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Press Release

A BALANCED OFFICE MARKET? HALIFAX SUBURBS SAY YES

The office vacancy rate in Halifax showed year over year improvement, falling to 13.86% overall from 14.99% a year ago. The drop came from falling vacancy across the board in suburban areas. The Halifax market is broken down into eight submarkets: the six submarkets located outside Halifax's downtown core and periphery each enjoyed vacancy rate declines, whereas vacancy increased in each of Halifax's Central Business District (CBD) and Downtown Peripheral submarkets. The best news comes from the Halifax suburban submarket, though, where supply and demand are approaching a balanced market.

These are the conclusions from the latest rental market surveys recently completed by Halifax real estate counsellors Turner Drake & Partners Ltd. The surveys are thought to be the most comprehensive ever conducted in HRM: a team of trained researchers collected rental, operating expense and vacancy data for 325 office and industrial buildings, some as small as 5,000 ft.², with an aggregate rentable area of over 20 million ft.²

Halifax's two downtown submarkets, the CBD and the Downtown Peripheral, represent approximately half of the total gross leasable area (GLA) of office space in the metro area, with the vast majority located in the CBD itself (41% of the total GLA). Over the past year, demand fell in the downtown peripheral, leading to an increase in the vacancy rate from 9.6% to 10.2%. In the CBD, demand increased 2.3% year over year. But renovation and re-measurement of existing stock led to a 2.6% increase in supply, edging the vacancy rate up slightly from 17.2% to 17.4%.

The rest of the city enjoyed gains in occupancy, leading to falling vacancy. The suburban Halifax submarket, comprising 18% of GLA, is the healthiest submarket: vacancy dropped from 8.0% to 5.5%: a level at which supply and demand are close to balanced. Across the harbour, increased demand pushed vacancy from 15.5% to 14.8% in Downtown Dartmouth and from 14.6% to 12.8% in the Burnside/City of Lakes and Dartmouth Crossing submarket. Peripheral Dartmouth enjoyed an almost 20% increase in demand, outpacing a 9% increase in supply to push vacancy from 22.4% to 14.8%. Bedford dropped below the 20% vacancy mark for the first time in the past six years, settling at 18.2%, while Sackville dropped to 15.4% from 17.3% a year ago.

Office buildings are categorised by class. Class A buildings command the highest rents in their community and have distinctive design and lobbies. Class B buildings offer "no frills" modern, air conditioned space. Class C buildings make up the remainder of the office rental market. Year over year, Class A vacancy dropped from 16.7% to 13.2% and Class C from 16.9% to 13.5%, while Class B increased from 13.7% to 14.3%. Vacancy and rental rates are correlated: falling vacancy typically pushes the net rental rate upwards, but the reverse may also be true, and a falling rental rate may attract new tenants and thereby push vacancy downward. There is some evidence of this at play in the Halifax market, where net rental rate declines across all classes of office space led the overall net rental rate to drop 1.1% from \$14.16/ft.² to \$14.00/ft.². Average net rents for Class A fell from \$17.26/ft.² to \$17.20/ft.². Class B saw its net rental rate drop from \$13.04/ft.² to \$12.88/ft.² and Class C's went from \$11.22/ft.² to \$10.82/ft.². The Suburban Halifax and Bedford submarkets each saw small increases in average net rental rates, while the remaining submarkets held steady or dropped slightly overall.

Turner Drake & Partners Ltd., a "home grown" Nova Scotia company, has provided real estate advice for over forty years. From their offices in Halifax, St. John's, Charlottetown, Saint John and Toronto they provide landlords and tenants with property tax, valuation, counselling, planning, economic intelligence, Lasercad® space measurement and commercial brokerage advice.

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If you would like more information about this topic, or wish to schedule an interview with Alexandra Baird Allen, please call her at (902) 429-1811 ext. 323 or email abairdallen@turnerdrake.com.