creb® now
real estate news from industry experts

COMMERCIAL

ASKING VS. ACHIEVED

Suburban office vacancies encouraging landlords to be flexible

MARIO TONEGUZZI
FOR CREB®NOW

Calgary's downtown office vacancies might have been getting all the attention so far this year, but commercial real estate experts point out it's not alone as the city's suburban office market continues to experience similar challenges.

"We're in the doldrums right now," said Ian Robertson, associate specializing in the suburban office market for Barclay Street Real Estate. "There's too much space chasing too few tenants. So it's a bit of a malaise.

"We saw this coming. It took a while for landlords or the market to accept what was happening. But now we accept the reality of where we're at."

A second quarter market report by Barclay Street highlights that reality. The suburban office market has seen its vacancy rate jump to 21.2 per cent, up 2.6 per cent from the first quarter. There was negative absorption – the change in occupied space – of 232,000 square feet in the second quarter.

The report noted the primary driver of negative absorption was B Class space as the top-10 new vacancies in this class collectively added more than 184,000 square feet of available space to the market. About 71 per cent of leasing opportunities measure less than 6,000 square feet.

Barclay Street noted activity within the suburban markets during the second quarter was tied to the abundance in headlease spaces, which were being aggressively marketed by landlords and subject to progressively attractive tenant improvement allowances, more open rate negotiations and concessions on parking.

"With general market dynamics having changed dramatically over the preceding 18 months, tenants who must make decisions regarding their needs for space now have low-cost sublease alternatives open to them in numbers not seen before," read the report. "Many of them are using this situation to their advantage during negotiations."

> "THERE'S TOO MUCH SPACE CHASING TOO FEW TENANTS. SO IT'S A BIT OF A MALAISE."
>
> IAN ROBERTSON
> BARCLAY STREET REAL ESTATE

The Barclay Street report also noted the mix and ratio of opportunities has created an environment in which landlords are displaying increasing creativity in crafting lease packages to "seal the deal" and shore-up their tenancy ratios.

"It has been likened to a state of 'leasing anarchy' in which the old rules of applying market lease rate averages have gone out the door in favour of doing whatever is necessary to secure the tenant," read the report.

A second-quarter report by CBRE Ltd. noted similar findings, with landlords lowering rates to remain competitive.

"Despite the contraction of asking rates across all suburban markets, there continues to be separation between asking and achieved rates," read the report.

"Given the volume of available space and the cost-cutting trend seen by most energy-related tenants, landlords have been forced to adjust expectations and provide additional inducements in order to remain competitive."

The report noted the average asking rate decreased in the second quarter to \$18.53 per square foot. That's down from \$18.78 per square foot in the first quarter of this year and \$20.63 per square foot in the second quarter of 2015.

"The effect of slumping oil prices continues to take its toll on Alberta's real estate market in the second quarter of 2016 as energy-related businesses seek more affordable opportunities by cutting costs and consolidating office space," read the CBRE report.

"After a static first quarter in Calgary's suburban office market, it appears as though both vacancy and rental rates have finally caught up to the pace of the declining downtown market."

The CBRE report expected some natural corrections are expected to take place in the suburban market over the next few quarters as shadow inventory is placed back on the market as vacant space.