

# **NAI**Commercial

## THIRD QUARTER MARKET REPORT **2022**

**GREATER EDMONTON, ALBERTA**







## Economic Outlook

Edmonton's commercial real estate market sits in an interesting position right now, with continued recovery from the most significant struggles of the pandemic, despite economic uncertainty surging across the province and coast-to-coast.

Inflation continues to have an impact on the commercial real estate market, with Statistics Canada noting that 60% of businesses expect inflation to be an obstacle over the coming three months. Still, the effects of rising consumer prices have been overshadowed in Alberta by long-lingering behaviours that emerged during the COVID-19 pandemic. In Edmonton, specifically, this shines through in few main areas.

Office occupancy rates continue to be plagued by the work-from-home culture, as the Downtown Edmonton core, in particular, struggles to adjust to a record high vacancy rate of 11.7% in Quarter 3 of 2022. It's a problem that doesn't seem to be going away anytime soon, and developers are now shifting their approaches to match this new reality, with many converting office space into residential and retail space. This overhaul points to widespread acceptance that work-from-home setups, and flexible work dynamics, can no longer be considered a fad — in spite of early-2022 projections that a return-to-work rush was on the horizon.

The industrial real estate landscape, however, has continued to benefit from shifts seen during the pandemic. Looking at the combination of increased e-commerce buyer trends, and notable ongoing supply chain issues, warehouse and distribution continues

to dominate local industrial investment. As such, Edmonton is leading the country in industrial space uptake, with nearly 4-million-square-feet occupied in Quarter 3 alone.

Meanwhile, low industrial space availability elsewhere, combined with Alberta's affordable rental rates, has resulted in companies shifting operations to Alberta — specifically from British Columbia, where industrial space vacancy is only 0.2%. That low availability in BC is driving rental rates through the roof, with Vancouver's asking rate doubling that seen in and around Edmonton. As such, a provincial push has begun to draw from BC's economy, with an economic marketing campaign specifically targeting industrial migration to Alberta through a pricing pressure point.

Finally, retail spaces continue to see a rebound from the pandemic, when restrictions and digital shopping behaviours left the Edmonton region with notable retail space vacancies. While the retail occupancy rate hasn't skyrocketed just yet, despite favourable projections earlier in the year, consumer trends are shifting toward increased shopping at brick-and-mortar outlets. Simultaneously, provincial trends point to retail-dominated industries taking the lead in consumer spending.

In all, the Edmonton region is at an exciting post-pandemic crossroad. Developers are adjusting to lasting behavioural shifts, while positive trends in the industrial and retail markets could prove to be a long-term buoy to the region's — and Alberta's — economy.

# 2022-Q3 Greater Edmonton Market Highlights

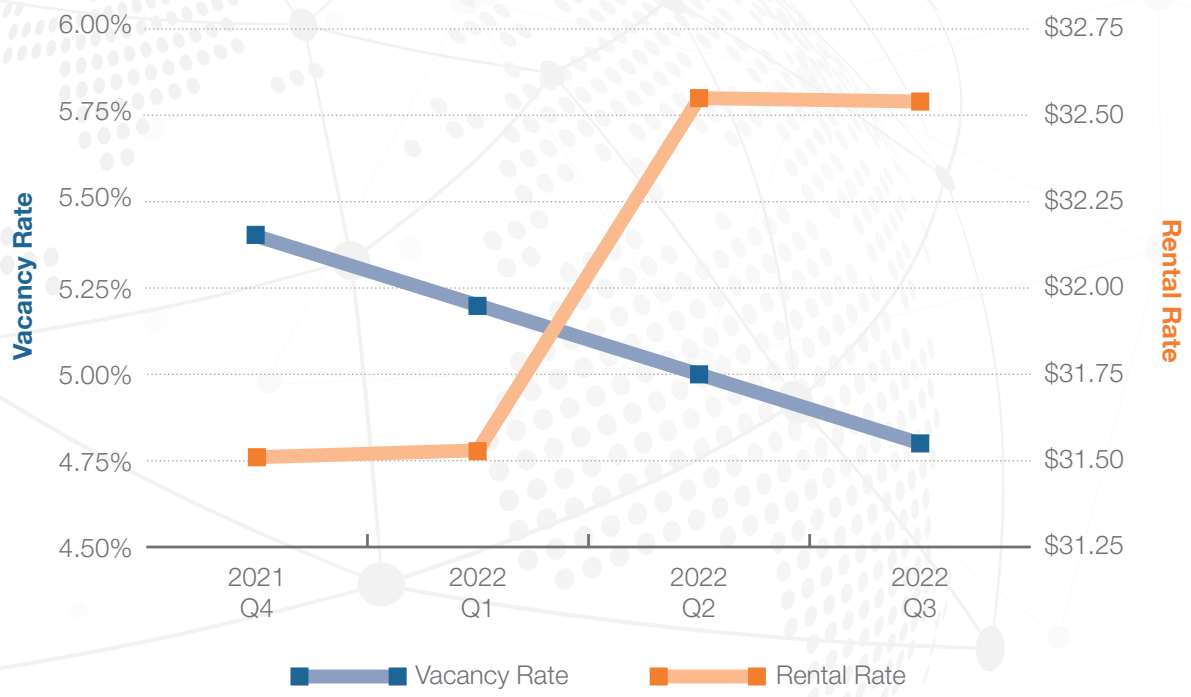
## GREATER EDMONTON AT A GLANCE OVERALL VACANCY TRENDS

Buildings Surveyed: 11,687  
Existing SF: 320M

	2021-Q4	2022-Q1	2022-Q2	2022-Q3
Vacancy Rate	5.4%	5.2%	5.0%	4.8%

## 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.



THE INFORMATION CONTAINED HEREIN HAS BEEN OBTAINED FROM SOURCES DEEMED RELIABLE. WHILE EVERY REASONABLE EFFORT HAS BEEN MADE TO ENSURE ITS ACCURACY, WE CANNOT GUARANTEE IT. NO RESPONSIBILITY IS ASSUMED FOR ANY INACCURACIES. READERS ARE ENCOURAGED TO CONSULT THEIR PROFESSIONAL ADVISORS PRIOR TO ACTING ON ANY OF THE MATERIAL CONTAINED IN THIS REPORT. ©2022 NAI Commercial Real Estate Inc.





# Retail Market

Edmonton's uptake on vacant retail outlets is slow to bounce back to pre-pandemic levels, but there's an optimistic outlook for the remainder of 2022, and into early 2023.

In Quarter 3 of 2022, the retail vacancy rate hit 4.3% — a 0.4% rise from the previous quarter, and the first increase in vacancy since early 2021. This also marks the first net absorption deficit in more than four years. The region's story, though, is a very different and noteworthy one, with positive trends driving toward an improved retail landscape.

Leduc's retail vacancy rate fell significantly from 3% at the midway mark of the year, to only 1.2% heading into the final few months of 2022. The vacancy rate for Sherwood Park and Fort Saskatchewan tumbled from 4% to 3.5% quarter-over-quarter — an even more significant dip from 5.6% year-over-year.

As suburbs recover in fine fashion, projections place Edmonton as the next market to see a drop in vacancy. The pandemic-spurred e-commerce boom has slowed, marked by a massive drop in Shopify's stock price and widespread e-commerce sector layoffs. Meanwhile, a report released by Altus Group shows food-anchored retail strips as a top property type being sought by investors in Canada.

These positive outlooks are tied mainly to strip malls and stand-alone spaces. Sadly, that points to continued concerns surrounding traditional shopping spaces that dominated the market for so long. Enclosed shopping malls are at the bottom of investor preference, according

to Altus Group, with the report noting an increased asset risk in such investments, with regional malls next on the list of undesirable locations.

Regardless, entrepreneurs in Edmonton are working to fill gaps that already exist. The creation of new retail space has steadied for the first time since 2016, meaning that any occupancy increase at this point would be a net positive increase. Meanwhile, statistics from the Government of Alberta showed the largest year-over-year increase in retail spends allocated to clothing and accessories (over a 35% rise), sporting goods and hobbies (with an increase of more than 20%), and electronics and appliances (above 20% growth). Simultaneously, Statistics Canada has released projections pointing to an anticipated product and service demand growth of more than 22%.

Additionally, dollars spent on building and garden materials has plummeted after a pandemic high, falling by more than 10%, while Statistics Canada reports that more than 30% of businesses plan to partner with new suppliers over the coming year to deal with continuing supply chain issues. This could create new opportunities for the region's retail outlets, as well as for the Edmonton area's industrial space as new logistics demands arise.

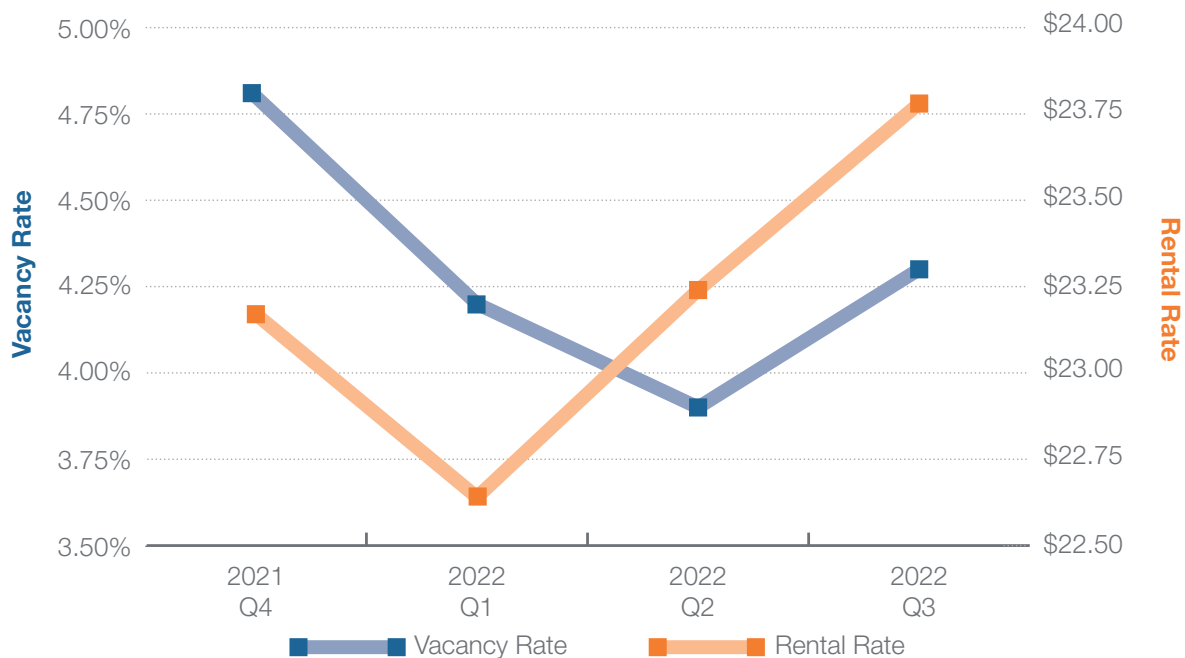
Purchasing trends point to a 'return to normal' in the retail market, and we expect retail vacancies to fall heading into the final quarter of the year as a result. That will be further buoyed by the return of large-scale events including concerts, festivals, major sports, and so on. Edmonton is set for a retail rebound.

## RETAIL Vacancy Trends

	2021-Q4	2022-Q1	2022-Q2	2022-Q3
<b>GREATER EDMONTON</b> Buildings Surveyed: 4,525 Existing SF: 70.3M	4.8%	4.2%	3.9%	4.3%
<b>EDMONTON WEST</b> Buildings Surveyed: 1,095 Existing SF: 19.3M	6.1%	5.3%	4.9%	6.1%
<b>EDMONTON SOUTH</b> Buildings Surveyed: 1,400 Existing SF: 22.9M	5.0%	4.5%	3.6%	3.7%
<b>EDMONTON CENTRAL</b> Buildings Surveyed: 588 Existing SF: 6.99M	5.8%	6.0%	5.9%	6.0%
<b>LEDUC</b> Buildings Surveyed: 146 Existing SF: 1.9M	4.1%	3.8%	3.0%	1.2%
<b>ST. ALBERT</b> Buildings Surveyed: 223 Existing SF: 3.5M	3.3%	2.3%	3.0%	3.4%
<b>SHERWOOD PARK / FORT SASKATCHEWAN</b> Buildings Surveyed: 394 Existing SF: 6.1M	4.8%	4.1%	4.0%	3.5%
<b>WHYTE AVENUE / GARNEAU</b> Buildings Surveyed: 193 Existing SF: 1.5M	7.6%	7.3%	6.6%	6.6%

## Average Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS





## Office Market

Office vacancies continue to create problems in fallout to the COVID-19 pandemic, with work-from-home setups resulting in the downfall of office uptake — but hope is on the horizon.

Edmonton's downtown core continues to witness a worsening occupancy problem, with a new all-time office vacancy high of 11.7% — up from the previous high of 11.2% set in Quarter 2 of 2022. That increased vacancy comes even with a decrease of more than 370,000 total square feet in the market, and in spite of a lowered asking rental rate of \$35.18 per square foot.

Through the first half of the year, the worsening situation in downtown Edmonton has been contrasted by relative stability in Edmonton's suburbs. The suburban market vacancy rate decreased from 8.5% to 8.2%.

As struggles continue in office occupancy rates, new trends are interrupting an already unstable market. With a decrease in total office inventory of more than 540,000 square feet, and remote working setup trends continuing, there is a noted rise in office-to-residential conversions. According to Gensler Architecture and Design, a building would begin to lose money if vacancy exceeds 20%. While there are many buildings in the Edmonton market above this threshold, there are many more in Calgary with Regina not far behind.

With vacancies on the brink of creating sustainability issues, some building owners, developers and planners have begun converting empty office space into residential space — specifically into condos and apartment units. The shift comes at an interesting time, and though it points to concerns around a contracting office landscape, it is being pointed to as an innovative market-driven solution that could ease some of the stresses relating to Edmonton's housing crisis.

Regardless of turbulence in office occupancy, optimism remains for the capital city. Just three hours south of Edmonton, Calgary's office construction has all but come to a standstill, but the Edmonton region continues to see tenants invest in office space construction, largely driven by landlords recognizing the need to invest in their spaces to attract new tenants.

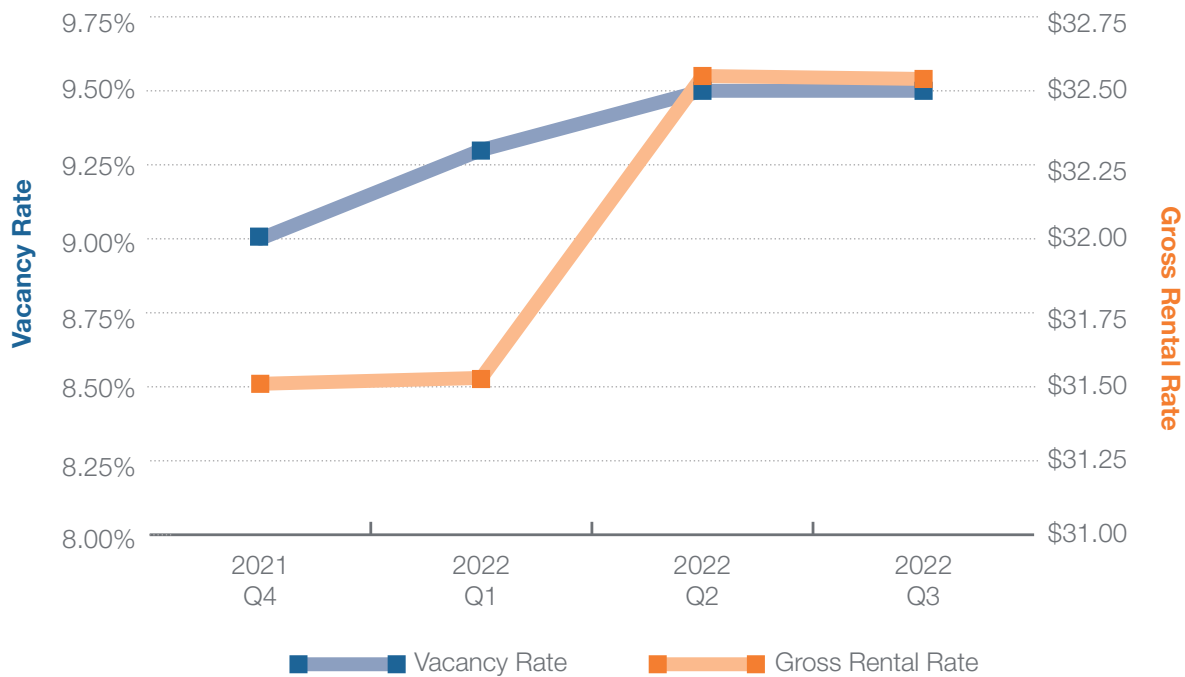
Meanwhile, large-scale builds are set to shift Edmonton's office market completely. Over 75,000 square feet of office space will become available at the end of 2023, upon the completion of the EVER Square building along Calgary Trail and Gateway Boulevard. Another 120,000 square feet of vacant office space will be up for grabs at the end of 2025, once the downtown Canadian Western Bank Tower is complete. Assuming these projects are finished on time, along with renovations for office upgrades throughout the region, increased office usage is expected across the board.

## OFFICE Vacancy Trends

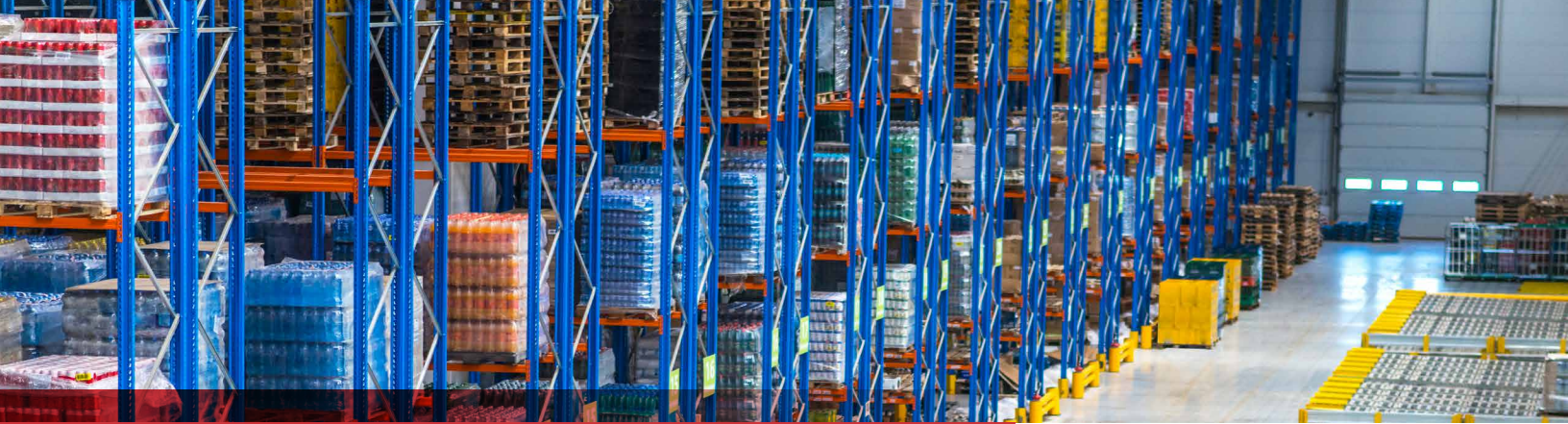
	2021-Q4	2022-Q1	2022-Q2	2022-Q3
<b>GREATER EDMONTON</b> Buildings Surveyed: 1,355 Existing SF: 53.5M	9.0%	9.3%	9.5%	9.6%
<b>EDMONTON DOWNTOWN</b> Buildings Surveyed: 286 Existing SF: 27.1M	10.1%	10.9%	11.2%	11.7%
<b>EDMONTON SUBURBAN</b> Buildings Surveyed: 814 Existing SF: 20.9M	7.8%	7.8%	8.5%	8.2%
<b>WINDERMERE / SUMMERSIDE</b> Buildings Surveyed: 70 Existing SF: 2.1M	4.4%	4.3%	5.1%	4.2%
<b>UNIVERSITY / GARNEAU</b> Buildings Surveyed: 60 Existing SF: 1.07M	14.5%	14.8%	16.7%	15.2%

## Average Gross Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS







## Industrial Market

Edmonton's industrial market has been surging over the past year, and vacancy rates are only expected to continue to drop into the final quarter of 2022.

With supply chain issues creating problems for increased retail activity in Canada — both for in-person and e-commerce shopping — logistics spaces have taken a stronghold in and around Edmonton, including distribution and warehouse space. This market-driven shift has led to the Edmonton region's nation-leading uptake of industrial space in Quarter 3.

As such, Edmonton's industrial space occupancy increased to 96.4% in Quarter 3 of the year — a growth of 0.6% since the year's halfway mark — with 10-million square feet of available space from a pool of nearly 200-million square feet. The slim availability of industrial space has also led to a rental increase to \$10.17 per square foot — the highest rental rate since the beginning of 2019 (\$10.27/sq.ft.). Despite the rising costs for business owners, though, Edmonton's market rate is considered sustainable, especially when compared to provinces where rates have shot up by considerably larger margins.

Some of Edmonton's successes in the industrial landscape are obviously driven by Amazon's massive 2.9-million-square-foot facility in Acheson. However, new projects are spurring growth as well, including more than 1.4-million square feet of industrial space construction having started in Quarter 3 of 2022. Through the first three quarters of the year, net absorption is just over 4.2-million square feet — an increase of more than 2.1-million square feet of net absorption in

the first three quarters of 2021, which includes Amazon taking possession in Acheson.

Leduc has been a major benefactor in the industrial surge, with a vacancy decrease from 5.7% to 4.7% quarter-over-quarter, and nearly a million square feet in industrial space currently under construction across seven new buildings. The 'Port Alberta' designation given to the area as a major shipping hub has been accompanied by additional industrial activity in the Greater Edmonton Area's movement on the creation of a regional hydrogen hub, as well.

It would seem the only anomaly in the region is in Sherwood Park-Fort Saskatchewan, which saw industrial space vacancy increase from 4.2% to 4.8%. In line with apparent decreased demand, industrial rental rates in Sherwood Park-Fort Saskatchewan also fell, dipping below \$10 for the first time since before 2019 — marking the fourth straight quarter of price decrease in the Strathcona County area.

Those vacancies may not last long, though. Demand looks like it's only going to continue to grow, with average asking rental rates climbing sharply in British Columbia, accompanied by bottomed-out vacancy rates of 0.2%. As such, BC's industrial market leaders are eyeing a move to Alberta, where there's more available industrial land at a lower cost. With a new 'Alberta is Calling' campaign aimed at enticing BC and Ontario companies to pull up their stakes and head to the prairies — with slogans like "Bigger paycheques. Smaller rent cheques." — an appetite is being created for industrial land throughout Alberta.

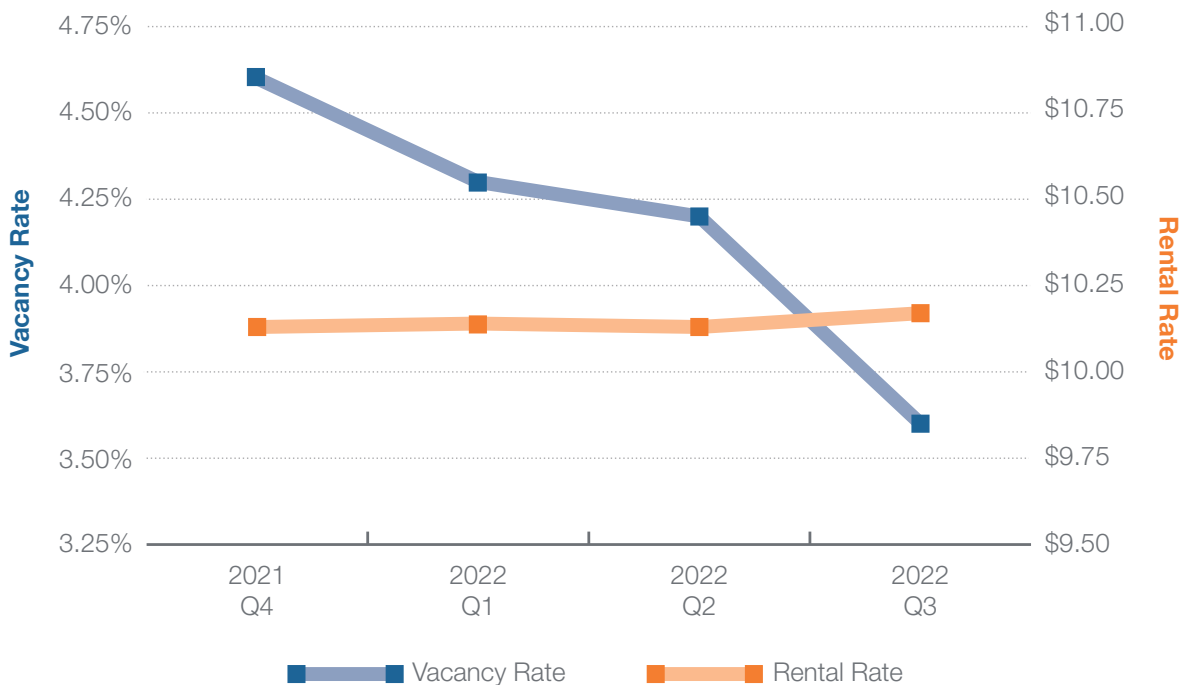


## INDUSTRIAL Vacancy Trends

	2021-Q4	2022-Q1	2022-Q2	2022-Q3
<b>GREATER EDMONTON</b> Buildings Surveyed: 5,806 Existing SF: 197.7M	4.6%	4.3%	4.2%	3.6%
<b>EDMONTON WEST</b> Buildings Surveyed: 1,888 Existing SF: 70.99M	4.0%	3.5%	3.7%	3.2%
<b>EDMONTON SOUTH</b> Buildings Surveyed: 1,746 Existing SF: 66.59M	4.9%	4.7%	4.4%	4.1%
<b>SHERWOOD PARK / FORT SASKATCHEWAN</b> Buildings Surveyed: 371 Existing SF: 11.58M	6.6%	5.6%	4.2%	4.8%
<b>LEDUC / NISKU</b> Buildings Surveyed: 819 Existing SF: 24.3M	6.3%	6.5%	5.7%	4.7%

## 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



### 4404 - 97 Street NW

**Price:** \$36,296,699  
\$154.83/sq.ft.

**Area:** Papachase Industrial

**Property Type:** Industrial

**Size:** 234,424 sq.ft.  
on 12.28 acres



### 7 Tri Leisure Way

**Price:** \$15,000,000  
\$403.56/sq.ft.

**Area:** Spruce Grove

**Property Type:** Office

**Size:** 37,169 sq.ft.  
on 1.28 acres



### 9938 - 279 Street NW

**Price:** \$7,750,000  
\$206.67/sq.ft.

**Area:** Acheson

**Property Type:** Industrial

**Size:** 37,500 sq.ft.  
19.99 acres



### 602 - 13 Avenue

**Price:** \$6,560,000  
\$147.25/sq.ft.

**Area:** Nisku

**Property Type:** Industrial

**Size:** 44,550 sq.ft.  
7.56 acres



### 10010 - 88 Avenue NW

**Price:** \$4,240,000  
\$402.97/sq.ft.

**Area:** Strathcona

**Property Type:** Retail

**Size:** 10,522 sq.ft.  
on 0.07 acres



### 13040 - 148 Street NW

**Price:** \$3,502,000  
\$115.82/sq.ft.

**Area:** Bonaventure Industrial

**Property Type:** Industrial

**Size:** 30,236 sq.ft.  
on 1.21 acres



### 8136 Davies Road NW

**Price:** \$2,450,000  
\$88.34/sq.ft.

**Area:** Bonaventure Industrial

**Property Type:** Industrial

**Size:** 27,733 sq.ft.  
on 1.30 acres



### 2803 - 9 Street NW

**Price:** \$2,412,500  
\$137.94/sq.ft.

**Area:** Nisku

**Property Type:** Industrial

**Size:** 17,490 sq.ft.  
on 3.79 acres

# NAI Listing Highlights

## AVAILABLE PROPERTIES FOR SALE AND/OR LEASE



### 15712 - 112 Avenue NW

**Sale Price:** \$3,245,000

**Area:** Sheffield Industrial

**Property Type:** Industrial

**Size:** 18,869 sq.ft.±  
on 2.87 acres±



### 11737 - 83 Street NW

**Sale Price:** \$1,789,800

**Area:** Parkdale

**Property Type:** Retail/Office

**Size:** 7,000 sq.ft.±  
on 0.36 acres±



### 9618 - 42 Avenue

**Lease Rate:** Negotiable

**Area:** Strathcona Ind. Park

**Property Type:** Office

**Unit Sizes:** 773 sq.ft.± to  
11,420 sq.ft.±



### 8016 - 99 Avenue

**Sale Price:** \$14,000,000

**Area:** Peace River

**Property Type:** Hospitality

**Size:** 55,295 sq.ft.±  
on 2.54 acres±

THE INFORMATION CONTAINED HEREIN HAS BEEN OBTAINED FROM SOURCES DEEMED RELIABLE. WHILE EVERY REASONABLE EFFORT HAS BEEN MADE TO ENSURE ITS ACCURACY, WE CANNOT GUARANTEE IT. NO RESPONSIBILITY IS ASSUMED FOR ANY INACCURACIES. READERS ARE ENCOURAGED TO CONSULT THEIR PROFESSIONAL ADVISORS PRIOR TO ACTING ON ANY OF THE MATERIAL CONTAINED IN THIS REPORT.

©2022 NAI Commercial Real Estate Inc.