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Media Release

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Editors/Reporters
• Please click on link to view and download Avison Young's *Q1 2018 Calgary Office Market Report*:
http://www.avisonyoung.ca/documents/95656/18009343/AY+Calgary+Q1+2018+Office+Market+Report

Downtown Calgary office market records strongest positive quarterly absorption in three years

Avison Young releases its First-Quarter 2018 Calgary Office Market Report

Calgary, Alberta — Calgary's Downtown office market recorded the highest amount of positive quarterly absorption in three years in the first quarter of 2018. After Downtown vacancy peaked at 26.4% in the second quarter of 2017, vacancy decreased to 25.6% in the first quarter of 2018. Calgary's overall office vacancy rate also notched down to 23.2% at the end of first-quarter 2018 from 23.5% in the fourth quarter of 2017. Vacancy in Downtown Calgary was 26% at the end of 2017.

This decrease in vacancy was predominantly due to absorption of space in the Downtown market, including the first occupancy in the newly completed Brookfield Place. Head lease space (space available directly from the landlord) currently represents three-quarters of Calgary's overall availability. This is a shift from three years ago when sublease space flooded Calgary's office market at the start of the most recent downturn. Head lease space had represented two-thirds of Calgary's overall availability in the first quarter of 2014.

These are some of the key trends noted in Avison Young's ***First Quarter 2018 Calgary Office Market Report***, released today.

"Second-quarter 2017 was the peak vacancy for this downturn," comments **Todd Throndson**, Avison Young Principal and Managing Director of the company's Calgary office. "Even with the addition of Telus Sky in about a year's time, vacancy is forecasted to rise to 25.9%, below the peak value recorded in 2017. Given our current economic situation, our forecasting says that we will continue to see a slow, but steady decrease in vacancy from this point in time."

Throndson continues: "The current realistic prediction is that absorption will be flat for the second quarter of 2018 with 100,000 square feet (sf) of positive absorption recorded in each of the third and fourth quarters of 2018. Absorption would then rise to 150,000 sf per quarter in 2019 and beyond. Under this scenario, vacancy would rise again when Telus Sky is completed, but not exceed the high-water mark recorded in 2017."

Absorption, defined as the net change in occupied office space during a given period of time, was 169,000 sf in the Downtown office market for first-quarter 2018. This figure is a noticeable improvement when compared with the negative 3.1 million square feet (msf) of annual absorption and average quarterly absorption of negative 767,000 sf recorded in 2015, the negative 2.2 msf of annual absorption and average quarterly absorption of negative 551,000 registered in 2016, and negative 189,000 sf of annual absorption and average quarterly absorption of negative 47,000 recorded in 2017.

"While energy companies continue to make up a large share of the leasing transactions being recorded, increases from areas such as information and technology, not-for-profits, government, business services and green technology are definitely being noticed," says Throndson. "Also, activity by smaller tenants is growing noticeably. Demand for space less than 5,000 sf continues to be high."

Throndson also notes: "Due to an abundance of existing options that are less than 5,000 sf and pressure on landlords to demise larger blocks of space that aren't moving, rental rates remain competitive, and inducements – such as free rent and improvement allowances – are substantial in many cases. Meanwhile, the market for large pockets of space will continue to have significant competition for the foreseeable future, maintaining the downward pressure on rental rates within this category."

As Calgary comes off the bottom of this downturn, it is expected that the flight to quality will continue. (A flight to quality is a situation in which tenants relocate from class B and C buildings to class A and AA buildings at almost the same, or a lower, cost structure.)

Submarkets outside the Downtown core also registered improvement in first-quarter 2018. While the Beltline stubbornly remained on the negative side of the absorption equation, first-quarter 2018 marked the second-lowest negative quarterly absorption in the last three years, at negative 29,000 sf. The Suburban North office market also recorded negative quarterly absorption of 22,000 sf, but again was one of the lowest negative quarterly absorptions of the three-year downturn. Meanwhile, the Suburban South office market registered positive absorption of 93,000 sf in first-quarter 2018 – on par with the positive absorption of 95,000 sf for all of 2017. The Beltline had a vacancy rate of 18.5% for first-quarter 2018, while vacancy in Suburban North was 17.7%. Suburban South posted a vacancy rate of 21.8%. Calgary's overall office vacancy rate was 23.2%.

Large contiguous blocks of office space continue to stand out in the market. Contrary to prevailing beliefs, these blocks are available predominantly on a head lease basis. Large-block space, defined as one contiguous availability of more than 100,000 sf in the Downtown market, or greater than 30,000 sf in the Beltline and surrounding suburban markets, represents between 17% and 63% of availability for the respective market segments and 33% of city-wide vacancy.

"Calgary has returned to positive growth, but a cautious outlook on the market remains," says Throndson. "After two years of crushing recession, Calgary's economy began to grow again in 2017. Despite the recession officially being behind us now, the negative effects continue to linger. The path to recovery for many businesses remains long and difficult. Looking forward, the forecast is not for clear, blue skies, but there are no storm clouds gathering, either. This year's focus will be about building momentum for the future," he says.

He concludes: "Landlords are eager to complete deals. For tenants that are strategizing for their future, there is great opportunity to take advantage of a strong tenants' market. In particular, those tenants with 18 to 30 months remaining on their current lease are being heavily sought-after with significant free-rent packages. We see a lot of room for negotiation on most available space."

Avison Young is the world's fastest-growing commercial real estate services firm. Headquartered in Toronto, Canada, Avison Young is a collaborative, global firm owned and operated by its principals. Founded in 1978, the company comprises 2,600 real estate professionals in 82 offices, providing value-added, client-centric investment sales, leasing, advisory, management, financing and mortgage placement services to owners and occupiers of office, retail, industrial, multi-family and hospitality properties.

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