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Calgary vacancy rates lower than recently feared



Strong interest in commercial space keeps vacancy rate from hitting 20 per cent



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Nathan VanderKlippe

Calgary — From Saturday's Globe and Mail

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Calgary may avoid a real estate disaster, as strong crude prices and surging interest in the oil sands drive more interest in commercial space than brokers expected only months ago.

The city's vacancy rate has fallen through the first half of this year, and several city brokerage firms now believe that even with two massive new buildings nearing completion, vacancy rates will not touch the 20 per cent feared as recently as this spring.

"I wouldn't paint a picture that it's booming, but it's nowhere near as negative as it was," said Todd Thronson, managing director of the Calgary office for Avison Young Commercial Real Estate. "We're thinking today that vacancy might get to around 15 per cent – but it's not going to be the death knell that everybody thought it was going to be."

After hitting 14.5 per cent late last year, vacancy rates dropped to 13.5 per cent in the first quarter and fell to 12.4 per cent at the end of May, according to numbers compiled by Barclay Street Real Estate. Part of the dip has come from energy companies like Statoil ASA and engineering firms like Amec PLC, who are taking on more space as oil sands expansion resumes.

Vacancies will, of course, rise again in the next 18 months, with the opening of the million-square-foot Eighth Avenue Place and the Bow, the new 1.8-million square foot home to Encana Corp. and Cenovus Energy Inc. But even that vast amount of new space could soon be filled, said Dan

Derek DeCloet

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Harmsen, vice-president at Barclay Street.

"We could have this absorbed in the next two or three years," he said.

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Even Eighth Avenue Place is no longer a stunning symbol of Calgary's dire fortunes. Once a construction project without a tenant, 20 Vic Management Inc., which manages the building, has now signed at least two lease agreements. Both Bonavista Energy Trust and Direct Energy plan to move in to the massive new building late this year. Law firm Burnet, Duckworth & Palmer LLP is also negotiating for space, and brokers say one other tenant is also close to signing on. Together, those four tenants will fill roughly 20 per cent of the building, brokers said.

Still, some believe the city remains on track for significant pain. Greg Kwong, an executive vice-president at CB Richard Ellis, continues to project a peak vacancy of 18 per cent.

"I call it the calm before the storm," he said. "We see nothing in the next 12 months that will cause that much space to be eaten up."





And lease rates in Calgary show little signs of recovery. Tenants accustomed to paying \$30 to \$40 per square foot in B- and C-class buildings are now discovering they can find AA-class space for a similar amount.

That's partly what attracted Bonavista to Eighth Avenue Place, where it will upgrade from an older building to a new high-rise.

"I don't think at the end of the day there's going to be any significant cost to moving over," said Bonavista chief executive officer Keith MacPhail. "Lease rates are far more competitive than they were a few years ago and we're very happy with what we've got signed up."

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