

Downtown Office Towers Undergoing Interesting Metamorphosis

Creative ideas take hold to battle soaring vacancy rate

By BIC - July 31, 2017



Corporate foyer by Lignum Interiors. Photo courtesy of Megan Ironside.

Imagine after a long, hard day at the office taking the elevator down to another floor in your building – a social gathering spot – where a keg of beer is waiting.

Or taking some time off during the day from behind your desk to go visit your dog a few floors below.

That day is here as landlords look for cutting-edge ideas to attract downtown office tenants in a depressed market. Aspen Properties is at the forefront of this innovation with its redevelopment of the former Encana Place Tower directly across the street from the Fairmont Palliser Hotel.

"Most of the market today wants something different than the traditional office building," says Scott Hutcheson, executive chairman of the board for Aspen Properties in Calgary, which owns and manages office buildings in Calgary and Edmonton.

"In difficult times, we innovate. It's just the nature of the human being. With this building we have the opportunity. It became empty in February of this year ... so we determined it was time to create something very different in this market than what exists. The more creative we got, the more fun we had."

That creativity has led to an enjoyable gathering place in stark contrast to the office buildings of the past. There will be a dog park on the third-floor outdoor plaza which includes walking, sitting and bathing areas for people's pets.

A social gathering place will have foosball, billiard and pool tables. A 7,000-square-foot fitness facility will be available for tenants to squeeze in a workout.

Want to play some basketball or golf? Tenants will have access to half a basketball court on the mechanical level on the top of the building as well as putting surfaces on the rooftop. Bicycles will be in place for tenants to travel the downtown.

Work on the 400,000-square-foot, 28-storey tower, originally built in 1981, will be completed by October.

What Aspen Properties is doing with the former Encana Place

Tower may be the wave of the future in downtown Calgary. A necessity perhaps, given the city's economic climate. A collapse in oil prices took its toll on the local economy, plunging Calgary into a recession in 2015 and 2016.

Companies reacted by cutting thousands of jobs, particularly those in the oilpatch and located in downtown Calgary. Less office space was needed and the past two years has seen the vacancy rate soar. At its peak, the downtown vacancy rate was a minuscule 0.3 per cent in the second half of 2006. Today, it is 24.7 per cent, according to Barclay Street Real Estate.

Calgary's economy sinks or swims depending on the waves in the oilpatch. So does the downtown office market. That's clear when you take into account how much vacancy has spiked since the third quarter of 2014 when it was 6.4 per cent.

Todd Thronsdson, managing director and principal of Avison Young in Calgary, says Aspen's redevelopment is one of the city's most unique initiatives.

"They're looking at creative ideas. Really, what they're trying to create with their building is a knock-off of Silicon Valley – what a lot of IT firms have done to make their environments interesting and attractive, especially for the younger demographic working force," says Thronsdson.

"They're really looking at changing what an office space can do for an environment. That's the most intriguing and interesting metamorphosis of an office building that I have seen in the marketplace today."

Bruce Gatzsch, vice-president of Lignum Interiors in Calgary, has seen a trend in recent years with his local project management, construction management and general contracting company of about 16 employees. The company focuses on office improvements, specializing in interior renovations.

In the current market, landlords have embarked on various projects in their office towers to attract and keep tenants.

"They're trying to spruce up old buildings as well. They're also trying to make it attractive for tenants to step up ... so people cannot only move into a building for cheaper rent but also into a nicer space," says Gatzsch.

"Employee retention is still a key even for a very healthy job market. What we're finding too is a lot of spaces have to compete to keep the good people in the oil and gas industry. They are spending money – frugally. But they are spending money on trying to develop nice offices and stretch the dollars that way."

For Lignum, which is busier now than it has been in the past, that means work on stairwells, elevators and the rethinking of cubicles in offices so space is more productive and more collaborative.

"I think in the future we're going to see technology and 3D printing become more prevalent so that the designers can play a lot more and do a lot more fun and organic designs," says Gatzsch. "That will definitely challenge traditional contractors and hopefully some of us can step up to the occasion and make some really great spaces."

Soaring vacancy rates have obviously put downward pressure on rental rates in the downtown office market, making the core a much more attractive proposition for companies wanting to move into the heart of the city.

Jill Truscott, manager of sales and marketing with Wolf Custom Homes, says the homebuilder moved its offices from the suburbs to the downtown earlier this year. The company has its corporate office now in the heart of downtown Calgary in Bankers Hall. Prior to the move, it was located in the southeast near the Deerfoot Inn and Casino.

"We've got greater access to the clients that we're working with. A lot of our clients are professionals working in this area. It just made it easier for everyone to exchange information and get together and have discussions," says Truscott.

"We've got a beautiful space to work in. It brought down our overhead. It put us closer to our clients. It was a very practical decision for us.... Everybody has been really pleased with the transition. It was a good move for all of us – our clients, our vendors and for us as a team to work together in one spot."

Kris Hong, a downtown leasing associate with Barclay Street Real Estate, says there's just so much competition and options in the market today. Landlords are taking the opportunity to turn vacant space, that has been on the market forever, into an amenity to attract new tenants.

"They're trying to be more creative," says Hong.

And Aspen Properties is leading the charge in this direction. As of June, it had offers to lease on 50 per cent of its redeveloped building. It purchased the building two years ago with a vision of repositioning it to take advantage of a changing market. Construction began in the summer of 2016.

Besides all the work done inside the building, the entrance will be spruced up and not look like a traditional office lobby. A Plus 15 is being built from the building to the Bankers Court tower.

It is a vision of moving office towers away from being just a place of work to playful, fun places.

"And very different than the feeling that office towers have historically had," says Hutcheson.

"It's just really fun to be working outside of the box and what we've all done for so many years, and now to reinvent the way an office building feels has been really fun for us."