



# Regina Office Market Report

## SECOND QUARTER 2014

### MARKET OVERVIEW

Most major office markets across Canada are experiencing a surge of growth with more than 13 million square feet of downtown office space presently under construction. This new product has experts concerned as there was negative 470,000 square feet of absorption in 2013, and there are few indications that demand for office space will rise in the short-term.

Regina has experienced significant office space development over the last two years and is now adjusting to the sudden rise in vacancy as landlords of Class B buildings attempt to compete with new space.

Accelerating success.



# OFFICE MARKET SUMMARY

## DOWNTOWN MARKET

### MARKET OVERVIEW

Over the last year Regina has experienced one of the more dramatic shifts in vacancy, rising from 4% in fourth quarter 2012 to a record high 10.71% by second quarter 2014. Regina's central business district (CBD) is experiencing the highest vacancy rate in over a decade. The rise in vacancy during 2013 was the result of backfill space abandoned in favor of the newly developed Harvard III Tower and two 40,000 square foot suburban buildings in Harbour Landing.

### WEIGHTED AVERAGE ASKING NET RENT

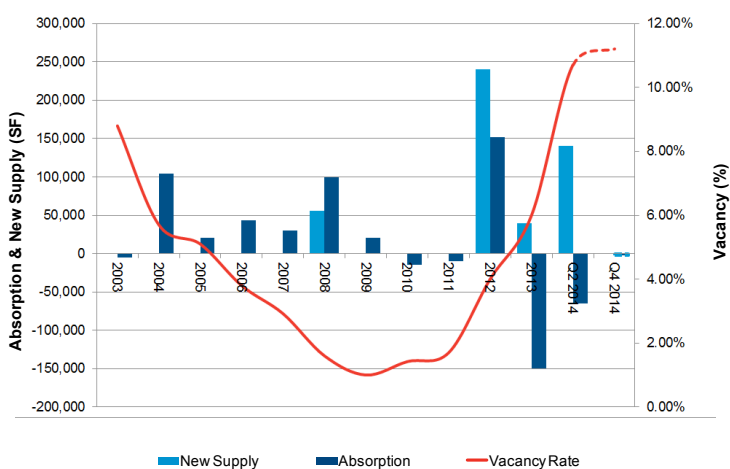
In 2014 we may see downward pressure on rental rates as the rise in vacancy may have landlords competing for tenants. Currently, existing Class A space commands between \$22.00 - \$25.00 net per square foot and new Class A demands \$30.00 - \$40.00 net per square foot. Class B and B+ will vary between \$16.00 - \$22.00 net per square foot.

We are beginning to see some fraying in the sublease market, which is evidenced by some tenants reducing their asking rates to below market rent. Net asking rates of existing space may be slower to follow the sublease market, but we may see an increase in tenant incentives as landlords attempt to differentiate themselves from competing buildings.

### AVAILABILITY

In respect to the office market, Colliers research suggests 8% is generally the point of equilibrium between supply and demand for the office market. At 10.71% Regina's CBD may be exhibiting some signs of instability if new development continues to enter the market. Previously SGI had solicited developers for a new office tower, which would have left their existing 185,000 square feet building vacant. However, due to the substantial costs of construction SGI cancelled their plans for a new building and intends to revisit the idea in years ahead. This offers some hope that the market may absorb much of the vacant space in the interim.

### HISTORICAL PERFORMANCE AND FORECAST



### NET ABSORPTION

The first quarter of 2014 saw little activity in the CBD office market, but Colliers expects negative 70,000 square feet of absorption by the third quarter of 2014. Over the last 6 years Regina's office absorption has been on average 25,000 square feet per year, however, during this same period vacancy was less than 4% and opportunity for growth was confined.

Not all news regarding the CBD office market was negative. In 2014 Aboriginal Affairs and Northern Development Canada relocated from First Nations University to 30,000 SF in 1827 Albert Street. The Regus Office Solutions opened their first Saskatchewan location in the Royal Bank Building occupying 12,000 SF in CBD Regina.

### VACANCY

Class B buildings are experiencing a disproportionate share of the vacancy which will reach more than 15% vacancy by end-of-year 2014. With 227,000 square feet of vacant Class B space, landlords will likely need to redevelop their buildings, offer greater incentives, or invent unique marketing strategies to compete with Class A and B+ buildings.

### FORECAST

In 2013 Regina had the lowest office vacancy rate in Canada, but as of first quarter 2014 Regina is among the highest in the country. New construction, a reduction in real-estate needs, continued government downsizing, and the flight to quality are the primary culprits in this recent shift in Regina's office market. Colliers expects to see downward pressure on rental rates as the market adjusts from being a landlord's market to a tenant's market.

### CBD BUILDING REPRESENTATION

Class	Number of Buildings	Total SF	Vacant SF	Vacancy Rate	Average Asking Net Rate/ SF	Occupancy Costs \$/SF
A	9	1,392,816	85,132	6.11%	\$22.00-\$32.00	\$17.37
B+	8	700,792	85,217	12.16%	\$20.00-\$26.00	\$12.00
B	30	1,621,194	227,551	14.04%	\$16.00-\$20.00	\$9.00
Totals	47	3,714,792	397,900	10.71%		

### CBD OVERVIEW

	2013 Q3	2014 Q2	TREND
Office Inventory*	3,659,664	3,714,792	↑
Net Absorption	(150,000)	(65,000)	→
Vacancy Rate	6%	10.71%	↑
Average Asking Net Rent**	\$23.90	\$23.70	↓
Average Additional Rent	\$12.30	\$12.80	↑

\*There are 47 office buildings surveyed in CBD Regina\*\* Average Asking Net Rent is calculated using a weighted average

# OFFICE MARKET SUMMARY

## SUBURBAN MARKET

### MARKET OVERVIEW

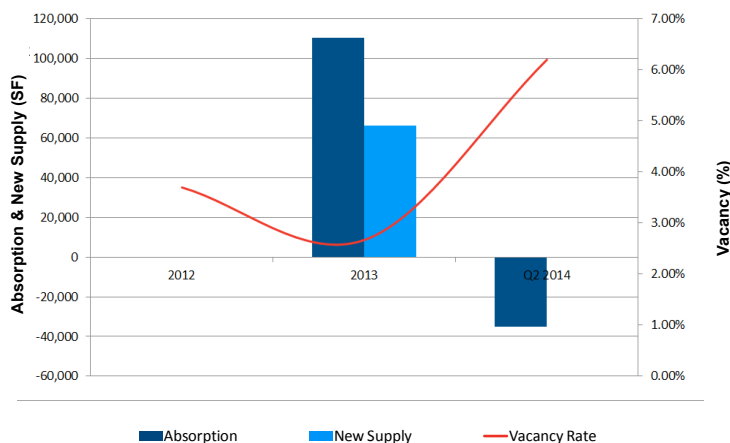
The latest trend in Regina is the growing suburban office market in Harbour Landing. Two 40,000 square foot buildings have completed construction, with an additional building in development, likely to be followed by a fourth and final building. Historically, the development of suburban office space has been tightly controlled by the City of Regina and these four buildings are considered an anomaly to the Regina market. Despite being an anomaly, tenants have welcomed the opportunity to relocate to the suburbs as leasing activity has been strong with Phase I and II fully leased, and Phase III more than 65% pre-leased.

Suburban office space has become increasingly popular among tenants that prefer abundant parking at reduced rates and can operate outside of the downtown core.

### WEIGHTED AVERAGE ASKING NET RENT

Suburban net rental rates have stabilized and will likely remain constant in the near future. Existing space continues to lease between \$14.00 - \$20.00 net per square foot, while new space transacts between \$20.00 - \$28.00 net per square foot.

### HISTORICAL PERFORMANCE AND FORECAST



### NET ABSORPTION

Suburban office space made a notable mark on the Regina office market having absorbed 110,000 square feet in 2013. Notable leases include APEGS and Dundee relocating to Harbour Landing occupying 13,082 SF and 18,000 SF, respectively. There was a slight setback in first quarter 2014, with negative 35,000 SF of absorption, attributed mostly to AANDC and Aboriginal Affairs relocating from First Nations University.

### VACANCY

Vacancy rose from 1.9% in fourth quarter 2013 to 6.2% by second quarter 2014. The rise in vacancy is almost entirely attributed to AANDC and Aboriginal Affairs relocating from the First Nations University Building to the CBD. Suburban office space accounts for 1/5<sup>th</sup> of Regina's downtown inventory at 781,000 square feet and small vacancies have significant impacts on the overall vacancy rate. Colliers expects moderate activity on the suburban market as the few vacancies on the market will suit very specific tenant requirements.

### FORECAST

Regina's suburban office market continues to grow, but we will likely see this abating after phase IV of Harbour Landing is complete. Until the CBD stabilizes it's unlikely the City of Regina will approve any major suburban office development. The availability of downtown parking will likely play a key role in the existing and future demand for suburban office space, and we may see these opportunities realized in future neighborhoods.

### SUBURBAN BUILDING REPRESENTATION

Class	Number of Buildings	Total SF	Vacant SF	Vacancy Rate	Average Asking Net Rate/ SF	Occupancy Costs \$/SF
A	2	110,000	0	0.00%	\$25.00	\$15.00
B+	7	317,373	42,082	13.26%	\$22.00	\$11.60
B	7	374,556	7,643	2.04%	\$15.00	\$11.30
Totals	16	801,929	49,725	6.20%		

### SUBURBAN OVERVIEW

	2013 Q4	2014 Q2	TREND
Office Inventory*	801,929	801,929	→
Net Absorption	112,165	(35,000)	↓
Vacancy Rate	1.90%	6.20%	↑
Average Asking Net Rent**	\$21.00	\$21.00	→
Average Additional Rent	\$6.70	\$7.00	↑

\*There are 16 office buildings surveyed in Suburban Regina\*\* Average Asking Net Rent is calculated using a weighted average

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### NOTABLE LEASE TRANSACTIONS

TENANT	TYPE	MARKET	ADDRESS	APPROX. SIZE (SF)
1. Aboriginal Affairs and AANDC	Lease	CBD	1827 Albert Street	30,000
2. Regus Office Solutions	Lease	CBD	2010 11th Avenue	12,000
3. APEGS	Lease	Suburban	Harbour Landing	13,082
4. DUNDEE	Lease	Suburban	Harbour Landing	18,000



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