OFFICE REPORT: Fourth Quarter 2017

REGINA

Market Facts

4,428,320 sf
Total Competitive Inventory

12.1%
Competitive Inventory Vacancy

9.6%
A Class Vacancy

7.3%
B Class Vacancy

20.1%
C Class Vacancy

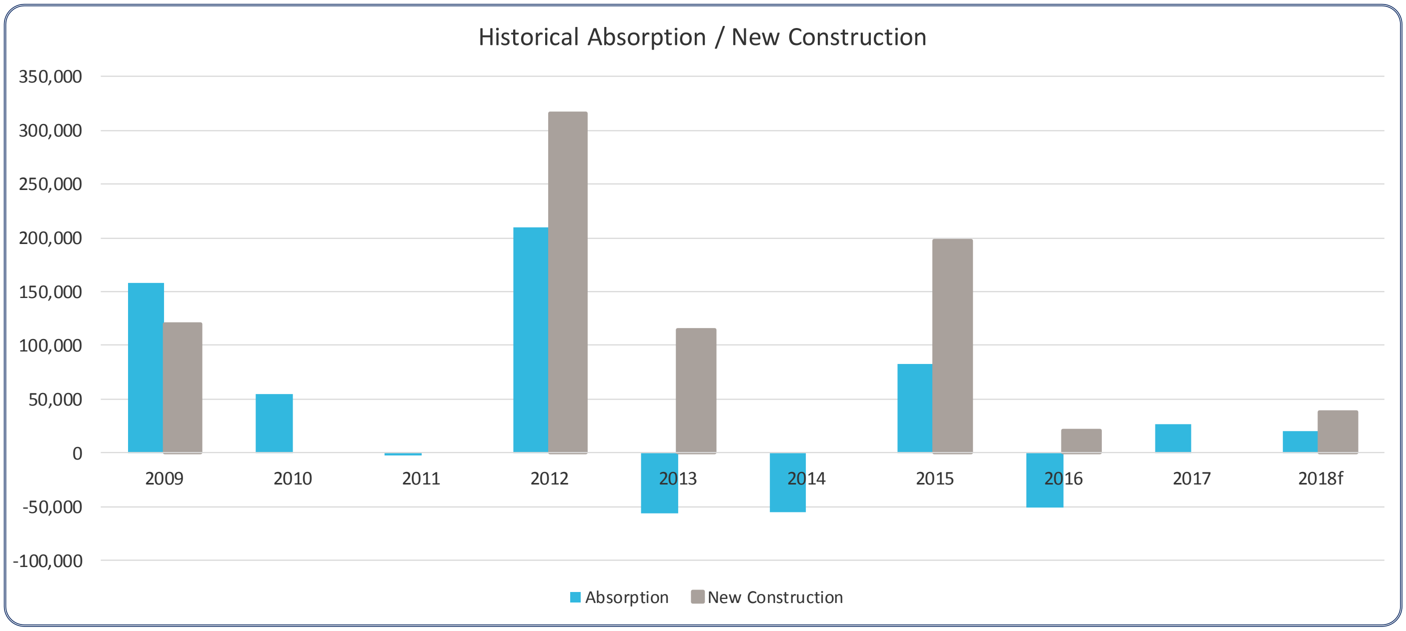
Market Overview

Saskatchewan's economy was forced to deal with setbacks and volatility in commodity prices in 2017, while its agricultural sector performed relatively well despite record dry conditions. Given the inter-relationships between its resource sector economy and exports, concerns about the provincial and regional economies carried through 2017 and are expected to remain sensitive through 2018 and beyond. Regardless, employment grew by 1% in the first three quarters of 2017 and average unemployment is expected to be 6.2%. Following negative growth in 2016, Regina's real GDP gain for 2017 is expected to come in at a respectable 2.1%, according to RBC Economics. Multi-year major infra-structure projects - notably Regina's Revitalization Initiative and Bypass Highway - are expected to facilitate long-term economic development.

Following a rapid rise in vacancy that rebalanced the market between landlords and tenants - the result of new construction that began three years ago - office vacancy in Regina began increasing and peaked in mid-year 2016. The fourth quarter 2017 vacancy rate for competitive asset classes was 12.1% which is slightly down from a year ago. It is forecasted to remain flat through 2018. The blended vacancy rate between competitive and non-competitive asset classes was 7.6% for the fourth quarter 2017.

Looking forward, the market is expected to be very positive for tenants who choose to reposition or relocate their business operations. There are significant factors that are expected to prolong a return to space planning restrictions of the past.

The door is open for business expansion without any development of new office inventory. Expect to see an increase in leasing incentives, more creative inducements and deal structuring to attract and/or retain tenants, and an erosion of net asking rental rates on vacant space for the foreseeable future.



Regina's class A buildings represent 38% of the total inventory in Regina's competitive office market. 94% of the class A space is concentrated in the downtown core. Demand for class A space remains strong because of its proximity to the central business district (CBD), high quality of amenities, and tenant-business synergy. The current vacancy rate for class A is 9.6%, having decreased slightly from January 2017. This small decrease is due to a sublet tenant taking back space and an increase in vacancy at Sherwood Place office building. Net rental rates for existing class A buildings range from $21 to $25 psf while the newly constructed buildings draw net rates in the $36 psf range.

Class B buildings represent 31% of the total inventory in the city's competitive office market. 82% of the class B space is concentrated in the downtown core, with the remainder located outside the downtown. With the addition of buildings into this category during the reclassification, we find that class B now has the lowest vacancy rate of all classes at 7.3% which is up slightly from the previous year. We expect the vacancy rate to remain stable in this class for the foreseeable future. Net rental rates range between $13 to $19 psf. Newly constructed suburban office rates are in the $26 to $30 psf range.

Class C buildings represent 31% of the total inventory in Regina's competitive office market and are primarily located in the downtown (91%). Lease rates remain between $10 and $17 psf and an average gross lease rate of approximately $29 psf. Newly constructed rates in this class are in the $25 psf range. The high vacancy rate is mostly due to the large blocks of office space available in the Financial Building, Town Square, Viterra Building, Double Tree by Hilton office complex, newly constructed Jack J Sharp Medical Building and Crossroads Building.

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