

Businesses upgrade to higher-quality digs

Moving On Up; Companies moving to new downtown towers

BY MARIO TONEGUZZI, CALGARY HERALD APRIL 15, 2010



Richard Pootmans of Calgary Economic Development, in front of The Bow tower, says downtown office construction is driving a "flight to quality" as companies upgrade their space.

Photograph by: Ted Rhodes, Calgary Herald, Calgary Herald

During the past 18 months, office vacancy in Calgary has steadily increased and asking rents have steadily decreased, prompting many businesses to adopt a "flight-to-quality" philosophy and improve their office environments.

Steve Sinclair-Smith, chief operating officer of Divestco, said his company will be moving into one of the new Centennial Place towers beginning in June to consolidate its operations.

"We're in four different locations in Calgary," he said. "We hope to be done (moving) by probably November, December if all goes as planned."

Divestco, a service company to the oil and gas industry, will have more than 100,000 square feet in its new location for about 350 employees.

This phenomenon has taken place during previous economic downturns in the city, with tenants in the

downtown and Beltline districts moving up in quality of buildings and a greater-than-normal percentage of suburban tenants moving into the central core, according to a national report by commercial real estate firm Avison Young.

"Clearly, investments in downtown office construction have affected the market," said Richard Pootmans, business development manager for real estate for Calgary Economic Development. "Our new high quality office buildings coming on stream really are driving (rental) rates lower and creating a lot of new options for tenants.

"These options include enabling tenants to upgrade their space by moving into Class A buildings, often for little or no extra costs, and this of course is known as the flight to quality."

Pootmans said the city is also seeing organizations take the opportunity to consolidate their operations from multiple locations to single, new and upgraded addresses.

"One consequence of this activity is increasing vacancy of B and C space on the market at very attractive rates and this inventory is actually an important asset for our city as businesses who in the past have wanted to locate here but have been unable to find affordable space now have that opportunity," added Pootmans.

According to [Avison Young](#), the vacancy rate in downtown Calgary was 9.7 per cent in the first quarter of this year, up from 5.6 per cent a year ago. In the third quarter of 2006, it hit a low of 0.29 per cent. Its most recent high was 22.5 per cent in the fourth quarter of 1992.

Average net rents for AA Class buildings in the downtown sit today at \$35 per square foot, down from \$55 during the third quarter of 2008. Cclass buildings today have average net rents of \$12 compared with \$30 in the fourth quarter of 2007.

In the past couple of years, Calgary has added several million square feet of downtown office space, offering companies the opportunity to consolidate their office operations.

The Avison Young report said the flight to quality has been driven by the reduction in rents in better quality buildings. "It has also been influenced by the strong fundamentals of many businesses -- and their willingness to pay a premium to be in better quality space," said the report.

"This strategy has been sparked by the perception that, two to three years ago, tenants were paying between \$30 to \$50 per square foot net for downtown office space, with class C space being at the \$30 level. Today, tenants can be located in the best buildings in Calgary for that same \$30 (per square foot)."

The report said companies planned for these types of rates in their budgets and are now able to justify paying for some of the best space in Calgary, "accommodating their business strategy and improving conditions for staff."

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