



EDMONTON

EXECUTIVE SUMMARY

- Edmonton is poised to record moderate economic growth in 2020.
- Office inventory has the potential to decrease as some class B and C buildings contemplate space conversions.
- Investment activity for certain types of retail, industrial and multi-family projects is set to increase.
- Legalized recreational cannabis will continue to impact all sectors as Alberta remains a leader in retail access and production.
- Recovery and growth of the energy sector will in turn increase overall market activity.

Edmonton was heavily impacted by political and global market uncertainty in 2019 as well as delays in getting new oil pipeline projects underway. Despite these factors, nearly all asset classes have maintained stability across all metrics. Further, several high-profile tenants moved into the downtown core, and notable foreign investment occurred.

The energy sector is expected to return to growth in 2020 as mandated production cuts were scaled back and progress on the Trans Mountain Pipeline Expansion Project continues. Further, two petrochemical megaprojects being developed in Alberta will help strengthen the economy.

Headlined by groups such as Google's DeepMind and video game developer BioWare, Edmonton has developed a strong tech community that continues to attract many groups and skilled individuals to the downtown core. The United Conservative Party (UCP) won the Alberta provincial election in 2019 with promises to open Alberta for business by reducing red tape and corporate taxes. While it will take time for material change to occur, this has led to renewed optimism and positive market sentiment.

Office inventory will likely shrink in 2020 with no new buildings currently underway and older class B and C office buildings being converted to residential or hotel uses amid pockets of high vacancy. Some space occupied by public-sector groups may become available as the UCP's budget in 2019 aimed to reduce government spending by 2.8%. While this may lead to a temporary rise in vacancy – most notably in the downtown government district – the reduction in inventory and an increase in leasing activity will likely help offset the rise in vacancy.

KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	→	→	→
Vacant Space	↓	↑	↑
Construction Levels	→	↑	↓
Leasing Volume	↑	→	→
Investment Volume	↓↓↓	↑↑	↑↑

Industrial construction activity is anticipated to moderate slightly in 2020 as land prices and development costs continue to rise. While the energy sector is demonstrating signs of improvement, more recovery time is needed before energy-based tenants start jumping back into the market. The market will likely move at a slower pace to start 2020, but as the energy sector picks up, so too will the industrial sector.

Leasing retail space remains competitive as businesses adapt to the constantly changing demands of consumers. While leasing volume is anticipated to remain flat, vacancy may increase slightly as several projects finish construction and add to the inventory. On the cannabis side, Alberta has the most stores of any province in Canada. As edibles start entering the market, the number of locations is expected to grow.

Investment activity is expected to increase alongside improving economic fundamentals with the industrial, retail and multi-family sectors set to register the most activity. Among retail assets, smaller strip centres are in high demand from private investors while class A grocery-anchored product in the core is being tightly held by institutions, which remain selective. Demand from institutional investors for modern, new industrial buildings and high-rise residential towers is unquenchable. Office investment is expected to be muted in 2020 as investors wait for leasing fundamentals to improve. Current 10-year bond lows are allowing private groups to put together deals with attractive return metrics, which could make this the most prevalent type of buyer in 2020.

Edmonton is poised to record moderate economic growth in 2020, with conditions expected to improve towards the latter half of the year.

HISTORICAL INVESTMENT VOLUME

Edmonton Total Annual Volume (\$Billion)

