

Business condo sales surge

Lease rates fall as office vacancies rise in Calgary

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Rising office vacancy rates combined with dropping average lease rates have tempered demand for the sale of business condominiums in Calgary.

But the first five months of this year have also seen some positive news in the local commercial real estate market.

Fred Clemens, associate with **Avison Young**, said he's seeing more people interested in selling and buying office condominiums in the Calgary market.

"But it's still tough to compete with some of the lease rates that are going on today," said Clemens, who works with partner Pali Bedi in this market. "It's not as active as it once was."

From January to May, there were 16 office condominium sales in Calgary for \$14.4 million, according to a report by Avison Young Commercial Real Estate in Calgary.

For the same period in 2009, there were only 11 sales for \$6.4 million.

However, this year is off compared with 2008 when there were 30 sales for \$26.1 million during the first five months of that year.

In 2007, there were 18 sales for \$12.9 million in that time period.

With rising vacancy rates, lease rates are dropping in Calgary's office market.

For example, data by commercial real estate firm **CB Richard Ellis** indicates the downtown Calgary office vacancy rate has climbed to 15.7 per cent in the second quarter of this year from 8.9 per cent a year ago.

The quoted net rent for all classes of property in the central area of the city dropped from \$25.41 per square foot to \$22.39 in those 12 months.

CBRE also noted that the suburban office market has seen its vacancy rate jump from 12.4 per cent a year ago to 15.7 per cent today with the quoted net rent falling from \$19.08 to \$16.82 in the past year.

And in the industrial market, CBRE says the vacancy rate has fallen from 4.6 per cent last year to 4.4 per cent this year with the quoted net rent also dropping from \$8.25 to \$7.45.

In 2008, when the average rent in the downtown Calgary office mar-



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COMMERCIAL REAL ESTATE

ket hit more than \$40 per square foot, the business condo sector was booming. "Some people who would have chosen to purchase before are choosing to lease but there are still people out there who are buying right now," said Clemens.

Besides the lease rate, there are a number of other reasons companies choose to buy properties instead of leasing, he said.

"One is security of tenancy so you're not being moved around every five or 10 years," explained Clemens. "Some people don't like the hassle. Their core business is not to find real estate space. People are kind of being stuck in that position where they're having to spend an inordinate amount of time finding space that suits everyone."

He also said companies purchase space for the same reason individuals own their home, giving them an opportunity to build capital.

"In the current state of the stock market and world economies, even though the real estate market has gotten a little bit of the teeth kicked out of it recently, it's more stable than the stock market. So it's a place just to hold equity, grow equity."

Frustration with landlords, having control of your building and flexibility in staying or moving from that space are other reasons for companies buying their real estate.

Clemens said companies interested in business condo ownership include privately owned, family operations as well as businesses such as lawyers and accountants. "Stable companies want stable real estate," he said.