



# Lethbridge investment market report

Q4 2023

**AVISON  
YOUNG**



# Lethbridge investment market trends

## 01

### Cap rates vs. psf value

Commercial real estate (CRE) investment transactions in Lethbridge have slowed overall due to higher interest rates and increasing cap rates. However, investor sentiment has begun to shift to anticipate these higher costs **by evaluating properties based on per-square-foot (psf) value** compared to the cost of new builds.

With banks still tightening lending parameters and acting more cautiously toward investment sales, a higher cap rate may still be a deterrent. However, **a practical valuation of an investment property must consider profitability over time**, particularly steady rent growth, inflation, and local economic growth.

## 02

### New development

After a slowdown in new builds, we are seeing an **uptick in land transactions** and anticipate new development commencing next year despite inflated construction costs. Although we have seen what City of Lethbridge CFO Darrel Mathew described as a “scaling back” of land development in 2023, we expect recovery to begin by the end of 2024 as a resurgence of new commercial projects is driven by tight vacancy rates and sustained demand.

Similarly, **retail real estate developments are beginning to progress** again at the end of 2023. Grocery-anchored, mixed-use plazas continue to perform well, and demand is steady.

## 03

### National headwinds

Economists are anticipating a **challenging first half of 2024**. With inflation still above the Bank of Canada (BoC) target rate of 2%, GDP has begun to contract in response to increased household debt and the burden of inflation still being felt by Canadian households.

Despite this, there is general optimism that both inflation and the **BoC overnight interest rate will begin to ease as early as Q3 2024**. The combination of a robust employment rate, strong production and trade, and the unprecedented national population increase of 2.7% will support a quick recovery.

# Lethbridge market indicators

▲ 4.0%

**industrial vacancy rate**  
up from 3.8% in Q4 2022

▼ 10.6%

**office vacancy rate**  
down from 12.4% in Q4 2022

3.0%

**retail vacancy rate**  
unchanged from Q4 2022

▲ \$9.07

**average industrial base rent rate  
(per square foot/year)**  
up from \$8.56 in Q4 2022

▲ \$15.82

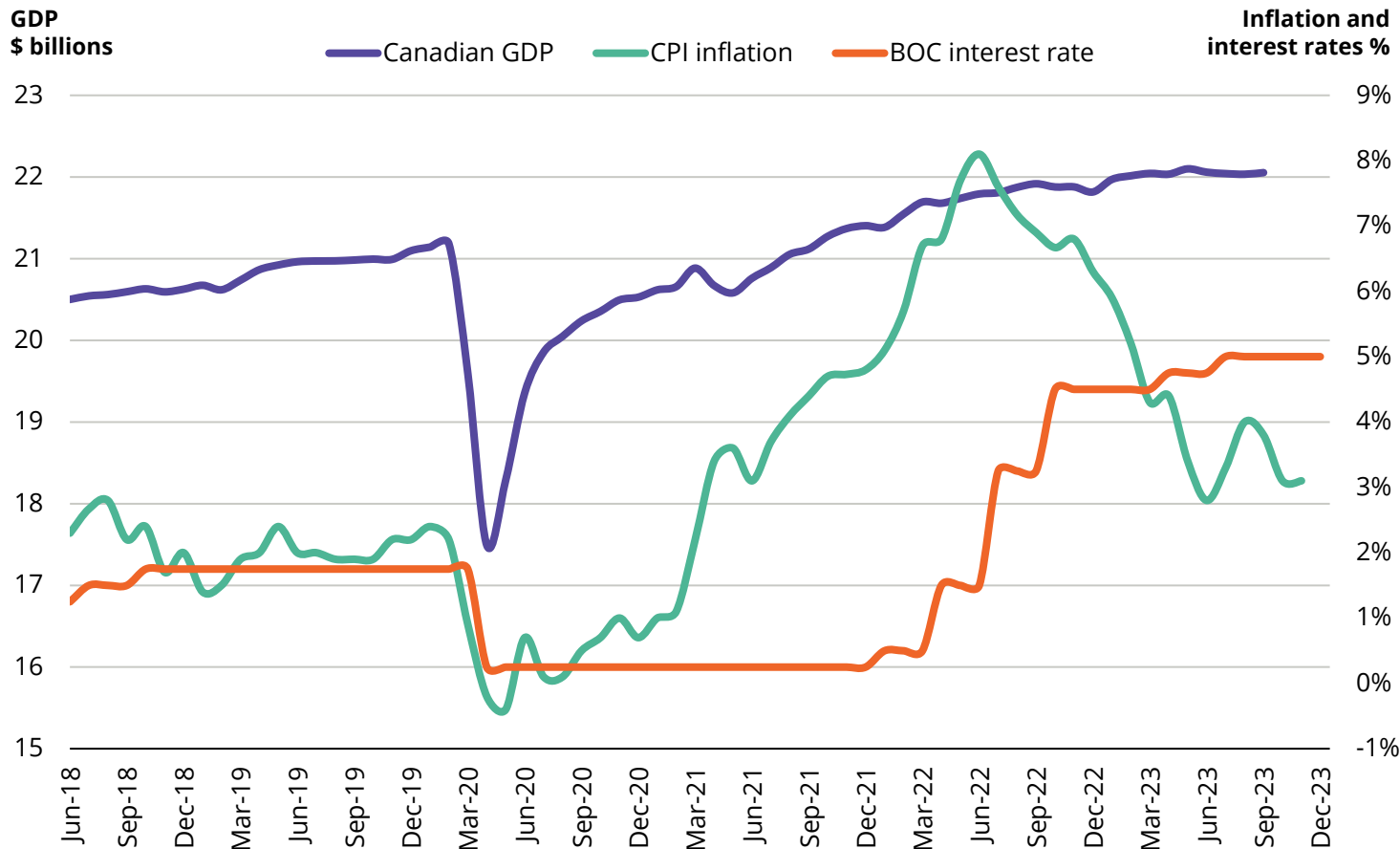
**average office base rent rate  
(per square foot/year)**  
up from \$15.15 in Q4 2022

▼ \$21.99

**average retail base rent rate  
(per square foot/year)**  
down from \$22.69 in Q4 2022

# Market conditions

Canadian GDP vs. inflation and interest rates



## Contraction of the Canadian GDP

CPI inflation continues to trend down as the BoC rate increases have begun to impact the market. Canadians are still tightening consumer and debt spending as the cost of living remains high. The Canadian GDP, which has been resilient post-pandemic, has begun to contract with a growth rate of -0.2 in June, -0.1 in July, 0.0 in August, and 0.1 in September. Some analysts even predict that we will not see a GDP growth rate above 1% in 2024. This slowing of GDP growth likely prompted the BoC decision to continue to hold rates at 5.0% for the third consecutive announcement. With inflation still above 3%, the BoC is “still concerned about risks to the outlook for inflation and remains prepared to raise the policy rate further if needed.” We predict that rates will hold for the first half of 2024 and begin to come down as early as the end of the year.

Investment transactions in Lethbridge have slowed in line with national transaction volumes due to economic headwinds. Banks are still being conservative and tightening lending parameters, as many are still bracing for an economic shift in 2024. However, as market sentiment shifts to anticipate higher cap rates and more moderate cash flow, transactions and new developments have begun to move forward. Factoring in the inflated cost of construction, more significant rent growth (especially in renewals), and psf value, investor perception is shifting to focus on long-term growth.

**“There are buyers in our market, and the sales activity is there to prove it, although the mood around how and what to purchase may have changed. Buyers are starting to accept the state of the market and set more grounded expectations for returns. Investor sentiment plays such a significant role in property transactions that, by accepting the market’s ‘new normal,’ we will see projects regain momentum in 2024.”**

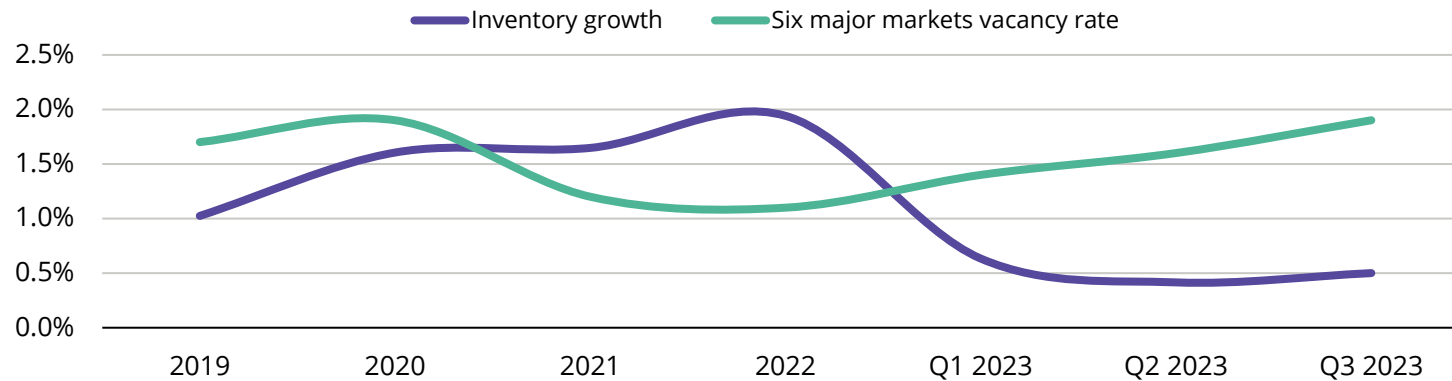
**Doug Mereska**

Broker and Managing Director

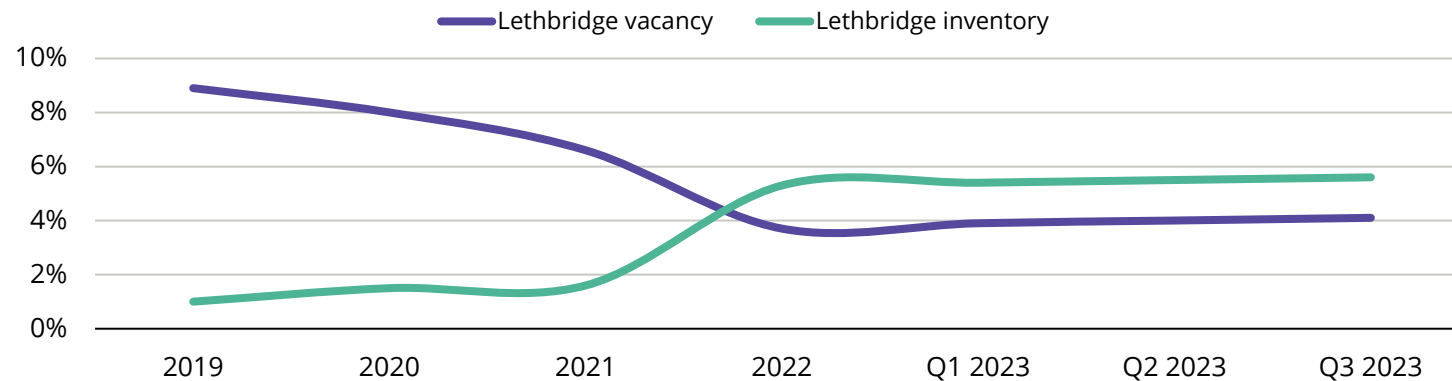
Avison Young Lethbridge

# Industrial investment

## National vacancy vs. inventory



## Lethbridge vacancy vs. inventory



## Lag in new supply coming to market

Nationally, vacancy in industrial space increased in nearly all major markets. Locally, we have seen industrial vacancy rise from 3.8% at the end of 2022 to 4% in December 2023. This slight increase can be accounted for by some local businesses that had previously been tenants opting to purchase their own real estate as an owner-user. Despite the slight uptick in vacancy, we are expecting a shortage of space in the next 18-24 months as new developments have been slower to come to market and the majority are released. There is a lag in the market that will become more apparent over the next year as demand catches up to the slowdown in new builds, even though Lethbridge has had higher industrial construction rates since 2021 than historically. Industrial tenants will be wise to plan well ahead of renewals and, for large format users, by as much as two to three years. For industrial tenants looking to move into new or built-to-suit space, those timelines are conservative.

The average base rental rate has increased from \$8.56 to \$9.07 since the end of 2022, having been rising steadily since 2018. Average industrial rents in Lethbridge are still below other comparable markets and have not outpaced inflation, especially when it comes to current cost to build. However, in new space in 2024, we expect to see significantly higher asking rents. Overall rent growth is predicted to continue at a rate of approximately 5% per year.



# Retail investment

## New development in 2024

We have seen significant rental rate growth in our market in new builds and moderate rental rate growth in existing space. In Q4 2023, with less new builds available for lease, the overall average rate declined. However, with low retail vacancy and high demand the benchmark for new space, particularly drive-through restaurants, has never been higher and will likely continue for the near future. We also expect to see longer lease terms and more national tenants moving into small markets such as Lethbridge, Coaldale, and the Crowsnest Pass. New developments are predominantly grocery-anchored, mixed-use plazas that designate space for office, medical, and residential development to complement the retail portion and service the community.

While retail real estate leases are strong in our market, retail real estate sales are infrequent, and the purchaser is most often an owner-user. We have also seen owner-users purchase properties that have other retail tenants. By leasing unused space, owner-users can supplement their own expenses and generate additional revenue.

*“We have seen heightened activity in land sales through the end of 2023. These investment developments are well positioned for future growth where they may transact to owner-users or be retained as built-to-suit revenue-generating properties with long-term or national tenants.”*

– Jeremy Roden, Executive Vice President

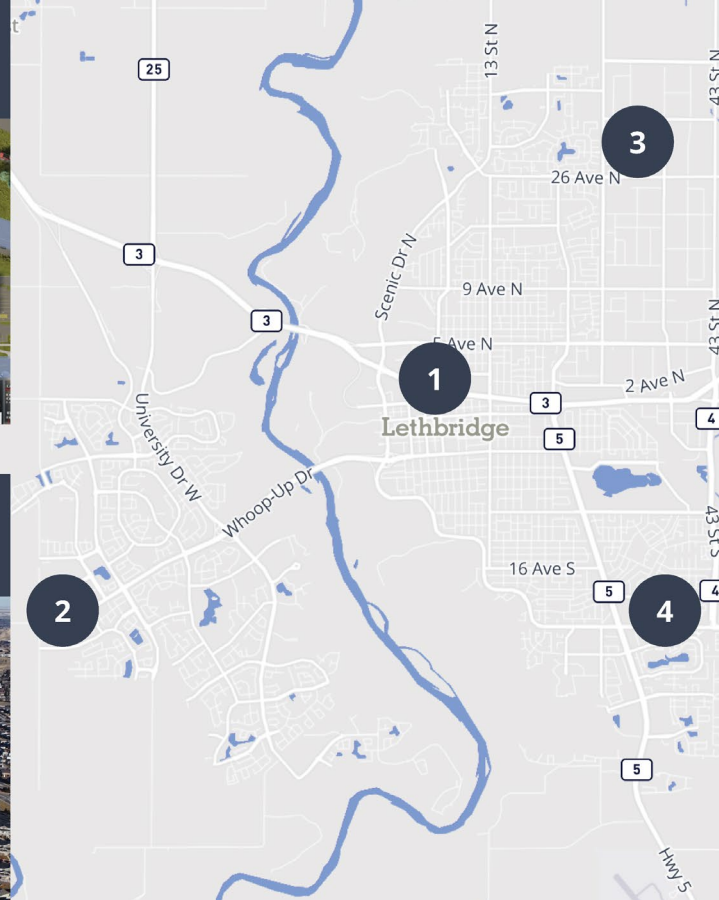
### 1. Warehouse Square 905 1st Avenue South



### 2. Crossings 5 Mauretania Road West



### 5. Crowsnest Crossing 10509 20 Ave, Blairmore



### 3. Walmart North 3055 26th Avenue North

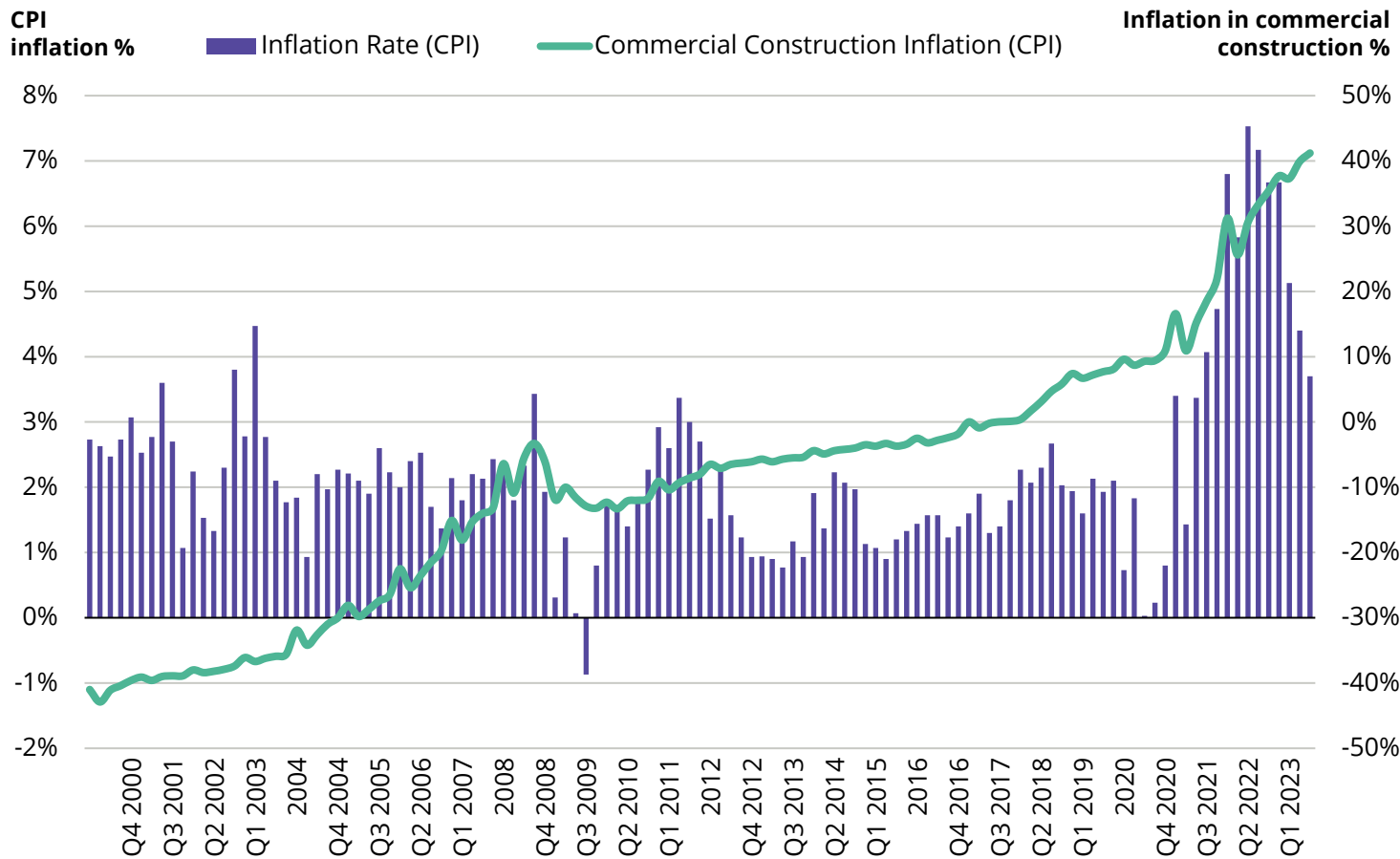


### 4. Fairmont Square 3402 Fairway Plaza Road South



# Office investment

## CPI inflation vs. commercial construction inflation



## Cost of building out office space

While Lethbridge has a significantly smaller office inventory than major markets, we generally follow national trends. With a decrease in demand for office space since the pandemic, national vacancy rates have increased, putting downward pressure on lease rates. Although there is demand for class A office space with a desirable location and amenities, investment in office space is down. Lethbridge has a lower demand for office space overall, with new users opting for modern, class A space in mixed-use plazas, backfilling traditional commercial retail units. Office users have had a shift in priorities post-pandemic and are more focused on creating modern, flexible, functional spaces over the per-square-foot (psf) cost. The asking rents for new builds are significantly higher, reflecting inflated construction costs.

Construction costs have not only impacted new builds, but have also challenged any new tenant or owner with higher expenses to build-out or renovate. For example, the cost to build-out medical office suites from shell was approximately \$100-110.00 psf four years ago. Now, a basic office build-out from shell is around \$200.00 psf. Aged or class B office space is starting to be leased to non-traditional tenants who can utilize the partial build-out to control costs. Community services in high demand such as daycares and education services have been primarily expanding into office space, contributing to a positive office CRE absorption rate in 2023.



# Multi-family investment



## Park Towers

|              |   |
|--------------|---|
| Address      | 1941 Mayor Magrath Drive South,<br>Lethbridge, AB   |
| Size         | 29,770 sf   |
| Built        | 1969  |
| Zoning       | High density residential (R-150)  |
| NOI          | +\$238,000  |
| Cap          | 4.8%  |
| Asking price | \$4,950,000   |
| Sold price   | \$5,000,000   |
| Sold date    | October 31, 2023  |
| Comments     | This 32-unit multifamily property was sold over asking price to an investment group out of Vancouver, BC. Growth in this type of investment continues to be strong even in tertiary markets such as Lethbridge. |

## Demand for residential housing in Lethbridge

While there are generally few multifamily transactions in Lethbridge, the increased demand for housing and low vacancy will likely drive multifamily development for the foreseeable future. According to the City of Lethbridge, demand for housing will outpace new construction by a mid-range estimate of 1,400 units over the next three years. Even with increased construction costs and higher interest rates, developers are purchasing residential and multifamily land and beginning to plan for new development.

With increased immigration and migration to Lethbridge, aggressive government financing policies for residential projects, and rising rental rates, multifamily investment in Lethbridge is a growth sector. Currently, Lethbridge is ranked #32 in the Rentals.ca national market review, with a year-over-year (YOY) increase of 1.8% in one-bedroom units and 1.9% in two-bedroom units. While rental rates in Alberta are still below the national average, Alberta has had the highest average rent increases in 2023, with a YOY increase of 16% and 15% in one-bedroom and two-bedroom units, respectively.

*“Last year we predicted that Lethbridge could absorb an additional 350 multifamily units; I would say that number has doubled. We haven’t seen this type of growth in the multifamily sector since the 70’s and 80’s.”*

– Doug Mereska, Broker and Managing Director

**“High construction costs and increased interest rates have caused a slowdown in our market, we are starting to emerge from a holding period into one of new development. The recent increase in commercial land transactions is setting the stage for future growth, and we are excited to see that the vision and commitment of local investors are moving these projects forward.”**

**Jeremy Roden**

Executive Vice President

Avison Young Lethbridge

# Lethbridge in 2024

The Western Investor named Lethbridge as one of the top five towns in Canada for real estate investors in 2024. According to the author, Frank O'Brien, the selection was based on towns that will "do exceptionally well in 2024 because of their foundational strength." With a diversified local economy, a strong workforce with steady job and population growth, and a strategic location between Calgary and the U.S. border, Lethbridge has that foundational strength that makes it a great place to invest.

**Industrial CRE** in Alberta has been extremely attractive to investors and developers, with Calgary falling just behind Toronto in terms of new builds. Lethbridge offers the same benefits but as a small market, with an abundance of industrial land and low prices. According to O'Brien, Lethbridge has "the space and the low land prices to attract mega agri-players such as McCain Foods Ltd., Cavendish Farms Inc. and PIP International Inc. [...] With 2,400 acres of industrial land within the city boundaries and 934 acres available for development, the city is positioned well for growth."

**Retail CRE** in Lethbridge is supported by local demand, and leasing activity has been consistent. The increased asking rental rates in existing space follows economic growth and, in new space, reflects inflated construction costs. Although there are few investment sales in our market, there is very little retail vacancy which has primed Lethbridge for an increase in new retail development.

**Office CRE** has seen significant shifts since the pandemic. With lower demand and a migration of users to class A space, aged and class B office space are experiencing high vacancy and rising cap rates. Some non-traditional tenants have been moving into office space to utilize the partial build-out to keep costs down. Because of the disparity between the cost of current office space and new builds, existing office real estate may have a higher psf value, but is less in demand due to unfavorable market sentiment.

**Multifamily CRE** has experienced no national slowdown in investment sales due to sustained demand. Although there is a lag in the market in 2023 due to less new completions in 2022, multifamily housing is a growth sector in Lethbridge. We predict a significant increase in new developments in the next few years.

**Closing thoughts:** Economic headwinds have presented challenges to investors that have caused a slowdown in activity overall. However, even though market outlook has not significantly improved, investors are adjusting their expectations accordingly. While we may not see the immediate returns of the real estate boom of 2022, investments in growth markets such as Lethbridge continue to be strong.





# Investment market activity

## Recent activity

| Address                            | Property type      | Sale date  | Sale price   | Sale price psf | Sale price/acre | Buyer                                 | Seller                                       |
|------------------------------------|--------------------|------------|--------------|----------------|-----------------|---------------------------------------|--|
| *3901 36 Street North              | Industrial         | 2023-01-10 | \$3,000,000  | \$28.57        | -               | Collective Assets Limited Partnership | 51 <sup>st</sup> Parallel Life Sciences Ltd. |
| 1700 Mayor Magrath Drive South     | Retail             | 2023-02-27 | \$20,200,000 | \$124.20       | -               | Memory Express Ltd.                   | Southview Investments Corp.                  |
| 210 Mayor Magrath Drive North      | Multifamily        | 2023-04-28 | \$1,900,000  | \$97.44        | -               | Private Investor                      | JKDK Investments Ltd.                        |
| **1017 2A Avenue North             | Retail             | 2023-06-30 | \$3,500,000  | \$88.61        | -               | Earl Wakeford Holdings Inc.           | Melcor REIT GP Inc.                          |
| ***4051 4 Avenue South             | Office/Retail      | 2023-08-15 | \$1,860,000  | \$258.51       | -               | Private Investor                      | Audtos Inc.                                  |
| 2651 Fairway Plaza Road South      | Land (Multifamily) | 2023-09-29 | \$2,100,000  | -              | \$719,178       | Laurel Gardens Two Ltd.               | Sherwood Developments Inc.                   |
| 427 5 Street South                 | Retail             | 2023-09-29 | \$1,500,000  | \$171.43       | -               | 2534369 Alberta Ltd.                  | Remington Ventures Ltd.                      |
| 1941 Mayor Magrath Drive South     | Multifamily        | 2023-10-31 | \$5,000,000  | \$167.95       | -               | Maxest Building Ltd.                  | Private Investor                             |
| 43 Street North, Lethbridge County | Land (Industrial)  | 2023-11-01 | \$3,480,400  | -              | \$55,000        | SumusMSK (Frontier) Development LP    | 1000824 Alberta Ltd.                         |
| 1232 3 Avenue South                | Office             | 2023-11-09 | \$710,236    | \$108.07       | -               | 1835166 Alberta Ltd.                  | LA North (1995) Ltd.                         |
| 20 Aquitania Boulevard West        | Land (Multifamily) | 2023-12-15 | \$1,287,100  | -              | \$48,314        | Royop (Crossings I) Development Ltd.  | Green Acres Foundation                       |

\*Industrial building on site was erected but not built-out to shell

\*\*Owner-user with other tenancies in the building

\*\*\*New office/retail, full build-out, quality tenancies

For more market insights and  
information visit **avisonyoung.com**

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