

# DOWNTOWN OFFICE MARKET ANALYSIS

**24.8%**

OVERALL  
VACANCY RATE

↓ - 1.1%  
FROM Q2'18

- Absorption for the third quarter totalled positive 351,000 square feet (sf). The primary drivers of absorption this quarter were A Class and AA Class sublease spaces, which accounted for 183,000 sf and 121,000 sf of absorption, respectively.
- Sublease space represented 26% of available space; this continued a multi-quarter downward trend.
- We continue to note a lack of available spaces measuring between 6,000 sf and 10,000 sf. Less than 15% of all available space lies within this range.

## Significant moves, announcement and notable transactions:



BMO leased approximately 73,000 sf in Eighth Avenue Place – East.



Serafina subleased approximately 27,000 sf in Calgary City Centre.



Livingston Place South  
16th floor office

PREPARED BY  
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# Current Vacancy at a Glance

OVERALL RATE **24.8%**  
 ↑ - 1.1% FROM Q2 TO Q3

CLASS AA **18.6%**  
 ↓ - 0.4% FROM Q2 TO Q3

CLASS A **23.9%**  
 ↓ - 2.2% FROM Q2 TO Q3

CLASS B **35.5%**  
 ↑ + 0.5% FROM Q2 TO Q3

CLASS C **22.6%**  
 ↓ - 2.9% FROM Q2 TO Q3

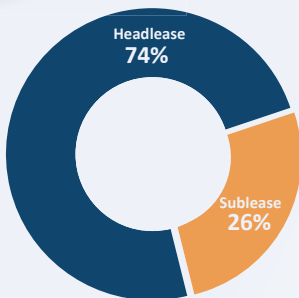
Net absorption for the third quarter of 2018 was positive 351,000 sf. We have also added **TELUS Sky** to our Downtown inventory, bringing total inventory to just under 44 million square feet (msf). With this new building however, came approximately 286,000 sf of unleased space. Despite this new, unleased space the vacancy rate in Downtown Calgary decreased by more than a percentage point to 24.8%. This represents approximately 10.9 msf of space available.

Overall, leasing activity was robust during the quarter, as several companies moved between buildings and upgraded their spaces in the process. The availability of spaces measuring between 6,000 sf and 10,000 sf remained tight during the quarter. Notable during the third quarter was ongoing activity among spaces measuring greater than 15,000 sf. Potential users of these large spaces continue to benefit from the increased affordability and the incentives attached. At the other end of the spectrum, a noticeable decrease in the availability of spaces measuring less than 2,000 sf was observed.

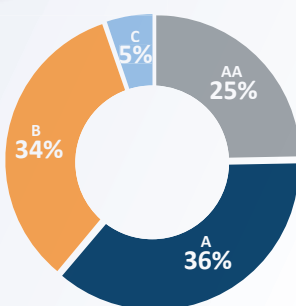
Barclay Street Real Estate's vacancy calculation takes into account all space available for occupancy within a 6 month period. As of Q3 2018, an

additional 557,000 sf of space was being marketed for occupancy from October, 2018 through March, 2019. This includes multiple full floors in **640 Fifth, 715 Fifth and Calgary Place**. A further 108,000 sf comes available in 7 – 18 months.

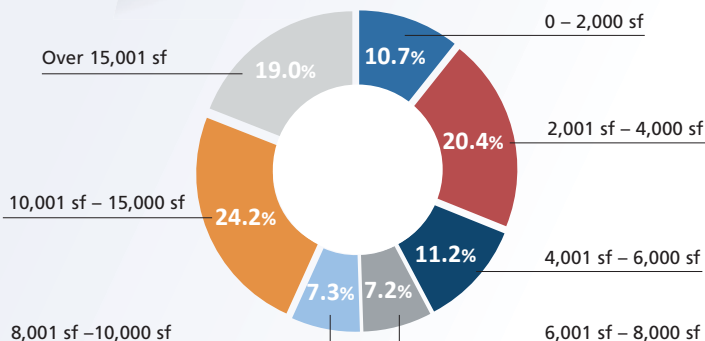
HEADLEASE VS. SUBLEASE DISTRIBUTION



DISTRIBUTION OF TOTAL AVAILABLE SPACE BY BUILDING CLASS



DISTRIBUTION OF OPTIONS BY SIZE RANGE



# Market Review

VACANCY IN CALGARY'S DOWNTOWN CONTINUED TO STAY WITHIN A NARROW BAND OF UPWARD/DOWNWARD MOVEMENT AS 2018 PROGRESSED, FALLING BY JUST OVER 1%. The positive net absorption during the third quarter was driven primarily by sublease activity, which was registered across all property classes but was focussed in A Class and AA Class properties. This is a notable phenomenon given that our calculations include spaces that come available for lease and sublease into early 2019. During the previous two quarters, this coming space has masked the actual activity taking place in the Downtown.

Sentiment among many large tenants remained cautiously optimistic and drove several full-floor and multi-floor subleases during Q3. This activity took a sizeable chunk out of the high percentage of sublease vacancy, reducing available sublease space in the Downtown market by more than 363,000 sf. We also noted positive headlease absorption in A Class and C Class properties, but this was outweighed by additional premises coming available in AA Class and B Class premises. Several spaces were taken back during the quarter by tenants for their own use.

As a consequence, we saw a notable reduction in the ratio of available sublease to headlease spaces. At the end of September, this ratio sat at 26%/74%, down from 29%/71% respectively at mid-year.

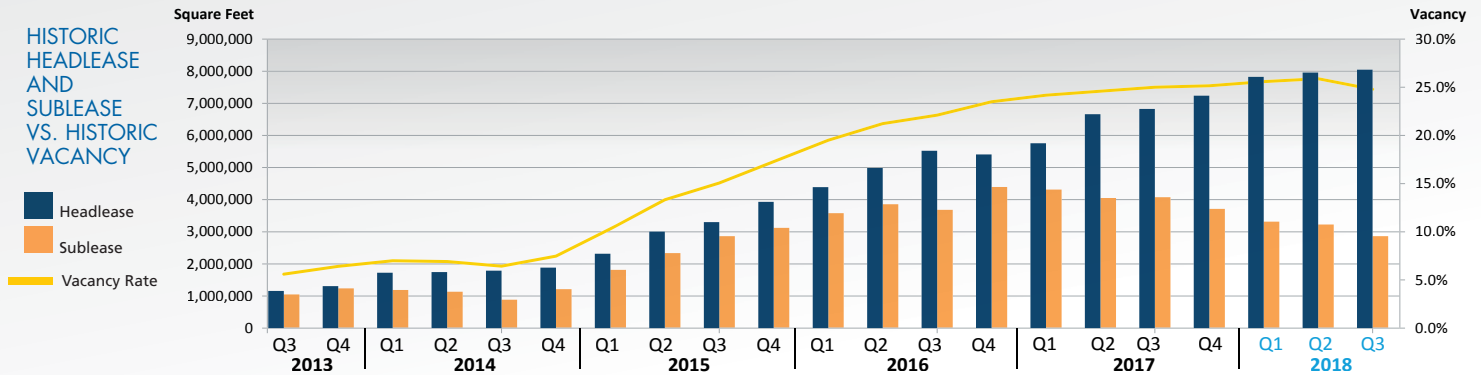
We continue to be of the view that we're seeing the bottom of the market in the Downtown. With the historically large volume of sublease space now significantly reduced from it's Q1 2016 high and with Landlords and would-be sublandlords exercising restraint in marketing additional space, we anticipate that the sublease market will stabilize between its current position and it's pre-recession five-year average of 34%.

Aggregate absorption for the year to date has turned positive, but barely, at 30,000 sf. As noted in a 2017 report, the recession has essentially erased seventeen years of average annual absorption in the Downtown market. As we highlight in our vacancy forecast chart, should this market return to a long-term average we anticipate vacancy though 2019 and 2020 being flat.

# Vacancy

## Headlease vs Sublease

The amount of available headlease space increased by just 12,000 sf during the quarter, while the overall volume of sublease space decreased by approximately 363,000 sf. As mentioned earlier and in our previous reports, these changes are due to a combination of leasing activity, space being taken back by tenants and sublease roll-over.



## Vacancy by Building Class and Size Range

Observing the total number of opportunities available in the downtown, we see the highest concentrations of available options in the 10,000 sf - 15,000 sf range (24.2%) and in the 2,000 sf - 4,000 sf range (20.4%). The 6,000 sf - 8,000 sf and 8,001 sf - 10,000 sf ranges contain the fewest options at 7.2% and 7.3% each. Total available headlease spaces increased to 926 from 943 at mid-year while total available sublease spaces increased decreased to 177 from 209 during the previous quarter. The greatest decreases were among AA Class and A Class buildings, where 14 options and 25 options were taken off the market, respectively. The number of availabilities in C Class properties also decreased slightly while there were a few additional leading opportunities in B Class buildings.

HEADLEASE OPPORTUNITIES BY BUILDING CLASS AND SIZE RANGE

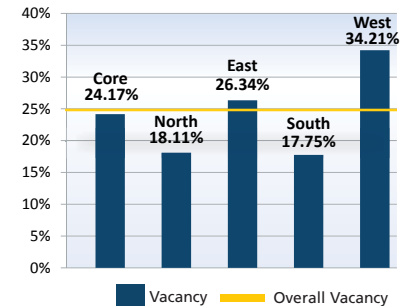
Size Range	AA	A	B	C
0 – 2,000 sf	0	27	65	19
2,001 sf – 4,000 sf	2	59	122	31
4,001 sf – 6,000 sf	3	31	63	15
6,001 sf – 8,000 sf	2	23	34	9
8,001 sf – 10,000 sf	7	22	27	13
10,001 sf – 15,000 sf	3	95	130	3
15,001+	38	53	23	8
<b>Overall</b>	<b>55</b>	<b>310</b>	<b>464</b>	<b>98</b>

SUBLEASE OPPORTUNITIES BY BUILDING CLASS AND SIZE RANGE

Size Range	AA	A	B	C
0 – 2,000 sf	4	1	1	1
2,001 sf – 4,000 sf	2	4	3	2
4,001 sf – 6,000 sf	3	4	3	1
6,001 sf – 8,000 sf	4	4	1	3
8,001 sf – 10,000 sf	3	6	1	1
10,001 sf – 15,000 sf	5	18	12	1
15,001+	52	31	8	1
<b>Overall</b>	<b>73</b>	<b>68</b>	<b>29</b>	<b>10</b>

## Vacancy by Building Class and Location

VACANCY RATE BY LOCATION



VACANCY BY LOCATION AND CLASS (SF)

Sq. Ft.	% Vacant	AA	A	B	C			
CORE	263,788	18.84%	1,409,085	21.70%	729,348	31.26%	130,127	51.89%
NORTH	781,599	16.82%	117,421	9.42%	217,093	79.97%	0	N/A
EAST	1,002,345	24.45%	719,550	29.40%	870,521	48.72%	38,089	6.72%
SOUTH	298,232	7.88%	1,153,211	28.81%	0	0.00%	42,575	17.36%
WEST	349,924	65.65%	584,026	23.53%	1,856,512	33.31%	352,608	24.57%

INVENTORY BY LOCATION AND CLASS (SF)

	AA	A	B	C	Total
CORE	1,400,000	6,494,741	2,332,876	250,792	10,478,409
NORTH	4,646,286	1,245,927	271,473	0	6,163,686
EAST	4,099,540	2,447,201	1,786,950	567,036	8,900,727
SOUTH	3,785,631	4,003,349	381,799	245,273	8,416,052
WEST	533,000	2,482,247	5,573,629	1,434,990	10,023,866
<b>Total</b>	<b>14,464,457</b>	<b>16,673,465</b>	<b>10,346,727</b>	<b>2,498,091</b>	

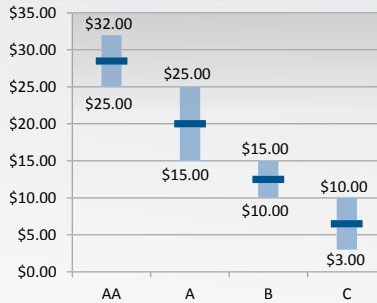
# Average Costs

*DUE TO THE INCREASING AVAILABILITY OF AGGRESSIVELY PRICED, FLEXIBLE, SHORT-TERM SUBLEASE SPACE, HEADLEASE AND RENEWAL RATES CONTINUED TO EXPERIENCE DOWNWARD PRESSURE, ALBEIT WITH MORE RESISTANCE FROM LANDLORDS AND SUBLANDLORDS THAN IN RECENT YEARS.* Sublease inventory represented approximately one quarter of total available space at 2.9 million square feet. During 2018 – particularly through the second and third quarters – we observed a substantial uptick in sublease activity. This is a notable departure from term expiration and the spaces going back to Landlords for direct lease being the primary driver of reduction.

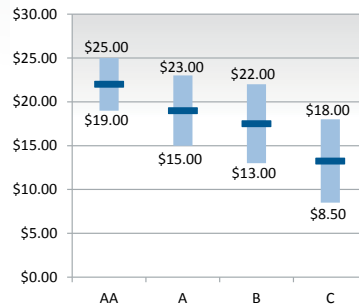
**PARKING RATIOS AND RATES BY BUILDING CLASS**

Class	Average Parking Ratio (stall: sf)	Average Parking Rate
AA	1: 2,020 sf	\$592
A	1: 2,880 sf	\$550
B	1: 2,320 sf	\$428
C	1: 2,120 sf	\$405
Overall	1: 2,340 sf	\$494

**AVERAGE LEASE RATES BY BUILDING CLASS**

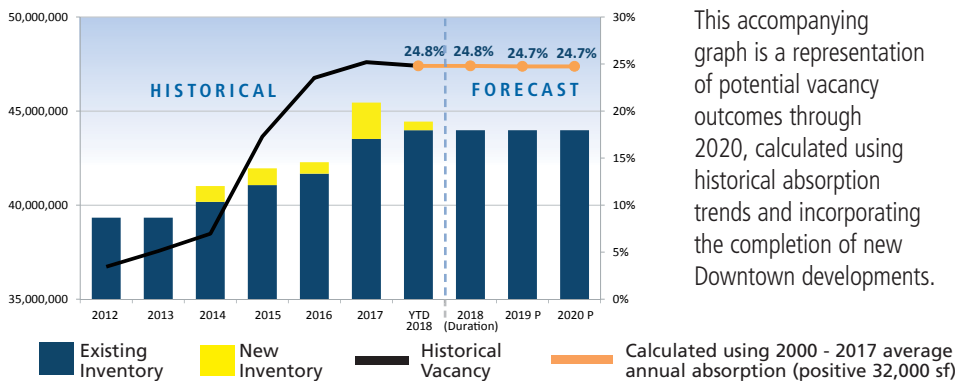


**OPERATING COSTS BY BUILDING CLASS**



# Vacancy Forecast Including New Inventory

**VACANCY FORECAST RESULTING FROM NEW DEVELOPMENTS IN DOWNTOWN**



**Reference** Toneguzzi, M. (Sept. 2018). *Downtown Calgary 40-storey office tower to undergo massive reno.* Calgary's Business. <https://calgarysbusiness.ca/business/office-tower-calgary-renovation/>

# Newest Inventory



**TELUS SKY**  
 7 Avenue & Centre Street SW  
 Developer: TELUS, Allied REIT & Westbank  
 Size: 430,000 sf  
 Status: Added to inventory

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