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Media Release

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Editors/Reporters
Please click on link to view and download Avison Young's Q2 2017 Calgary Office Market Report:
http://www.avisonyoung.com/fileDownloader.php?file=files/content-files/Offices/Calgary/Research/AY%20Calgary%20Office%20Market%20Report%20-%20Q2%202017%20EMAIL.pdf

Addition of Brookfield Place inflates Downtown Calgary office vacancy further

Avison Young releases its Second Quarter 2017 Calgary Office Market Report

Calgary, AB —Vacancy in the Downtown Calgary office market rose in the second quarter of 2017 due largely to the addition of the 1.4-million-square-foot (msf) Brookfield Place to inventory. As tenant occupancy has yet to occur, the addition of Brookfield Place to the market as 100% vacant did not generate any absorption, which will be subsequently calculated as tenants Cenovus and Scotiabank, who together have preleased more than 1.1 msf of the building, physically move from their existing spaces into the new building.

As a result, vacancy in Calgary's Downtown office market increased to 26.4% from 23.9% in first-quarter 2017 and 19.6% 12 months ago. Were it not for the addition of this new building, the vacancy rate for Downtown Calgary would have remained stable when compared with first-quarter 2017.

These are some of the key trends noted in Avison Young's ***Second Quarter 2017 Calgary Office Market Report***.

"This is likely the last major influx of new space to contribute to vacancy in Downtown Calgary during this downturn," comments **Todd Throndson**, Avison Young Principal and Managing Director of the company's Calgary office. "Without a substantial change in Calgary's economy, Telus' new building due in late 2018, which is approximately one-third the size of Brookfield Place, could potentially push vacancy to 29% under pessimistic predictions. Current economic conditions and weak demand for space suggest that there will be no new office development announced in Calgary's Downtown core for several years."

Throndson continues: “The current realistic prediction is that absorption will be flat for the second half of 2017 and the first half of 2018 with 100,000 sf of positive absorption 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 27% by fourth-quarter 2018.”

Absorption, defined as the net change in occupied office space during a given period of time, was negative 67,000 sf in the Downtown office market in second-quarter 2017. Year-to-date Downtown Calgary has a cumulative negative absorption of 64,000 sf. This figure is a noticeable improvement compared with the negative 3.1 msf of absorption recorded in 2015 and the negative 2.2 msf of absorption registered in 2016.

Vacant space in the Downtown office market totalled 11.9 msf for second-quarter 2017, with head lease space accounting for 8.1 msf (68%) and sublease space accounting for 3.8 msf (32%). It is anticipated that some sublease availability will continue to transition to head lease availability over the course of the year as sublease terms continue to expire.

Submarkets outside the Downtown core have registered both positive and negative quarterly absorption results over the past few quarters. The Beltline area currently has a vacancy rate of 16.9%, while vacancy in Suburban North is 16.1% and the Suburban South submarket has a vacancy rate of 23.1%. The overall office vacancy rate for Calgary is 23.5%.

Large, contiguous blocks of office space continue to stand out in the market analysis. Contrary to prevailing beliefs, these blocks are available predominantly on a head lease basis. Large-block space, defined as one contiguous availability more than 100,000 sf in the Downtown market, or greater than 30,000 sf in the Beltline and surrounding suburban markets, represents between 22% and 41% of the availability for their market segments.

“While energy and energy-servicing companies continue to make up a large share of the leasing transactions being recorded, growth from such areas as information and technology, not-for-profits, government, business services and green technology are definitely being noticed,” notes Throndson. “Activity by smaller tenants is also growing prominently.”

He says demand for space less than 5,000 sf continues to be high.

“However, due to an abundance of existing options in this size range and pressure on landlords and sub-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 beyond 2017, maintaining the downward pressure on rental rates within this category.”

“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,” adds Throndson. “Current rental rates are down 20% to 60% from two years ago, depending on the market segment.”

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