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## BUSINESS

## FINANCIAL POST

### Recession hits office market Edmonton vacancy rate still relatively low

BY BILL MAH, THE EDMONTON JOURNAL MAY 16, 2009

The global recession is weighing on Edmonton's office market, but it's holding up better than other major cities, says commercial real estate firm Cushman & Wakefield.

"The appetite for additional office space continues to decrease, both in the private and public sectors," the company says in a first-quarter report.

"Decision-makers are apprehensive about making real estate decisions, delaying until they can gauge how the changes will affect their business and office space requirements."

Downtown office vacancy increased by 0.2 percentage points to 3.3 per cent, according to Cushman & Wakefield. Direct Class A vacancy in the financial core remains tight at 2.5 per cent, and it's even tighter in the government sector market with a 0.8-per-cent vacancy.

The suburban market softened more, with a vacancy increase of nearly two percentage points -- going to 9.3 per cent from 7.4 per cent.


"For the first five months of 2009, leasing activity in the financial core and suburban markets is down considerably from where it was in late 2008, particularly with government-related tenancies and engineering and construction firms," said Todd Walker, partner in the office division at the commercial real estate firm.

These are the sectors that have driven office growth in Edmonton over the last four years, he said.

Even as demand is slowing, Edmonton's two largest office markets, the financial core and the south side, are seeing an increase in supply.

"However, not everything is bleak," Walker said. Edmonton hasn't posted significant growth in the sublease market, a key indicator of market health, he said.

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The 14.7-million-square-foot financial core had about 50,000 square feet of sublease space at the beginning of May, he said.

By comparison, Calgary's 34-million-sq.-ft. financial core had 700,000 square feet of sublease space.

Cushman & Wakefield forecasts the vacancy rate will continue to rise, resulting in lower rental rates, "perhaps as much as 15 to 25 per cent if the economy continues to slide."

In a report on the industrial market, Cushman & Wakefield said it remained stable through the first quarter. But land sales slowed in 2008 and the first quarter of 2009 and developers have put projects on hold to evaluate demand.

"To date in 2009, industrial and warehouse building permits carry a value of \$43,729,000, marking a 50-per-cent decrease for the same period in 2008."

The overall vacancy rate remains low at 2.5 per cent, and Cushman & Wakefield expects the strong overall market will keep the vacancy rate low for the rest of the year.

Another commercial real estate firm, Avison Young, also said Edmonton's office market has stayed relatively healthy despite the recession.

"Most of the larger markets in Canada have seen significant amounts of space come back to market, which is putting significant downward pressure on rental rates in the head lease market," said Cory Wosnack, Avison Young Edmonton principal.

"Edmonton, however, is feeling less of this pressure at the moment, having a sublease vacancy rate of only 0.5 per cent, or 118,782 square feet, which is less than half a per cent higher from one year ago."

Calgary's sublease vacancy rate has increased more than one percentage point to 2.4 per cent since the first quarter of 2008, he said.

Edmonton office rental rates have generally stabilized with slight decreases in some circumstances while vacancy has continued to increase, according to Avison Young.

[bmah@thejournal.canwest.com](mailto:bmah@thejournal.canwest.com)

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