



12 Jul 2013

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OFFICE: Sublets

Office space is no longer at a premium in Calgary where vacancy rates have risen steadily in recent months, says a new Avison Young report.

The real estate firm said a third straight quarter of negative office absorption — the change in occupied space — saw an additional 273,000 square feet become available during the second quarter.

“After three years of intense leasing activity, where annual office absorption averaged 3.05 (million square feet) per annum, the 2013 market is going through a readjustment to reflect less favourable economic times,” said its report.

Overall, more than one million square feet has gone back on the market in 2013 as the city’s office vacancy rate reached 6.2 per cent at the end of the second quarter, up from 5.7 per cent three months earlier.

The downtown office vacancy rate moved up by 0.74 per cent to 4.0 per cent while the Beltline area saw vacancy rise by 0.05 per cent to 11.1 per cent.

Avison Young said several factors, led by cutbacks in the energy sector, are shrinking office space demand.

“Junior oil and gas companies have essentially been put into ‘survival mode’ due to limitations in obtaining funding for drilling programs on the capital markets,” it said.

“Cutting down on occupied space is one of the easiest ways to limit expenses and free up cash, which in part helps explain the rise of sublease vacancy.”

The report said sublease space in the downtown is continuing to rise with an additional 343,000 square feet introduced to the market. “The majority of sublet space is being offered by major energy companies and engineering firms,” it said.

The firm said sublease space could again be snapped up if a major project such as the Keystone XL or Northern Gateway pipelines is approved.

Avison Young said it will also bear watching how companies respond to the effects of flooding that shut down large sections of downtown and curtailing operations.

“The fear of a similar disaster in the future may cause some tenants to look elsewhere and fuel the trend of tenants seeking campus-type facilities in the suburbs,” it said.

A separate report from Barclay Street Real Estate in Calgary said downtown leasing may increase due to the flooding.

“We can anticipate movement among tenants seeking temporary space due to this disaster.

“Looking forward, business interruption insurance, property values, and the geographical location of available or existing space may be more carefully scrutinized,” it said.