

Forecast improving for downtown office vacancies

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Improved economic conditions in Calgary mean the expected flood of office space may not be as much as originally feared, even as massive new office towers are completed in the next two years.

A report released Wednesday by commercial real estate firm Avison Young said empty spaces in downtown office buildings won't be as much as first anticipated with the completion of the Eighth Avenue Place and The Bow tower projects, encompassing about 2.8 million square feet.

"Just six months ago we were forecasting downtown Calgary vacancy to reach a high of 20 per cent in spring 2012, when Encana's new tower, The Bow, completes construction. Thanks to an improved economy we are now predicting vacancy to peak at approximately 17 per cent in

spring 2012," said Todd Thronson, managing director of Avison Young's Calgary office. "While this is still a difficult market, vacancies are nowhere near the levels seen during the previous economic downturns in the 1980s and 1990s when vacancy rates were well over 20 per cent."

The first quarter 2010 Calgary office market report said office vacancy citywide now sits at 11 per cent, down from 11.6 per cent in the fourth quarter of 2009, but up from 7.6 per cent a year ago.

Current vacancy rates for each of the city's submarkets are: downtown, 9.7 per cent; Beltline, 12.4 per cent; suburban north, 11.5 per cent; and suburban south, 15 per cent.

Looking ahead to the anticipated vacancy peak in spring 2012, citywide vacancy is expected to rise four percentage points to 15.2 per cent, said Avison Young. Downtown vacancy is forecast to reach its peak of 17.2 per cent at the same time. The suburban

south is expected to top out at 16.7 per cent in fall 2010, while the suburban north and Beltline areas have already reached their high points.

"Tenants are still in the driver's seat, despite the improvement in Alberta's economy," said Warren Libert-Scott, associate vice-president of office leasing for Cushman & Wakefield in Calgary. "The imminent surge in backfill space with the arrival of Jamieson Place, Centennial Place, The Bow and Eighth Avenue Place will preserve a strong negotiating environment for tenants over the next 24 months."

The company's most recent office market report said there was almost 2.5 million square feet of office inventory added to the city's central core in the first quarter of this year.

Considering the positive outlook for oil and gas prices, as well as the overall projected health of the economy, a continued moderate recovery in office demand is forecast,



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"The pace of demand for office space is unlikely to absorb the vast amounts of new recently completed space or the space that is currently under construction," said the report. "As a result, office vacancies, especially in the downtown core, will continue to rise significantly through to the completion of The

Bow in 2012."

It said the sublease market will continue to dominate leasing activity through 2010, driving rental rates down further as landlords and sublandlords continue to offer numerous incentives to attract and retain new tenants.

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