

NAI Commercial

FOURTH QUARTER MARKET REPORT 2023

GREATER EDMONTON, ALBERTA





Economic Outlook

Edmonton's commercial real estate market is basking in the highest level of optimism seen since pre-2020.

It's no secret that Edmonton's market – along with major-city markets across Canada – has been mired in turbulence over the past few years, through a combination of pandemic-time struggles; shifting consumer and landlord behaviour; and the worst market pressures caused by inflation, interest rates, and supply chain disruptions seen in more than a decade. However, innovation in the Edmonton city scape is resulting in renewed positive expectations for the commercial real estate market, with a strong finish to 2023 and new opportunities in 2024 for industrial, office, and retail markets. Part of this, while focusing on commercial real estate, boils down to the residential market.

Near the beginning of Quarter 4 of 2023, the City of Edmonton overhauled a bylaw to end exclusionary zoning, allowing property owners to develop up to eight units per residential lot. This high-density approach to housing availability surpasses efforts seen in other major cities, including Vancouver (six) and Mississauga (four). High density is good for commercial realty. The more people living in an area, the more opportunity for retail and office space, specifically, both to serve the increased number of residents in an area, and to provide them spaces to work close to home.

Simultaneously, in the already-developed downtown landscape, the City of Edmonton is opening the door to swaths of new residential options that could spur new commercial real estate activity. With Edmonton's downtown office vacancy rate landing as the third highest in Canada (though still looking better than rival Calgary), the City is looking at options to provide incentives for office-to-apartment conversions in the downtown core. Considering a University of Alberta study that pinpointed

the total retail vacancy rate as one-third of downtown space, and the lack of office workers, a revived presence of residents living downtown has the potential to drive renewed retail activity downtown. Similarly, more people living downtown may result in the remaining office space being filled, with lower availability of office space due to conversions, combined with shorter commutes for those living near these spaces.

All this – combined with a high Q3 2023 positive absorption rate that tops the charts dating back to Q3 2018; and the expectation that interest rates are going to not just steady, but that they will fall significantly by 2025 – points to a strong Edmonton commercial real estate market, bolstered further by continued strength in industrial activity.

Reports have begun referring to Edmonton's industrial zones as "inland ports," which aligns with regional economic development group Edmonton Global having referred to the capital city's standing as a transportation hub. Key corridors, passing through the area around the Edmonton International Airport, mean that the sharp and sustained rise in e-commerce can be easily accommodated either directly adjacent to, or relatively close to, these corridor access points. Meanwhile, adjacent communities and other industrial areas within Edmonton have significant space for warehousing needs, which have also skyrocketed over the past three to five years. This, too, is supported by an increasingly strong residential market, with the flurry of new residents coming to Alberta from other provinces being able to set up shop close to where they set up their families.

None of this is to mention the Edmonton area's retail market has rebounded to pre-pandemic levels. Across the board, all signs point to a continuously strengthened commercial real estate market throughout 2024.

**Some reports show a significant higher vacancy, as they do not account for all downtown office properties.*

2023-Q4 Greater Edmonton Market Highlights

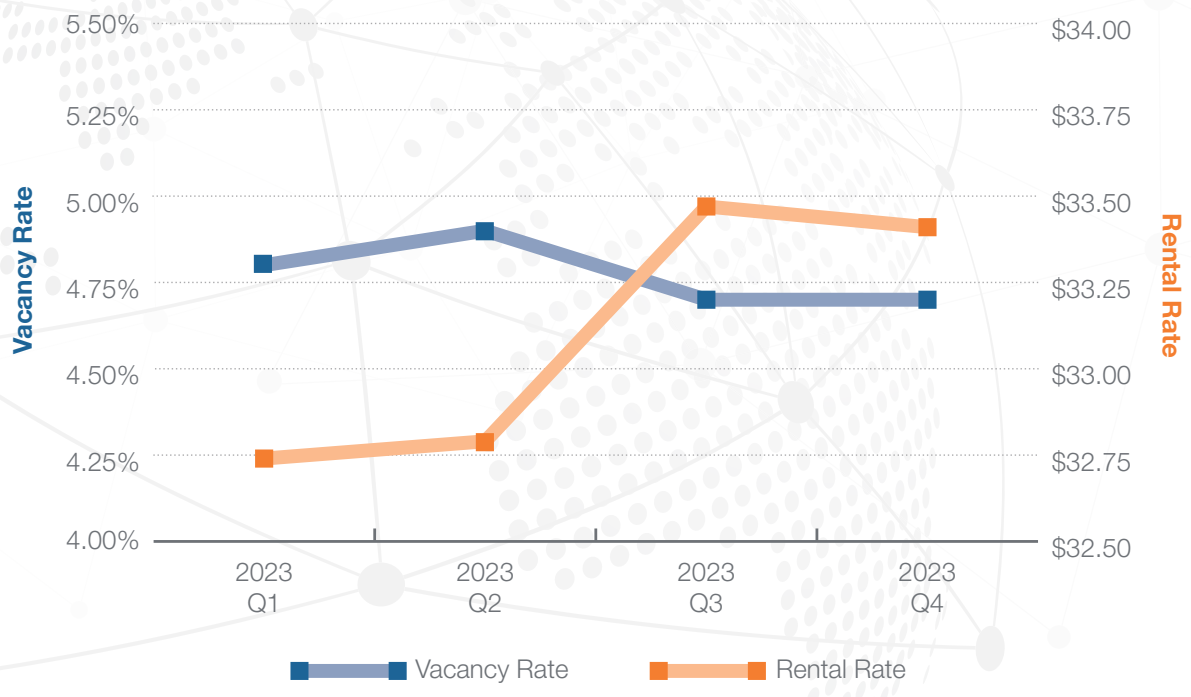
GREATER EDMONTON AT A GLANCE OVERALL VACANCY TRENDS

Buildings Surveyed: 11,985
Existing SF: 326.23M

	2023-Q1	2023-Q2	2023-Q3	2023-Q4
Vacancy Rate	4.8%	4.9%	4.7%	4.7%

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

Retailers rejoice! Rounding out 2023 and heading into the New Year, the Greater Edmonton Area has struck its lowest retail vacancy rate since late 2019, at just 3.4%.

There is still work to be done, with a reported one-third of street-facing retail space in downtown Edmonton sitting vacant. The downtown report, penned by researchers with the University of Alberta, does provide a gleam of light that more people living in the downtown core would spur revived retail activity. Luckily for those retailers, that's exactly what the City of Edmonton is aiming for through its office-to-residential building conversions, so there's hope on the horizon.

Other areas of the city are faring better, including south Edmonton, with a vacancy rate of just 3.4%, despite major shifts in the retail landscape over the past few years, including the mass exodus of American department stores. This is an improvement of 0.3% quarter-over-quarter, even with the addition of nearly 176,000 square feet of new retail space added to south Edmonton. The northwest area of the city also saw improvement, from 5.8% vacancy to 5.6% quarter-over-quarter, though other areas of Edmonton saw worsening situations. Central Edmonton fell from a vacancy rate of 6.3% to 6.7% quarter-over-quarter; and the Whyte Avenue-Garneau stretch fell to 7.8% vacancy in Q4, from 7.4% in Q3.

As has become the norm in the retail space, though, the suburbs continue to perform well. Sherwood Park-Fort Saskatchewan, for example, has a retail vacancy rate of just 2.1% – the area's lowest rate on record. Leduc, meanwhile, improved to its own vacancy rate of 2.1% in Quarter 3 of 2023, to just 1.4% to cap off the year. If it weren't for Leduc's record-low vacancy rate of 1.1% at the end of 2022, we'd be hard-pressed to think it possible to fall below 1.4%. The City of St. Albert, too, has seen its retail vacancy rate dip below 2%, reaching 1.6% in the

final quarter of 2023 (down nearly a full percentage from the 2.5% vacancy rate achieved in the previous quarter). As is the case with Sherwood Park-Fort Saskatchewan, St. Albert's retail vacancy rate marks its lowest rate on record.

In many parts of the Edmonton region, innovation is driving further retail occupancy. Former large-scale RONA sites are being converted into multi-use space. In southwest Edmonton, the large retail outlet is seeing incoming occupancy following a conversion to a square strip mall; in Sherwood Park, meanwhile, the former RONA site is giving way to an innovative new grocery store build, complete with restaurant outlets inside the grocer space. This complements the replacement of other major big-box exodus members throughout the region, with those anchor locations then supported by small-scale retail outlets filling the gaps in between.

In Calgary, for example, a resurgence of 'mom n' pop' shops has been credited with boosting neighbourhood livability, and some estimates point to similar trends occurring in the suburbs surrounding the capital city, and within individual neighbourhoods in the city itself. New residential development in pockets all along the edges of Edmonton – including some that bridge the gap between Edmonton's south end and the City of Beaumont – are opening the door for multiple additional retail spaces to be constructed, as well, furthering local offerings.

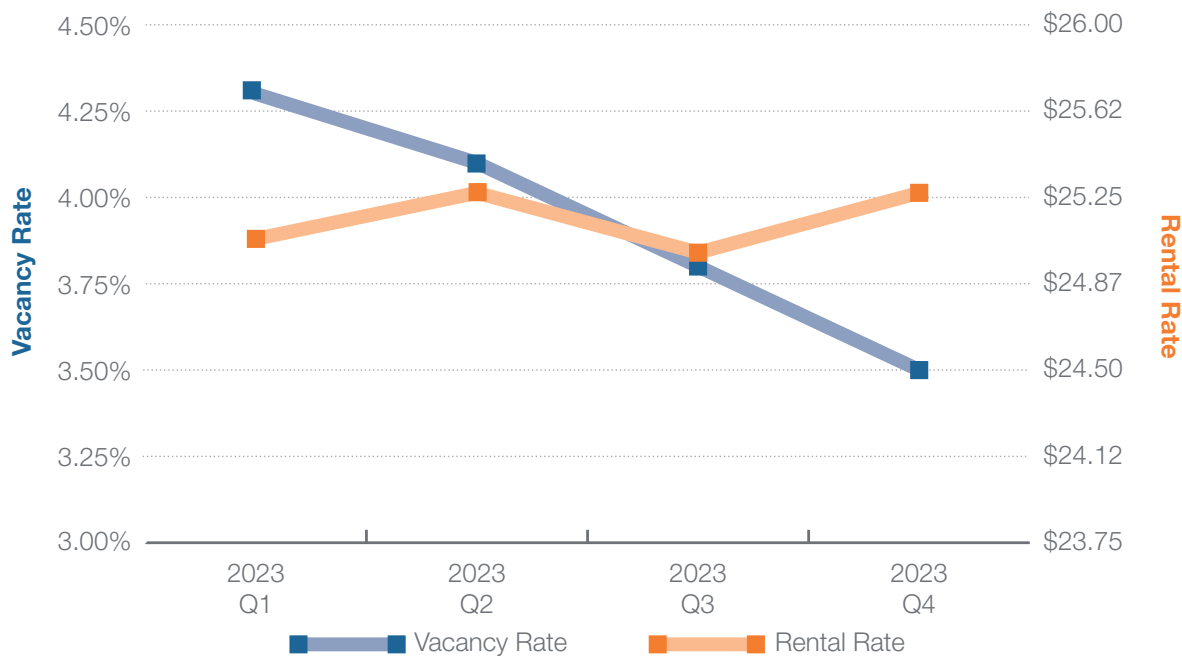
It's fair to say that retail occupancy has officially bounced back from the COVID-19 pandemic. There are still hurdles moving forward, particularly in areas such as the downtown core, but it is encouraging to see retail occupancy reach 2019 levels heading into 2024, alongside sustained e-commerce activity continuing to fuel the Edmonton region's industrial real estate success.

RETAIL Vacancy Trends

	2023-Q1	2023-Q2	2023-Q3	2023-Q4
GREATER EDMONTON Buildings Surveyed: 4,686 Existing SF: 71.77M	4.3%	4.1%	3.8%	3.5%
EDMONTON WEST Buildings Surveyed: 1,140 Existing SF: 19.17M	5.9%	5.8%	5.8%	5.6%
EDMONTON SOUTH Buildings Surveyed: 1,451 Existing SF: 23.87M	3.8%	4.2%	3.7%	3.4%
EDMONTON CENTRAL Buildings Surveyed: 592 Existing SF: 6.34M	5.6%	6.4%	6.3%	6.7%
LEDUC Buildings Surveyed: 158 Existing SF: 1.93M	1.7%	2.3%	2.1%	1.4%
ST. ALBERT Buildings Surveyed: 219 Existing SF: 3.53M	3.1%	2.9%	2.5%	1.6%
SHERWOOD PARK / FORT SASKATCHEWAN Buildings Surveyed: 403 Existing SF: 6.14M	3.4%	2.6%	2.3%	2.1%
WHYTE AVENUE / GARNEAU Buildings Surveyed: 189 Existing SF: 1.55M	8.3%	7.5%	7.4%	7.8%

Average Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS





Office Market

Normally, we'd start this section with a high-level view of the entire Edmonton region's office landscape, but we know the No. 1 question has consistently landed on how the downtown core's office space is performing. And, for the first time in quite some time, it's good news.

It's no secret that downtown Edmonton has been a question mark at times over the past few years, with work-from-home setups resulting in a high office vacancy rate. So, in this case, a stable market is actually a massive win for the downtown core – and that's exactly what's taking place, with a 12.4% office vacancy rate* that lands unchanged quarter-over-quarter to wrap up 2024 (when considering all office types and sizes).

To put that into context, 12.4% is the lowest downtown office vacancy rate struck in five quarters, and the first time the rate hasn't worsened quarter-over-quarter since Q3 of 2022. The vacancy rate is expected to drop between now and the end of 2024, with continued office-to-residential conversions driving the elimination of office space downtown. This is a good news story for the remaining office space, with more people living downtown meaning shorter (or non-existent) commutes for many people who could fill those office spaces – not to mention the positive impact the combination of a revived residential and office scape downtown would inevitably have on retail in the city's core.

And while the downtown figures are the 'talk of the town,' so to speak, they're not the biggest story for the Edmonton region, with the full area landing an office vacancy rate of 9.6% to round out 2023 – the lowest vacancy rate struck in a year. Even the University-Garneau area, which is historically a high-vacancy zone,

saw drastic improvement in the final quarter of 2023, with a vacancy rate of 17.1%. Yes, that may still seem high, but it's a notable improvement from the previous quarter's rate of 21.5%; and the 17% mark is the best rate reached since Q3 of 2022 in the University-Garneau stretch (which hasn't seen a vacancy rate in the single digits since the beginning of 2020).

Rising slightly to a vacancy rate of 2.7%, the Windermere-Summerside area also saw the addition of 30,000 square feet of new office space made available, with more on the way through ongoing construction. Meanwhile, the suburban communities surrounding Edmonton saw a half-point decrease in vacancy, falling from 8.2% in Quarter 3 of 2023 to 7.6% vacancy to close out the year. This is encouraging, especially considering the addition of more than 162,000 square feet of office space in the suburbs.

There are undoubtedly still challenges to face in the office real estate landscape, including the demand from many employees to continue operating under work-from-home or hybrid structures. The evolution of work structures may continue to bear impacts on the local real estate market. That said, the innovation in landlords' renovations of existing spaces, and the quality of new spaces coming on the market, combine for an encouraging shift in how tenants are using their spaces. Meanwhile, the continued migration of Canadians from other provinces to Alberta means there will be many new offices setting up shop in Edmonton's vacant spaces.

Call it cautious optimism, sure, but the office real estate market is optimistic nonetheless.

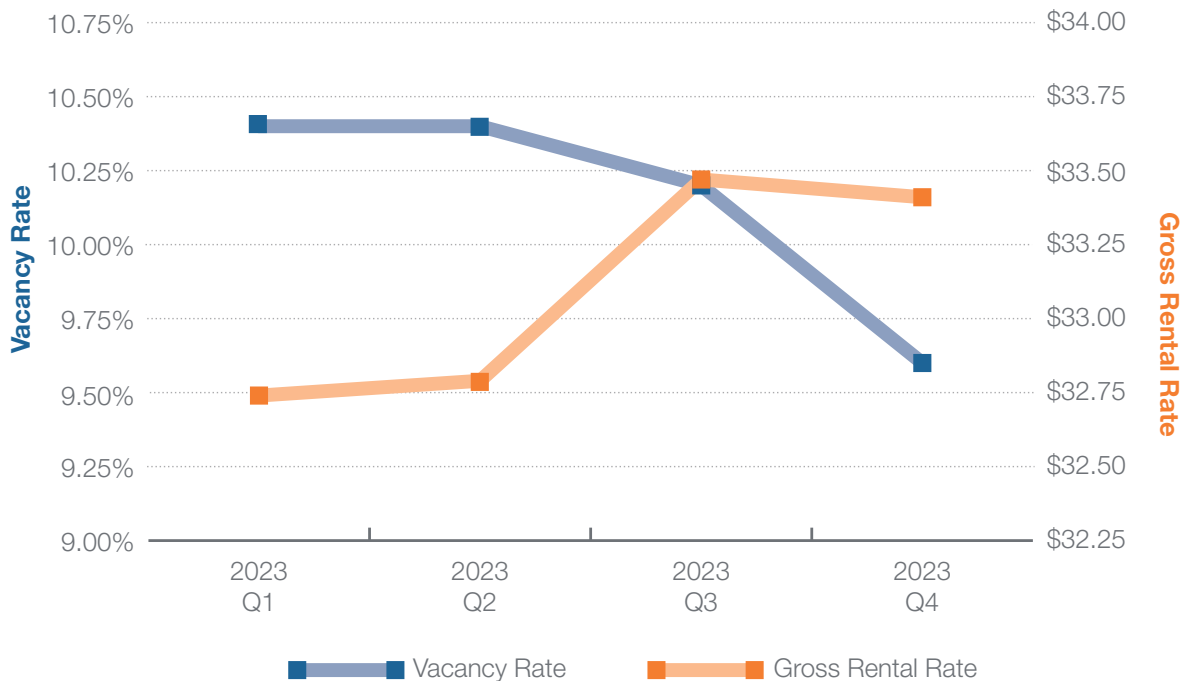
**Some reports show a significant higher vacancy, as they do not account for all downtown office properties.*

OFFICE Vacancy Trends

	2023-Q1	2023-Q2	2023-Q3	2023-Q4
GREATER EDMONTON Buildings Surveyed: 1,388 Existing SF: 51.07M	10.4%	10.4%	10.2%	9.6%
EDMONTON DOWNTOWN Buildings Surveyed: 283 Existing SF: 25.01M	13.6%	13.7%	13.0%	12.4%
EDMONTON SUBURBAN Buildings Surveyed: 843 Existing SF: 20.57M	8.0%	7.9%	8.2%	7.6%
WINDERMERE / SUMMERSIDE Buildings Surveyed: 67 Existing SF: 1.95M	2.6%	2.5%	2.3%	2.7%
UNIVERSITY / GARNEAU Buildings Surveyed: 60 Existing SF: 909K	20.1%	21.6%	21.5%	17.1%

Average Gross Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS





Industrial Market

Targeted incentives, continuous migration to Alberta from other provinces, and sustained market trends complemented by the Alberta transportation scape are contributing to a strong industrial market.

Though the Greater Edmonton Area has seen an increased industrial vacancy percentage from 3.6% in Quarter 3 of 2023 to 3.8% to round out the year, the rise in empty space is offset by the addition of nearly 850,000 square feet of industrial space to the market. With an increase of just 479,400 in vacant square footage quarter-over-quarter, it's clear that demand for new space remains high, with more than 50% of new space opened in Q4 occupied immediately.

As always, the Leduc-Nisku area has been the biggest benefactor of additional space, accounting for nearly 432,000 of the added 850,000 square feet – over 50% of all new space added in Quarter 4, 2023 – with a current vacancy rate of 7.3%. It's important to understand the full picture in this instance; while 7% is the highest vacancy rate experienced in Leduc-Nisku since the beginning of 2021, the figure is sure to drop quickly as newly available industrial space is occupied.

Meanwhile, Edmonton's south side carries a slightly increased vacancy rate of 4.2% (up from 4.0% quarter-over-quarter); along with the city's northwest sector reflecting a vacancy rate of 3.2% (up from 3.1% quarter-over-quarter) which has the highest square footage of industrial inventory anywhere in the region, at more than 71.5-million square feet. Leduc-Nisku may be tagged as the industrial transportation powerhouse, adjacent to the airport and a major transportation corridor, but pound-for-pound (or foot-for-foot), the northwest area of the city hosts 62% more industrial space.

The suburbs of Sherwood Park-Fort Saskatchewan represent the only down area for industrial occupancy in

the region, with a 4.5% vacancy marking the highest rate since Q1 of 2022, despite the area being alone in the region in hosting an industrial space decrease (though only by around 530 square feet).

Still, provincial incentives – such as the Alberta Investment and Growth Fund – and municipal efforts at business growth and attraction, including friendly zoning and tax policies, continue to draw investors to the Edmonton region from other provinces. Notably, the great commercial real estate migration continues from British Columbia to Alberta, with lower lease rates per square foot. The Edmonton region's average per-square-foot rate of \$10.38 stands nicely against Vancouver's average lease rate of \$21.80 per square foot in Quarter 3 of 2023. That's further supported by the continued development of new spaces tailored to fit current industrial needs, while Vancouver's industrial scape is largely built out at this point, with a vacancy rate of just 1.2% in Q3, 2023 (up slightly from 0.6% in Q2, 2023).

Continued growth in Alberta's manufacturing sector is also disrupting the industrial market in a positive manner and could lead to even more growth in industrial investment through 2024. The year-over-year value of Alberta's manufacturing sales increased 26.7% from 2021 to 2022. That growth is expected to have continued through 2023, though last year's numbers have not yet been incorporated into federal sector breakdowns. In August 2023, Alberta saw manufacturing sales up six per cent month-over-month, driven largely by higher totals in Edmonton, with a local increase of 12.3%.

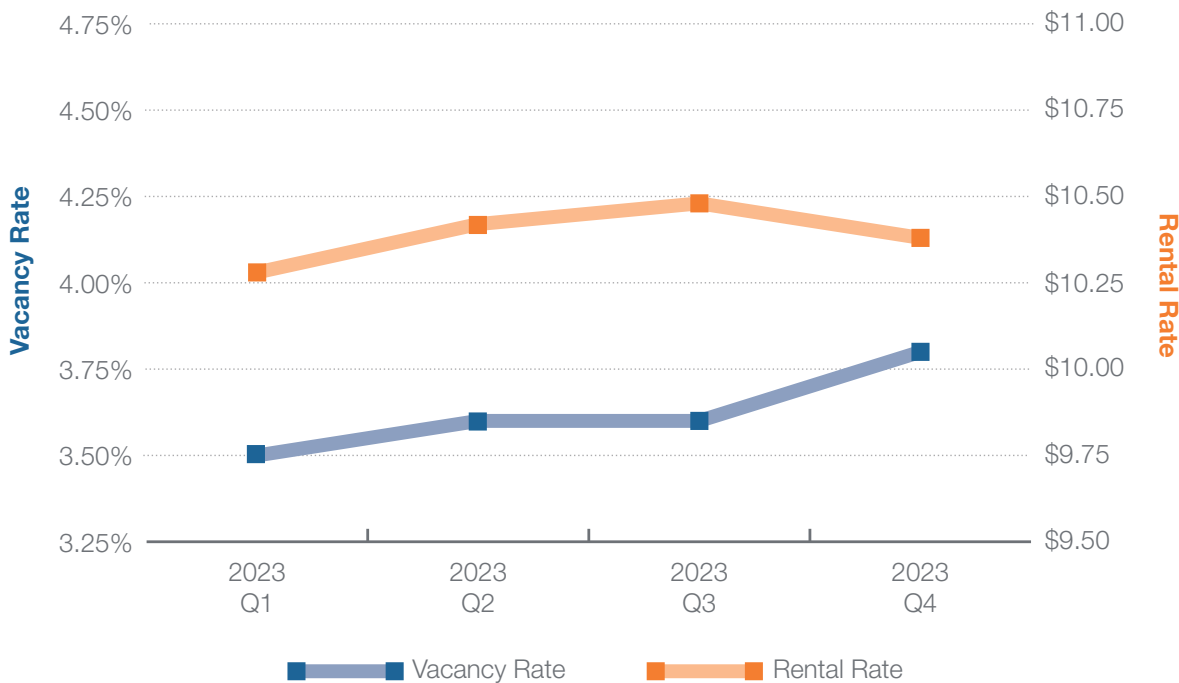
All this to say that investors are expected to continue to develop new industrial space in the Edmonton area throughout 2024, while an influx of industrial leaders are expected to continue to find a new home in the capital city, establishing themselves here for years to come.

INDUSTRIAL Vacancy Trends

	2023-Q1	2023-Q2	2023-Q3	2023-Q4
GREATER EDMONTON Buildings Surveyed: 5,910 Existing SF: 203.42M	3.5%	3.6%	3.6%	3.8%
EDMONTON WEST Buildings Surveyed: 1,897 Existing SF: 71.59M	3.0%	3.5%	3.1%	3.2%
EDMONTON SOUTH Buildings Surveyed: 1,760 Existing SF: 66.87M	4.3%	3.9%	4.0%	4.2%
SHERWOOD PARK / FORT SASKATCHEWAN Buildings Surveyed: 377 Existing SF: 11.75M	4.4%	3.9%	4.0%	4.5%
LEDUC / NISKU Buildings Surveyed: 856 Existing SF: 27.44M	4.3%	5.6%	5.9%	7.3%

Average Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS



Notable Transactions in the Market

PROPERTIES SOLD

4 NOTES PROUDLY SOLD BY NAI COMMERCIAL



10310 - 45 Avenue NW
Price: \$22,000,000
 \$101,382.00/suite
Area: Calgary Trail South
Property Type: Motel
Size: 201 units
 on 3.81 acres



3404 - 78 Avenue NW
Price: \$20,000,000
 \$139.03/sq.ft.
Area: Weir industrial
Property Type: Industrial
Size: 143,853 sq.ft.
 on 9.31 acres



3601/04 - 82 Avenue
Price: \$16,000,000.00
 \$74.24/sq.ft.
Area: Leduc
Property Type: Industrial
Size: 215,511 sq.ft.
 on 11.05 acres



4210/48 - 99 Street NW
Price: \$12,800,000
 \$159.45/sq.ft.
Area: Strathcona Ind. Park
Property Type: Industrial
Size: 80,271 sq.ft.
 4.72 acres



14820 Yellowhead Trail NW
Price: \$11,400,000
 \$106.98/sq.ft.
Area: Brown Industrial
Property Type: Industrial
Size: 106,556 sq.ft.
 5.00 acres



9550 - 45 Avenue NW
Price: \$4,900,000
 \$95.63/sq.ft.
Area: Papaschase Industrial
Property Type: Industrial
Size: 51,237 sq.ft.
 on 0.68 acres



13020 Spruce Hill Road
Price: \$4,400,000
 \$128.04/sq.ft.
Area: Lloydminster
Property Type: Industrial
Size: 34,363 sq.ft.
 on 4.53 acres



7315 - 50 Street NW
Price: \$3,095,000
 \$180.99/sq.ft.
Area: Weir Industrial
Property Type: Office
Size: 17,100 sq.ft.
 on 1.04 acres

NAI Listing Highlights

AVAILABLE PROPERTIES FOR SALE AND/OR LEASE



3601 - 82 Avenue
Lease Rate: Starting \$10.50/SF
Area: Leduc
Property Type: Industrial
Size: 3,600 sq.ft.±
 to 216,511 sq.ft.±



11225 - 269 Street
Sale Price: \$4,550,000
Area: Acheson
Property Type: Industrial
Size: 19,470 sq.ft.±
 on 3.51 acres±



4103 - 84 Avenue NW
Sale Price: \$19,000,000
Area: Sherwood Park
Property Type: Industrial
Size: 168,519 sq.ft.±
 on 6.97 acres±



13630 - 159 Street
Sale Price: \$5,995,000
Area: Roper Industrial
Property Type: Investment
Size: 24,000 sq.ft.±
 on 2.84 acres±

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