



# **NAI Commercial**

## **SECOND QUARTER MARKET REPORT 2023**

### **GREATER EDMONTON, ALBERTA**



## Economic Outlook

Edmonton continues to shine as a bright spot in the country's commercial real estate market — particularly as other areas across Canada have struggled to maintain occupancy across sectors through the first half of 2023.

Though interest rates continue to create some market uncertainty, demand in Alberta has been particularly strong in the industrial sector, with Edmonton leading the way. This surge can be attributed to numerous success stories, from Edmonton's standing as a major transportation hub, to more reasonable rates for owners and tenants alike, and a young skilled labour force. Low vacancy rates have held steady, despite a continuous increase in industrial supply, with the Edmonton region hosting an overall vacancy rate of just 3.8%.

In contrast to a strong industrial scape, office vacancies have raised concerns throughout the region. Though the overall office vacancy rate has remained steady at 10.4% for the entire Edmonton region, figures for downtown Edmonton continue to climb. Quarter 2 of 2023 marked the fifth consecutive quarter in which downtown vacancy rang in at 13%\* or worse.

One area that has raised many questions over the past couple of years has been the retail landscape, with a bounce-back from COVID-19 e-commerce trends laying in stark contrast to the mass closures of big box stores. That was somewhat balanced in early-2023 by the announcement of less-traditional discount mega-retailers looking to fill some of those spaces. Even more progress has been made for those spaces in mid-2023, as sizeable buildings left empty by Bed Bath & Beyond have been snatched up by Canadian Tire and Toys "R" Us. Meanwhile, empty Rona locations

have seen major reinventions in the Edmonton area, with one store in south Edmonton being converted to a multi-space shopping centre, and another in Sherwood Park undergoing a transformation into a grocery store with integrated restaurants.

In all, commercial real estate activity throughout Quarter 2 of 2023 paint a picture of continued growth for Edmonton. While certain economic concerns have created instability in numerous areas, interest rates and inflation haven't resulted in major negative impacts for the Edmonton market. Meanwhile, supply chain issues have actually continued to bolster Edmonton's industrial realty scape. Over the past few years, shipping and logistics have taken the lead in securing industrial uptake. Over the same period, businesses have increased their warehousing capabilities to deal with the increase in e-commerce demand, and logistics interruptions elsewhere that could cause product shortages.

Edmonton's successes are expected to continue throughout the second half of 2023, particularly in the industrial sector. Some of this growth comes at British Columbia's expense, with the western-most province seeing the lowest industrial real estate absorption rate in nearly a decade. Retail, too, is expected to continue to thrive. However, there are areas in which struggles will persist, specifically in the office landscape. As companies continue to adjust to evolving employee preferences — such as work-from-home structures and the rising prominence of four-day work weeks — office vacancies will continue to be in flux. Still, there has been a trend of increased hybrid working requirements, meaning that office spaces are still necessary (at least on a part-time basis) for most companies.

*\*Some reports show a significant higher vacancy, as they do not account for all downtown office properties.*

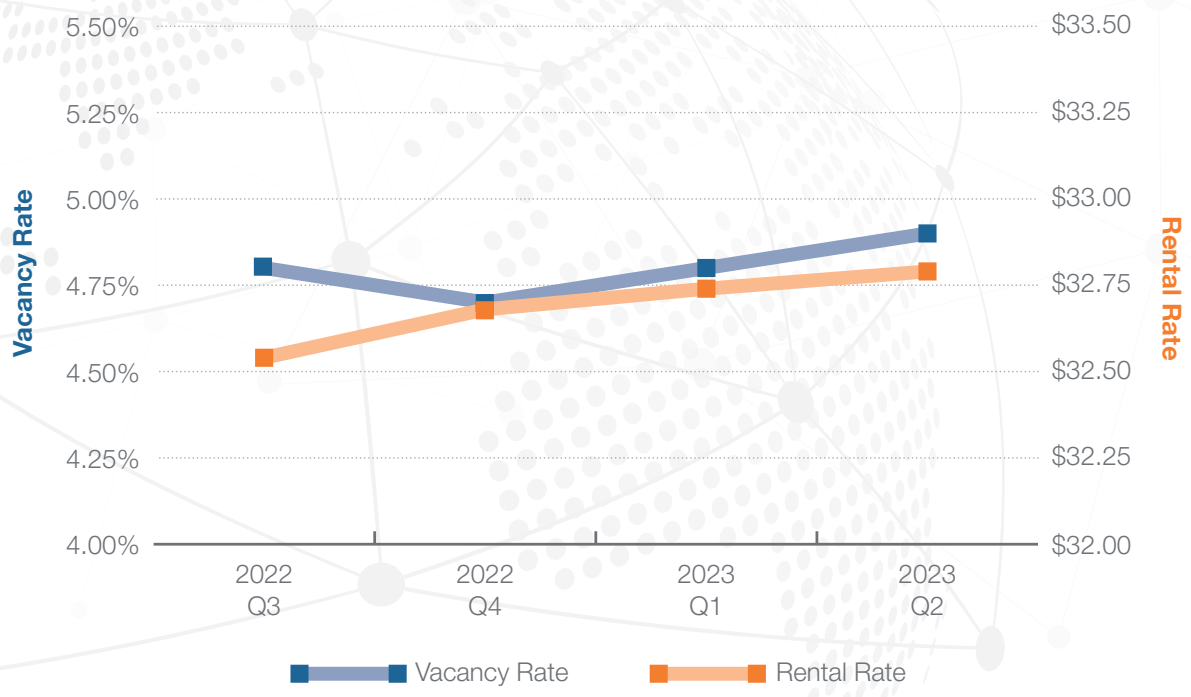
GREATER EDMONTON AT A GLANCE  
OVERALL VACANCY TRENDS

Buildings Surveyed: 11,791  
Existing SF: 322.50M

2022-Q3	2022-Q4	2023-Q1	2023-Q2
4.8%	4.7%	4.8%	4.9%

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

The retail landscape has been marred by the closure of numerous big box stores, but retail as a whole has shown promise in Edmonton and the surrounding area in an extended bounce-back from the pandemic's surge in e-commerce activity.

At the midway mark of 2023, the retail vacancy rate across the Edmonton region lands at 4.1% — down from a 4.3% rate that held steady over the previous three quarters. As is the case with office real estate, though, much of the retail optimism lies on the shoulders of suburbia.

St. Albert's vacancy rate has fallen from 3.1% to 2.9% quarter-over-quarter, reaching the lowest rate since Quarter 1 of 2022. Sherwood Park-Fort Saskatchewan's vacancy has dipped even further, falling from 3.4% to 2.6% between the first and second quarter of the year — marking the lowest vacancy rate since before 2019. Finally, Leduc has seen a slight increase in vacancy, from 1.7% at the beginning of the year to a still low 2.3% six months into 2023.

This latest increase for Leduc was expected, as consistently high levels of occupancy inevitably led to an increase of retail space inventory to accommodate demand, with nearly 43,000 square feet of new inventory brought to the table. That figure matters, with the context that Leduc hosts just 44,645 square feet of total vacant space. As such, we anticipate this vacant space will fill up quickly, again creating demand for new retail space in Leduc.

Edmonton, on the other hand, has seen retail vacancy rates above those in the suburbs, including along Whyte Avenue-Garneau (7.5%), in central Edmonton (6.4%), the northwest area of the city (5.8%), and south

Edmonton (4.2%). As is the case with Leduc, some of south Edmonton's retail vacancy can be attributed to the completion of new developments, including many areas where developments have been pre-leased.

Some major changes to the retail landscape may soon be seen, as big box outlets continue to shut their doors — most recently including the closure of all Nordstrom Canada stores in mid-June. Though there has been no publicly announced tenants for Nordstrom's South Edmonton Common location at the time this report was created, there has been quite a bit of activity in filling spaces left behind by major retailers pulling up their stakes.

When the Bed Bath & Beyond Group closed its 65 stores, for example, 10 of those locations were quickly acquired by Canadian Tire, with another 21 purchased for the launch of a new brand, called Rooms + Spaces. Meanwhile, nine more stores were bought up as future Toys "R" Us locations, with another two designated as Babies "R" Us stores. This still leaves some large retail outlets unspoken for, but the trend is positive for retail absorption — and the same is true for other sizeable outlets that have been vacated by companies including Rona and The Bay.

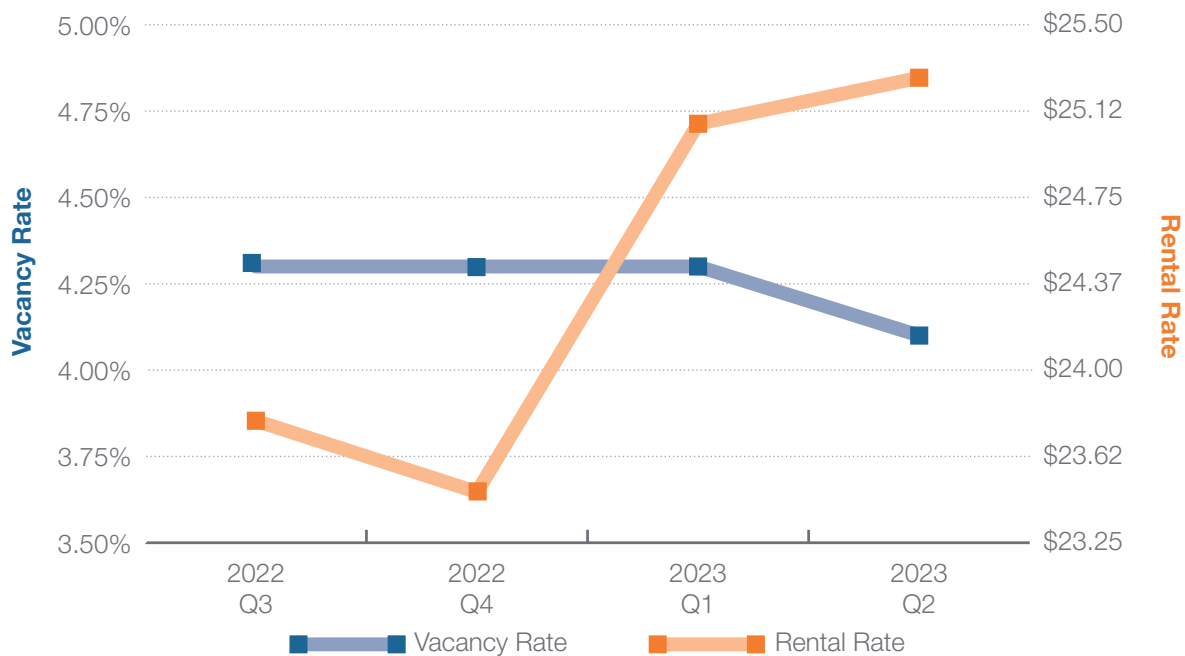
The only potential stall in the retail rebound may come at the hands of a projected recession. Still, GDP figures show faster-than-expected growth that could counteract previous predictions of a stalled economy. Even if a full-blown recession has been pushed to the wings, an economic downturn could still be set to take the stage, meaning that retail growth may slow over the coming six months. For now, though, all signs point to continued success in the suburbs, and moderate growth in the larger city centres.

## RETAIL Vacancy Trends

	2022-Q3	2022-Q4	2023-Q1	2023-Q2
<b>GREATER EDMONTON</b> Buildings Surveyed: 4,592 Existing SF: 70.71M	4.3%	4.3%	4.3%	4.1%
<b>EDMONTON WEST</b> Buildings Surveyed: 1,109 Existing SF: 18.75M	6.1%	5.9%	5.9%	5.8%
<b>EDMONTON SOUTH</b> Buildings Surveyed: 1,437 Existing SF: 23.61M	3.7%	3.5%	3.8%	4.2%
<b>EDMONTON CENTRAL</b> Buildings Surveyed: 584 Existing SF: 6.35M	6.0%	5.7%	5.6%	6.4%
<b>LEDUC</b> Buildings Surveyed: 152 Existing SF: 1.92M	1.2%	1.1%	1.7%	2.3%
<b>ST. ALBERT</b> Buildings Surveyed: 222 Existing SF: 3.51M	3.5%	3.7%	3.1%	2.9%
<b>SHERWOOD PARK / FORT SASKATCHEWAN</b> Buildings Surveyed: 402 Existing SF: 6.11M	3.5%	3.4%	3.4%	2.6%
<b>WHYTE AVENUE / GARNEAU</b> Buildings Surveyed: 190 Existing SF: 1.54M	6.6%	6.3%	8.3%	7.5%

## Average Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS





# Office Market

As seems to consistently be the case with the Edmonton region's office real estate market over the past few years, there is good news and there is bad news. The impacts of each are significant and may be long-lasting, but the key takeaway is the optimism found outside the capital city's downtown core.

The Edmonton region's overall office vacancy rate is deceptively high at 10.4%, as the city's downtown core carries particular weight at 13.7% vacancy (some reports show a significant higher vacancy, as they do not account for all downtown office building types and sizes). Even higher is the vacancy rate in the University-Garneau area of Edmonton, which has hit a new record vacancy of 21.3%. This represents a relatively sharp increase from the 19.2% vacancy rate reported at the end of Quarter 1 of 2023, though University-Garneau vacancy has been on a steady climb since the very beginning of 2020 — the last time the area's vacancy rate was in the single digits.

Still, the rest of the region paints a brighter picture, with the suburbs — Sherwood Park, Fort Saskatchewan, Leduc, Nisku, St. Albert — hosting a vacancy rate of 7.9%. Meanwhile, the relatively newer Windermere-Summerville market continues to thrive, with a vacancy rate of just 2.5% — down slightly quarter-over-quarter (2.6%), but having fallen by half year-over-year (5.0% in Quarter 2 of 2022).

Despite this success outside of the Edmonton core, focus has remained on the city's downtown struggles. As office spaces remain vacant and housing continues to present issues for the capital city, many are mulling large-scale conversions of current office spaces to high-density residential. Such conversion projects require less design and construction time than purpose-built housing developments, with projects of this nature being completed across the country. In

Calgary, for example, a 72-unit apartment building took over a low-rise office tower that struggled to maintain occupancy. Meanwhile, Edmonton is already seeing some of this action underway, with the Jasper Avenue-located Enbridge Tower currently being converted to a 274-unit apartment complex.

A lot of these conversations are tied to older office buildings, where vacancy rates are typically higher than those of newer buildings. Construction costs and supply chain issues have created affordability issues for owners looking to upgrade their spaces and entice occupancy. Still, with the downtown core contributing around 11 per cent of Edmonton's tax base, the City has committed to unearthing ways to retain and attract businesses downtown, through grants — including those for the conversion of office spaces to new uses.

The longevity of current work-from-home agreements and hybrid working arrangements will have an impact on future office rates. Those with hybrid setups that still require a physical office space, for instance, may renew their leases for fewer square feet than they previously occupied. Those looking to implement four-day work weeks may follow a similar trend, with different people in the office on different days.

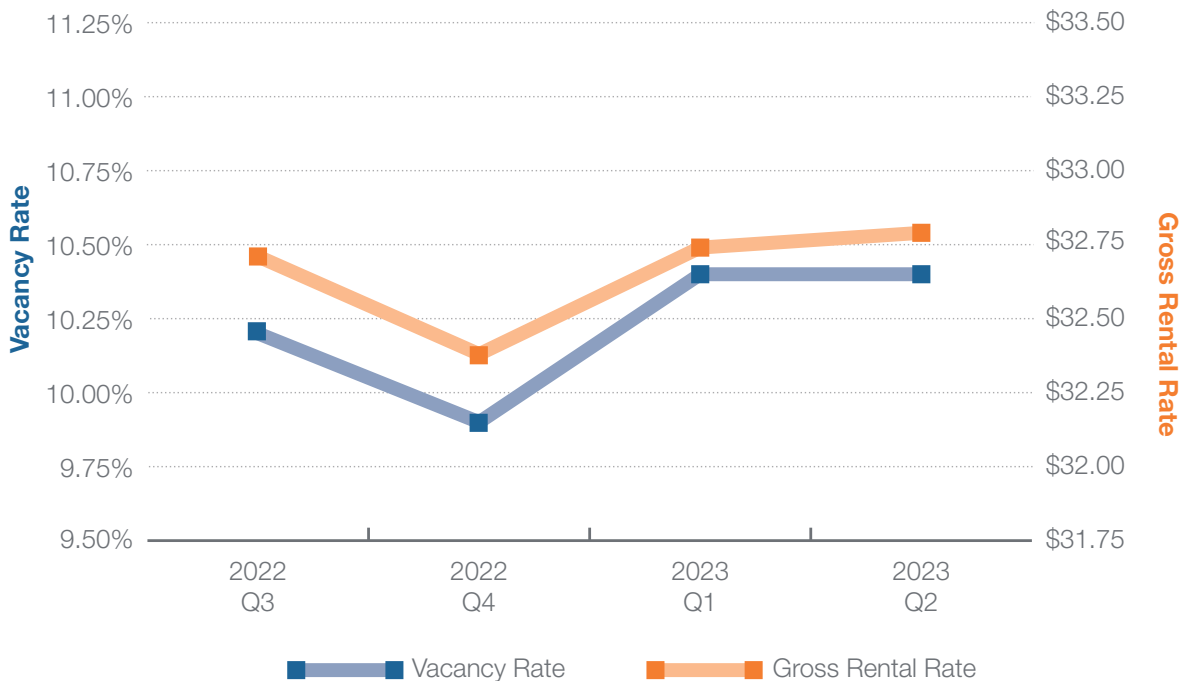
In all, office space woes will likely continue throughout the rest of 2023. The suburbs, though, will continue to see strong occupancy numbers, as will newer areas on the outskirts of Edmonton. The shift from high- to low-density areas that was normalized during the pandemic could create supply issues in the suburbs, which would spur new development and result in even more downtown conversions taking place. For the time being, a lot will depend on funding opportunities to offset costs for downtown owners looking to update or convert their existing space.

## OFFICE Vacancy Trends

	2022-Q3	2022-Q4	2023-Q1	2023-Q2
<b>GREATER EDMONTON</b> Buildings Surveyed: 1,356 Existing SF: 50.93M	10.2%	9.9%	10.4%	10.4%
<b>EDMONTON DOWNTOWN</b> Buildings Surveyed: 283 Existing SF: 24.70M	11.7%	13.1%	13.6%	13.7%
<b>EDMONTON SUBURBAN</b> Buildings Surveyed: 820 Existing SF: 20.76M	8.2%	7.6%	8.0%	7.9%
<b>WINDERMERE / SUMMERSIDE</b> Buildings Surveyed: 66 Existing SF: 1.91M	4.2%	3.0%	2.6%	2.5%
<b>UNIVERSITY / GARNEAU</b> Buildings Surveyed: 58 Existing SF: 876K	15.2%	15.1%	19.2%	21.3%

## Average Gross Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS





## Industrial Market

As has proven consistent for the Edmonton region, the industrial real estate market is thriving. Though British Columbia witnessed its lower absorption rate of industrial real estate in nearly a decade early in 2023, Alberta — and the Edmonton region, specifically — have been the landing spot for those leaving the Pacific coast.

In addition to traditional manufacturing and oil and gas activity throughout the region, Edmonton and the surrounding region have been firmly cemented as a logistics and distribution hub. Though this standing began to emerge during the COVID-19 pandemic, work has been ongoing for quite some time in establishing Edmonton as a distribution landmark, through increased global market access and logistics capabilities. To this end, the inventory of industrial space has increased by nearly 10.5 million square feet since the beginning of 2020.

That growth has been consistent, with 900,000 square feet of industrial space added over the past quarter alone. With that, the full region's industrial vacancy rate sits at 3.8%. For a long time now, Leduc-Nisku has held a steady flow of industrial activity — and while that hasn't changed, the vacancy rate has increased quarter-over-quarter, rising from 4.3% early in 2023 to 6.5% at the year's midway mark. This provides significant opportunity for those moving to the region, as more owners and tenants shift away from B.C.

Though Edmonton's northwest has seen a vacancy increase of 0.5% quarter-over-quarter (to 3.5%), the southside of the capital city has seen an industrial vacancy drop, from 4.3% in Quarter 1 of 2023 to 3.9% in

Q2. Sherwood Park-Fort Saskatchewan, too, has seen a notable dip in vacancy, from 4.4% to 3.9% quarter-over-quarter.

Throughout the rest of 2023, the region should continue to see growth from both ends of the spectrum — first, by way of more industrial space becoming available as ongoing builds are completed; second, with those new spaces being quickly filled by entrepreneurs shifting operations to Alberta. Already, in some areas where new industrial construction is underway, a majority of space has already been spoken for through pre-leasing agreements — including 40% of 3.7-million square feet of additional industrial space currently under construction. Meanwhile, a total of around one-million square feet of new industrial space in the Edmonton area is set to become available in Quarter 3 of this year alone.

Steady leasing activity is significant, especially considering the average asking rental rate of \$10.42 across the Edmonton region. This marks the highest asking rate since before 2019, increasing from the rate of \$10.28 at the beginning of 2023, with a notable rise from the region's lowest cost per square foot of \$9.78 at the end of 2020, amidst pandemic-driven uncertainty.

In all, Edmonton is well set up to continue to prosper from industrial growth. With Edmonton and Toronto standing out in the delivery of new industrial supply — and Edmonton specifically seeing the positive net absorption of 1.3-million square feet — the ongoing expansion of logistics and distribution efforts are expected to buoy the capital region to sustained success.

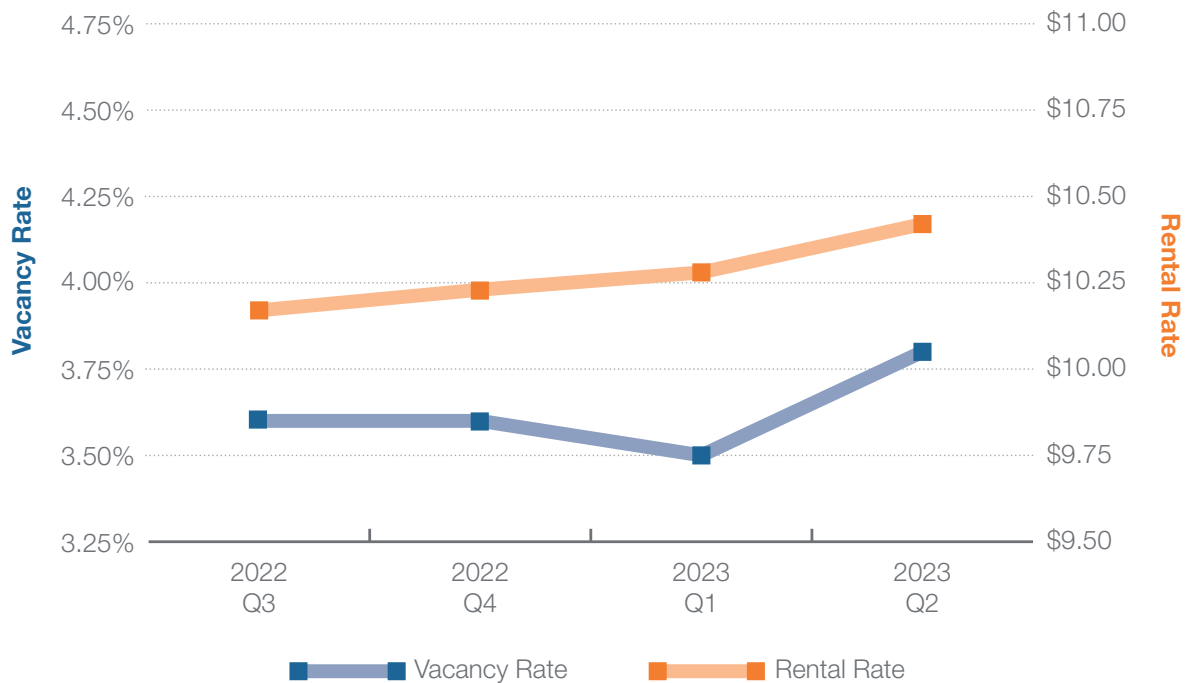


## INDUSTRIAL Vacancy Trends

	2022-Q3	2022-Q4	2023-Q1	2023-Q2
<b>GREATER EDMONTON</b> Buildings Surveyed: 5,840 Existing SF: 200.85M	3.6%	3.6%	3.5%	3.8%
<b>EDMONTON WEST</b> Buildings Surveyed: 1,890 Existing SF: 71.54M	3.2%	3.4%	3.0%	3.5%
<b>EDMONTON SOUTH</b> Buildings Surveyed: 1,751 Existing SF: 66.33M	4.1%	4.3%	4.3%	3.9%
<b>SHERWOOD PARK / FORT SASKATCHEWAN</b> Buildings Surveyed: 373 Existing SF: 11.59M	4.8%	4.6%	4.4%	3.9%
<b>LEDUC / NISKU</b> Buildings Surveyed: 837 Existing SF: 26.21M	4.7%	4.3%	4.3%	6.5%

## 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



**2331 - 66 Street NW**  
**Price:** \$69,000,000  
 \$151.42/sq.ft.  
**Area:** Mill Woods Town Centre  
**Property Type:** Retail  
**Size:** 455,701 sq.ft.  
 on 56.24 acres



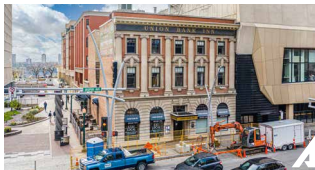
**10814 - 119 Street**  
**Price:** \$14,700,000  
 \$294.62/sq.ft.  
**Area:** Queen Mary Park  
**Property Type:** Industrial  
**Size:** 49,895 sq.ft.  
 on 1.32 acres



**11703 - 170 Street & 14504 - 115 Avenue**  
**Price:** \$11,025,000  
 \$141.17/sq.ft.  
**Area:** Norwester Industrial & Huff Bremner Estate Industrial  
**Property Type:** Industrial  
**Size:** 78,099 sq.ft.  
 4.34 acres



**6708 - 75 Street**  
**Price:** \$6,650,000  
 \$60.45/sq.ft.  
**Area:** Davies Industrial West  
**Property Type:** Industrial  
**Size:** 110,000 sq.ft.  
 5.2 acres



**10053 Jasper Avenue**  
**Price:** \$4,800,000  
 \$160.83/sq.ft.  
**Area:** Downtown  
**Property Type:** Hotel  
**Size:** 29,845 sq.ft.  
 on 7,500 sq.ft.



**12825 - 144 Street**  
**Price:** \$4,695,000  
 \$109.46/sq.ft.  
**Area:** Bonaventure Industrial  
**Property Type:** Industrial  
**Size:** 42,893 sq.ft.  
 on 1.83 acres



**4611 Morris Road**  
**Price:** \$2,110,000  
 \$160.01/sq.ft.  
**Area:** Morris Industrial  
**Property Type:** Industrial  
**Size:** 13,187 sq.ft.  
 on 0.80 acres



**11320 - 143 Street**  
**Price:** \$1,860,000  
 \$103.05/sq.ft.  
**Area:** Huff Bremner Estate Ind.  
**Property Type:** Industrial  
**Size:** 18,050 sq.ft.  
 on 1.17 acres

# NAI Listing Highlights

## AVAILABLE PROPERTIES FOR SALE AND/OR LEASE



**17410 - 107 Avenue**  
**Sale Price:** \$5,795,000  
**Area:** McNamara Industrial  
**Property Type:** Office/Retail  
**Size:** 15,400 sq.ft.±  
 on 0.68 acres±



**945 Mistatim Link**  
**Sale Price:** \$5,195,000  
**Area:** Mistatim Industrial  
**Property Type:** Retail  
**Size:** 16,390 sq.ft.±  
 on 1.04 acres±



**15706 - 116 Avenue**  
**Lease Rate:** Starting at \$12,407/month  
**Area:** Alberta Park Industrial  
**Property Type:** Industrial  
**Size:** 10,635 sq.ft.±  
 with 1 acre± yard



**10315 - 109 Street**  
**Sale Price:** \$4,000,000  
**Area:** Downtown  
**Property Type:** Industrial  
**Size:** 16,181 sq.ft.±  
 on 20,995 sq.ft.±

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