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Media Release

For Immediate Release (3 pages)
Wednesday, January 16, 2019

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Editors/Reporters
• Please click on link to view and download Avison Young's Q4 2018 Calgary Office Market Report:
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Calgary office market registers positive annual absorption for first time in four years

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

Calgary, AB – Positive absorption recorded in the last quarter of 2018 helped push annual absorption in Calgary's overall office market into positive territory for the first time in four years. The downtown core and suburban markets both accounted for this positive absorption, while the Beltline area continued to record negative absorption in 2018. This marked the first year positive absorption registered in both the overall Calgary office market and the Downtown office submarket in four years.

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

"While 2018 ended on a positive note, the fact that we saw positive absorption in 2018 without seeing any material change in the overall vacancy emphasizes how challenged the Calgary office market has been," comments **Todd Throndson**, Principal and Managing Director of the company's Calgary office. "Fourth-quarter 2018 resulted in 216,000 square feet (sf) of positive absorption in the Downtown market, which contributed to the 400,000 sf of absorption recorded for all of 2018 in the downtown. While it is great to see the direction change from the multi-million-square-foot-negative-absorption years of 2015 and 2016, the increase has not been material enough to instill the confidence needed to boost the outlook in Calgary."

Throndson continues: "Fourth-quarter 2018 had two major stories: Nexen Energy's relocation to The Bow and Canadian Tire's consolidation and relocation to the Jacobs Building in Quarry Park. Nexen Energy has signed short- to medium-term leases for sublease space in The Bow but there is uncertainty regarding the company's long-term existing lease in Nexen Tower. Meanwhile, Canadian Tire consolidated its local operations into a single office location in the Jacobs Building in Quarry Park totalling approximately 240,000 sf. The majority of Canadian Tire's operations moved from industrial properties, resulting in an impressive amount of positive absorption for the suburban office market."

Calgary's Downtown office vacancy was 24.7% as of the fourth quarter of 2018, down from 25.2% in third-quarter 2018 and from 26% at year-end 2017. Peak vacancy (26.4%) for this downturn, thus far, occurred in the second quarter of 2017. However, with the impending addition of TELUS Sky in first-quarter 2019, vacancy is forecasted to rise as high as 26.3% upon delivery. Downtown office vacancy could move higher if speculated energy job layoffs actually occur, potentially leading to the highest vacancy rates ever recorded in the city. Many oil and gas companies are once again taking a wait-and-see approach regarding office space decisions as they work through their capital plans for 2019 and assess how the political landscape will unfold during the year. With both provincial and federal elections set for 2019, many companies are relying on political change to help move the industry forward. It is anticipated that leasing activity in the first half of 2019 will be quite slow.

"Another area that all concerned stakeholders are watching is property taxes," adds Throndson. "Assessments for office properties are seeing a divergence. Average assessments have been decreasing in the Downtown office market over the course of the downturn, currently down $0.77 per square foot across all classes of properties, but more than a dollar for some.

"Meanwhile, the suburban office markets have seen slight increases in average assessments, a little over $0.25 per square foot on average. This tax burden shift is starting to impact gross rentals rates and changing the equation in how tenants consider properties in different areas of the city. Additionally, industrial and retail properties are having to carry a heavier share of the property tax burden than they have in the past."

Outside the Downtown core, absorption in the Beltline office market remained negative in the fourth quarter of 2018. Net annual absorption in the Beltline for 2018 was negative 87,000 sf. This is an improvement from 2017, which recorded negative 214,000 sf of annual absorption. As a result, vacancy for the Beltline office market was 19.4% in fourth-quarter 2018. This is down from 19.7% in third-quarter 2018, which is the current peak for this downturn, but up from 18.4% registered in fourth-quarter 2017.

The Suburban North office market recorded positive absorption of 131,000 sf for 2018, a distinct improvement over 2017, which registered negative 194,000 sf for the year. Vacancy ended up at 17.8% for the Suburban North office market in fourth-quarter 2018, up from 17.4% in third-quarter 2018 and up from 17.5% at year-end 2017. Meanwhile, the Suburban South office market had the best performance of Calgary's office submarkets with 389,000 sf of annual absorption recorded in 2018 thanks to the consolidation and relocation of Canadian Tire. Consequently, the vacancy rate decreased to 19.1% in fourth-quarter 2018, a decline from 21.1% in third-quarter 2018 and down from 22.6% at year-end 2017.

Large tenants are no longer the dominant force in Calgary's office leasing market. On the whole, the average office tenant has shrunk in size. The lion's share of deals being completed today involve tenants smaller than 10,000 sf. This trend is leading landlords to make tough decisions regarding the repositioning of their buildings to attract smaller tenants. In the past, landlords enjoyed full-floor or multiple-floor tenancies in buildings with larger floorplates. While the costs associated with these repositioning projects are significant to landlords, the expenditures are deemed necessary to maintain the viability of their buildings and to reposition themselves for the more active part of the market. This competitive approach by landlords in better quality buildings is causing landlords of older class A buildings and the class B market to lower their asking rents as well. Tenancies typically located in these older buildings are now able to compete for space in better-quality buildings due to lower rents and increased availability of options due to the demising of large floorplates.

Throndson adds: "Landlords and tenants are finding a market that offers both parties a platform for completing deals. Flight-to-quality is expected to be a major component of the market. With rental rates and inducements being attractive, tenants are showing a strong interest in moving into better-quality buildings while keeping their cost structure stabilized. This ideology is supported by the trend of lower vacancy rates in those buildings considered to be the best in their respective submarkets."

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