NAI Commercial

THIRD QUARTER MARKET REPORT
2019

GREATER EDMONTON, ALBERTA

Q3

2019-Q3 Greater Edmonton

Market Highlights

Economic Outlook

With the federal and provincial elections out of the way and the provincial budget on the table, any clarity the market sought will now be even further delayed. We now have a Prime Minister in a minority government with not a single Liberal seat in either Alberta or Saskatchewan. Ultimately, we will need action to alleviate investor concerns. While both the Provincial and Federal government are clearly vocal on their intent to proceed with the TMX pipeline, the elephant in the room remains: How long will it take to have the pipeline capacity increased and more oil flowing?

Edmonton for the year continues to grow, with population in Greater Edmonton increasing by 2.2% year over year (August to August) to reach 1,187,000. However, of this gain the labor force only grew by 0.7% in the same period and unemployment is holding at 7.3% (Source: Statistics Canada). Where does it go from here? With so much uncertainty for the future of the energy industry, as well the unknown total effect of the reduced provincial budget, the general pause in the Alberta market continues. A worried or fearful consumer will typically spend less, and if energy is one part of our economy so too is consumer spending.

Many Albertans realize the well-being of our local economy is connected to our ability to export products internationally. In fact, Alberta's ability to export internationally makes up 1 in every 5 dollars of all Canadians exports. However, what might not be as well-known is the scale of where those exports go. In 2018, Alberta exported $118 billion in products internationally, with over 87% going to the U.S., but only 4% to China, 1.7% to Japan and 1% to Mexico (Source: Statistics Canada). The largest product categories are, not surprisingly, energy products (which accounted for 71% of our exports), chemicals (7.8%), food products (6.8%), and forestry (4%). So, when 71% of exports are up for political or environmental policy interference and 87% of all exports are bought by only one customer, "Houston we have a problem." Further, we are seeing continued and historical evidence of interest groups south of our border with direct ties to funding Canadian based environmental organizations. These groups influence public opinion and policy here in Canada.

This stark reality of our economic exports and the influences at work are exactly why the "War Room" is being set up. This will be a central issue for Albertans and may grow to become the focus of the Canadian discussion over the next 24-48 months. Albertans remain hopeful - yet frustrated - and our feeling of "Blue" has been seen across the map.

2019-Q3 Greater Edmonton
Market Highlights

Commercial Real Estate Outlook

While many business owners expected the government to modify tax policies and reduce its spending based on the UPC platform, the average consumer may have been ill-prepared. As we had commented previously, many businesses were holding purchasing decisions or expansion plans until the results of the election were known. So now, in the short term, with the consumer on notice and businesses hesitant because of limited clarity on our key issues, we expect that pause to cause a sluggish result for the balance of 2019.

As vacancies will naturally come on to the market, we expect the absorption of space to be slower, but met with the addition of even more new inventory. Accordingly, we forecast vacancy, on the average, to increase over the next two quarters in all categories with rental rates moderating slightly to attract activity. This remains an ideal time for tenants to renegotiate leases, renewals, or locate new property.

The positive side to Albertans is that while we are dealing with news of restraint in the provincial budget, we remain in a low interest rate environment. This may provide more resilience for families, businesses and property owners to adjust their own budgets and plan, than if instead were faced with higher interest rates and less flexibility. In fact, the pause in the market has created unique opportunities to purchase property at favorable pricing, with long term financing at historically low rates.

While the outlook at present is uncertain, this may be seen later to have been one of the best periods to make purchases or secure a favorable lease. Finding a solution to both growing the energy infrastructure in Canada and reducing our emissions on the global climate is now a mainstream topic. As immeasurable as that may be, heads are turning towards Alberta and Saskatchewan and the positive information about our energy industry (and what Canada risks losing). We expect that national support will return to Canadian energy resource development, and when it does the Edmonton developers, investors, and business leaders positioned properly will make the biggest gains. Fortune favors the brave.

MARKET HIGHLIGHTS

GREATER EDMONTON AT A GLANCE OVERALL VACANCY TRENDS	2018-Q4	2019-Q1	2019-Q2	2019-Q3	Q2-Q3 TREND
Buildings Surveyed: 10,287 Existing SF: 298M	**5.6%**	**5.8%**	**5.9%**	**5.8%**	⬇

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

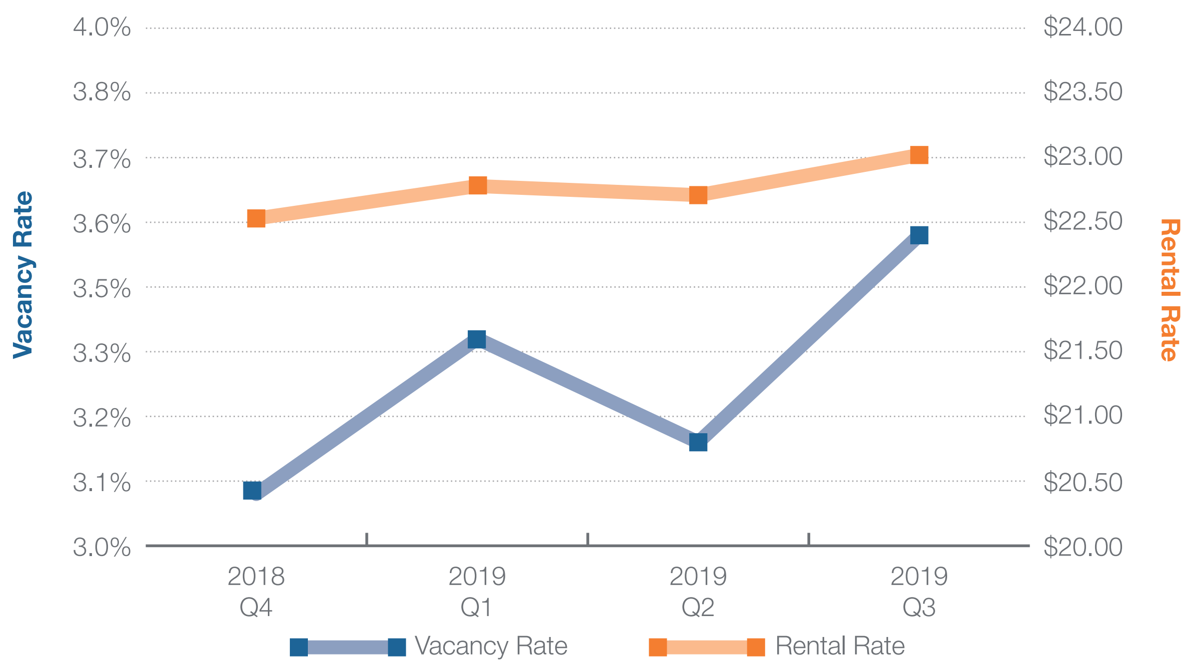
Retail vacancy rates in Greater Edmonton have increased slightly to 3.6 percent over the past quarter with the average rental rates increasing over the same period. With the influx of cannabis dispensaries doting many corners throughout the city and most summer construction of retail buildings being added to new residential areas this has pushed rental rates up on the average. However most existing retail has not seen this increase in rates; in fact, there is a new wave of retail vacancy starting to persist in the food sector with many restaurants closing their doors. The deliver-to-door options online has pulled a lot of evening traffic out of restaurants and those sales when converted to online sales have a lower margin for the business. With this decrease in margin, along with higher minimum wages, many businesses in this sector are struggling to earn profits. Even major restaurant chains have been affected such as Tony Roma's, Red Robins, Chili's, as well many established food related franchises have indicated further growth is on hold.

We still anticipate the retail market will close with a positive year of performance with vacancies staying under 4% and rental rates holding. Retail trade in Alberta grew 2.1 percent year over year and cannabis retailers will continue to announce retail stores throughout the rest of 2019, adding more jobs to the sector. When making bets on Canada, Alberta remains a retail stronghold 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-Q4	2019-Q1	2019-Q2	2019-Q3	Q2-Q3 TREND
GREATER EDMONTON Buildings Surveyed: 3,936 Existing SF: 64.4M	3.1%	3.1%	3.2%	3.6%	↑
EDMONTON WEST Buildings Surveyed: 993 Existing SF: 18.6M	3.2%	3.4%	3.6%	4.1%	↑
EDMONTON SOUTH Buildings Surveyed: 1,205 Existing SF: 20.6M	2.3%	2.3%	2.5%	3.2%	↑
EDMONTON CENTRAL Buildings Surveyed: 572 Existing SF: 6.8M	3.6%	4.9%	5.1%	5.6%	↑
LEDUC Buildings Surveyed: 166 Existing SF: 1.7M	2.8%	3.0%	3.1%	4.5%	↑
ST. ALBERT Buildings Surveyed: 180 Existing SF: 3.2M	3.3%	3.4%	3.2%	2.6%	↓
SHERWOOD PARK / FORT SASKATCHEWAN Buildings Surveyed: 285 Existing SF: 5M	5.7%	5.6%	4.7%	4.9%	↑
WHYTE AVENUE / GARNEAU Buildings Surveyed: 192 Existing SF: 1.4M	5.5%	4.0%	4.3%	4.2%	↓

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



Office

If it wasn't for the recent government events affecting the outlook, the third quarter was for most part positive overall. Over the last quarter we have seen vacancy rates drop in all areas of Edmonton with the Greater Edmonton average office vacancy now at 7.9%. This is a reduction from 8.9% in Q2 and 9.4% in Q1. The office sector over the next quarter is expected to soften from the pause in the market. However, activity continues with many business owners taking advantage of this period with repositioned lease terms in their favor. The Suburban market has seen a number of owner-users and investors intent on buying at price levels that now allow for exciting redevelopment.

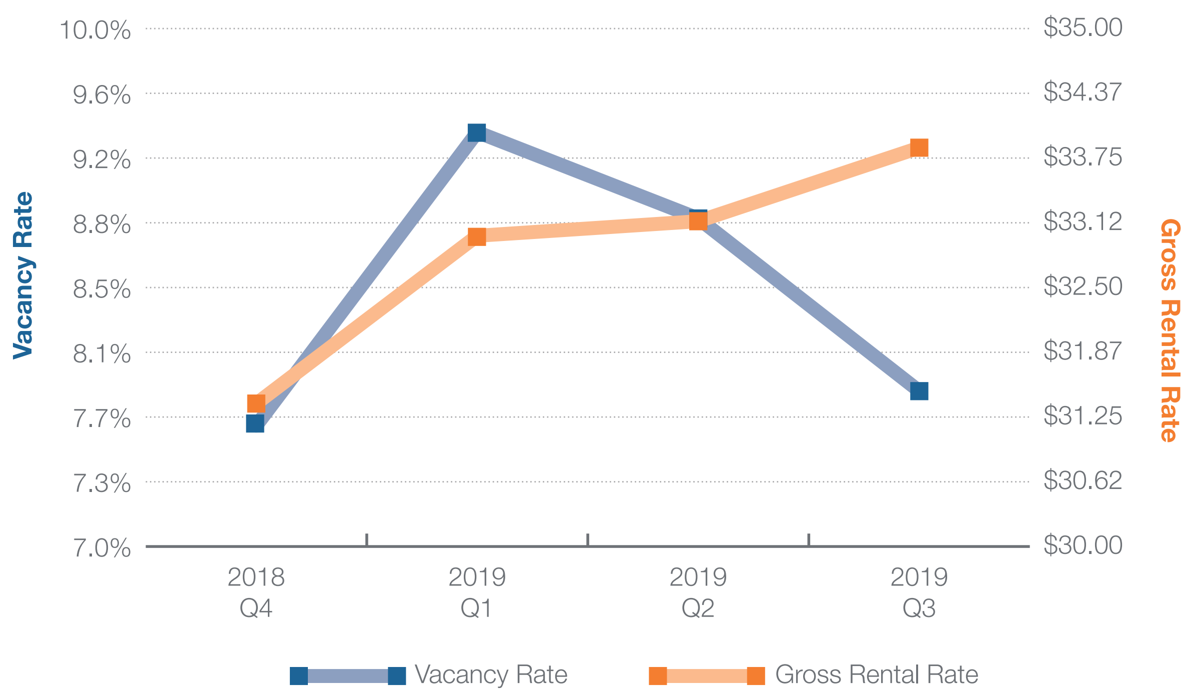
Edmonton's Office market in 2019 has shown consistent positive absorption generated from the continued growth of our population. Furthermore, our average job numbers overall improved but new construction appears to be slowing. Suburban markets stabilized in the 3rd quarter, as did average rental rates. Downtown office vacancy dropped slightly over the quarter but some of this absorption can be attributed to conversion of office buildings or floors into residential units. Going into the last quarter of 2019 we still expect downtown vacancy to increase due to ongoing projects still being completed.

OFFICE Vacancy Trends

	2018-Q4	2019-Q1	2019-Q2	2019-Q3	Q2-Q3 TREND
GREATER EDMONTON Buildings Surveyed: 1,213 Existing SF: 50.1M	7.7%	9.4%	8.9%	7.9%	⬇
EDMONTON DOWNTOWN Buildings Surveyed: 280 Existing SF: 25.7M	7.8%	9.6%	9.4%	8.6%	⬇
EDMONTON SUBURBAN Buildings Surveyed:1,013 Existing SF: 46.2M	7.8%	9.5%	9.0%	7.9%	⬇
WINDERMERE / SUMMERSIDE Buildings Surveyed: 69 Existing SF: 2.1M	9.6%	11.9%	11.8%	7.3%	⬇
UNIVERSITY / GARNEAU Buildings Surveyed: 53 Existing SF: 1M	9.4%	14.9%	14.1%	13.1%	⬇

Average Gross Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS



Industrial

Edmonton's industrial market has held its vacancy rate steady currently at 6.1% in Greater Edmonton, with the most absorption being seen in South Edmonton in the last quarter. There continues to be significant investment activity as the recent announced purchase of 1.8 million square feet of property in a portfolio sale of 3.3 million square feet overall for $588 million by Summit REIT (the properties are located primarily in both Edmonton and Calgary). When looking across Canada, Edmonton still is seen as a stable market in the long term and this is evident in the continuing appetite for investment product.

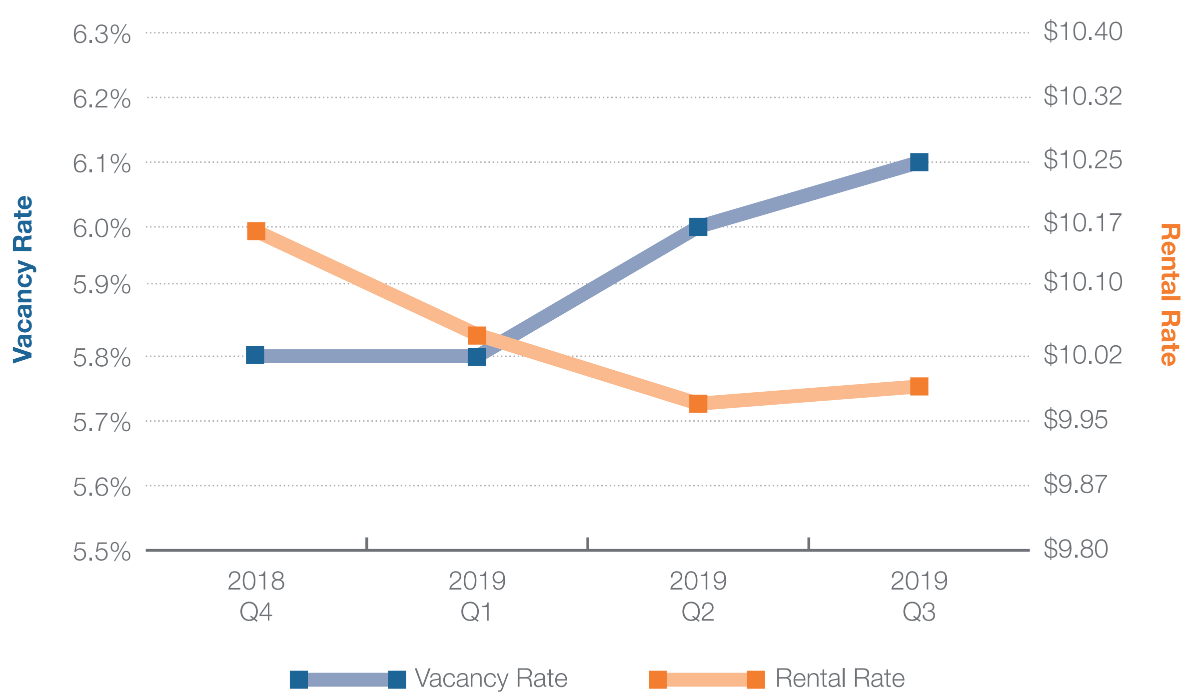
Average rental rates have held for the most areas over this past quarter and most of the rental rate movement is in larger vacancies of an older vintage or single tenant special use facilities. With no addition of smaller multi-tenant construction the multi-tenant inventory still is holding or growing rental rates and experiencing reduced vacancy compared to other product types. Tenants that have taken advantage by expanding or renewing their lease rates on favorable terms. The number of special use facilities that are available continues to grow, as owner-user existing buildings can be purchased for prices well below the cost of building new. With the continued overreaching economic issues overshadowing Alberta and the energy industry in the short term we expect we may see a slight increase in vacancies for the balance of 2019.

INDUSTRIAL Vacancy Trends

	2018-Q4	2019-Q1	2019-Q2	2019-Q3	Q2-Q3 TREND
GREATER EDMONTON Buildings Surveyed: 5,438 Existing SF: 184M	5.8%	6.1%	6.0%	6.1%	↑
EDMONTON WEST Buildings Surveyed: 1,830 Existing SF: 68M	6.5%	7.0%	6.4%	6.4%	→
EDMONTON SOUTH Buildings Surveyed: 1,677 Existing SF: 65.3M	6.4%	6.7%	5.9%	5.7%	↓
SHERWOOD PARK / FORT SASKATCHEWAN Buildings Surveyed: 299 Existing SF: 9.9M	8.1%	8.9%	12.4%	11.9%	↓
LEDUC / NISKU Buildings Surveyed: 745 Existing SF: 20.8M	4.9%	5.0%	4.9%	4.9%	→

Average Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS



Recent Transactions

PROPERTIES **SOLD**

6010 - 30 Street NW
Price: $40,000,000
$269,614/acre
Area: Southeast Industrial
Property Type: Land
Size: 148.36 acres

4303 - 167 Avenue NW
Price: $23,200,000
$440/sq.ft.
Area: St. Albert
Property Type: Retail
Size: 105358 sq.ft.
on 11.99 acres

9703 137 Avenue NW
Price: $8,950,000
$705/sq.ft.
Area: Rosslyn
Property Type: Retail
Size: 12,700 sq.ft.
on 1.66 acres

10340 107 Street NW
Price: $7,260,000
$244/sq.ft.
Area: Downtown
Property Type: Industrial
Size: 29,800 sq.ft.

8816 - 111 Street
Price: $4,790,000
$359/sq.ft.
Area: Fort Saskatchewan
Property Type: Commercial
Size: 13,358 sq.ft.
on 2 acres

2104 - 7 Street
Price: $3,825,000
$113/sq.ft.
Area: Nisku
Property Type: Industrial
Size: 33,800 sq.ft.
on 3.21 acres

4101 - 65A Avenue
Price: $3,650,000
$243/sq.ft.
Area: Leduc
Property Type: Industrial
Size: 15,042 sq.ft.
on 1.33 acres

6226 - 41 Street
Price: $3,600,000
$174/sq.ft.
Area: Leduc
Property Type: Industrial
Size: 20,661 sq.ft.
on 2.54 acres

Listing Highlights

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

3075 - 4 Street
Sale Price: $8,950,000
Area: Nisku
Property Type: Industrial
Size: 7,440 sq.ft.± (total)
on 19.27 acres±

10163/71 - 109 Street
Sale Price: $2,400,000
Area: Downtown
Property Type: Investment
Size: 6,003 sq.ft.±

#203, 4103 - 97 Street
Sale Price: $1,250,000
Area: Strathcona Industrial Park
Property Type: Office
Size: 5,048 sq.ft.±

29160 Acheson Road
Lease Rate: $16.40/sq.ft.
Area: Acheson
Property Type: Industrial
Size: 37,265 sq.ft.
on 3.66 acres±