

MARKETBEAT OFFICE SNAPSHOT



ST. JOHN'S, NL

A Cushman & Wakefield Research Publication

Q4 2014



ECONOMIC OVERVIEW

The new Minister of Finance, Ross Wiseman, issued his economic update on December 16, 2014. The update focused on falling commodity prices: Brent crude has fallen over 30% since the beginning of the year, and iron ore prices dropped by more than 45% in the same period. Accordingly, growth was constrained and real GDP is now expected to be 2% lower than originally forecast, due to lower commodity exports. The projected deficit is now set at \$916.1 million – significantly higher than the budgeted \$537.9 million.

On a more optimistic note, capital investment remained high in 2014, and is expected to total \$12.4 billion, up 0.6% from 2013. Increased investment in White Rose and Muskrat Falls will contribute to an estimated 9% growth in capital investment for 2015.

Wage gains and a corresponding increase in retail sales levels remained strong. (Source: Dept. of Finance)

OUT AND ABOUT

Last quarter the spotlight was on 351 Water Street, this quarter it is on Fortis Place. The new tower, located in the west end of downtown, saw occupancy by Deloitte and Ernst and Young in December. Fortis Inc. has relocated their corporate offices to the building, with other tenants to include Schlumberger and Seadrill. The building is for sale, as Fortis Properties Corp. has placed their entire portfolio of commercial, office buildings and hotels on the market.

Although originally approved for a residential condominium development, Belvedere is again being offered as office space at a very competitive rent. Renovations are complete at 5-7 Pippy Place, and Telelink moved its operation there in October.

THE NUMBERS

Again, there was a significant increase in class A inventory. Over 310,000 square feet (sf) of construction was completed from Q2 to the end of Q4, increasing class A inventory by 52%. Even so, the direct vacancy rate for class A remains low, at 3.8%, with overall vacancy at 4.6%. Class B vacancy in the downtown rose over the fourth quarter, as space opened in the Fortis Building as major tenants relocated to the new Fortis Place.

For the overall market, total vacancy rose to 7.9% from 5.7%, but average net rents remained relatively stable.

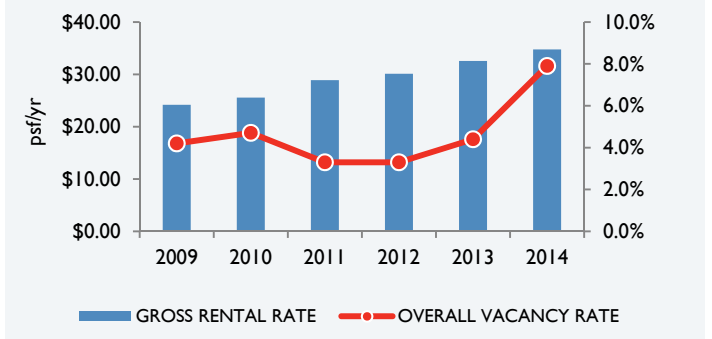
OUTLOOK

With the oil companies, financial services firms, and larger law offices having completed their expansion in the last couple of years, it appeared that the office market would stay relatively stable. This may have changed with the steep drop in oil prices, adding a level of unpredictability – and perhaps increased activity – to the mix.

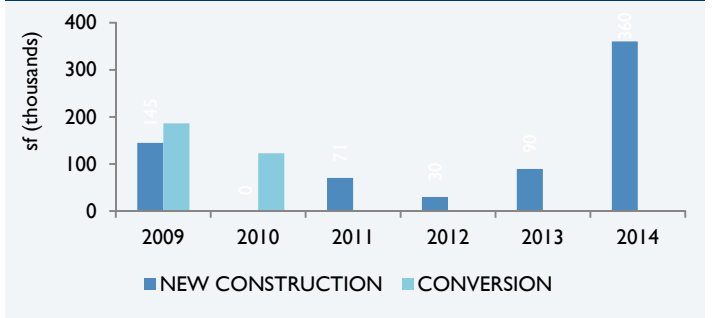
STATS ON THE GO

	Q4 2013	Q4 2014	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	4.4%	7.9%	3.5pp	↔
Direct Asking Rents (psf/yr)	\$32.55	\$34.75	6.8%	↕
YTD Absorption (sf)	80,045	265,071	185,026	↕

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	924,044	4.6%	3.8%	27,000	314,425	117,852	276,266	\$28.62	\$44.17
Class B	518,384	7.6%	6.3%	0	0	(34,119)	(27,125)	\$25.01	\$38.98
Class C	182,816	25.4%	16.8%	0	0	0	(17,237)	\$23.23	\$33.09
CENTRAL	1,625,244	7.9%	6.1 %	27,000	314,425	83,733	231,904	\$26.86	\$41.37
Class B	959,926	4.4%	4.4%	77,000	30,000	2,238	37,561	\$19.97	\$30.56
Class C	911,484	11.5%	11.4%	11,000	16,000	28,367	(4,394)	\$15.74	\$24.44
SUBURBAN	1,871,410	7.8%	7.8%	88,000	46,000	30,605	33,167	\$18.02	\$27.74
TOTALS	3,496,654	7.9%	7.0%	115,000	360,425	114,338	265,071	\$22.47	\$34.75

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

SIGNIFICANT Q4 2014 LEASE TRANSACTIONS	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
351 Water Street	Downtown	Baker Hughes	A	7,717
SIGNIFICANT Q4 2014 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
N/A				
SIGNIFICANT Q4 2014 CONSTRUCTION COMPLETIONS	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
5 Springdale Street	Downtown	Fortis; Deloitte	Q4 2014	145,000 (78%)
SIGNIFICANT PROJECTS UNDER CONSTRUCTION	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
14 International Place	Suburban – East	Medical Group	Q2 2015	20,000 (50%)
121 Kelsey Drive	Suburban – North	MUNN Insurance	Q4 2015	30,000 (50%)
80 Hebron Way	St. John's East	Crosbie Group	Q4 2015	27,000 (25%)
235 Water Street	Downtown	TBA	Q1/2 2016	27,000 (0%)
4 Olympic Drive	Suburban – Mt. Pearl	TBA	Q1 2015	11,000 (0%)