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BUSINESS

Downtown Calgary office vacancies still rising

By Mario Toneguzzi on April 16, 2018

First-quarter analysis shows a slight bump from late last year. But Barclay Street Real Estate sees cautious optimism in the market


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Calgary's downtown office vacancy rate continues to inch up, according to a report by Barclay Street Real Estate.

The commercial real estate firm's first-quarter market analysis indicates that vacancy in the core rose by 0.4 per cent from the fourth quarter of 2017 to 25.6 per cent.

The report said absorption for the first quarter totalled negative 192,000 square feet with the primary drivers being A Class and B Class spaces. Those spaces accounted for 263,000 square feet and 129,000 square feet of additional premises available for lease, respectively. Absorption is the change in occupied space.

Barclay Street said positive absorption was noted among AA Class and C class spaces, where 1 47,000 square feet and 53,000 square feet was taken, respectively.

It said sublease space represented 30 per cent of available space, down slightly from the fourth quarter of 2017.

"We continue to note a lack of available spaces measuring between 6,000 square feet and 10,000 square feet. Less than 15 per cent of all available space lies within this range," said the report.

"General expectations for a continued economic recovery remain, with sentiment among many large tenants being best classified as cautious optimism. To that end, several full-floor and multi-floor leases and subleases closed during Q1 but did not involve much, if any, expansion of space. Firms not renewing in their current location are taking advantage of AA Class and A Class subleases that come with bargain rates. While this activity is making a small but noticeable dent in the high percentage of sublease vacancy, the downtown market has reached a point where sublease spaces are rolling over to headleases due to the still relatively low demand."

Barclay Street said the downtown market has reached a point where landlords and would-be sub-landlords see little to no point in marketing additional space and firms with near-term lease expiries continue to be heavily focused on opportunities to minimize real estate expenditures while possibly upgrading.

"And as anticipated, the historically large volume of sublease space is slowly but surely dissipating. … From this point, the only bump in the road we see is the unleased office portion of Telus Sky, which has the potential to add the better part of one percentage point to downtown vacancy."

The building being developed by Telus, Allied REIT and Westbank will have 430,000 square feet of office space. It is 37 per cent leased and is expected to be completed by the second quarter of 2019.

Respected business writer Mario Toneguzzi is a veteran Calgary-based journalist who worked for 35 years for the Calgary Herald in various capacities, including 12 years as a senior business writer.