BRUNSWICK BROKERS

Non-Owner Occupied Market Report Six-Months Ending Q2 2022 — Saint John | Office

MARKET TRENDS

Vacancy Rate

6 Month Change **3.47%**

Total Vacancy Rate **21.85%**

Avg. Net Rent

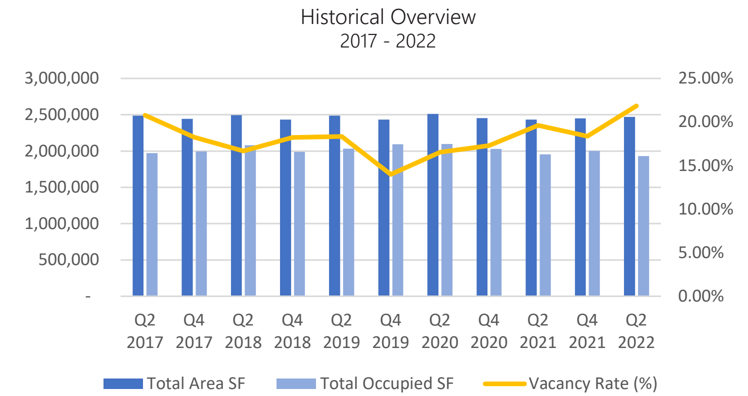
6 Month Change **$(0.12)**

Total Avg. Net Rent **$13.26**

Absorption

6 Month Net Absorption **(68,690) sf**

Total Inventory All Classes **2,471,902 sf**

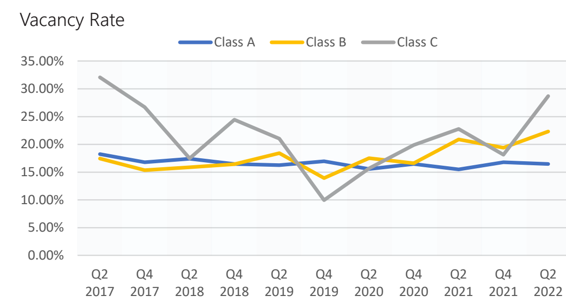


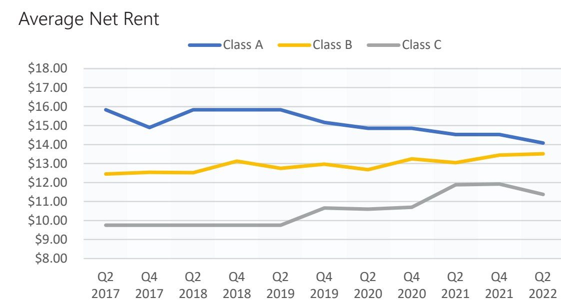
Source: Turner Drake & Partners Ltd. supplemented by Brunswick Brokers Research

MARKET OVERVIEW

The Saint John office market is split almost 50/50 between uptown buildings (1,288,059 sf) and suburban properties (1,183,843 sf), with the largest submarket being Class B suburban, boasting 756,456 sf. Overall, the office market in Saint John saw a 3.47% increase in overall vacancy over the past six months. Vacancy currently sits at 21.85% for the period, the highest on recent record. The overall net rental rate in Saint John decreased by $0.12 to $13.26 per square foot (psf) during this period. Operating costs and taxes remained flat, increasing by just $0.01 for an overall rate of $8.40 psf. Class B rents increased by $0.06 to $13.51 psf over the past six months, while class A and C rents decreased by $0.45 and $0.54, respectively.

Brunswick Brokers President Paul Moore says, "Given the high vacancy, the market is very competitive, but we're seeing Class A assets remain stable as Class B and C vacancies continue to trend upward this period."





MARKET OUTLOOK

Large occupiers are re-examining the space required for operations as rescinded restrictions have allowed hybrid office models to be tested in an environment similar to that of the pre-pandemic workplace. As a result, we expect the office market to continue to see tenants reconsider their office space. Rental rates are projected to trend down or remain flat as a competitive market and occupier leverage continue. As restrictions ensued this period, the market experienced considerable negative net absorption, freeing up nearly 70,000 sf in the market. This trend is expected to continue but may taper off as back-to-work initiatives emerge in various industries paired with competitive rental rates. The long-term outlook remains uncertain for office leasing in Saint John; however, the dust is beginning to settle. Many shifts in the market happened during this period. As a result, investors and landlords alike are watching diligently as the market continues along its pandemic recovery. For many, investment in office real estate has been a relatively predictable investment in the past. That being said, continued restrictions at the beginning of the period have hit many sectors and businesses hard.

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	VACANT SPACE (SF)	VACANCY RATE	6-MONTH NET ABSORPTION (SF)	WEIGHTED AVG. NET RENT	WEIGHTED AVG. ADD. RENT	WEIGHTED AVG. GROSS RENT
Uptown Class A	733,152 sf	120,706 sf	16.46%	2,359 sf	$14.08	$14.12	$28.20
Uptown Class B	489,722 sf	180,612 sf	36.88%	(30,932) sf	$11.94	$7.15	$19.55
Uptown Class C	65,185 sf	13,504 sf	20.72%	1,000 sf	$10.56	$4.60	$15.16
Suburban Class A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Suburban Class B	756,456 sf	97,504 sf	12.89%	(11,626) sf	$14.21	$8.59	$22.31
Suburban Class C	427,387 sf	127,893 sf	29.92%	(29,491) sf	$13.00	$5.07	$17.65
TOTAL	2,471,902 sf	540,219 sf	21.85%	(68,690) sf	$13.26	$8.40	$21.51

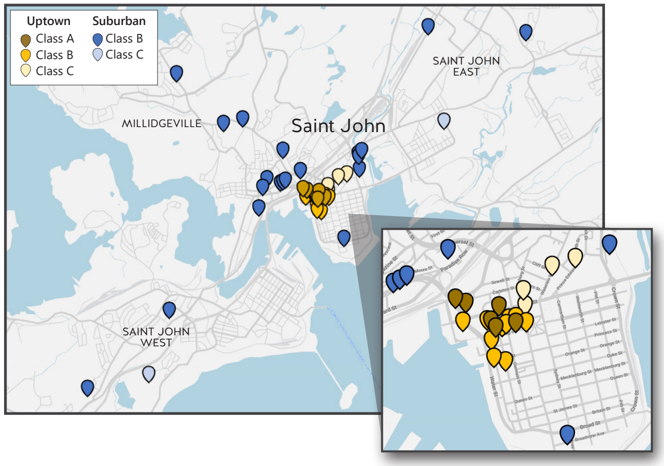
Leasing activity in the office market was slower than any typical period, driven by uncertainty brought on by pandemic restrictions at the beginning of Q1. As a result, many large office occupiers opted to extend leases or holdover until there is more certainty in their long-term requirements. Nevertheless, there were a few notable lease and sale transactions.

Tropical Shipping leased 4,378 sf at the Red Rose Tea Building (12 Smythe Street) as port activity in Saint John continues to rise. Cooke Aquaculture recorded a significant lease at Brunswick Square (1 Germain Street), taking +/-11,000 sf. Finally, 22 King Street was sold to Wayne Chamberlain & Scott Walton at the beginning of May for $1,300,000. Walton's Intelisys Aviation Systems will be moving into the now partially owner-occupied building.

There is no new stock under construction in the office market to report for this period. However, site prep has begun at the highly anticipated Fundy Quay development, which will bring much needed residential availability to the uptown core along with ground floor commercial/retail. Further phases of the project have been slated to include commercial/office space.

Although leasing activity was lax this period, we expect increased movement from building to building within the uptown core in the following six months. Rumblings of tenant fluctuation within the uptown core and high competition within Class A offerings are beginning to take shape.

Turner Drake Surveyed Properties Q2 2022



MARKET ACTIVITY

PROPERTY	SUBMARKET	TENANT/OWNER	SF/Price	TYPE
12 Smythe Street (Red Rose Tea Building)	Uptown Class A	Tropical Shipping	4,378 sf	Lease
1 Germain Street (Brunswick Square Office)	Uptown Class A	Cooke Aquaculture	+/-11,000 sf	Lease
22 King Street	Uptown Class B	Wayne Chamberlain & Scott Walton	$1,300,000	Sale

Source: Turner Drake & Partners Ltd. supplemented by Brunswick Brokers Research

Note: Brunswick Brokers would like to note that Prince Edward Square reported increased vacancy this period. However the space in question was vacated long before the reporting period.

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ECONOMIC OVERVIEW

Population Growth

2016 **126,202** → 2021 **130,613**

Unemployment Rate

Dec-21 **8.2%** → Jun-22 **7.4%**

NB GDP Growth

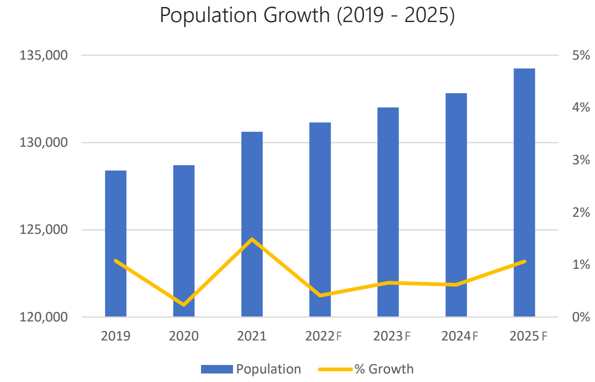
2021 Rate **4.3%** → 2022 Forecast **1.9%**

Source: Statistics Canada, Conference Board of Canada, Port Saint John, Fundy Harbour Group, The Canadian Real Estate Association, TD Economics, Bank of Canada

New Brunswick's population surpassed 800,000 this year, a long awaited milestone for the province. Additionally, 2021 census information states Saint John's population increased to 130,613 in 2021, growing by 3.5% since 2016.

Inflation in New Brunswick is currently outpacing Canada, according to TD Economics, as a result of spikes in food and energy prices. Interest rate hikes have reached substantial highs in an attempt to cool the market as the prime rate currently sits at 2.5%.

The unemployment rate is down 80 basis points this period, sitting 490 basis points below the 12.3% rate from June 2020.



As demand for a North American port partner on the Eastern seaboard grows, the Port of Saint John's Modernization Project is positioning the port for success. The project will ultimately be a major economic driver for the city. Upgrades will result in a larger channel, improved terminal, and enhanced fluidity as capacity is slated to increase from 150,000 containers in 2022 to 300,000 in 2023 and 800,000 in 2024.

Phase I of the highly anticipated Fundy Quay project is nearing closer on Water Street. Government funded site prep is underway, and the start date for construction of the first building is pending. Once completed, the development will bring new life to the waterfront and transform the city's skyline.

Brunswick Brokers Limited

12 Smythe Street
Suite 104
Saint John, NB E2L 5G5

Paul Moore
President
pmoore@bbrokers.ca
(506) 645-8488

Jessica O'Neill
Senior Advisor
joneill@bbrokers.ca
(506) 650-9848

Connor Carson
Marketing & Research Associate
ccarson@bbrokers.ca
(506) 647-5093

Troy Nesbitt
Vice President
tnesbitt@bbrokers.ca
(506) 349-5670

Stephanie Turner
Senior Advisor
sturner@bbrokers.ca
(506) 333-3442

Brock Turner
Commercial Real Estate Advisor
bturner@bbrokers.ca
(506) 271-2770

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