



## Non-Owner Occupied Market Report Six-Months Ending Q4 2022

Saint John | Office

### MARKET TRENDS

#### Vacancy Rate

6 Month Change  
**-2.32%**

Total Vacancy Rate  
**19.53%**

#### Avg. Net Rent

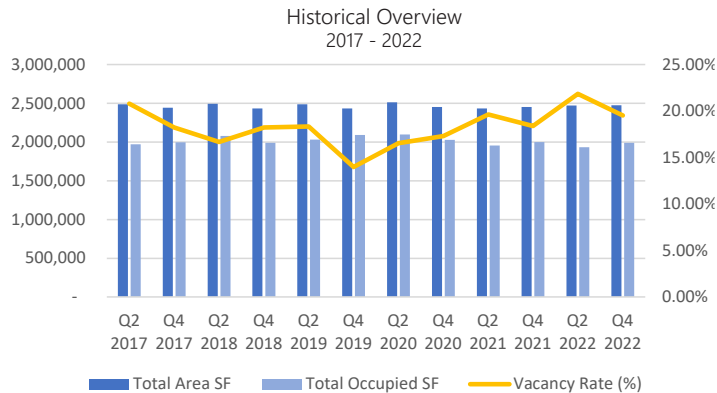
6 Month Change  
**\$(0.10)**

Total Avg. Net Rent  
**\$13.16**

#### Absorption

6 Month Net Absorption  
**59,592 sf**

Total Inventory All Classes  
**2,474,698 sf**



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

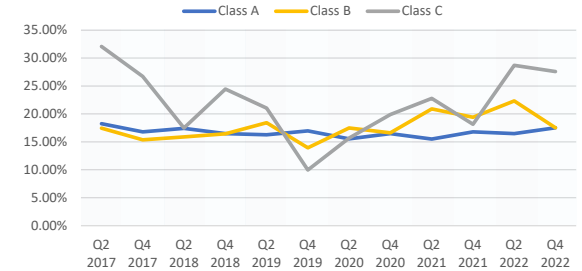
### MARKET OVERVIEW

Overall, the office market in Saint John experienced a 232 basis point (bps) drop in the overall vacancy during the past six months, currently sitting at 19.53% for the period. The average net rental rate is \$13.16 per square foot (psf), average taxes & operating costs were \$8.29 psf bringing average gross rents to \$21.14 psf. The market benefited from positive net absorption of 59,592 square feet during this period. This significant change in absorption is largely due to considerable leasing at City Hall with no disclosure in terms of tenancy at this time. Class B rental rates now sit at \$13.68 psf, \$0.97 higher than Class A rental rates which are \$12.71 psf. This is the first of such an occurrence on recent record for the Saint John office market. "We're now experiencing a major market shift in which Class B assets are now outperforming Class A by nearly \$1.00 in net rental income. This shift is likely driven by a variety of factors such as Class A tenants moving to equivalent Class B office space." Says Brunswick Brokers President Paul Moore.

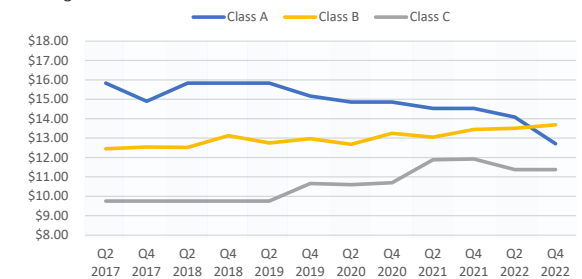
### MARKET OUTLOOK

As market vacancy declines in the short term, investors and landlords are keeping a close eye on the later stages of the pandemic recovery within the sector. Class B assets are currently outperforming Class A in net rental income, which is largely driven by Class A tenants moving to similar Class B office space offered at lower rental rates. While some Class A assets experienced considerable leasing during the last period, the majority of buildings saw large vacancies arise. Class A vacancy trended up slightly to 17.53% while vacancy in Class B dove sharply, by 479 bps, which coincidentally, is also 17.53% as the asset classes both share

Overall Vacancy Rate



Average Net Rent



the same vacancy rate this period. Class A is expected to see continued vacancies arise while Class B's dramatic change in vacancy should taper off or decrease further but by a smaller margin. According to Brunswick Brokers Senior Advisor, Stephanie Turner, "We are seeing an increase in sub-leasing activity in the office market as many tenants are finally starting to understand their future requirements. Tenants who are right-sizing or relocating before lease expiry to space better suited to their changing needs."

## 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	735,948 sf	129,029 sf	17.53%	(5,527) sf	\$12.71	\$14.23	\$26.94
Uptown Class B	489,722 sf	99,447 sf	20.31%	80,165 sf	\$12.25	\$7.10	\$19.29
Uptown Class C	65,185 sf	8,004 sf	12.28%	5,500 sf	\$10.56	\$4.61	\$15.17
Suburban Class A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Suburban Class B	756,456 sf	119,050 sf	15.74%	(21,546) sf	\$14.32	\$8.32	\$22.15
Suburban Class C	427,387 sf	127,893 sf	29.92%	0 sf	\$13.00	\$5.07	\$17.65
TOTAL	2,474,698 sf	483,423 sf	19.53%	59,592 sf	\$13.16	\$8.29	\$21.14

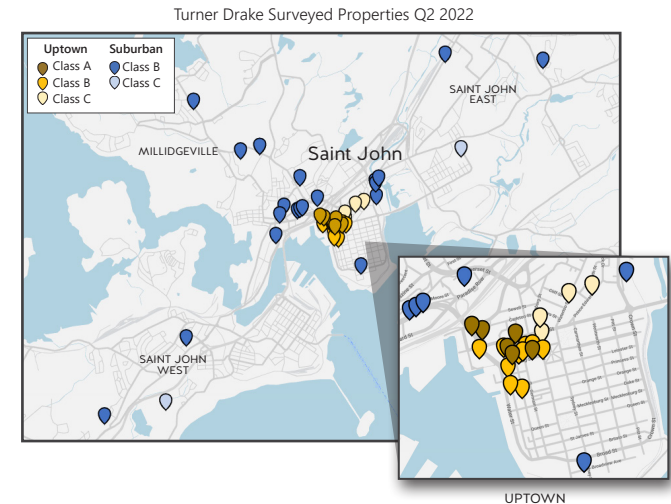
Saint John saw several significant lease and sale transactions during this period, reflecting positive change and movement within the office market. On the leasing side, Kinetrics Inc. has leased space at 1 Germain Street, the Brunswick Square Office Tower. Kinetrics is now the second firm occupying space in the building that supports the Small Modular Reaction (SMR) industry alongside ARC, who currently occupies space in the building as well. Despite this transaction being a smaller-scale leasehold, it still suggests that quality Class A product is still desirable to top tenants looking to establish themselves in the region. Finally, MacKenzie Orthodontics leased 4,004 square feet of space at 53 King Street for 5 years with options to extend, potentially indicating a trend towards a returning confidence in longer-term deals.

A considerable sale in market occurred this period with 1 Agar Place sold to SolveButts SJ Holdings Inc. for \$7,550,000 in July as Slate Asset Management divested of the Class B building.

Class A average net rents decreased by a considerable \$1.37 from \$14.08 to \$12.71 psf over the past six months, while Class B rents increased by a more modest \$0.17 to an average rate of \$13.68 psf. Class C rents remained flat during the period.

Since the onset of the pandemic average net rental rates among Class A buildings have dropped \$2.46 while average net rental rates among Class B buildings have increased by \$0.71, Class C again has remained stable.

It is important to note that the 232 bps decline in overall vacancy may be due to the competitive environment in the Uptown core which has caused tenants to opt for alternate space in different buildings and as such we expect the vacancy rate to increase slightly in the mid-term as the vacancy rate corrects itself.



## MARKET ACTIVITY

PROPERTY	SUBMARKET	TENANT/OWNER	SF	Price/Rate	TYPE
1 Agar Place	Uptown Class B	SolveButts SJ Holdings Inc.	41,000 sf	\$7.55M	Sale
1 Germain Street (Brunswick Square)	Uptown Class A	Kinetrics Inc	N/A	N/A	Lease
53 King Street	Uptown Class B	MacKenzie Orthodontics	4,004 sf	N/A	Lease

## ECONOMIC OVERVIEW

### Population Growth

2021  
**132,761**  2022  
**135,622**

### Unemployment Rate

Jun-22  
**7.3%**  Dec-22  
**6.4%**

### NB GDP Growth

2022 Rate  
**1.9%**  2023 Forecast  
**0.5%**

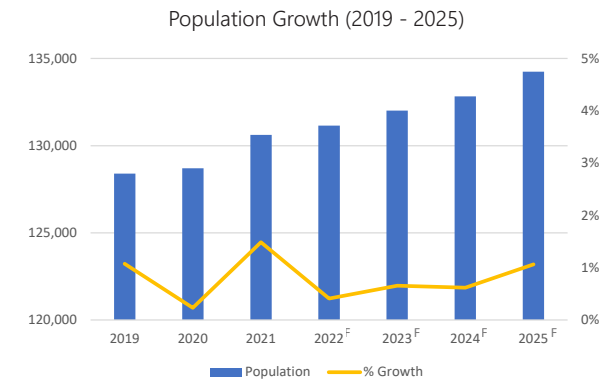
Source: Statistics Canada, TD Economics, Bank of Canada, All New Brunswick, Huddle

In the past six months, Saint John's economy has experienced a decline in inflation, dropping from 9.1% in June 2022 to 6.3% in December 2022. However, gasoline, mortgage interest, and food, particularly meat, all experienced rises in Consumer Price Index figures in a recent report released by Statistics Canada. The Consumer Price Index decreased by 0.65% from June 2022 to December 2022, with the index figure at year-end sitting at 153.4.

The Port of Saint John has been a bright spot in the local economy, with an additional shipping route, 6,000 feet of additional rail track, and two new Super-Post-Panamax Quay Cranes added, resulting in a considerable boost to production and employment growth. Unemployment has decreased slightly during the period, sitting at 6.4%, down 9 bps from June 2022. The Port of Saint John surpassed its TEU goals, with production surpassing 150,000 TEUs at year-end. Previously, the Port's maximum capacity was around 100,000 TEUs, and production is expected to grow again as new infrastructure is installed, with a goal to reach 325,000 TEUs by Spring 2023.

Cruise ships have returned to the Uptown area, with 86 ships and 200,000 passengers expected in 2023. This is a positive sign for the local economy, as the tourism industry continues along its pandemic recovery.

The Fundy Quay project has been given the green light to begin construction on the second of five buildings on Water Street. Site preparations are nearing completion, just in time for construction season, as work is anticipated to begin in the coming months. The Fundy Harbour Group now has the flexibility to begin construction on the second and much smaller 6-story residential/retail building rather than the first building, which consisted of 16 stories.



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