

Report on Business

WIRELESS WARS

Rogers suit turns the tables on competition

BY SIMON HOUP

'Tis the season to be suing. Betting that there's no better defence than a good offence, Rogers Communications Inc. filed a suit in British Columbia Supreme Court against BCE Inc.'s Bell Mobility over a new ad campaign boasting that

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REAL ESTATE

A slump's legacy: Empty offices, falling rent

BY STEVE LADURANTAYE
REAL ESTATE REPORTER

Office rents around the globe are falling at an unprecedented pace as recession-battered tenants abandon space just as construction wraps up on new buildings that were started before the recession began.

The average cost to lease space fell by 7.7 per cent in the past year as companies around the world slashed staff and

consolidated offices. Calgary was among the worst performing markets, with a 21-per-cent fall. Kiev, the capital of Ukraine, saw the steepest drop at 64 per cent.

Landlords - many of whom financed expensive new buildings when lease rates were higher and occupancy trends were brighter - now face the prospect of paying for loans with far less income.

Many builders embarked on

ambitious projects before the recession hit hard, taking advantage of low interest rates and the promise of economic prosperity to build flashy, world-class office space to attract large companies and boost a city's cachet.

But it became clear as the recession took hold that their plans had been too ambitious. The tenants counted on to fill these buildings have drastically reduced their head counts

following the collapse of Bear Stearns and Lehman Brothers and the chain reaction of failures in the financial sector over the past year.

The worst-case scenario is already playing out in Dubai, where state-controlled Dubai World is looking to restructure \$26-billion (U.S.) of debt incurred before a slide that has seen office rents fall 27.3 per cent.

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THE ECONOMY

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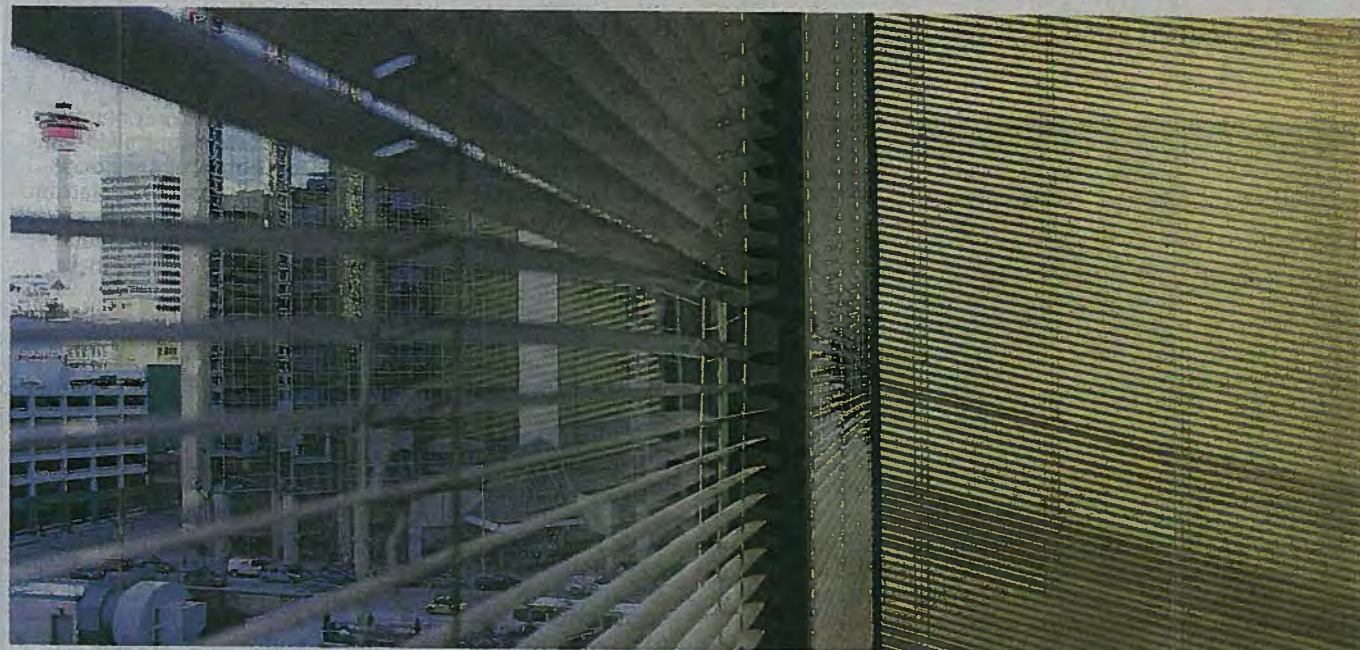
Office space abounds in recession-hit cities

>> "Decreasing rents puts pressure on property values," said Avery Shenfeld, chief economist at CIBC World Markets. "These falling rents are a symptom of increased vacancies, which is something no investor wants to see."

The cities hit the hardest are the same cities that have been battered by the recession, making it more difficult for them to emerge from the downturn even as the economy begins to show signs of stabilization. New York, Boston, Hong Kong and Abu Dhabi have all seen rents decrease by more than 30 per cent.

Calgary stands as a stark Canadian example, with downtown rents down 21 per cent in a year, and more than six million square feet of space about to flood the market. Vacancy rates are already above 13 per cent, as oil and gas companies consolidate and shed staff to deal with lower commodity prices.

"Somebody has to fill all of that space eventually, but I can tell you that nobody is hearing anything about any big tenants coming to town," said Mark Kolke, a leasing agent at MaxComm Realty Advisors in Calgary.



Calgary stands as a stark Canadian example, with downtown rents falling 21 per cent in a year. TODD KOROL FOR THE GLOBE AND MAIL

"It's going to get worse before it gets any better, because there are a lot of musical chairs right now as tenants shop around for space."

The data was compiled by C.B. Richard Ellis in its semi-annual report on global office space. The report released yesterday indicated that Toronto remains the most expensive

office market in Canada, with Vancouver and Calgary also cracking the list of 50 most-expensive spaces in the world.

A square foot of space in downtown Toronto was worth \$60.78 (U.S.), good for 38th spot on the twice-a-year ranking. Vancouver space cost \$52.44 (47th place) while Calgary was \$51.91 (49th).

Globally, the most expensive spot was London's West End, where a square foot of space cost \$184.85.

The Toronto figure was flattered by strength in the city's top space, said Avison Young Commercial Real Estate's director research Bill Argeropoulos. While the best real estate is still commanding top dollar,

mid-tier rents have decreased by as much as 50 per cent as 3.2 million square feet of new space enters the market.

"You're also seeing some landlords hold firm on price, but then give away months and months of free rent in order to keep tenants happy," he said.

Occupancy costs are fast

dropping around the world, with year-over-year change in the 179 markets pulling back. The majority of markets - 131 - experienced declines, while 50 saw rents fall by double digits.

"While there are signs that commercial real estate values are stabilizing in some markets in Asia and parts of London, underlying property fundamentals are still weak," said Raymond Torto, CBRE's global chief economist. "However, the office market may be on the cusp of moving from intensive care to the stabilization stage - the first step to getting back to good health."

Not all Canadian markets had difficulty in the past year, however. Of the Top 15 top-performing markets, five were Canadian. London, Waterloo, Edmonton, Ottawa and Halifax all saw rents increase.

"It all comes back to employment and some cities didn't see employment fall quite as much, especially provincial capitals," said Mark Rose, president of Avison Young. "This speaks to my belief that what we are seeing is a cyclical problem, not a paradigm shift. When you've been in business as long as we have, you realize that there are cycles."