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Calgary's office market is looking up, for a lot of reasons

Slow, but steady improvement in the city's highest-quality properties continues

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Calgary's long-challenged office market is seeing a glimmer of hope these days with tightening availability and steadily rising rents, according to a new report by Savills.

Class-AA/A buildings continue to outperform and are experiencing increasing competition for contiguous space. The overall availability rate has declined 130 basis points (bps) from last year to 20.4 per cent.

Only two submarkets, South and West End Downtown, have higher availability rates than the overall market - but the difference is pronounced.

Thom Slater, research associate at Savills, said it's a bifurcated market across North America.

"The better asset classes, class-A, AA, trophy buildings, are all performing pretty well. That's no exception in Calgary. Data is telling us that big blocks of space downtown are pretty hard to come by for those premium buildings," he said. "It's actually a very tight market.

"And then on the other side of the market on the older B- and C-class you're seeing a really high vacancy rate. Landlords are struggling to fill buildings and that's what's actually driving the availability rates in the higher teens, 20s.

"There's actually two submarkets in Calgary that have a higher availability rate than the average for the city. Everything else is at a much healthier level than you would think, but the west end of downtown is performing so poorly that this 35.9 per cent (vacancy) is significantly higher than 20.4 per cent. You can imagine how that can sway the data."

Companies continue moving to downtown core

Adam Stewart, vice-president at Savills, said the latest data lines up with the well-established flight to quality trend.

"Large and small spaces right now are tough to come by in trophy buildings and AA buildings which is a big change," he said, adding that centrally-located class-B buildings are also starting to see a bit of a lift because of limited capacity and higher rates in class-A buildings.

Stewart said the flight to quality is mainly driven by companies moving from the west end of downtown nearer to the core, as well as companies moving from the suburbs.

"As far as the activity goes for existing tenants, it's a lot of renewals. Some tenants are decreasing in size, a few are growing. There's certainly new junior companies within the oil and gas that are taking 10,000 square feet, 20,000, 30,000," he said. "But the bigger companies have definitely consolidated down . . . Energy is definitely the healthiest office user that we see.

"Tech really hasn't come back to the office. If tech comes back that could be a real boon to the office, but it hasn't."

He expects continued "gradual improvement", but notes there is still a million square feet of head space to hit the market from the move of resources company CNRL. "That will shake things up again but for the time being there's very limited space for people in trophy assets to relocate to."

Calgary's office market dips to 77.9M sq. ft.

Savills reports office inventory of 77.9 million square feet in Q2, down 1.8 million square feet from last year. The overall asking rental rate of $33.18 was up 5.4 per cent year over year while class-A asking rents rose 6.2 per cent from a year ago to $40.77.

The Savills report said class-AA/A office space is tightening considerably faster than the rest of the market. This trend will likely continue, if not accelerate, for the remainder of the year.

"Tenants with 2026 and 2027 lease expirations are starting to become active in the market, which will coincide with an ever-tightening premium office market," the report states. "As contiguous blocks of office space become ever-scarcer downtown, high quality suburban office space will be an attractive alternative and experience an increase in tenant demand."

David Wallach, president/broker at **Barclay Street Real Estate Ltd.**, said his company's Q2 office report is very similar to Q1.

"Headlease occupancy keeps increasing and the vacancies are going down in the core on the headlease side. There's a very slight increase of 0.3 per cent in sublease space," he said. "Overall I think we'll see continued positive absorption and increase of occupancy in class-A and AA. We see the parking lots are getting full. The restaurants are getting very busy."

"Very, very positive outlook..."

The combination of headlease occupancy rising, and interest rates falling is "a very, very positive outlook for the core."

Wallach said Calgary is leading the country in migration. Alberta has jobs for new residents in its resurgent oil sector and housing that is much more affordable than many regions in Canada

"But we also have a variety of new businesses and there's continued diversification of our industries in Calgary, not just in the core, and that really helps this direction whether it's new companies like IT, AI," he said. "And we can see that the provincial government is really supporting the local economy . . . We're positioned to grow faster than any other province right now."

Greg Kwong, regional managing director at CBRE Canada, said there's a lot of leasing activity in both the downtown and suburban markets.

"But we're not seeing a lot of growth in the downtown core, where in the suburbs you're seeing some slight decreases in vacancy. Nothing major though. The biggest factor in the downtown core is still getting people back to work. I think we're still kind of stalled at three-and-a-half days a week versus two to three days a week in the bigger cities," Kwong said.

"In a perfect world, certainly the CEOs I talk to, they would love to see four to five days in the office. Therefore the vacancy rate, in spite of the good leasing activity, there's not a huge drop. But there's a sense of optimism in the energy patch and in the market in general.

"Two, three, four years ago we thought the tech sector would have been one of our saving graces as far as their growth and some of the companies moving here. Well, that industry has been decimated with lack of capital to grow, layoffs, things like that. Three, four years ago the tech sector represented close to three or four per cent of our overall market. They're back down to kind of one, one-and-a-half per cent."

Kwong said Alberta, specifically Calgary, remains the "shining star" in Canada for investors looking to place capital, offering a sense of optimism in the market.

According to the latest Q2 market reports by CBRE, Calgary's suburban office market had a vacancy rate of 23.7 per cent with positive absorption of 187,500 square feet while the downtown market had a vacancy rate of 30.3 per cent with negative absorption of 110,572 square feet in the quarter.