# THIRD QUARTER MARKET REPORT
# 2020

GREATER EDMONTON, ALBERTA

Q3


# Economic Outlook

2020 has seen the highest level of global uncertainty since the world-war era. Unfortunately, Edmonton's economy is likely to continue to face short and medium term challenges even with the pandemic approaching 7 months. Is there going to be a second wave with additional business shutdowns? When are we going to get a vaccine? There is also uncertainty beyond COVID. There is an upcoming US presidential election and international turmoil like the ongoing China-US trade war, the China-Canada tensions because of Huawei, the Canada-US tariffs controversy, among others.

One of the most notable indicators where we have been able see the impact of the pandemic recession has been the labour market. In June, Edmonton's unemployment rate shot to a record high of 15.7%. which represented about 115,700 jobs lost in a few months. The city's labour market has seen a slow rebound recovering under 44% of the job losses so far.

Household incomes have held up reasonably well as governments have injected billions into the economy and financial institutions have allowed for payment deferrals. Yet, these stimuli are expected to be temporary. The federal government has shouldered most of the cost of the recession with a very expansionary fiscal policy. In 2020, the federal deficit is expected to be $340 billion. This represents 15.9% of GDP. The federal debt is reaching $1 trillion or 49% of GDP. The pandemic has also had a strong impact on Alberta's finances. For the 2020-21 budget, the province is expecting a $24.2 billion deficit, the largest in Alberta's history. This represents 8.1% of GDP. Overall debt in the province is expected to hit $68.9 billion by 2021.

Investment has been a fading star for Alberta's economy after a strong bull run at the beginning of the 2010 decade. In 2020 Statistics Canada expects a 19% decline in capital expenditures throughout the province. This mainly led by a continued decline in oil and gas investment which this year is expected to be about 27% of what it was in 2014. Recently, oil giants like Shell and BP announced that they expect the global economy is near or at peak oil demand. However, there is still demand for fossil fuels, particularly from developing countries. There have been low levels of global investment in the energy sector for the past few years and Alberta is a reliable global producer.

Despite the impact on the economy, the largest impact from the COVID pandemic has been the acceleration of trends that were already developing such as remote working and the importance of e-commerce. Companies need to reinvent themselves in order to survive. The pandemic has forced industries that were resistant to change to evolve like healthcare with more telehealth. However, Edmonton has always been at the forefront of technology. The region's energy sector pioneered with improvements like enhanced oil recovery and carbon capture and storage. Also, the city has a booming tech industry led by Amii and Deep Minds.

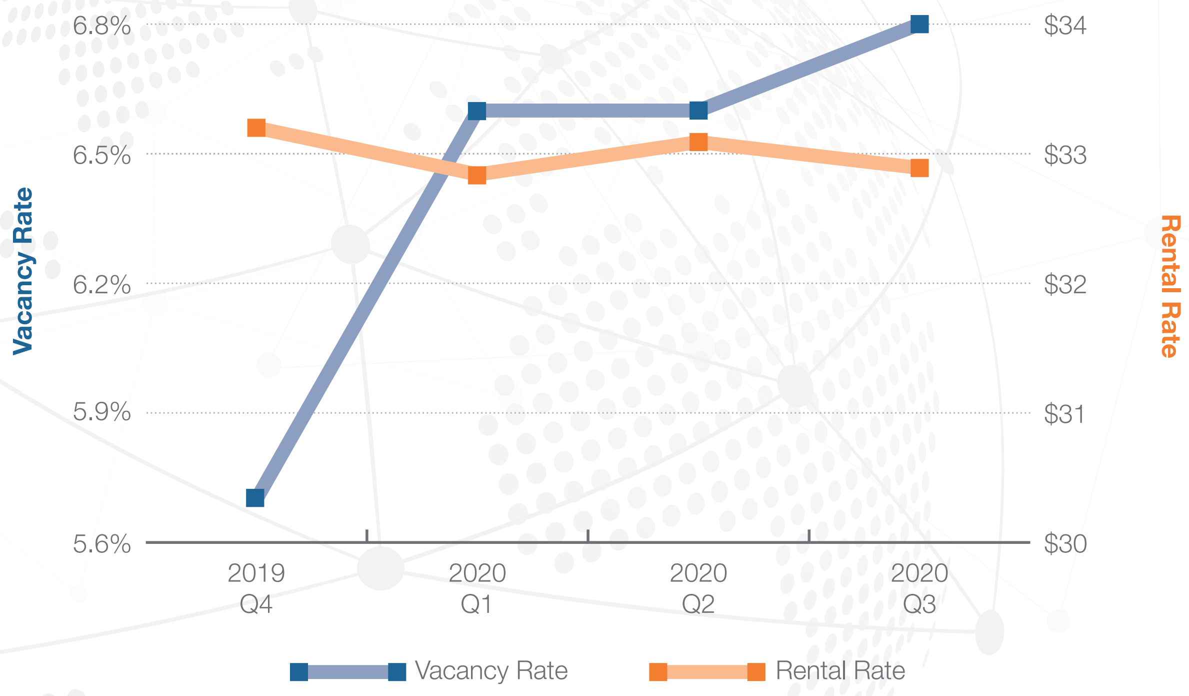
2020-Q3 Greater Edmonton

# Market Highlights

| GREATER EDMONTON AT A GLANCE<br>OVERALL VACANCY TRENDS | 2019-Q4 | 2020-Q1 | 2020-Q2 | 2020-Q3 |
|---|---|---|---|---|
| Buildings Surveyed: 11,040<br>Existing SF: 308 M | **5.7%** | **6.6%** | **6.6%** | **6.8%** |

## Average Rental Rates vs. Vacancy

GREATER EDMONTON AT A GLANCE OVER THE PAST 12 MONTHS

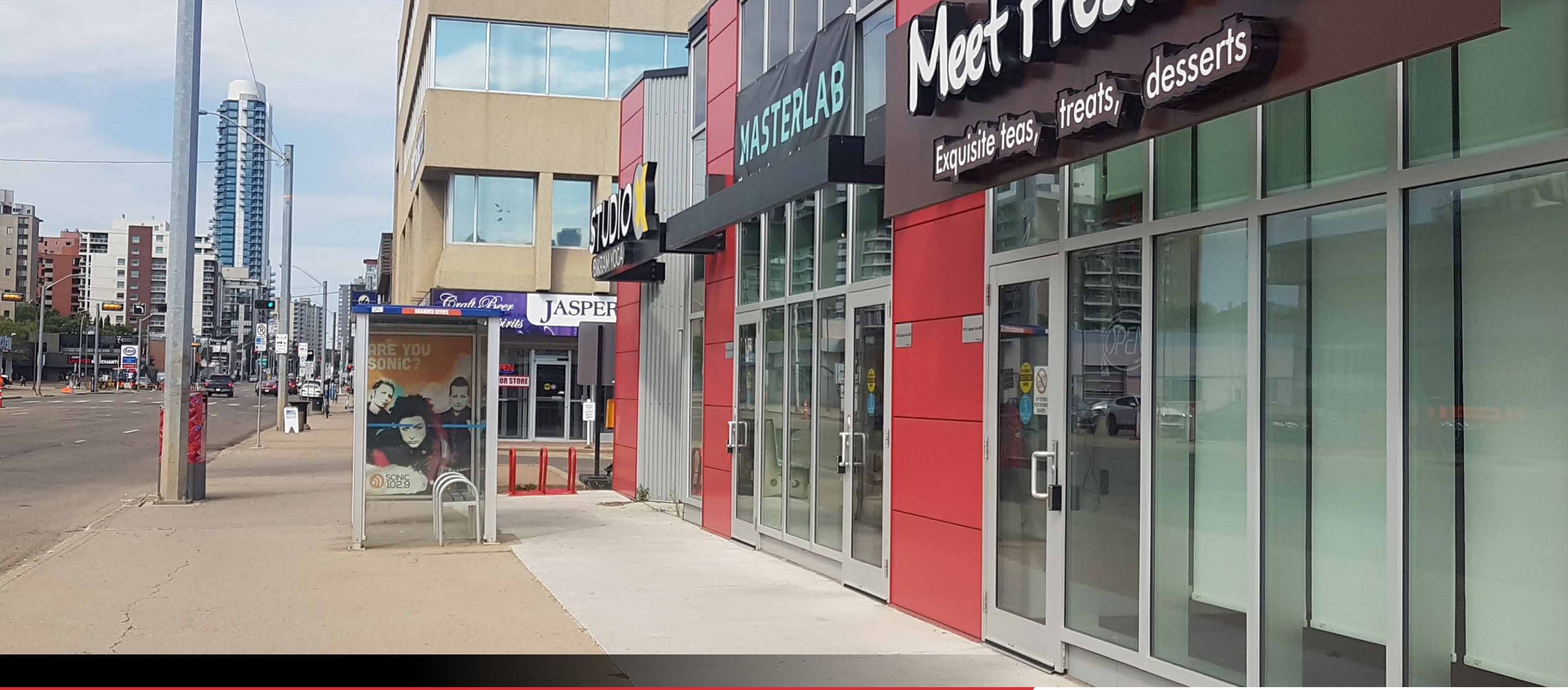



## About NAI Commercial

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

There has been an unprecedented level of support from all levels of government throughout this pandemic. Most of the policies have been geared to sustain household incomes with programs like CERB or the Emergency Wage subsidy. This has led to a strong rebound of consumption indicators throughout the economy. Vehicle and home sales have seen double digit sales growth compared to March lows. Edmonton retail sales have bounced strongly and are now above pre-pandemic levels, close to historical highs. Despite this, not much has changed for Edmonton's retail real estate market since the beginning of the COVID-19 emergency.

Companies needed to reinvent themselves in order to survive as consumers avoided physical locations and shopped online. According to Statistics Canada, e-commerce sales more than doubled during the pandemic. Large shopping malls continue to experience dramatically low foot traffic compared to pre-pandemic levels. Vacant spaces continue to increase throughout the Edmonton market. Furthermore, there is considerable shadow vacancy as many businesses are close to insolvency. While this is negative for landlords, it provides options for new tenants to pick from.

There continues to be tenants currently in the market, particularly across the medical, cannabis, liquor and personal care industries. However, tenants have little to no urgency to complete new deals. Retailers looking to open a new location are pushing commencement into the future to ride this pandemic and avoid unnecessary costs. Rising cases throughout Edmonton could mean a second wave of mandatory shutdowns in the market implying higher risks for new tenants.

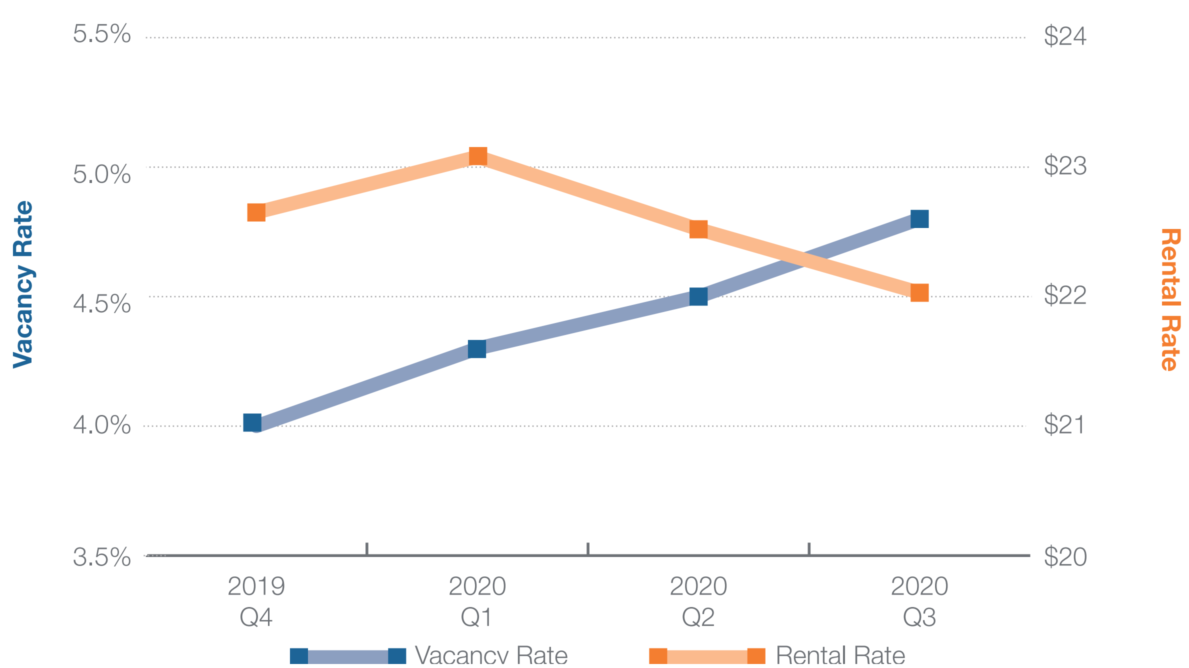
Existing tenants with lease expiries have opted for short-term renewal in the face of uncertainty. Longer terms have not been dramatically affected for new deals as start-up costs are elevated for most retailers. The financial quality of most new entrants has vastly deteriorated compared to the same period last year. Landlords are hesitant to do some deals as they could be forced to carry tenants again into the future. However, they are still open to provide generous tenant inducement allowances for the right covenant.

The pandemic has accelerated trends that were already developing such as the exodus of retailers from the downtown core, more food delivery shopping and e-commerce. Yet, there are some pockets of strength in the market. Retail is all about location and population and the Edmonton housing development continues to expand primarily south of the Henday. The region has seen more retail development including a new grocery store.

## RETAIL
# Vacancy Trends

| | 2019-Q4 | 2020-Q1 | 2020-Q2 | 2020-Q3 |
|---|---|---|---|---|
| **GREATER EDMONTON**<br>Buildings Surveyed: 4,209<br>Existing SF: 66.3M | **4.0%** | **4.3%** | **4.5%** | **4.8%** |
| **EDMONTON WEST**<br>Buildings Surveyed: 1,050<br>Existing SF: 18M | **4.6%** | **5.2%** | **5.7%** | **5.6%** |
| **EDMONTON SOUTH**<br>Buildings Surveyed: 1,290<br>Existing SF: 21.5M | **3.5%** | **3.6%** | **4.0%** | **4.5%** |
| **EDMONTON CENTRAL**<br>Buildings Surveyed: 585<br>Existing SF: 6.2M | **6.0%** | **6.1%** | **6.7%** | **7.3%** |
| **LEDUC**<br>Buildings Surveyed: 137<br>Existing SF: 1.8M | **3.2%** | **3.1%** | **2.1%** | **2.6%** |
| **ST. ALBERT**<br>Buildings Surveyed: 205<br>Existing SF: 3.4M | **4.2%** | **4.1%** | **4.1%** | **4.3%** |
| **SHERWOOD PARK / FORT SASKATCHEWAN**<br>Buildings Surveyed: 313<br>Existing SF: 5.5M | **5.0%** | **5.6%** | **5.3%** | **6.1%** |
| **WHYTE AVENUE / GARNEAU**<br>Buildings Surveyed: 194<br>Existing SF: 1.5M | **4.8%** | **5.3%** | **5.1%** | **6.3%** |

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



# Office Market

Edmonton's office market continues to face long-term pressure. Prior to the COVID-19 global recession the region suffered from relatively high office vacancy mainly due to new supply in 2017. The 1.8 million sq. ft. of supply that came online in the urban core catalyzed a flight-to-quality which propelled vacancy across downtown. The city has a strong foundation in population-driven sectors such as government, health care and education which traditionally help mitigate the direct recessionary effects on the local office market. However, despite its diverse economic base, the city's office market did not escape unscathed from the pandemic recession.

The pandemic will have long reaching impacts on all aspects of our professional lives, including the way we think about office space. Leasing activity has been remarkably slow as businesses are re-evaluating their real estate needs based on the rise and success of the virtual workplace. Large occupiers have halted decision making given the uncertainty. Companies with upcoming lease expiries are opting for short term renewals. Some groups have let their leases expire and are moving to month-to-month tenancies. Most landlords have chosen to waive overhold clauses to retain short-term income in their properties while hoping to figure out a long-term solution with the existing tenants.

The office vacancy rate across the Greater Edmonton region was 9.1% in Q3 2020. This represents an increase of 120 basis points compared to Q3 2019. Additionally, sublease space continues to climb throughout the city. Most notably, Worley Parsons has put 117,000 square feet for sublease in the south side market. Landlords continue to be very aggressive providing higher inducements to maintain face rents and valuations. However, rental rates will continue to be under pressure given the increased availability of space and the limited pool of tenants willing to commit.

Despite strong government support, the region has lost over 64,900 jobs since the beginning of the pandemic. A large percentage of the unemployed are concentrated in the retail, recreation & hospitality sectors. The greater public sector and the business and professional industries, which are the traditional sources for office demand in Edmonton, have seen 800 and 3,900 layoffs during the same period. Additional job losses will be expected over the coming months which will likely impact office demand. Suncor Energy has recently announced it will be slashing as many as 2,000 jobs. The announcement follows notices from other energy giants such as TC Energy, BP, Chevron Corp and Royal Dutch Shell as energy companies look to survive in the current oil price environment. Back in March, the University of Alberta announced that at least 1,000 full time jobs would have to be cut, while a recent report from the City of Edmonton estimates that up to 185 management jobs could be slashed.

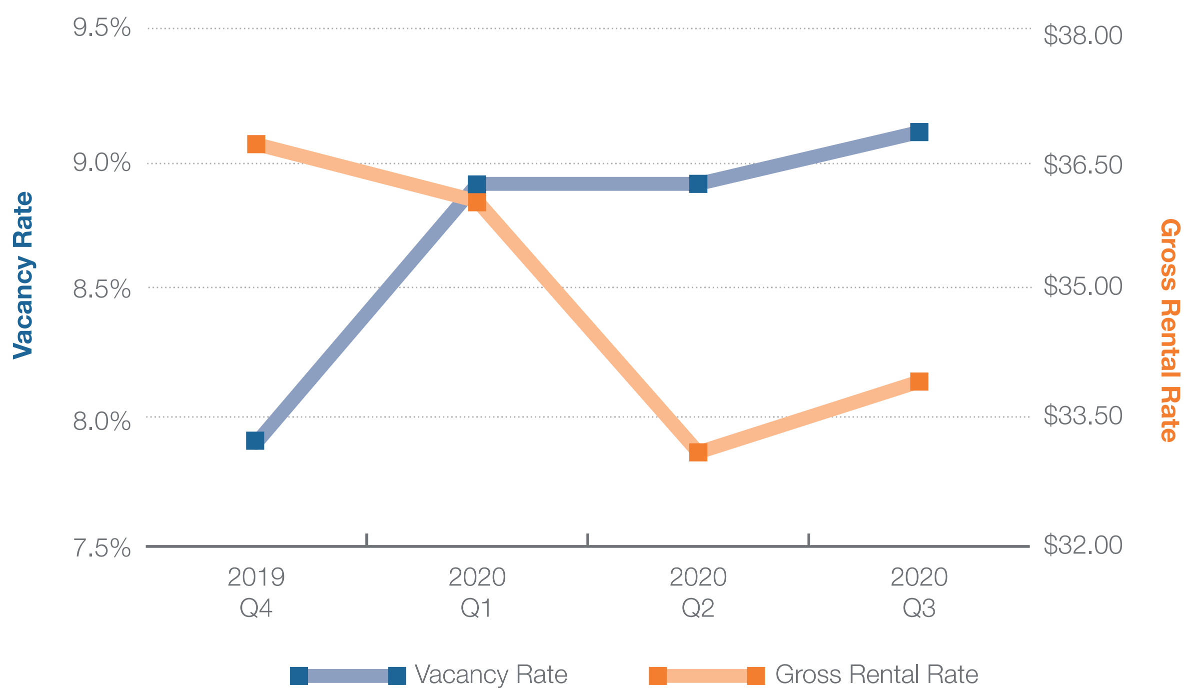
To attract and retain tenants, multiple landlords have embarked on capital improvement campaigns aimed to renovate older properties and bolster the menu of amenities. It is important to note that many of these decisions were slatted last year. Prior to the pandemic, employers were leveraging office space seeking to attract and retain top talent. Environments with community, connectivity, and mobility are a top priority. While the pandemic has created a temporary halt to office demand, as the fusion of work, life and play across professional and social environments remains to be the norm, securing quality locations will continue to be increasingly important.

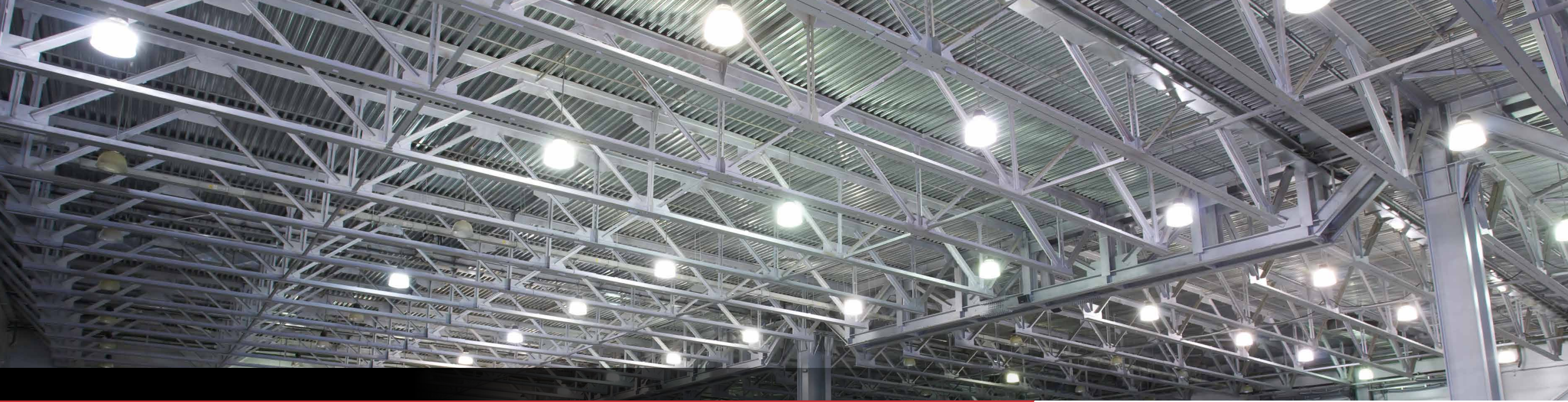
## OFFICE Vacancy Trends

| | 2019-Q4 | 2020-Q1 | 2020-Q2 | 2020-Q3 |
|---|---|---|---|---|
| **GREATER EDMONTON**<br>Buildings Surveyed: 1,272<br>Existing SF: 51M | 7.9% | 8.9% | 8.9% | 9.1% |
| **EDMONTON DOWNTOWN**<br>Buildings Surveyed: 281<br>Existing SF: 25.7M | 8.3% | 9.3% | 9.2% | 9.4% |
| **EDMONTON SUBURBAN**<br>Buildings Surveyed: 516<br>Existing SF: 12.7M | 7.6% | 9.6% | 9.4% | 8.6% |
| **WINDERMERE / SUMMERSIDE**<br>Buildings Surveyed: 69<br>Existing SF: 2.1M | 6.0% | 5.0% | 4.8% | 4.4% |
| **UNIVERSITY / GARNEAU**<br>Buildings Surveyed: 57<br>Existing SF: 1M | 10.1% | 9.7% | 10.5% | 11.1% |

## Average Gross Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS





# Industrial Market

Industrial real estate has been the best performing asset class this year. So far, we have seen limited business failures. Several economic indicators have seen the famous V-shape recovery posting strong gains over the past couple of months and are now ahead of their pre-recession levels. Leasing demand was particularly strong early in the summer after the reopening of the economy. Unfortunately, the easiest part of the recovery is over as pent up demand has been absorbed.

Small bay has traditionally been the bread and butter of Edmonton's industrial sector. However, during the pandemic some vacancies have seen this activity slow as new vacancies have popped up. Demand under 5,000 sq. ft. relies on entrepreneurs or quasi-retail groups that depend on traffic, both of which face unprecedented uncertainty. Most of the activity in the past few months in the 10,000 to 20,000 sq. ft. range are users who are looking to right-size or to increase efficiency in their real estate. There continues to be a steady demand for appropriately priced owner/user buildings under 20,000 sq. ft. as groups want to take advantage of lower prices and available options to get into a position of equity.

The past five years have been tough for Alberta's energy sector, which continues to face lower commodity prices, subdued demand and over supplied markets. This has led to partial shutdowns of production sites and to multiple expansion projects shelved across all streams of the oil and gas supply chain. The Nisku-Leduc submarket is the heart of the service industry for the energy sector and the region has been particularly slow through the pandemic. Some international companies are pulling the plug on their Canadian locations and have decided to focus on their more profitable operations south of the border. Subdued activity is noticeable as there is limited traffic and empty parking lots in the area.

Despite the impact on the economy, the pandemic has exacerbated long term challenges to globalization. Geopolitical conflicts are likely to worsen over the near term and a large portion of Edmonton's economy relies on exports. Multiple large occupiers with upcoming lease expiries have halted renewals and have chosen to go on month-to-month terms, even at an overhold rate. Tenants in the market are slowing decision making as they evaluate changes to internal processes. This pandemic has showed how fragile supply chains are. Local is likely to become the new global. This could positively impact demand for industrial space in the medium term as companies might build larger inventories to weather future external shocks.

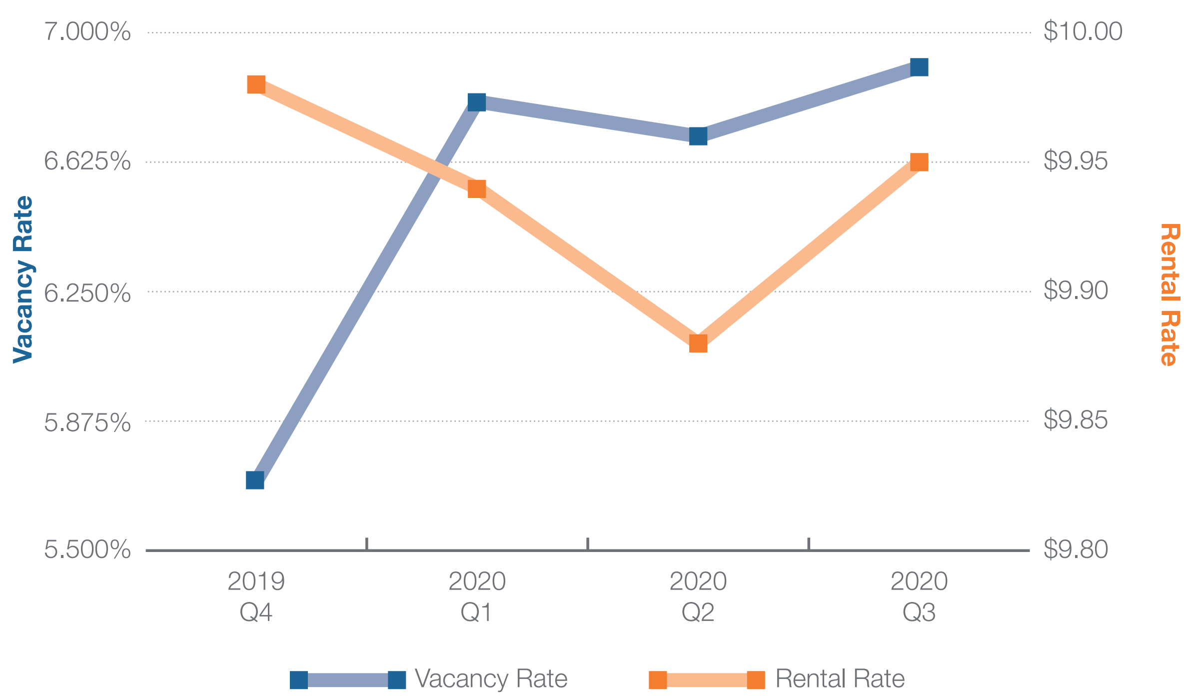
Large distribution users continue to generate demand for newer generation industrial product. Amazon is still expanding across the city with an additional 1 million sq. ft. built-to-suit facility to be constructed in Acheson. The e-commerce giant has expanded its presence to almost 2.5 million sq. ft. throughout Edmonton. Also, the construction of the new Fountain Tire's new logistics location has come to completion in 2020. Additionally, there are currently several large developments currently under construction, primarily out of the City of Edmonton. Developers are capitalizing on lower red tape and cheaper property taxes to lure tenants outside of the city limits. While there continues to be multiple RFPs in the market, the number of large requirements has substantially decreased compared to the beginning of the year.

## INDUSTRIAL Vacancy Trends

| | 2019-Q4 | 2020-Q1 | 2020-Q2 | 2020-Q3 |
|---|---|---|---|---|
| **GREATER EDMONTON**<br>Buildings Surveyed: 5,561<br>Existing SF: 190M | 5.7% | 6.8% | 6.7% | 6.9% |
| **EDMONTON WEST**<br>Buildings Surveyed: 1,850<br>Existing SF: 69.5M | 6.5% | 7.3% | 7.7% | 7.1% |
| **EDMONTON SOUTH**<br>Buildings Surveyed: 1,721<br>Existing SF: 66.3M | 5.0% | 6.6% | 6.4% | 6.7% |
| **SHERWOOD PARK / FORT SASKATCHEWAN**<br>Buildings Surveyed: 303<br>Existing SF: 10M | 10.9% | 11.1% | 10.6% | 11.1% |
| **LEDUC / NISKU**<br>Buildings Surveyed: 763<br>Existing SF: 22.5M | 4.6% | 5.0% | 5.7% | 6.8% |

## Average Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS



# Recent Transactions

## PROPERTIES **SOLD**

**6020 - 20 Street NW**
**Price:** $23,750,00
$95.37/sq.ft.
**Area:** Southeast Industrial
**Property Type:** Industrial
**Size:** 249,021 sq.ft.
on 13.62 acres

**1026 - 30 Avenue**
**Price:** $15,875,000
$152.39/sq.ft.
**Area:** Nisku
**Property Type:** Industrial
**Size:** 104,173 sq.ft.
on 37.47 acres

**10304 - 111 Street NW**
**Price:** $9,350,000
$178.09/sq.ft.
**Area:** Oliver
**Property Type:** Land
**Size:** 52,500 sq.ft.


**5725 Black Gold Drive**
**Price:** $5,370,000
$298,333/hole
**Area:** Leduc
**Property Type:** Golf Course
**Size:** 143.16 acres

**6603 - 30 Street NW**
**Price:** $4,657,000
$606,380/acre
**Area:** Southeast Industrial
**Property Type:** Land
**Size:** 7.68 acres

**8707 - 51 Avenue NW**
**Price:** $4,550,000
$104.22/sq.ft.
**Area:** McIntrye Industrial
**Property Type:** Industrial
**Size:** 43,658 sq.ft.
on 3.09 acres

**8429 - 24 Street**
**Price:** $4,400,000
$179.94/sq.ft.
**Area:** Sherwood Park
**Property Type:** Industrial
**Size:** 24,452 sq.ft.
on 2 acres

**#44/45, 1230 - 91 St SW**
**Price:** $1,595,540
$394.74/sq.ft.
**Area:** Ellerslie Industrial
**Property Type:** Office
**Size:** 4,042 sq.ft.
on 2.02 acres

# Listing Highlights

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

**9818 - 102 Street**
**Sale Price:** $1,999,000
**Area:** Fort Saskatchewan
**Property Type:** Retail/Office
**Size:** 9,000 sq.ft.±
on 0.2 acres±

**14520 - 118 Avenue NW**
**Sale Price:** $1,675,000
**Area:** Dominion Industrial
**Property Type:** Industrial
**Size:** 12,750 sq.ft.±
on 0.65 acres±

**2304 - 119 Avenue NE**
**Sale Price:** $7,800,000
**Lease Rate:** $15.00/sq.ft.
**Area:** CloverBar Ind. Park
**Property Type:** Industrial
**Size:** 3 Property Portfolio
Sale on 4.68 Acres


**5425 Calgary Trail**
**Sale Price:** $9,929,000
**Area:** Coronet Industrial
**Property Type:** Investment
**Size:** 44,318 sq.ft.
on 3.26 acres