Regina

What will turn Regina's Office market around?

Quick Stats

4,851,171

Total Competitive Inventory

12%

Competitive Inventory Vacancy

2.7%

A Class Vacancy

11.4 %

B Class Vacancy

24.8%

C Class Vacancy

General Summary

The soft demand that has characterized the Regina office market for at least the past four years was, once again, prevalent throughout 2019. To be clear, there are lease transaction being brokered – just not at the pace and scale required to have a meaningful impact. As an example, in the 2019 calendar year there were, perhaps, ten or so true (renewals not included) office transactions wherein a tenant relocates from point A to point B or acquires a new leasehold interest for the first time. Of these, the vast majority were less than 5,000 square feet and only one was greater than 20,000 square feet.

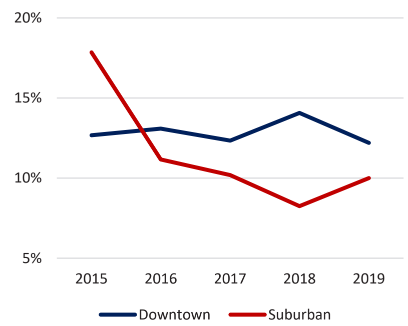
Consequently, while the market continues to improve it is doing so at a "turtle's" pace. What this market needs is an injection of the "hare". Because the "hare" is currently missing in action, the market remains in stasis. This condition is expected to prevail for the foreseeable future.

Vacancy

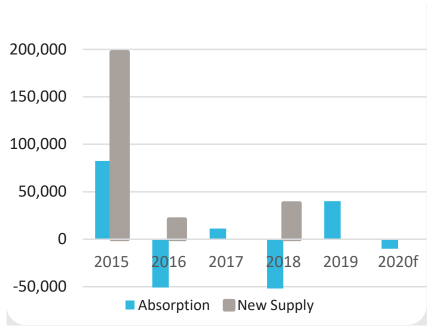
As of December 31, 2019 approximately 582,000 square feet of competitive office inventory remains vacant. This equates to 12.0% of competitive inventory – down from 13.5% observed a year ago. Nominal positive absorption was observed for the period, but a downward adjustment to both competitive inventory and related vacant space is largely responsible for the revised overall vacancy rate.

Vacancy remains concentrated in a handful of materially vacant buildings. It is troubling to note, however, that more widely distributed pockets of vacant space are starting to emerge. As before, the highest quality Class A buildings in the CBD remain well tenanted with a negligible vacancy rate of 2.7%. The Class B inventory remains reasonably tenanted with a vacancy rate of 11.4% - up almost 2% from a year ago. The vacancy rate for the utilitarian Class C product has improved somewhat thanks to one sizeable transaction, from 29.3% a year ago to 24.8% today.

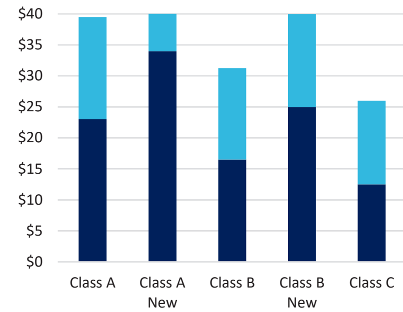
Suburban Downtown Vacancy



Absorption and Supply



Average Asking Rents



Leasing

It is fair to say that, despite the improved overall vacancy rate, when considering Class B and Class C CBD inventory it is even more of a tenant's market today than last year at this time. What is particularly troubling is the "stickiness" of some of these vacancies – many of which have been in place for very lengthy periods of time (greater than five years, for example). On a case by case basis, contract rents are now being substantially discounted. In all instances, inducements are on the rise in both size and scope. And, we have the sense that some owners of real property with systemic vacancy may now be inclined to really take the gloves off, so to speak, in order to retain and attract tenants.

On a relative basis, the suburban office market is performing adequately. Though, in the coming months we do expect sizeable spaces to be returned to this market. At which time, the relative stability of the suburban market is likely to be challenged.

So what actions are needed to stabilize the Regina office market? Foremost, we need to see the provincial and federal governments resume their traditional roles of being a net absorber of space. This market has seen more than its fair share of these entities shedding competitive office space. Additionally, we need to see the re-purposing of materially vacant office buildings into some other form of commercial use; higher density housing or assisted living residences, for example.

These kinds of actions helped to stabilize the Regina office market the last time we saw such an over supply of inventory in the approximately 1995 to 2001 period - a time of protracted difficulty for owners of all classes of office inventory.

Recent Office Leasing Transactions

SGI - Bank of Canada Building - 22,000 sf - New Lease

Addenda Capital - Hill Tower 1 - 8,000 sf - New Lease

SMA - Bank Of Canada Building - 2,500 sf - New Lease

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