

# Halifax's Downtown Office Market: Far From Dead



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After recent commentary that Halifax's CBD (Central Business District) office market is on the decline, it is important to understand that the increase in the overall vacancy rate alone doesn't tell the whole story. Data points, when taken out of context, can paint a negative picture of our office market in the short term. Changing trends in the demand for office space are undoubtedly affecting the overall vacancy rates in the Halifax office market, but ultimately an unprecedented amount of new construction both in office & mixed-use asset classes are creating significant shifts in the office vacancy rates.

## 1. There Is an Unprecedented Number of Cranes in the Sky

In 2014, the NS Office market introduced 283,642 square feet of newly constructed inventory into the Halifax Market; almost 200,000 square feet of that new inventory was located the Central Business District, representing a 4.2% increase in inventory of downtown office space. In 2015, another 111,948 square feet of space was introduced in Halifax, with over 780,000 square feet under construction right now, with about half of that situated in the Downtown core.

### What does that all mean?

It is imperative when looking at office vacancy trends, to analyze and understand that when a large amount of newly constructed buildings are built simultaneously, absorption of that new space takes time. What it does not mean, is that the downtown core is dying, or is no longer the commercial centre of the province.

Overall, absorption (the market's ability to absorb new space) in Halifax has been positive or *slightly* negative (annually), representing our market's ability to absorb the space at a slightly slower rate than it is being built, in other words, it is not being absorbed always in the same year it was built. With the scheduled construction completions coming to market over the next 12 months, what we will see is an overall increase in the vacancy rate, perhaps even topping 16%, however a 3 to 5 year economic cycle will see those trends decrease as the market adapts.

### Key Projects Under Construction

PROPERTY	TOTAL SF	TENANT	COMPLETION DATE	SUBMARKET	NET VACANT SPACE (NOT PRE-LEASED)
Nova Centre	350,000	BMO	Q4 2016	CBD Halifax	300,000
EON Square	120,000	TBD	Q2 2016	Bedford	120,000
The Bay Expansion	90,000	CBC, TC Media	Q1 2016	Suburban Halifax	0
The Maple (Former Bank of Canada Bldg)	20,000	TBD	Q4 2016	CBD Halifax	20,000
3138 Isleville St.	9,000	TBD	Q1 2016	Suburban Halifax	9,000
145 Hobson Lake Dr.	138,000	CRA	Q1 2016	Suburban Halifax	25,000
Wright & Burnside	60,000	RSA	Q4 2016	Dartmouth	20,500

## 2. Businesses are Not Fleeing the Core for Business Parks

Overall, Suburban office product in Halifax actually has a higher vacancy rate than downtown. As you can see from Cushman & Wakefield Atlantic's Q4 2015 Market Research, the CBD posted an overall vacancy rate of 12.8%, the lowest of 4 submarkets including Suburban Halifax, Dartmouth & Bedford. Halifax corporate occupiers are not typically altering their corporate strategy and moving to business parks. While we have seen a few government agencies, like CRA, leave the downtown core for a new custom built facility in Bayers Lake (at lower rents and with increased parking), that sort of trend in the private sector is not as common.

Q4 2015	Central	Suburban	Dartmouth	Bedford	TOTAL MARKET
Area (Square Feet)	5,780,405	2,233,167	2,609,612	765,213	11,388,397
Direct Vacant Space (Square Feet)	631,730	245,183	366,512	139,343	1,382,768
Sublet Space (Square Feet)	107,454	51,225	4,520	0	163,199
Total Vacancy	739,184	296,408	371,032	139,343	1,545,967
<b>Total Vacancy Rate</b>	<b>12.8%</b>	<b>13.3%</b>	<b>14.2%</b>	<b>18.2%</b>	<b>13.6%</b>
Direct Vacancy Rate	10.9%	11.0%	14.0%	18.2%	12.1%
Occupied Space (including sublet)	5,148,675	1,987,984	2,243,100	625,870	10,005,629
Occupied Space (excluding sublet)	5,041,221	1,936,759	2,238,580	625,870	9,842,430
New Supply (Current Quarter)	0	0	0	0	0
New Supply YTD	30,000	60,000	0	21,948	111,948
Weighted Average Rent	\$14.57	\$15.63	\$14.13	\$12.49	\$14.21
Weighted Average CAM/Taxes	\$14.28	\$11.64	\$10.92	\$11.83	\$12.17
Gross Rent	\$28.86	\$27.28	\$25.06	\$24.32	\$26.38
3 Month Absorption (Direct)	45,574	-36,482	29,352	16,356	54,800
YTD Absorption (Direct)	-8,272	-35,153	49,498	50,717	56,790
<b>3 month Absorption (Overall)</b>	<b>56,019</b>	<b>-35,602</b>	<b>33,512</b>	<b>16,356</b>	<b>70,285</b>
<b>YTD Absorption (Overall)</b>	<b>-49,704</b>	<b>-79,878</b>	<b>48,465</b>	<b>52,523</b>	<b>-28,594</b>

## 3. Most Tenants Want Open Space & Amenities; Some Want Brick & Beam

According a recent panel discussion at the Toronto Real Estate Forum, many office occupiers across North America are looking for newly renovated historic properties that suits the needs of their evolving company culture & employee demands. What we are seeing in Halifax, is a shift in what companies demand downtown. Tenants are looking for LEED Certification, open work space, smaller square footage than their traditional requirements due to the reduction in private office space, underground parking, proximity to amenities, contemporary design & state-of-the-art technology.

The older office product in Halifax (class B and C assets) is seeing sharp increases, even spikes in vacancy as we see new projects like the Barrington E-Space & RBC Waterside Centre emerge. When vacancy rates do rise, typically you will see class B and C assets suffer the most, representing a requirement to further inject money into our local economy by improving and repurposing existing structures. As our local developers continue to densify and urbanize our downtown core, we will naturally continue to attract more office users, retail users & newer and better amenities downtown

#### 4. Developers are Setting Up for Future Demand

Due to an ongoing shift in the region's demography, there has been and will continue to be a shift in the location of the working age population. Halifax is experiencing an urban revitalization, with new & emerging multi-residential developments like Westwood's MaryAnn & Doyle Block, Southwest's Maple & Pavilion at South Park, Killam's Alexander and Southport developments & Starfish's Roy project. These developments (among others) represent opportunities for thousands of residents to populate the downtown core, leaving behind Suburban submarkets. With a number of these projects over 80% sold & rented, there will be an immense shift in the densification of the downtown core, a large proportion of which will be recently retired or working age residents with high disposable incomes. As the downtown core densifies, there will be a natural transition in demand for office & retail space, located in close proximity to its employees & customers.

By way of context, the entire United States office market recently moved from 15% vacant to 14% vacant, which was met with huge accolades. "Slack" vacancy levels are often a natural sign of a vibrant and entrepreneurial marketplace where new product is a regular occurrence, much to the delight of tenants. Halifax's market has been ultra-conservative for several decades. This new situation will bring short-term pain to some, but is beneficial to the city as a whole, and is being done in a proactive response to global urbanization trends.

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*Cushman & Wakefield is a leading global real estate services firm that helps clients transform the way people work, shop and live. The firm's 43,000 employees in more than 60 countries provide deep local and global insights that create significant value for occupiers and investors around the world.*

*For reference, Q4 2014's (Last Year's) Market Statistical Summary:*

Q4 2014	Central	Suburban	Dartmouth	Bedford	TOTAL MARKET
Area (Square Feet)	4,718,099	3,293,473	2,609,612	583,265	<b>11,204,449</b>
Direct Vacant Space (Square Feet)	497,701	246,587	416,010	168,112	<b>1,328,410</b>
Sublet Space (Square Feet)	66,022	6,500	3,487	1,806	<b>77,815</b>
Total Vacancy	563,723	253,087	419,497	169,918	<b>1,406,225</b>
Total Vacancy Rate	11.9%	7.7%	16.1%	29.1%	<b>12.6%</b>
Direct Vacancy Rate	10.5%	7.5%	15.9%	28.8%	<b>11.9%</b>
Occupied Space (including sublet)	4,220,398	3,046,886	2,193,602	415,153	<b>9,876,039</b>
<b>Occupied Space (excluding sublet)</b>	<b>4,154,376</b>	<b>3,040,386</b>	<b>2,190,115</b>	<b>413,347</b>	<b>9,798,224</b>
New Supply (Current Quarter)	0	0	20,115	0	<b>20,115</b>
New Supply YTD	197,527	34,000	52,115	0	<b>283,642</b>
Weighted Average Rent	\$14.88	\$14.57	\$14.03	\$13.51	<b>\$14.52</b>
Weighted Average CAM/Taxes	\$14.09	\$12.01	\$10.68	\$10.69	<b>\$12.50</b>
Gross Rent	\$28.97	\$26.58	\$24.71	\$24.20	\$27.02
3 Month Absorption (Direct)	<b>-22,323</b>	38,395	37,817	<b>-814</b>	53,075
YTD Absorption (Direct)	7,736	60,043	19,647	1,354	88,780
<b>3 month Absorption (Overall)</b>	<b>-24,114</b>	38,220	49,531	<b>-814</b>	62,823
<b>YTD Absorption (Overall)</b>	37,090	68,476	47,093	2,954	155,613