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# UNDER THE RADAR

## Industrial real estate market hopes to maintain momentum in 2018

All eyes will be on Calgary's commercial real estate When it comes to the Calgary commercial real estate market, downtown office space grabs all the headlines.

Just like in sports, where star players occupy the limelight and grinders are often overlooked, the struggles of the downtown office market continue to dominate discussions of commercial real estate, while the industrial sector has quietly weathered the economic storm over the past three years.

According to a report by Cushman & Wakefield, the industrial real estate vacancy rate dipped to 7.9 per cent in the fourth quarter of 2017, compared to 8.3 per cent in the fourth quarter of 2016. Also, there was 1.33 million square feet under construction at the end of last year, compared to 477,474 square feet at the end of 2016.

"Certain trends are becoming prevalent in the market, such as private investors purchasing a portfolio of assets, strong demand for large bays, and finally new and established players coming into the market," the report reads. "These trends are expected to continue in 2018. Cushman & Wakefield expects 2018 to be another strong year for the industrial market. Consequently, we expect a new wave of construction very soon.

"Cushman & Wakefield forecasts the vacancy rate to decrease in 2018. This decrease will be fuelled by demand for mid to large bays by fabricating, manufacturing and distribution companies who continue to cluster in the Calgary area, in part due to the city's proximity to major western markets."

Now that's good news to hear in a city that has experienced a dearth of good news for some time.

The building cycle for the downtown office market will come to an end when the huge Telus Sky tower is completed by the end of this year in the heart of the city. No new office towers are in the works, thanks to sky-high vacancy.

But as the Cushman & Wakefield report points out, it's a different story for the industrial sector. More construction is coming.

The market finished 2017 on a high note, and that bodes well for this year. Leasing activity in the fourth quarter totalled just over 1.8 million square feet, bringing the year-end total to just under 7.5 million square feet. This represents a 40 per cent increase compared to leasing activity levels from one year ago.

The market continues to experience active demand for large distribution space. As a result of this strong demand, excess inventory is being absorbed by the market, according to the commercial real estate firm.

And there's even more positive news about the industrial sector out there to balance the negativity that has surrounded the downtown market. Barclay Street Real Estate says the vacancy rate for industrial real estate has dropped 1.47 per cent since the beginning of 2017, marking the fourth consecutive quarter of decreasing vacancy.

Cumulative net positive absorption – the change in occupied space – was close to 2.5 million square feet for 2017, which was higher than the total absorption seen in both 2015 and 2016 combined. Looking forward, Barclay Street says strong underlying fundamentals are the reason that speculative development for 2018 will ramp up, with numerous developers intending to break ground on new, large distribution facilities this spring.