NAI Commercial

# SECOND QUARTER MARKET REPORT **2024**

**GREATER EDMONTON, ALBERTA**

# Economic Outlook

There's nothing that rejuvenates Edmonton's downtown core quite like a deep Edmonton Oilers playoff run. And with this year's Stanley Cup attempt running all the way into June, businesses across Edmonton benefitted in a major way, encompassing most of Quarter 2 of 2024.

That same optimism and excitement is being seen in Edmonton's commercial real estate scape, where the vacancy rate across office, retail and industrial buildings continues to tumble. The total inventory vacancy rate has fallen to its lowest point since before 2019, at just 4.2% vacancy across nearly 326-million square feet of space – despite the addition of more than 19-million square feet of inventory since the beginning of 2019.

There are still obstacles to overcome, undoubtedly, but the numbers point to continued optimism for 2024. Canadian interest rates fell by a quarter point to kick off Quarter 2, dropping to 4.25%, with expectations that rates will continue to slide at a steady pace over the next two quarters. The next dip is expected to come in September 2024, and some projections point to an end-of-year rate below even 3%.

At the same time, residential development is on the rise in Alberta's capital city, driven by unprecedented migration to the region. In fall 2023, Edmonton's residential vacancy rate fell to 2.4% – a notable improvement from the 4.3% vacancy tally noted just one year prior. While the residential and commercial markets are not intrinsically intertwined, the rapidly growing population pushing residential development undoubtedly has an impact on the commercial landscape. Simply put, more residents creates demand, with retail opportunities to sustain the population, and office and industrial space to host workers and accommodate offshoot needs from increased local investment.

Simultaneously, the increased demand for housing has resulted in a home price spike of 5% year over year, to $441,350 – despite the trending high interest rates. While this points to a strong market for some, with more disposable income, it also plays into some of the inflation pressures that have resulted in tightened wallets and purse strings. That, too, is expected to improve throughout the rest of the year, with a notable increase in multi-family residential units creating added housing options and affordability.

And, while some are projecting less urban sprawl by the City of Edmonton moving forward – with a vocal push by some for more infill within existing neighbourhoods – the City has already expanded into numerous areas where retail, office and industrial spaces are either currently under instruction or soon to be. This will help provide more opportunities for space occupancy. As tenants move into these new spaces, older spaces will either become available either at a relatively affordable rate compared to some of the new builds, or the landlords of those buildings will find ways to update the spaces and make them more attractive to incoming tenants.

Finally, all this activity and improved economics will be supported by strong financial projections across the province. Currently the Government of Alberta is forecasting an accelerated GDP growth to 3.3% heading into 2024, to an average of 2.7% in 2026 and 2027. Meanwhile, energy prices and the US-Canada exchange rate are projected to remain stable through 2026-2027, and the unemployment rate is anticipated to fall significantly from 6.5% in 2024 to 6% flat in 2025.

When all is said and done, annual projections and activity seen in Q2 2024 show a very strong market for continued growth and investment in office, retail, and industrial real estate.

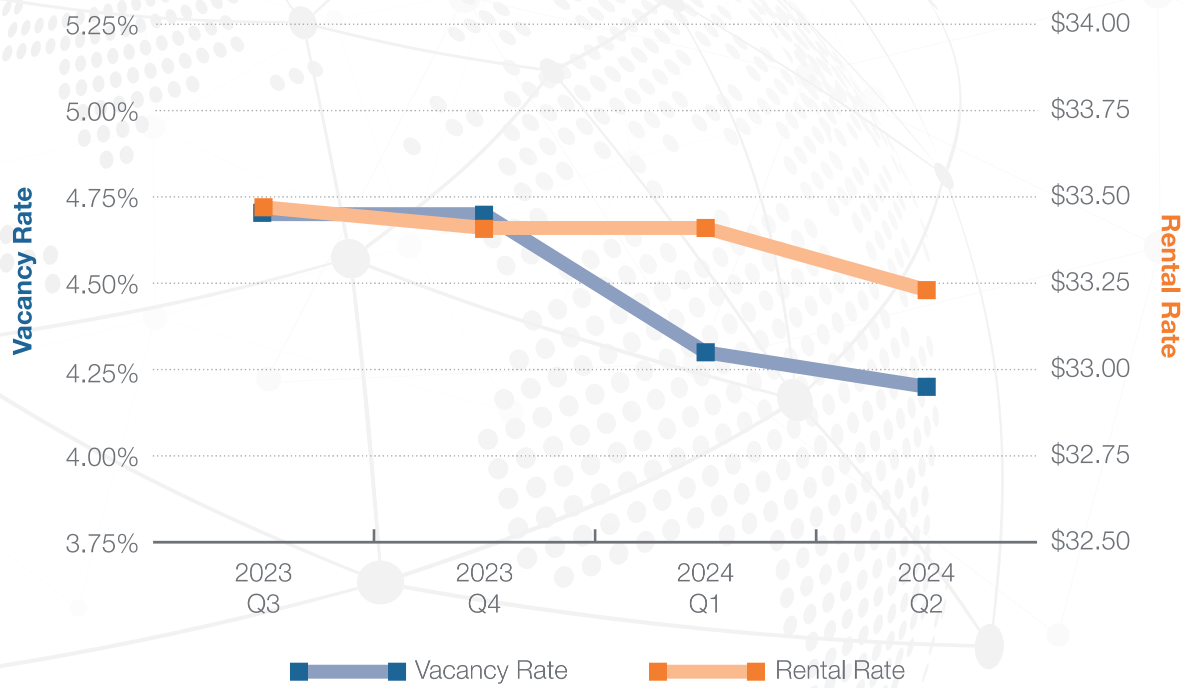
2024-Q2 Greater Edmonton

# Market Highlights

| GREATER EDMONTON AT A GLANCE<br>OVERALL VACANCY TRENDS | 2023-Q3 | 2023-Q4 | 2024-Q1 | 2024-Q2 |
|---|---|---|---|---|
| Buildings Surveyed: 12,096<br>Existing SF: 325.9M | **4.7%** | **4.7%** | **4.3%** | **4.2%** |

## 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

Nothing pushes retail in Edmonton quite like a Stanley Cup run, as evidenced by the foot traffic that flooded the downtown core and numerous bars and other businesses throughout Quarter 2 of 2024. When all is said and done, there is next to nothing that can mimic the excitement – and spending – of an Oilers playoff run.

The level of activity seen in these times may not be directly or immediately reflected in retail occupancy rates, but it is a good sign for what's to come in the local retail landscape. More dollars spent means more opportunity for retailers. Combined with a rapidly increasing population throughout the Edmonton region, projections point to a retail surge in numerous pockets throughout the area. Some will accommodate new residential, while others will support continuously shifting consumer trends.

Across the region, vacancy rates have held steady at just 3.1%, virtually unchanged quarter-over-quarter. Naturally, the downtown core did see increased occupancy, likely as a direct result of Edmonton's hockey success, tumbling by half a point to 6% vacancy – the lowest vacancy rate struck since the beginning of 2023. Similarly, the vacancy rate along the Whyte Avenue-Garneau stretch fell nearly a full point, to 6.8%.

While sharp changes are notable, they're easily explained in this case. It's the sustained success that carries true weight in the Edmonton region's retail reservoir, with the North West's vacancy rate holding virtually still quarter-over-quarter at 4.8%, and South Edmonton's vacancy rate standing unchanged quarter-over-quarter at just 2.8%. Still, the City of Edmonton isn't winning any retail occupancy battles any time soon.

Leduc's vacancy rate sits at just 2%, a marked quarter-over-quarter increase from its monumental low of 1.1% earlier this year. That increase is largely negligible, though, considering the low amount of space – just 39,000 square feet – still up for grabs, alongside the addition of 11,000 square feet of new inventory.

Sherwood Park-Fort Saskatchewan also continues to see success in the face of 27,300 square feet of added retail inventory, with a vacancy rate virtually unchanged from the beginning of the year, at 1.9%. Sherwood Park, specifically, saw a significant occupancy shift upon the redevelopment of the former Rona warehouse space to L'OCA, a high-end grocery outlet accompanied by additional artisanal spaces such as a café and restaurant. The Sherwood Park location's early success is now translating to growth elsewhere, with another L'OCA location announced for St. Albert in early-July.

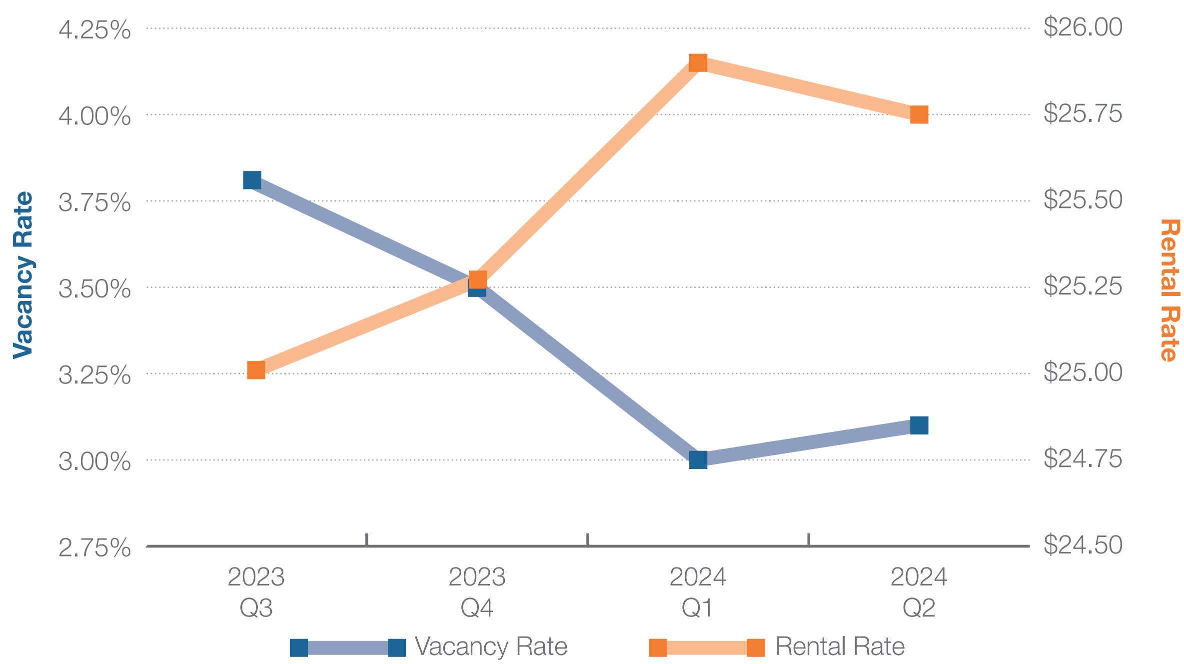
With similar customer spending habits from one suburb to the next, it's no surprise to see St. Albert carrying the lowest retail vacancy rate in the region, at just 1.2%. That's not to mention that Sherwood Park-Fort Saskatchewan hosts an average asking retail rental rate far below the regional average, asking $19.80 per square foot, compared to the regional average of $25.75/sq. ft.

Combined with Edmonton's continued population surge and a strengthening economy, supported by lowered interest rates and curbed inflation, the Edmonton region's retail successes are expected to continue throughout the rest of 2024. Steady growth is the name of the retail game, and while some pockets will be slower than others, Edmonton's suburbs have already proven that consumer trends support increased retail activity.

## RETAIL
# Vacancy Trends

| | 2023-Q3 | 2023-Q4 | 2024-Q1 | 2024-Q2 |
|---|---|---|---|---|
| **GREATER EDMONTON**<br>Buildings Surveyed: 4,759<br>Existing SF: 73.7M | 3.8% | 3.5% | 3.0% | 3.1% |
| **EDMONTON WEST**<br>Buildings Surveyed: 1,158<br>Existing SF: 19.6M | 5.8% | 5.6% | 4.9% | 4.8% |
| **EDMONTON SOUTH**<br>Buildings Surveyed: 1,488<br>Existing SF: 24.4M | 3.7% | 3.4% | 2.8% | 2.8% |
| **EDMONTON CENTRAL**<br>Buildings Surveyed: 603<br>Existing SF: 7.7M | 6.3% | 6.7% | 6.5% | 6.0% |
| **LEDUC**<br>Buildings Surveyed: 159<br>Existing SF: 2.0M | 2.1% | 1.4% | 1.1% | 2.0% |
| **ST. ALBERT**<br>Buildings Surveyed: 221<br>Existing SF: 3.6M | 2.5% | 1.6% | 1.3% | 1.2% |
| **SHERWOOD PARK / FORT SASKATCHEWAN**<br>Buildings Surveyed: 408<br>Existing SF: 6.2M | 2.3% | 2.1% | 1.8% | 1.9% |
| **WHYTE AVENUE / GARNEAU**<br>Buildings Surveyed: 186<br>Existing SF: 1.5M | 5.9% | 6.4% | 7.7% | 6.8% |

# Average Rental Rates vs. Vacancy
## GREATER EDMONTON OVER THE PAST 12 MONTHS



# Office Market

The story of Edmonton's office real estate market has been an inconsistent one ever since 2020, when trends began driving work-from-home and hybrid employment agreements that resulted in less traditional use of office space across many sectors – including in municipal government buildings. That said, it's a story that has varied greatly from one area of the Edmonton region to the next, with the downtown core experiencing the most significant struggles in maintaining tenant occupancy.

It is therefore encouraging to see a continued steady office vacancy rate across the capital region, despite the numerous turbulent pockets. A regional office vacancy rate of 9.5% means that things have steadied significantly since the beginning of 2019, with three consecutive quarters of virtually unchanged occupancy rates throughout the Edmonton area. The last time such consistency was seen was in 2020-2021, with numerous spikes in vacancy in 2022 and 2023.

Yes, there is still work to be done downtown, specifically, but again, there is optimism in the wings. A vacancy rate of 12.7%* does mark a slight quarter-over-quarter dip from 13% at the beginning of 2024, and a full point recovery from the worst vacancy rate (13.8%) struck midway through 2022. The Edmonton Oilers' playoff run revitalized the sense of community in the downtown area, with a University of Toronto study showing the down area has recovered 80% of its pre-pandemic foot traffic.

Expectations of another deep Oilers playoff run this upcoming season – one we're already cheering for – could drive additional investment downtown to accommodate a higher level of sustained downtown activity in the future. With continued City efforts to convert some downtown office space to residential, further increases to foot traffic could result in more office occupancy. This is supported by such projects as the partial office-to-residential conversion of the Phipps McKinnon Building downtown, where the top eight floors will be maintained as office space while the six lower levels will be converted to rental residences. Dynamic approaches, such as this, will continue to help evolve the office real estate landscape in reflection of current user demands.

And while the downtown core still needs a sharp occupancy hike – alongside the University-Garneau area, which also carries a vacancy rate of 12.5% – other areas have seen significant successes midway through 2024. In the Windermere-Summerside area, for example, the vacancy rate fell 1.3% quarter-over-quarter, to 3.3%. The suburbs have seen steady occupancy rates, as well, with a vacancy rate of 6.7% marking just a slight dip from 6.5% in the year's first quarter. This is likely to continue to improve with an average suburban office rental rate of just $30/sq. ft, coming in lower than the regional average of $33/sq. ft.

While there are still some questions up in the air, the consensus projections for office space throughout the region are positive. Many currently vacant buildings are seeing significant landlord-driven improvements to attract new tenants, while newer and more innovative spaces are filling up relatively quickly. Landlords are updating spaces and adding new amenities, at the same time that tenants are looking for ways in which to make the traditional workspace attractive for employees commuting to work.

The big question moving forward will be consistency. Does a downtown revitalization depend on unpredictable trends, such as Oilers playoff runs, or can the area self-sustain regardless of external influences? The current approach to office space conversions, alongside downtown revitalization efforts to increase appeal and curb some of the more negative stereotypes such as crime, could result in a renewed sense of pride in the downtown core.

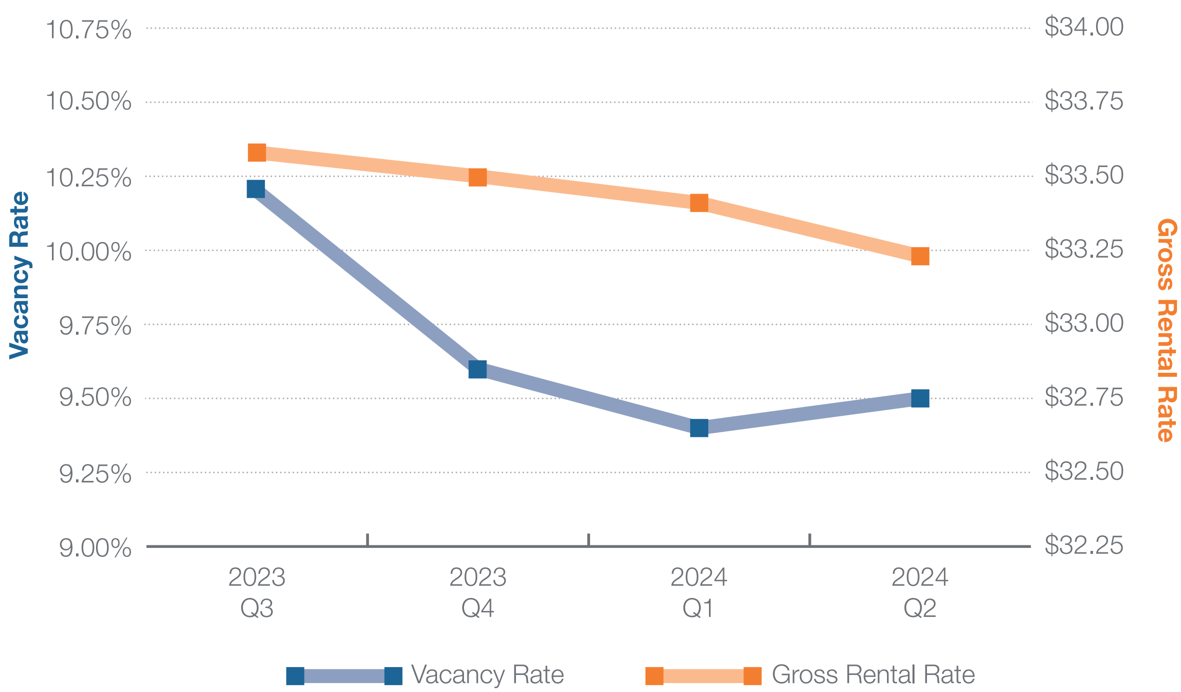
**Some reports show a significant higher vacancy, as they do not account for all downtown office properties.*

OFFICE
## Vacancy Trends

| | 2023-Q3 | 2023-Q4 | 2024-Q1 | 2024-Q2 |
|---|---|---|---|---|
| **GREATER EDMONTON**<br>Buildings Surveyed: 1,367<br>Existing SF: 48.6M | 10.2% | 9.6% | 9.4% | 9.5% |
| **EDMONTON DOWNTOWN**<br>Buildings Surveyed: 274<br>Existing SF: 23.7M | 13.0% | 12.4% | 13.0% | 12.7% |
| **EDMONTON SUBURBAN**<br>Buildings Surveyed: 829<br>Existing SF: 19.8M | 8.2% | 7.6% | 6.5% | 6.7% |
| **WINDERMERE / SUMMERSIDE**<br>Buildings Surveyed: 66<br>Existing SF: 1.9M | 2.3% | 2.7% | 4.6% | 3.3% |
| **UNIVERSITY / GARNEAU**<br>Buildings Surveyed: 58<br>Existing SF: 880K | 21.5% | 17.1% | 12.0% | 12.5% |

## Average Gross Rental Rates vs. Vacancy

GREATER EDMONTON OVER THE PAST 12 MONTHS



# Industrial Market

The Edmonton region's industrial market has been unwavering in its success over the past couple of years. It's been noted many times that increased industrial activity has resulted from two main growth categories, and both continue to hold true:

1. Significant investment into shipping, warehousing and logistics, taking advantage of Edmonton's standing as a transportation hub, and responding appropriately to consumer e-commerce demands and a turbulent global supply chain requiring more local options.
2. Steady migration to Edmonton by industry leaders from Vancouver and Toronto, in particular, with the capital city's inventory growing significantly (up 16.4-million square feet in less than five years), and prices coming in far below those seen in other major markets.

With such consistent success in the industrial real estate landscape, it should come as no surprise that the full Edmonton area's industrial vacancy rate has fallen yet again, to just 3.3% – a record-low vacancy since the beginning of 2019, and down nearly half of the high-point vacancy rate of 6.2% to kick of 2020.

Looking through a more granular lens, Edmonton's North West is seeing particular success, with a vacancy rate of just 2.2%, marking the second consecutive quarter in which the NW vacancy rate has held below 2.5%. Sherwood Park-Fort Saskatchewan has seen a one-point industrial vacancy drop to just 3.3% in Q2 2024, falling below 4% for the first time in a year – but perhaps the most interesting occupancy shift came in Leduc-Nisku, where the vacancy rate plunged by nearly 1.5% quarter over quarter, to 6.2%. This is particularly impressive considering the nearly 435,000 square feet of new inventory added to the Leduc-Nisku area in the same timeframe.

Finally, despite maintaining a low vacancy rate, Edmonton's south industrial sector was the only area to see a quarter-over-quarter increase in vacancy – albeit a small one – from 3.7% to 3.9%. This is largely attributed to inventory growth of around 85,000 square feet. The small increase is not cause for concern, and is expected to fall slightly by the end of Q3 2024 or, at the latest, to round out the year.

One of the clear benefits of the Edmonton area's industrial market is the sheer amount of available space for continued growth. This means the market can adjust to surges in demand, with highly adaptable space that can be used if markets shift again. And while Edmonton's industrial bread and butter, so to speak, has been distribution, warehousing and logistics, there are strong growth indicators for the oil and gas sector that will bring benefits to bear for the capital region.

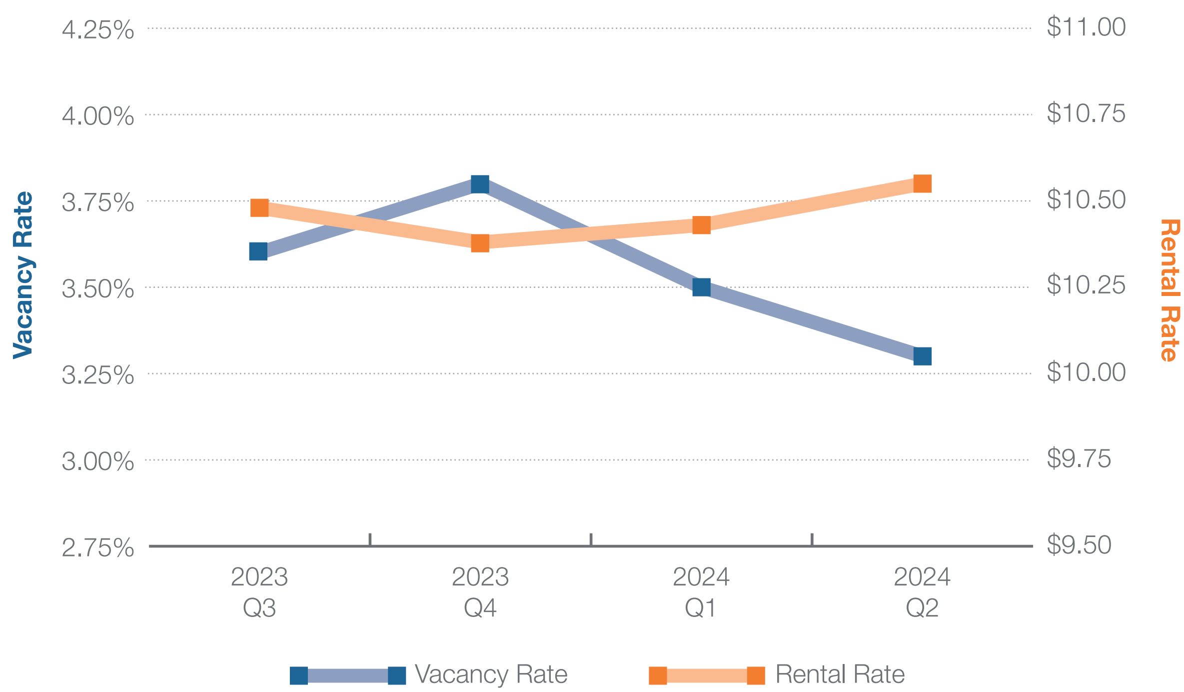
The natural gas sector is expected to see continued growth, with LNG projects spanning Alberta's Industrial Heartland – which includes the Edmonton region – and the area's commitment to innovation in bringing hydrogen projects on board. Meanwhile, the completion of the Trans Mountain Pipeline expansion project has increased capacity, and has helped to narrow price gaps in oil rates.

While there have been discussions around the City of Edmonton's need to reverse the loss of non-residential ratepayers, the regional share of which has fallen significantly from 72% to just 60% in 2022. Commercial taxes in total account for around 50% of City taxes. This is driving discussions around the need to make sure that available industrial land is serviced for immediate development, which could result in even more industrial investment locally.

## INDUSTRIAL
# Vacancy Trends

| | 2023-Q3 | 2023-Q4 | 2024-Q1 | 2024-Q2 |
|---|---|---|---|---|
| **GREATER EDMONTON**<br>Buildings Surveyed: 5,967<br>Existing SF: 203.6M | 3.6% | 3.8% | 3.5% | 3.3% |
| **EDMONTON WEST**<br>Buildings Surveyed: 1,898<br>Existing SF: 71.2M | 3.1% | 3.2% | 2.4% | 2.2% |
| **EDMONTON SOUTH**<br>Buildings Surveyed: 1,788<br>Existing SF: 66.1M | 4.0% | 4.2% | 3.7% | 3.9% |
| **SHERWOOD PARK / FORT SASKATCHEWAN**<br>Buildings Surveyed: 385<br>Existing SF: 12.1M | 4.0% | 4.5% | 4.3% | 3.3% |
| **LEDUC / NISKU**<br>Buildings Surveyed: 866<br>Existing SF: 27.9M | 5.9% | 7.3% | 7.6% | 6.2% |

# Average Rental Rates vs. Vacancy
GREATER EDMONTON OVER THE PAST 12 MONTHS



# Notable Transactions in the Market

## PROPERTIES **SOLD**

NOTES PROUDLY SOLD BY NAI COMMERCIAL

**2833 Broadmoor Blvd**
**Price:** $27,965,000
$125.70/sq.ft.
**Area:** Sherwood Park
**Property Type:** Office
**Size:** 222,476 sq.ft.
on 10.35 acres

**14735 - 124 Avenue NW**
**Price:** $8,500,000
$80.24/sq.ft.
**Area:** Dominion Industrial
**Property Type:** Industrial
**Size:** 105,903 sq.ft.
on 4.02 acres

**16705 - 84 Street NW**
**Price:** $7,650,000.00
$218.90/sq.ft.
**Area:** Klarvatten
**Property Type:** Retail
**Size:** 34,948 sq.ft.
on 1.87 acres

**150 Karl Clark Road**
**Price:** $6,500,000.00
$125.90/sq.ft.
**Area:** Edm Rsrch & Dev Park
**Property Type:** Office
**Size:** 51,629 sq.ft.
on 5.87 acres

**3404 - 79 Avenue**
**Price:** $6,000,000
$330.76/sq.ft.
**Area:** Leduc
**Property Type:** Industrial
**Size:** 18,140 sq.ft.
5.04 acres

**13630 - 159 Street NW**
**Price:** $5,750,000
$479.17/sq.ft.
**Area:** Mistatim Industrial
**Property Type:** Industrial
**Size:** 12,000 sq.ft.
on 2.84 acres

**11270/92 - 269 Street**
**Price:** $5,000,000
$277.77/sq.ft.
**Area:** Acheson
**Property Type:** Industrial
**Size:** 18,000 sq.ft.
on 3.15 acres

**120 Portage Close**
**Price:** $4,500,000
$163.70/sq.ft.
**Area:** Sherwood Park
**Property Type:** Office
**Size:** 27,489 sq.ft.
on 1.51 acres

# NAI Listing Highlights

## AVAILABLE PROPERTIES **FOR SALE AND/OR LEASE**

**7712 - 104 Street NW**
**Sale Price:** $2,950,000
**Area:** Queen Alexandra
**Property Type:** Office
**Size:** 15,719 sq.ft.±
on 9,097.6 sq.ft.±

**6405 - 75 Street NW**
**Sale Price:** $10,700,000
**Area:** Davies Industrial East
**Property Type:** Industrial
**Size:** 12.83 acres±

**11420A - 170 Street NW**
**Lease Rate:**
From $8.00/sq.ft./annum
**Area:** Armstrong Industrial
**Property Type:** Industrial
**Size:** 27,000 sq.ft.±

**10080 Jasper Avenue NW**
**Lease Rate:** $5.00/sq.ft./annum
**Area:** Downtown
**Property Type:** Office
**Size:** 408-9,197 sq.ft.±