

MARKETBEAT OFFICE SNAPSHOT



ST. JOHN'S, NL

A Cushman & Wakefield Research Publication

Q3 2014



ECONOMIC OVERVIEW

The City of St. John's is projecting a larger surplus for the year than had been anticipated. Revenues are up as a result of increased federal government grants (paid in lieu of taxes), which are based on the assessed value of federal government properties. Water fees from neighbouring municipalities also rose. Revenue was at \$143 million at the end of the second quarter, with a projected surplus of \$3.7 million. However, this is about equal to the amount that snow clearing is over budget from the year-to-date projection. (Source: City of St. John's)

The City just signed new contracts with its outside workers with salary increases of 18% over four years. New hires will have a defined contribution pension plan, while existing employees will retain the defined benefit plan.

OUT AND ABOUT

Q3 is all about 351 Water Street. The downtown tower has opened, bringing the first new class A space (and much needed parking) to the downtown in many years. The space is fully leased to Husky and Subsea 7 – an excellent example of how the offshore oil and gas sector is driving the demand for office space in this market.

Interestingly, there is little space becoming available to the market from their previous premises. Scotia Centre has pent-up demand from other tenants that require expansion space. In fact, they are expanding the building, with work underway to add 27,000 square feet (sf) of class A office space and ground floor retail.

Two downtown buildings sold to extra-provincial corporations as St. John's continues to attract investors.

THE NUMBERS

With the addition of the new tower, average rental rates are up significantly in the downtown. Additionally, space in the renovated Bowring Centre is being offered at \$28.00 per square foot – up sharply from the previous asking rent.

Even with a 28% increase in inventory for class A space this quarter, the overall vacancy rate for this market remains very low, at 1.8%. For the total market, overall vacancy is up a full percentage point to 5.7%, but still relatively low in view of the increase in inventory. Large vacancies are opening in the older, suburban class C buildings.

OUTLOOK

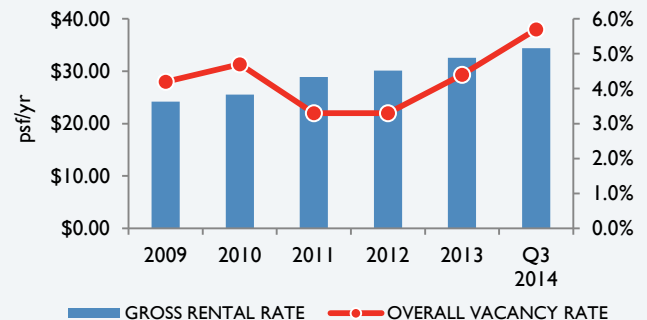
Upon the completion of the fifth building at Kelsey Drive, purely

speculative development may be over, as all remaining projects currently under construction have an element of owner occupation. However, there are indications that new office development may proceed, should demand remain strong.

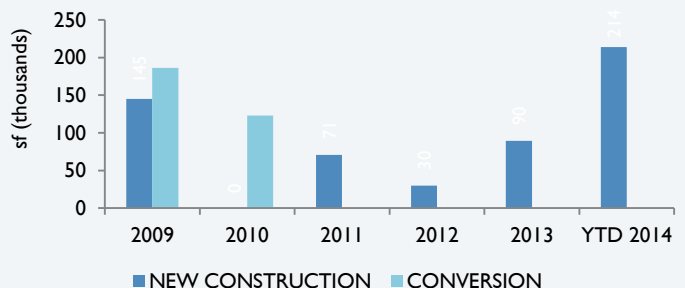
STATS ON THE GO

	Q3 2013	Q3 2014	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	4.8%	5.7%	0.9pp	↔
Direct Asking Rents (psf/yr)	\$32.50	\$34.42	5.9%	↕
YTD Absorption (sf)	68,567	150,733	82,166	▲

RENTAL VS. VACANCY RATES



NEW SUPPLY



ST. JOHN'S, NL

SUBMARKET	INVENTORY	OVERALL VACANCY RATE	DIRECT VACANCY RATE	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	DIRECT NET ABSORPTION	YTD OVERALL NET ABSORPTION	WTD. AVG NET RENTAL RATE*	WTD. AVG. GROSS RENTAL RATE
Class A	777,619	1.8%	0.0%	172,000	168,000	154,000	158,414	\$28.55	\$43.55
Class B	518,384	1.0%	0.4%	0	0	12,651	6,994	\$25.84	\$39.81
Class C	182,816	25.4%	16.8%	0	0	(1,543)	(17,237)	\$23.12	\$32.98
CENTRAL	1,478,819	4.4%	2.2 %	172,000	168,000	165,108	148,171	\$26.93	\$41.04
Class B	959,926	4.6%	4.6%	68,000	30,000	(6,246)	35,323	\$20.01	\$30.60
Class C	856,110	9.1%	9.1%	0	16,000	(30,834)	(32,761)	\$15.63	\$24.44
SUBURBAN	1,816,036	4.7%	6.7%	68,000	46,000	(37,080)	2,562	\$18.07	\$27.88
TOTALS	3,294,855	5.7%	4.7%	240,000	214,000	128,028	150,733	\$22.40	\$34.42

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

SIGNIFICANT Q3 2014 LEASE TRANSACTIONS	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
351 Water Street	Downtown	Husky	A	120,000
351 Water Street	Downtown	Subsea 7	A	48,000
SIGNIFICANT Q3 2014 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
245-247 / 253 Duckworth Street	Downtown	Fomast Hldgs Inc.	\$1,029,000	TBA
128 Water Street	Downtown	Frankmax Hldgs.Ltd.	\$960,000 / \$106.67	9,000
SIGNIFICANT Q3 2014 CONSTRUCTION COMPLETIONS	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
351 Water Street	Downtown	Husky; Subsea 7	Q3 2014	168,000 (100%)
SIGNIFICANT PROJECTS UNDER CONSTRUCTION	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
5 Springdale Street	Downtown	Fortis; Deloitte	Q1 2015	145,000 (78%)
121 Kelsey Drive	Suburban – North	MUNN Insurance	Q4 2014	30,000 (50%)
80 Hebron Way	St. John's East	Crosbie Group	Q4 2015	27,000/25%
235 Water Street	Downtown	TBA		27,000/ 0%
4 Olympic Drive	Suburban – Mt. Pearl	TBA	Q4 2014	11,000 (0%)