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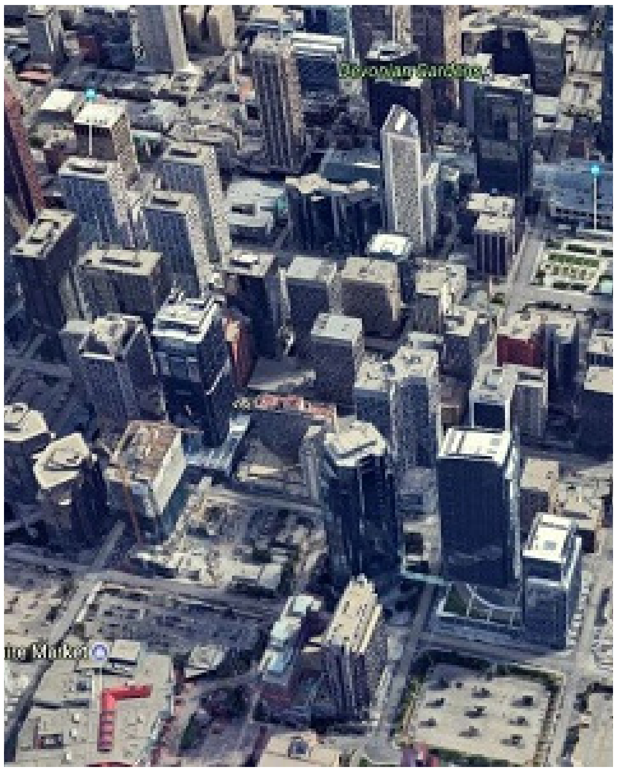
Good news for Calgary multi-res, but retail future murky

Mario Toneguzzi | Property Biz Canada | 2018-01-18



While Calgary's downtown office market continued to struggle during 2017 with a high vacancy rate, year-end reports for the retail and multi-residential markets painted a rosier picture.

The Calgary 2017 Year-End Retail Market Analysis by Barclay Street Real Estate indicated Calgary's overall retail vacancy rate was down to 3.1 per cent at the end of the year after rising into the mid-three per cent range earlier in the year.

Vacancy in the central business district fell to 9.7 per cent, taking it below 10 per cent for the first time since Q1 2016. However, it is still above the 2013-2015 average of seven per cent.

Vacancy in the downtown area has seen three consecutive quarters of positive net absorption.

Another report by research and advisory firm Urban Analytics said fourth-quarter sales in Calgary's new multi-family home sector were 29 per cent higher than the previous quarter and total year-over-year sales increased by 69 per cent.

There were 17 new project launches in Q4 2017 and the firm expects five new project launches in the next two quarters.

Outside investment in condo market

Kimberly Poffenroth, senior market analyst with Urban Analytics, said the increase in sales is an encouraging sign homebuyers are feeling more confident about the economy and employment situation.

She also said many investors seeking condominium product in the inner sub-markets are from outside Calgary – primarily from Vancouver where much higher prices are making Calgary a more desirable place to invest.

"The multi-family market has been doing better in 2017 than (in) 2016. 2016 was kind of flat through the majority of the year. I think a lot of people were sitting on the sidelines and waiting to see how the economy and the economic conditions in Calgary panned out," said Poffenroth.

"Especially in the latter half of 2017, we started to see a bit of a pickup of sales and just a little bit more of a positive outlook leading into 2018."

Vacancy rates could still rise

While the retail market in Calgary experienced a strong year in 2017 and almost five million square feet of new space is under construction, Amy McGregor, associate with the retail leasing team at Barclay Street Real Estate, cautioned 2018 might be more challenging for some sectors.

"Personally, I think it's not going to be this rosy this year. The vacancy is going to rise some more. I'm worried about a lot of operators – mom and pop stores," she said. "They will be a concern going forward this year.

"I feel like things are getting tighter for people. People's EI (Employment Insurance) is running out. People's (severance) packages are running out. And I know the retail spending is supposed to be kind of back to where it was but in speaking to owners and operators out in the market, their numbers are down and things are getting tighter for them.

"If that continues then we're going to be seeing some of the smaller guys closing up shop."

Retail leasing remains strong

According to the Retail Council of Canada, the rate of shopping centre square footage per person in Canada is 16.4 while in Calgary it is 23.7. Calgary has also seen retail sales growth of 24.7 per cent from 2007 to 2016, according to Calgary Economic Development.

McGregor said projects under construction have been on the books for a long time and they are leasing out very well.

"There might be a little bit of a struggle for the new construction that's more in the central business district, but outside of that area, things are getting leased up and moving nicely," said McGregor.

The Barclay Street report says about 2.7 million square feet of retail inventory is slated for delivery this year. The primary contributor to this new inventory is power shopping centre formats.

Strong Q4 in multi-res market

The Urban Analytics report indicated there were 3,123 multi-family residential sales in Calgary in 2017 with 928 in the fourth quarter.

"Developers and home builders adapted to current market conditions by adjusting the product mix in new projects being launched to meet the needs of today's buyers," said the report. "The majority of the project launches occurred in the outer sub-markets and attracted younger price-sensitive buyers and investors.

"In addition to the new project launches, home builders and developers increased the value of incentives being offered, which resulted in higher sales volume. Developers' willingness to adapt to changing demand trends combined with resulting positive response from buyers to recently launched projects allows for optimism for the market as a whole as we look ahead to 2018."

Another encouraging sign for the new multi-family home market in Calgary, said Urban Analytics, is the number of completed and unsold units dropped for the second consecutive quarter. Standing inventory levels of 852 units were five per cent lower at the end of the fourth quarter of 2017 compared to the previous quarter.

"While there was a four per cent increase in the number of completed and unsold units on a year-over-year basis, the decreasing trend of standing inventory over the past two quarters is promising and helps explain the positive buyer response to many of the recently launched new multi-family projects," said the report