

FOURTH QUARTER MARKET REPORT **2019**

GREATER EDMONTON, ALBERTA



4



Economic Outlook

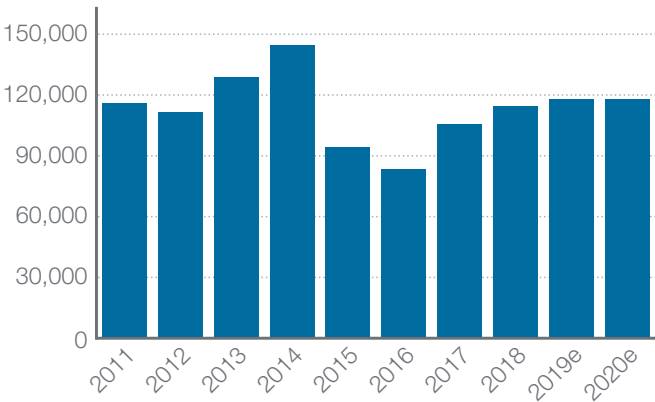
Edmonton showed resilience once more in 2019 after another tough year. The City is expected to see a 0.4% decline in its GDP for 2020 driven by low oil prices, lack of pipeline capacity, trade wars and global economic headwinds. Businesses and consumers have had little inclination to spend as confidence in short-term prospects fade. However, Edmonton continues to enjoy a strong presence of stable sectors such as government and education.

Edmonton’s economy is diversifying into value-add industries, yet oil is still the main driver of the economy. Alberta’s energy sector continues to face uncertainty at home and abroad. On the global front, China has ground to a halt as it tries to contain the recent spread of the COVID-19 virus. Multiple countries have suspended all air travel to the Asian giant. While the wider impact of these events is still unknown, global demand for energy will likely be affected. On the local front, the TMX expansion continues to face roadblocks. The project is experiencing delays, ballooning costs and is a divisive topic amongst Canadians. Additionally, the \$20 billion proposed Teck Frontier oilsands mine, the largest of these projects post-oil price crash, was delayed due to politics and now recently withdrawn.

Edmonton Economic Indicators			
	2018	2019	2020F
GDP growth (%)	1.9	-0.4	2.2
Employment growth (%)	2.4	1.5	0.6
Unemployment rate (%)	6.5	7.1	7.1
Income per capita	\$55,544	\$55,774	\$56,911
Population growth (%)	2.1	1.9	1.7

Source: Conference Board of Canada

Oil and Gas Revenue (\$million)



Source: ARC Energy Research Institute

Yet there are some green shoots in the energy patch. The Government of Alberta has rolled back on oil production limits imposed in early 2019 to reduce the price differential between Alberta and world oil prices. Revenues from the energy industry have increased for a fourth year in a row. This has improved cash flows and the prospects for capital spending. The construction of the TMX pipeline, while delayed, has already begun. Enbridge Line 3 Replacement Program work is also well underway. The completion of both projects will provide relief to Alberta’s oil producers.

Global uncertainty will likely continue to be the general tone of 2020 with the upcoming U.S. presidential elections, the recent crisis in Iran and the ongoing spat between Canada and China. However, the Conference Board of Canada expects Edmonton’s economy to rebound next year with an estimated 2.2% growth. The energy sector is expected to get some clarity on the viability of future projects in 2020. The Alberta Heartlands, Canada’s energy processing hub, has seen several recent large projects announced. The region located north of Edmonton is estimated to see up to \$30 billion in new capital investments by 2030.

2019-Q4 Greater Edmonton Market Highlights

GREATER EDMONTON AT A GLANCE OVERALL VACANCY TRENDS

Buildings Surveyed: 10,686
Existing SF: 299M

2019-Q1

5.8%

2019-Q2

5.9%

2019-Q3

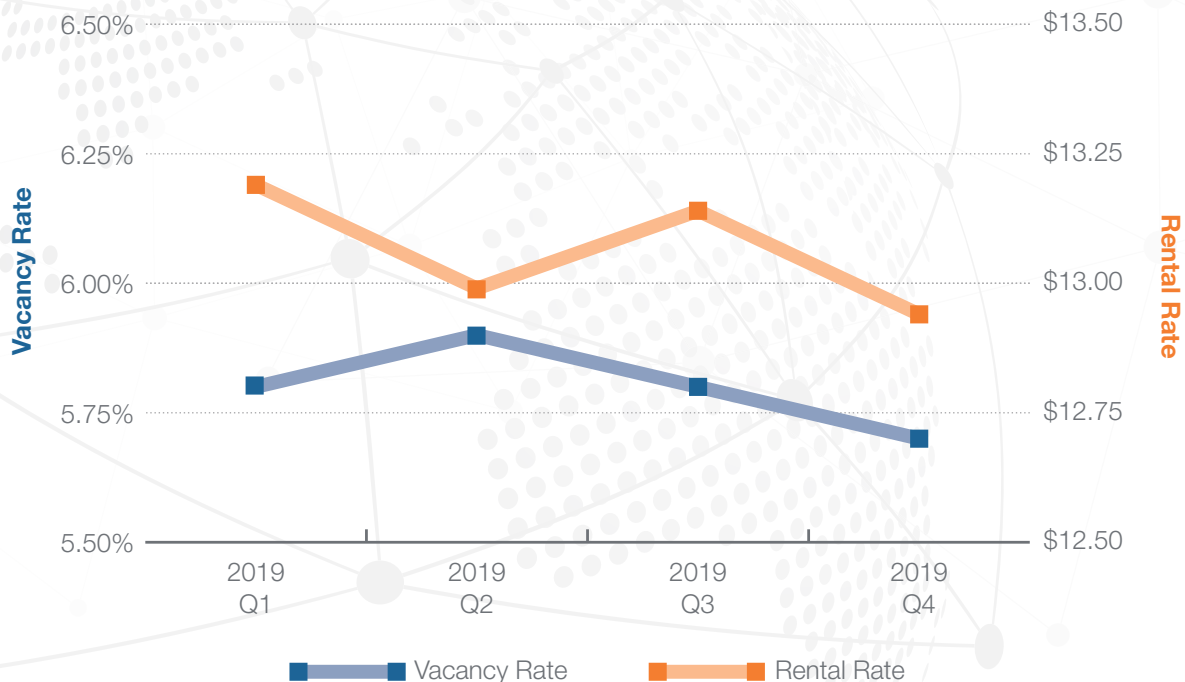
5.8%

2019-Q4

5.7%

Average Rental Rates vs. Vacancy

GREATER EDMONTON AT A GLANCE OVER THE PAST 12 MONTHS



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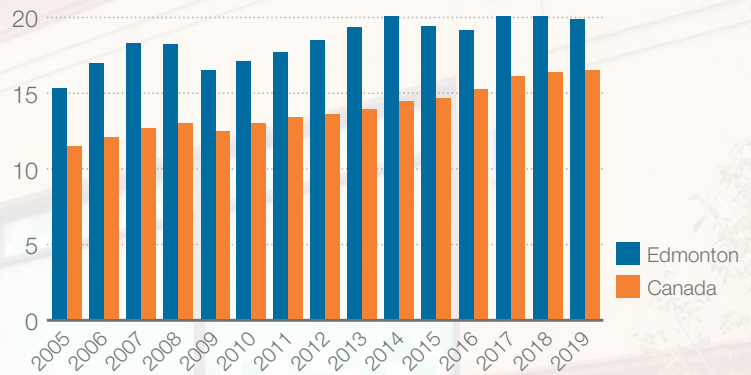
<https://www.naiedmonton.com/about-us/>

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.

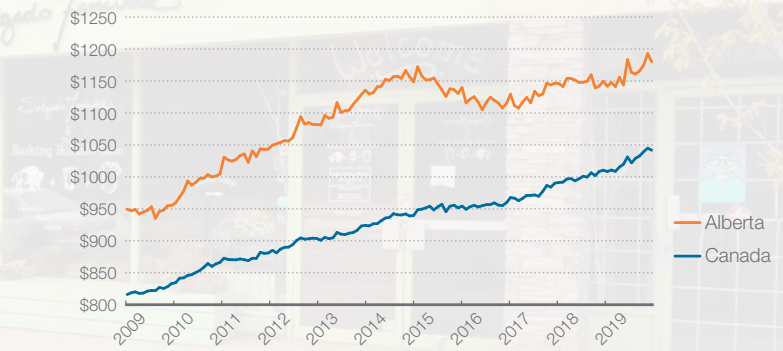


Retail Sales Per Capita (000s)



Source: Conference Board of Canada

Average Weekly Earnings



Source: Statistics Canada

Retail Market

The retail market had been Edmonton's shining star since 2016. However, high unemployment rates, high levels of consumer debt and a weak economy are putting a dent on the sector. Retail vacancy reached 4.0% in Q4 2019, an increase of 80 basis points compared to Q4 2018. Increased vacancy continues to put downward pressure on rental rates. Additionally, landlords are now faced with higher inducement costs to gain or retain tenants.

Retail sales in Alberta have been steadily decreasing throughout the year and are now lower than pre oil-recession peaks in 2014. November year-to-date (YTD) sales, the latest figures available, were down -0.9%, driven by weakness in the appliance and home improvement supplies, sporting goods, gasoline and motor vehicle related categories.

Leasing velocity has slowed down as companies put the brakes or even scrap previous expansion plans. In addition

to slower demand, tenants are feeling the compounding effect from rising property taxes and the increase in minimum wages. Big box retail and department stores have been unsuccessful in remaining competitive in an increasingly digital world. While the construction of the Loblaws grocery in the Ice District is set to commence later in 2020, most grocers are re-evaluating growth targets. Additionally, the overall footprint from banks, another traditional occupier, continues to shrink. Financial institutions are reinventing themselves by leveraging the internet to enhance their customers' experiences.

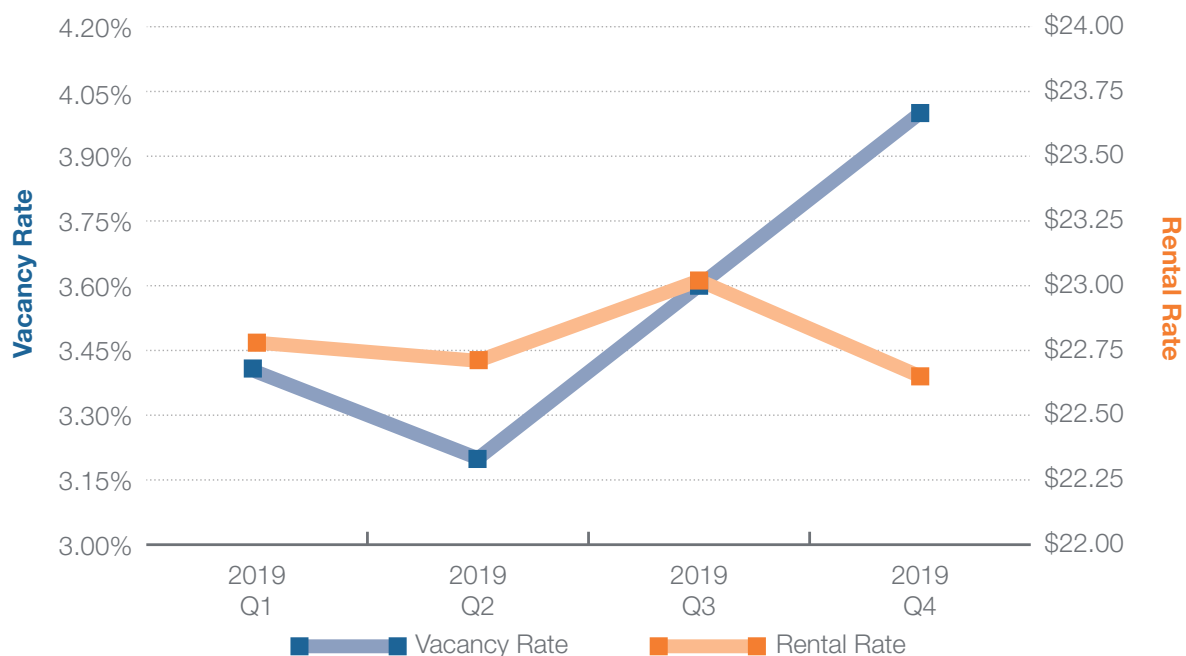
Activity is expected to be subdued in the near future as retailers evaluate consumer spending patterns in the City. However, despite weakness in the economy, Edmontonian's purchasing power remains strong as workers in Alberta continue to earn more than workers in other provinces.

RETAIL Vacancy Trends

	2019-Q1	2019-Q2	2019-Q3	2019-Q4
GREATER EDMONTON Buildings Surveyed: 3,997 Existing SF: 64.5M	3.1%	3.2%	3.6%	4.0%
EDMONTON WEST Buildings Surveyed: 1010 Existing SF: 18.4M	3.4%	3.6%	4.1%	4.6%
EDMONTON SOUTH Buildings Surveyed: 1,213 Existing SF: 20.6M	2.3%	2.5%	3.2%	3.5%
EDMONTON CENTRAL Buildings Surveyed: 573 Existing SF: 6.8M	4.9%	5.1%	5.6%	6.0%
LEDUC Buildings Surveyed: 133 Existing SF: 1.7M	3.0%	3.1%	4.5%	3.2%
ST. ALBERT Buildings Surveyed: 155 Existing SF: 3M	3.4%	3.2%	2.6%	4.2%
SHERWOOD PARK / FORT SASKATCHEWAN Buildings Surveyed: 297 Existing SF: 5.2M	5.6%	4.7%	4.9%	5.0%
WHYTE AVENUE / GARNEAU Buildings Surveyed: 192 Existing SF: 1.4M	4.0%	4.3%	4.2%	4.8%

Average Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS





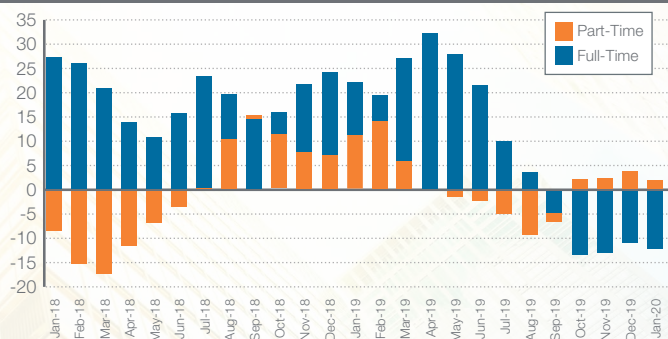
Office Market

As anticipated, 2019 turned out to be a positive year for Edmonton's office market. Overall vacancy at the end of the year was 7.9% down from 9.4% at the beginning of the year. While there were some notable transactions, most of the activity came from existing tenants. Of notable mention was the recent sale of Stantec Tower to German fund Deka Immobilien, which is a vote of confidence towards the future of Edmonton's economy and its office market.

The tech sector continues to grow its footprint throughout the downtown core. Some notable transactions include AMII and Jobber expansions. Government tenants, a large source of demand for office space, continue to show restraint. The recently elected Conservative Government has promised to balance the budget by mandating spending cuts as public debt in Alberta hit \$70 billion.

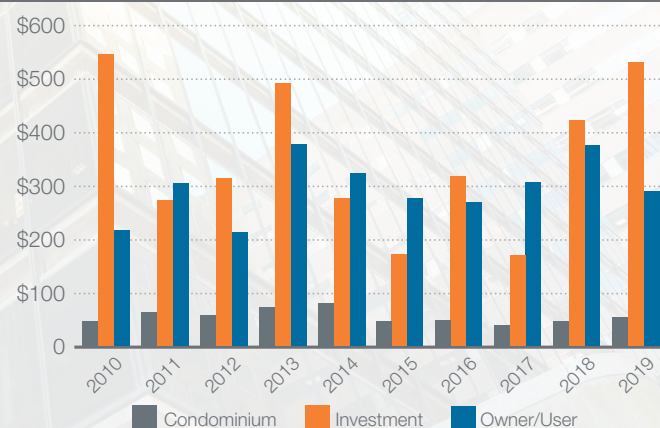
Activity in the suburban office market remains solid with several deals transacting in the second half of the year.

Job Growth (000s)



Source: Statistics Canada

Industrial Sales Volume (000,000s)



Source: NAI Research

This includes relocations for tenants such as Carrington Communities, Clark Builders, Champion Pet Foods and Matrix Solutions. Additionally, activity from the business and professional service sector, which includes law firms, accountants and medical & health categories, continue to demonstrate resilience, particularly in new suburban communities.

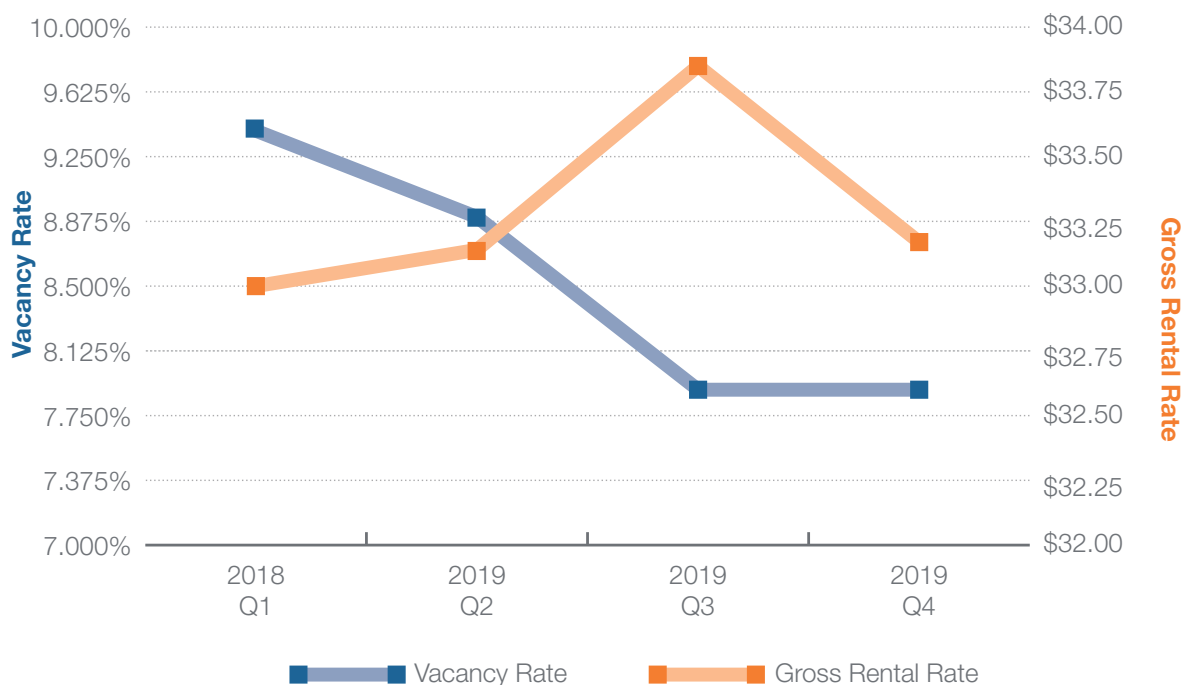
Through 2020, vacancy is expected to remain stable and slowly decrease. Companies continue to take advantage of favourable terms while optimizing their existing space. Employers are leveraging real estate as they seek to attract and retain top talent by creating environments where community, connectivity, and mobility are a top priority. Additionally, vacancy in the core is expected to trend downwards as struggling, functionally obsolete buildings continue to be repurposed and removed from the city's office inventory.

OFFICE Vacancy Trends

	2019-Q1	2019-Q2	2019-Q3	2019-Q4
GREATER EDMONTON Buildings Surveyed: 1,224 Existing SF: 50.3M	9.4%	8.9%	7.9%	7.9%
EDMONTON DOWNTOWN Buildings Surveyed: 282 Existing SF: 25.7M	9.6%	9.4%	8.6%	8.3%
EDMONTON SUBURBAN Buildings Surveyed: 955 Existing SF: 24.8M	9.3%	8.3%	7.1%	7.6%
WINDERMERE / SUMMERSIDE Buildings Surveyed: 70 Existing SF: 2.1M	11.9%	11.8%	7.3%	6.0%
UNIVERSITY / GARNEAU Buildings Surveyed: 53 Existing SF: 1M	14.9%	14.1%	13.1%	10.1%

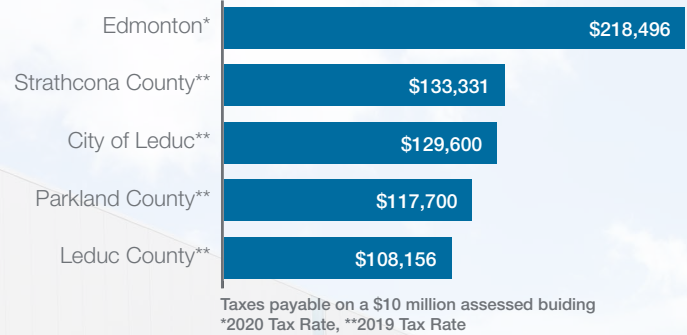
Average Gross Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS



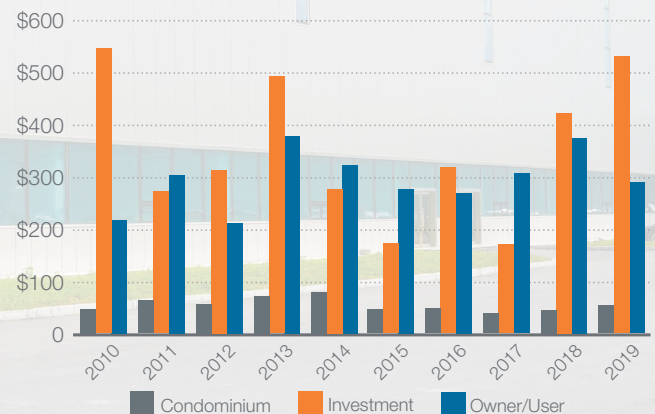


Non-Residential Property Taxes



Source: NAI Research

Industrial Sales Volume (000,000s)



Source: NAI Research

Industrial Market

After a particularly slow first half of the year, Edmonton's industrial market gained momentum by the end of 2019. However, a portion of the activity could be attributed to pent-up demand as multiple groups halted decision making in anticipation of the federal and provincial elections.

Tenants in the logistics and distribution sector continue to be active, with multiple large transactions completed throughout the year. Additionally, there are several groups with large requirements currently in the market ranging between 100,000-500,000 sq. ft. setting the stage for a busy 2020. It is important to note that most of these transactions will likely occur outside of the city limits given the large property tax differentials between the counties and the City of Edmonton.

Non-traditional industries such as cannabis as well as indoor recreation continue to be active in the market. Additionally, activity from oil and gas users is slowly

showing signs of life, albeit at levels well below 2013-2014 heights. While demand for 20,000+ sq. ft. tenants has surged, there continues to be a notable weakness from small tenants (5,000+ sq. ft.) overburdened by high property taxes.

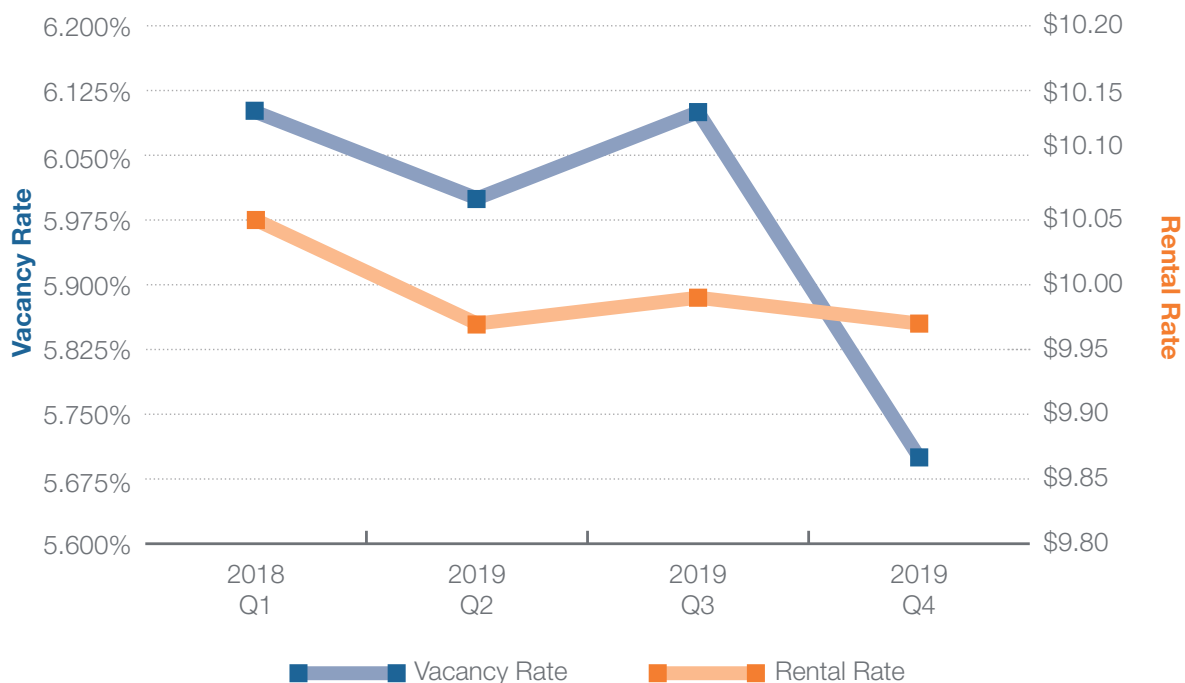
Despite a decline in available product, there continues to be a steady demand for appropriately priced owner/user industrial buildings. The greatest demand is for smaller buildings ranging under 30,000 sq. ft. with price per sq. ft. in the \$120 - \$180 range depending on the age, condition of the building and site size.

Going forward, 2020 should remain relatively busy driven by an increase in activity in the energy sector. Edmonton increasing logistics needs driven by ecommerce as well as manufacturing activity outside of the energy sector will also translate into stronger industrial market fundamentals.

INDUSTRIAL Vacancy Trends

	2019-Q1	2019-Q2	2019-Q3	2019-Q4
GREATER EDMONTON Buildings Surveyed: 5,438 Existing SF: 184M	6.1%	6.0%	6.1%	5.7%
EDMONTON WEST Buildings Surveyed: 1,830 Existing SF: 68M	7.0%	6.4%	6.4%	6.5%
EDMONTON SOUTH Buildings Surveyed: 1,677 Existing SF: 65.3M	6.7%	5.9%	5.7%	5.0%
SHERWOOD PARK / FORT SASKATCHEWAN Buildings Surveyed: 299 Existing SF: 9.9M	8.9%	12.4%	11.9%	10.9%
LEDUC / NISKU Buildings Surveyed: 745 Existing SF: 20.8M	5.0%	4.9%	4.9%	4.6%

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



Recent Transactions

PROPERTIES **SOLD**



7205/25 Roper Road

Price: \$7,850,000
\$191.74/sq.ft.

Area: Roper Industrial
Property Type: Industrial
Size: 40,940 sq.ft.



1 Edmonton City Centre

Price: \$310,200,000
\$223.39/sq.ft.

Area: Downtown
Property Type: Office/Retail
Size: 1,388,620 sq.ft.
on 10.29 acres



9204 Ellerslie Road SW

Price: \$13,400,000
\$528.12/sq.ft.

Area: Ellerslie Industrial
Property Type: Retail
Size: 25,373 sq.ft.
on 3.14 acres



9835 - 42 Avenue

Price: \$4,320,000
\$117.21/sq.ft.

Area: Strathcona Industrial Park
Property Type: Industrial
Size: 36,856 sq.ft.
on 1.82 acres



5018 - 1 Avenue

Price: \$2,250,000
Area: Edson

Property Type: Hospitality
Size: 44,500 sq.ft.
on 2.07 acres



10163 & 10171 - 109 Street

Price: \$2,352,000
\$391.80/sq.ft.

Area: Downtown
Property Type: Retail
Size: 6,003 sq.ft.



1506 - 6 Street

Price: \$3,650,000
\$117.21/sq.ft.

Area: Nisku
Property Type: Industrial
Size: 12,000 sq.ft.
on 2.57 acres



7609 - 109 Street

Price: \$1,191,920
\$412.71/sq.ft.

Area: Queen Alexandra
Property Type: Office
Size: 2,888 sq.ft.

Listing Highlights

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



182 Sturgeon Way

Sale Price: \$8,499,000
Area: Sturgeon Industrial Park
Property Type: Industrial
Size: 25,650 sq.ft.±
on 15.15 acres±



9851 - 70 Avenue

Sale Price: \$1,325,000
Lease Rate: Market
Area: Hazeldean
Property Type: Office/Retail
Size: 4,500 sq.ft.±



152, 134 Pembina Road

Sale Price: \$1,140,000
Area: Sherwood Park
Property Type: Office/Retail
Size: 4,604 sq.ft.±



3305 - 74 Avenue

Lease Rate: \$13.50/sq.ft.
Sale Price: \$5,071,950
Area: Leduc Business Park
Property Type: Industrial
Size: 19,890 sq.ft.
on 2.03 acres±

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