Calgary office space demand to hit outside the core

Beltline and suburban markets to reap benefits of low downtown vacancy

BY MARIO TONEGUZZI, CALGARY HERALD FEBRUARY 15, 2012 3:11 PM

Dan Harmsen, vice-president and associate broker with Barclay Street Real Estate Ltd. in Calgary.
Photograph by: Gavin Young, Calgary Herald

CALGARY — Robust demand has led to tight vacancies and rising costs in the downtown office market with many potential tenants starting to explore space in the outlying Beltline and suburban areas, says a report by Barclay Street Real Estate Ltd.

“These two markets have historically provided tenants with advantages such as higher parking ratios, better access and egress, as well as lower overall costs,” said Dan Harmsen, vice-president and associate broker with Barclay Street.

“The tight vacancies in all markets has translated into the start of a new development cycle in the Beltline and suburban markets as well as the announcement of several new projects in the downtown core.”

The Barclay Street office market review for the fourth quarter of 2011 said the downtown vacancy rate plunged from 11.2 per cent in 2010 to just 4.0 per cent at the end of 2011 and many analysts consider this to be effectively full occupancy.

“The flight to quality by tenants in the past two years has perpetuated a decrease in class AA vacancy to a mere 1.0 per cent from 14.3 per cent eight quarters ago,” said the report.

Total downtown absorption — the change in occupied space — was a positive 2.6 million square feet in 2011, which was well above the historical average of 486,000 square feet annually.

“Due to the current supply crunch in the downtown market, we anticipate that many downtown tenants will start to migrate to the Beltline in search of office space, given its close proximity,” said Harmsen.

Chris and Danielle Lennon, of the real estate holding and development company the Lennon Group of Companies, found about 1,500 square feet of office space in the Beltline in January. One of its projects is Deere Park Developments which is a recreational and residential development at Gull Lake in central Alberta.

“We were officing out of a showhome (in Gull Lake) and we moved to the Beltline . . . We needed to be close to our market,” said Chris Lennon. “We were attracted to the Beltline because of the neighbourhood amenities that enable us to attract and retain enthusiastic employees or high-quality employees.

“The affordability is another huge issue. Parking and access was another big issue.”

Susan Thompson, business development manager of real estate for Calgary Economic Development, said the move to Beltline and suburban markets is a “fairly normal pattern when we see a declining vacancy rate” in the downtown.

“Demand is quite strong,” she said, adding that a low vacancy rate will put pressure on lease rates.

“And if a company is budget conscious, it may look outside the core.”

Thompson said more than half the square footage of office space that is currently vacant is located outside the downtown core.

Beltline vacancy decreased from 9.6 per cent in the third quarter of 2011 to 8.1 per cent in the fourth quarter, said Barclay Street. Currently only one building is under construction in the area. Hanson Square will add close to 42,000 square feet of office inventory and is slated for occupancy in 2012. But a few other projects are proposed.

Barclay Street said another solution to the downtown space crunch is the suburban office market as it could deliver up to 700,000 square feet of new space this year. Suburban vacancy dropped to 9.3 per cent in the fourth quarter of 2011 from 17 per cent in 2009.

Harmsen said current lease rates for Class A space are typically $32-36 per square foot in the downtown office market; $26-28 in the Beltline; and $22-28 in the suburban market.

Overall, he said, lease rates are about 10 per cent off from the peak in 2007.

But the market is changing so quickly.

“Due to recent absorption, we anticipate a significant reduction in vacancy and as a result continued increases in lease rates for the foreseeable future,” he said.

mtoneguzzi@calgaryherald.com