# SECOND QUARTER MARKET REPORT

# 2021

GREATER EDMONTON, ALBERTA

Q2


# Economic Outlook

Edmonton's economy started the summer of 2021 on good footing. After months of lockdowns and restrictions, strong vaccination rates led to the reopening of the economy. The Conference Board of Canada expects a strong rebound, with Edmonton's real GDP expanding by 6.4% in 2021. Yet, the road to recovery has been a rocky one. The labour market continues to be a challenge for many employers. The number of unfilled job vacancies in the province are at historical highs. While federal subsidies have been the lifeline for many businesses and consumers, they discourage some from returning to the job market. Also, an economy running hotter than expected, combined with product shortages, has created upward pressure on prices. The country experienced a 3.1% inflation rate in June 2021, above the Bank of Canada's target. Furthermore, prices are expected to increase by 3.3% in 2021. Still, this is likely transitory as supply chain issues are expected to be resolved. Rising interest rates are a concern. However, it is unlikely that the Bank of Canada will hike rates in the short term given the on-going slack in the economy. While the Delta Variant could throw a wrench into the recovery, there are many signs for optimism.

After years of misery, Alberta's energy industry is bouncing back strongly. Oil prices have climbed up hovering around the $70-$74 USD per WTI barrel range in Q2 2021 from a low of $16 USD in the spring of 2020. Energy demand has rebounded as economies reopen and travel resumes, which has provided financial stability to many in the industry. Projections from the ARC Energy Research Institute estimate that the Canadian industry is expected to generate $141 billion in revenues this year. This will be the second highest level behind 2014, a time of historical high oil prices. Despite this, drilling counts in the province continue to be moderate at best. Producers continue to be wary of increasing supply given the uncertainty of a fourth wave of infections and fresh memories of pricing rollercoasters. Additionally, access to capital for smaller exploration companies has become a challenge as investors demand greener investments.

Beyond oil and gas, Alberta's energy industry is diversifying with heavy investments to be at the forefront of innovation and sustainability. Shell Canada has recently announced plans to build a carbon capture and storage plant near Edmonton as part of its strategy to become a net-zero emission producer. Additionally, Edmonton's hydrogen industry continues to grow. Air Products has recently announced plans to build a $1.3 billion plant. The facility, which will produce net-zero hydrogen is expected to be completed by 2024. The region has ideal conditions for large scale hydrocarbon developments thanks to its skilled labour force and existing pipeline infrastructure.

Construction of infrastructure projects has also created a burst in activity. Throughout the city, Edmonton has embarked on major capital expenditures such as Terwillegar Drive expansion and the conversion of Yellowhead Trail into a freeway. The development of the LRT Valley line is also well underway. The southeast leg of the project is near completion, currently testing to determine the timeline for opening. Construction of the west portion of the project, worth $2.6 billion, is also underway. Recently, the federal government announced a $400 million commitment to expand the Capital Line into southwest Edmonton. The extension will add 4.5 kilometres, two stations, an underpass at the 23 Avenue crossing, and a bridge across the Anthony Henday Drive. Additionally, the proposal of the $9.0 billion Prairie Link project, a high-speed rail corridor connecting Edmonton and Calgary could boost the economic impact to the region.



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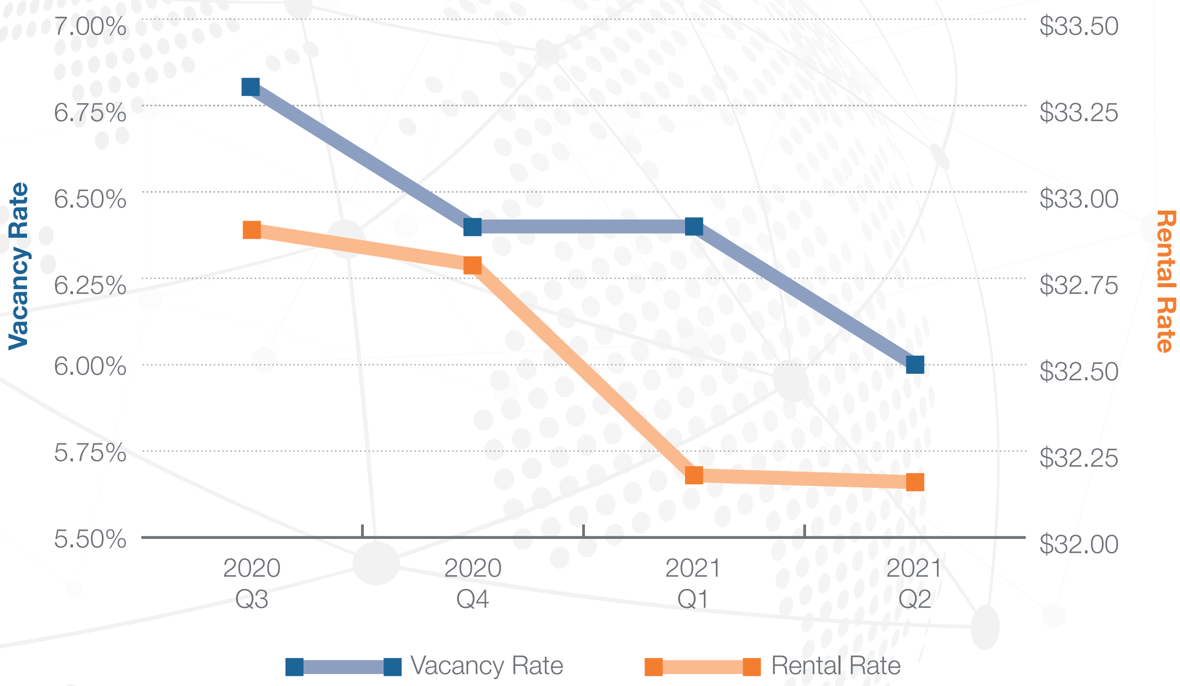
2021-Q2 Greater Edmonton

# Market Highlights

| GREATER EDMONTON AT A GLANCE<br>OVERALL VACANCY TRENDS | 2020-Q3 | 2020-Q4 | 2021-Q1 | 2021-Q2 |
|---|---|---|---|---|
| Buildings Surveyed: 11,349<br>Existing SF: 312M | **6.8%** | **6.4%** | **6.4%** | **6.0%** |

## 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.



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# Retail Market

Edmonton's retail market is showing multiple signs of optimism through the second quarter of 2021. The vacancy rate is now 5.4%, declining 20 basis points compared to Q1 2021. An early arrival of summer, government stimulus, high savings rates, limited opportunities to spend and pent up demand, has unleashed strong consumer sales. Revenge retail has pushed retail sales in Edmonton to an all time high of $2.66 billion as of May 2021, the latest figures available by Statistics Canada. This represents a staggering 23.1% increase compared to May 2020. The robust market is expected to continue throughout the foreseeable future. Following a strong vaccination roll-out, the Alberta government lifted nearly all COVID-19 restrictions on July 1, 2021. Under the province's Stage 3 reopening, masks are no longer required indoors, and capacity limits were lifted in most settings.

Landlords are experiencing an influx in leasing across retail assets throughout the city. A large portion of the demand is dominated by entertainment and experiential retail as households show fatigue after months of lockdown. The lifting of the social gathering restrictions early in Stage 2, provided a boost in demand for restaurants. While large chains are somewhat absent from the market, local restaurants continue to be very active, quickly absorbing space. Indoor participant tenants, such as gyms, virtual golfing, axe throwing, etc. are actively doing deals across the city. The strength of the market has kept rental rates steady. Landlords are feeling confident to push slight increases in rents for well-located sites, typically new construction. This is likely due to a combination of increasing demand but also rising construction costs.

Grocery stores are also active, primarily chasing sites in areas with strong population growth. Co-op has completed several deals over the past few months, most recently having secured land in south Edmonton. Sobeys continues with the rebranding of underperforming Safeways and Sobeys to FreshCos. The Italian Centre keeps on expanding with the recent opening of its fifth and largest store in Cameron's Emerald Hills Urban Village in Sherwood Park. Perhaps the most important deal of the season has been the recent 149,000 SF lease by Walmart in Kingsway Mall, relocating the 91,500 SF store in First Capital Westmount Shopping Centre.

Despite the recent reopening of the economy, activity in the core continues to be limited. The downtown area has been a population desert for quite some time as many companies shifted to remote work since the onset of the pandemic. However, this is likely to change over the coming months. Most employers are looking to get employees back into the office after September long weekend. This will create a burst of activity not seen in over a year, which will provide a much needed relief for retailers in the area.



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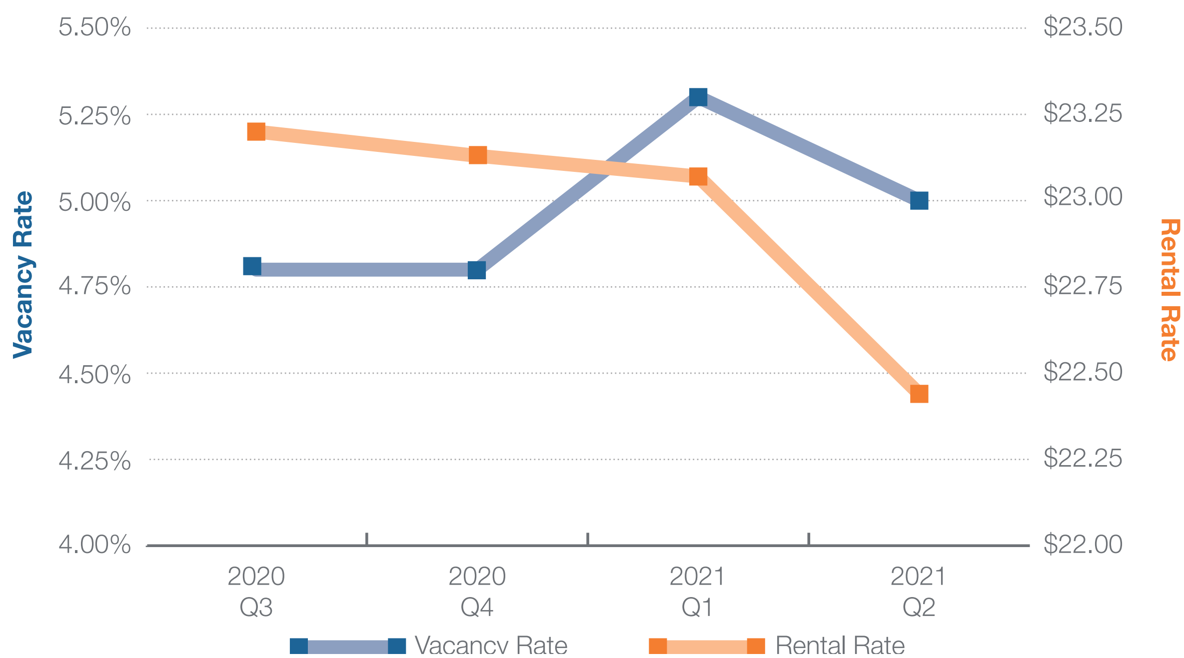
## RETAIL
# Vacancy Trends

| | 2020-Q3 | 2020-Q4 | 2021-Q1 | 2021-Q2 |
|---|---|---|---|---|
| **GREATER EDMONTON**<br>Buildings Surveyed: 4,350<br>Existing SF: 68.7M | 4.8% | 4.8% | 5.3% | 5.0% |
| **EDMONTON WEST**<br>Buildings Surveyed: 1,079<br>Existing SF: 18.4M | 5.6% | 5.3% | 5.6% | 5.5% |
| **EDMONTON SOUTH**<br>Buildings Surveyed: 1,338<br>Existing SF: 22.6M | 4.9% | 5.1% | 5.6% | 5.4% |
| **EDMONTON CENTRAL**<br>Buildings Surveyed: 584<br>Existing SF: 6.2M | 6.8% | 6.5% | 6.6% | 5.3% |
| **LEDUC**<br>Buildings Surveyed: 144<br>Existing SF: 1.9M | 4.6% | 4.2% | 4.4% | 5.0% |
| **ST. ALBERT**<br>Buildings Surveyed: 210<br>Existing SF: 3.7M | 4.0% | 5.0% | 5.8% | 4.6% |
| **SHERWOOD PARK / FORT SASKATCHEWAN**<br>Buildings Surveyed: 345<br>Existing SF: 6M | 5.8% | 5.3% | 5.4% | 5.8% |
| **WHYTE AVENUE / GARNEAU**<br>Buildings Surveyed: 194<br>Existing SF: 1.5M | 6.1% | 6.5% | 9.4% | 9.0% |

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



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# Office Market

Edmonton's office market is still under pressure. The vacancy rate in Q2 2021 was 8.7% a 30 basis points decline compared to Q1 2021. The region recorded 159,957 SF of positive absorption during the second quarter of the year. However, the numbers are skewed by the recent purchase of 50th Street Atria by the Edmonton Catholic School Board. For many occupiers, office demand remains in a holding pattern. The city has been dealing with high vacancy rates for a long time and this trend is likely to continue for the foreseeable future.

The long-term impact of the pandemic to the office sector remains to be seen. Remote work will continue for many, yet a large portion of Edmonton employees are slated to be back to the office in some capacity after September long weekend. Employers want employees back to the traditional workspace. Individual productivity might not be an issue working from home but there are several inefficiencies from teams not physically interacting. Additionally, companies looking to create a strong company culture, are finding it difficult to do so under the virtual circumstances.  Some employers looking to recruit are mandating employment in the office as part of their contracts.

Decisions from multiple occupiers could completely reshape the market, particularly in the downtown core. These moves are not likely to occur in the next few months, but they have more than one owner at the edge of their seat. The groups are anchor tenants, and their relocation could create large holes/wins in the landlord's portfolio at a time of limited demand, particularly for large blocks of space. There is the never ending rumor for a relocation, potentially to a newly built tower, of a major local bank. The Alberta government has downsized its footprint substantially over the past couple of months leaving 50,000 SF in the Phipps McKinnon building. The province is also in the market with an RFP for approximately 90,000 SF.  There is also a construction company looking to lease 60,000 SF, likely at the edge of the core. The move will consolidate the company's footprint, which is currently scattered throughout the city.

Landlords continue to aggressively chase deals. Rental rates have declined, while tenant inducements have increased which puts downward pressure on Net Effective Rates (NERs). It is not uncommon to see landlords do lease deals with negative NERs. While this might feel counter intuitive, many landlords are taking this "forced opportunity" to re-invest in their assets. Much of the current available inventory is old, tired, functionally obsolete and needing to be renovated. Landlords are building spaces that will last 10-15 years which is how they can justify low NERs. Most of the new leases are turnkey deals with high tenant inducement allowances, long early occupancy periods and escalations throughout the term.

Going forward, not much is likely to change in the market. Renewals will continue to be the bulk of the activity. The musical chairs will continue with tenants relocating on lateral moves across the city. Given the underlying supply and demand fundamentals, overall office vacancy is unlikely to decrease but rather continue to increase in the short-term.



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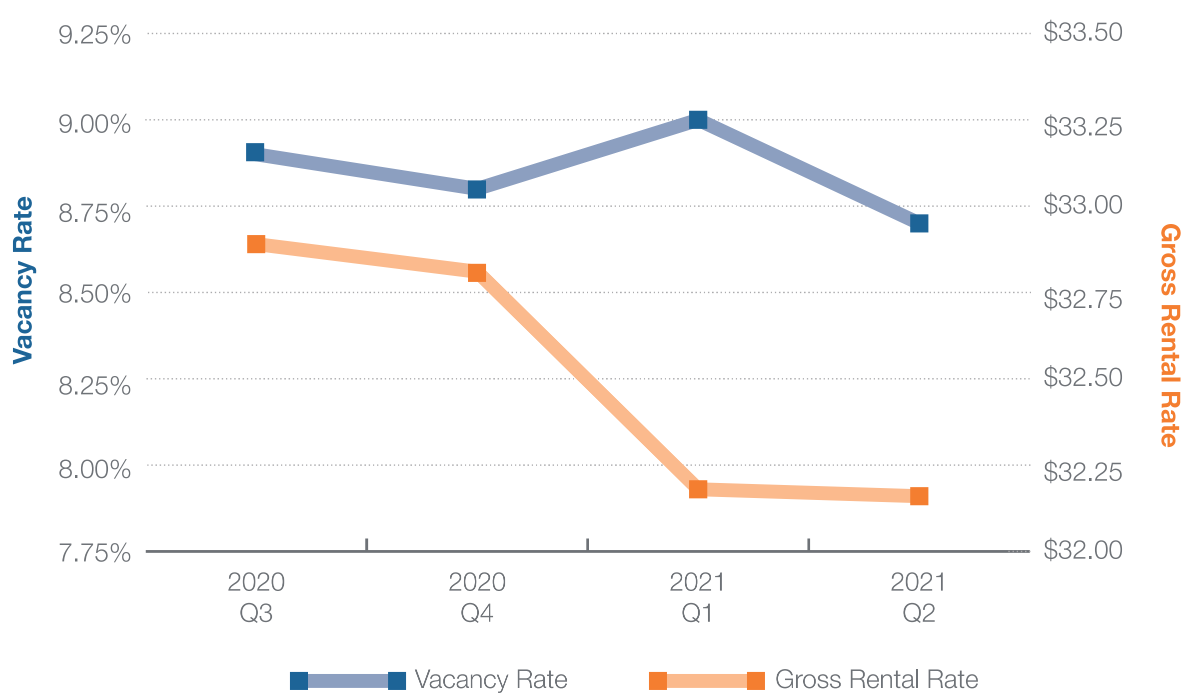
OFFICE
# Vacancy Trends

| | 2020-Q3 | 2020-Q4 | 2021-Q1 | 2021-Q2 |
|---|---|---|---|---|
| **GREATER EDMONTON**<br>Buildings Surveyed: 1,310<br>Existing SF: 51.7M | 8.9% | 8.8% | 9.0% | 8.7% |
| **EDMONTON DOWNTOWN**<br>Buildings Surveyed: 285<br>Existing SF: 25.6M | 9.4% | 8.8% | 9.4% | 9.5% |
| **EDMONTON SUBURBAN**<br>Buildings Surveyed: 453<br>Existing SF: 11M | 9.6% | 9.6% | 10.2% | 8.5% |
| **WINDERMERE / SUMMERSIDE**<br>Buildings Surveyed: 67<br>Existing SF: 2M | 4.5% | 4.4% | 4.1% | 4.3% |
| **UNIVERSITY / GARNEAU**<br>Buildings Surveyed: 57<br>Existing SF: 1M | 11.5% | 11.8% | 11.4% | 13.8% |

# Average Gross Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS



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# Industrial Market

Just like the weather, Edmonton's industrial market is running hot. The region experienced 532,601 SF of net absorption in Q2 2021. The vacancy rate is now 5.5%, below pre-pandemic levels at 5.7% in Q4 2019. Industrial tenants appear to be somewhat immune to the pandemic, driven by strong consumer and business spending. Edmonton has benefited from Vancouver's low vacancy rate, which has one of the tightest industrial markets in North America. Limited available product combined with constrained supply has pushed multiple companies to jump the Rockies into Alberta.

The pandemic has accelerated online shopping and e-commerce as consumer opt for delivery to avoid physical contact. Amazon has been the main winner from this pandemic and its impact in the Edmonton market does not go unnoticed. In addition to the 1.3 million SF across 3 facilities in the Nisku/Leduc submarket, the company is slated to open a robotics facility in Acheson. The building being built by Panattoni has a 2.9 million SF footprint across 5 levels. Multiple other retailers have boosted their omnichannel offering, beyond the Seattle giant. Hello Fresh has leased 200,000 SF in Monarch Business Park and Home Depot is securing a facility in Acheson.

There has been a strong momentum from large occupiers. A large international courier company has leased 120,000 SF at Remington's Discovery Business Park. Bentall's Yellowhead Crossing business park has been active with Finning absorbing 220,000 SF and Alberta Health Services leasing 108,971 SF in 2021. There are still multiple requirements currently in the market over 100,000 SF each, which will likely transact by the end of the year pushing Edmonton's absorption to or near record highs.

Demand to own industrial real estate continues to be strong across every submarket. While there continues to be a supply of existing facilities for sale, some occupiers are finding it increasingly difficult to secure buildings that suit their needs. Functional facilities with dock loading are becoming scarce across the city. The strength of the market has been more evident on the multiple investment portfolio sales that have transacted over the past months. Most notably, the purchase of the Class A investment grade North Port's 846,000 SF with almost 60 acres of available yard by CrestPoint and the sale of Henday Industrial Park's 618,363 SF portfolio from CPPIB and One Properties to BentallGreenOak. Additionally, a 5 building portfolio of Class B product providing a 202,000 SF footprint has recently transacted. Investors continue to favour industrial real estate. Buyers are betting on rental increases in the near future as construction costs rise and vacancy across the country tightens.


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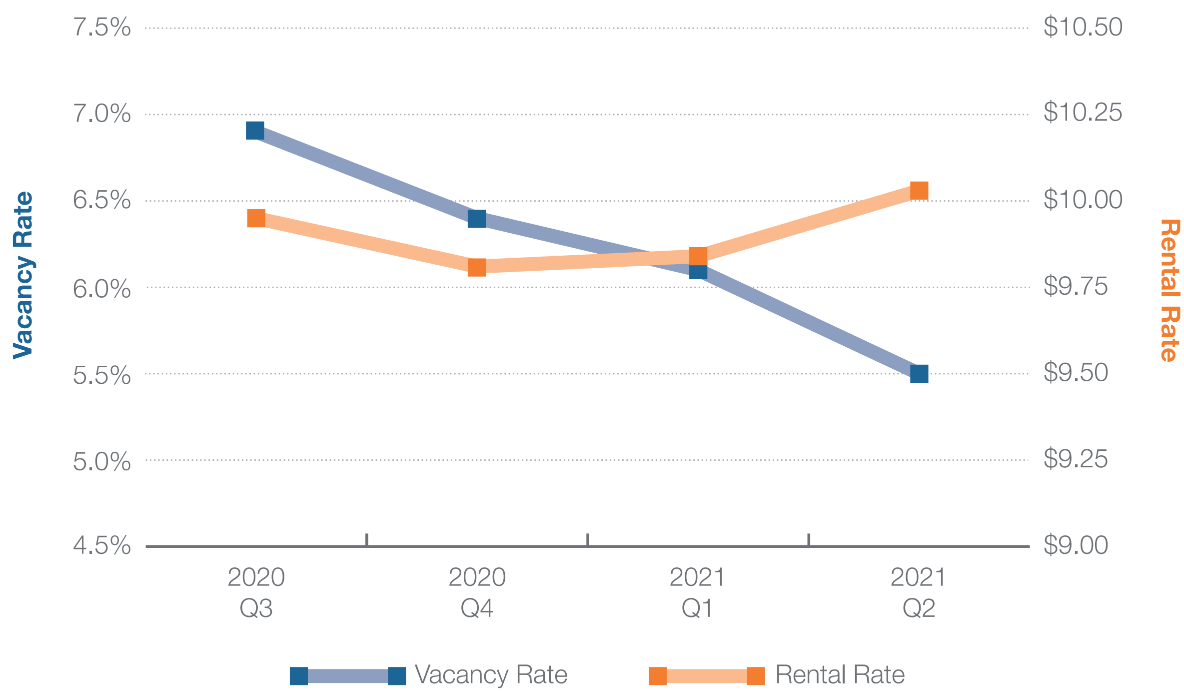
INDUSTRIAL
## Vacancy Trends

| | 2020-Q3 | 2020-Q4 | 2021-Q1 | 2021-Q2 |
|---|---|---|---|---|
| **GREATER EDMONTON**<br>Buildings Surveyed: 5,685<br>Existing SF: 192M | 6.9% | 6.4% | 6.1% | 5.5% |
| **EDMONTON WEST**<br>Buildings Surveyed: 1,877<br>Existing SF: 70.4M | 7.1% | 6.1% | 5.7% | 5.5% |
| **EDMONTON SOUTH**<br>Buildings Surveyed: 1,729<br>Existing SF: 66.2M | 6.7% | 6.5% | 5.9% | 5.7% |
| **SHERWOOD PARK / FORT SASKATCHEWAN**<br>Buildings Surveyed: 318<br>Existing SF: 10M | 11.1% | 11.3% | 11.4% | 8.1% |
| **LEDUC / NISKU**<br>Buildings Surveyed: 766<br>Existing SF: 22.7M | 6.8% | 7.8% | 8.7% | 7.4% |

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



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# Notable Transactions in the Market

## PROPERTIES **SOLD**

PROUDLY SOLD BY NAI COMMERCIAL

**11615 - 149 Street**
**Price:** $10,000,000
$83.54/sq.ft.
**Area:** Huff Bremner Estate Ind.
**Property Type:** Industrial
**Size:** 119,706 sq.ft.
on 6.25 acres

**9405 - 50 Street**
**Price:** $9,800,000
$59.44/sq.ft.
**Area:** Eastgate Business Park
**Property Type:** Office
**Size:** 164,883 sq.ft.
on 6.46 acres

**13528/30 Fort Road**
**Price:** $7,200,000
$178.28/sq.ft.
**Area:** Belvedere
**Property Type:** Retail
**Size:** 40,386 sq.ft.
5.7 acres

**11704 - 170 Street**
**Price:** $7,000,000
$99.77/sq.ft.
**Area:** Armstrong Industrial
**Property Type:** Industrial
**Size:** 70,158 sq.ft.
4.73 acres

**9825 - 283 Street**
**Price:** $6,300,000
$210.00/sq.ft.
**Area:** Acheson
**Property Type:** Industrial
**Size:** 30,000 sq.ft.
on 7.41 acres

**2304 - 119 Avenue NE**
**Price:** $5,135,000
$183.39/sq.ft.
**Area:** Clover Bar Area
**Property Type:** Industrial
**Size:** 28,000 sq.ft.
on 2.64 acres

**9910/28 - 99 Avenue**
**Price:** $4,042,500
$292.45/sq.ft.
**Area:** Fort Saskatchewan
**Property Type:** Retail
**Size:** 13,823 sq.ft.
on 1.22 acres

**14803/23 - 134 Avenue**
**Price:** $3,915,000
$88.84/sq.ft.
**Area:** Clover Bar Area
**Property Type:** Industrial
**Size:** 44,070 sq.ft.
on 1.8 acres

# NAI Listing Highlights

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

**11919 Wayne Gretzky Dr.**
**Sale Price:** $2,300,000
**Area:** Montrose
**Property Type:** Retail
**Size:** 18,727 sq.ft.±
on 0.69 acres±

**12825 - 144 Street**
**Sale Price:** $4,500,000
**Area:** Bonaventure Industrial
**Property Type:** Industrial
**Size:** 43,200 sq.ft±.
on 1.83 acres±

**4600 - 99 Street**
**Lease Rate:** Market
**Area:** Papaschase Industrial
**Property Type:** Retail/Office
**Size:** 1,364 - 8,164 sq.ft.±


**10215 - 95 Street**
**Lease Rate:** From $25.00/sq.ft.
**Area:** Boyle Street
**Property Type:** Retail
**Size:** 1,257 - 6,294 sq.ft.±

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