AVISON YOUNG

Media Release

For Immediate Release (3 pages)
Thursday, January 18, 2018

Contact:
Susan Thompson
403.232.4344
email: susan.thompson@avisonyoung.com

Editors/Reporters
Please click on link to view and download Avison Young's Q4 2017 Calgary Office Market Report:
http://www.avisonyoung.ca/documents/95656/2029370/Avison+Young+Calgary+Q4+2017+Office+Market+Report

Turbulent Calgary office market wrestles with cyclical peak in vacancy

Avison Young releases its Fourth Quarter 2017 Calgary Office Market Report

Calgary, AB — Calgary's office market recorded a highly volatile year in terms of vacancy and absorption in 2017. After Downtown vacancy reached its peak in the second quarter of 2017, vacancy declined in the third quarter before rising again in the final quarter of the year. Calgary's overall vacancy rate notched up to 23.5% at the end of 2017 from 23.1% in the third quarter of 2017. Vacancy in Downtown Calgary was 26% at the end of 2017. This rate was up from 25.7% at third-quarter 2017and from 23.9% one year earlier, but down from the peak vacancy of 26.4% recorded at the end of the second quarter of 2017.

In the last three years, the amount of vacant office space in Calgary has tripled to 17.9 million square feet (msf) from 5.9 msf in fourth-quarter 2014. The good news is that vacancy increased at a much slower pace in 2017 than in the previous two years. The amount of vacant office space across Calgary increased by 94% in 2015 and by 41% in 2016. The amount of available space on the market increased by just 10% in 2017.

These are some of the key trends noted in Avison Young's ***Fourth Quarter 2017 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 though Telus Sky will bump vacancy up when it comes on stream in late 2018, given our current economic situation and forecasting, the increase will not cause the vacancy rate to rise above the high-water mark recorded in 2017."

Throndson continues: "The current realistic prediction is that absorption will be flat for the first half 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 approach the peak again by fourth-quarter 2018, but not exceed it."

Absorption, defined as the net change in occupied office space during a given period of time, was negative 189,000 sf in the Downtown office market for 2017. This figure is a noticeable improvement when compared with the negative 3.1 msf of annual absorption recorded in 2015 and the negative 2.2 msf of absorption registered in 2016.

"While energy and energy services 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 and move to class A and AA buildings at almost the same or lower cost structure.

Submarkets outside the Downtown core also continued to struggle in 2017. The Beltline and Suburban North and South submarkets registered negative absorption for 2017. The Beltline had a vacancy rate of 18.4% at year-end 2017, while vacancy in Suburban North was 17.5%. Suburban South posted a vacancy rate of 22.6%. Calgary's overall office vacancy rate was 23.5%.

Vacancy may have peaked at 19.1% during third-quarter 2016 for the Beltline during this downturn. Meanwhile, during this downturn, vacancy for the Suburban North appears to have peaked at 21.3% in third-quarter 2016; and at 24.3% in the Suburban South in the first quarter of 2017.

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 65% of the availability for the respective market segments and 31% of the city-wide vacancy. Head lease space (space available directly from the landlord) now represents 71% of Calgary's overall availability.

"Last year started with a prevailing feeling of uncertainty," says Throndson. "But despite that, Calgarians have an ingrained ability to recover from misfortune and adapt to change. Innovation and entrepreneurship are part of the standard practices that Calgary-based companies bring to the table. While a long road to economic recovery remains ahead, new attitudes and approaches to the established commercial real estate market are being considered," he says.

"Many landlords are considering what alternatives are available for their older, less desirable office properties. Office-to-residential conversions are starting to take place with one confirmed project, Artis REIT's Sierra Place, in the works and several others being considered or in the process of being brought forward. Additionally, demolition of properties for redevelopment is being weighed for some locations. The first confirmed office property on the casualty list is the former CBC building on Memorial Drive. This site is being repurposed as a residential condominium development."

He concludes: "We believe that, in many cases, the next 12 months will be a great time to lock in a new lease of three years or longer, or to restructure an existing lease. Current rental rates are down 20% to 60% from two years ago, depending on the market segment."

-end-

For further info/comment/photos:

- **Todd Throndson**, Principal and Managing Director, Calgary, Avison Young: **403.232.4343; cell 403.680.9894** todd.throndson@avisonyoung.com

- **Susan Thompson**, Research Manager, Calgary, Avison Young: **403.232.4344; cell 403.862-9267** susan.thompson@avisonyoung.com

- **Sherry Quan**, Principal, Global Director of Communications and Media Relations, Avison Young: **604.647.5098; cell 604.726.0959** sherry.quan@avisonyoung.com

www.avisonyoung.com