



Lethbridge office market insights

July 2022

**AVISON
YOUNG**

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Office drivers:

- Economic conditions
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Section 1

Office Market trends in Canada

“Although the office sector is resilient, in a post-pandemic market there will be forced evolution in supply and demand with flexible solutions leading the way.”

- Ashley Soames, Senior Associate, Avison Young

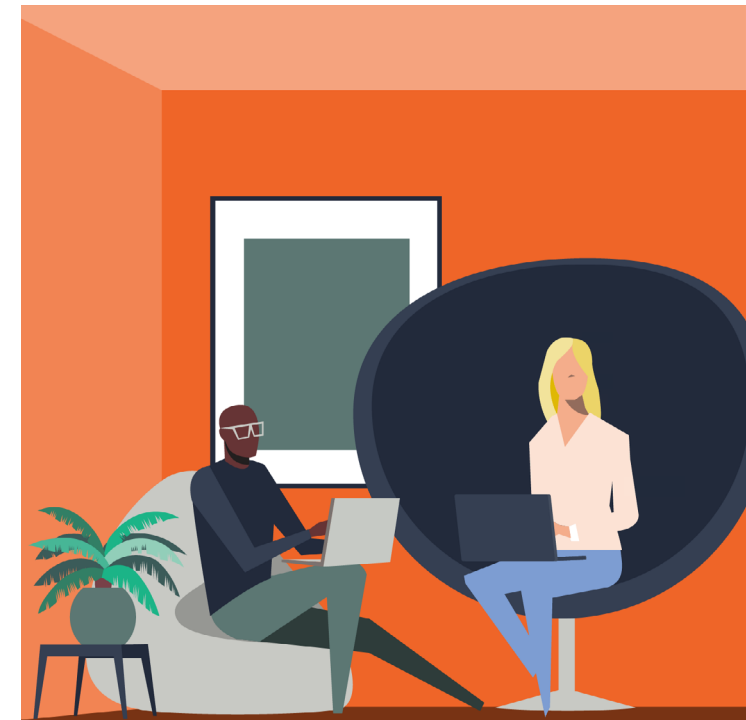
The COVID-19 Pandemic

How it has changed the view of office work and commercial real estate

It's impossible to talk about the 2022 Office Market without starting with the effects of the COVID-19 pandemic. Trends that were already emerging in certain markets were suddenly forced to accelerate. Most notably, 'working from home' and/or remote working went from being a luxury to a necessity.

New conversations were started about flexible work, co-working spaces, worker's health and wellbeing, and a better office life for the future. This shift in mentality and the realignment of individual workers with a greater emphasis on quality of life has been termed by experts as the 'Great Resignation' or 'Great Re-Evaluation.'

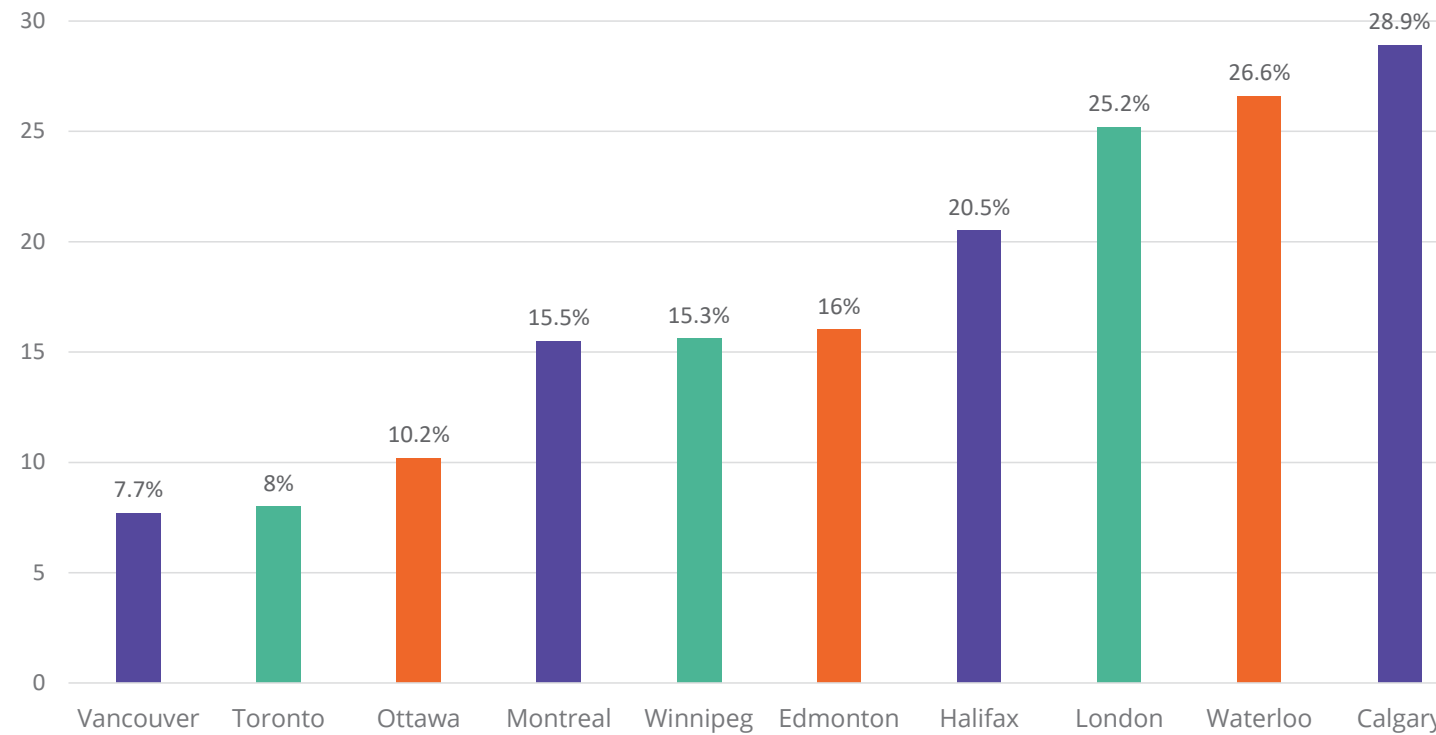
Demands for real estate with improved amenities and working environment skyrocketed causing a boom in AAA-Class occupancy.



Canadian office vacancy

Comparing vacancy rates across major cities in Canada

Office vacancy in Canadian markets



Data Source: CBRE



Canadian office vacancy

Commercial Real Estate sales volume has exceeded expectations. While Industrial and Multi-family sales have been leading the markets, Office real estate sales and leasing have been experiencing a varied recovery.

Office sales volume is up 341% year-over-year due largely to some major acquisitions in Toronto and Vancouver. Alberta experienced similar variance when Calgary's Bow Tower was sold for \$1.67 billion in August of last year.

While there is considerable variation, the CBRE estimates that office vacancy in Canada will average approximately 16.3% in 2022.

Although remote and hybrid workers are beginning the post-pandemic return to the office, individual companies are implementing different strategies for incorporating hybrid work schedules.

"The earliest that we're gonna get everybody back in the office is five years."

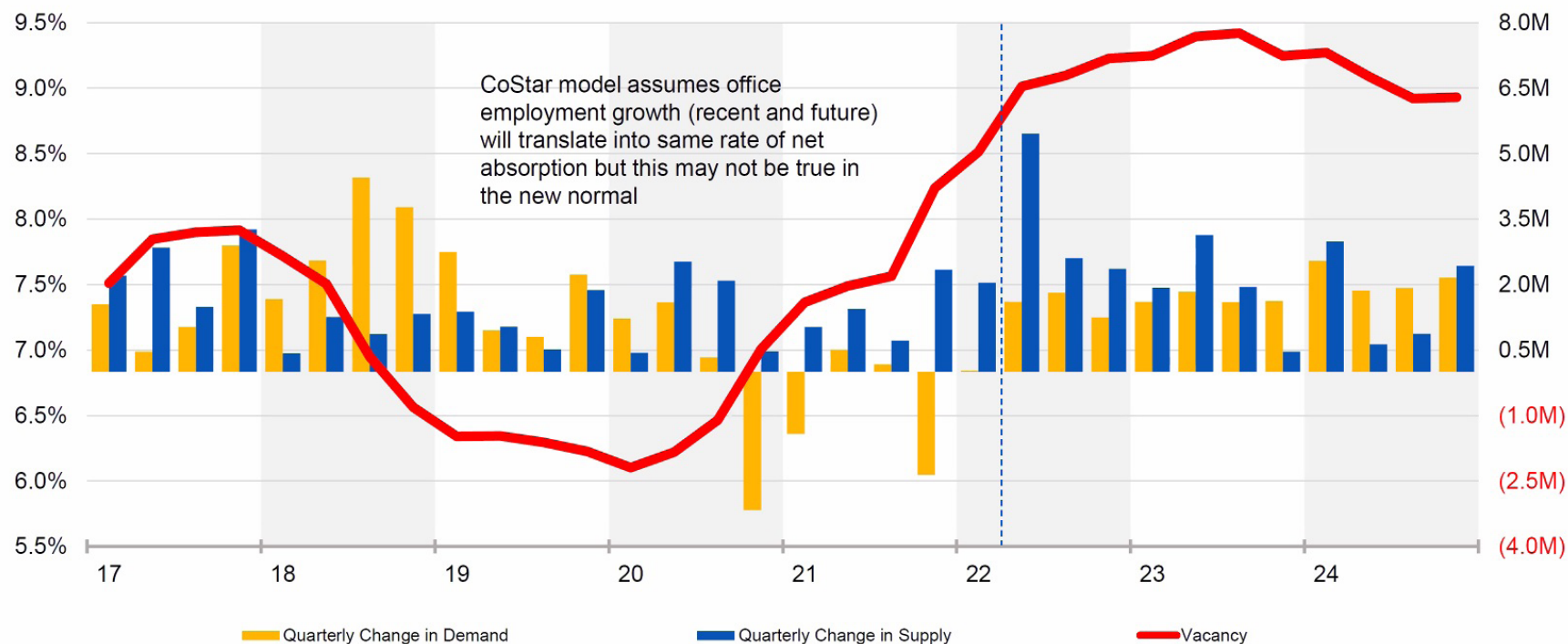
- Mark Rose, CEO, Avison Young



Canadian office vacancy

Office Market to remain firmly in tenants territory

Canada office supply, demand and vacancy



Graph Source: CoStar

Canadian office trends

In 2022, the office landscape is being changed and shaped by emerging shifts in culture, demand, and use.

What does the office CULTURE look like?

1. Flexible and remote working
2. Improved amenities and work environment
3. Corporate culture shift to a focus on employee work/life balance

What does the office MARKET look like?

1. Less overall demand, but new standards for space
2. High demand for AAA space
3. Changes to the workforce

What OTHER FACTORS are affecting the office market?

1. The Ukraine Crisis
2. Other uses of office space
3. Employment factors

Office culture

1. Flex and remote working

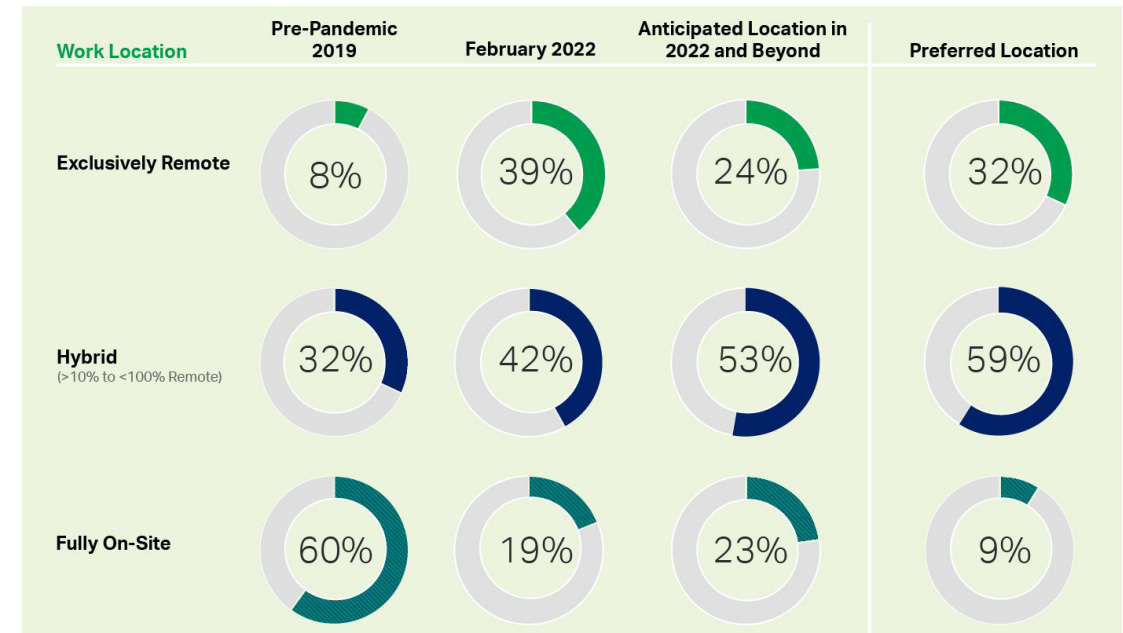
A record number of Canadians were forced to work from home due to the constraints of the pandemic. Numbers of Canadians working from home:

- **Fall 2016 - 4%** (pre-pandemic)
- **March 2020 - 40%** (height of the pandemic)
- **March 2021 - 30%** (easing of the pandemic)

In 2022, as Canadian companies begin to implement '**return to work**' policies, large numbers of workers are resistant to being in the office full-time.

According to Statistics Canada, approximately **30%** of workers **prefer remote working full-time** with more than 50% of workers preferring a hybrid approach.

Current and anticipated employee work locations for remote-capable jobs



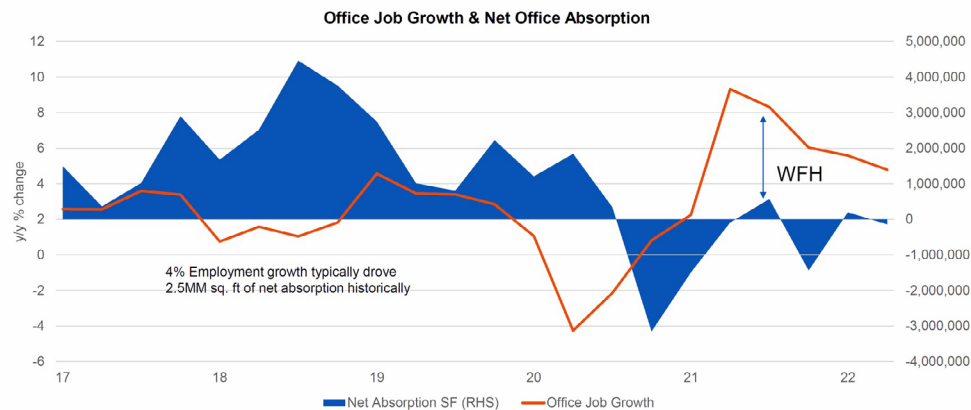
Graph Source: GDS Group

Office market

1. Flex and remote working

A remote workforce, or a flex workforce that utilizes shared spaces, decreases the demand for space overall. The National Association of Realtors predicts that, “An average work week with 3.5 days spent working in the office would net a 9% reduction in office demand.”

Canadian office demand altered by remote work



Graph Source: iOffice

But ...

Companies may require more space per employee. At the onset of the COVID-19 pandemic, the crowded conditions of modern offices became apparent. As a health concern, employers were forced to increase individual working spaces.

In order to attract and keep top talent, offices will have to consider their employees' wellbeing going forward. This includes enlarging individual working spaces. In a post-pandemic office, JLL property management **recommends increasing space allotted to workers by 50%**. This improvement in standard working space, could absorb some of the net reduction.

“Companies have been squeezing more and more people onto floor plates for a long time, with just 8.2 m per employee becoming a typical density”

- Magnus Meyer, Managing Director, WSP Nordics & Continental Europe

Office market

1. Flex and remote working

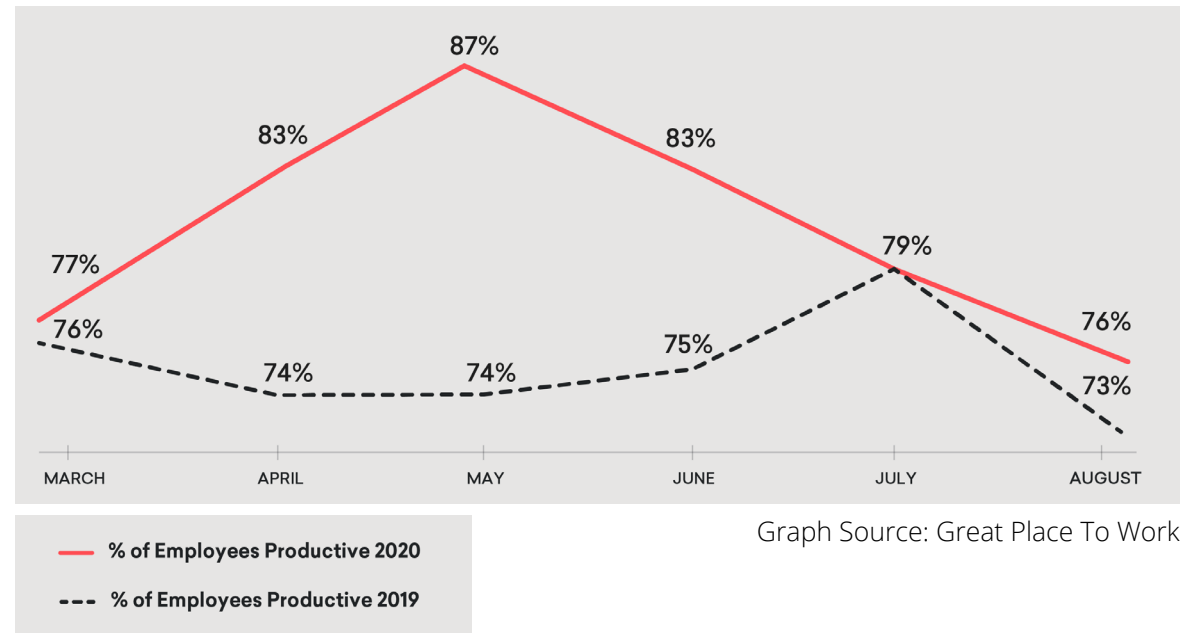
Working from home is viewed as less productive; a less productive workforce lowers output and overall GDP.

But ...

Remote work is, in fact, **more productive for those individuals who prefer to work from home**. While it may not suit every member of the workforce, the agility to arrange a workday around both work and home tasks means that there are more focused, productive hours.

Working from home expands the workforce outside urban centers and spreads economic prosperity to communities that previously haven't been able to support physical office space.

Employee productivity
March - August 2019 and 2020



Office culture

2. Improved amenities and environment

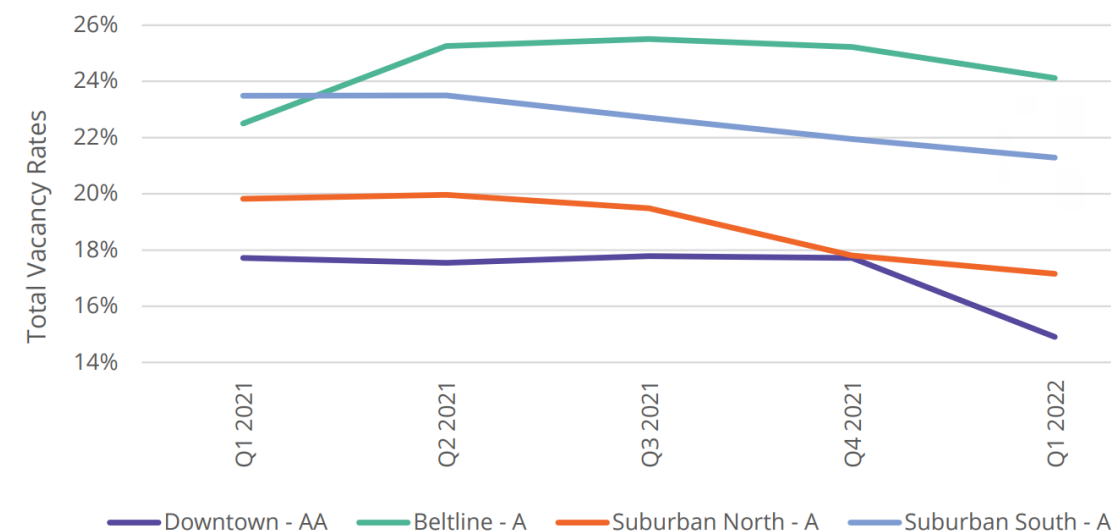
Demand for office space varies based on location and type, with urban AAA-class and built-to-suit suburban AAA-class being in high demand. In the U.S. suburban markets have been experiencing accelerated growth in new builds, a trend we have yet to see in Canada.

AAA-class is represented by A-class in smaller markets, and older buildings with lower lease rates are represented by B- and C-class, but the same trends are visible.

“Office workers want to say good-bye to boring cube farms, bad lighting, gross coffee, and being stuck in one small space all day. Instead, they crave intentionally designed space options that allow them to engage and interact with colleagues and their work in the most impactful ways.”

- Rachel Kresge, Avison Young, Global Content Development

Calgary AAA vacancy rates are shrinking



Graph Source: Avison Young

The main driver of absorption was with the Class AA buildings in the Calgary downtown core as tenants upgrade their office space.

Office market

2. Improved amenities and environment

Demand for AAA and new built-to-suit spaces is driving office absorption in most markets.

But ...

Mid-tier (B and C class) office space will face difficulties, primarily in appealing to new demand and maintaining property values in the face of high occupancy, inflation, and rising CAP rates.

In the U.S. there is high demand for suburban office space.

But ...

Canada is behind the U.S. in this trend, however, analysts anticipate a surge in demand due to suburban markets' more affordable housing and lower cost of living.

"The buildings that suffer will be the older ones that tenants just don't want any more. They're just the wrong product. Landlords will have to differentiate themselves with added services[.]"

- Magnus Meyer, WSP Nordics & Continental Europe, Managing Director

"High-density offices are a thing of the past, and the new format will cater to the changing preferences of the workforce in a more open environment."

- Nakul Mathur, Journalist, The Hindu

Office culture

3. Corporate culture shift to a focus employee work/life balance

The COVID-19 pandemic brought to light a number of issues in the conventional workplace including physical health, mental health, and the pervasiveness of the exclusion of certain members of the workforce based on circumstances like child-care, disability, and gender inequality.

There is now a shift in corporate culture, which includes embracing hybrid work schedules, that actively addresses these issues.

Avison Young advocates ESG (Environmental and Social Governance), a policy based on the principles that a responsible future is shaped by sustainability practices, health and well-being, and social justice.

Environmental



Social



Governance



"At our firm, we've cultivated a unique, people-first culture. We work together to find better ways for real estate to perform at a human scale to meet our clients' needs and goals [...] ESG needs to advance some of our world's most pressing issues."

- Mark Rose, Avison Young, Chair and CEO

Office market

3. Corporate culture shift to focus employee work/life balance

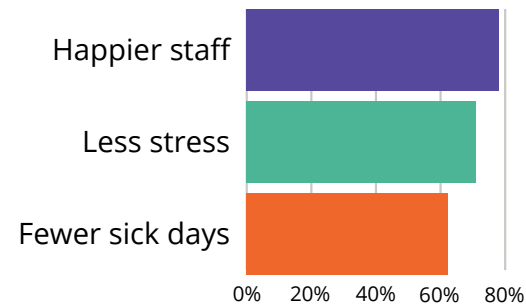
The COVID-19 pandemic worsened instances of employee burnout and instigated a 'mental-health crisis.'

But ...

Employers are now recognizing the need for real change as they can see the **social and economic value of a healthy workforce**.

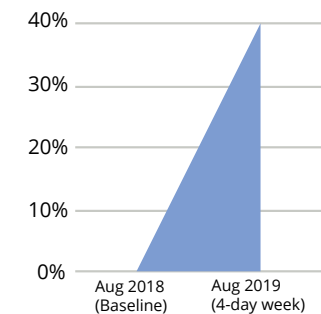
Standard work models are primed for change. For example, Canada introduced the 8-hour workday in the 1960's and this has been the norm for the last 60+ years. While this work model has been repeatedly challenged by analysts it remained unchanged until the COVID-19 Pandemic. In June 2022, a coalition of 60 companies and over 3,000 workers in the UK are trialling a four-day work week. Based on the success of a hybrid work schedule, outcomes are predicted to show a rise in productivity and employee well-being.

Companies with a 4-day work week report



Data Source: Henley Business School

Microsoft saw a 40% increase in productivity



Data Source: NPR



Other market factors

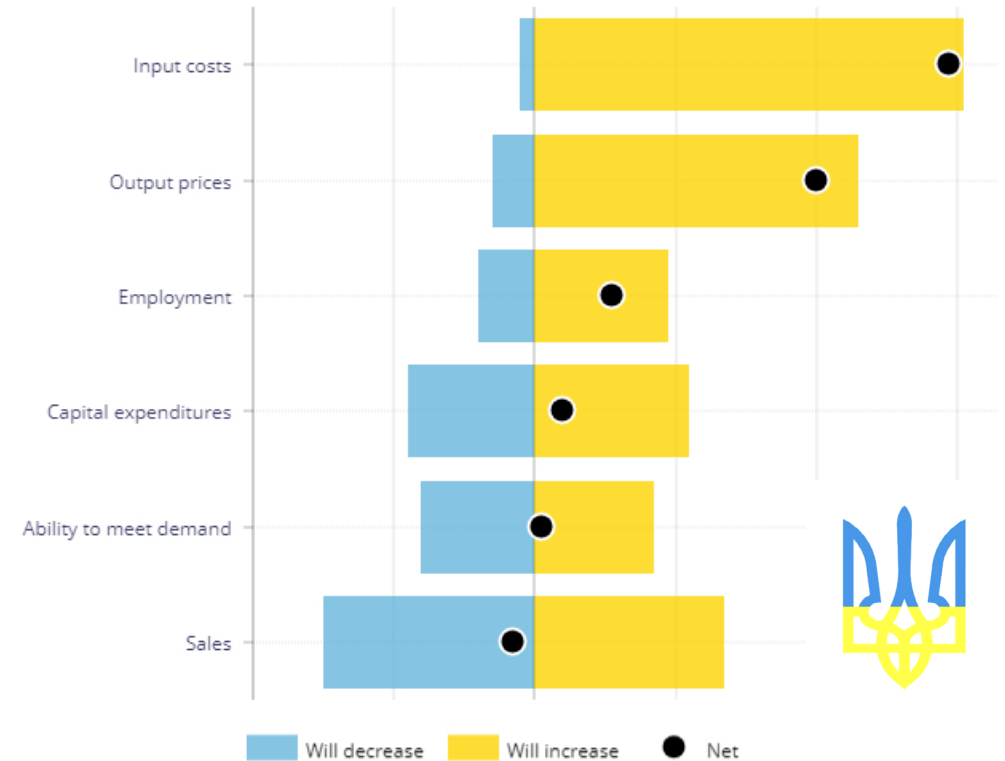
Ukraine Crisis

The Russian invasion of Ukraine has caused waves of instability throughout global markets. The unpredictable nature of supply shortages (caused by blockades, sanctions, and the destruction of production facilities) has caused market speculation to inflate nearly all major commodities.

As a domino effect, inflation and treasury yields have climbed to decade highs further adding to the instability.

Both **building and borrowing are more expensive**, so the prices of Canadian commercial real estate properties are likewise inflated. According to CBRE, "Much of the inflated cost of construction, particularly those that use natural gas, will be passed on to tenants."

Many businesses anticipate the Russian invasion of Ukraine will increase their input costs



Graph Source: The Bank of Canada, The Deep Dive

Other market factors

New uses of office space

Cooperative spaces and open floor plans

- At the peak of the pandemic in 2020, Canada and the US closed nearly 6% of their coworking locations.
- Now that more professionals are either working remote or hybrid, these flex spaces present a new opportunity for businesses that do not require workspace for all staff at all times. Coworking spaces can also be used on a casual basis for monthly meetings, proposals, classes, etc.

Redevelopment multi-family housing

- Bringing residential traffic to downtown spaces increases spending and demand for downtown services and improves economic prosperity.

As part of the Downtown Calgary Development Incentive Program, this 414,000 SF of office space will be replaced with 401 residential units.



Arts Common (205 9th Avenue SE), one of the first three approved projects of the Downtown Calgary Development Incentive Program, on Wednesday, April 27, 2022.

Image Source: Postmedia / Azin Ghaffari

Other market factors

Employment factors

Access to a remote workforce

- Remote work opens up business to a workforce that includes persons with disabilities, persons who are primary caregivers, and persons without economic mobility.

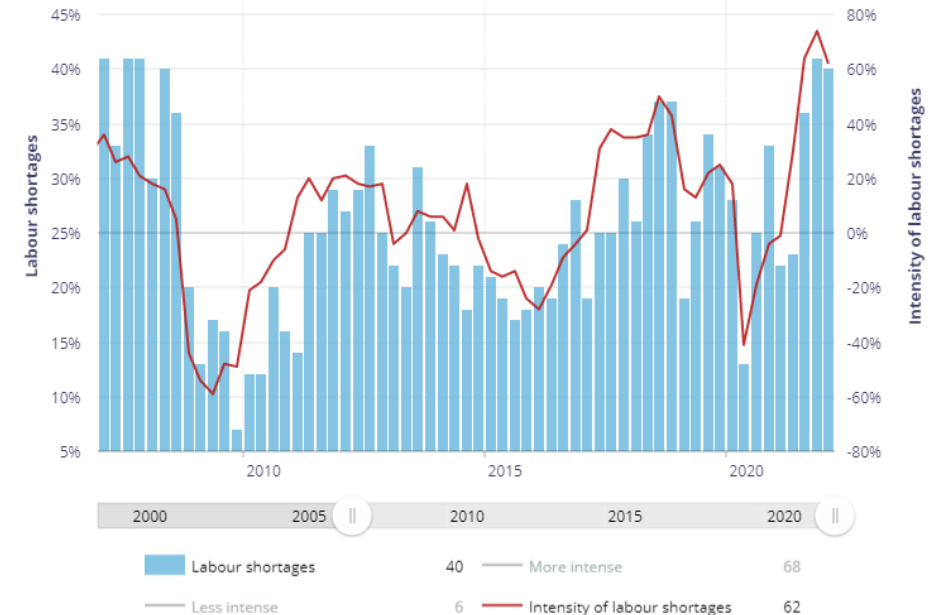
Aging workforce

- Statistics Canada confirmed that the working-age population is the oldest it has ever been. Nearly 25% of working adults are nearing retirement. With this impending shift in the working demographic, the shortage of workers will create a job market where workers will have more power and more options.

Job growth

- Industries such as tech services (web development, cyber security, support, etc.), logistics, and administration have high job growth and additional employment. These emergent industries will be demanding space.

Labour shortages intensifying



Graph Source: News Net Daily

"The overriding factor for commercial real estate right now is that we are looking at extremely strong job growth – a very large increase in the number of workers hired. And, of course, you need to put those workers somewhere."

- Jean-Francois Perrault, Chief Economist, Bank of Nova Scotia

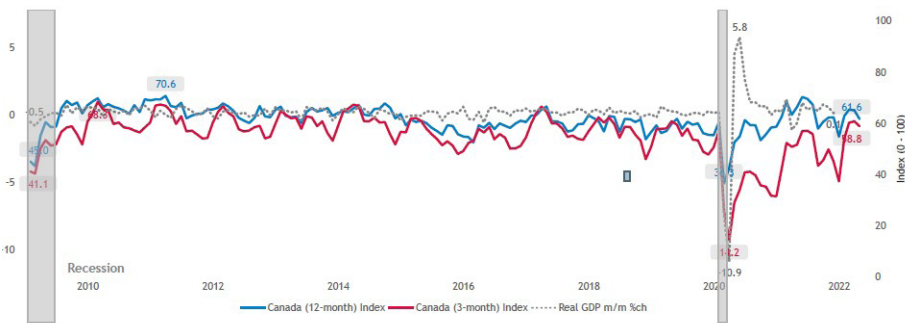
Outlook and optimism

According to the CFIB's survey, both long-term and short-term business confidence are in the 'growth' percentile (60%+). Coming out of the pandemic, business outlook has generally improved.

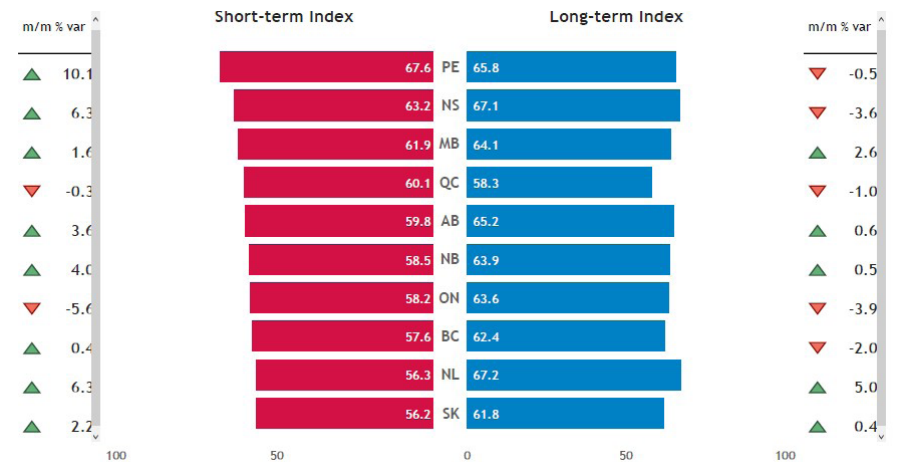
However, markers of business growth, having exceeded predictions and reached nearly 4.0% in 2022, are likely to be moderated to 2.2% by 2023 according to the National Bank of Canada. This goal of moderation, supported by increased interest rates, prevents a sudden economic downturn. The Bank of Canada plans to continue the incremental increases in interest rates to 3.5-4% by the end of the year.

Canada is well positioned, compared to other nations, to weather the economic slowdown without entering a period of 'stag-flation.'

Real GDP m/m % change



Provincial comparison



Date: May 2022

Graph Source: Canadian Federation of Independent Business

Section 2

Alberta market

“Moving forward, highly differentiated, and best in class properties are seeing the most demand, a trend that we think will continue. Amenities seem to have an increased importance to office users as companies source out space to lease that offers more for their employees.”

- *Shane Garner, Associate, Avison Young*



Alberta office trends

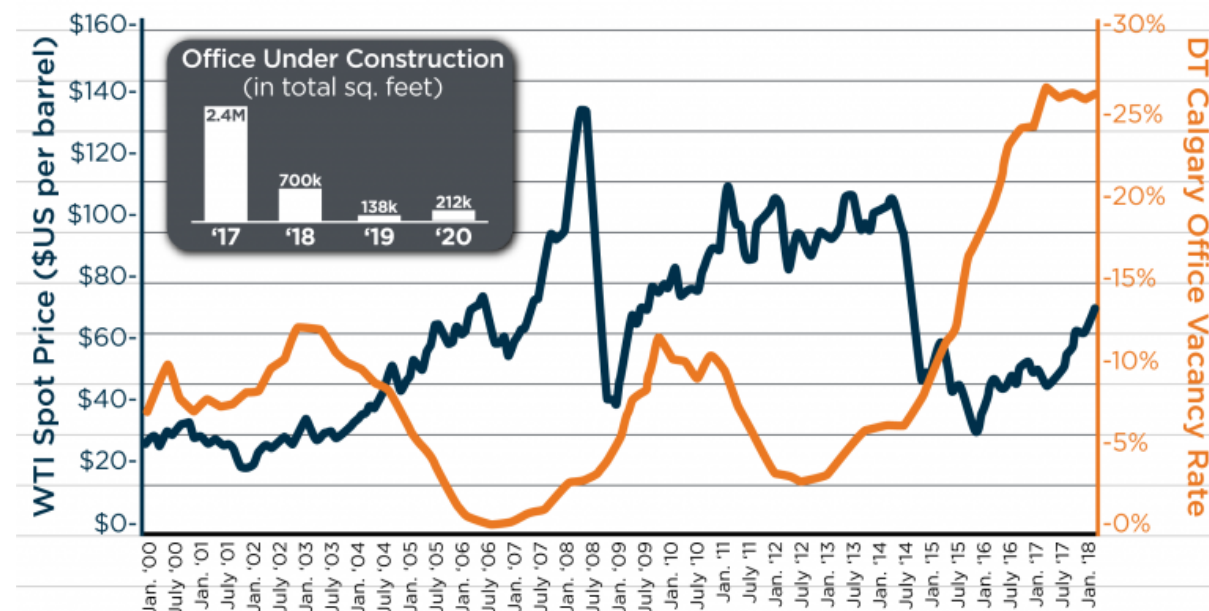
Office users

The Alberta office market has historically been subject to the ebb and flow of the energy sector's demand for space. In times of boom, demand for office space is high. In recession periods, layoffs and organizational restructuring lead to high vacancies.

While the energy sector represented nearly 25% of Alberta's economy in 2021, diversification of primary industries is a top priority for Alberta.

As outlined in the 2022 Alberta budget, programs such as [The Job Creation Tax Cut](#) are aimed at attracting investment in industries such as tech and logistics; both sectors saw unprecedented growth in the last two years.

Calgary's relationship between price of oil & office vacancy



Data Source: University of Calgary, Construct Connect



Alberta office trends

Employment

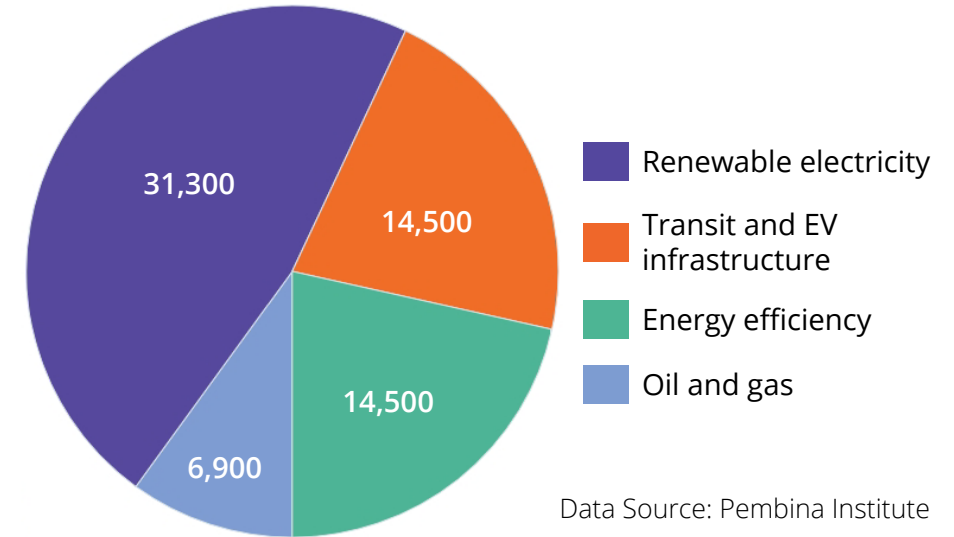
According to The Financial Post, “Job creation in the province of Alberta is expected to top the nation this year.” Statistics Canada states that the unemployment rate in Alberta is currently 5.3%, the lowest it has been since the last economic downturn in 2014.

Some stats from Invest Alberta:

- Alberta has the youngest workforce of any province in Canada.
- Alberta workers average the highest weekly earnings of any province.
- Calgary has the highest concentration of high-tech workers of any Canadian city.
- 56% of Albertans have a post-secondary degree.

Alberta’s job market shows strong potential for attracting office users in an increasingly diversified economy.

Potential for new job areas of the decarbonized economy in Alberta through 2030



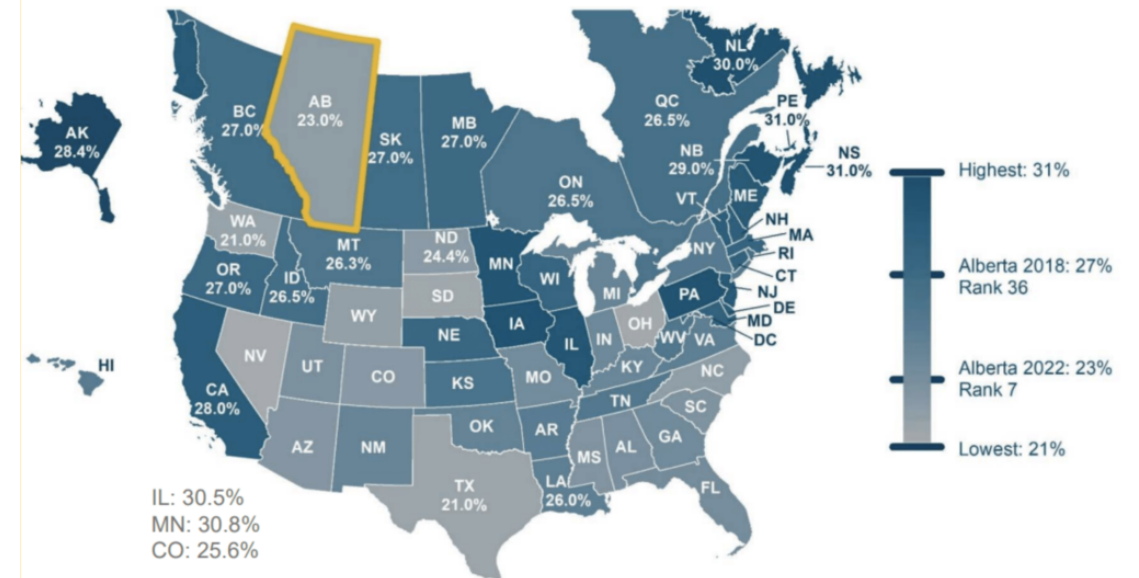


Alberta office trends

Primed for growth

1. Alberta has some of the lowest taxes (including corporate taxes) in North America at 8% (23% including federal taxes).
2. Alberta is experiencing an Industrial real estate boom, especially in the industries of agriculture, manufacturing, and warehousing. Major players such as Amazon, Home Depot, Canadian Tire, and Walmart have invested billions of dollars into the economy as they expand. Office users are required to manage and support these industries which leads to job creation and absorption of office space.
3. Strong economic standing, although largely based on income from oil and gas, allows the Alberta government to reinvest in infrastructure and social services.
4. Alberta's major cities have a significantly lower cost of living compared to other Canadian urban centers.

Combined commercial tax rates



Data Source: Alberta Treasury Board and Finance

Alberta office trends

The Office market in Alberta is defined by its two major cities; trends found in **Calgary** and **Edmonton** 'trickle down' to smaller Alberta markets.



Edmonton vs. Calgary *The other Battle of Alberta*



Win

Edmonton continues to lead the 'return to office' in North America. Since March 8, 2022, when all provincial and municipal restrictions were officially lifted, Edmonton's downtown core has experienced a 25% increase in foot traffic from the weeks prior.

Challenge

There are significantly higher vacancy rates in class-A buildings (20.7%) when compared to other classes.

Win

The last two quarters have seen nearly half a million square feet of absorption in the Calgary market, and class-AAA inventory is very tight. In 2021, Calgary attracted more tech talent than any other city in Canada and continues to draw new companies to the downtown in an effort to diversify office users.

Challenge

Pre-pandemic, Calgary was already facing a high office vacancy rate. Calgary has historically been dependent on office users in the oil and gas industry. Due to the volatility of oil and gas, Calgary has seen high office vacancy since the 2017 recession.

Calgary

In April of 2021, the Calgary City Council approved \$200 million dollars in funding for the '[Greater Downtown Plan](#),' which aims to bring a balanced mix of residential and commercial developments to the downtown. Through this, their aim is to create a desirable urban neighborhood that attracts businesses and residents.

According to the BBC, "There is, perhaps, no city in the world that has taken on the challenge of converting outdated office stock into residential units as aggressively as Calgary in Canada."

Trends by building class:

Class-AAA – Most desirable, very high costs

- Inventory is low in this class as employers are seeking improved workspaces.

Class-B & C – Least desirable, low cost

- The majority, built in the mid-1980s, are prime for redevelopment as they are reaching the end of their lifespan.

Image Source: Pixabay



Edmonton

The City of Edmonton is countering downtown vacancy with a focus on increasing foot traffic and retail space, including the promotion of new urban neighborhood developments. Station Lands, the CWB Tower, and Connect Centre represent trends by Building Class:

Class-AAA – Most desirable, very high costs

- Construction of three new major AAA projects designed to attract shoppers, residents, and offices to the downtown.

Class-A - Less desirable, high cost

- Landlords will need to invest in upgrades and improvements to attract tenants to pay the higher rates.

Class-B & C – Least desirable, low cost

- Rents are very competitive; maintenance and improvements are inexpensive.

Image Source: Pixabay



Section 3

Lethbridge market

"Office tenants are starting to gain some confidence again. This is shifting our transactions to reflect longer term commitments with more forward-thinking real estate decisions for their business."

- Ashley Soames, Senior Associate, Avison Young

Office market data

Lethbridge office market overview

Lethbridge	Inventory	Vacancy	Under Construction	New Completions	Average Net Rent PSF / Year	Average Gross Rent PSF / Year	Average Additional Rent PSF / Year
Downtown	802,551 SF	17%	10,863 SF	-	\$13.77	\$21.81	\$8.04
Suburban	332,372 SF	9.56%	9,115 SF	42,500 SF	\$17.60	\$25.23	\$7.63
Total	1,134,923 SF	13.3%	19,978 SF	42,500 SF	\$15.68	\$23.59	\$7.91

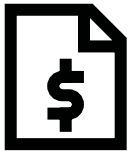
Data Source: Avison Young

Quick stats (Q2 2022)



13.3%

Overall Lethbridge office vacancy rate



\$15.68 PSF

Average asking Net Rental Rate for Lethbridge office buildings



\$7.91 PSF

Average Additional Rent for Lethbridge office buildings



20,000 SF

Total office area under construction in Lethbridge



Lethbridge office market

Downtown

- There has been a shift away from downtown office leasing due to aged inventory and a lack of parking.
- Some landlords have been offering tenant improvements with amortization schedules lasting as long as the term commitment.
- The repurposing of office space would be very beneficial to the revitalization of the Lethbridge Downtown. We predict that conversion of office space will be a topic of conversation and some projects will look to commence over the next three years.



17%

Downtown Lethbridge
office vacancy rate



\$8.04

Average Additional Rent for
Downtown office buildings



\$13.77 PSF

Average asking Net Rental Rate
for Downtown office buildings



Downtown incentives

The BRZ

- The [Downtown Lethbridge Business Revitalization Zone \(BRZ\)](#) is a collective of business leaders who believe that the heart of the city beats at downtown. Through promoting, marketing and advocacy, the Lethbridge downtown attracts new businesses, development, foot traffic, and tourists.

TRIP

- In 2015 as part of the Downtown Revitalization initiative, the [Targeted Redevelopment Incentive Policy \(TRIP\)](#) is a municipal tax cancellation policy to provide an incentive for the construction or major renovations of commercial, office, retail, and mixed-use projects that lead to significant and ongoing enhancement of the assessment base generated in the downtown.

Heart of our City

- The [Heart of Our City Housing Incentive Program](#) offers up to \$30,000 per new housing unit built in the downtown area. This is an avenue that can facilitate the re-designation of spaces downtown to promote a mixed base of residents and businesses.



Post

As Lethbridge's premier A-class downtown space, Post offers users competitive amenities and an updated downtown location. This type of office is unique because it offers tenants the perceptive status of modern office space in a historic landmark.

"With the redevelopment project, the expansion will become more inviting, open, and usable than ever before. Turning our beloved, but unapproachable, historic landmark into a vibrant downtown hub for business, innovation, community, and collaboration."

- Sumus Property Group

Image Source: Sumus Property Group

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Lethbridge office market

Suburban

- Lethbridge has a unique configuration to the city with division into the North, South, and West. Each economic area offers different drivers for development. In residential areas, there is demand for retail and business centers that serve those communities.
- Demand for built-to-suit space requires businesses to look outside the Lethbridge downtown. Net rent rates are much higher in these new builds.
- West Lethbridge is a growing market with the highest concentration of residential population in Lethbridge. According to the World Population Review, the west side leads population growth in Lethbridge at 3.05%, well above Lethbridge's overall growth of 1.41%.



9.56%

Suburban Lethbridge
office vacancy rate



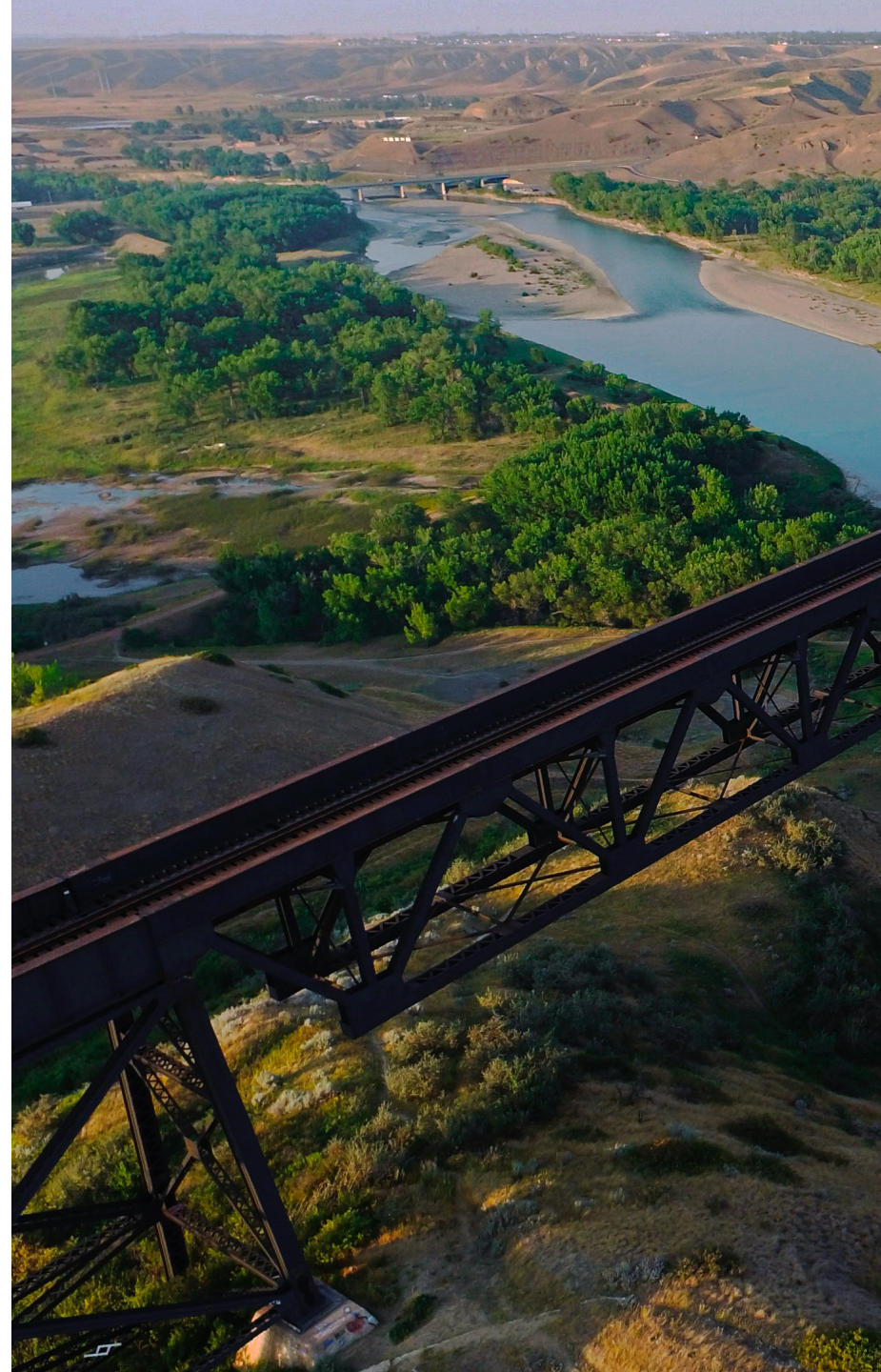
\$7.63

Average Additional Rent for
Suburban office buildings



\$17.60 PSF

Average asking Net Rental Rate
for Suburban office buildings



Crossings

This two-phase development includes over 66 acres of mixed-use, flexible, open concept office, or retail space.

This development services the West Side of Lethbridge which is characterized by primarily residential neighbourhoods.

The City of Lethbridge expanded onto the West side of the Old Man River in the early 1980's. Since then, West Lethbridge has developed 12 distinct neighborhoods and outpaced residential growth in other areas of the city. City of Lethbridge planning indicates that there is room for 1.5x the expansion currently.



Lethbridge office market

New development

- Lethbridge is a conservative market when it comes to new builds and they are generally not completed until 60-70% of spaces are pre-leased. Developers and investors attempt to minimize risk and counter the uncertainty of increasing costs by having rental income in place before beginning construction.
- There is high demand for built-to-suit space in newer areas of the city.
- Inflated costs of construction materials and utility prices increase the lease rates of new builds. Due to higher rates, tenants are requesting more amenities and improvements. Businesses see the value in higher rents for custom spaces with amenities because they improve employee satisfaction and retention.



42,500 SF

New supply completed in
Q1 2021 in Lethbridge



22,150 SF

Total office area in pre-leasing in
Q2 2022 in Lethbridge



20,000 SF

Total office area under construction
during Q2 2022 in Lethbridge



Fairmont Square

A new, quality development in South Lethbridge in a highly desirable location.

The location is in close proximity to major retailers and both new and mature residential neighborhoods. South Lethbridge is well established and home to 32% of the City of Lethbridge's population (32,558 people).

There are two actively developing communities nearby: Prairie Arbour Estates and Southbrook. This location is well-positioned to benefit from that residential growth.

Property Rendering Source: Sherwood Developments / Ian Moxon Architect

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Other Lethbridge market trends

Property values

- It is important that asking lease rates remain stable in order to maintain property values. Lethbridge has seen stability through the pandemic and there has not been a noticeable trend in rental reductions.

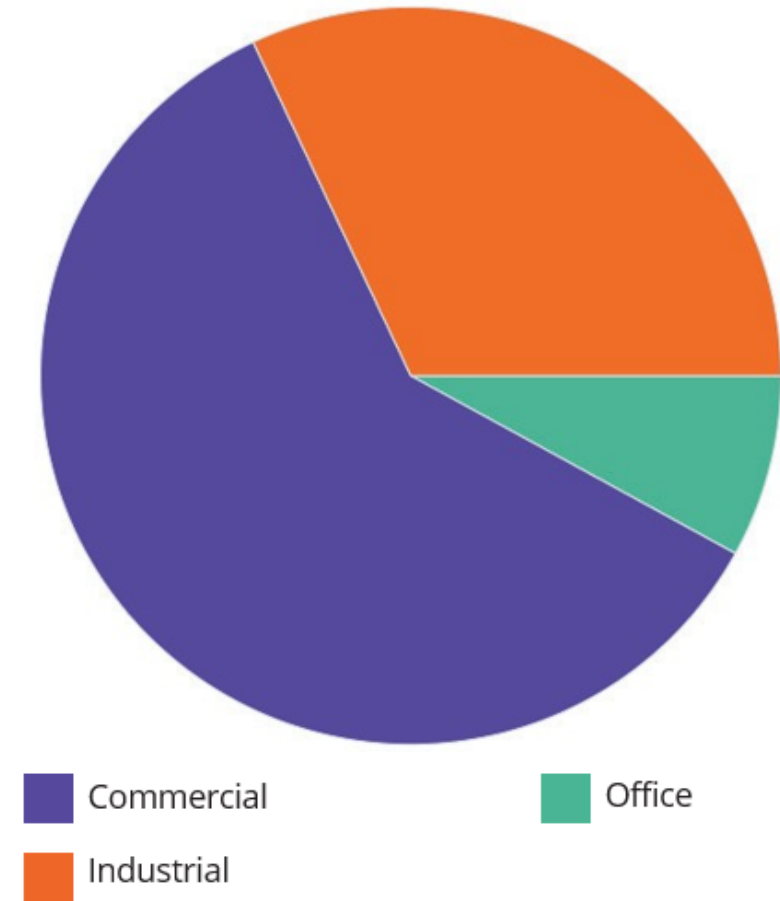
Post-Pandemic outlook

- Increasingly, tenants are securing new leases with more flexibility in case of an economic downturn or future shutdowns. In Lethbridge however, office space has always been flexible and negotiable with an emphasis on promoting successful tenancies.
- As Lethbridge moves fully out of the pandemic larger companies have been given the impetus to move forward with real estate again, coming out of the holding pattern they had previously been maintaining.

Landlords and tenants

- It is neither a landlord's nor a tenant's market; all spaces are very controlled by costs, such as the office class, location, amenities, and demand. Common Area Expense (CAM) rates are always increasing with taxes and insurance costs.

Non-residential real estate
Lethbridge, AB



Data Source: Economic Development Lethbridge

Why Lethbridge?

New sectors

- Lethbridge's foundation of two post-secondary institutions, state-of-the-art equipment, development, and research make Lethbridge an emerging significant high-tech presence in Alberta.

Balanced economy

- Economic Development Lethbridge states that Lethbridge maintains balanced growth and a diversified local economy. Being less dependent on oil and gas, Lethbridge is generally more stable than Alberta as a whole.
- A wide variety of commercial real estate, both within the city and in the surrounding region, offered in a range of locations, land use zones, and price points.

Low costs

- With no provincial, business, payroll, or machinery tax, and competitive market rates, Lethbridge offers a low-cost operating environment with demonstrated savings in areas such as taxation, land, construction, and transport.

Image Source: Lethbridge College (top), University of Lethbridge (bottom)



**Every year
more than 2,800
people complete
some form of
post secondary
educaton in
Lethbridge.**

Have questions?

Ask the experts.



Ashley Soames

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Jeremy Roden

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Information sources

Section 1 Canadian markets

- Avison Young
- Bank of Canada
- Calgary Herald
- CBRE
- CFIB
- Commercial Observer
- CoStar
- Cushman & Wakefield
- The Globe & Mail
- SHRM
- Statista

Section 2 Alberta market

- Avison Young
- CBRE Group
- Financial Post
- Government of Alberta
- Invest Alberta
- Statistics Canada

Section 3 Lethbridge market

- Avenue Living
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- Downtown Lethbridge
- Economic Development Lethbridge
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For even more market
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