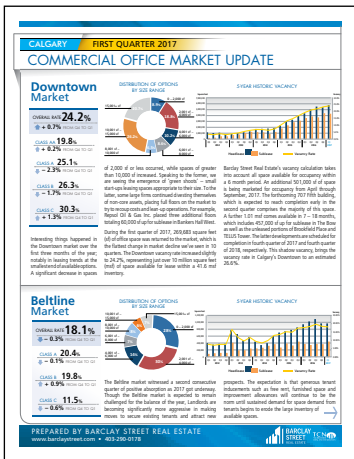


Calgary office vacancy rate high, but panic wanes

Steve McLean | Property Biz Canada | 2017-04-18



While the full recovery of Calgary's office market may still be a long way off, the sense of panic that once might have been present has dissipated.

"From this office and from my peers and my clients on a going forward basis, it's a positive mindset driven by the new entrepreneurs that are going to come up in the next one to 10 years," said [Andrew King](#), associate vice-president of [Barclay Street Real Estate](#), which just issued its [first-quarter report](#) on the Calgary office sector.

Other companies are taking advantage of lower rents and consolidating multiple locations into single buildings downtown. WSP, an engineering firm that has its Canadian head office in Montreal, consolidated several locations to take 160,000 square feet in Brookfield Properties' class-A Fifth Avenue Place in January.

"The biggest trend is the flight to quality," said King, noting some B- and C-class tenants are going more upmarket to existing A-class buildings or new structures.

Landlords offer inducements to tenants

Landlords are becoming significantly more aggressive in moving to secure existing tenants and attract new prospects, according to Scott. The expectation is generous tenant inducements such as free rent, furnished space and improvement allowances will continue to be the norm until sustained demand from tenants begins to erode the large inventory of available spaces.

"Landlords who have vacant headlease space have been and are still in competition with the sub-landlords," said Scott. "There has been a bit of an arms race when it comes to the carrots that have been dangled to try to get tenants to take the primary leases in the buildings."

That being said, Scott pointed out there's been a change in perspective by both landlords and tenants that's helping narrow the rent expectation gap between the two parties. This has resulted in more specific incentives being offered by owners on a case-by-case basis, rather than the blanket approach previously used.

"We're more than two-and-a-half years into this thing and people are realizing they have to roll with the punches," said Scott. "Cooler heads are prevailing."

Beltline and suburbs

Calgary's Beltline, immediately south of the downtown, had a small amount of positive absorption for the second straight quarter. It has a vacancy rate of 18.1 per cent.

Several new office developments are slated for delivery in the suburbs and promise to shake up the leasing environment. While leasing activity increased somewhat in the first quarter, the vacancy rate still sits at 22.9 per cent.

A building at 7136-11th Street NE that's scheduled for completion in the third quarter is less than 30 per cent leased at the moment, according to the report.

Headlease expiries will make an additional 179,000 square feet available for occupancy through September, while a further 153,000 square feet will become available in existing buildings in the next seven to 18 months.

Almost 270,000 square feet of office space was returned to the downtown Calgary market in the first three months of 2017, pushing the total amount available for lease to just over 10-million square feet and raising the vacancy rate slightly to 24.2 per cent.

An additional 501,000 square feet of space is being marketed for occupancy from April through September. The 707 Fifth building, developed by Manulife Real Estate and due to be completed soon, comprises the majority of that space.

A further 1.01-million square feet will become available in the next seven to 18 months, including 457,000 square feet up for sublease in The Bow Building as well as the unleased portions of Brookfield Place Calgary and TELUS Sky.

The latter developments are scheduled for completion in the fourth quarter of 2017 and the fourth quarter of 2018, respectively.

Activity by non-oil companies

The oil industry dominates the Calgary office market and its slump over the past couple of years is the biggest reason for the high number of vacancies. King said other industries are picking up the slack somewhat, citing two companies as examples.

Benevity is a growing local company specializing in online workplace giving, matching, volunteering and integrated grant management solutions. It's taken three floors in the seven-storey Meredith Block, a Remington Development Corporation building on the outskirts of downtown.

Solium, a mature but expanding Calgary-based financial technology company, has taken a significant amount of space in Oxford Properties Group's downtown Eau Claire Tower on a sublease.

"Startups are taking the 2,000-square-foot-and-smaller spaces, which is nice," added Barclay Street research director Anthony Scott. "They're starting to nibble into the vacancies themselves."