NAI Commercial

FOURTH QUARTER MARKET REPORT
2021

GREATER EDMONTON, ALBERTA

Q4

Economic Outlook

Edmonton's recovery continues to display resilience in recent months with the economy in a better place than it was in the earlier days of the COVID-19 outbreak. The Conference Board of Canada estimates that Edmonton's economy rebounded 7.3% in 2021 after a large 7.7% contraction in 2020. Strong growth is expected to continue as the region's economy is forecasted to expand by 5.1% in 2022. Despite this, the pandemic continues to be the main wild card that could throw a wrench into the recovery. Fortunately, the Omicron variant, appears to cause milder symptoms in those infected. Inflation and supply chain issues are also likely to persist over the short term. Businesses are feeling more optimistic with significant progress in many hard-hit industries.

The oil and gas industry continues to be the major driver of Alberta and Edmonton's economy. Western Canadian Select, the benchmark price for Alberta's oil, has risen close to the $70/USD per barrel mark at the time of this writing. This is the highest price for Canadian crude since 2014, a period of unprecedented economic growth in Alberta. The increase is due to a surging demand for consumer and industrial goods and the gradual re-opening of the global economy. This surge comes at a time when Alberta's oil production hit a record high in October of 2021, which was followed by a strong November. Additionally, Enbridge has recently completed the construction of Line 3 in October 2021. The new pipeline has begun carrying 370,000 barrels per day in new exports from Alberta to Wisconsin. Stronger demand and higher commodity prices have bolstered the energy sector. The spillover effects on other sectors of the economy, and the provincial coffers, started to trickle down throughout 2021 and is likely to continue in 2022. Despite this, large capital expenditures and new investments are unlikely to ramp up given the strong opposition to new projects at home and abroad.

Beyond oil and gas, Alberta continues to lead in all forms of innovation. This includes strong potential in petrochemical processing and hydrogen projects. Alberta Innovates is receiving nearly $50 million in government funding to support new projects in the province. Additionally, Edmonton has seen strong growth from the service side of the economy. In 2021, the sector generated 65,700 jobs compared to 2,100 job losses from the goods-producing industry. The city continues to have a buoyant tech sector which has been a catalyst of growth. The region has seen recent investments and the creation of a number of business accelerators to support local entrepreneurs and startups. A consortium led by Alberta Innovates, called the Alberta Scaleup and Growth Accelerator Program, is putting $35 million over three years towards the accelerators. Platform Calgary and Innovate Edmonton are also joining forces to boost promising tech startups in the early stages. Additionally, venture capital firm 500 Global is launching an accelerator that supports seed-stage tech companies. It will alternate operations between hubs in Edmonton and Calgary.

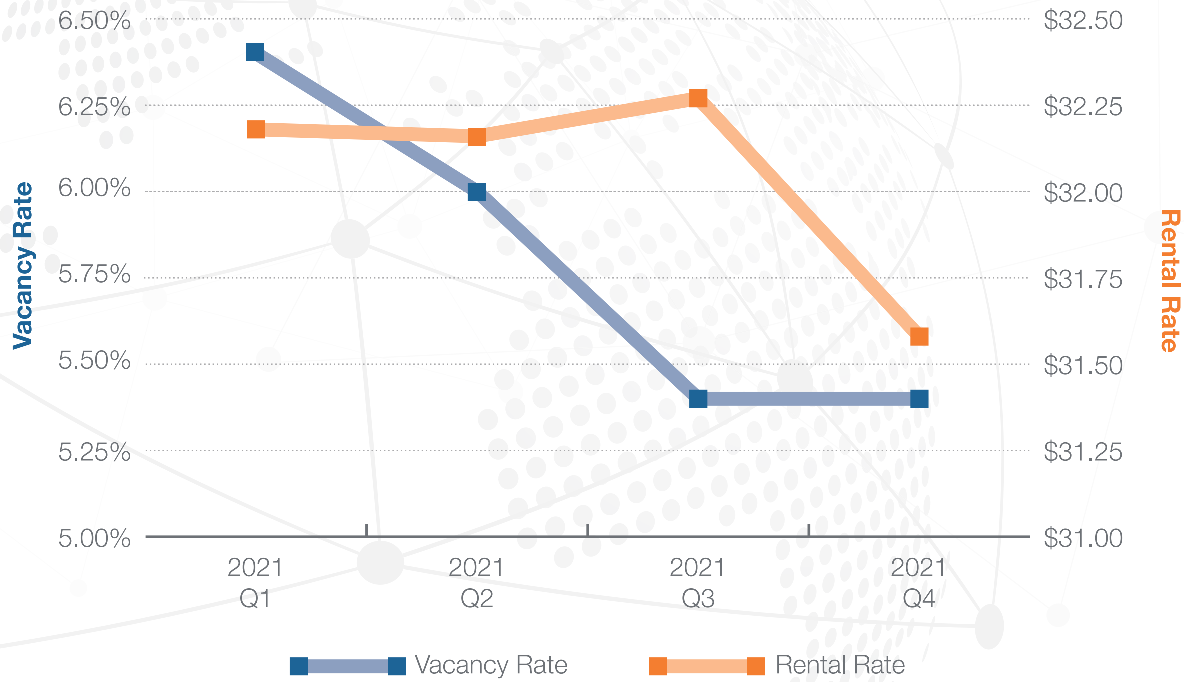
2021-Q4 Greater Edmonton

Market Highlights

GREATER EDMONTON AT A GLANCE OVERALL VACANCY TRENDS	2021-Q1	2021-Q2	2021-Q3	2021-Q4
Buildings Surveyed: 11,445 Existing SF: 316M	**6.4%**	**6.0%**	**5.4%**	**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 landscape continues to evolve, despite significant pandemic related challenges. The market has seen three consecutive quarters of decreasing vacancy, which stabilized at 4.8% as of Q4, 2021. Online sales have been the biggest threat, even prior to the pandemic. Throughout the lockdowns there was a significant jump in e-commerce penetration, which had many thinking that the physical stores were dead. Yet, e-commerce represents only 5.7% of Canada's total retail sales. Shoppers are eager to return to the stores, which translated into leasing activity. There was a whopping 965,581 SF of positive absorption in 2021, almost a three-fold increase compared to 2020.

Spending activity has been directly impacted by various lockdowns and restrictions, which has kept consumers in and out of stores. Despite this, retail sales in Edmonton are at an all-time high of $2.8 billion as of October 2021, the latest data available at the time of this writing. Sales are up by a solid 39% above the pre-pandemic levels. All retail sale categories have registered strong gains across the same period. Despite this, service-oriented tenants continue to dominate leasing activity in the market. Pharmacies, veterinaries, medical offices and the like are busy trying to secure spaces. While there is a substantial turnover rate for restaurants, there are always new concepts and operators willing to quickly backfill spaces. It is interesting to note that even fitness is coming back, including big box format, with multiple groups looking for space.

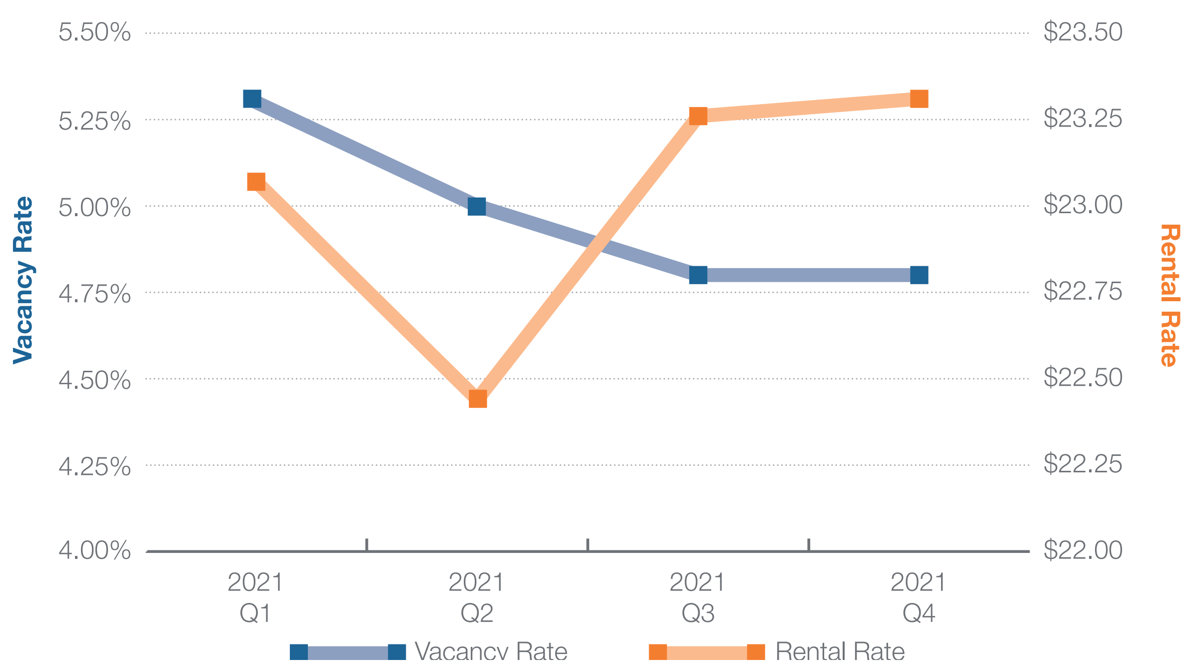
Grocery anchor shopping centers continue to be the best performing retail property type with low vacancy rates and strong demand for additional space. These developments are primarily located in highly dense residential neighbourhoods and have benefitted from the increase in households working from home. Multiple groups including Sobeys, Co-op and Loblaws have done recent transactions and are also actively looking for additional space in some of Edmonton's new residential subdivisions. Sobeys has secured a new location with Rohit near Glenridding Ravines in the Windermere area of southwest Edmonton. Co-op has purchased land from Allard Developments in southeast Edmonton and Qualico is working to secure a grocer for their Riverview development.

There is still some pain in the sector as balance sheets for many retailers are not as strong as they used to be prior to the pandemic. However, the quality of the tenants currently in the market has improved compared to the beginning of the year. This has helped landlords rationalize new deals. Rental rates have stabilized after a short dip in the earlier part of the year. Leasing velocity will likely pick up in the coming months, except for the downtown core which continues to suffer from a lack of traffic to support retailers. Going forward, positive momentum is expected to continue, driven by Edmonton's entrepreneurial spirt.

RETAIL
Vacancy Trends

	2021-Q1	2021-Q2	2021-Q3	2021-Q4
GREATER EDMONTON Buildings Surveyed: 4,401 Existing SF: 69.2M	5.3%	5.0%	4.8%	4.8%
EDMONTON WEST Buildings Surveyed: 1,085 Existing SF: 18.4M	5.6%	5.5%	5.1%	6.1%
EDMONTON SOUTH Buildings Surveyed: 1,361 Existing SF: 22.8M	5.6%	5.4%	5.1%	5.0%
EDMONTON CENTRAL Buildings Surveyed: 586 Existing SF: 6.2M	6.6%	5.3%	4.9%	6.3%
LEDUC Buildings Surveyed: 145 Existing SF: 1.9M	4.4%	5.0%	4.0%	4.1%
ST. ALBERT Buildings Surveyed: 212 Existing SF: 3.7M	5.8%	4.6%	4.2%	3.3%
SHERWOOD PARK / FORT SASKATCHEWAN Buildings Surveyed: 362 Existing SF: 6.1M	5.4%	5.8%	5.4%	4.8%
WHYTE AVENUE / GARNEAU Buildings Surveyed: 194 Existing SF: 1.5M	9.4%	9.0%	7.1%	7.6%

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



Office Market

2021 ends as it began for Edmonton's office market, with increased vacancy and pandemic related uncertainty. Many of those looking to return to the office have held off because of the rapid growth in infections from the Omicron COVID-19 variant. Global occupiers, including many that had fiercely championed a return to the office, are now backtracking and asking their employees to continue to work from home. This includes financial institutions such as RBC, Scotiabank, Sun Life Financial, Goldman Sachs, Citi, and JPMorgan, among others.

Landlords continue to be aggressive trying to attract and retain tenants. It is not uncommon to see $80.00 - $100.00 per square foot tenant improvement allowances in addition to long fixturing and gross free rent periods. Some building owners are willing to accept gross leases or have transactions with negative NER's on long term deals. Despite this, there is a growing level of availability, as tenants are holding off on decision making. Many are choosing to do short-term deals for renewals or new deals. Those that are relocating are doing so on lateral moves or reducing space. On the bright side, there are some green shoots as Edmonton's office market is experiencing a strong demand from health, life-sciences, and tech occupiers. A positive sign of the region's diversifying economy. This includes Covenant Health Leasing 70,000 SF in the old Stantec Campus recently purchased by the Rohit Group. Additionally, Amii completed a renewal and expansion for a combined 50,000 square feet in GWL's First and Jasper building.

To attract and retain tenants, multiple downtown landlords have embarked on capital improvement campaigns. Building owners are setting out plans to renovate older properties and bolster the menu of amenities. Examples of this include Redstone group, which has laid out plans for extensive renovations for their recently acquired Canadian Western Bank Place, with a newly imagined lobby. Work at Revillon Boardwalk's new atrium and restoration of the façade is also currently underway. The project is expected to restore the brick-and-beam building.

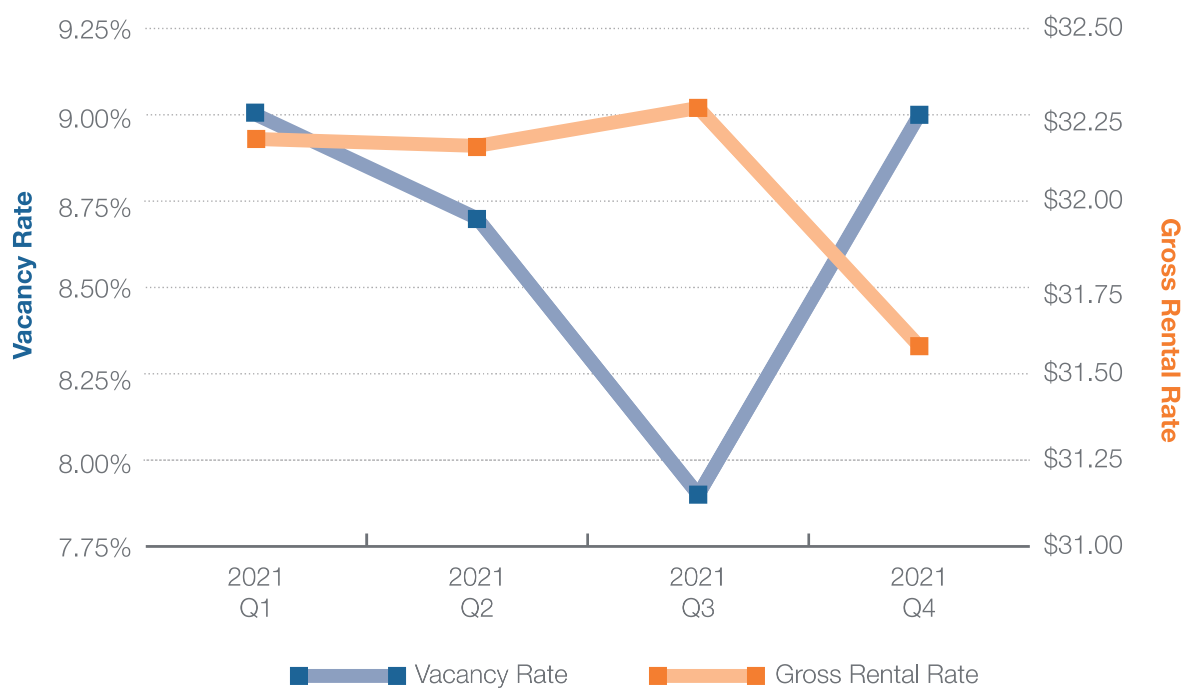
Despite the persistence of a "down market" for five years and increased vacancy from the addition of 1.8 million square feet of new office space, tenants are willing to pay higher rents to be in new AAA Class properties. It has been rumored that Canadian Western Bank has completed a lease for a relocation to a newly built tower in the ICE District, the new center of Edmonton's downtown landscape. Securing quality locations is becoming increasingly important for occupiers. The move continues to demonstrate that organizations are actively pursuing workplace solutions that are highly efficient, environmentally sustainable and with connectivity that sets them apart from the competition.

Following some transactions in late 2020 and early 2021, the Edmonton office market has seen limited activity in the sale front. The only notable transaction has been the recent purchase of Energy Square downtown by Ironwood. Cap rates have reached 8%-9%, which has prompted a wait and see approach from investors that are currently holding assets.

OFFICE
Vacancy Trends

	2021-Q1	2021-Q2	2021-Q3	2021-Q4
GREATER EDMONTON Buildings Surveyed: 1,313 Existing SF: 53.5M	9.0%	8.7%	7.9%	9.0%
EDMONTON DOWNTOWN Buildings Surveyed: 286 Existing SF: 27.5M	9.4%	9.5%	8.3%	10.1%
EDMONTON SUBURBAN Buildings Surveyed: 807 Existing SF: 21.6M	10.2%	8.5%	7.6%	7.8%
WINDERMERE / SUMMERSIDE Buildings Surveyed: 67 Existing SF: 2M	4.1%	4.3%	3.6%	4.4%
UNIVERSITY / GARNEAU Buildings Surveyed: 57 Existing SF: 1M	11.4%	13.8%	15.0%	14.5%

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



Industrial Market

While 2021 was a tough year for many, it was a blessing in disguise for Edmonton's industrial market. The pandemic has altered the way consumers shop with an increase reliance on e-commerce. Businesses are also changing the way they operate. Global transportation and supply chains have seen severe disruptions. Most recently, an atmospheric river has effectively cut off the port of Vancouver from the rest of the continent. While the port has not been directly affected, rail and land transportation capacity have been severely impacted. This puts pressure on companies to increase their storage and distribution networks. Prior to the pandemic, many Canadian Markets were near or at historical low vacancy rates. Toronto and Vancouver have the tightest industrial vacancy rates across North America. This has pushed companies to turn to Edmonton's Industrial market as a viable alternative.

Vacancy rate across the market is now 4.6% as of Q4 2021. The market experienced almost 3.5 million square feet of positive absorption in 2021. Vacancy rates have tightened up across all segments of the market, from small bay to large blocks of space. This trend is only expected to continue. Multiple large requirements have recently transacted and there are more that will close in the next few months. There are a handful of pockets of space across the city with over 150,000 SF, all of which are under contract or have multiple offers to lease.

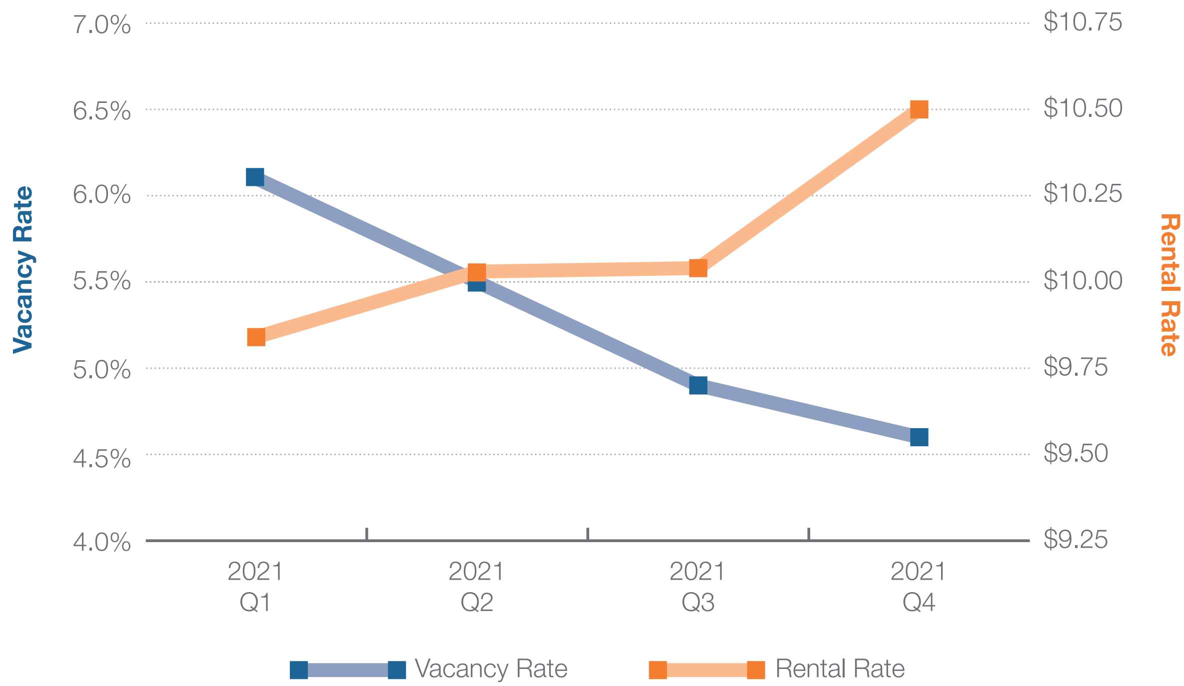
Developers in the region are trying to capitalize on the strong demand for industrial product. Five years ago, spec preleasing was non-existing and leasing velocity of new product was slow. Multiple new developments sat vacant for years. Now the tables have turned as the market is starved for product. BentallGreenOak is in the final stages of construction for Southport Crossing Building 3, which will provide 154,000 SF of space. Hopewell is also developing 214,070 SF at Building E in Horizon Business Park. Additionally, construction of Building F will commence in the spring of 2022 which will add 288,800 SF of space. New spec developments that will break ground in 2022 include Remington's two buildings in Discovery Business Park, Kuusamo's 113,000 SF in QEII Business Park and Panattoni's 600,000 SF distribution space at Apex Business Park. Vancouver based developer Beedie has also recently launched the development of Park Central in southeast Edmonton. The development is a master-planned 200 acre industrial and logistics park that at final build-out is expected to include up to 2.5 million square feet of new industrial space.

Edmonton's industrial market's strong performance has many property owners reevaluating their portfolios. Institutional landlords are quickly disposing older assets and shifting their positions by reducing exposure to certain sectors of the Alberta market. An example of this includes Manulife's sale of a large portion of their Class B and C small bay product. Value-add syndicators out of the province have been particularly active buying these assets. Demand, especially Class A distribution buildings, has soared over the past few months. The excess supply of institutional money across the globe chasing deals has created a distortion in the market. Remington has completed a recent sale of trophy assets, including their Amazon and Fountain Tire warehouses, trading below 4.5% cap rates. This is a historical low cap rate for the region's market, which has set a new benchmark. Over the next few months, it is likely that the market will see more Class A development trading as property owners take advantage of the strong pricing.

INDUSTRIAL
Vacancy Trends

	2021-Q1	2021-Q2	2021-Q3	2021-Q4
GREATER EDMONTON Buildings Surveyed: 5,720 Existing SF: 194M	6.1%	5.5%	4.9%	4.6%
EDMONTON WEST Buildings Surveyed: 1,881 Existing SF: 70.7M	5.7%	5.5%	4.5%	4.0%
EDMONTON SOUTH Buildings Surveyed: 1,738 Existing SF: 66.2M	5.9%	5.7%	5.2%	4.9%
SHERWOOD PARK / FORT SASKATCHEWAN Buildings Surveyed: 329 Existing SF: 10M	11.4%	8.1%	6.4%	6.6%
LEDUC / NISKU Buildings Surveyed: 771 Existing SF: 22.7M	8.7%	7.4%	6.9%	6.7%

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



Notable Transactions in the Market

PROPERTIES **SOLD**

PROUDLY SOLD BY NAI COMMERCIAL

245 Carnegie Drive
Price: $22,879,539
$172.03/sq.ft.
Area: St. Albert
Property Type: Industrial
Size: 133,000 sq.ft.
13.1 acres

28712 - 114 Avenue
Price: $18,650,000
$184.65/sq.ft.
Area: Acheson
Property Type: Industrial
Size: 101,000 sq.ft.
36.27 acres

8403 Roper Road
Price: $16,000,000
$118.52/sq.ft.
Area: McIntyre Industrial
Property Type: Industrial
Size: 135,000 sq.ft.
12.78 acres

11211 Winterburn Road
Price: $15,250,000
$289.97/sq.ft.
Area: Winterburn Ind. Area East
Property Type: Retail
Size: 42,966 sq.ft.
on 3.58 acres

8805 - 125 Street
Price: $13,000,000
$409.45/sq.ft.
Area: Fort Saskatchewan
Property Type: Industrial
Size: 31,750 sq.ft.
on 60.05 acres

1604 - 10 Street
Price: $12,700,000
$190.13.76/sq.ft.
Area: Nisku
Property Type: Industrial
Size: 66,795 sq.ft.
on 8.01 acres

360 Falconer Crescent
Price: $7,350,000
$455.76/sq.ft.
Area: Fort McMurray
Property Type: Industrial
Size: 16,127 sq.ft.
on 1.47 acres

8413/25 - 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

NAI Listing Highlights

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

4926-32 Roper Road
Sale Price: $2,514,750
Area: Pylypow Industrial
Property Type: Retail/Office
Size: 4,790 sq.ft.±

5613 - 70 Street
Lease Rate: $8.75/sq.ft.
Area: Roper Industrial
Property Type: Industrial
Size: 19,203 sq.ft±.

6510 - 45 Street
Lease Rate: Market
Area: Leduc
Property Type: Industrial
Size: 15,000 - 50,000 sq.ft.±
on 7.54 acres±

3075 - 4 Street
Sale Price: $7,700,000
Area: Nisku
Property Type: Industrial
Size: 7,440 sq.ft.±
on 19.27 acres±