Western INVESTOR
COMMERCIAL REAL ESTATE, FRANCHISES AND BUSINESS OPPORTUNITIES
MAY 2016

Bold bulls brave Calgary's wounded real estate market

COVER | Condo developer, retail REIT forge ahead with giant projects and say this is the time to be investing in Alberta's largest city

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Calgary's condominium sector has taken the hardest hit in a housing market gutted by the plunge in oil prices. Condo sales in the city are down 17 per cent through the first quarter of this year compared with a year ago and average prices have plunged 12 per cent from the 2014 peak to around $290,000. Meanwhile, nearly a fifth of Calgary's downtown office towers have gone dark, condo starts have fallen 60 per cent and residential foreclosures have soared.

Total commercial real estate investments in the city plunged $1.1 billion from 2014 to 2015, according to research by **Barclay Street Real Estate**, which tallied total dollar volume last year at $1.5 billion.

On the residential front, analysts contend Calgary home sales and prices will fall further unless oil prices rally from their current eight-year lows. "We haven't seen the bottom yet," one realtor said.

Yet, from his downtown Vancouver office, **Mohammed Esfahani** confirms he has pre-sold 140 condominiums at his luxury Park Point tower in Calgary in the past year, 10 in the past month, at an average of $610 per square foot.

"We are not afraid," said Esfahani, a partner in **Qualex-Landmark** which broke ground last October on its 34-storey, 289-unit Park Point next to Calgary's Central Memorial Park as its flagship and only project.

He is confident the tower will sell out before it opens in 2018.

"Our buyers are not investors," Esfahani said. "They are looking for homes with quality and a great location, and they are in for the long term."

Park Point is Qualex-Landmark's sixth condo tower in Calgary's Beltline and one of the largest residential projects underway in the city.

When finished, it will have a mix of one-, two-and three-bedroom suites, as well as street-level live-work townhomes. Designed by Vancouver's **IBI Group**, it will also feature a private terrace with water feature, indoor and outdoor social lounges with fireplace, a firepit and barbecue area, a fully equipped fitness facility and steam room, free Wi-Fi and a fully furnished guest suite. The project has already won international design awards.

And it will complete, Esfahani said, even in a city where panicked condo developers have slammed on the brakes. Calgary condo starts are down 60 per cent from the 2014 peak, with about 4,800 units expected to start this year.

"We have always completed everything we have started," Esfahani said.

There has been a bright spot in the storm clouds: prices for both construction labour and material are now lower in Calgary, Esfahani said, due to layoffs and shutdowns in the resource sector. "That has cut our costs a bit."

The Park Point tower will ascend 34 storeys in downtown Calgary.
| QUALEX-LANDMARK

Esfahani said he has great faith in Calgary's recovery, and he believes oil prices will be much higher when Park Point opens.

Then, he said, Qualex-Landmark will begin construction on its second Park Point tower at the same location. "Calgary has a great future," Esfahani said.

Mohammed Esfahani, partner in Vancouver-based Qualex-Landmark: great faith in Calgary.
| ROBERT RYAN

Retail bid

Barclay notes that retail is, perhaps surprisingly, relatively buoyant in Alberta's biggest city, despite the vacancies caused by the exit of **Target** and the shut down of the **Future Shop** stores after a **Best Buy** rebranding.

"That vacant space is highly sought after and quickly backfilled in response to Calgary's high retail spending per capita."

Barclay said retail represented 15 per cent of commercial investment in Calgary in 2015, compared with 14 per cent of a larger pie in 2014.

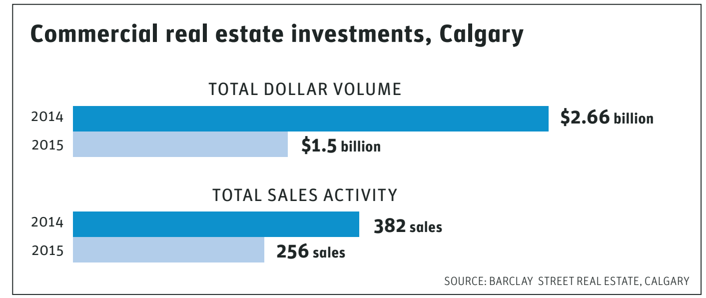
The retail sector demonstrated staying power, maintaining 81 per cent of 2014 investment activity with 43 transactions completed, according to Barclay.

Barclay Street's analysis shows the majority of activity occurring with retail properties priced at less than $5 million dollars, specifically, with properties in the $1 million to $3 million dollar range.

"The investment decrease [from 2014] was not unexpected given the lack of big-ticket properties on the market and the diminished appetite for such on the part of investors," Barclay reported.

But **RioCan Real Estate Investment Trust**, Canada's largest retail landlord, is bullish on both retail and residential in Calgary. And it is backing its confidence with cash.

Last month RioCan started construction on a project that will add 770,000 square feet of shopping and hundreds of condos in downtown Calgary.



The slowdown is why RioCan is moving ahead with the project now, said CEO **Ed Sonshine**.

"We know we're being very bold," Sonshine said from his company's Toronto headquarters. "But retail vacancy hasn't gone up. It doesn't mean it never will, but, at the end of the day, there hasn't been overbuilding in retail."

At the end of last year, Calgary's retail vacancy rate was 2.4 per cent, a record low, according to brokerage **Avison Young**.

RioCan's project in Calgary's downtown East Village has already leased about 60 per cent of the retail space to **Loblaw Cos.** and other tenants.

The amount of retail space under construction in the city has dipped to about 968,000 square feet, less than half what's typically in the pipeline, according to **CBRE Canada**.

The $300 million residential portion of RioCan's project will have about 500 condominium units spread across two towers, built by Vancouver developer **Embassy Bosa Inc.**

Sonshine has faced regional economic challenges before, according to a report in *Property Biz Canada*. In the 1990s, one of RioCan's first purchases was a shopping center in Moncton, New Brunswick. A few months later, the area's primary employer, the **CN** rail yards, closed and relocated, taking 800 jobs with it, Sonshine said. The impact was minimal, with sales at retail stores increasing anyhow because his tenants were providing staples, he said. ■