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Meanwhile, Back at the Office

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Tight as a drum two years ago, Calgary's office market is suddenly glutted with space, and for landlords it's only going to get worse

by Terry Inigo-Jones

Paul McKay has been an office leasing agent in Calgary for only two years, but already he has a lifetime of experience. The firm he works for, Barclay Street Real Estate Ltd., predicts that the city's overall office vacancy rate will approach 14% this year, compared with less than 2% in early 2007. That's one of the more optimistic forecasts.

A Tale of Two Cities

If a balanced office market is something to be desired, then Edmonton is looking pretty good – at least compared to most major Canadian cities. While not experiencing the space crunch and building boom that Calgary did between 2005 and 2008, it is now not facing a glut, either.

“The Edmonton office market has absolutely been more stable [than Calgary's] for the last 10 years,” says Cory Wosnack, principal at [Avison Young](#) in Edmonton. “Now, that stability comes with a consequence, in that we are not a very exciting or high-value city in terms of our rental rates not reaching the level of Calgary. Our peaks are much smaller but our valleys aren't as deep.” While vacancy rates have increased and will probably continue to grow in Alberta's capital, there has not been the same reduction in the value of real estate or drop in rental rates seen in its neighbour to the south, he says.

The most recent figures from both Avison Young and Colliers International peg the downtown Edmonton vacancy rate at 5.9% and the suburban rate at 10.5%.

The major difference between the two cities is that Edmonton has not seen nearly the same level of new construction. “We are not immune to companies downsizing and getting leaner,” says Wosnack. Telus has reduced its office needs by 100,000 square feet in Edmonton this year, he notes. Sun Life Insurance is not renewing its lease on 38,000 square feet of space. But the lack of new buildings coming onto the market means that the increasing vacancy rate is more manageable.

“What provided the stability for Edmonton is the strength of the three levels of government,” says Wosnack. About one-third of the city's downtown space is occupied by the provincial,

federal and municipal governments, and staffing levels and office space requirements from those governments have not changed.

“It has been quite the maturing process and it has allowed me to mature my career faster than some,” says the irrepressible McKay. “As tough of a market as it is, I have been blessed in that I have had the education process of both full swings. I don’t think that many people that have been in the industry for two years have had that.”

The experience of going from busy times to desperate hasn’t fazed him. “You need that because you need to be able to relate to a tenant when they are looking at their business plan and they are asking questions about markets moving. I have seen it in both directions. You need to be able to say, ‘Well, these are the type of things you can expect. These are the trends that you are going to see happening.’”

Watching Calgary’s office market is like watching a car crash in extreme slow motion. We’re only just now at the moment of impact; the doors will fly off sometime later, courtesy of a building boom not yet finished. “Vacancy rates in Calgary are expected to rise for at least the next 18 months,” according to the latest report from commercial real estate firm Avison Young. “Given the amount of new construction underway, vacancy could potentially reach as high as 18% in the next three years.”

Calgary has an inventory of 58.4 million square feet of office space, and Avison Young’s figures show that 3.3 million square feet of head lease space is already empty. On top of that, there are 25 office buildings under construction, totalling 7.5 million square feet, of which 35% remains to be leased – the response to sub-1% vacancy and rents topping \$50 a square foot downtown in 2006 and 2007. Avison Young predicts an overall vacancy rate of 16% this year, but that figure will grow in 2011 with the completion of the [Bow](#) (the new headquarters for EnCana Corporation) at two million square feet and 8th Avenue Place (the site of the former Cowboys night club) at one million square feet. While EnCana is set to occupy the entire Bow building, the offices it currently occupies will become vacant.

And that doesn’t even count sublease space, which downsizing tenants such as engineering, natural gas and oilfield services firms have vacated and put back on the market for an average \$30 a square foot. Todd Thronson, managing director of Avison Young in Calgary, says: “There is a ton of sublet space coming on the market. That’s a combination of companies dealing with the more difficult economic times and... tenants starting to move into some of these new buildings, having committed to more space than they need.”

To put things into perspective, 8% office vacancy is considered a “balanced” market, favouring neither tenants nor landlords. And Calgary has weathered periods of high vacancy before.

“I don’t think this is a doom-and-gloom scenario,” says Richard Pootmans, business development manager for real estate with Calgary Economic Development. According to [CED’s office market forecast](#) for 2006 to 2025, the overall vacancy rate stayed between 15% and 22% from 1987 to 1995, so this is not uncharted territory. The average over the last 10 years has been between 10% and 15%, he says.