

# Calgary



## Quick Stats

**22.3%**

Calgary Overall Vacancy

**24.6%**

Downtown Vacancy

**22.2%**

Beltline Vacancy

**17.4%**

Suburban North Vacancy

**17.6%**

Suburban South Vacancy

The overall office vacancy for Calgary has been trending downwards for the last 18 months. Peak vacancy was recorded in second-quarter 2018 at 23.5%, and is over a full percentage point lower today at 22.3% in third-quarter 2019. While the vacancy rate has not seen a steady decline quarter-over-quarter, any increase in vacancy has been seen as a temporary setback and the path to recovery is expected to remain bumpy.

As Calgary remains trapped in the doldrums of a flat local economy, there are a number of key market influence factors being watched for signs of change. Overall business confidence appears to be stuck in neutral at this time, waiting on the oil and gas sector to help create some positive momentum. Economic growth has slowed as well. ATB Financial is forecasting 0.8% real GDP growth for Alberta in 2019 and 2.0% in 2020 in their September 10, 2019 – Alberta Economic Outlook.

The political landscape is also swaying attitudes about Alberta’s future. Pipelines

are crucial for Alberta’s development and return to strong positive growth, but uncertainty remains around current, proposed projects. At the same time, the tech sector – both oil and gas related and emerging technology – are also expected to play a key role in Alberta’s future economy. Programs such as the Alberta Petrochemical Diversification Program, the Opportunity Calgary Investment Fund, and growth of STEM (science, technology, engineering, and math) post-secondary education programs are all going to factor into Alberta’s evolution and growth. Whatever the future brings for Calgary, adaptation and transformation of our key industries and economic drivers is expected before growth will return.

The current outlook for Calgary’s office market is seen to be flat, with the outcome of the upcoming Federal Election potentially holding the key for future demand drivers. Until business confidence starts to return, economic growth and leasing activity in Calgary will remain lethargic.

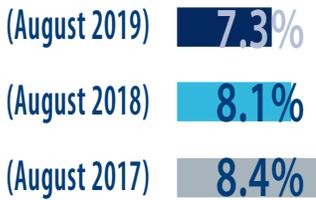


	INVENTORY (SF)	HEADLEASE VACANCY RATE	SUBLEASE VACANCY RATE	TOTAL VACANCY RATE	ABSORPTION FOR QUARTER (SF)	UNDER CONSTRUCTION (SF)	AVERAGE ASKING NET RENTAL RATES (\$/SF/ANNUM)	AVERAGE TAXES & OPERATING COSTS (\$/SF/ANNUM)
<b>Downtown</b>	<b>46,450,206</b>	<b>17.8%</b>	<b>6.8%</b>	<b>24.6%</b>	<b>-107,809</b>	<b>0</b>	<b>\$4 - \$32</b>	<b>\$19.72</b>
Class AA	15,387,381	7.3%	10.7%	18.0%	-149,746	0	\$22 - \$32	\$23.02
Class A	18,583,335	18.2%	7.2%	25.4%	12,631	0	\$13 - \$17	\$18.86
Class B	10,413,962	31.8%	1.7%	33.5%	21,522	0	\$8 - \$12	\$16.75
Class C	2,065,528	22.2%	0.8%	23.0%	7,784	0	\$4 - \$7	\$15.64
<b>Beltline</b>	<b>8,456,830</b>	<b>15.1%</b>	<b>7.1%</b>	<b>22.2%</b>	<b>-196,541</b>	<b>0</b>	<b>\$5 - \$24</b>	<b>\$17.77</b>
Class A	3,232,700	10.9%	14.5%	25.3%	-199,868	0	\$16 - \$24	\$18.67
Class B	3,645,229	17.1%	3.5%	20.6%	6,534	0	\$12 - \$16	\$17.18
Class C	1,578,901	19.3%	0.3%	19.5%	-3,207	0	\$5 - \$12	\$15.84
<b>Suburban North</b>	<b>10,149,858</b>	<b>16.2%</b>	<b>1.2%</b>	<b>17.4%</b>	<b>-17,656</b>	<b>0</b>	<b>\$6 - \$26</b>	<b>\$14.87</b>
Class A	5,788,044	16.3%	1.4%	17.7%	20,503	0	\$16 - \$26	\$15.76
Class B	2,848,124	11.4%	1.2%	12.6%	1,351	0	\$9 - \$15	\$14.36
Class C	1,513,690	24.7%	0.5%	25.2%	-39,510	0	\$6 - \$12	\$12.37
<b>Suburban South</b>	<b>12,189,647</b>	<b>13.9%</b>	<b>3.6%</b>	<b>17.6%</b>	<b>65,563</b>	<b>218,143</b>	<b>\$6 - \$29</b>	<b>\$15.12</b>
Class A	9,195,725	14.2%	4.2%	18.4%	55,317	218,143	\$15 - \$29	\$15.37
Class B	2,002,044	14.0%	2.9%	16.9%	6,058	0	\$10 - \$15	\$14.47
Class C	991,878	11.1%	0.0%	11.1%	4,188	0	\$6 - \$12	\$13.63
<b>Calgary Total</b>	<b>77,246,541</b>	<b>16.7%</b>	<b>5.6%</b>	<b>22.3%</b>	<b>-256,443</b>	<b>218,143</b>	<b>\$4 - \$32</b>	<b>\$17.11</b>

\*No new supply was added in third-quarter 2019

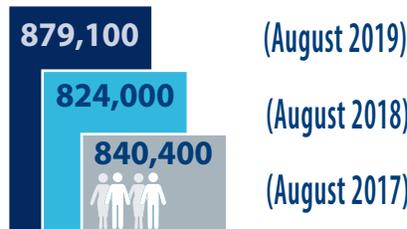


### UNEMPLOYMENT RATE

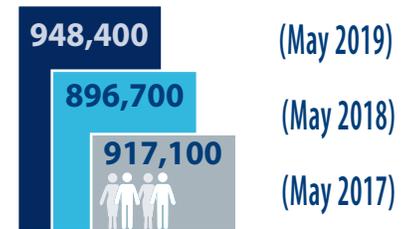


Source: Statistics Canada

### EMPLOYMENT (PEOPLE)



### LABOUR FORCE (PEOPLE 15 +)



### WTI SPOT PRICE (\$US/BARREL)



Source: U.S. Energy Information Administration, Bloomberg

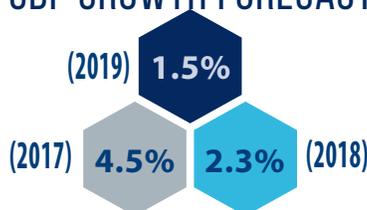
### WCS SPOT PRICE (\$US/BARREL)



### DIFFERENTIAL (\$US/BARREL)



### GDP GROWTH FORECAST

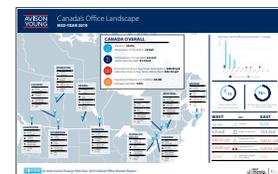


Source: Conference Board of Canada, Bank of Canada, Wikipedia

### CANADA-US EXCHANGE RATE

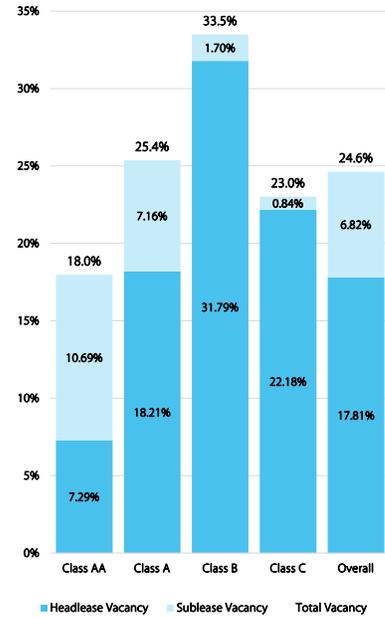


### CANADA'S OFFICE LANDSCAPE



Canada's Office Landscape Mid-Year 2019: [Click HERE to view](#)

### Downtown Calgary Office Vacancy Rates



### Downtown Calgary Office Vacancy Rate

Calgary's Downtown office vacancy increased again. As of third-quarter 2019 the Calgary Downtown office vacancy rate is 24.6%. This is up from 24.4% in second-quarter 2019, but down from the peak vacancy for this downturn of 26.4% in first-quarter 2017.



### Downtown Calgary Office Absorption

Absorption in the Downtown office market for third-quarter 2019 was negative (-108,000 sf). This return to negative absorption follows four consecutive quarters of positive absorption for the Downtown Calgary, leaving 2019 year-to-date absorption as positive 446,000 sf.



### Downtown Calgary Vacant Space

Total vacancy for the Downtown office market is 11.4 msf: 8.3 msf of headlease (72%) and 3.2 msf of sublease (28%). Almost half of the sublease space currently on the market is set to expire in the next five years.

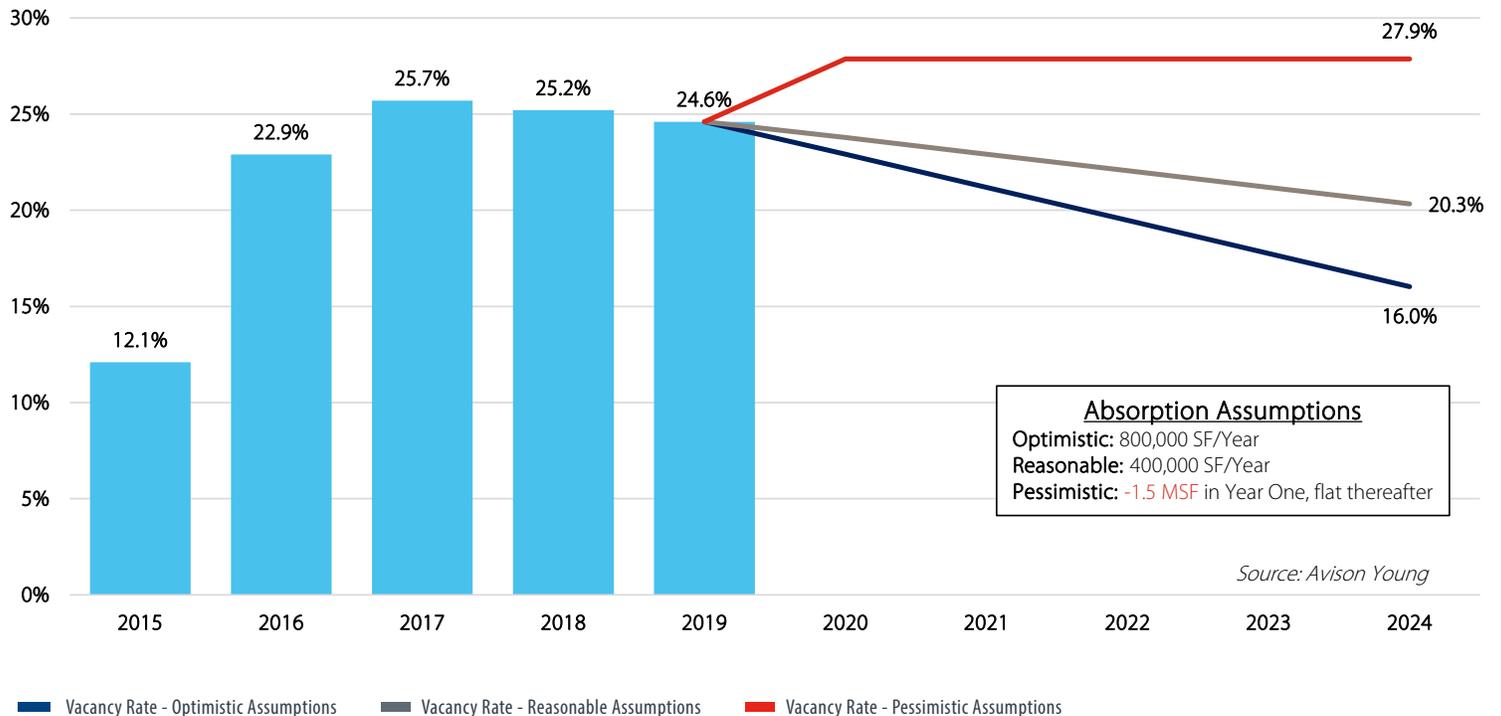


### Downtown Calgary Large Availabilities

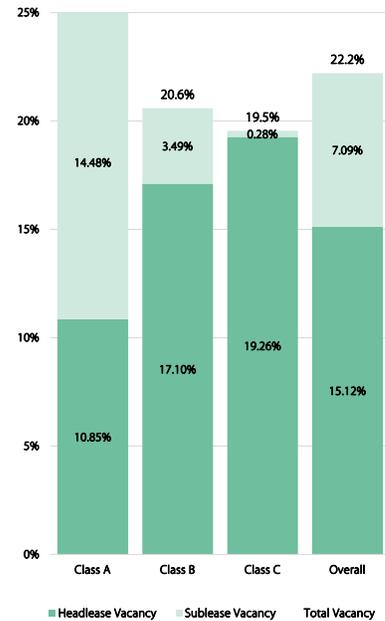
There are 13 availabilities in Downtown Calgary with over 100,000 sf as one contiguous block. These blocks of space represent 28% of the total availability in the Downtown market with 63% of this space available on a sublease basis.

### Downtown Calgary Projected Vacancy

(Third Quarter Figures)



### Beltline Calgary Office Vacancy Rates



#### Beltline Office Vacancy Rate

The vacancy rate in the Beltline office market increased again in third-quarter 2019 to sit at 22.2%, up from 20.0% in second-quarter 2019. Vacancy in this submarket has been increasing over the last three consecutive quarters.



#### Beltline Office Absorption

Absorption in the Beltline office market for third-quarter 2019 was negative (-197,000 sf). However, the Beltline office market's 5-year and 10-year average annual absorption are positive 140,000 sf per year.



#### Beltline New Office Listing

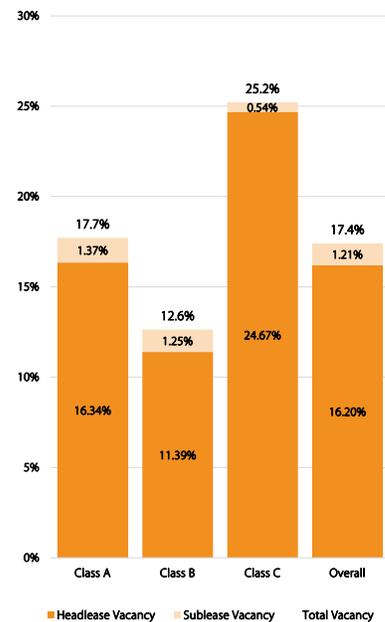
A single new sublease listing is responsible for increasing the vacancy rate by over two percentage points for the Beltline office submarket in third-quarter 2019: TransAlta's former space in its namesake building totaling 190,000 sf.



#### Beltline Large Availabilities

There are eight availabilities in Beltline Calgary with over 30,000 sf available contiguously. These eight blocks of space represent 31% of the total availability of space in the Beltline market and 37% of this space is available on a headlease basis.

### Suburban North Office Vacancy Rates



#### Suburban North Office Vacancy Rate

Vacancy has been relatively consistent in the Suburban North office market for two years having moved within a 70-basis-point range. The vacancy rate as of third-quarter 2019 is 17.4%, while the quadrants are 18.1% for the Suburban Northeast and 15.4% for the Suburban Northwest.



#### Suburban North Office Absorption

Absorption in the Suburban North office market for third-quarter 2019 was negative (-18,000 sf). The Suburban North office market's 5-year average annual absorption is 24,000 sf per year.



#### Suburban North Occupancy Costs

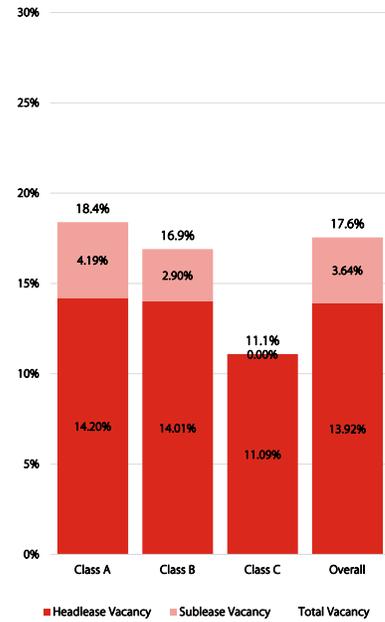
Attractive rental rates and inducements can allow tenants to move into better quality buildings or look at early renewals that offer to blend and extend their rates. Either option can result in keeping a tenant's cost structure stabilized or seeing significant cost reduction.



#### Suburban North Large Availabilities

There are ten available options for contiguous blocks of office space over 30,000 sf in Suburban North Calgary. These blocks represent 41% of the total availability in the Suburban North office market and 94% of this space is available on a headlease basis.

### Suburban South Office Vacancy Rates



### Suburban South Office Vacancy Rate

The Suburban South office submarket was the only submarket in Calgary to see its vacancy decrease in third-quarter 2019. The vacancy rate is now 17.6%, down from 18.1% in second-quarter 2019, while vacancy for the Suburban Southeast is 19.0%, and 14.2% for the Suburban Southwest.



### Suburban South Office Absorption

Absorption in the Suburban South office market for third-quarter 2019 was positive 66,000 sf - the fifth consecutive quarter of positive absorption for this area of the market. The Suburban South office market's 5-year average annual absorption is 232,000 sf per year.



### Suburban South Large Availabilities

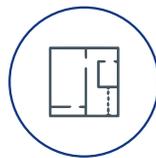
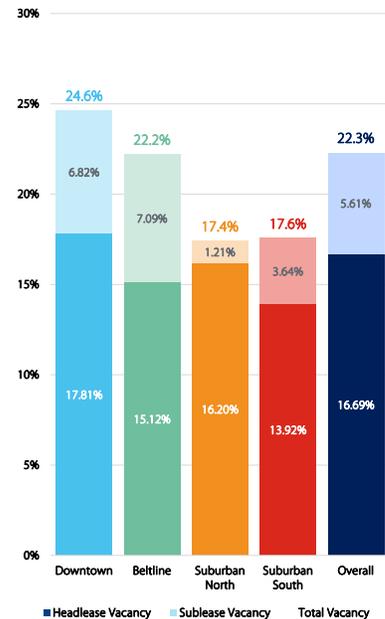
There are 13 contiguous availabilities in Suburban South Calgary over 30,000 sf. These 13 blocks of space represent 53% of the total availability in the Suburban South office market and 72% is available on a headlease basis.



### Suburban South Construction + New Supply

Four office buildings are currently under construction in Suburban South Calgary: Meadows Mile Professional Centre, Poplar Centre, Spider Block, and the PBS Systems Building. These buildings contain 218,000 sf, and are currently 84% pre-leased altogether.

### Overall Calgary Office Vacancy Rates



### Overall Calgary Office Vacancy

For the second time in the last 18 months Calgary's overall office vacancy rate increased. Third-quarter 2019 vacancy increased to 22.3% from 22.0% in second-quarter 2019 - still below the peak vacancy of 23.5% recorded in second-quarter 2018.



### Overall Calgary Office Absorption

While approximately 500,000 sf of new sublease space was brought to market in third-quarter 2019, the resulting net negative absorption for the quarter was roughly 256,000 sf, indicating that strong leasing activity was taking place at the same time.



### Overall Calgary Occupancy Costs

Average asking rents are stable. Meanwhile, assessments have decreased in the Downtown office market over the course of the downturn, while the majority of the suburban office market has seen increases, resulting in corresponding changes to quoted taxes and operating costs.



### Overall Calgary Construction + New Supply

No new office inventory was added in third-quarter 2019. All remaining construction of new office space is located in the Suburban South office submarket, which is expected to come onstream over the next 18 months.

## Calgary Q3 2019 New Listings

Location	Building Name	Address	Size (sf)	Deal Type
Downtown	Devon Tower	400 - 3rd Avenue SW	293,000	Sublease
Beltline	Transalta Place	110 - 12th Avenue SW	190,000	Sublease
Suburban South	Cardel Theatre	180 Quarry Park Boulevard SE	104,000	Headlease

## Calgary Q3 2019 Office Construction Summary

Suburban South Under Construction					
Building Name	Address	Office Area (sf)	Expected Completion	% Leased / Pre-Leased	
Meadows Mile Professional Centre 1 & 2	8500 Blackfoot Trail SE	44,800	Q4 2019	75%	
PBS Systems Building	4041 - 128th Avenue SE	80,000	Q4 2020	100%	
Poplar Centre	5512 Macleod Trail SW	69,000	Q1 2020	65%	
Spider Block	3001 - 14th Street SW	30,800	Q4 2019	100%	



## Calgary Office Market Outlook

<p><b>Activity</b></p> <p>Dominated by smaller tenants (under 10,000 sf)</p>	<p><b>Rental Rates</b></p> <p>How low can they go?</p>	<p><b>Inducements</b></p> <p>Lucrative Aggressive</p>	<p><b>Vacancy</b></p> <p>Slow, gradual decrease. 10+ years to reach a balanced market again</p>	<p><b>Absorption</b></p>
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