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Calgary awakens to a 10-million-square-foot office hangover

Small players nibble at bargain-priced office space as exhausted resource giants shove floors of sublease back onto a glutted downtown market

Frank O'Brien Western Investor April 24, 2017



Telus Sky: only 40 per cent of the space is leased in a tower that completes in 2018.

It seemed like a good idea three years ago when oil prices were cresting \$110 per barrel and a pipeline appeared ready to link Asia with Alberta crude: build a record amount of office towers to cash in on Calgary's oil-fired bash.

Well, the party ended hard and now Alberta's biggest city is suffering, with nearly a quarter of its downtown offices – 10 million square feet – empty and more sublease space being pushed onto the Calgary market every month.

There is also 1.4 million square feet of office space under construction downtown that will complete this summer.

Some point to a slow rise in oil prices and other economic signals to suggest this could be the bottom.

After plunging to US\$30.32 per barrel in February 2016, oil prices had recovered to US\$53.40 as of Western Investor press time. Also – and this may be a stretch – the annual tarp auction – where sponsors bid to brand the Calgary Stampede famous chuckwagon races, increased to \$2.4 million this year, up from \$2.3 million in 2016.

The ATB Business Index that measures the confidence of Alberta business owners in their own operations, saw the first-quarter 2017 index reach its highest point since the fourth quarter of 2014, also a positive indicator.

But analysts are hedging their bets.

"There are no forecasts that suggest a quick return to the high-growth environment Calgary has been known for," concluded a sobering first-quarter office market report from Avison Young.

Avison Young pegs the downtown office vacancy rate at 23.9 per cent, with an overall Calgary vacancy rate of 22.5 per cent, both by far the highest of any major Canadian city.

Others say the vacancy rate is even worse when all the sublease space is tallied. Cushman & Wakefield believes total vacancy has already hit 30 per cent.

Avison Young noted there is more than four million square feet of sublease space available. And it appears to be increasing.

In the first three months of 2017, nearly 270,000 square feet of surplus offices were shoved back on the downtown market, including three

floors given up by Repsol Oil & Gas Inc. at Bankers Hall West.

Anthony Scott, director of research at Barclay Street Real Estate, noted there are glimmers of recovery but at "the smallest end of available options." This refers to startup companies leasing downtown offices of 2,000 square feet or less.

This pales, however, beside both the increase in sublease space and the upcoming new office towers. Add it all up and the downtown vacancy rate this year will be around 26.6 per cent, according to Barclay Street research.

Scott explains that an additional 501,000 square feet will come to the market over the next few months, most of it in Manulife's 707 Fifth building.

A further one million square feet floods into the downtown over the next 18 months, which includes more than 450,000 square feet of sublease space in the Bow tower, as well as unclaimed space in Brookfield Place and the Telus Sky tower. Brookfield has about 80 per cent of its 1.4 million square feet pre-leased, while Telus Sky is still looking to fill 60 per cent of its 460,000 square feet by the time it opens late in 2018.



Brookfield Place's 1.4 million-square-foot office tower opens this summer in downtown Calgary. It is nearly 80 per cent pre-leased.

Things are looking a bit better in the Beltline, where 18.1 per cent of the office space is vacant, down marginally from the fourth quarter of last year. However, more than a fifth of the Class A Beltline offices are empty.

Beltline tenants are feeling the love with "generous inducements such as free rent, furnished space and improvement allowances," Scott noted.

Such perks will continue, Barclay forecasts, "until demand begins to erode the large inventory of available space."

Calgary's suburban office sector is divided into bad and worse. Worse is the southern suburbs, where more than a quarter of the office space is vacant, almost three million square feet. As of the first quarter, Avison Young counted 14 buildings that had at least 50,000 square feet empty.

The northern suburbs saw the vacancy rate increase to 19 per cent in the first quarter, from 18.3 per cent a year earlier. In the first three months of this year, office absorption went negative by 322,000 square feet.

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