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MARKET

NEW NORMAL

Calgary's industrial sector showing signs of strain

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FOR CREB®NOW

Calgary's industrial market continues to hiccup along in a weakened economy as vacancy rates have risen over each of the last four quarters and are likely heading toward the bottom of the cycle, said a second-quarter market report by Cushman & Wakefield.

"One positive is that the amount of space under construction has been cut substantially; helping to prevent future jumps in the vacancy rate," read the report.

"When buildings have been completed, they have been very well received by the market with most developments filling up quickly. If the price of oil stabilizes at or above the $50 (US) mark, then it is possible we will see a gradual return to normal absorption levels and vacancy rates towards the end of 2016 and into 2017."

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>
> CUSHMAN & WAKEFIELD

The overall vacancy rate jumped from 7.6 per cent in the first quarter to 8.1 per cent in the second quarter. It was five per cent a year ago.

Net absorption, which is the change in occupied space, was a negative 434,751 square feet compared with a positive 498,057 square feet last year. The amount of space under construction has fallen from 2.27 million square feet in the second quarter of 2015 to 273,925 square feet today, according to Cushman & Wakefield.

Meanwhile, the average asking price for rent has dropped from $9.79 to $9.14 per square foot in the second quarter of this year.

"The market continues to see a large amount of sublet space available and many sub-landlords are willing to accept sublease rental rates below market head lease rates," said Brent Johannesen, vice-president of industrial sales and leasing with Cushman & Wakefield.

"The amount of new space under construction has dropped significantly compared to last year as developers are focused on leasing of their existing projects before starting any new ones. There remains a limited supply of available product for sale and the large gap between sellers and buyers has resulted in a low volume of sale transactions."

The Cushman & Wakefield report also noted the Calgary industrial market continues to see a negative impact from the downturn in oil prices as a large amount of space has become available for sublease over the past year. This has caused the sublet space available as a percentage of vacancy to rise from 10.9 per cent in the second quarter of 2015 to 16.5 per cent today.

"Many sub-landlords are in cash-flow-recovery mode and, as a result, they are willing to market and recover sublease rental rates below market head lease rates. Inevitably, head lease rates have been affected with the significant increase in sublease space that has come available," explained the report.

"The availability of facilities featuring yard and serviced by cranes has also significantly increased over the past two years as the oil and gas service industry has been hit particularly hard in the downturn."

Another report by Barclay Street Real Estate noted market dynamics in Calgary's industrial scene are currently in favour of the tenant or purchaser, with sublease options being marketed at aggressive rates.

"Overall, landlords are doing their best to retain tenants and are offering bigger incentives. Rental rates have seen negative adjustments in the eight per cent to 18 per cent range, depending upon the building's characteristics," read the Barclay Street report. "Lower quality space is seeing the biggest adjustment in rates, as tenants look to make the move to quality space that may now be financially attainable. Hope is that this summer represents the bottoming of vacancy in the market.

"As developers put the brakes on new construction, the hope is that absorption will be positive overall in 2016 and vacancy will improve by the end of the year. There are a number of oil and gas related facilities that are expected to come to the market in the near future, but optimism rests with the warehousing and distribution markets, which seem to be holding steady at this point."