

Leasing activity strong in Calgary industrial real estate market

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Several new warehouse construction projects completed in the fourth quarter and more is on the way



The vacancy rate in Calgary's industrial real estate market stayed relatively flat at the end of 2018, climbing by just four basis points to 5.48 per cent, says [Barclay Street Real Estate](#).

In its annual report on the market, the company said this is the first increase in vacancy following six consecutive quarters of decline from the high of 7.99 per cent reached in the first quarter of 2017.

Leasing activity was also very strong in 2018 with 3.36 million square feet of positive absorption, which is the change in occupied space. In the fourth quarter alone, there was 1.5 million square feet of positive absorption.

Barclay Street said the delivery of several new warehouse construction projects in the fourth quarter resulted in an inventory increase of approximately 785,500 square feet, with another 2.7 million square feet still under construction. Of this amount, 2.2 million is being built on a speculative basis.

"In 2017 the market had just under 2,500,000 square feet of positive absorption, which came off the heels of a relatively weak 2016 which had just under 500,000 square feet of positive absorption. The 2018 market fundamentals support the belief of strong velocity heading into 2019," said the report.

The speculative construction pipeline is expected to

deliver 675,000 square feet in the first quarter, just over one million square feet in the second quarter and 600,000 square feet in the third quarter.

"Additional speculative construction projects are expected to be announced in the coming months, which will mean more construction commencing summer 2019. Given the amount of interest currently in the market by larger distributors, it is expected that this new inventory will be absorbed in short order. We are therefore forecasting vacancy to remain in the five per cent to six per cent range through 2019, depending on the amount of absorption seen. If absorption is strong in the first half of the year, vacancy could drop below five per cent which will trigger further construction activity," said Barclay Street.

"The overwhelming majority of new product under construction is large format distribution facilities. Small bay condominium projects are also prominent, with 10 projects currently under construction in the greater Calgary area, representing over 450,000 square feet. Sublease space as a percentage of vacancy remains relatively low at 8.14 per cent of total availability on the market. This is a positive sign indicating companies that have their operations in the city are managing to uphold their facility commitments despite ongoing negative economic headlines. This contrasts sharply with the downtown office market where roughly one-quarter of all vacancy is sublease space."

– Mario Toneguzzi for Calgary's Business