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SUBURBAN CREATIVITY

Calgary's suburban office market continues to see negative absorption rates due to high vacancies and new product entering the market.

Commercial landlords thinking outside of the box in wake of high vacancy rates

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Landlords in Calgary's suburban office market continue to display increasing creativity in the face of rising vacancy rates that are not expected to stem any time soon, says a new report.

In a third quarter report issued earlier this month, Barclay Street Real Estate noted the overall vacancy rate in suburban Calgary rose by 1.1 per cent from the second quarter to 22.3 per cent. Research director Anthony Scott attributed the slight increase to the introduction of new inventory that came to market with significant unleased space.

"Landlords continue to display increasing creativity in crafting lease packages to secure tenants," said Scott. "Increasingly, the previous rule of applying market lease rate averages is being replaced by case-by-case negotiations.

He added the ongoing introduction of new, often high-end office inventory that increasingly include vast parking lots with free parking will further muddy the waters.

The Barclay report also attributed an uptick in activity during the third quarter to looming end dates of many leases, and tenants' motivation to explore the market for the best potential deals.

"On that point, we have yet to see the emergence of alignment between the 'ask' from landlords and the 'bid' from prospective tenants," said Scott.

"With so much space available and a plethora of choices, which now includes multiple new buildings, landlords of new and older properties alike, must adjust their expectations."

Overall, approximately 237,000 square feet of new inventory was delivered to Calgary's suburban commercial sector in the third quarter, with a cumulative 79,000 square feet of it spoken for. Three new developments comprising five buildings were introduced during the quarter including Fairmore Business Park I & III, Seton Professional Centre East & West and Westland Professional Centre.

Barclay noted an additional 65,000 square feet of office product is scheduled for delivery in the coming six months, and a total of nearly 700,000 square feet over the coming 15 months.

One of the larger projects to hit the market will be the Odeon, a four-storey office tower in Marda Loop that will add nearly 20,000 square feet of space to the market sometime in the fourth quarter.

Major projects for 2017 include Harvest Hills Business Park Building B, expected in the first quarter, and the Computer Modelling Group building, which is anticipated at mid-year.

A third-quarter report by CBRE Ltd. reported similar findings, noting the suburban market posted its seventh consecutive quarter of negative absorption.

The commercial real estate firm noted net absorption for the third quarter was a negative 138,214 square feet due to 336,257 square feet of new completions combined with a 22.2 per cent vacancy rate.

"Calgary's suburban office market is at risk of registering its second full year of negative absorption in a row," said report author Ben Dixon, who attributed the third-quarter results primarily to negative absorption in B- and C-Class products.

CBRE noted more than 1.8 million square feet of space was vacant in Calgary's suburban office market by the end of September. Of that, approximately two-thirds come from pockets of 20,000 square feet or greater, "in larger part due to an absence in the market of larger tenants looking for large pockets of space."

Meanwhile, it noted the average headleasing asking rates remained static, falling from $18.53 to $18.51 per square foot quarter over quarter.

"Although this decline appears to be insignificant, it is worth noting that current rates have reached their lowest levels since 2001," said Dixon. "This is likely a product of the ongoing struggle landlords face as they try to remain competitive in the suburban market.

The CBRE report added while headlease rates seem to have fallen in line with underlying economic conditions, sublease rates are expected to see further declines. While there's a fire-sale mentality in the downtown market, suburban sublandlords have previously resisted lowering rates.