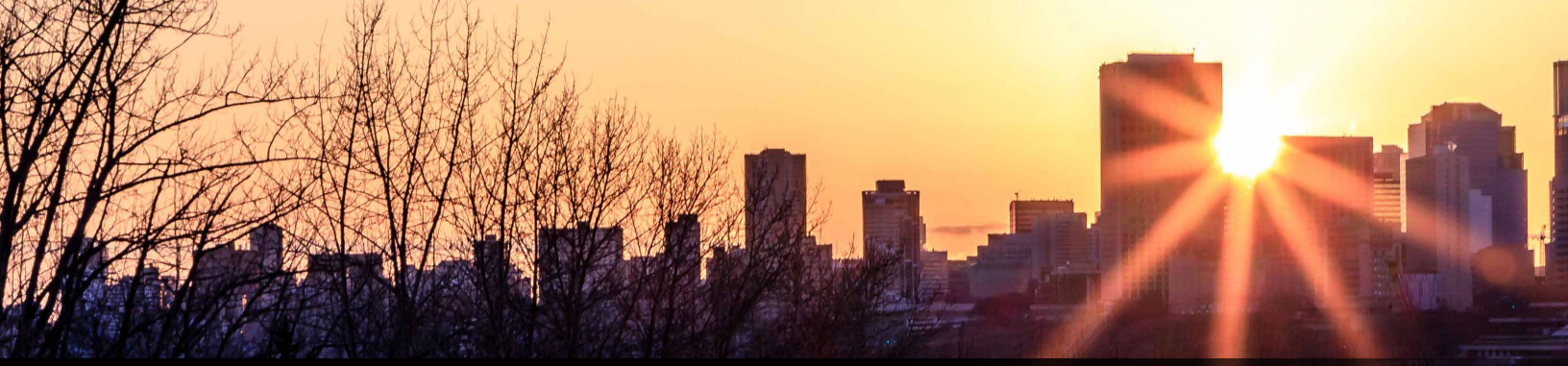


FOURTH QUARTER MARKET REPORT
2020

GREATER EDMONTON, ALBERTA



4



Economic Outlook

2020 comes to an end as one of the most challenging years for Edmonton's real estate market. Nine months ago, many were expecting a total downfall as the COVID-19 pandemic unraveled and oil prices collapsed to negative territory for the first time in history. Although, the reality has been far from it, there remains considerable uncertainty over the short and medium term.

According to the Conference Board of Canada, Edmonton's GDP is expected to fall by 10.8% this year, the largest downturn among major Canadian cities. The ongoing second wave of the virus, which led to another round of mandatory business shutdowns, will further dampen the recovery of the region's real estate market. However, the recent flow of multiple vaccines will boost consumer and business confidence shortening the pain of a long comeback. Edmonton's economy will likely not recover the ground lost due to COVID-19 until mid-end 2022. Extraordinary policy measures combined with concerns over the future has led household savings rates to jump to more than 28 per cent. This available capital combined with pent up demand will fuel the economic rebound.

While there is some weakness in the commercial real estate markets, businesses are not shutting their doors faster than any other year. Data from the Office of the Superintendent of Bankruptcies Canada shows there have been less business bankruptcies in 2020 compared to 2019. Business license cancellation figures from the City of Edmonton tell a similar story. Additionally, not all of the recent bankruptcies have

been driven by the pandemic. Some tenants were already in financial trouble due to failed business models and poor financial management. Government programs such as the revamped Canada Emergency Rent Subsidy which provides support until June 2021 for qualifying organizations, the Canada Emergency Wage Subsidy and the expanded Canada Emergency Business Account (CEBA), have been the lifeline to many businesses allowing them to survive throughout the pandemic. However, for many it is delaying the inevitable. Upon the expiry of such programs, many tenants will face hard decisions leaving increased vacancies in the wake of the coronavirus.

The wild card for Edmonton's economy will be the economic and energy agenda from U.S. President Elect Joe Biden. Although much is speculative at this point, Biden's energy plan would see heavy investments in green energy. The fate of the billion-dollar Keystone XL project, key to Alberta's future growth, remains unknown. Biden vowed early in his campaign to scrap the pipeline that would bring Canadian crude oil to Gulf Coast refineries. The President Elect would also ban all drilling and fracking on federal land. If the US does begin a serious transition away from oil and gas, this could create opportunities for Alberta investment and Canadian crude exports. Oil giants like Shell and BP announced that peak global oil demand has been reached. Despite this, there is still considerable demand for fossil fuels. Alberta companies, which continue to embrace technology, are becoming more efficient, allowing them to improve margins.

2020-Q4 Greater Edmonton Market Highlights

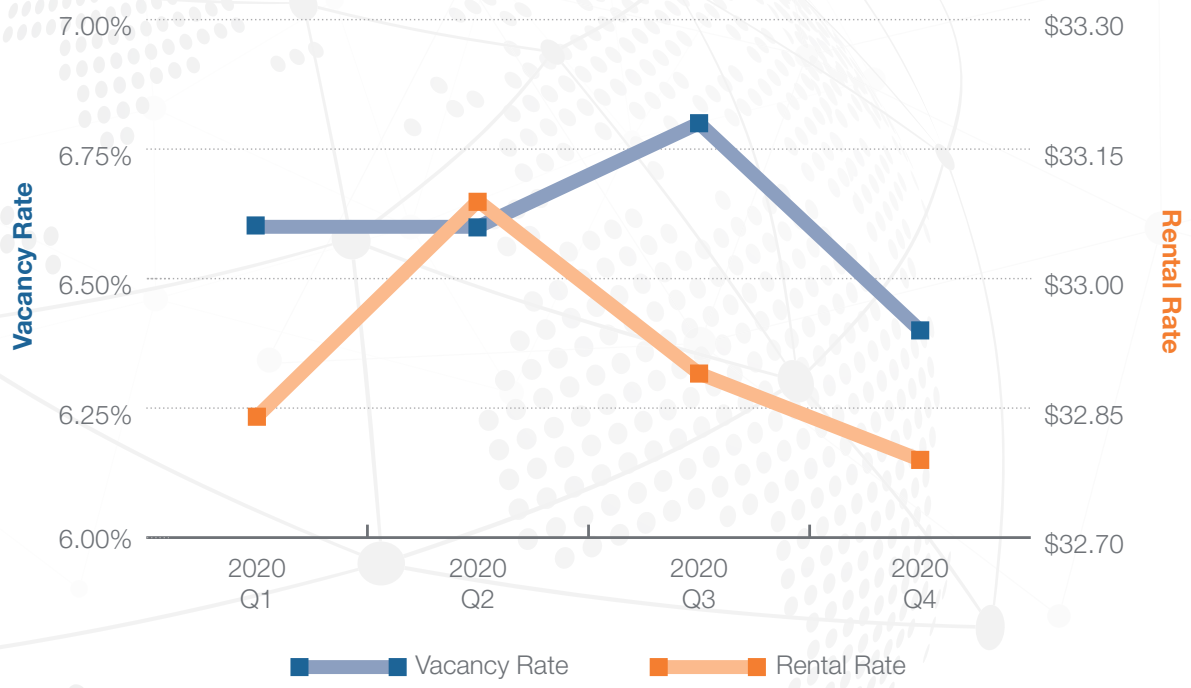
GREATER EDMONTON AT A GLANCE OVERALL VACANCY TRENDS

Buildings Surveyed: 11,040
Existing SF: 308 M

2020-Q1	2020-Q2	2020-Q3	2020-Q4
6.6%	6.6%	6.8%	6.4%

Average Rental Rates vs. Vacancy

GREATER EDMONTON AT A GLANCE OVER THE PAST 12 MONTHS



About NAI Commercial

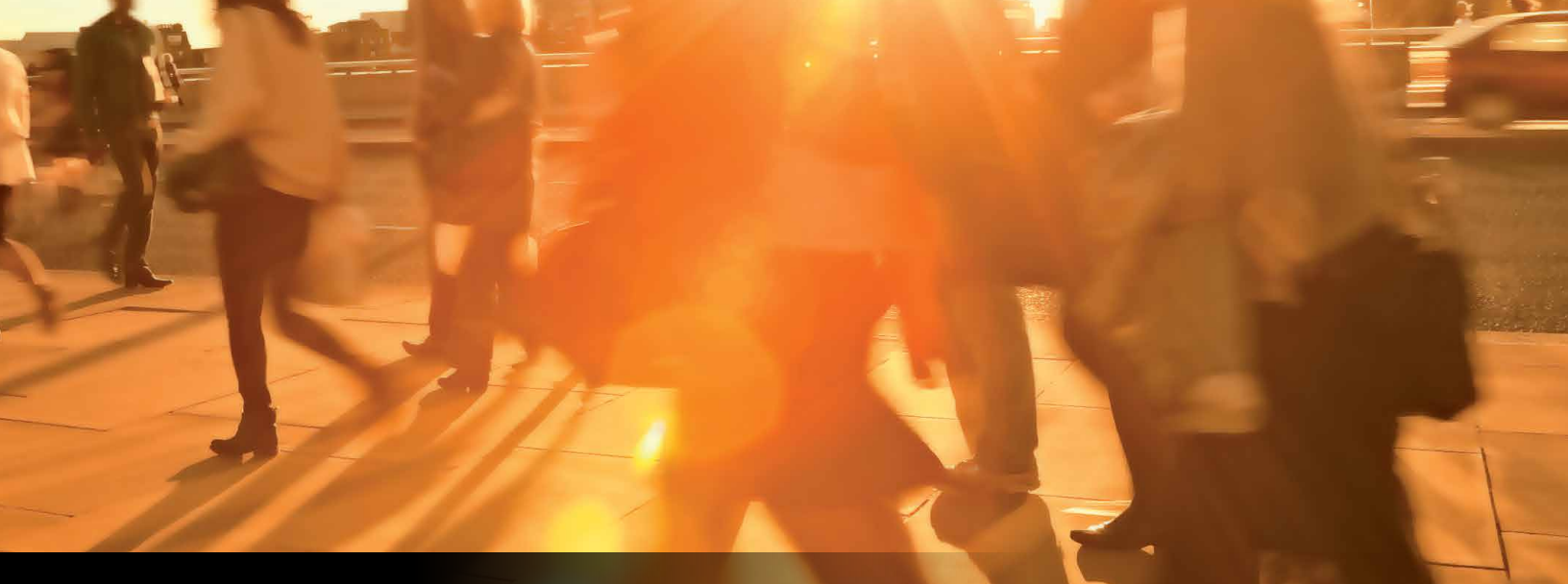
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We build our network of successful relationships based on trust and loyalty, and many of our clients choose to deal with us exclusively for all their commercial real estate needs. We offer trusted advice in Edmonton, across Canada and around the world.



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Retail Market

Among Edmonton's commercial real estate, the retail sector has been the most impacted throughout the COVID-19 pandemic. The overall vacancy rate was 4.8% in Q4 2020, up from 4.0% in the same period in 2019. According to Statistics Canada, Edmonton's retail sales recovered to \$2.5 billion in October 2020, and are now close to historical highs. Additionally, although restaurant receipts throughout Alberta are 19.4% below last year's levels, they did observe the famous V-shaped recovery posting strong gains over the past couple of months.

Necessity based occupiers such as grocers, health care and convenience stores as well as home improvement tenants continue to be active in the market. While lease term continues to be key, occupiers can find favourable business terms as landlords continue to be aggressive to attract and retain tenants. Rental rates have not collapsed yet as some segments of the market were overheated prior to the pandemic and have seen a correction. Building owners are also a lot more conciliatory in the legal negotiation. Moreover, the addition of pandemic clauses has become the norm in most leases.

Prior to the pandemic, experiential tenants such as restaurants, movie theaters and fitness were a strong source of demand growth that has now been wiped-out. The brick and mortar retail as well as restaurants and bars are taking the brunt of COVID-19. These tenants

are finding it hard to balance decreased revenue due to reduced capacity and increase sanitation costs. However, the region's retail market has been on a state of transformation even prior to the COVID-19, driven by shifting consumer preferences and e-commerce. The pandemic has accelerated these trends. Clothing, banks, electronic and department stores were and will continue to decrease their overall footprint throughout the city.

The impact of the pandemic is not felt equal among all retail classes as enclosed malls have fared worse. These assets have faced more restrictions but are also exposed to less essential tenants and to more tenants that face competition from ecommerce. While there are some pockets of weakness, grocery anchored shopping centers and big box centers have performed much better given the composition of tenants, as well as the ability to implement curb side pick-up and outdoor line-ups.

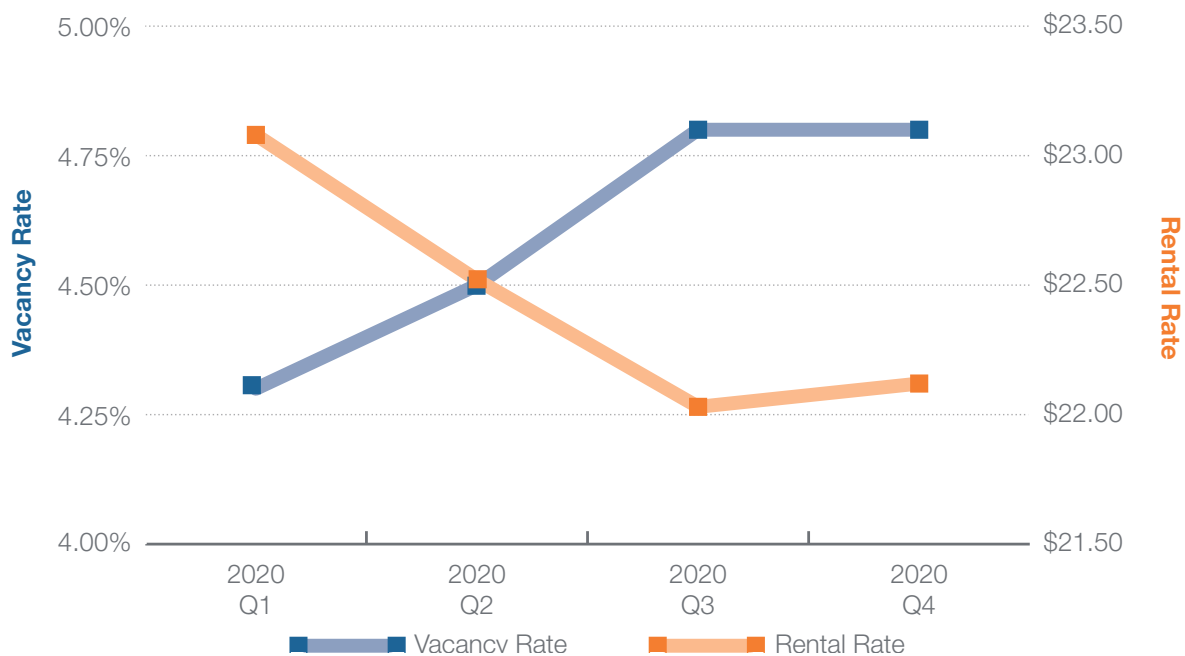
Going forward, there remains considerable short-term uncertainty. COVID-19 cases have risen throughout the region. This has forced government officials to another round of mandatory business shutdowns which has dampened the recovery of the retail market. Retailers and restaurants that survive will face increased challenges post pandemic as they respond to changing demand from consumers, reduced capacity, increased sanitation costs, and more e-commerce.

RETAIL Vacancy Trends

	2020-Q1	2020-Q2	2020-Q3	2020-Q4
GREATER EDMONTON Buildings Surveyed: 4,209 Existing SF: 66.3M	4.3%	4.5%	4.8%	4.8%
EDMONTON WEST Buildings Surveyed: 1,050 Existing SF: 18M	5.2%	5.7%	5.6%	5.3%
EDMONTON SOUTH Buildings Surveyed: 1,290 Existing SF: 21.5M	3.6%	4.0%	4.5%	4.8%
EDMONTON CENTRAL Buildings Surveyed: 585 Existing SF: 6.2M	6.1%	6.7%	7.3%	6.6%
LEDUC Buildings Surveyed: 137 Existing SF: 1.8M	3.1%	2.1%	2.6%	2.1%
ST. ALBERT Buildings Surveyed: 205 Existing SF: 3.4M	4.1%	4.1%	4.3%	5.0%
SHERWOOD PARK / FORT SASKATCHEWAN Buildings Surveyed: 313 Existing SF: 5.5M	5.6%	5.3%	6.1%	5.3%
WHYTE AVENUE / GARNEAU Buildings Surveyed: 194 Existing SF: 1.5M	5.3%	5.1%	6.3%	6.8%

Average Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS





Office Market

2020 was shaping to be a good year for Edmonton's office market driven by a growing tech sector. However, COVID-19 brought a deep freeze into the office market. While touring activity increased at the end of the year, the market registered a whopping 484,394 square feet (SF) of negative absorption in 2020. There have been some interesting transactions throughout the year such as the BDO 33,000 SF relocation from the suburbs to the downtown core, or Alberta Teachers leasing 30,115 SF at the Stuart Olson building. However, the bulk of activity has been on renewals rather than new leasing as tenants put off decisions on space commitments.

Tenants are readjusting growth expectations considering remote work and weaker economic activity in the region. Those currently in the market are trying to score good deals. It is not uncommon for tenants looking for a new space to have a target commencement date 1-2 years down the line. Despite the pandemic, face rents are holding strong amongst most landlords. However, there have been increases in tenant inducements and other incentives.

Vacancy rates across the city have stabilized as the worst part of the pandemic appears to be on the rear mirror. Unfortunately, there has been a steady uptick

on sublease space throughout the market. Demand for office space in the core has been subdued given the on-going business shut-downs. The suburban market has seen slightly more activity as tenants pivot outside of the core to avoid exposure to overcrowding. However, accounting and engineering firms, the largest source of demand in the suburbs, are at a virtual stand still.

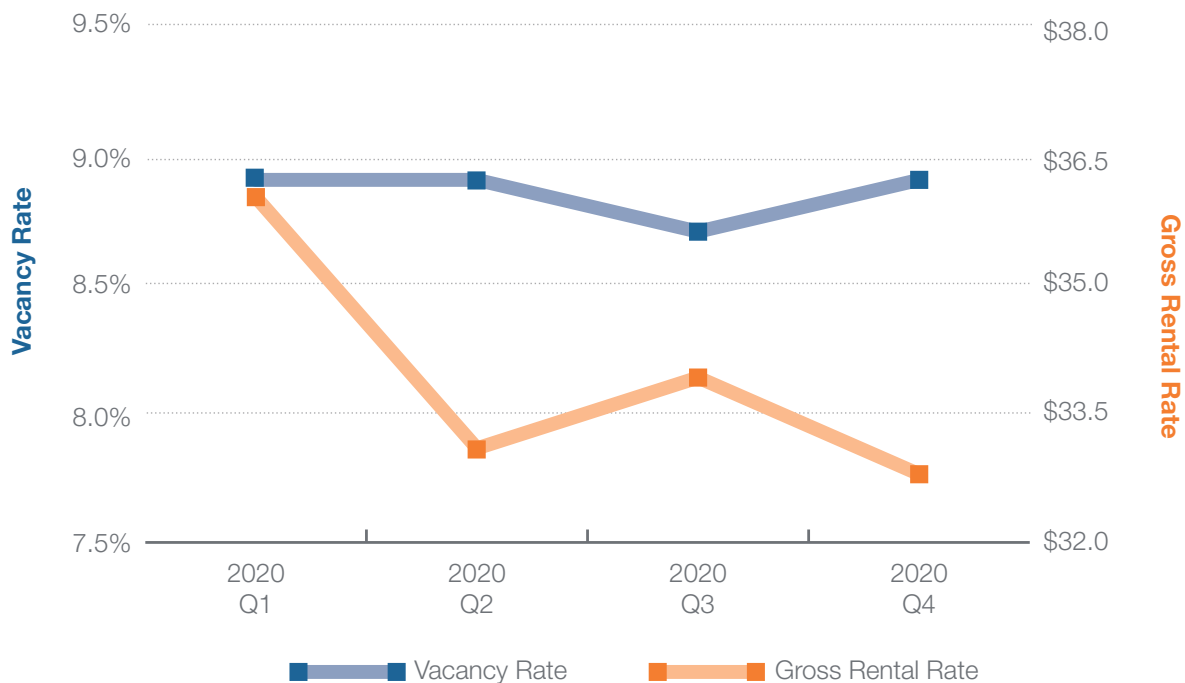
After a few quiet months, Edmonton's office market transacted \$167 million in the fourth quarter of 2020. This was driven by the sales of Sunlife Place to Slate Office REIT and Canadian Western Bank to the Redstone Group as well as the transfer of CN Tower to Trez Capital. It is important to note that the latter basically involves the assumption of debt. Pension funds are risk averse in the best of times, and except for trophy assets, are slowly divesting out of Edmonton's product. On the other hand, the trend of value-add players picking up assets at a low price per foot continue as these buyers are betting that the region's office markets will outperform over the long-term. Office sales transactions in 2020 topped \$239 million. This represents a decline of 73.9% compared to 2019. While 2019 was an atypical year driven by the landmark sales of the Stantec Tower and the City Center portfolio, 2020 transaction volume are 34.2% below the 5 year average.

OFFICE Vacancy Trends

	2020-Q1	2020-Q2	2020-Q3	2020-Q4
GREATER EDMONTON Buildings Surveyed: 1,272 Existing SF: 51M	8.9%	8.9%	8.7%	8.9%
EDMONTON DOWNTOWN Buildings Surveyed: 281 Existing SF: 25.7M	9.3%	9.2%	9.4%	8.8%
EDMONTON SUBURBAN Buildings Surveyed: 516 Existing SF: 12.7M	9.6%	9.4%	8.6%	8.4%
WINDERMERE / SUMMERSIDE Buildings Surveyed: 69 Existing SF: 2.1M	5.0%	4.8%	4.4%	4.3%
UNIVERSITY / GARNEAU Buildings Surveyed: 57 Existing SF: 1M	9.7%	10.5%	11.1%	11.8%

Average Gross Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS





Industrial Market

Edmonton's industrial market has been the most resilient property type throughout COVID-19. The pandemic has been particularly difficult for small local entrepreneurs. There are some pockets of weakness and further vacancy is expected in the coming months. However, the market has benefited from ecommerce fulfillment. Additionally, the region's economy relies on exports and the pandemic has shown us how fragile supply chains are. Companies are aware that geopolitical conflicts are likely to worsen over the foreseeable future. Therefore, tenants are rethinking their distribution channels and have focused on building strong fulfillment centers moving away from just-in-time distribution. Demand for industrial real estate is likely to continue as local becomes the new global.

Logistics, particularly driven by e-commerce, are the main source of demand in Edmonton. Amazon continues to expand its presence throughout the Edmonton region with 4 facilities leased to date totaling 2.3 million square feet. Groups such as U-line, MTE Logistics among others have also recently expanded their footprint in the city. Additionally, the cold storage segment is under supplied and could be an area of strong growth within the market over the coming quarters. Despite ongoing government restrictions, indoor recreation tenants have been particularly active in the market. While there are several new participants, a large portion of these groups are existing tenants that are no longer able to operate in public facilities such as school gyms or arenas. On the other hand, oil and gas tenants continue to be notably absent in the market.

Despite the increase in vacancy rate and overall available space, there is a lack of large blocks of space in newer generation buildings, particularly in the west end. There are currently only 4 buildings offering 100,000 SF contiguous vacancy in the west. Some developers are contemplating the possibility of bringing new supply online, including Quadreal's at Henday Industrial. However, investors are wary about long leasing periods for developments in the city between 2016-2019.

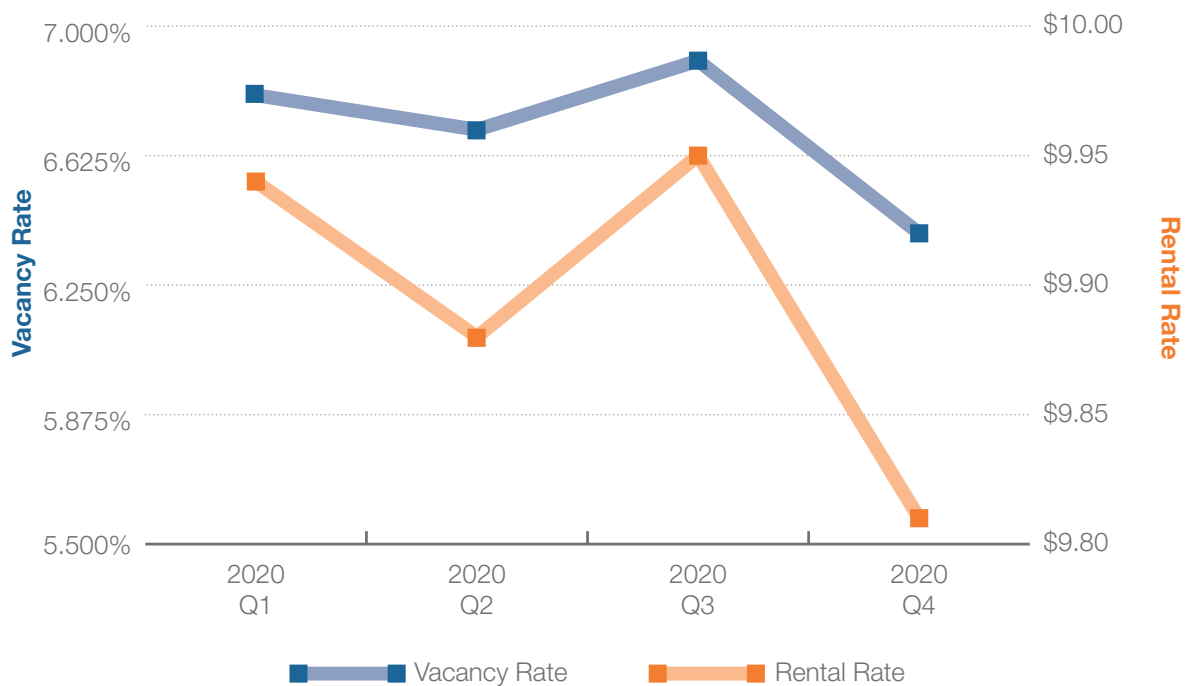
There were \$24 million worth of industrial sales in the fourth quarter of 2020, a staggering 77.8% decline compared to the same quarter last year. This brings the annual total to \$254 million in transactions, the lowest volume in over a decade. There were only 7 transactions above \$10 million in 2020, with Epcor's strategic purchase of the former Saipem modular yard as the largest sale of the year. Despite very attractive yields compared to Toronto or Vancouver, Alberta has become a "no flight zone" for most pension funds and institutional investors. A prime example is Blackstone's decision to exit Alberta after the purchase of the PIRET portfolio. There are other pension fund owned assets under contract in the Edmonton region that will likely transact in 2021. Demand from owner user in a solid financial position remains strong. However, transaction volumes are expected to continue to be subdued in the coming months. Buyers are expecting "COVID" deals, yet, there is a mismatch between buyer and sellers' expectations. Additionally, quality product with specialized features remains scarce.

INDUSTRIAL Vacancy Trends

	2020-Q1	2020-Q2	2020-Q3	2020-Q4
GREATER EDMONTON Buildings Surveyed: 5,561 Existing SF: 190M	6.8%	6.7%	6.9%	6.4%
EDMONTON WEST Buildings Surveyed: 1,850 Existing SF: 69.5M	7.3%	7.7%	7.1%	6.1%
EDMONTON SOUTH Buildings Surveyed: 1,721 Existing SF: 66.3M	6.6%	6.4%	6.7%	6.5%
SHERWOOD PARK / FORT SASKATCHEWAN Buildings Surveyed: 303 Existing SF: 10M	11.1%	10.6%	11.1%	11.3%
LEDUC / NISKU Buildings Surveyed: 763 Existing SF: 22.5M	5.0%	5.7%	6.8%	7.8%

Average Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS



Recent Transactions

PROPERTIES **SOLD**



3735 - 17 Street NW
Price: \$37,000,000
 \$385.84/sq.ft.

Area: Tamarack
Property Type: Retail
Size: 95,895 sq.ft.
 on 9.14 acres



17440 - 116 Avenue NW
Price: \$16,990,000
 \$367.39/sq.ft.

Area: Armstrong Industrial
Property Type: Industrial
Size: 46,000 sq.ft.
 on 10.80 acres



4212 - 97 Street NW
Price: \$9,100,000
 \$86.31/sq.ft.

Area: Strathcona Ind. Park
Property Type: Office
Size: 105,433 sq.ft.
 on 5.44 acres



9712 - 54 Avenue NW
Price: \$8,100,000
 \$150.00/sq.ft.

Area: Coronet Industrial
Property Type: Industrial
Size: 54,000 sq.ft.
 on 3.31 acres



28633 Acheson Road
Price: \$6,200,000
 \$327.52/sq.ft.

Area: Acheson
Property Type: Industrial
Size: 18,930 sq.ft.
 on 9.19 acres



10571 - 178 Street NW
Price: \$4,050,000
 \$185.82/sq.ft.

Area: McNamara Industrial
Property Type: Industrial
Size: 21,795 sq.ft.
 on 2.38 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



11902 - 21 Street NE
Price: \$2,925,000
 \$132.47/sq.ft.

Area: Clover Bar
Property Type: Industrial
Size: 22,080 sq.ft.
 on 2.92 acres

Listing Highlights

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



8705 - 24 Street
Sale Price: \$19,500,000
Area: Sherwood Park
Property Type: Industrial
Size: 132,621 sq.ft.±
 on 10.10 acres±



967 Boulder Boulevard
Sale Price: \$2,712,000
Area: Stony Plain
Property Type: Industrial
Size: 15,200 sq.ft.±
 on 1.47 acres±



12820 - 97 Street
Bldg 1&2 Lease: \$20/sq.ft.+
Bldg 3 Sale: \$2,800,000
Area: Lauderdale
Property Type: Retail/Office
Size: 992 - 18,873 sq.ft.±



9343/53/63 - 50 Street
Lease Rate: \$10-14.00/sq.ft./annum
Op Costs: \$13.89/sq.ft./annum
Area: Eastgate Business Park
Property Type: Investment
Size: 462 - 13,888 sq.ft.±

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