

# SUBURBAN OFFICE MARKET ANALYSIS

**23.1%**

OVERALL VACANCY RATE

↑ + 0.2%  
FROM Q1'17

- Absorption over the second quarter totalled positive 155,000 square feet (sf).

- Headlease space accounts for 69% of the total available space, increasing from 57% during the previous quarter.

- 59.3% of the overall number of opportunities available measure 6,000 sf or less
- A substantial amount of new office inventory was completed during the second quarter, with a significant amount of the non purpose-built product hitting the market unleased.
- ATCO Commercial Centre, which is expected to reach completion later this year has been added to our Suburban inventory
- The Suburban SE market saw the launch of two start-up 'incubators' in Forest Lawn – commercially-focused *FUSE 33* and *Emerge Co-work Innovation Hub* – funded by the local BRZ (Business Revitalization Zone) opened in Q2.

## Significant moves, announcement and notable transactions:



The Computer Modeling Group (CMG) building was completed, allowing the company to consolidate its staff from two prior separate locations.



In the Suburban NE submarket, The Geo Spectrum Building was completed. This new development contributed 49,000 square feet (sf) of new, unleased space to this submarket.



The Link at Royal Vista was completed and contributed approximately 30,000 sf of new, unleased space to the Suburban NW submarket.



Nearly 18,000 sf was subleased from WSP Canada Inc. at Highfield Four



Cortex subleased more than 14,000 sf at 110 Quarry Park Boulevard SE.



Fabmar Building

1055 20 Avenue NW

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# Current Vacancy at a Glance

OVERALL RATE **23.1%**  
 ↑ + 0.2% FROM Q1 TO Q2

CLASS A **25.1%**  
 ↓ - 1% FROM Q1 TO Q2

CLASS B **18.9%**  
 ↑ + 1.9% FROM Q1 TO Q2

CLASS C **17.1%**  
 ↑ + 0.7% FROM Q1 TO Q2

TOTAL VACANT AREA:  
**4,469,000 SF**

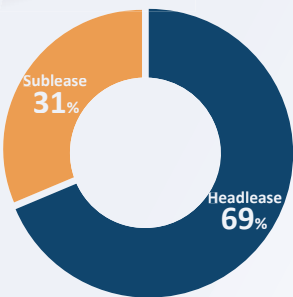
space available for occupancy within a 6 month period. An additional 131,000 sf of space becomes available for occupancy from July through December, 2017, and is almost entirely headlease expiries. A further 157,000 sf in existing buildings comes available in 7 – 18 months. This shadow space brings the vacancy rate to an estimated 24%.

Overall vacancy increased by 0.2% over the second quarter of 2017. This minimal change masks the marked activity that actually occurred during the quarter as several new developments were delivered across three of Calgary's quadrants. In the Suburban NW, the Computer Modelling Group (CMG) Building and The Link at Royal Vista were completed while in the Suburban NE, the Geo Spectrum Building was delivered. In the suburban SW, the ATCO Commercial Centre has been added to our inventory.

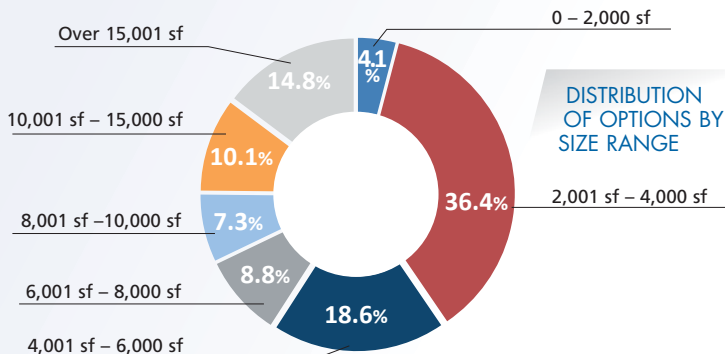
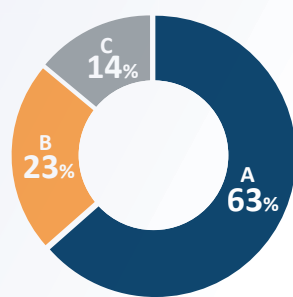
Leasing activity was generally weak among headlease opportunities in both A Class and B Class properties during the second quarter, but quite strong among C Class headlease buildings where approximately 51,000 sf of space was absorbed. Among sublease opportunities however, A Class spaces were in highest demand; more than 70,000 sf was absorbed.

Barclay Street Real Estate's vacancy calculation takes into account all

HEADLEASE VS. SUBLEASE DISTRIBUTION



DISTRIBUTION OF TOTAL AVAILABLE SPACE BY BUILDING CLASS



DISTRIBUTION OF OPTIONS BY SIZE RANGE

# Market Review

*CALGARY'S SUBURBAN MARKETS EXPERIENCED AN INTERESTING SECOND QUARTER AS SEVERAL NEW OFFICE DEVELOPMENTS WERE DELIVERED.*

This new inventory has added to competition among Landlords and is driving a notable change in market sentiment among them. As mentioned in an earlier report, we note that a mindset of 'acceptance' has become much more common as is a motivation to complete leases with less resistance. This change in perspective continues to narrow the rent expectation gap between owners and Tenants. Incentives are still the order of the day but these are becoming more specific rather than a blanket approach.

Continuing the trend seen over the preceding few quarters, overall vacancy in suburban Calgary remained quite stable with overall vacancy rising two-tenths of a percent to 23.1%. Net quarterly absorption was positive, boosted by the purpose-built **Computer Modeling Group (CMG) Building** and the **ATCO Commercial Centre**, which we have now added to our inventory.

Encouraged by the above-noted emerging alignment in bid/ask rate expectations, more fulsome discussions between Landlords and existing or prospective Tenants continued to promote generally strong activity. This ongoing uptick in leasing activity began during the third quarter of 2016. While it true that Landlords have been under significant pressure due to an abundance of choices comprising more than 4.5 million square feet (msf), cooler heads continued to prevail and incentives applied in specific and appropriate circumstances, not as a blanket leasing approach.

Three new developments comprising approximately 169,000 sf were completed over course of the second quarter, with 200,000 sf **ATCO Commercial Centre** slated to be the final delivery of the year. Demand was a mixed-bag, with purpose-built facilities fully leased by the companies for whom they were built. The other commercially open buildings however, saw weak demand and as such were delivered with substantial vacancy.

With respect to coming developments, the pipeline is quickly dwindling after a flurry of completions during this and the preceding few quarters. The purpose-built **Hexagon Campus** remains the only significant pending office project and it is expected to reach completion in mid-2019.



Computer Modeling Group (CMG) Building and the ATCO Commercial Centre were added to inventory.

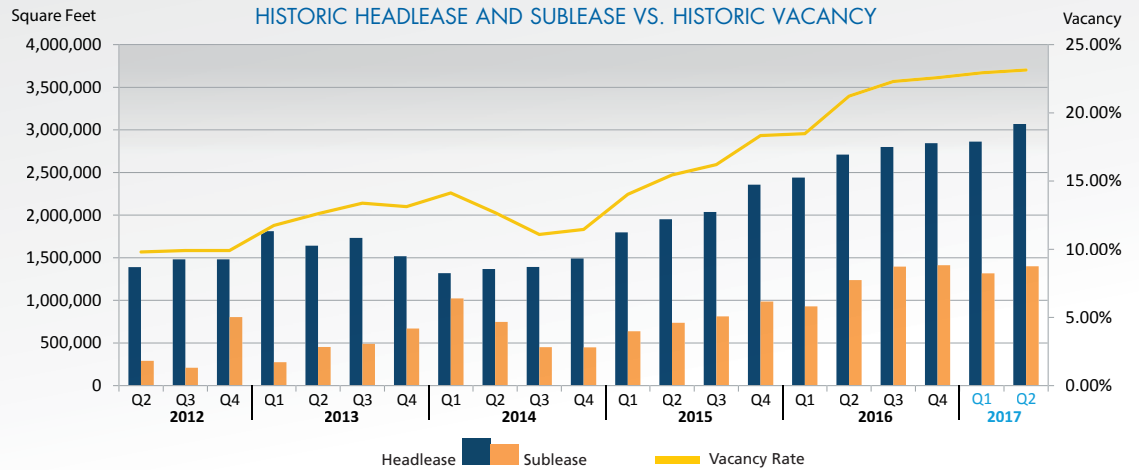


COVER PAGE  
 Exterior of Fabmar Building at 1055 20 Avenue NW

# Vacancy

## Headlease vs Sublease

Distribution between headlease and sublease space for Q2 2017 shifted slightly from the previous quarter, with the former accounting for 69% of the total space while the latter increased to 31%. This change in distribution reflects a quarter-over-quarter net increase in headlease space totaling 93,000 sf and a net increase in sublease space of 83,000 sf.



## Vacancy by Building Class and Size Range

Considering the total number of options available in the suburban office market, 59% of all opportunities measure less than 6,000 sf.

On a square footage basis, of the 4.5 million square feet (msf) currently available in the suburban markets, opportunities measuring 6,000 sf or less comprise 1.2 msf.

This quarter witnessed a small increase in the total number of headlease options available, with 529 opportunities compared to 521 during the previous quarter. Sublease options also increased to 95 from 81 in the previous quarter.

HEADLEASE OPPORTUNITIES BY BUILDING CLASS AND SIZE RANGE

Size Range	A	B	C
0 – 2,000 sf	39	60	78
2,001 sf – 4,000 sf	66	42	41
4,001 sf – 6,000 sf	38	21	16
6,001 sf – 8,000 sf	21	6	3
8,001 sf – 10,000 sf	14	5	8
10,001 sf – 15,000 sf	15	11	6
15,001+	31	6	2
<b>Overall</b>	<b>224</b>	<b>151</b>	<b>154</b>

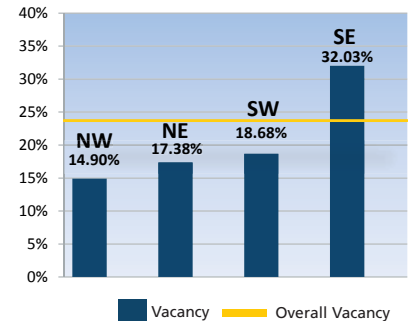
SUBLEASE OPPORTUNITIES BY BUILDING CLASS AND SIZE RANGE

Size Range	A	B	C
0 – 2,000 sf	6	5	6
2,001 sf – 4,000 sf	4	5	6
4,001 sf – 6,000 sf	7	1	1
6,001 sf – 8,000 sf	3	5	3
8,001 sf – 10,000 sf	6	0	0
10,001 sf – 15,000 sf	5	5	1
15,001+	19	6	1
<b>Overall</b>	<b>50</b>	<b>27</b>	<b>18</b>

## Vacancy by Building Class and Location

The following charts provide more detailed performance insight into the vacancy rates among specific building classes and the impact on the individual suburban submarkets.

VACANCY RATE BY LOCATION



VACANCY BY LOCATION AND CLASS (SF)

Sq. Ft.  
% Vacant

	A	B	C
NW	128,592	61,557	78,503
NE	399,284	397,278	214,333
SW	519,656	34,985	157,061
SE	1,631,785	373,962	119,413
	14.30%	8.85%	20.87%
	20.63%	18.84%	12.01%
	23.63%	7.38%	20.29%
	31.17%	20.40%	22.37%

INVENTORY BY LOCATION AND CLASS (SF)

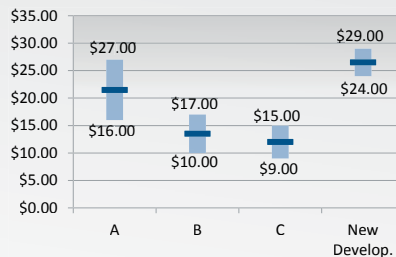
	A	B	C	Total
NW	899,311	695,642	376,121	1,971,074
NE	1,935,080	2,109,156	1,784,751	5,828,987
SW	2,198,680	473,978	774,054	3,446,712
SE	5,235,483	1,833,289	533,905	7,602,677
<b>Total</b>	<b>10,268,554</b>	<b>5,112,065</b>	<b>3,468,831</b>	

# Average Costs

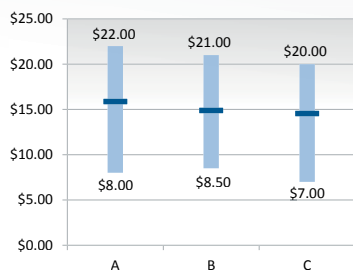
**PARKING RATES AND PARKING RATIOS RANGE BASED ON LOCATION, CLASS, AND THE AGE OF THE BUILDING.** On average, parking rates are between \$0-\$200/stall with a ratio between 1:300-1:500 sf.

Operating costs vary according to the age and location of the building; typically, newer buildings have lower operation costs due to increased HVAC and insulation efficiency but may also offer security and other amenities which will increase these costs.

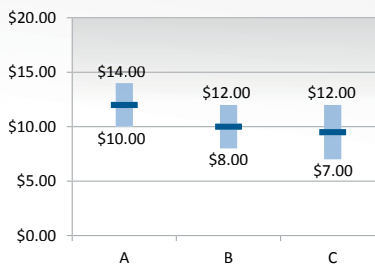
AVERAGE HEADLEASE RATES BY BUILDING CLASS



OPERATING COSTS BY BUILDING CLASS



AVERAGE SUBLEASE RATES BY BUILDING CLASS



# New Projects

	Developer	Size	Status
 <b>ATCO COMMERCIAL CENTRE</b> 5302 Forand Street SW	ATCO	200,000 sf	Q4 2017
 <b>HEXAGON CAMPUS</b> 11063 - 14 Street NE	Remington	160,000 sf	2019 100% leased
 <b>LEGION BUILDING</b> 1910 Kensington Road NW	Truman Homes, Royal Canadian Legion	19,600 sf	Complete
 <b>COMPUTER MODELLING GROUP</b> 3710 - 33rd Avenue NW	Remington	90,000 sf	Complete
 <b>7136 - 11TH STREET NE</b>	REID Worldwide Corp.	49,000 sf	Complete
 <b>HARVEST HILLS OFFICE PARK - B</b> 333 - 96th Avenue NE	Qualico Commercial	74,350 sf	Complete
 <b>THE LINK AT ROYAL VISTA</b> 19 Royal Vista Way NW	Martinvest Corp.	28,000 sf	Complete

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