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Speculative construction to impact Calgary's office leasing market

BY MARIO TONEGUZZI, CALGARY HERALD OCTOBER 6, 2009 BE THE FIRST TO POST A COMMENT

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Over the next two or three years, speculative new construction will be one of the biggest issues facing the Calgary office leasing market, says commercial real estate firm Avison Young.

Photograph by: Archive, Calgary Herald

CALGARY - Over the next two or three years, speculative new construction will be one of the biggest issues facing the Calgary office leasing market, says commercial real estate firm Avison Young.

In a report, the company said between October 2009 and early 2012, about 6.3 million square feet will be added to the city's office space inventory, an increase of 11 per cent, but only two-thirds of the space has been leased, with 2.3 million square feet not yet spoken for.

"Once occupancy does begin to occur, both the vacancy created by new construction and any resulting backfill space will add to the existing vacancy. This combined vacant space will impact the market heavily," said the company.

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"Until positive economic growth results in job creation, corporate growth, and increasing commodity prices, vacancy levels are expected to remain high. The one counterpoint to the increase: as vacancy rises, asking rents will decline. Declining rents tend to entice tenants sitting on the fence regarding expansion plans to capitalize on the opportunity. Some tenants are expected to take advantage of lower rents available in the market to expand their space needs. Should sufficient movement into positive absorption be achieved in the next two years, vacancy will still increase, but at a reduced rate from the current forecast."

The semi-annual report, which covers current trends in the commercial real estate industry, said Calgary office vacancy has increased dramatically since fall 2008, and is projected to rise through the next couple of years.

From 2007 to 2012, inventory is expected to increase by 30 per cent, which equates to an additional 14.8 million square feet of office space. Of note, this is less than 50 per cent of the construction activity seen during the construction boom of 1979 to 1983.

"As a result of this new office space entering the market, vacancy will be significantly impacted over the next decade," said the report. 'As vacancy increases due to a slower economy and new construction being completed, Calgary landlords will face some difficult issues."

Avison Young is forecasting that vacancy could reach as high as 16 per cent (18.3% including sublease space) by spring 2012.

"This would be the highest office vacancy seen in Calgary since the National Energy Program and the collapse of world oil prices decimated the economy in the early 1980s," said the report.

'Global market conditions, which combined to cause the current level of vacancy, will continue to affect the market as long as the world remains in recession. The rapid economic downturn has resulted in corporate downsizing, merger and acquisition activity, reduced growth plans, and low oil and gas prices. All of these factors have resulted in more space being returned to the market as either head lease or sublease space, growth into new space being halted, and negative absorption being recorded for the first time in six years. Many businesses are also postponing decisions on their office space needs until the last moment as they attempt to capitalize on softening lease rates."

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