

# Large bay industrial space in demand

## Vacancy continues to fall

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CALGARY - Vacancy in the large-bay industrial space is starting to decline at a faster rate than smaller bays in the Calgary market, says commercial real estate firm Avison Young.

"As tenants begin to show confidence again, larger companies are beginning to expand in Calgary's industrial marketplace," says Avison Young in a newsletter updating the market.

The largest contributor to the decreasing vacancy in the large-bay space of 50,000 square feet or more is large-format distribution space.

"With the exception of build-to-suit developments, construction of industrial space came to a complete stop at the beginning of 2009," said Avison Young. "This situation is not expected to change in the immediate term.

"Absorption of mid-to-large bay vacancies will need to continue through 2010 into 2011 - and create upward pressure on rental rates - before speculative, financially viable construction can commence. However, a number of projects are in the planning stages or development permit process in anticipation of increased demand and in preparation for the spring construction season in 2011."

According to Susan Thompson, research manager at Avison Young's office in Calgary, the industrial real estate market's overall vacancy rate dropped to 5.0 per cent in the third quarter of this year from 5.5 per cent in the previous quarter and 5.2 per cent in the third quarter of 2009.

Thompson said overall average rental rates have fallen to \$6.88 per square foot in this quarter, down from \$6.98 in the previous quarter and from \$7.23 a year ago.

Doug Johannson, vice-president of Avison Young, said part of the interest in large-bay space has been due to pent-up demand.

"A lot of larger users were hit with uncertainty surrounding the (economic) crisis and surrounding what was going to happen," said Johannson. "When you talk about large users, you're not only talking about larger companies but also large third-party logistics firms. And everything at that point during the point of the recession, basically got re-evaluated and rethought up in terms of where they were going.

"We saw this worldwide. A lot of budgets ... all pulled in their horns ... When it became apparent the world wasn't ending, it became more apparent that people still needed to get on with space."

A third quarter market report by CB Richard Ellis Ltd. said there was a total industrial real estate

inventory of just over 115.4 million square feet in the city and nearly 189,000 square feet currently under construction.

Absorption - the change in occupied space - is close to 1.7 million square feet year-to-date.

Year-to-date, there has been just over 517,000 square feet of new construction completed in 2010.

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