CALGARY

EXECUTIVE SUMMARY

- Companies and developers have yet to see more political and economic certainty in order to make long-term decisions.
- Several years of strong growth necessary for Calgary to return to its pre-downturn economic position.
- New vacancy peak in Calgary's office market anticipated in 2020.
- Strong absorption in the industrial sector in 2020 would invigorate the recently completed, record-setting construction cycle of 2018-2019.
- For only the second time in more than 20 years, the office sector represented the smallest investment asset class in Calgary.

Real estate leasing and development decisions involve long-term plans. Uncertainty hinders those decisions. It was hoped the recent Alberta provincial and Canadian federal elections would provide certainty around policy choices and existing energy project decisions. However, the federal minority government result and growing economic and existential uneasiness in Alberta have not yet provided confidence to the business community.

An erosion of business confidence has caused Calgary's economy to lose ground on the GDP growth gains recently made. Calgary had posted country-leading real GDP growth of 2.9% in 2018, according to the Conference Board of Canada. However, in 2019, Calgary's GDP growth had slipped to negative 0.4%. A lack of perceptible progress on oil and gas infrastructure projects such as the Trans Mountain Pipeline and the departure of foreign investment capital from the energy sector have posed a challenge for Alberta's leading industry.

Current economic forecasts indicate that Calgary will return to a GDP growth position of around 2% in 2020, which is similar to forecasts of other major Canadian markets. However, this forecast is based on the assumption that further, tangible progress will be made on the construction of new pipelines. Several years of sustained positive growth is necessary for Calgary to restore its pre-downturn economic position.

Overall office vacancy increased in 2019 to slightly less than 23%. Peak vacancy for the current downturn in Calgary's economy, which commenced in 2015, was 23.5% at mid-2018. Unfortunately, the present forecast predicts vacancy exceeding 24% in 2020 due to anticipated layoffs and corporate departures from Calgary's office market.

The industrial sector is one of the bright points in the local real estate market. The development cycle during the last two years has added 6 msf of new industrial inventory to the Calgary market. A pause in this development cycle is anticipated in the first half of 2020. If absorption meets or exceeds the forecast, additional new construction could commence mid-year 2020. As Calgary continues to mature as a distribution hub, the growth in online retail sales will be a key driver for the industrial market.

As Calgary's growth slowed in recent years, so has the pace of new big-box store openings. Developers are being cautious with new projects, monitoring overall performance within the sector. Even as Calgary is navigating challenging economic headwinds, the population has continued to grow. Demand for local service retail in new suburban communities is strong and outweighing the new supply being brought onstream.

Although unsurprising given the negative outlook for office leasing in Calgary, 2019 represented the second time in more than 20 years that the office market represented the smallest share of overall investment volume for improved assets in the city. Industrial assets and ICI land will likely remain the favoured investment asset classes in 2020 with urban residential land and retail not far behind. Alberta will remain a strong real estate investment market as groups realize the value in the risk-adjusted returns available in the province.

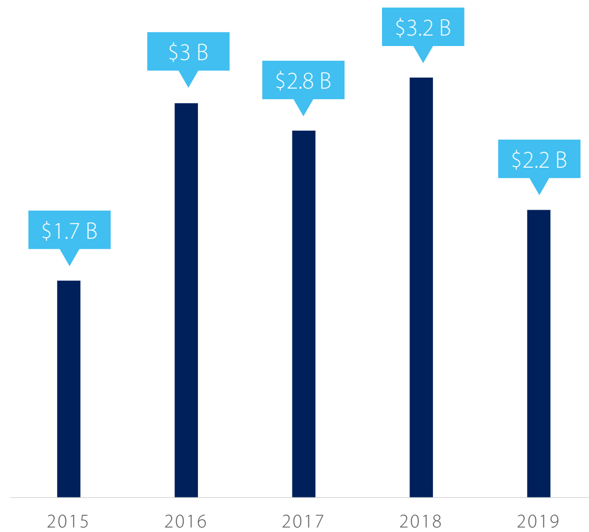
KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	↓	↑	↑↑
Vacant Space	↑↑	↓	↓↓↓
Construction Levels	↓↓↓	↑	↓↓↓
Leasing Volume	↓↓↓	↑	↑↑
Investment Volume	↑↑↑	→	↑

HISTORICAL INVESTMENT VOLUME

Calgary Total Annual Volume ($Billion)



Calgary has not recovered from the two significant downturn years of 2015-2016, when GDP contracted by 3% and 3.8% respectively. Overall business confidence is struggling to remain positive and is waiting for signs of positive momentum, particularly around pipeline projects.