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**Press Release**

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## **A GLIMMER OF HOPE FOR ST. JOHN'S RENTAL OFFICE MARKET**

### **Vacancy Down But Still High, Average Rents Up Slightly Overall**

The office vacancy rate in St. John's dropped slightly year over year, and now sits at 17.64% overall, down from 19.93% a year ago. The St. John's market is broken down into 5 submarkets: three of them, including the St. John's Central Business District (CBD), enjoyed falling vacancy between June 2018 and June 2019, whilst the other two saw increases. This marks the first year of vacancy decline after three straight years of increases in the city, which had a balanced market as recently as 2015, indicated by a vacancy rate of 4.76% at that time.

These are the conclusions from the latest rental market surveys recently completed by Atlantic Canadian real estate counsellors Turner Drake & Partners Ltd. The surveys are thought to be the most comprehensive ever conducted in St. John's: a team of trained researchers collected rental, operating expense and vacancy data for 88 office buildings, some as small as 5,000 ft.<sup>2</sup>, with an aggregate rentable area of almost 4 million ft.<sup>2</sup>.

The smallest submarket in St. John's, Mount Pearl, saw the largest vacancy drop year over year, falling a whopping 23.4 percentage points from 36.69% to 13.29%. The North submarket fell from 17.75% to 13.69%, while the downtown CBD enjoyed a small decrease from 26.87% to 26.60%. Together, these submarkets represent over 60% of the total gross leasable area (GLA) in the rental market. In contrast, the remaining 40% of the office space in the city experienced increasing vacancy year over year: the Central submarket increased from 6.78% to 7.01% vacant while the East & West submarket stepped up from 12.18% to 14.17% vacant. The construction boom which started when oil prices were high, but which saw buildings coming on stream just as oil prices tumbled and the economy contracted accordingly, continues to be felt on the rental market, including as tenants vacate their rental premises for owner occupied structures, and vacancy is expected to increase in the year ahead.

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 23.06% to 18.98%. Class B edged up from 15.97% to 16.60%, and C decreased from 18.25% to 14.99%. 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. St. John's may be in a period of stasis as the tipping point is reached: overall average net rents barely moved over the past year, edging up just 0.11%...or 2 cents per square foot. On average, Class A rents saw the largest movement, up 1.69% from \$22.55/ft.<sup>2</sup> to \$22.93/ft.<sup>2</sup>; Class B rents dropped 1.51% to \$18.25/ft.<sup>2</sup> from \$18.53/ft.<sup>2</sup>; and Class C rents held steady at \$15.40/ft.<sup>2</sup>. These average net rental rates remain the highest in Atlantic Canada. Downtown Class A space represents the hallmark of the city: the average net rental rate for it increased for the first time in three years, from \$25.86/ft.<sup>2</sup> in 2018 to \$26.14/ft.<sup>2</sup> in 2019, but remains below 2016's peak of \$28.89/ft.<sup>2</sup>.

Turner Drake & Partners Ltd., a "home grown" Atlantic Canadian 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](mailto:abairdallen@turnerdrake.com).