MARKET REPORT

OFFICE

Edmonton Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS
A DIVISION OF MARCUS & MILLICHAP, BROKERAGE

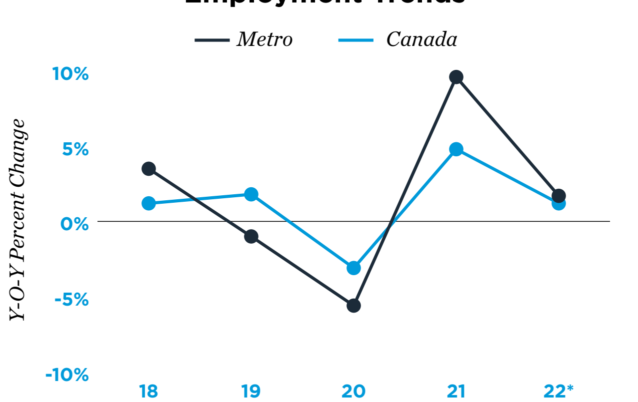
3Q/22

Market Beginning to Stabilize; Lack of New Supply Helping with Long-Term Fundamentals

Office market supported by a wide range of users. Edmonton has built a diverse tenant group, aided be the large presence of the provincial government, alongside finance, engineering and health companies, and more recently tech firms. This broad mix helps insulate the metro from oil and gas downturns. Nonetheless, like every other market, Edmonton was impacted by the global health crisis. With vacancy already elevated prior to the pandemic, fundamentals were impacted more severely, due to the new hybrid work dynamics. However, with Edmonton having a sizable government presence, it provides a level of stability. Additionally, the influx of technology companies, like Microsoft, is strengthening the longer-term outlook for the Edmonton office market. These factors, coupled with the recovery of oil prices — which is stimulating strong provincial economic and employment growth — will likely boost office demand in the coming quarters.

New supply historically impedes office momentum. Over the metro's history, new developments have often entered the market at unfavourable times. Whether it be in 2008/2009 or 2013/2014, when the price of oil fell, or in 2018/2019 before the global health crisis, new supply tends to hinder the office market. Nonetheless, no inventory has entered the market since 2019, which should help underlying fundamentals in the long term. Additionally, due to Edmonton's relative affordability, coupled with the ongoing transition back to in-office operations, vacancy should slowly decrease. The average asking rent should also rise, as the metro has experienced positive absorption during the first three quarters of 2022.

Employment Trends



* Forecast

Sources: Statistics Canada; CoStar Group, Inc.; Altus Data Solutions

Office 2022 Outlook

13,400 JOBS *will be created*

EMPLOYMENT:

Job growth is expected to slow from the record-setting pace recorded in 2021, but remain similar to historic trends. Strong oil and gas activity, plus economic diversification from the increasing tech presence, are driving job growth and in-migration.

0 SQ. FT. *will be completed*

CONSTRUCTION:

For the third consecutive year, no developments are expected to enter the Edmonton market. With vacancy already elevated this will assist long-term fundamentals, and lessen competition between existing owners that are attempting to fill available space.

150 BPS *decrease in vacancy*

VACANCY:

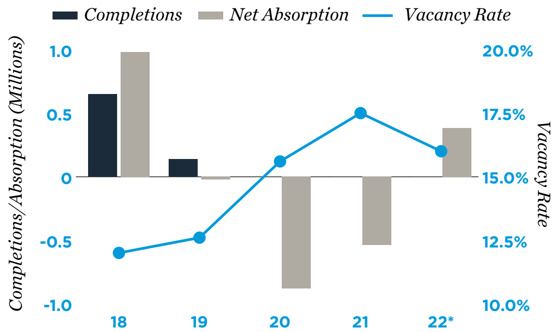
With Edmonton experiencing positive net absorption through the first part of 2022, vacancy will decrease to 16.0 per cent by year-end. Absorption was slightly stronger in the suburbs, as the downtown is still grappling with elevated vacancy amid work from home.

2.9% INCREASE *in asking rent*

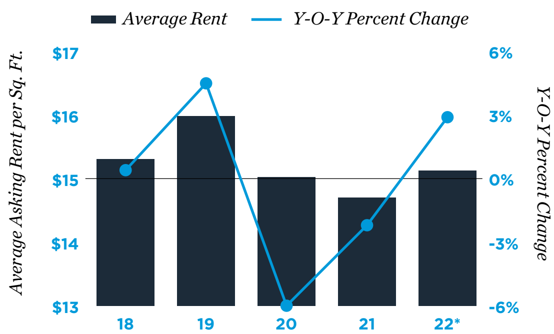
RENT:

With no new supply entering the market and net absorption being positive in each of the first three quarters of 2022, the average asking rent will increase to $15.13 per square foot by year-end. This is mostly being driven by strong leasing in Class A suburban properties. Downtown owners continue to struggle with attracting tenants.

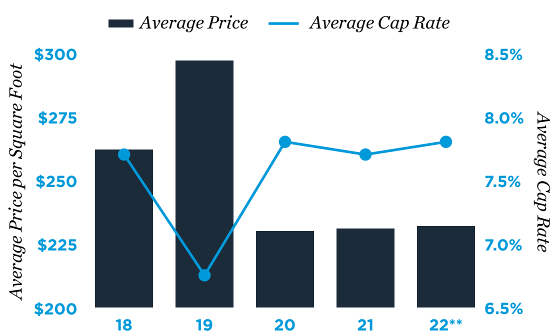
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Altus Data Solutions

IPA Office

Al Pontius

Senior Vice President, Director

Tel: (415) 963-3000 | apontius@ipammi.ca

Prepared and edited by:

Luke Simurda

Director of Research, Canada | Research Services

For information on national office trends, contact:

John Chang

Senior Vice President | Director, Research & Advisory Services

Tel: (602) 707-9700 | jchang@ipausa.com

Price: $250

2Q 2022 - 12-Month Period

CONSTRUCTION

0 sq. ft. completed

- No new supply entered the market over the trailing 12-month period. With sluggish demand, limited new inventory acted as a backstop for rising vacancy and decreasing rent.
- In previous years, Edmonton was troubled with new supply entering the market at suboptimal times, causing further upward pressure on vacancy.

VACANCY

50 basis point decrease in vacancy Y-O-Y

- The trailing 12-month period experienced positive net absorption for the first time since early 2020, resulting in vacancy beginning to decrease after seven straight quarters of rising availability.
- Elevated leasing activity in Edmonton's suburbs drove this decrease in vacancy, especially for Class A properties.

RENT

0.9% increase in the average asking rent Y-O-Y

- Class A properties experienced positive net absorption over the trailing 12-month period, causing the average asking rent to increase marginally.
- Due to the market's affordability relative to other major metros like Toronto and Vancouver, more large national and international tenants have been considering Edmonton, providing a tailwind for rent growth.

Investment Highlights

- Total transactions have remained stable over the past five years. However, like most other major metros, the purchaser profile has shifted away from large public institutions to private investors. In 2022, roughly 90 per cent of total dollar volume transacted has been by Canadian private investors. Large institutional players are strategically disposing of their office assets as they attempt to diversify and globalize their portfolio's to mitigate risk as the pandemic created uncertainty in the Canadian office market.
- The average price has decreased nearly 12 per cent since 2018 to $232 per square foot. Despite this, prices began to increase in 2020, though only marginally. In 2021, investment activity fell drastically, reaching just over $100 million in total dollar volume, down from the roughly $600 million seen in 2019 and the $190 million in 2020. Throughout the first half of 2022, roughly $85 million has been transacted thus far. Due to falling prices, the average cap rate has also increased to the mid-7 per cent range.
- The majority of office transactions over the previous five years have been in Edmonton proper. Although, more suburban markets like St. Albert, Spruce Grove and Beaumont have witnessed recent upticks in sales activity. Suburban markets have experienced stronger leasing fundamentals, generating increased buyer attention, especially for high-tier properties.