.9%	8.9%
<b>EDMONTON DOWNTOWN</b> Buildings Surveyed: 281 Existing SF: 27M	8.6%	8.3%	9.3%	9.2%
<b>EDMONTON SUBURBAN</b> Buildings Surveyed: 426 Existing SF: 10.7M	7.1%	7.6%	9.6%	9.4%
<b>WINDERMERE / SUMMERSIDE</b> Buildings Surveyed: 69 Existing SF: 2.1M	7.3%	6.0%	5.0%	4.8%
<b>UNIVERSITY / GARNEAU</b> Buildings Surveyed: 57 Existing SF: 1M	13.1%	10.1%	9.7%	10.5%

## Average Gross Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS





## Industrial Market

Edmonton's industrial market has been the best performing asset class in 2020. While it was relatively quiet through March and April, activity picked up substantially at the end of May. A large portion of the activity comes from pent up demand and short term renewals. Many companies that put decisions on hold earlier in the spring waiting to see the impact from the pandemic are now running out of time to fulfill their real estate needs.

Investment in Alberta's energy sector is only a shadow of what it once was. Early estimates by the ARC Energy Research Institute forecasts that capital expenditures in Canada's oil and gas industry will be \$10.2 billion in 2020. This represents a 73% decline compared with 2019 and an 87% decline compared to historical highs in 2014. The figure is subject to a high degree of uncertainty. Oil prices have tripled in the past month alone. yet, it is unlikely that companies will inject funds into new projects. Most of the investment will be on maintenance, operation and expansions under construction which are close to completion. The slowdown in the energy sector is evident in the Nisku-Leduc submarket, which is ground zero for companies servicing the oil and gas sector. While there has not been a spike in vacancy, the shadow vacancy continues to grow as several properties could be made available on request.

The market continues to see a clear stratification. Vacancy rate continues to be relatively stable despite an increase

in vacant space. This is due to the fact that several large transactions occurred earlier in the year. This includes Uline's new 600,000 SF distribution facility in St. Albert. Also, a large e-commerce company continues to expand its presence throughout the city with an additional 250,000 SF leased in Q1 2020. Additionally, there are multiple requirements larger than 50,000+ SF that will transact throughout the balance of the year.

Long term fundamentals in the energy sector remain stable despite the pandemic. Construction of the Trans Mountain expansion project is well underway in B.C. The provincial government has also invested US\$1.1-billion in support of the Keystone XL pipeline construction this year. Both projects, combined with the almost completed Line 3, will provide access to much needed pipeline capacity. Additionally, the federal government has committed \$1 billion in funds to clean up orphaned wells.

Demand for distribution and logistics is only likely to grow as companies reconsider supply chains amid disruptions from lockdowns. Additionally, Edmonton is gaining traction as a hub for medical goods and cargo during the pandemic as the city is the closest major North American airport to Asia via circumpolar routes. Industrial market fundamentals are stable, and this asset class is expected to continue to outperform for the balance of the year.

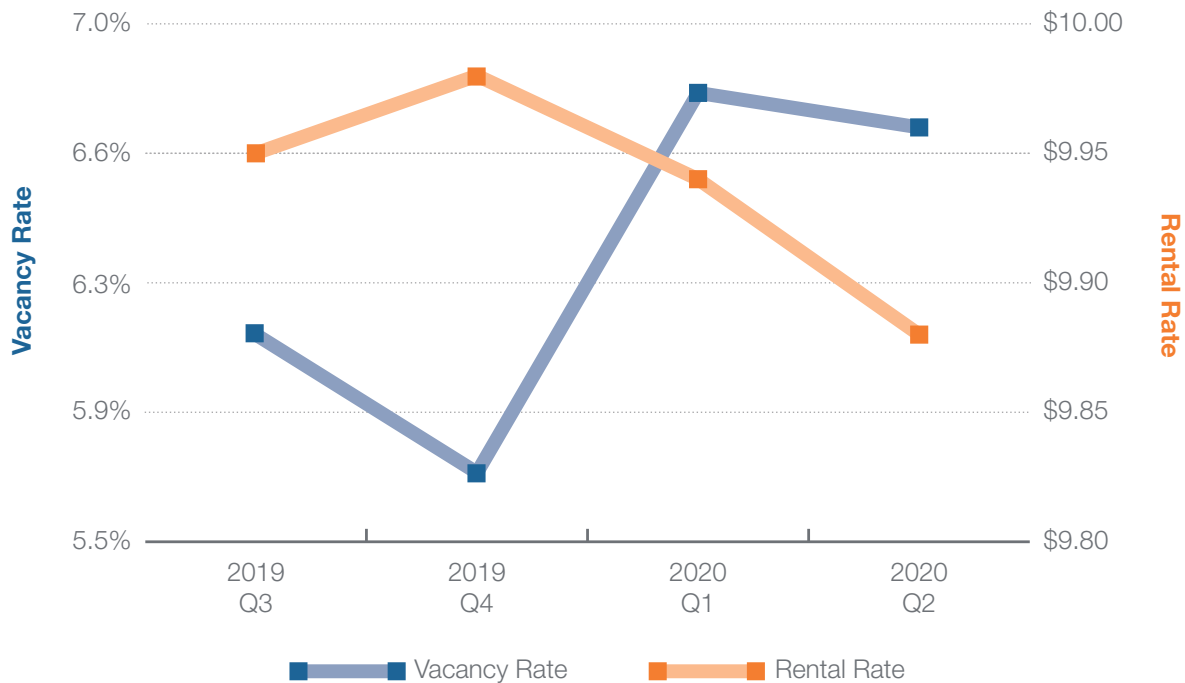


## INDUSTRIAL Vacancy Trends

	2019-Q3	2019-Q4	2020-Q1	2020-Q2
<b>GREATER EDMONTON</b> Buildings Surveyed: 5,520 Existing SF: 188M	6.1%	5.7%	6.8%	6.7%
<b>EDMONTON WEST</b> Buildings Surveyed: 1,844 Existing SF: 69.2M	6.4%	6.5%	7.3%	7.7%
<b>EDMONTON SOUTH</b> Buildings Surveyed: 1,703 Existing SF: 65.9M	5.7%	5.0%	6.6%	6.4%
<b>SHERWOOD PARK / FORT SASKATCHEWAN</b> Buildings Surveyed: 300 Existing SF: 9.9M	11.9%	10.9%	11.1%	10.6%
<b>LEDUC / NISKU</b> Buildings Surveyed: 752 Existing SF: 21M	4.9%	4.6%	5.0%	5.7%

## Average Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS



# Recent Transactions

## PROPERTIES **SOLD**



**10135 - 100 Street**  
**Price:** \$66,182,936  
 \$154,633/suite  
**Area:** Downtown  
**Property Type:** Hospitality  
**Size:** 0.95 acres



**100 Mayfield Common**  
**Price:** \$56,000,000  
 \$250.23/sq.ft.  
**Area:** Britannia Youngstown  
**Property Type:** Retail  
**Size:** 447,588 sq.ft.  
 on 35.58 acres



**10310 - 45 Avenue**  
**Price:** \$12,250,000  
 \$56,452.00/suite  
**Area:** Calgary Trail South  
**Property Type:** Hospitality  
**Size:** 3.81 acres



**4704/32 - 76 Avenue**  
**Price:** \$12,000,000  
 \$134.76/sq.ft.  
**Area:** Weir Industrial  
**Property Type:** Industrial  
**Size:** 89,044 sq.ft.  
 on 5.79 acres



**226 Petroleum Way**  
**Price:** \$5,100,000  
 \$899.44/sq.ft.  
**Area:** Sherwood Park  
**Property Type:** Industrial  
**Size:** 8,950 sq.ft.  
 on 12.06 acres



**3304 Parsons Road**  
**Price:** \$5,100,000  
 \$132.91/sq.ft.  
**Area:** Parsons Industrial  
**Property Type:** Industrial  
**Size:** 38,373 sq.ft.



**9402 - 31 Avenue**  
**Price:** \$2,500,000  
 \$121.95/sq.ft.  
**Area:** Parsons Industrial  
**Property Type:** Industrial  
**Size:** 20,500 sq.ft.



**16220 Stony Plain Road**  
**Price:** \$2,200,000  
 \$155.37/sq.ft.  
**Area:** Britannia Youngstown  
**Property Type:** Investment  
**Size:** 14,160 sq.ft.

# Listing Highlights

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



**5425 Calgary Trail**  
**Sale Price:** \$9,929,000  
**Lease Rate:** \$14.00/sq.ft.  
**Area:** Calgary Trail North  
**Property Type:** Industrial  
**Size:** 44,318 sq.ft.±  
 on 3.26 acres±



**11904 - 21 Street NE**  
**Sale Price:** \$3,350,000  
**Lease Rate:** \$11.00/sq.ft.  
**Area:** Clover Bar Area  
**Property Type:** Industrial  
**Size:** 22,080 sq.ft.±  
 on 2.92 acres±



**Site #144 Comp. 15 - RR#1**  
**Sale Price:** \$2,790,000  
**Area:** Alberta Beach  
**Property Type:** Business  
**Size:** 10 acres± of developed  
 shoreline property



**9712/32 - 54 Avenue**  
**Sale Price:** \$9,450,000  
**Area:** Coronet Industrial  
**Property Type:** Investment  
**Size:** 54,000 sq.ft.  
 on 3.31 acres±

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