

Edmonton's suburban office real estate market rises

David Finlayson

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EDMONTON - Edmonton's suburban office real estate market has gained a new lease on life after 20 years of inactivity, a new report by Avison Young suggests.

Several new buildings are leasing and close to 30 developments pre-leasing when not so long ago there was a 17-per-cent vacancy rate and owners struggled to get \$5 a square foot.

Rental rates are now between \$14 and \$20 a square foot, and a few brave developers are continuing to build despite the \$25 to \$28 rates needed to justify construction, the report says.

New developments such as Sun Life's two Commerce South buildings, Bldg Inc.'s The Steppes, and Guild Developments' 51st Avenue Business Centre are leased to high-quality tenants. The majority of these deals were for rental rates in the \$25 to \$28 psf range, with landlords providing up to \$30 psf in tenant improvement allowance, Avison Young says.

"Clearly, these tenants were willing to pay the premium required to be in new, higher quality, environmentally friendly buildings. Other developers are now considering forging ahead and will likely enjoy similar success."

But as land and construction costs continue to rise, landlords are looking to provide less base building work, underground parking is extremely expensive and the tenant's cost to build out its space has skyrocketed, the report says.

Net rental rates will need to approach \$28 to \$32 psf and include at least a \$30-psf tenant improvement allowance. And tenants can expect build-out costs to be as high as \$80 to \$100 psf, resulting in an upfront capital expenditure of \$50 to \$70 psf.

It also means a monthly charge of \$100 to \$150 per stall for underground parking and increased pressure to charge for surface parking.

Large areas of contiguous space coming on the market in existing buildings will likely be quickly absorbed, leaving room for several new buildings, the report says.

Also, engineering, survey, and oil and gas companies are expanding after pulling back in late 2007 and early 2008, and all three levels of government have an appetite for more space, it adds.

"The foreseeable future looks very positive."

dfinlayson@thejournal.canwest.com