Canada | Q4 2020

Research

Office Outlook

2020 framed by diminished leasing activity as well as record occupancy losses, but fundamentals have held strong in most markets

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Top 3 office trends

1.

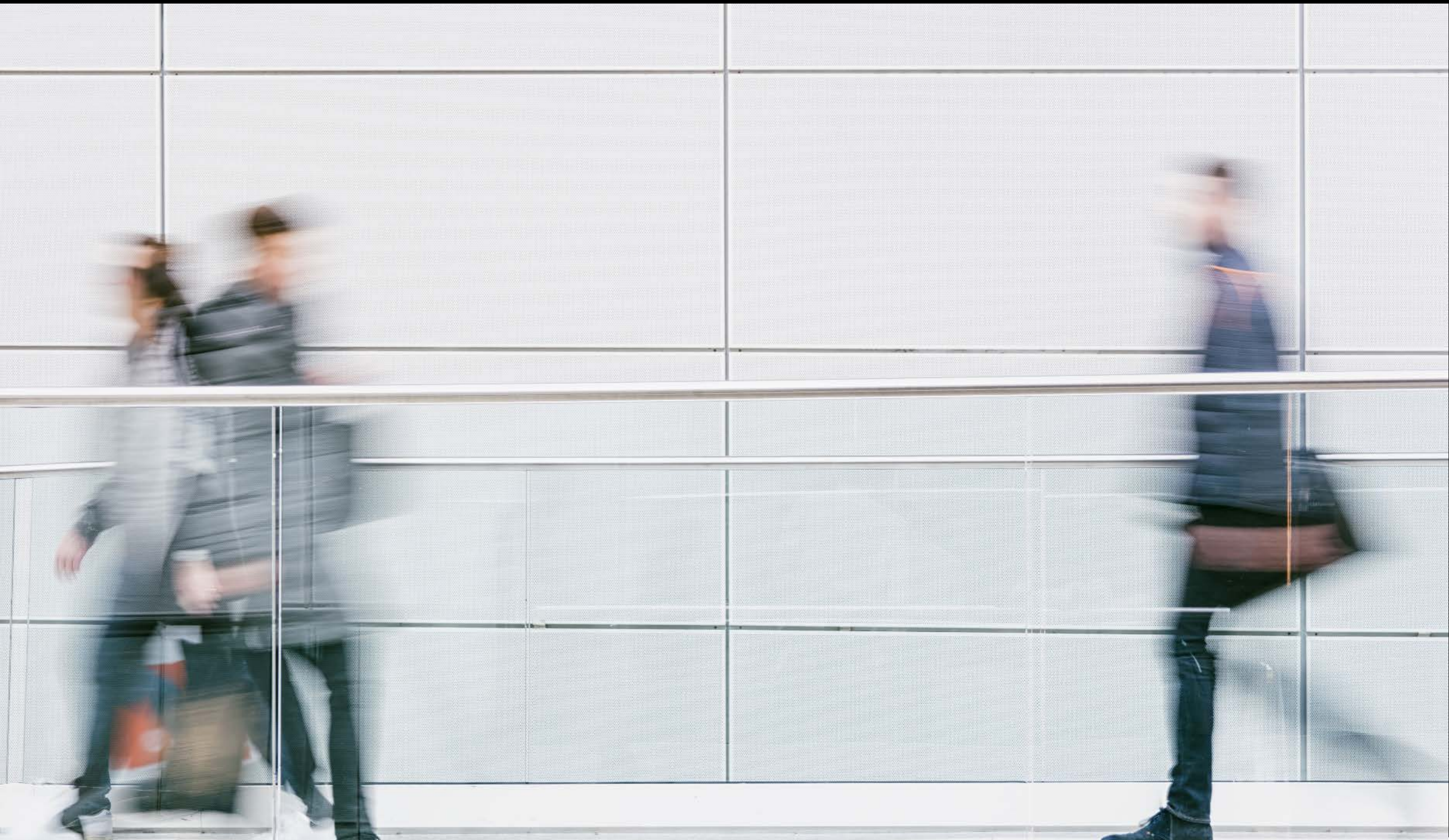
The Canadian office market finished 2020 with a year-over-year increase of 5% for direct asking rates. Increases in rent where weighted towards Vancouver, Toronto and Montreal which saw a rise in Class A stock which pushed rents upwards and offset the declines from Edmonton and Calgary.

2.

Sublet vacancy accounted for 17.6% of all vacancy at year-end, up from 13.7% in Q1 2020. Canada-wide total sublet vacancy increased by 50.7% to 10.0 million s.f., a result of continued work-from-home policies maintained to protect employees' health and well-being.

3.

Many office users continued to wait and see where the pandemic would lead and thus paused on leasing, which was reflected in a notable drop in large block leases. Gross leasing volumes were down 48% year-over-year at the end of Q4. However, the tenant breakdown for leases that were completed remained consistent with previous years, with tech and finance capturing the lion's share.



Pandemic halted Canadian office leasing bull run, though impact is anticipated to be short-term

Canada's office market recorded a third consecutive quarter of negative net absorption, with over 2.1 million s.f. of occupancy losses. This brought the total for the year to 4.2 million s.f. of negative absorption, a figure not seen in the past 10 years. The last time the market experienced three quarters of sustained negative net absorption was from Q1 to Q3 2016 for a total of 1.3 million s.f. of occupancy losses. On a regional basis, Toronto and Calgary are responsible for the most losses, together those losses accounted for 78.9%.

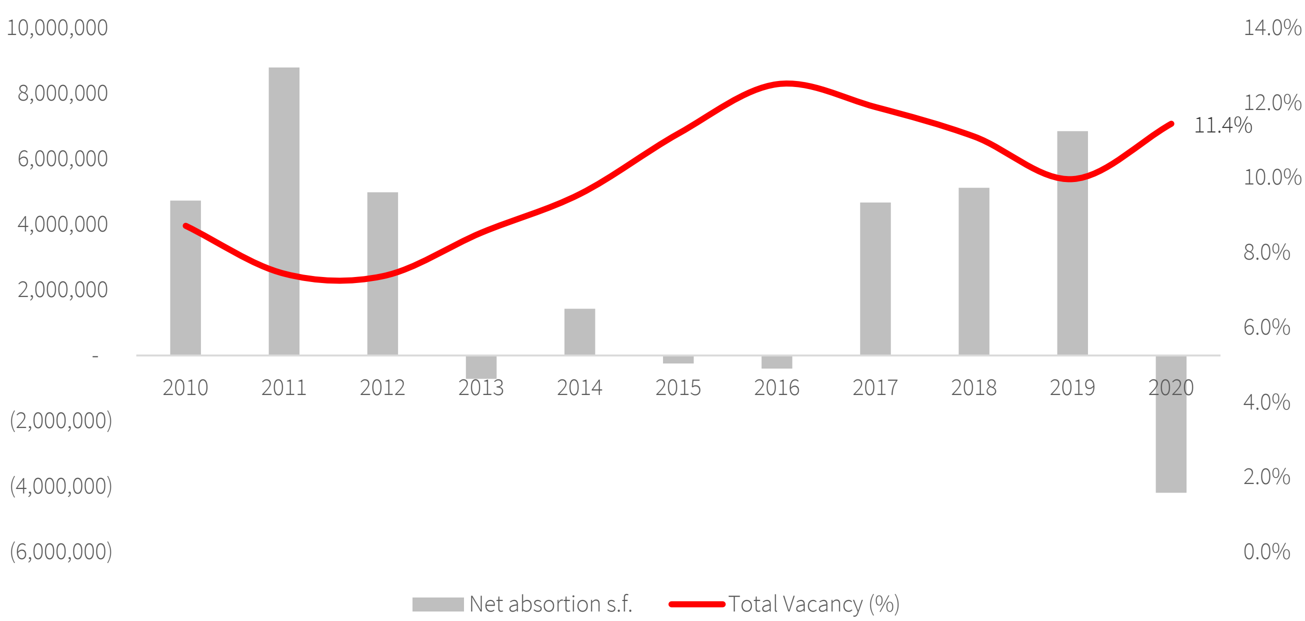
Of all Canada markets the largest impact was felt in the CBD, accounting for 86.6% of the negative net absorption. This is a result of office users bringing their space to market, in hopes that they can sublet in the short term as they continue to work from home. Additionally, dense, urban areas have been more challenged during the pandemic because of the dependence on public transportation and the density of buildings, challenging employers to provide for safe transit and social distancing. Suburban markets that initially saw a lesser impact began to see their position weaken with new occupancy losses by year-end.

Occupancy losses are not distributed evenly among asset classes, Canada-wide, Class B and C have seen more substantial impact in comparison to Class A, as tenants who did make deals in the market focused on high-quality space. The exception was in Calgary which had substantially more occupancy loses in its Class A product, which accounted for 78.8% of the total occupancy losses. This was largely driven by the continued restructuring and consolidation in the oil and gas industry, which is a significant share of Calgary's economy, a trend likely to continue as the full effect of the Cenovus and Husky Energy merger is felt.

Total vacancy ended the year at 11.4%, an increase of 148 basis points from the previous year. Vancouver was the only market to finish the year with a vacancy rate that is deemed landlord favorable of 6.7%. All other markets remained balanced from a leverage perspective, with the exception of Calgary and Edmonton which have been struggling with double digit vacancies for a prolonged period of time due to challenges with the oil and gas sectors over the last decade.

Continued occupancy losses push vacancy upwards

Net absorption (s.f.) and total vacancy (%)



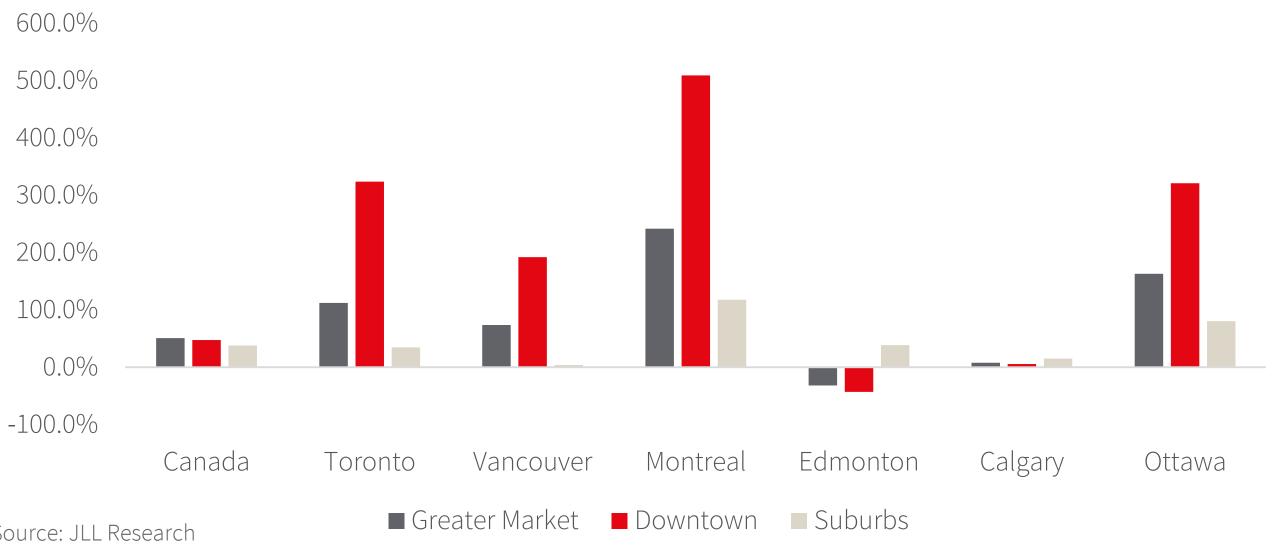
Source: JLL Research

Sublease space continued to flood the market and will likely continue for the short-term

One of the most immediate effects brought about by the COVID-19 pandemic was the flood of sublet space that was brought to market. At the end of Q1 2020 before the impact of the pandemic had fully taken effect, sublet vacancy accounted for 13.7% of total vacancy, this increased by year-end to 17.6%, which represents an increase of over 3.4 million s.f.. Canada-wide total sublet vacant space increased by 50.7% since the end of Q1 2020 to 10.0 million s.f.. Direct vacant space still makes up the largest portion of total vacancy. However, the speed at which it increased was noticeably slower, with an increase of just 12.1% over the same period, indicating that the majority of tenants that are not subleasing their space are opting to renew, a common trend during economic downturns.

Montreal, Toronto and Vancouver recorded the greatest increase of sublet vacancy especially within each CBD. Collectively sublet vacancy increased by 234% since the beginning of the pandemic. Small technology companies have made up a large portion of these subleases. In Vancouver's CBD, tech gave back the most space to the sublet market. However, the majority of these spaces are below 12,000 s.f.. A notable divergence within Tech as large tech companies have leased the most large block spaces in 2020. We will continue to monitor sublet vacancy market as we progress into 2021 to understand how much market fundamentals will erode before conditions improve.

Montreal, Toronto and Vancouver witnessed significant increases in CBD sublet vacancy.
Change in Sublease Vacancy (Q1 2020 to Q4 2020)



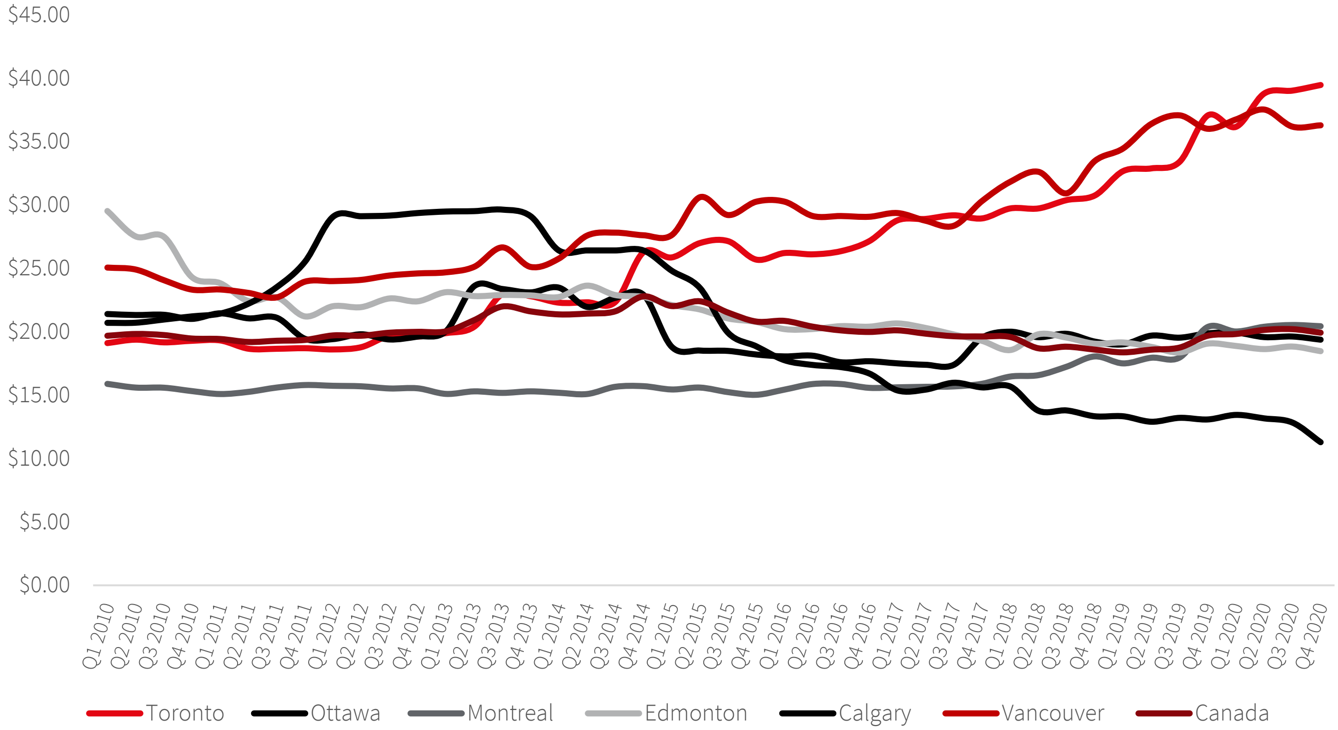
Source: JLL Research

Rental rates held steady through a turbulent year

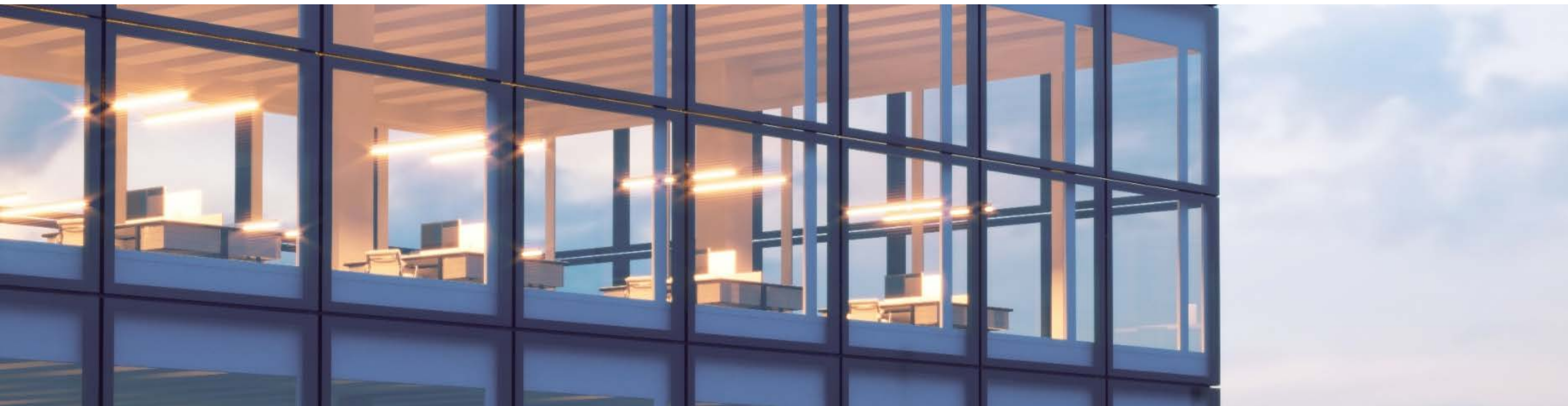
Despite a notable decline in tenant demand and a continuous stream of new supply, direct asking rents remained stable across most markets. Canada-wide, direct asking rates rose 5% year-over-year. Strong year-over-year rental growth was recorded in Montreal (10.8%), Toronto (8.7%) and Vancouver (6.4%). Calgary posted the greatest decline as it continues to adjust to the changing oil and gas sector, notably in the Downtown market where asking rents declined by 13.7% year-over-year. Although rates have held steady, we expect rents to decline in 2021 while tenant demand remains muted on top of significant sublease availabilities and new, vacant construction delivers to the market.

COVID-19 has done little to slow Toronto's and Vancouver's rising rates

Downtown direct asking rates ($ p.s.f)



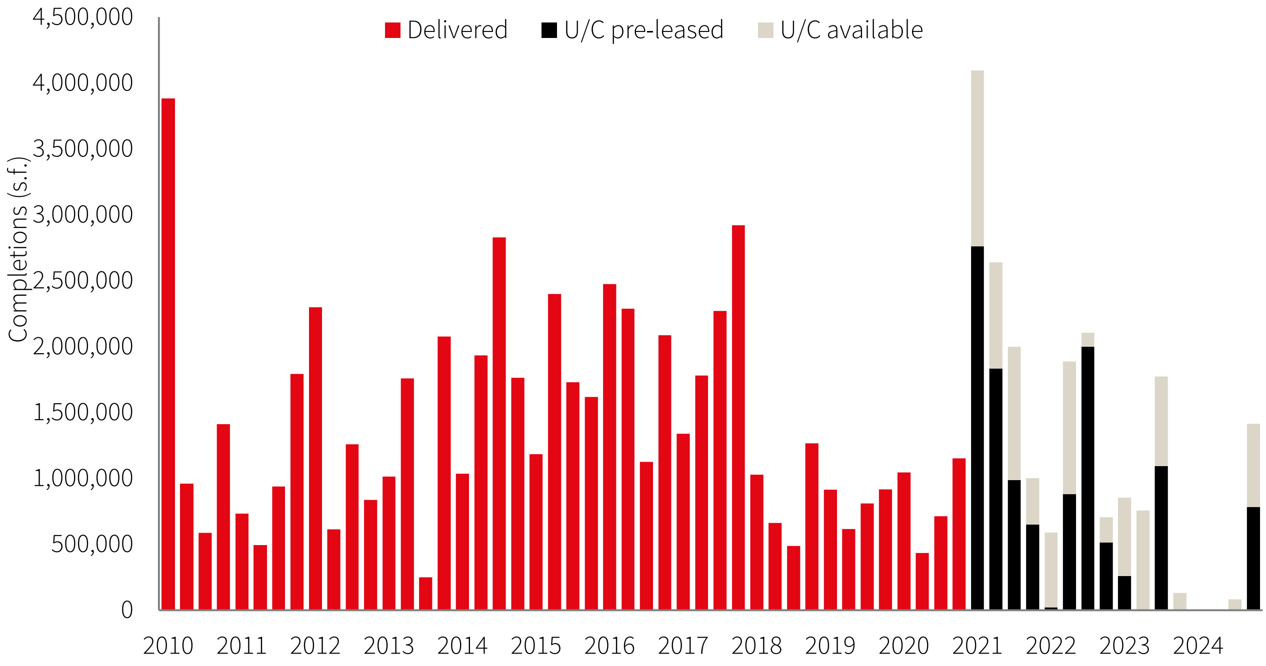
Source: JLL Research



Toronto, Vancouver and Montreal prepare for significant increase in office completions

2020 capped off the year with a further 1.2 million square feet of new completions. 16 York Street in Toronto accounted for most of the completions and was delivered 85.5% pre-leased. With asking rates in the high 40s, completions of this nature helped contribute to the increase in asking rents seen in the Downtown Toronto market.

2021 is shaping up to be a significant year for office completions, with an estimated 9.7 million s.f. to be delivered. Pre-leasing (64.0%) will help dampen the effect on vacancy rates. The majority of completions will be located in Toronto (53.7%) Vancouver (24.4%) and Montreal (15.6%). Significant upcoming deliveries include 81 Bay Street in Toronto that will deliver 1.5 million s.f. and 753 Seymour in Vancouver that will deliver 370,000 square feet. A further 8.8 million s.f. of office completions are estimated to be delivered between 2022 and 2023.



Source: JLL Research

Downtown Toronto

Vacancy returns to 2017 levels amidst the second wave of COVID-19 and continuously low leasing

- Vacancy increased by 130 basis points in Q4, currently at 5.1%, effectively negating the occupancy gains made from 2018-2020.
- Although activity is up 39.8% quarter-over-quarter, leasing volumes in Q4 remained historically low at over 487,000 square feet.
- Carttera's Portland Commons project broke ground on spec this quarter, which will bring 560,000 s.f. to the market in 2023.

For the third consecutive quarter, vacancy in Downtown Toronto continued to increase. The market posted a quarterly negative net absorption rate of over 95,000 s.f., as total vacancy rose to 5.1%. Although Downtown Toronto remains the tightest CBD market in North America, this increase has effectively negated three years of occupancy gains in the space of three quarters, bringing market vacancy back to 2017 levels.

The low rate of negative net absorption is somewhat of a false positive. The completion of 16 York Street, which was 85.5% pre-leased upon delivery, tempered the negative net absorption rate for the Downtown market. However, this only offset the addition to inventory and obfuscates the true volume of occupancy losses. Removing 16 York Street from the equation brings net occupancy losses for the Downtown market to nearly -847,000 s.f. in Q4, comparable to the nearly 1-million-s.f. occupancy loss in Q2, driven both by new sublets and direct availabilities turning vacant amidst low levels of leasing. The completion of renovation work at 320 Bay St. alone added over 221,000 s.f. of vacant direct space.

Although leasing activity remained historically low at over 487,000 s.f. leased in Q4, this figure does represent a 39.8-percent increase over Q3 and a 2028.4-percent increase over Q2, a promising indicator heading into 2021. A major trend in 2020 has been the continued prevalence of technology as the primary driving force behind office space demand, despite assumptions that the industry would be the most adaptable to work-from-home policies. Technology firms leased over 850,000 s.f. in 2020, accounting for 46.9% of leasing. Marquee tech transactions in Q4 include WealthSimple backfilling Shopify's 30,000-s.f. space at 80-82 Spadina Avenue and Fiix Software leasing Loblaw Digital's former 35,000-s.f. space at 40 Hanna Avenue.

Outlook

As occupancy losses mounted in Q4, market participants eagerly look to 2021. Market confidence remains steady, amidst stable asking rents as well as rising leasing and construction activity. With recovery increasingly hinging on current vaccination rollouts in Canada, the market is in a race against time in order to start a path to recovery in 2021.

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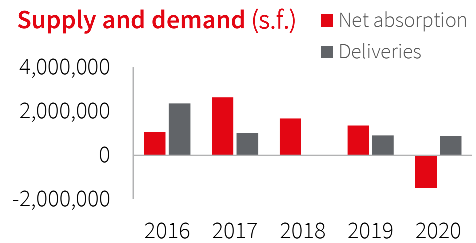
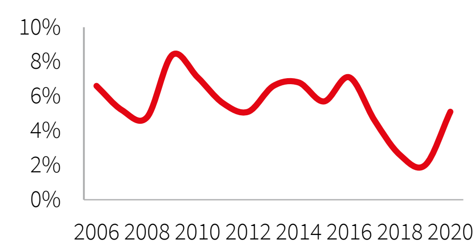
Fundamentals	Forecast	
YTD net absorption	-1,501,273 s.f.	▼
Under construction	9,752,400 s.f.	▶
Total vacancy	5.1%	▲
Sublease vacancy	1,239,976 s.f.	▲
Direct asking gross rent	$66.72 p.s.f.	▶
Sublease asking gross rent	$57.50 p.s.f.	▶
Concessions	Increasing	▲

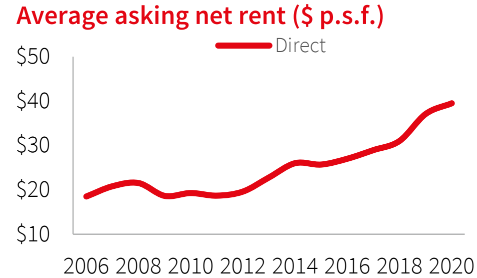
Supply and demand (s.f.)



Total vacancy (%)



Average asking net rent ($ p.s.f.)



GTA West

Sluggish leasing activity continues in GTA West as 2020 draws to a close

- Leasing activity continues to be muted, as only 214,818 s.f. of office space transacted in seven deals greater than 10,000 s.f. in Q4.
- Vacancy rose 60 basis points in Q4, currently sitting at 14.1%.
- Year-to-date absorption remained in positive territory, a bright spot in contrast to other office markets in the Greater Toronto Area.

The GTA West office market ended the tumultuous year with 177,108 s.f. of negative net absorption in Q4– the second highest quarterly occupancy loss since 2007. However, the overall absorption remains in positive territory, a bright spot compared to other office nodes in the GTA, with vacancy increasing by 110 basis points since the beginning of pandemic from 13% in Q1 to 14.1% in Q4. In the same period, vacancy in Downtown Toronto saw a threefold increase from 1.9% in Q1 to 5.1% by Q4.

One of the main drivers continues to be sublet availability. The GTA West market saw an increase in sublet space by 103,081 s.f. in Q4, and a total of 268,576 s.f. since the start of a pandemic, whereas Downtown Toronto saw an influx of almost 1.5 million s.f. of sublet space in the same period.

Overall leasing volume remained far below pre-pandemic levels in 2020, down by 51.3% compared to 2019 as corporate occupiers are still buying time until the fog clears from the uncertainty of future economic conditions. Only seven transactions over 10,000 s.f. were signed in Q4, totaling 214,818 square feet. Scotia Bank (65,000 s.f.) and Schawk Canada Inc. (31,068 s.f.) renewed at 185 the West Mall and 1620 Tech Avenue, respectively. Mikhaiel Logistics Inc. (47,900 s.f.) took over a sublease at 1383 Joshua Creek, and Memory & Company (25,665 s.f.) will relocate to 407 Iroquois Shore for a fifteen-year term.

In terms of investment, Montreal-based Groupe Mach enters the Greater Toronto Area market with the acquisition of First Meadowvale Centre for $72.2 million – the second largest sale in 2020 after 2300 Meadowvale Boulevard, which was sold for $75.7 million to BMO Life Assurance.

Outlook

Uncertainty is expected to keep recovery slow in the beginning of 2021 as tenants continue to delay real estate decisions. But the COVID-19 vaccine rollout, which is in phase one of rollout to priority groups, will be instrumental to make offices safe again.

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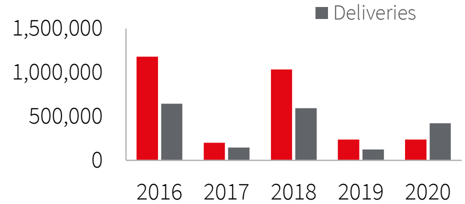
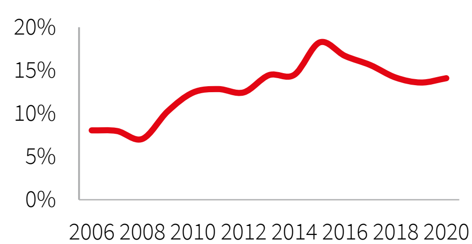
Fundamentals	Forecast
YTD net absorption	235,783 s.f. ▼
Under construction	252,326 s.f. ▼
Total vacancy	14.1% ▲
Sublease vacancy	640,139 s.f. ▲
Direct asking gross rent	$31.96 p.s.f. ▶
Sublease asking gross rent	$27.55 p.s.f. ▶
Concessions	Stable ▶

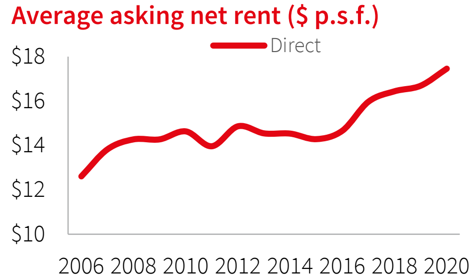
Supply and demand (s.f.)



Total vacancy (%)



Average asking net rent ($ p.s.f.)



GTA North East

Leasing activity remains muted in the final quarter of 2020 as vacancy continues to rise

- The GTA North East office market posted an annual net absorption loss of over 450,627 s.f., the second highest annual loss since 2009.
- Leasing activity has remained muted amidst uncertainty and despite news of the vaccine rollout.
- Sublet availability increased by 333,563 s.f. since the beginning of COVID-19 to a total of 1.3 million s.f. in Q4.

Roughly 10 months into the pandemic, leasing activity remained sluggish at 80,682 s.f. in Q4 and 426,260 s.f. for the entire year –71% lower than the four-year average leasing volume. Notable leases in Q4 included Purdue Pharma and Leo Pharma leasing 22,000 s.f. and 14,000 s.f., respectively, at the Steeles Tech Campus. Leo Pharma is vacating a full floor at 123 Commerce Valley Drive. Meanwhile, Sporting Life (35,400 s.f.) will move into a sublease at 7777 Weston Road. Additionally, Purdue Pharma sold their campus at 575 Granite Court in Pickering to Blackwood Partners.

The GTA North East market posted 292,202 s.f. of net negative absorption in Q4 – the second consecutive quarter to remain in negative territory. This is attributed to notable large blocks returning to market, which included two full floors by both Thomas Reuters at 2075 Kennedy Road and Sony Music at 150 Ferrand Drive, as well as a 30,500-s.f. block by Town of Richmond Hill at 225 E Beaver Creek Road. As a result, vacancy increased from 10.3% in Q3 to 10.9% in Q4, bringing market vacancy back to 2018 levels.

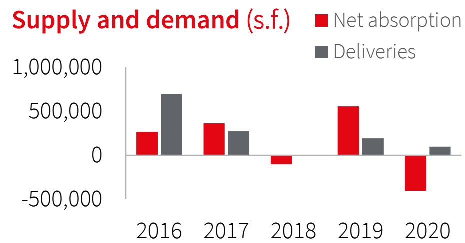
While the Downtown Toronto office market has been more affected by rising sublet availability, the GTA North East sublet availability has increased by 333,563 s.f. since the beginning of COVID-19 from 1 million s.f. in Q1 to 1.4 million s.f. in 2020.

Outlook

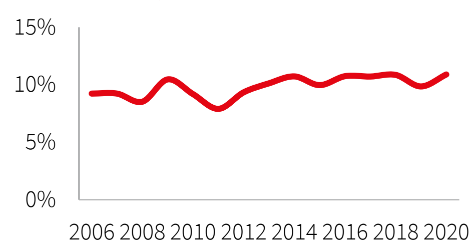
With prolonged pandemic restrictions, companies have continued to push their return-to-work timelines to wait and see what 2021 holds. However, the COVID-19 vaccine rollout, which is currently in the first phase of rollout to priority groups, will be instrumental to normalize the market in 2021.

Fundamentals	Forecast	
YTD net absorption	-405,627 s.f.	▲
Under construction	0	▶
Total vacancy	10.9%	▲
Sublease vacancy	564,640 s.f.	▲
Direct asking gross rent	$32.04 p.s.f.	▶
Sublease asking gross rent	$33.67 p.s.f.	▶
Concessions	Increasing	▲

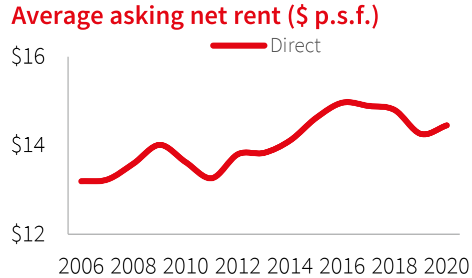
Supply and demand (s.f.)



Total vacancy (%)



Average asking net rent ($ p.s.f.)



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Ottawa

Capitol City sees its largest quarterly occupancy loss since 2014 in the fourth quarter

- Although Downtown saw the brunt of occupancy losses during 2020, suburban occupancy losses accelerated to nearly 330,000 s.f. in Q4.
- Total vacancy has now returned to the 10-year average for the market, currently at 8.7%.
- For the first time since the beginning of the pandemic, direct asking gross rents fell by 0.9% to a current average rent of $33.45.

Amidst continued stagnant leasing activity in the fourth quarter, the Ottawa office market is beginning to show tangible impacts from the COVID-19 lockdown. Although the suburban market proved to be a point of resilience in Q2 and Q3, occupancy losses in the suburbs accelerated in Q4, posting a quarterly net absorption of -329,830 s.f. Downtown occupancy losses decelerated somewhat to a quarterly net absorption figure of -75,416 s.f. The result is one of the largest quarterly occupancy losses in the past decade for Ottawa at -405,246 s.f. This figure has only been exceeded twice in Q2 2014 and Q1 2011. This has pushed vacancy up 100 basis points quarter-over-quarter to 8.7%, equal to the 10-year average for the market but still below the previous peak of 12.7% in Q2 2017.

The increase was overwhelmingly driven by the lack of leasing activity, as pre-existing availabilities turned vacant. New availabilities added to market decelerated in Q4. Total availability increased by only 30 basis points in Q4, compared to the 100-bps increase in Q3. Considering the 100-bps increase to vacancy in Q4, pre-existing availabilities turning vacant drove the increase in vacancy, especially in Kanata which has seen some of the largest suburban sublets added to the market since Q1.

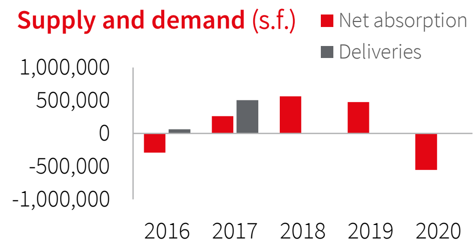
Meanwhile, for the first time since the beginning of the pandemic, average rents fell by 0.9% quarter-over-quarter to a current average asking gross rent of $33.45 for the market, with several landlords across the market offering increased inducements as well in order to attract leasing.

Outlook

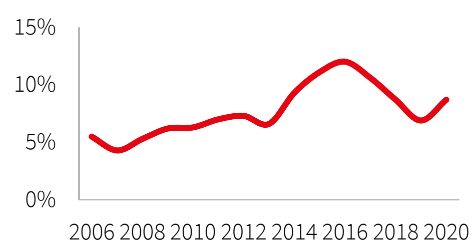
The Ottawa office market remains at a critical junction. Negative fallout from the COVID-19 lockdown is beginning to manifest in market statistics but remains within historical market range and far below the impacts seen in other global markets such as the US. Any potential recovery is increasingly contingent on the current vaccine rollout and any subsequent return of market demand. Ottawa has the added variable of federal government leasing activity as well, which in past recessions has propped up the city's office market, but any future demand remains opaque for now.

Fundamentals	Forecast	
YTD net absorption	-555,799 s.f.	▼
Under construction	459,845 s.f.	▶
Total vacancy	8.7%	▲
Sublease vacancy	526,349 s.f.	▲
Direct asking gross rent	$33.45 p.s.f.	▶
Sublease asking gross rent	$36.35 p.s.f.	▶
Concessions	Increasing	▲

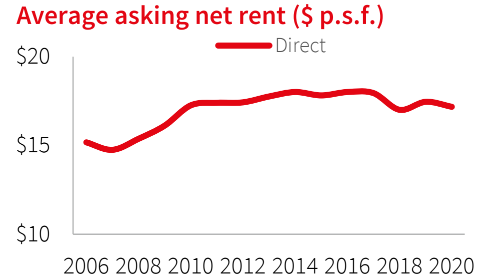
Supply and demand (s.f.)



Total vacancy (%)



Average asking net rent ($ p.s.f.)



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Montréal

Market crosses 2-million-s.f. sublease availability threshold for the first time in two decades

- Q4 saw the third consecutive quarter of negative absorption for the GMA.
- Currently, there is over 2 million s.f. of sublease availability throughout the GMA, a first for the market in the past 20 years.
- Despite a temporary construction shutdown this year, 692,000 s.f. of new supply delivered to market across the GMA.

Q3 marked the beginning of a momentum shift in office fundamentals towards increasing vacancy and negative net absorption in the Montreal office market. This remained the case in Q4 as vacancy throughout the GMA increased by 60 basis points to a current total of 10.0%. However, this is still 60 basis points shy of the 10-year average for the GMA. Much of this increase can be attributed to sublet space coming to market and limited leasing activity. Current sublet availability for the GMA is at 2,069,417 s.f. and rising quickly – the two-million-s.f. threshold has not been crossed in the last 20 years.

Moreover, the reported year-to-date absorption is not a true representation of the changes in occupancy this year due to new newly tracked inventory added in Q4, such as 733 Rue Cathcart. Offsetting the new inventory, true absorption for the GMA in Q4 is -471,932 square feet, making Q4 the third consecutive quarter of negative net absorption in the market. As such, true year-to-date absorption was -673,448 square feet. The bulk of the negative absorption can be seen in Class B and C assets, accounting for 89% of the yearly negative net absorption.

Despite a temporary construction shutdown this year, 691,000 s.f. of new supply delivered to market across the GMA. Furthermore, space optimization strategies of 15%-30% are currently being adopted throughout the GMA to reduce office footprint. Expect these factors to contribute to a significant increase in availability and apply downwards pressure to net asking rates as tenants revise space requirements amidst increased vacancy from new supply.

Outlook

Forecasted workplace trends, with many occupiers in the process of reorganizing and redesigning their future space requirements, may pose an obstacle to the recovery of office fundamentals. The current vaccine rollouts will also play a role in determining market confidence and market demand going ahead. However, comparatively to other North American markets, the GMA is proving to be resilient. Montreal's CBD is the fourth tightest among North American markets. The GMA, in its entirety, is sixth in terms of total vacancy. The Montreal office market experienced a record-setting year in 2019, and that pace held through the first quarter of 2020. Although it will be challenging to identify precisely when the GMA office fundamentals will rebound from the losses seen in 2020, Montreal remains well-positioned now for a potential recovery.

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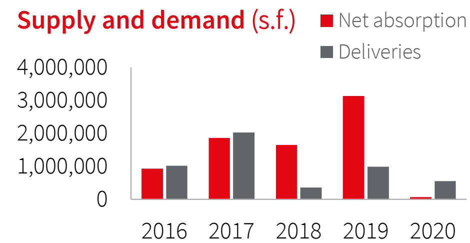
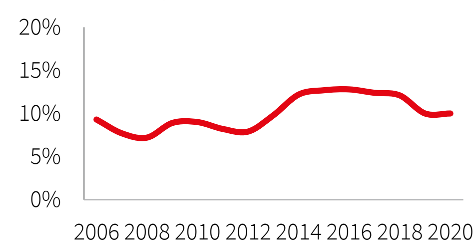
Fundamentals	Forecast
YTD net absorption	66,938 s.f. ▶
Under construction	3,833,261 s.f. ▶
Total vacancy	10.0 % ▲
Sublease availability	2,069,417 s.f. ▲
Direct asking gross rent	$33.38 p.s.f. ▶
Sublease asking gross rent	$27.01 p.s.f. ▶
Concessions	Stable ▶

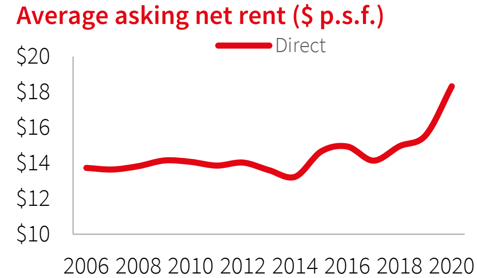
Supply and demand (s.f.)



Total vacancy (%)



Average asking net rent ($ p.s.f.)



Montréal

Pour la première fois en deux décennies, la superficie des locaux offerts en sous-location franchit le seuil des 2 millions de pieds carrés

- La GRM a connu son troisième trimestre consécutif d'absorption négative au cours du T4
- Il y a actuellement plus deux millions de pieds carrés offerts en sous-location dans la GRM, une première pour ce marché au cours des 20 dernières années.
- Malgré l'arrêt temporaire des travaux de construction au cours de la dernière année, 692 000 pieds carrés de nouveau produit ont été livrés sur le marché de la GRM.

Le troisième trimestre a marqué le début d'une nouvelle dynamique en ce qui concerne les indicateurs de base du marché des bureaux de Montréal. En effet, une augmentation du taux d'inoccupation et une absorption nette négative sont survenues sur ce marché au cours de ce trimestre. La tendance s'est maintenue au quatrième trimestre, le taux d'inoccupation ayant augmenté de 60 points de base dans l'ensemble de la grande région de Montréal (GRM) pour atteindre un total actuel de 10,0 %. Toutefois, ce chiffre demeure inférieur de 60 points de base à la moyenne des dix dernières années dans la GRM. Une grande partie de cette augmentation peut être attribuée à l'arrivée sur le marché de locaux offerts en sous-location et au faible niveau d'absorption. La disponibilité actuelle des locaux offerts en sous-location dans la GRM est de 2 069 417 pieds carrés, et augmente toujours aussi rapidement. Fait à noter, le seuil des deux millions de pieds carrés n'avait jamais été franchi au cours des 20 dernières années.

En outre, le taux d'absorption cumulé de l'année n'est pas une représentation fidèle des changements qui ont eu lieu cette année en matière d'occupation et ce, en raison de l'ajout de nouvel inventaire au cours du quatrième trimestre, tel que celui du 733 rue Cathcart. En contrepartie de ce nouvel inventaire, l'absorption réelle de la GRM au quatrième trimestre se situe à -471 932 pieds carrés, ce qui en fait le troisième trimestre consécutif d'absorption nette négative sur le marché. Ainsi, l'absorption réelle au cours des douze derniers mois, a été de -673 448 pieds carrés. La majeure partie de l'absorption négative a été observée dans les actifs de catégories B et C, qui représentent 89 % de l'absorption nette négative annuelle.

Malgré un arrêt temporaire des travaux de construction cette année, 691 000 pieds carrés de nouveau produit ont été livrés sur le marché dans la grande région de Montréal. En outre, des stratégies d'optimisation de l'espace de l'ordre de 15 à 30 %, sont actuellement adoptées dans l'ensemble de la GRM pour réduire l'empreinte des bureaux. On s'attend à ce que ces facteurs contribuent à une augmentation significative du taux de disponibilité et exercent une pression à la baisse sur les loyers nets affichés, car les locataires révisent leurs besoins en espace alors que le taux d'inoccupation augmente en raison de la nouvelle offre.

Perspectives

Les tendances escomptées quant aux lieux de travail, étant donné que de nombreux occupants réorganisent et redéfinissent leurs besoins éventuels en espace, peuvent constituer un obstacle au redressement des indicateurs de base du marché des bureaux de Montréal. Le déploiement des vaccins jouera également un rôle dans la détermination de la confiance du marché et de la demande au cours des prochains mois. Toutefois, par rapport à d'autres marchés nord-américains, le marché de la GRM fait preuve de résistance. En effet, le quartier central des affaires de Montréal est le quatrième marché le plus serré parmi les marchés nord-américains en termes de taux d'inoccupation, tandis que le marché des bureaux de la GRM dans son ensemble se situe au sixième rang. Le marché des bureaux de Montréal a connu une année record en 2019, et ce rythme s'est maintenu au cours du premier trimestre de 2020. Bien qu'il soit difficile de déterminer avec précision à quel moment les indicateurs de base du marché des bureaux de Montréal se remettront des pertes subies en 2020, Montréal demeure en bonne position pour une éventuelle reprise.

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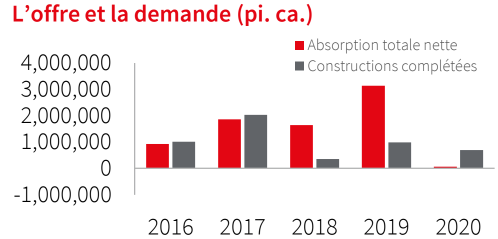
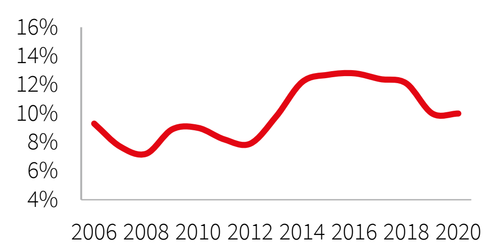
Fondamentaux	Prévisions
Absorption totale nette CDA	66 938 p.c. ▼
En construction	3 833 261p.c. ▶
Taux d'inoccupation global	10,0 % ▲
Taux d'inoccupation pour sous-locations	2 069 417 p.c. ▲
Moyenne des loyers bruts	33,38 $/ p.c. ▶
Moyenne des loyers bruts pour sous-locations	27,01 $/ p.c. ▼
Allocation	Stable ▶

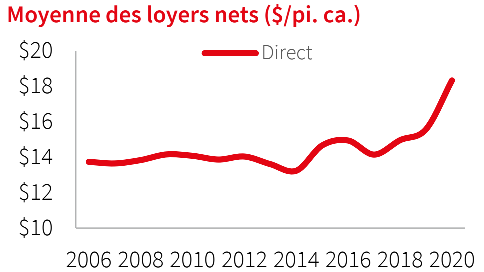
L'offre et la demande (pi. ca.)



Taux d'inoccupation global



Moyenne des loyers nets ($/pi. ca.)



Edmonton

Flight to quality continued while Class B assets absorbed majority of net occupancy losses

- Downtown and Suburban Class A and AA markets totaled 9,633 s.f. of positive net absorption for the quarter.
- Edmonton Class B markets accounted for 92% of net occupancy losses for the year.
- Combined Class A and AA Downtown asking net rents averaged $20.91 per square foot while Class B averaged $14.54 p.s.f.

Alberta pandemic restrictions ramped up in Q4, culminating in the second provincial lockdown of 2020. Under the new restrictions, office tour numbers fell as face-to-face economic activity slowed to a crawl. Edmonton Office market net occupancy losses grew by 93,435 s.f. over the quarter, leaving year-to-date total net occupancy losses at 169,335 s.f. Despite these developments, downtown bucked the trend and decreased vacancy by 0.1%, from 19.3% in Q3 2020 to 19.2% in Q4 2020, as tenants took possession of space negotiated in prior quarters. Suburban vacancy edged higher, quarter over quarter, from 18.6% in Q3 2020 up to 19.0% in Q4 2020.

Leasing activity was dominated by relocations and expansions within the market. McCuaig Desrochers LLP leased 14,000 s.f. at TD Tower. One Properties expanded into 11,022 s.f. at 103 Street Centre and GWL Realty relocated within First and Jasper and occupied 8,181 s.f.. Average asking gross rent decreased by 1.7%, quarter-over-quarter, from $33.26 p.s.f. in Q3 2020 to $32.71 p.s.f. in Q4 2020.

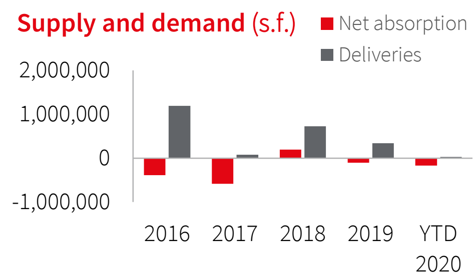
Despite the dip in leasing activity, capital markets had a busy quarter in the Financial Core with two high profile sales. Trez Capital purchased the CN Tower for $10 cash and assumed debt of $64.1 million while Redstone purchased CWB Place for $85.3 million.

Outlook

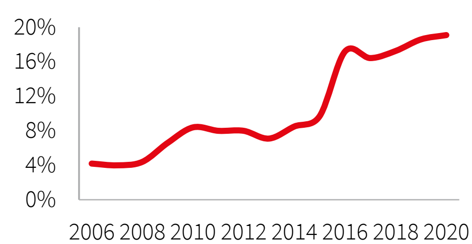
Renewed investor confidence in Alberta's energy industry in tandem with the COVID-19 vaccine rollout have increased the odds of recovery for the Edmonton office market in 2021. The Edmonton LRT Valley Line Southeast is set to open in the new year, increasing accessibility to the downtown core and the growing list of businesses and amenities on offer.

Fundamentals		Forecast
YTD net absorption	-169,335 s.f.	▶
Under construction	0 s.f.	▶
Total vacancy	19.1%	▶
Sublease vacancy	556,411 s.f.	▲
Direct asking gross rent	$32.71 p.s.f.	▶
Sublease asking gross rent	$23.10 p.s.f.	▼
Concessions	Stable	▼

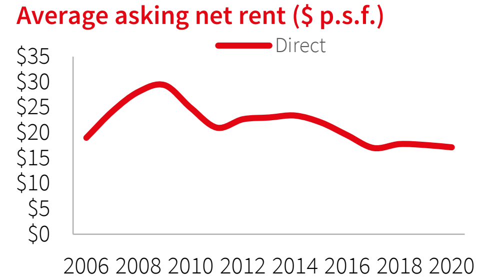
Supply and demand (s.f.)



Total vacancy (%)



Average asking net rent ($ p.s.f.)



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Downtown Calgary

In a year of uncertainty, the CBD vacancy rate remained high but stable

- Vacancy increased 9 basis points from 2019, finishing 2020 at 25.7%. This includes the addition of the Telus Sky and the return of 801 7th to inventory.
- The announcement of the merger between Cenovus and Husky Energy will be felt by the downtown commercial real estate market.
- Downtown remains in the bottoming phase as the impact of COVID-19 has not been fully factored in. We enter the New Year in a mandatory lockdown and the effects of the vaccine rollout on Calgary have yet to be understood.

Downtown Calgary vacancy increased a nominal 6 basis points in Q4 as the head lease and sublease markets remained stable ending 2020. Gross rents for head leases in the CBD stayed below that of the suburban market which averaged $30.23 p.s.f. As suburban rates remain higher going into 2021, we expect to see not only a flight to quality amongst downtown tenants into Class A buildings, but also tenants in suburban markets moving into the amenity rich properties downtown.

The sublease asking gross rent decreased from $26.50 in Q3 to $24.30 in Q4 as expirations loom throughout 2021 and 2022. The sublease market remains competitive and heavily tenant favorable. Sublease availability at 2.7 million s.f. represents 24% of overall vacancy. Despite a modest increase in sublease vacancy from Q3, we continue to see activity in this sector. JLL's listing of the 50,607 s.f. Murphy Oil sublease in Centennial Place East was completed in the quarter.

WTI and WCS oil price increased throughout Q4, showing the potential for some stability for oil and gas tenants going into 2021. The number of wells drilled in Alberta in October doubled to 200 from 109 in September. But due to the uncertainty throughout 2020, oil companies continue to restructure and consolidate as seen by the merger between Cenovus and Husky Energy. This merger could push available sublease space in the West Core Class A market over a million s.f.

Outlook

The impact of COVID-19 on the CBD market has yet to be realized as restrictions change monthly, impacting plans to return to work. Mass vaccinations will not have an effect in the near term. The potential exists for companies to look at space utilization and downsizing their office footprint if they can successfully manage a work from home and office balance.

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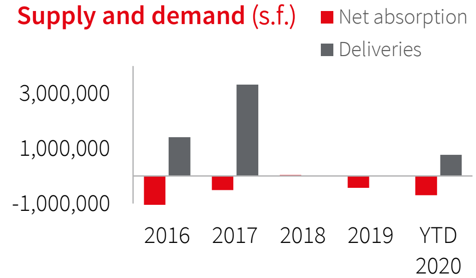
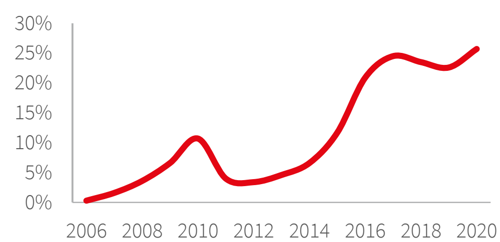
Fundamentals	Forecast
YTD net absorption	-692,204 s.f. ▼
Under construction	0 s.f. ▶
Total vacancy	25.7% ▲
Sublease vacancy	2,760,288 s.f. ▲
Direct asking gross rent	$28.70 p.s.f. ▼
Sublease asking gross rent	$24.30 p.s.f. ▼
Concessions	Stable ▶

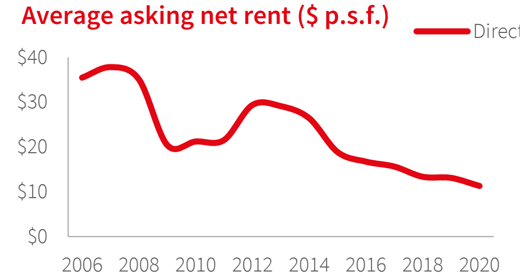
Supply and demand (s.f.)



Total vacancy



Average asking net rent ($ p.s.f.)



Suburban Calgary

Sublease vacancy increased in Quarry Park; large block opportunities available in Calgary's South

- Suburban vacancy is up to 18.9% in Q4 2020
- YTD net absorption at its lowest since 2018
- 290,000 s.f. coming available in Quarry Park as Oil & Gas firms continue to reduce their real estate footprint
- Biotech firm Northern RNA takes 22,714 s.f. of flex space in 335 25th Street SE

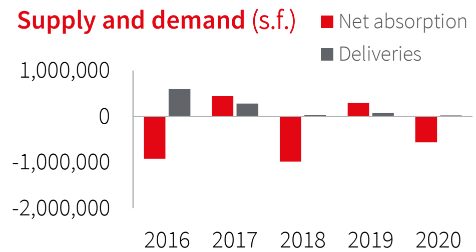
2020 was a difficult year for Calgary's suburban office market. Before the COVID-19 emergency was declared in early March, the suburban office market was poised for a slow but steady, recovery. The year's negative net absorption of 566,122 s.f. set suburban indicators back to 2018. Average vacancy rates in 2020 increased from 16.0% to 18.9% across all asset classes, the second highest vacancy rate on record. Federal and provincial governmental initiatives that protected commercial real estate tenants from being evicted and covered payroll expenses temporarily delayed the full impact of the increase in vacancy rates. As most of these measures expired, we saw a large spike at the end of the year. Deal volumes slowed down significantly in Q4 2020. One of the largest transactions of the quarter was local biotech firm Northern RNA taking 22,714 s.f. of flex space in 335 25th Street SE. Also, S2 Architecture leased 17,236 s.f. of office space in the District at the Beltline. On the capital markets side, an undisclosed investor acquired Louise Block, which was formerly part of Strategic Group's portfolio. In Quarry Park, 290,000 s.f. of contiguous space was listed in Q4 2020. Schneider Electric, Stantec and Enverus among others are subleasing full floors in the area to reduce their real estate footprint.

Outlook

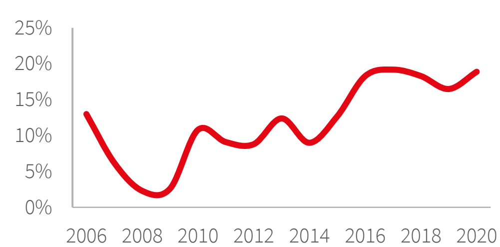
We are likely to see an increase in vacancy and reduced rents in the following quarters. However, it is not all negative. With the recent trend in U.S. of companies relocating to cheaper jurisdictions, we expect to see something similar across Canada. Tight markets in Vancouver, Toronto and Montreal make Calgary an excellent choice. Calgary offers affordable rents, an educated work force and one of Canada's lowest corporate taxes. The recent $1.1-billion purchase of tech firm Benevity by Hg Capital LLP, Crestpoint acquisitions in the Beltline and the new Taza Development, suggest that there is still plenty of opportunity for investors in Calgary's suburbs. As the push for the vaccine continues, we would expect the market to start to stabilize.

Fundamentals	Forecast
YTD net absorption	-566,122 s.f. ▼
Under construction	489,054 s.f. ▶
Total vacancy	18.9% ▲
Sublease vacancy	847,554 s.f. ▲
Direct asking gross rent	$28.30 p.s.f. ▼
Sublease asking gross rent	$22.91 p.s.f. ▼
Concessions	Stable ▶

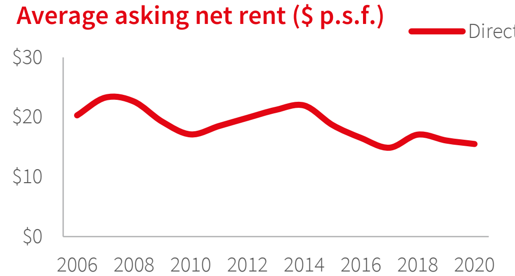
Supply and demand (s.f.)



Total vacancy



Average asking net rent ($ p.s.f.)



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Metro Vancouver

Availability is up 68% since the end of 2019, fueled by sublease space, however rents have continued to stay relatively stable

- Year over year Downtown sublet availability has risen from 19% of total availability to 39%
- Downtown Vancouver maintains its ranking as the market with the 2nd lowest total vacancy in North America
- MEC which was recently purchased has vacated 112,344 s.f. at 1077 Great Northern Way, which accounted for a large portion of negative absorption in the Broadway Corridor

Metro Vancouver finished off the year with negative absorption for the first time since 2013. COVID-19 has caused headwinds for the office market, total availability has increased by 68% since the end of 2019. The majority of this has been fueled by the sublet market which over the same period has seen its availability increase by 127% for Metro and 449% for Downtown. This is mainly a result of tenants moving to a work-from-home model for the foreseeable future as they wait for normality to return. This has both increased supply of space and reduced demand. For the tenants who are active, this offers prime opportunity for those who require turnkey short-term space.

It should be noted that Metro Vancouver still holds the title of the tightest metro market in North America with a total vacancy of 6.7%; an increase of 166 bps from Q4 2019. Due to this, asking rates have been stable throughout the pandemic. Downtown saw a year-over-year increase of 0.8% while the suburbs saw an increase of 3.9%. Landlords have been offering more favorable concessions but there have been no drastic reductions in asking rates as many had assumed.

Outlook

With the roll out of the COVID-19 vaccine, we take a step closer to market recovery. Going forward, we anticipate that a certain level of permanent work-from-home. Landlords in the short term will see pains associated with this change. However, long term we foresee demand for office space returning, due to the overall desirability of the Vancouver market in North America. Well situated on the West Coast, we take advantage of proximity to large tech hubs such as a Seattle, San Francisco and Silicon Valley. It offers competitive labor and office costs to U.S. companies as a result of the weaker Canadian dollar. We will continue to pay close attention to sublet and direct lease availability over the coming quarters for signs of possible recovery and how it will affect tenant and landlords alike.

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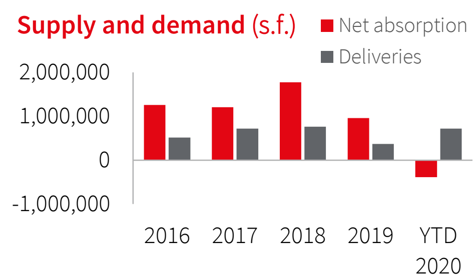
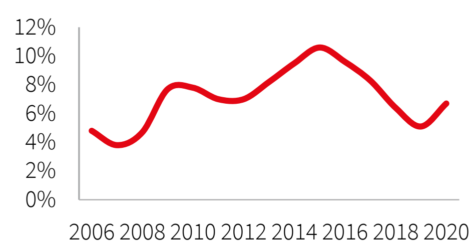
Fundamentals	Forecast
YTD net absorption	-387,685 s.f. ▼
Under construction	6,720,484 s.f. ▼
Total vacancy	6.7% ▲
Sublease vacancy	885,532 s.f. ▲
Direct asking gross rent	$44.62 p.s.f. ▶
Sublease asking gross rent	$39.00 p.s.f. ▶
Concessions	Rising ▲

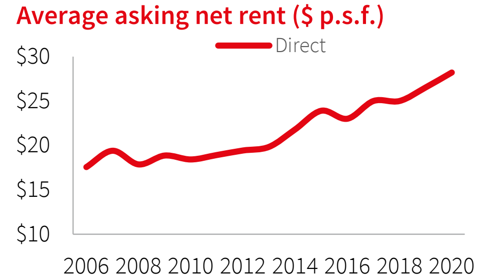
Supply and demand (s.f.)



Total vacancy (%)

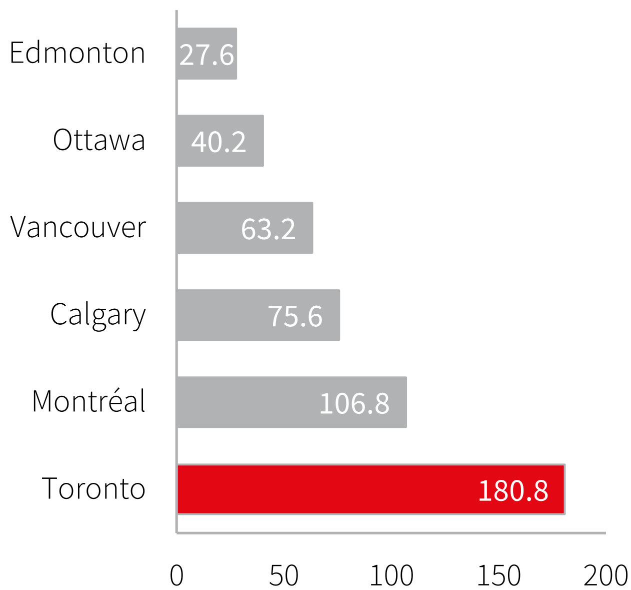


Average asking net rent ($ p.s.f.)



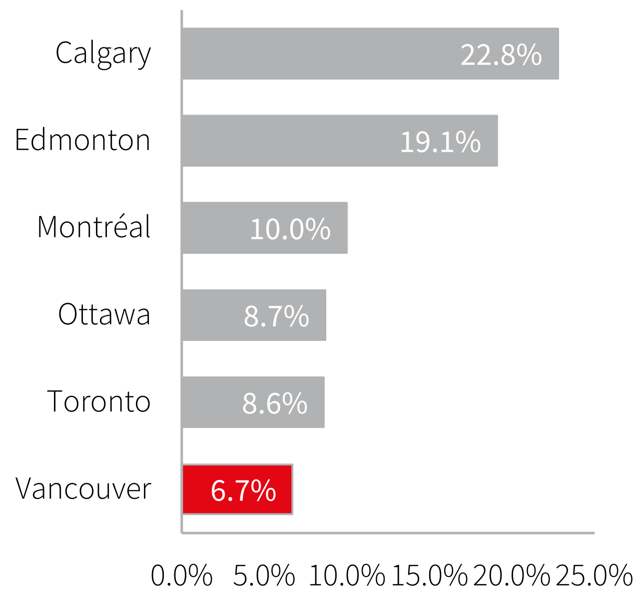
Appendix

Inventory
Square feet (millions)



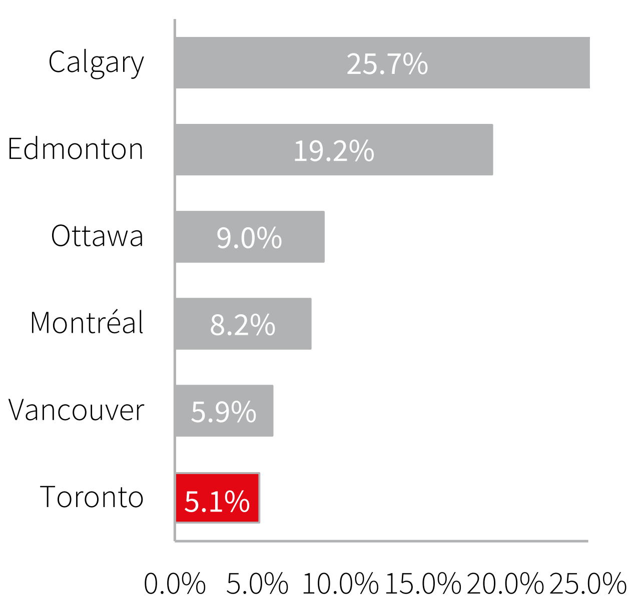
Source: JLL Research

Total vacancy rates by market
Vacancy rate (%)



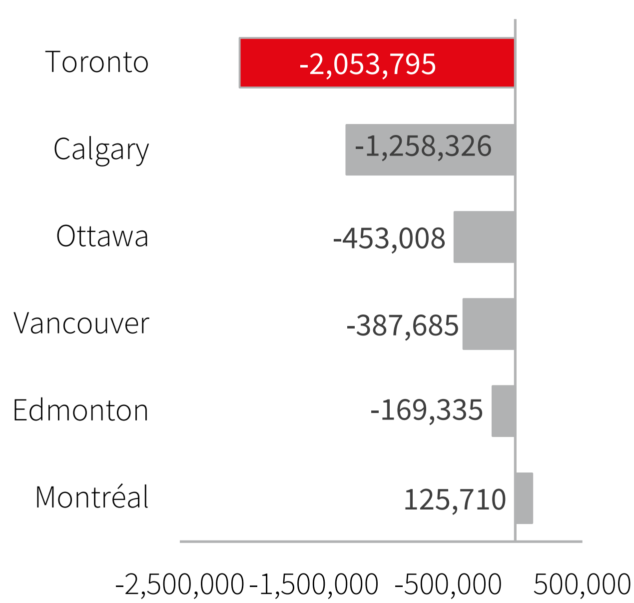
Source: JLL Research

Total vacancy rates by market, CBD
Vacancy rate (%)



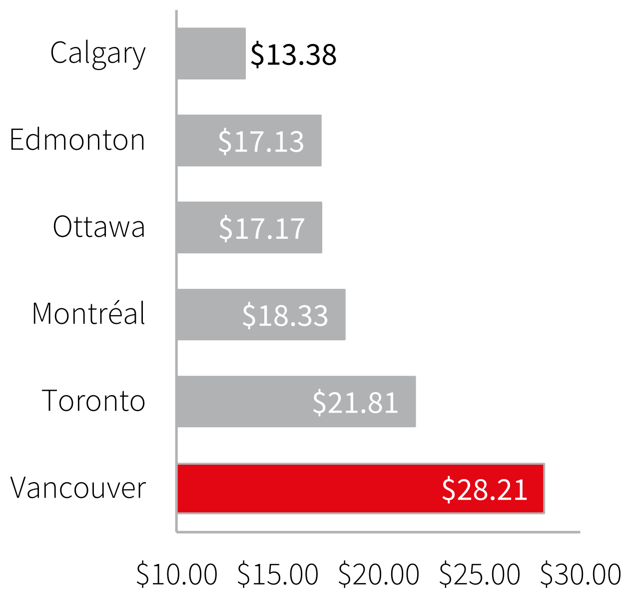
Source: JLL Research

YTD net absorption by market
Square feet



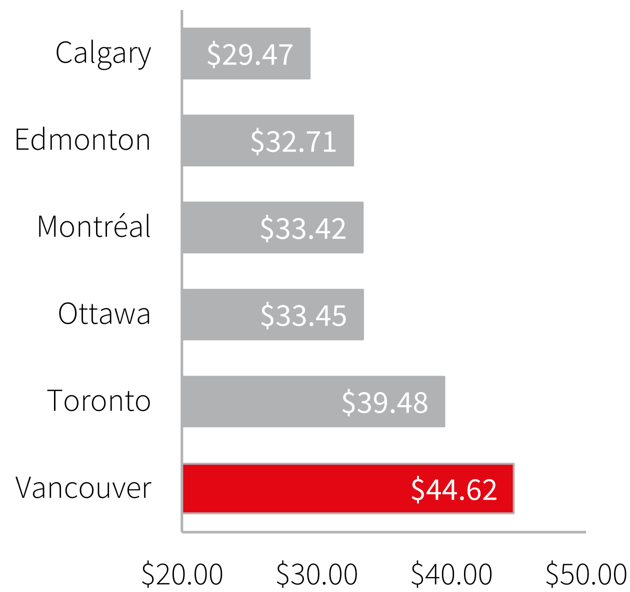
Source: JLL Research

Average net rent by market
Dollar per square foot ($ p.s.f.)



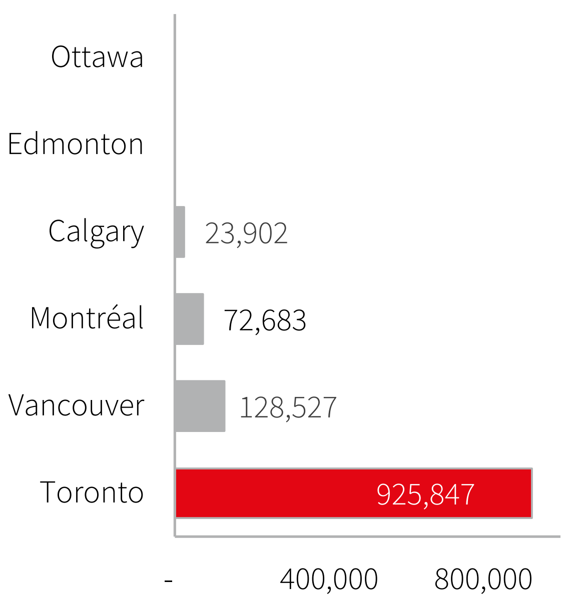
Source: JLL Research

Average gross rent by market
Dollar per square foot ($ p.s.f.)



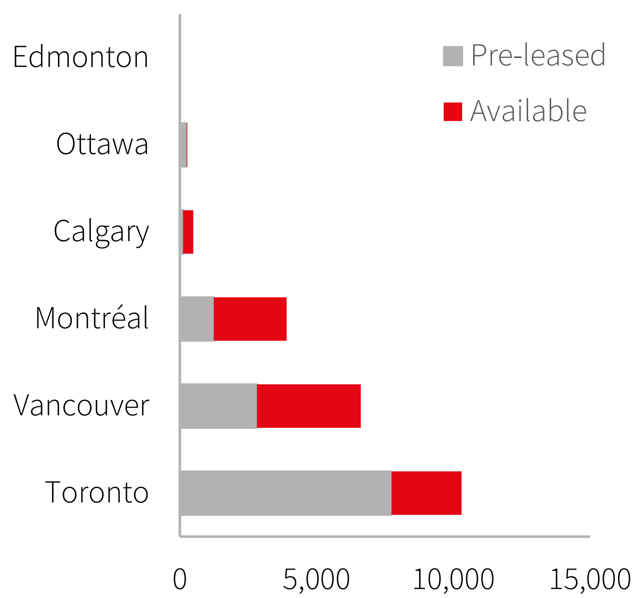
Source: JLL Research

Quarterly completions by market
Square feet



Source: JLL Research

Under construction and pre-leased by market
Square feet (thousands)



Source: JLL Research

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