Media Release

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Editors/Reporters
Please click on link to view and download Avison Young's Q3 2017 Calgary Office Market Report:
http://www.avisonyoung.ca/documents/95656/2029370/AY+Calgary+Q3+2017+Office+Report/3fb843c1-7012-4964-b936-bfd3e2ddbec3

Downtown Calgary office vacancy begins to decrease after reaching peak

Avison Young releases its Third Quarter 2017 Calgary Office Market Report

Calgary, AB — After a challenging start to the year, the Downtown Calgary office market has taken a positive turn. In the third quarter of 2017, the market began to rise from its bottom as vacancy decreased due to a combination of strong leasing activity, the withdrawal of some larger sublease availabilities from the market, and the removal of two buildings from inventory due to redevelopment.

In second-quarter 2017, the Downtown Calgary market reached its highest vacancy rate in recent history for a major North American metropolitan market at 26.4%. Thanks to the market's recent positive economic turn, vacancy in Calgary's Downtown office market decreased to 25.7% in third-quarter 2017, and is not forecasted to rise above this peak in the foreseeable future.

These are some of the key trends noted in Avison Young's ***Third 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 late next year, given our current economic situation and forecasting, the vacancy increase will not cause the vacancy rate to rise above the high-water mark that was recorded in the second quarter."

Throndson continues: "The current realistic prediction is that absorption will be flat for the remainder of 2017 and the first half of 2018, with 100,000 square feet (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 26% 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 positive 162,000 sf in the Downtown office market in third-quarter 2017. Year-to-date, Downtown Calgary has cumulative positive absorption of 98,000 sf. This figure is a noticeable improvement compared with the negative 3.1 million square feet (msf) of absorption recorded in 2015 and the negative 2.2 msf of absorption registered in 2016.

“Economic downturns often spur innovation and creativity,” says Throndson. “As Calgary emerges from three years of recession, new attitudes and approaches to the established commercial real estate market are being unveiled.”

Throndson also notes: “Many landlords are considering what alternatives are available for their older, less desirable office properties. While office-to-residential conversion has been looked into for several properties, Artis REIT is the first landlord to announce that it has found this concept to be viable for one of its Calgary properties – Sierra Place. A development permit has been filed to convert the building into a 72-suite residential rental building. It is believed that this will be the first of many buildings to undergo such a conversion.”

Removing some older, obsolete buildings from Calgary’s office inventory will help with the overall vacancy issue, but will not be the solution alone. Growing existing businesses and developing and attracting new ones have even greater potential to absorb vacant space.

“We love working with businesses of all sizes and helping them find solutions for their short- and long-term real estate strategies,” asserts Throndson.

Year-to-date, submarkets outside the Downtown core continue to struggle. The Beltline and both the Suburban North and Suburban South areas of the city have registered cumulative negative absorption for the first three-quarters of 2017. The Beltline area currently has a vacancy rate of 17.3%, while vacancy in Suburban North is 15.4% and the Suburban South submarket has a vacancy rate of 23.6%. The overall office vacancy rate for Calgary is 23.1%.

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 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 23% and 59% of the availability for the respective market segments.

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

He says demand for spaces of 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 sublandlords 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,” he says. “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.”

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.”

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 80 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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