

THIRD QUARTER MARKET REPORT  
**2021**

GREATER EDMONTON, ALBERTA





## Economic Outlook

Throughout the third quarter of 2021, the spread of the Delta variant of COVID-19 stalled the course of recovery for Edmonton's economy. Early in the fall, Alberta had the highest rate of infections in the country, which was close to four times the national average. The provincial government was forced to introduce new restrictions to slowdown the spread of the virus. The Premier also announced Alberta's first government-imposed vaccine mandate, ordering all public servants be vaccinated by November 30th. The restrictions combined with strong vaccination campaigns, which has seen 79.2% of eligible Albertans fully vaccinated, helped curb the spread of the virus. Unfortunately, COVID-19 infections are far from being the only major issue that Edmonton is currently facing. Labour shortages, supply chain disruptions, rising commodity and energy prices, inflation, and newly elected public servants across multiple levels of governments, will continue to introduce uncertainty to the region's economy.

The Bank of Canada is changing its tone, announcing its intentions to move away from the expansive monetary policies that supported the economy throughout the start of the pandemic. The Central Bank's move is a response to increasing price pressures, with headline inflation of 4.1% in August and 4.4% in September of 2021. The previous guidance provided by the bank expected interest rate increases some time in the second half of 2022. October's policy announcement suggests that rate increases could happen as early as the second quarter of next year. Financial markets are

anticipating a total of 5 interest rate hikes in Canada in 2022, the first expected in January. However, economists are still divided into two camps. The first group talks about a new period of high inflation. The second camp talks about transient inflation, with no fundamental concerns other than supply issues. Only time will tell which camp is right.

Oil prices, a major driver of Edmonton's economy, have risen substantially over the past couple of months. At the time of this writing, WTI crude prices topped \$85 USD per barrel for the first time in seven years. Additionally, Alberta is producing oil at a record level with 865 million barrels, for an average of 3.6 million barrels per day pumped, in the first 8 months of 2021. The region also continues to see strong interest in the petrochemical value add sector. In Q3 2021, Dow stated plans to build the world's first net-zero carbon emissions ethylene and derivatives complex in the province with a price tag between \$6 to \$10 billion dollars. Also, Petronas and Japanese conglomerate Itochu announced exploring a \$1.3 billion project to export hydrogen to Asia. Calgary-based TC Energy unveiled plans to co-develop and operate large-scale hydrogen production hubs in North America alongside electric manufacturer Nikola Corporation. This news follows previous statements from multiple companies such as Suncor Energy, ATCO, Air Products, Mitsubishi, Shell, and Pembina Pipeline, which have announced investment intentions trying to embrace energy transition in the province.

# 2021-Q3 Greater Edmonton Market Highlights

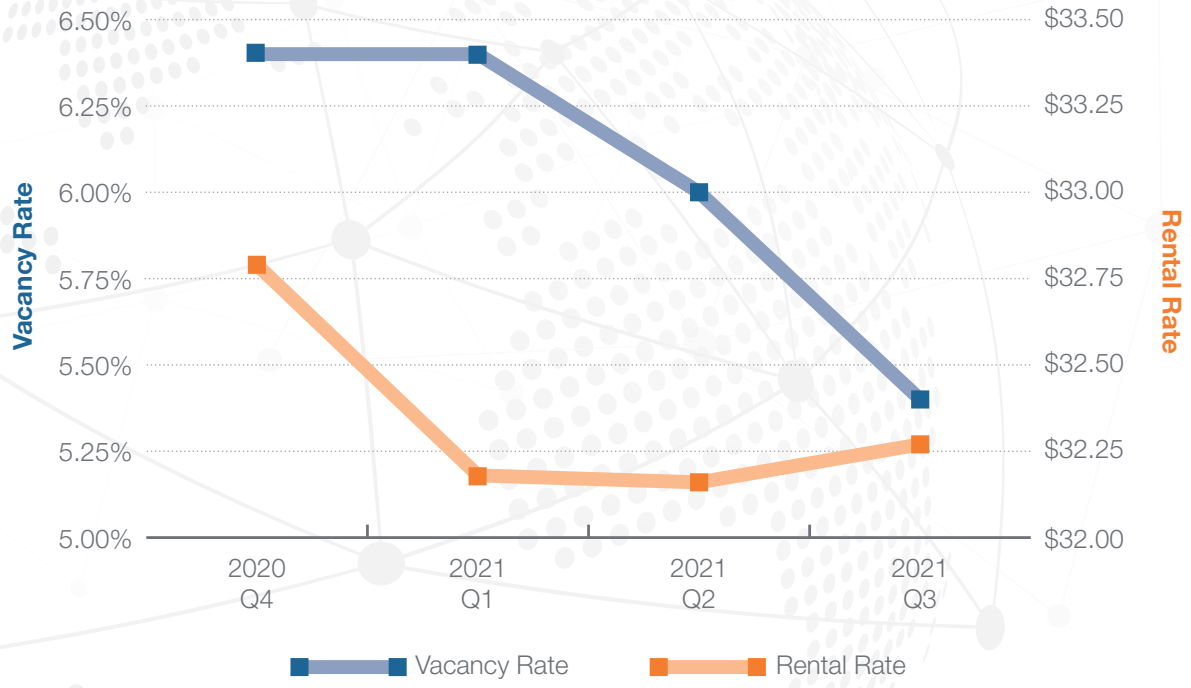
## GREATER EDMONTON AT A GLANCE OVERALL VACANCY TRENDS

Buildings Surveyed: 11,395  
Existing SF: 317M

	2020-Q4	2021-Q1	2021-Q2	2021-Q3
Vacancy Rate	6.4%	6.4%	6.0%	5.4%

## 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

Edmonton's retail market continues to demonstrate remarkable resilience, despite all the headlines of store closures and struggles of traditional retail. Even though, the market has performed better than expected, Businesses throughout the region have suffered throughout the pandemic. Year to date, Tenant's have absorbed 710,490 SF. This is a whopping 369% increase in leasing activity compared to the same period of 2020. Consumers were returning in force to traditional retailers throughout the summer months, pushing Edmonton's retail sales to an all time high of \$2.8 billion in June 2021. Unfortunately, the fourth wave of the pandemic, which led to an increase in infections throughout the end of the summer, slowed down consumers with sales totaling \$2.6 billion in August 2021.

Local entrepreneurs continue to be very active in the market. Most of the activity is concentrated in spaces smaller than 5,000 SF. Customer service retailers such as pharmacies, medical and professional services are a strong source of demand. These tenants have been relatively insulated and perhaps partially benefited by the pandemic. Restaurants are also absorbing space with multiple groups looking for bigger kitchens to satisfy the demand for delivery services. Of notable mention are grocers who are actively looking for new spaces. This includes national brands like Sobeys, Co-op and

Loblaws as well as multiple ethnic stores absorbing larger blocks of space. On the other hand, fitness, and entertainment users, which have been hit the hardest, remain relatively quiet in the market.

Despite deals continuing to happen, due-diligence periods are becoming longer, as many businesses lack the financial covenant. Property owners are looking for risk mitigation requiring stronger indemnities or personal guarantees, particularly for start-up companies. However, some tenants are unwilling to do so. Landlords on the other hand are hesitant to become a lender or equity partner for new tenants. Rental rates or the value of inducements have not changed despite the pandemic, yet landlords are getting creative when structuring deals, as it is more common to provide a split of tenant allowance and free rent.

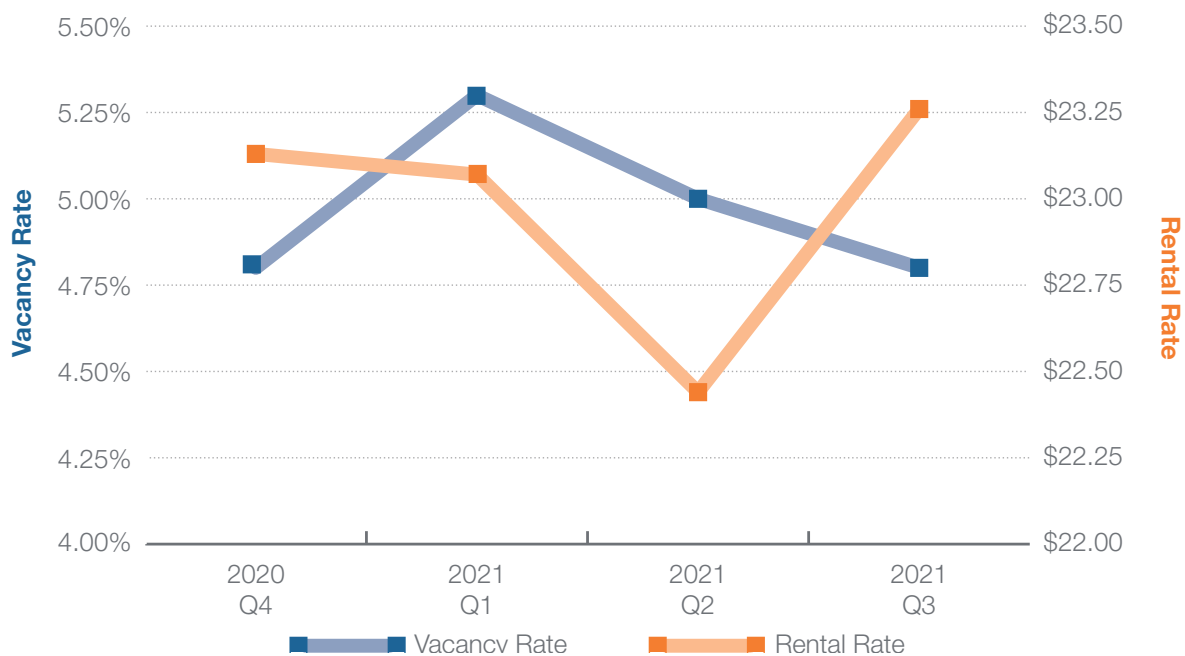
The traditional retail sector faced significant challenges prior to Covid-19. Despite a challenging year, 2021 has seen 752,302 SF in new supply delivered to the market to date. The new supply signals confidence from local developers who deliver most of the product. Underlying the confidence is Edmonton's reliable demographic growth and economic stability which will further support the recovery of the region's retail market.

## RETAIL Vacancy Trends

	2020-Q4	2021-Q1	2021-Q2	2021-Q3
<b>GREATER EDMONTON</b> Buildings Surveyed: 4,376 Existing SF: 69.3M	4.8%	5.3%	5.0%	4.8%
<b>EDMONTON WEST</b> Buildings Surveyed: 1,082 Existing SF: 18.4M	5.3%	5.6%	5.5%	5.1%
<b>EDMONTON SOUTH</b> Buildings Surveyed: 1,357 Existing SF: 22.8M	5.1%	5.6%	5.4%	5.1%
<b>EDMONTON CENTRAL</b> Buildings Surveyed: 583 Existing SF: 6.1M	6.5%	6.6%	5.3%	4.9%
<b>LEDUC</b> Buildings Surveyed: 144 Existing SF: 1.9M	4.2%	4.4%	5.0%	4.0%
<b>ST. ALBERT</b> Buildings Surveyed: 210 Existing SF: 3.7M	5.0%	5.8%	4.6%	4.2%
<b>SHERWOOD PARK / FORT SASKATCHEWAN</b> Buildings Surveyed: 348 Existing SF: 6.2M	5.3%	5.4%	5.8%	5.4%
<b>WHYTE AVENUE / GARNEAU</b> Buildings Surveyed: 197 Existing SF: 1.5M	6.5%	9.4%	9.0%	7.1%

## Average Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS





## Office Market

Edmonton's office market continues to struggle despite increasing vaccination rates, a reopening of the economy and a return to the office for many. The fourth wave of infections, driven by the Delta variant, pushed many employers to rethink their office strategy. Several studies suggest that worker productivity has not decreased as a result of remote working. A number of large firms are increasingly feeling comfortable with having their staff working from home. PwC recently announced that 40,000 U.S. employees will work from home. RBC is exploring flexible work arrangements for the foreseeable future. Many workers are happy when given flexibility on where they work. Companies are leveraging the hybrid office model when trying to attract and retain talent. This has pushed office leasing volumes in the Edmonton market below historical averages in 2021.

Tenants continue to hold off decision making and elect to do short-term renewals as they fail to understand their long-term space requirements. The market continues to be heavily in favour of tenants. Rental rates have declined, and inducements have increased. Deals continue to happen, but they are driven by cost effective leases on a gross basis with minimal cash outflow and long fixturing and free rent periods for tenants. Examples of these include BGE Engineering's recent relocation to the downtown core expanding its presence to 16,000 SF in the recently renovated Revillon Boardwalk Building. SCM Insurance has absorbed 18,949 SF of sublease space in Commerce South, while Brokerlink subleased SCM Insurance's 33,000 SF space at HealthPoint Building.

Occupiers want turnkey spaces and although there is availability, much of the space is not developed or is functionally obsolete. Many landlords, particularly mom and pop investors or those with limited exposure to office

assets, are having trouble accepting low or even zero Net Effective Rents (NERs) despite large cash expenditures. 71% of the available space (representing over 3.0M SF) in the market is concentrated in 35 buildings, many of which are long-term vacancies.

The greater public sector (health care, education, and public administration) is a major occupier in Alberta's capital city. This has provided stability to the local office markets throughout the low oil price environment and the ongoing pandemic. However, the federal government, predicts a 30% reduction in space across the country over the next 25 years. The move has been accelerated by the pandemic, but it has been years in the making. The provincial government will likely follow suit as they have implemented rotational work schedules across different branches. Despite this, the greater public sector, combined with non-profit organizations, continue to be a strong source of demand. Alberta Health services recently leased 11,288 SF at Nexus Business Park; Catholic Social Services leased 22,000 SF in Alberta Park, while the YMCA leased 15,000 SF at Harvest International Building on 10315 - 109 Street.

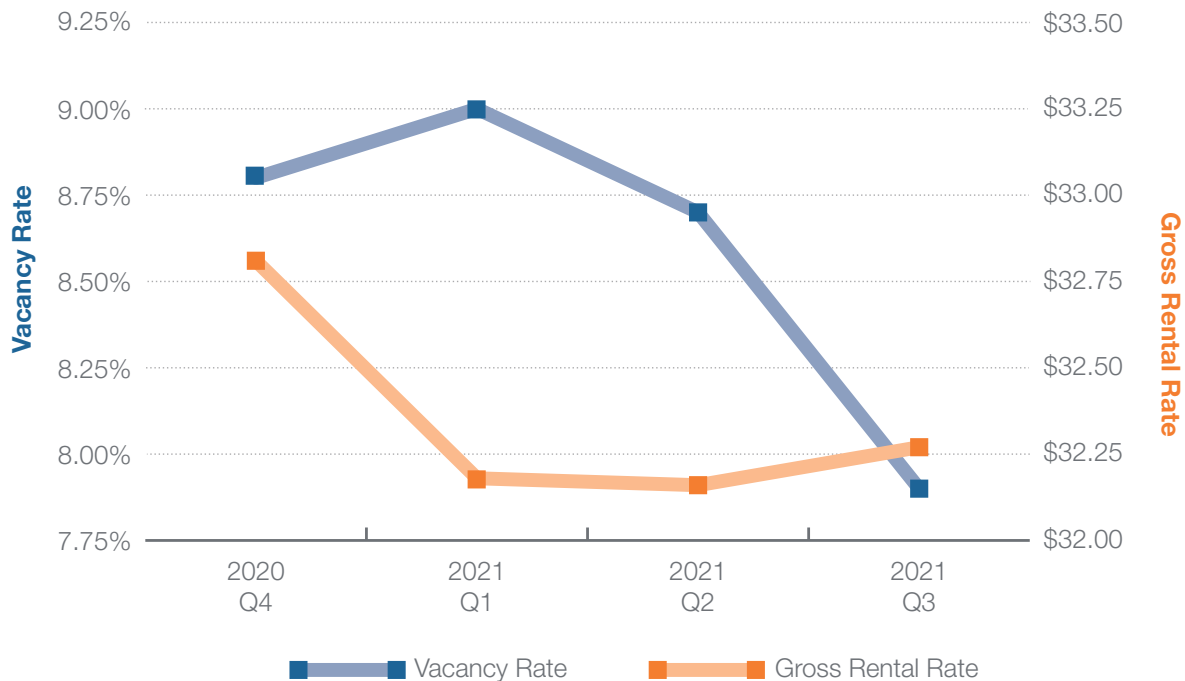
The recent municipal election of Amarjeet Sohi will likely benefit Edmonton's downtown office market. The newly elected mayor has committed to push government employers, including the City of Edmonton, to return employees back to downtown when it is safe to do so. Currently, the municipal government has skeleton crews in their downtown offices. Additionally, the former Member of Parliament is an advocate for the revitalization of downtown. This includes initiatives such as addressing homelessness, a reduction of the impact of construction, and accelerating the development of the warehouse district park.

## OFFICE Vacancy Trends

	2020-Q4	2021-Q1	2021-Q2	2021-Q3
<b>GREATER EDMONTON</b> Buildings Surveyed: 1,313 Existing SF: 53.5M	8.8%	9.0%	8.7%	7.9%
<b>EDMONTON DOWNTOWN</b> Buildings Surveyed: 286 Existing SF: 27.5M	8.8%	9.4%	9.5%	8.3%
<b>EDMONTON SUBURBAN</b> Buildings Surveyed: 807 Existing SF: 21.6M	9.6%	10.2%	8.5%	7.6%
<b>WINDERMERE / SUMMERSIDE</b> Buildings Surveyed: 67 Existing SF: 2M	4.4%	4.1%	4.3%	3.6%
<b>UNIVERSITY / GARNEAU</b> Buildings Surveyed: 57 Existing SF: 1M	11.8%	11.4%	13.8%	15.0%

## Average Gross Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS







## Industrial Market

Edmonton's industrial market continues to defy expectations with tenants absorbing a net 1.7 million SF of industrial space in Q3 2021. This is the sixth consecutive quarter of positive absorption and the largest volume since the beginning of the pandemic. The availability rate is now 6.8%, back to pre-pandemic levels. Alongside increased demand in e-commerce, occupiers in the Edmonton market are expanding their footprint in response to recent supply chain disruptions. Prior to the pandemic, companies operated Just-In-Time distribution networks, limiting inventories, and relying on quick global trade. The pandemic disruption has forced companies to increase inventories, and therefore warehousing space, to avoid product shortages. However, this is easier said than done.

Large occupiers remain active in the market. Recently, Porter Warehousing leased 121,000 SF at Rampart Business Park, Bunzl will occupy 106,748 SF at Horizon Business Park, while CG Power Systems Canada absorbed 88,922 SF at Henday Industrial. There are currently only 5 options in the market larger than 100,000 SF, with multiple of those buildings built in the late 1970s. Developers continue to take advantage of the strong demand for logistics and industrial space, with a total of 4,363,006 SF currently under construction. Even excluding Amazon's 2.9 million SF facility in Acheson, the market has seen strong pre-leasing activity with over

500,000 SF pre-leased throughout the year. Recently, Horizon Business Park announced over 168,403 SF in pre-leasing activity in the recently launched building E.

The biggest challenge facing the Edmonton industrial market is the lack of space as demand is booming. There are multiple RFPs in the market for new facilities, many over 100,000 SF. Some occupiers are in the market looking for facilities larger than 500,000 SF. Many of these proposed logistics and industrial facilities are state of the art, with extensive automation components and some with clear heights over 40 feet. Rental rates in new built-to-suit product fully reflect the increase of construction prices. However, increasing costs pose a risk to speculative construction.

Activity in the market goes beyond large blocks of space. Small bays are on demand with high quality options quickly drying up. This reflects an increased confidence from new entrepreneurs and spillage from retail users, both of which are looking for cheaper rents to try new concepts. Even oil and gas companies are slowly resurging, albeit at a moderate pace, despite strong increases in oil prices. Edmonton is becoming a balanced market, after five years in favour of tenants. Rental rates have not seen strong growth, but free rent concessions and tenant inducements are declining. Going forward, the market is expected to continue to tighten as economic activity picks up during the winter months.

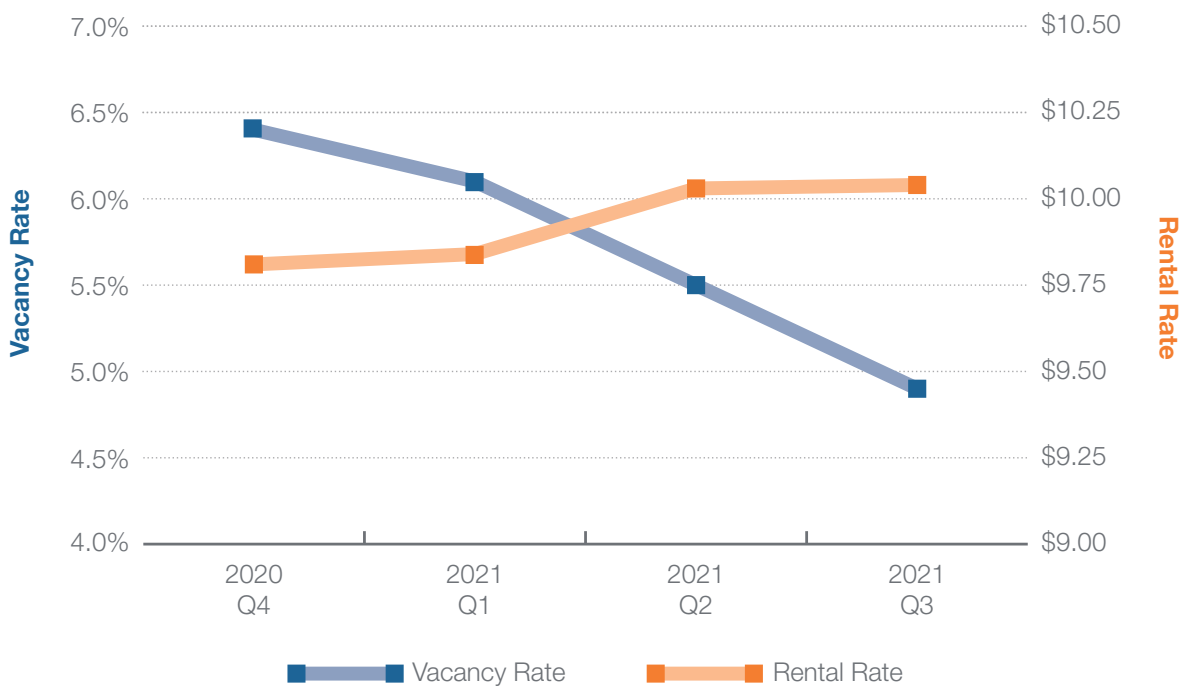


## INDUSTRIAL Vacancy Trends

	2020-Q4	2021-Q1	2021-Q2	2021-Q3
<b>GREATER EDMONTON</b> Buildings Surveyed: 5,685 Existing SF: 192M	6.4%	6.1%	5.5%	4.9%
<b>EDMONTON WEST</b> Buildings Surveyed: 1,877 Existing SF: 70.4M	6.1%	5.7%	5.5%	4.5%
<b>EDMONTON SOUTH</b> Buildings Surveyed: 1,729 Existing SF: 66.2M	6.5%	5.9%	5.7%	5.2%
<b>SHERWOOD PARK / FORT SASKATCHEWAN</b> Buildings Surveyed: 318 Existing SF: 10M	11.3%	11.4%	8.1%	6.4%
<b>LEDUC / NISKU</b> Buildings Surveyed: 766 Existing SF: 22.7M	7.8%	8.7%	7.4%	6.9%

## Average Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS



# Notable Transactions in the Market

## PROPERTIES SOLD

4 PROUDLY SOLD BY NAI COMMERCIAL



**1112 Hermitage Road**  
**Price:** \$145,000,000  
 \$165,904.00/sq.ft.  
**Area:** Overlanders  
**Property Type:** Multi-Family  
**Size:** 33.22 acres



**21441 - 115 Avenue**  
**Price:** \$94,600,000  
 \$152.98/sq.ft.  
**Area:** Winterburn Ind. Area East  
**Property Type:** Industrial  
**Size:** 618,363 sq.ft.  
 36.63 acres



**4011 Ellerslie Road SW**  
**Price:** \$18,000,000  
 \$225,000.00/acre  
**Area:** Meltwater  
**Property Type:** Land  
**Size:** 80 acres



**2950 Calgary Trail**  
**Price:** \$7,800,000  
 \$181.54/sq.ft.  
**Area:** Calgary Trail South  
**Property Type:** Retail  
**Size:** 42,966 sq.ft.  
 on 3.58 acres



**8413 - 116 Street**  
**Price:** \$6,600,000  
 \$281.22/sq.ft.  
**Area:** Fort Saskatchewan  
**Property Type:** Industrial  
**Size:** 23,469 sq.ft.  
 on 5.63 acres



**1101/07 - 8A Street**  
**Price:** \$5,850,000  
 \$94.52/sq.ft.  
**Area:** Nisku  
**Property Type:** Industrial  
**Size:** 61,890 sq.ft.  
 on 9.86 acres



**4219 - 99 Street**  
**Price:** \$4,000,000  
 \$165.69/sq.ft.  
**Area:** Strathcona Ind. Park  
**Property Type:** Retail  
**Size:** 24,142 sq.ft.  
 on 1.20 acres



**1 Carswell Street**  
**Price:** \$2,970,000  
 \$352.61/sq.ft.  
**Area:** St. Albert  
**Property Type:** Office  
**Size:** 8,423 sq.ft.  
 on 0.72 acres

# NAI Listing Highlights

## AVAILABLE PROPERTIES FOR SALE AND/OR LEASE



**2803 - 9 Street**  
**Sale Price:** \$2,590,000  
**Area:** Nisku  
**Property Type:** Industrial  
**Size:** 17,490 sq.ft.±  
 on 3.79 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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