

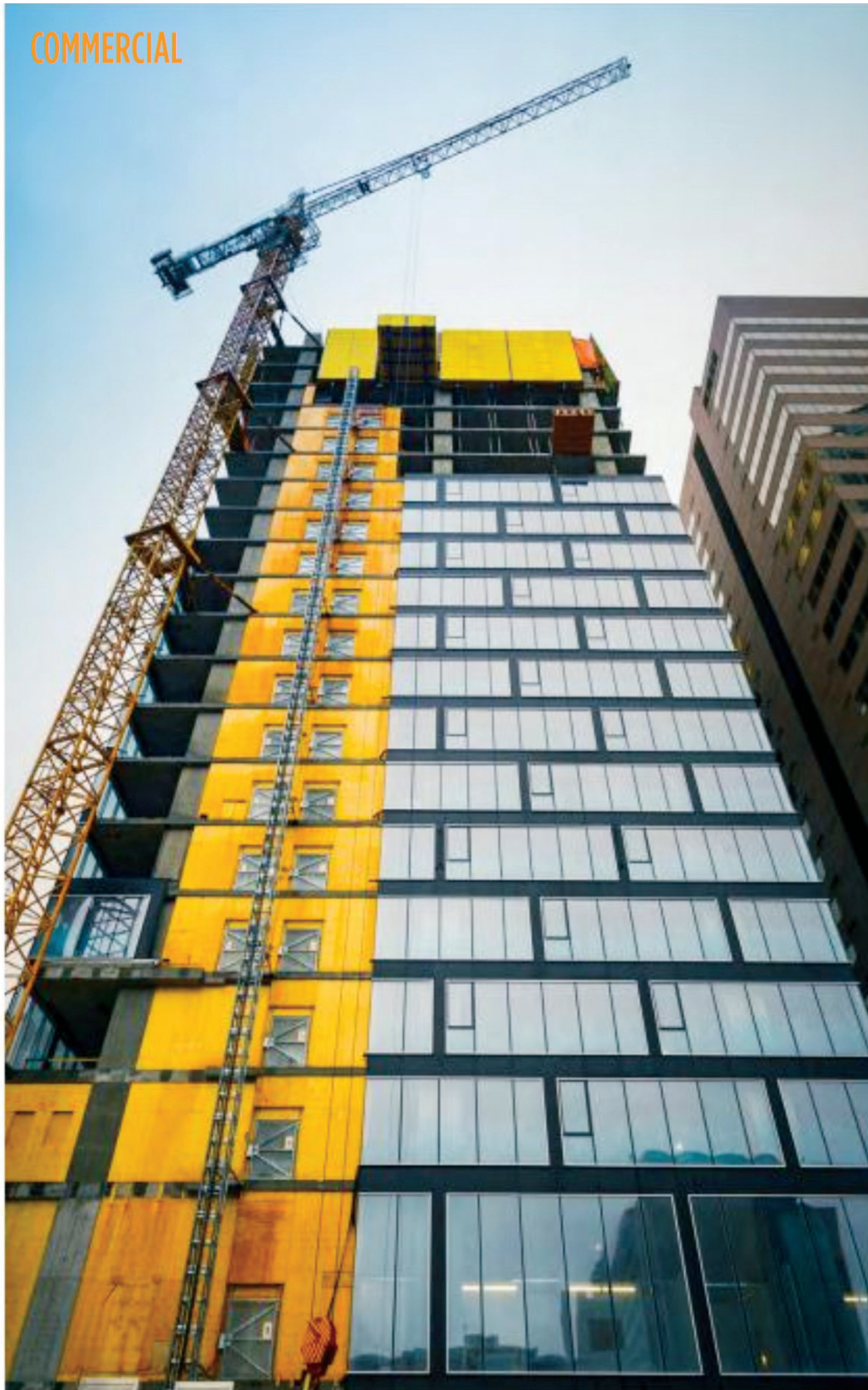


creb[®] now

real estate news from industry experts

Apr 28, 2017 crebnow Commercial

COMMERCIAL



JESSE YARDLEY / FOR CREB-NOW

SKY RISING

Is there a glimmer of hope in Calgary's struggling downtown office market?

CREB[®] NOW

A new report by Avison Young suggests the market may be turning the corner following a brutal two years of ploughing through a recession.

The vacancy rate in the core was 23.9 per cent in the first quarter of the year, up from 17.6 per cent a year ago, but basically unchanged from year-end 2016.

"The first-quarter 2017 vacancy level actually represented positive news as the market took its first steps in halting its overall downward trend," said the commercial real estate company.

Todd Thronson, principal and managing director of Avison Young's Calgary office, says the downtown office market appears to have hit a pause in its rising vacancy.

"By 2018, with the exception of new inventory coming on stream, there is a strong probability that the first quarter of 2017 will be recognized as the point when the downtown office market turned the corner and finally saw a stop to tenants shedding excess space," he said.

However, Thronson says that without a substantial change in the Calgary economy and with new space coming onto the market, the vacancy rate will continue to climb to near 29 per cent.

Absorption, which is the change in occupied space, is forecast to continue to be marginally negative for the second quarter of 2017 and flat for

the second half of 2017. The first half of 2018 is also expected to be flat, but then positive 100,000 square feet in each of the third and fourth quarters of 2018, and rising to 150,000 square feet per quarter in 2019 and beyond.

The turning point in the market was evident in the first quarter of this year when the downtown saw positive absorption of 3,000 square feet – the first positive quarterly number since the economic downturn began in 2014.

The total vacancy in the downtown office market is 10.5 million square feet with 60 per cent headlease space and 40 per cent sublease.

"Interesting things happened in the downtown market over the first three months of the year, notably in leasing trends at the smallest end of available options," said a report by Barclay Street Real Estate. "A significant decrease in spaces of 2,000 square feet occurred while spaces of greater than 10,000 square feet increased."

Barclay Street says the market has also seen the emergence of "green shoots" which are small start-ups leasing spaces appropriate to their size.

Three office towers, 707 Fifth, Brookfield Place and Telus Sky, are currently under construction.

The Barclay Street report says the Beltline office market saw its vacancy drop 0.3 per cent from the previous quarter to 18.1 per cent while the suburban office market experienced an increase of 0.3 per cent to 22.9 per cent.