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**Press Release**

## **ATLANTIC CANADIAN RENTAL MARKETS: HALIFAX OFFICE STANDS ALONE**

In a defiant stance against the pandemic, Halifax's office market enjoyed a drop in vacancy between December 2019 and December 2020. But vacancy in the city's warehouse market crept up, as did vacancy in the office markets for each of Saint John, Fredericton, Moncton, and St. John's. Average net rental rates for office space, which are driven by the vacancy rate, albeit sometimes with a delayed reaction, declined only in St. John's, with the other four office markets, and the Halifax warehouse market, seeing slight increases.

These are the conclusions from the latest rental market surveys completed by Halifax real estate counsellors Turner Drake & Partners Ltd. The surveys are thought to be the most comprehensive ever conducted in Atlantic Canada: a team of trained researchers collected rental, operating expense and vacancy data for 590 office and industrial buildings, some as small as 5,000 ft.<sup>2</sup>, with an aggregate rentable area of over 30 million ft.<sup>2</sup>.

The current pandemic spurred a widespread pivot to working from home for many office workers. We expect that while some companies will permanently opt to forgo dedicated company workspace, the vast majority will return at full or partial capacity when it is safe to do so. Nevertheless, the short-term economic outlook in the wake of the pandemic is dismal, and there is a distinct possibility of contraction in demand for rental office space as leases come up for renewal: most leases have at least a 3-year term, usually longer, so any impact won't be felt immediately. The latest figures on office space show Halifax exceeding these dismal expectations of the office market, with demand increasing year-over-year by 3%, leading to a drop in vacancy from 14.87% to 14.02%. Despite increasing vacancy in each of Fredericton and Moncton, market conditions in those two cities were relatively robust, too: demand for office space actually increased between the end of 2019 and end of 2020, but so too did supply. In Fredericton, a 4.8% increase in supply – driven by new construction – and a 1.2% increase in demand culminated in a 3.2 percentage point increase in the vacancy rate, which settled at 9.74% in December 2020. A slew of renovated buildings re-entered the market in Moncton, pushing supply up by 6.5%, while demand ticked up by a little less than a percent. The result was an almost 5 percentage point jump in vacancy, to 12.84%. In contrast, Saint John and St. John's each suffered falling demand of approximately 4% each. This resulted in a 4-percentage point jump in the vacancy rate for each, with Saint John climbing to 18.16%, and St. John's to 19.99% vacant.

Vacancy and the net rental rate are inversely correlated: as vacancy falls, net rental rates are expected to climb, and vice versa. But sometimes there is a lag between cause and effect, with both moving in the same direction, possibly as landlords lower their rents to attract tenants, and sometimes because of changing market conditions during the period. The Atlantic Canadian office market was split between ups and downs in average rents over the period December 2019 to December 2020. Halifax enjoyed a 1.63% increase in the overall net rental rate for office space, which now sits at \$14.32/ft<sup>2</sup>, and \$17.69/ft<sup>2</sup> for Class A space. In Halifax's Central Business District, where demand is catching up to the new supply, brought to market over the past few years, the overall average net rental rate is up 1.2% to \$15.13/ft<sup>2</sup> (18.59% vacancy rate, down from 19.98% a year ago), and \$19.92/ft<sup>2</sup> for Class A space (22.71% vacancy rate, down from 26.33% in 2019). The bump in rents in Fredericton was minor: overall, average net rents ticked up 0.3% to \$13.88/ft<sup>2</sup>. Class A was up 0.5% to 15.79/ft<sup>2</sup>. In downtown Fredericton, overall net rents held steady year-over-year at \$15.26/ft<sup>2</sup>, but Class A rents ticked up 0.9% to \$16.14/ft<sup>2</sup>. In Moncton, there was a 1.9% increase in overall net rents, which now sit at \$13.08/ft<sup>2</sup> (\$13.06/ft<sup>2</sup> in downtown Moncton). Average Class A rents, however, actually dropped year-over-year, 1.6% to \$13.86/ft<sup>2</sup> overall and 1.3% in downtown, to \$13.97/ft<sup>2</sup>.

Saint John NB saw an overall bump in average net rents, up almost 2% to \$13.06/ft<sup>2</sup>, but a 2% drop in Class A rents to \$14.86/ft<sup>2</sup>. Uptown, home to all of the city's Class A space, the increase in overall rents was moderated by the decline in top tier rents, settling at a 0.16% increase to \$12.36/ft<sup>2</sup>. St. John's NL still has the highest average net rental rate, at \$18.21/ft<sup>2</sup>, despite dropping 2.3% from the rate a year ago. Class A net rents on average fell from \$22.64/ft<sup>2</sup> to 22.53/ft<sup>2</sup> over the same period. Downtown St. John's saw overall rents decrease 0.8% to \$20.71/ft<sup>2</sup>, while Class A stayed flat at \$24.80/ft<sup>2</sup>.

Our survey also covered industrial space in Halifax. In this market segment, the pandemic is driving a change in the demand for goods. The sharp increase in the number of people working from home has caused a surge in online shopping, and with leisure travel all but non-existent, many have reallocated their travel budgets towards materials for home improvements/renovations. Additionally, with interruptions in the supply chain, companies are holding more inventory to meet consumer demand, leading to an increase in the need for warehouse space. The current vacancy rate for rental warehouse space is 8.94%, up from 8.45% in 2019, an increase driven by increasing supply. Average net rental rates per square foot were up 1.5%, from \$8.00/ft<sup>2</sup> in 2019 to \$8.12% in 2020.

Turner Drake & Partners Ltd., a "home grown" Atlantic Canadian company, has provided real estate property advice for over forty years. From their offices in Halifax, St. John's, Charlottetown, Saint John and Toronto they service clients owning property across Canada.

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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).