

Calgary



Quick Stats

22.2%

Calgary Overall Vacancy

24.7%

Downtown Vacancy

21.4%

Beltline Vacancy

18.8%

Suburban North Vacancy

16.4%

Suburban South Vacancy

Like the rest of the world, Calgary is looking to figure out the impacts of the coronavirus pandemic. Unlike most other markets, however, Calgary was already mired in a multi-year economic slump due to challenges in the energy sector. Overall office vacancy for the city has been above 20% since mid-2016. The unemployment rate has stubbornly remained above the national average. Oil prices have remained low, a key factor to Calgary's dominant industry – 73% of Calgary's head office tenants are energy related according to a recent Calgary Economic Development survey. Recently, rail disruptions by special interest groups interrupted the delivery of crude and a price war on oil created by Saudi Arabia and Russia increased supply and dropped prices to levels that could never have been predicted. It has been a turbulent first quarter and there is a lot of uncertainty.

How many businesses survive this time of shutdown? How will tenants use their space when they return to their offices? What will the impact to vacancy and occupancy costs be? What type of market will there be for office lease transactions? How will landlords approach deals when tenant financial

covenants will be stretched due to revenue streams that have dropped due to the pandemic? What will Calgary's commercial real estate industry look like in a year's time, because change is upon us?

It is unlikely we will see much impact from the Covid Pandemic on the office market until the third quarter of 2020. Calgary's unemployment rate increased to 8.6% in March 2020, up from 7.4% just one month prior. How high it will reach is anyone's guess, but the reporting we have so far is just the tip of the iceberg.

The good news is landlords and building owners are already making changes to their buildings to keep their tenants safe, preparing for the eventual return-to-office timeframe. Cleaning and sanitation schedules will be increased. HVAC systems will be modified or improved. Population densities in common areas such as lobbies and elevators will be regulated. Changes to office layouts will be made to accommodate social distancing. In a very short period of time, the experience of going to an office will be much different for the foreseeable future.



	INVENTORY (SF)	HEADLEASE VACANCY RATE	SUBLEASE VACANCY RATE	TOTAL VACANCY RATE	ABSORPTION FOR QUARTER (SF)	NEW SUPPLY (SF)	UNDER CONSTRUCTION (SF)	AVERAGE ASKING NET RENTAL RATES (\$/SF/ANNUM)	AVERAGE TAXES & OPERATING COSTS (\$/SF/ANNUM)
Downtown	46,303,719	19.0%	5.6%	24.7%	-224,881	0	0	\$4 - \$32	\$19.63
Class AA	15,387,381	7.0%	9.8%	16.8%	44,966	0	0	\$22 - \$32	\$22.80
Class A	18,583,335	21.1%	4.9%	26.0%	-124,117	0	0	\$13 - \$17	\$18.70
Class B	10,422,313	32.3%	1.7%	34.0%	-154,953	0	0	\$8 - \$12	\$16.62
Class C	1,910,690	24.0%	0.3%	24.3%	9,223	0	0	\$4 - \$7	\$15.92
Beltline	8,214,106	15.4%	6.0%	21.4%	51,126	0	0	\$5 - \$24	\$17.69
Class A	3,226,221	12.5%	11.4%	23.9%	4,040	0	0	\$16 - \$24	\$18.99
Class B	3,430,180	17.3%	3.4%	20.8%	55,053	0	0	\$12 - \$16	\$17.07
Class C	1,557,705	17.2%	0.4%	17.6%	-7,967	0	0	\$5 - \$12	\$16.12
Suburban North	10,173,955	16.7%	2.1%	18.8%	-173,785	0	39,505	\$6 - \$26	\$14.51
Class A	5,788,044	16.4%	3.0%	19.4%	-142,560	0	39,505	\$16 - \$26	\$15.18
Class B	2,872,221	10.4%	1.2%	11.6%	46,576	0	0	\$9 - \$15	\$14.40
Class C	1,513,690	30.1%	0.1%	30.2%	-77,801	0	0	\$6 - \$10	\$12.16
Suburban South	12,343,206	13.1%	3.3%	16.4%	223,884	0	173,316	\$6 - \$29	\$14.85
Class A	9,369,284	13.3%	3.7%	17.0%	174,847	0	173,316	\$15 - \$29	\$15.14
Class B	1,982,044	14.5%	3.0%	17.5%	42,942	0	0	\$10 - \$15	\$14.65
Class C	991,878	8.0%	0.0%	8.0%	6,095	0	0	\$6 - \$10	\$12.64
Calgary Total	77,034,986	17.4%	4.8%	22.2%	-123,656	0	212,821	\$4 - \$32	\$16.83

Market At a Glance



UNEMPLOYMENT RATE

8.6 % March 2020
7.5 % March 2019
7.6 % March 2018

EMPLOYMENT (PEOPLE)

835,100 March 2020
842,600 March 2019
832,500 March 2018

LABOUR FORCE

914,100 March 2020
927,900 March 2019
916,000 March 2018

Source: Statistics Canada

AB GDP GROWTH FORECAST

-1.1%* 2020F
0.4% 2019
2.3% 2018

*Forecast was issued on March 18, 2020

CANADA-US EXCHANGE RATE

\$ 0.7049 March 31, 2020
\$ 0.7483 March 29, 2019
\$ 0.7756 March 29, 2018

Source: TD Economics, Bank of Canada



WTI SPOT PRICE

\$ 20.51 March 31, 2020
\$ 60.19 March 29, 2019
\$ 64.87 March 29, 2018

WCS SPOT PRICE

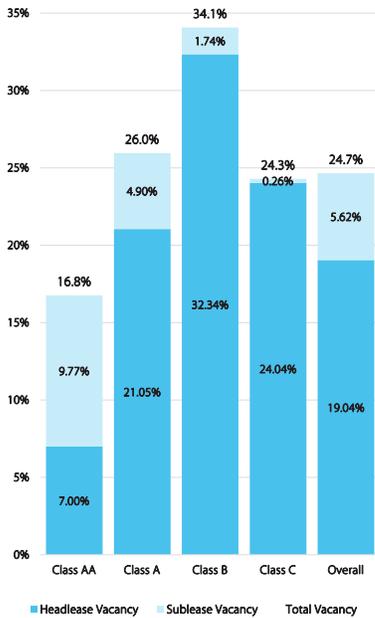
\$ 5.08 March 31, 2020
\$ 49.84 March 29, 2019
\$ 38.44 March 29, 2018

DIFFERENTIAL

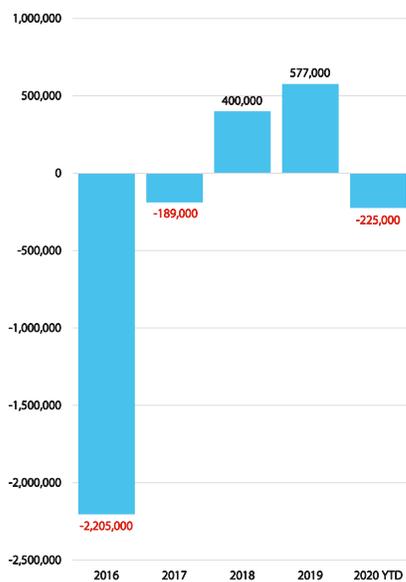
\$ 15.43 March 31, 2020
\$ 10.35 March 29, 2019
\$ 26.43 March 29, 2018

Source: U.S. Energy Information Administration, Bloomberg

Downtown Calgary Office Vacancy Rates



Downtown Calgary Annual Office Absorption



Downtown Calgary Office Vacancy Rate

Calgary's Downtown office vacancy increased once again to 24.7% in first-quarter 2020. This is up from 24.2% in fourth-quarter 2019, but down from 25.3% in first-quarter 2019, and still below the peak vacancy for this downturn of 26.4% in second-quarter 2017.



Downtown Calgary Office Absorption

First-quarter 2020 saw negative absorption of - 233,000 sf. The positive trend over the last two years appears to have come to an end. The cumulative net absorption for the last 12 months is 316,000 sf. The 5-year average annual absorption for office space in Downtown Calgary is -897,000 sf/year and the 10-year is -42,000 sf/year.



Downtown Calgary Vacant Space

As sublease space continues to reach their expiration dates, the share of headlease space on the market continues to increase. Total vacancy for the Downtown office market is 11.4 msf: 8.8 msf of headlease (77%) and 2.6 msf of sublease (23%). Sublease space reached a peak share of market availability in first-quarter 2016 with 4.1 msf out of 10.5 msf of total availability (44%). We do, however, anticipate these sublease numbers will increase significantly as the year progresses and tenants right size to fit their new covid requirements.



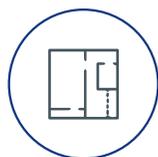
Downtown Calgary Inventory

Teck Place (205 – 9th Avenue SE) has been purchased and is being re-positioned out of office space. As such, we have removed this building from the office inventory.



Downtown Calgary Empty Buildings

Out of 169 office building currently tracked in Downtown Calgary, there are only five completely empty office buildings, Loughheed Building, Eau Claire Place I, 909 – 5th Avenue SW, the former Calgary Chamber of Commerce, which is conditionally leased, and Nexen Tower. The latter is by far the largest of these at 601,000 sf, an unusual case even with Calgary's record-high vacancy. There are an additional four properties that have greater than 75% vacancy.

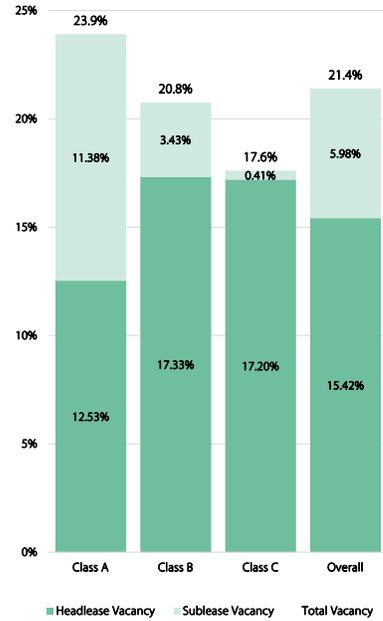


Downtown Calgary Large Availabilities

There are 14 availabilities in Downtown Calgary with over 100,000 sf as one contiguous block. These blocks of space represent 25% of the total availability in the Downtown market with 68% of this space available on a headlease basis.



Beltline Calgary Office Vacancy Rates



Beltline Office Vacancy Rate

The vacancy rate in the Beltline office market decreased for a second consecutive quarter to sit at 21.4%, down from 21.8% in fourth-quarter 2019, but up from 19.5% in first-quarter 2019. This is the first time there has been two consecutive quarters of positive absorption in the Beltline office market since the first quarter of 2015.



Beltline Office Absorption

Absorption for first-quarter 2020 was positive 51,000 sf in Calgary's Beltline office market. However net absorption for the last 12 months remains negative, with a cumulative change of -117,000 sf.



Beltline Office Inventory

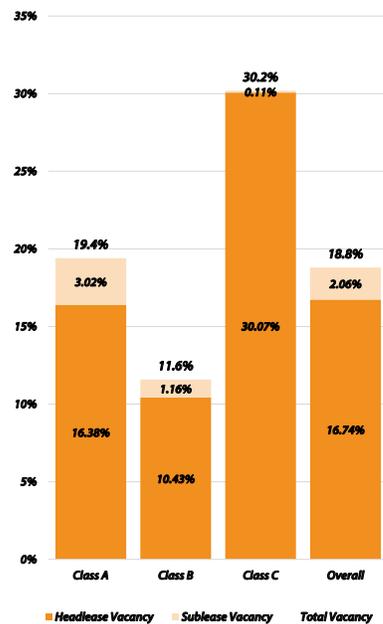
Another office building was removed from the Beltline office inventory due to redevelopment plans. Alberta Place (1520 – 4th Street SW) has been removed from the office inventory as the property owner, Grosvenor, is planning a future residential project for the site.



Beltline Large Availabilities

There are eight availabilities in Beltline Calgary with over 30,000 sf available contiguously. These eight blocks of space represent 32% of the total availability of space in the Beltline market, 34% of this space is available on a headlease basis.

Suburban North Office Vacancy Rates



Suburban North Office Vacancy Rate

Vacancy in the Suburban North office market saw a noticeable increase in first quarter 2020 due to two new listings becoming available: SMART Technology's Building (3636 Research Road NW) and the 3030 Building (3030 – 2nd Avenue). The vacancy rate as of first-quarter 2020 is 18.8%, up from 17.7% in fourth-quarter 2019. Meanwhile vacancy in the quadrants are 19.4% for the NE and 17.1% for the NW.



Suburban North Office Absorption

Absorption in the Suburban North office market was negative once again in first-quarter 2020, recording -174,000 sf of absorption for the quarter, and bringing the 12-month cumulative net absorption to -180,000 sf for the area.



Suburban North Inventory

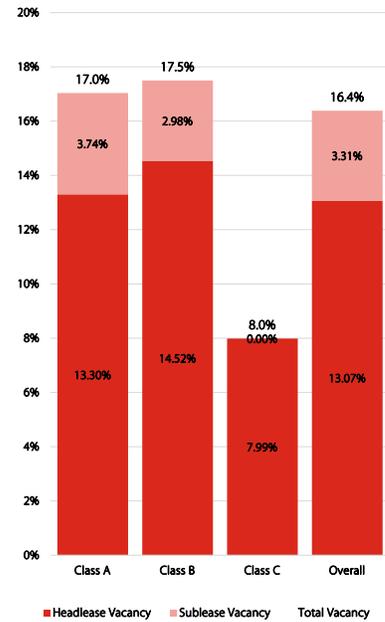
HUB Calgary is a mixed-use student-resident focused building under construction in the Suburban Northwest and will contain 40,000 sf of podium office space. There is no pre-leasing in place for the office component of this project.



Suburban North Large Availabilities

There are 10 available options for contiguous blocks of office space over 30,000 sf in Suburban North Calgary. These blocks represent 52% of the total availability in the Suburban North office market and 68% of this space is available on a headlease basis.

Suburban South Office Vacancy Rates



Suburban South Office Vacancy Rate

The Suburban South office submarket had the best quarter of the four office submarkets in Calgary in first-quarter 2020. The vacancy rate decreased to 16.4%, down from 17.8% in fourth-quarter 2019, while vacancy for the Suburban Southeast is 16.3%, and 16.5% for the Suburban Southwest.



Suburban South Office Absorption

Absorption in the Suburban South office market for first-quarter 2020 was 224,000 sf - the seventh consecutive quarter of positive absorption for this area of the market. Cumulative net absorption for the last 12 months was 398,000 sf in the Suburban South office market.



Suburban South Inventory

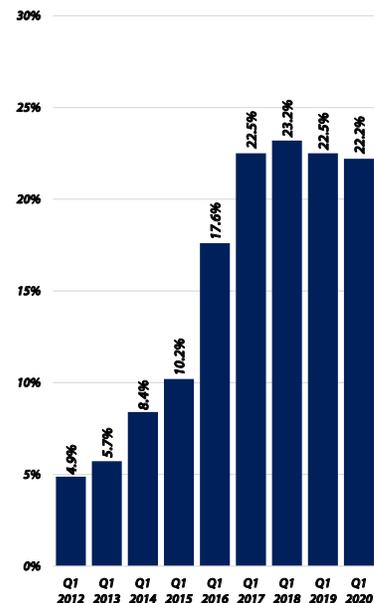
Poplar Centre, the PBS Systems Building, and Bow45 remain under construction for the Suburban South office market of Calgary. These three buildings contain a total of 173,000 sf, and are currently 68% pre-leased altogether.



Suburban South Large Availabilities

There are 14 contiguous availabilities in Suburban South Calgary over 30,000 sf. These 14 blocks of space represent 46% of the total availability in the Suburban South office market and 68% is available on a headlease basis.

Calgary Overall Office Vacancy Rate (First Quarter Comparison)



Overall Calgary Office Vacancy

Calgary's overall office vacancy rate had been trending downwards over the last 18 months, however that has likely come to an end for the time being. First-quarter 2020 saw vacancy increase to 22.2% from 22% in fourth-quarter 2019.



Overall Calgary Office Absorption

The overall absorption in Calgary's office market in first-quarter 2020 was negative, with 124,000 square feet of occupancy lost during the quarter. Net absorption for the last 12 months across Calgary's entire office market is positive 426,000 sf.



Overall Calgary Occupancy Costs

Average asking rents and taxes and operating costs remained stable in first-quarter 2020.



Overall Calgary Looking Forward

It is unlikely that much of the COVID-19 pandemic impact on office vacancy in Calgary will be seen until at least third quarter 2020. Activity in Calgary's office market was already slow prior to the market shutdown and work-from-home requirements went into place. As a result, there is very little activity taking place in the office market at this time.

Calgary Q1 2020 Office Construction Summary

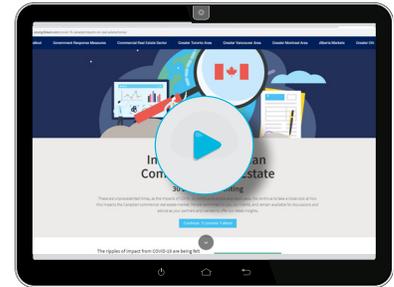
Suburban - Under Construction

Building Name	Address	Office Area (sf)	Expected Completion	% Leased / Pre-Leased
Poplar Centre	5512 Macleod Trail SW	69,000	Q3 2020	54%
HUB Calgary	2416 - 16th Avenue NW	40,000	Q3 2020	0%
PBS Systems Building	4041 - 128th Avenue SE	80,000	Q4 2020	100%
Bow45	4620 Bow Trail SW	24,000	Q3 2021	0%

Avison Young COVID-19 Resource Centre

The spread of COVID-19 and the containment policies being introduced are changing rapidly. While information in this report is current as of the date written, the views expressed herein are subject to change and may not reflect the most recent opinion of Avison Young. Like all of you, Avison Young relies on government and related sources for information on the COVID-19 outbreak. Avison Young's COVID-19 Resource Centre includes links to some of these sources, which provide regularly updated information on the COVID-19 outbreak. The content provided herein is not intended as investment, tax, financial or legal advice and should not be relied on as such.

Keep up to date with the latest insights on the impact of COVID-19 on Canadian commercial real estate markets.



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