

REGIONAL ROUNDUP Residential owners take a hit while commercial condominiums see record demand

# Calgary's condos

FRANK O'BRIEN

WESTERN INVESTOR

**T**he true strength of the Calgary real estate market is being starkly revealed this summer as the once high-flying residential sector takes a hit, and demand for commercial property soars.

Nowhere is the contrast more evident than in the city's condominium market.

In a recent report on the state of Canada's housing market, TD Bank singled out Calgary as the poster boy for a boom gone bust.

In the first five months of this year, Calgary's housing sales plunged 34 per cent, the fastest decline in the country, while median prices dropped four per cent from 2007. It is even worse in the condominium market, where median prices descended seven per cent with buyers still looking for the bottom.

"Calgary will likely see [housing] prices continue to fall for another three or four quarters, dropping eight per cent to 10 per cent from their peak, after which prices should stabilize and start rising at a low single-digit pace," TD intoned.

Calgary, of course, led the entire country in housing price appreciation up to a year ago, with some property prices doubling in less than two years. Now, with a glut of new property on the market and consumer resistance to high prices, the residential wave is fading fast.

A near panicky plea to buyers from the president of the Calgary Real Estate Board may do little to turn the tide. In a June press release that noted listings of homes for sale were soaring as sales fell, Ed Jensen warned buyers they were missing out on a great opportunity.

"Now is not the time to wait until the sale is over and then decide to buy; after you read a headline, the best time to buy has passed," Jensen said.

Condominium buyers, however, were appar-

ently reading the headlines and opting to wait. The board confirmed that new listings of condominiums for sale in May were up 15.5 per cent to 1,538 units, while sales had dropped 35 per cent to 577 units.

Jensen is likely right: the Calgary economic fundamentals, especially with oil at record prices, remain as solid as ever, and the steady influx of new residents into a city with one of the highest employment rates in the country continues.

Lal Sing Louie, senior market analyst for Canada Mortgage and Housing Corp. in Calgary, said the residential woes are traced to a record inventory of homes on the market. Prices, CMHC believes, will not recover until the glut of homes declines.

## Commercial

Calgary's commercial real estate market is a sharp contrast, marked by the highest rents, and among the tightest vacancies, in the country, especially in the office sector.

Calgary, in fact, rates second only to New York City in North American leasing rates

**"When we started, we were selling parking stalls at \$25,000. Now they are \$55,000 a stall."**

for prime downtown office space, which are in the \$64-per-square-foot range in Calgary's city centre.

The situation has created a new sub-market in the city: the office condominium, a sector nearly corralled by Avison Young, which is leading the development and sales of office



The Concrete Equities Place tower in Calgary: price of office condos has nearly doubled in three years; city-wide sales up 143 per cent from 2007.

condos in Calgary.

Pall Bedi, a developer and partner in Avison Young's business condominium team, said the group has been buying old Class C or even D office properties in the downtown, demolishing them and building Class A space that is then sold, not leased, to investors and owner-occupiers.

So far, the plan is working well. The team's flagship, the 14-storey Genco Place tower, now called Concrete Equities Place, in Calgary's Beltline area, sold out of office space three years ago for an average of \$250 per square foot. "The most recent resale in Genco was for \$535 per square foot," Bedi said, adding that "the new benchmark" for downtown office condos is around

\$550 per square foot.

Even parking stalls have seen a huge spike in value. "When we started, we were selling parking stalls at \$25,000. Now they are \$55,000 a stall," Bedi said.

According to Avison Young figures, by mid-May of this year, \$44.9 million worth of office condominiums had sold in Calgary, in just 16 transactions, or an average of \$2.8 million per unit.

The sales volume was up 143 per cent from a year earlier. Half of the sales this year were in Concrete Equities Place.

Bedi is now concentrating on the downtown market, where Avison Young has bought three old office buildings, all of which will be torn down and replaced by Class A office condos. Together, the three new towers will total about half a million square feet.

First to hit the market will be 634 6th Avenue SW, which will have 70,000 square feet of prime condo offices in a seven-storey tower, the smallest of the trio planned. "We will start demolition right after the Calgary Stampede," Bedi said. He expects the new building to complete in 2010, with pre-sales now being offered. "We have already sold 25 per cent," Bedi said.

The other two Avison Young office condo projects are at 1108 4th Street SW and 607 7th Avenue SW. "We have permits on all of them," Bedi said.

Two of the sites are close to the new Calgary law courts, and are expected to attract lawyers and other legal clients looking for smaller offices of less than 3,000 square feet.

## Financing

Financing condo office space is fairly simple for owner-occupiers.

Lending is available for up to 90 per cent of value through the Business Development Bank, Bedi explained.

Investors can expect to see financing capped at from 60 per cent to 70 per cent of value through commercial lenders. "We will provide a small second mortgage, if needed, to make the sale," Bedi said. Avison Young will also

Please see Cap rates page B30

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**CAP RATES** from B29

help investors with leasing.

Bedi estimated that investors could see capitalization rates of around seven per cent, considered a healthy return in today's commercial real estate markets.

Owner-occupiers get the space as a basic shell, with tiled floors and basic wiring in place, but the owner is responsible for specific electrical and mechanical improvements, and any partitions.

Across the city, the typical office condo is around 2,400 square feet, reflecting the fact that most buyers are smaller companies looking for floorplates not often available as leased space.

The cost for office condos in Calgary varies widely, based on 2007 data. The suburban areas had average sale price of \$226 per square foot in the north end, and \$253 per square foot in the south. The Beltline had an average sale price of \$437 per square foot last year.

At the moment, asking prices for downtown office condos under construction or recently completed average \$560 per square foot, excluding parking.

Avison Young expects Calgary office condos to see prices rise across the city by from five per cent to 10 per cent in 2008.

**Quick facts**



**Calgary, Alberta**

Population 1 million  
 Average residential condo price \$311,816  
 Average office condo price \$2.8 million  
 Average industrial condo price \$520,000  
 Major employers Oil and gas industry, construction

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in the office market: tight vacancy rates and soaring lease costs.

Since 2005, 35 industrial condo projects have been started in Calgary, four more completed this year, and at least five are either under construction or scheduled to start shortly.

Currently, prices in spec industrial condo sites are \$185 per square foot to \$200 per square foot within the city. In Aldridge and other suburban markets, spec prices are in the \$165-per-square-foot range.

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