

Calgary



22.5%
Calgary Overall
Vacancy

25.0%
Downtown
Vacancy

22.4%
Beltline
Vacancy

18.1%
Suburban North
Vacancy

16.8%
Suburban South
Vacancy

A lot remains unknown about the office leasing market under the COVID-19 new reality.

Most companies put decisions regarding their office space requirements on hold for 60-90 days when the pandemic shutdown started. While this initial decision-freeze period is coming to an end, many companies are choosing to continue to delay decisions because of continued business shutdowns, staff health and safety concerns about returning to the workplace, and the traditionally slow summer months. Deals being done today are because of necessity, either due to an imminent lease expiration or a relocation required for operational requirements.

Calgary's office market has seen significant downsizing and cost cutting because of the local economic downturn over the last four years. The past three months layered on new challenges for Calgary's business community which will impact demand for office space moving forward. Landlords, more than ever,

will be assessing their buildings and determining strategies to allow them to compete in this challenged marketplace.

Given the slowness over the past 3-4 months in transactional activity, it is anticipated that this fall will see more activity in the Calgary office leasing market, barring further lockdown situations. Most landlords have full building COVID-19 safety protocols in place and corporate return to workplace policies will have been developed. Avison Young has created an effective "Returning to the Workplace Amidst COVID-19" strategy guide, which can be tailored to suit individual companies' requirements.

However, the net change to Calgary's office vacancy is difficult to project. Discussions with a range of tenants have yielded a variety of strategies and talking points. There will be companies that experience layoffs and need to downsize, or worse, close altogether. Some companies have indicated that the sudden transition to work-from-

home has gone so well, they will be moving to this model permanently for portions of their business. On the other hand, there are also companies who are indicating that safe physical distancing for their employees will be their priority, and as such, they will require more office space due to new layouts for their space to ensure peace of mind for their staff. There have also been indications that suburban space, with its lower density of buildings and people, as well as low-rise space with less reliance on elevator access, may become more desirable. Overall, organizations are giving more consideration to different variables around their office requirements than ever before.

Starting in September, the following 12-24 months will likely see unpredictable negative absorption in Calgary's office market; an unnerving prospect. Businesses that have requirements for space coming up will have a wide array of choices and a market full of landlords eager to work with them in putting deals together.



	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	19.1%	5.9%	25.0%	-166,451	0	0	\$4 - \$30	\$19.18
Class AA	15,387,381	6.6%	10.2%	16.8%	-11,481	0	0	\$20 - \$30	\$22.02
Class A	18,583,335	21.6%	5.4%	27.0%	-187,010	0	0	\$13 - \$17	\$18.30
Class B	10,422,313	32.3%	1.4%	33.8%	26,312	0	0	\$8 - \$12	\$16.57
Class C	1,910,690	23.7%	0.3%	24.0%	5,728	0	0	\$4 - \$7	\$15.90
Beltline	8,214,106	16.7%	5.7%	22.4%	-82,289	0	0	\$5 - \$24	\$17.53
Class A	3,226,221	14.8%	10.1%	24.9%	-32,444	0	0	\$16 - \$24	\$18.78
Class B	3,430,180	18.6%	3.9%	22.6%	-61,603	0	0	\$12 - \$16	\$16.88
Class C	1,557,705	16.4%	0.4%	16.9%	11,758	0	0	\$5 - \$12	\$16.08
Suburban North	10,169,193	16.3%	1.8%	18.1%	62,043	0	39,505	\$6 - \$26	\$14.42
Class A	5,788,044	16.2%	2.8%	18.9%	26,968	0	39,505	\$16 - \$26	\$15.18
Class B	2,872,221	8.3%	0.7%	9.0%	74,029	0	0	\$9 - \$15	\$14.16
Class C	1,508,928	32.2%	0.4%	32.5%	-38,954	0	0	\$6 - \$10	\$12.36
Suburban South	12,343,206	13.7%	3.1%	16.8%	-47,122	0	173,316	\$6 - \$29	\$15.05
Class A	9,369,284	14.1%	3.4%	17.5%	-43,591	0	173,316	\$15 - \$29	\$15.44
Class B	1,982,044	15.1%	3.0%	18.1%	-11,572	0	0	\$10 - \$15	\$14.52
Class C	991,878	7.1%	0.1%	7.2%	8,041	0	0	\$6 - \$10	\$12.78
Calgary Total	77,030,224	17.6%	4.9%	22.5%	-233,819	0	212,821	\$4 - \$30	\$16.68

Market At a Glance



UNEMPLOYMENT RATE

15.6% June 2020
7.0% June 2019
7.6% June 2018

EMPLOYMENT (PEOPLE)

744,200 June 2020
881,100 June 2019
835,200 June 2018

LABOUR FORCE

881,700 June 2020
947,300 June 2019
903,800 June 2018

Source: Statistics Canada

CALGARY GDP GROWTH FORECAST

-5.5%* 2020F
0.1% 2019
5.2% 2018

CANADA-US EXCHANGE RATE

\$ 0.7338 June 30, 2020
\$ 0.7641 June 28, 2019
\$ 0.7594 June 29, 2018

Source: TD Economics, Bank of Canada



WTI SPOT PRICE

\$ 39.67 June 29, 2020
\$ 58.20 June 28, 2019
\$ 74.13 June 29, 2018

WCS SPOT PRICE

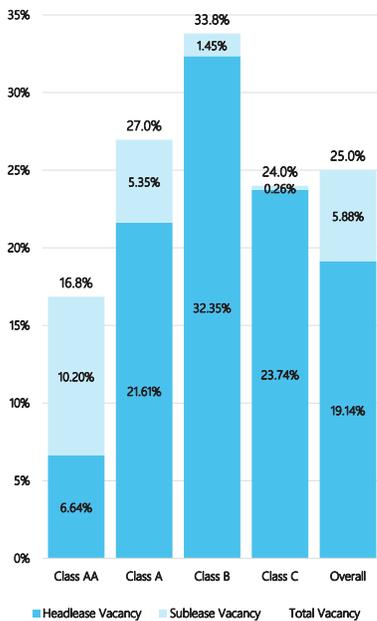
\$ 36.20 June 29, 2020
\$ 44.47 June 28, 2019
\$ 47.90 June 29, 2018

DIFFERENTIAL

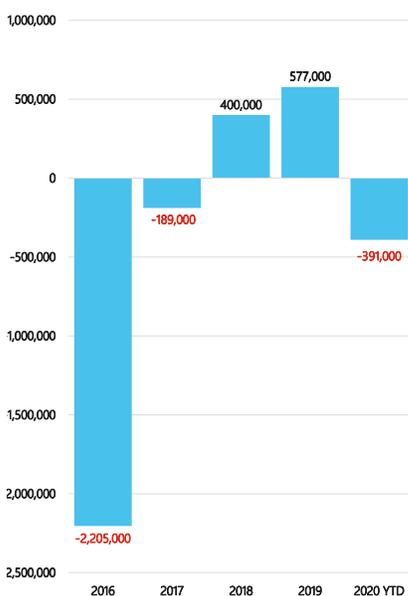
\$ 3.47 June 29, 2020
\$ 13.73 June 28, 2019
\$ 26.23 June 29, 2018

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 25% in second-quarter 2020. This is up from 24.7% in first-quarter 2020, and from 24.4% in second-quarter 2019, the lowest vacancy reached for the downtown market in the last three years. Downtown Calgary's office vacancy remains below the peak vacancy for this downturn of 26.4% in second-quarter 2017.



Downtown Calgary Vacant Space

As sublease spaces continue to reach their expiration dates, the share of headlease space on the market continues to increase. Total vacancy for the Downtown office market is 11.6 msf: 8.9 msf of headlease (77%) and 2.7 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%). The AA market, however, is in contrast to this trend, as there is more space on the sublet market than the headlease market for this class now.



Downtown Calgary Fully Occupied Buildings

There are 35 office buildings over 20,000 sf (16% of the overall inventory) in Downtown Calgary that have no availability.



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 23% of the total availability in the Downtown market with 69% of this space available on a headlease basis.



Downtown Calgary Office Absorption

Second-quarter 2020 saw negative absorption of -166,000 sf. The cumulative net absorption for the last 12 months has turned negative again, with 260,000 sf of space being added back to downtown Calgary's availability.



Downtown Calgary Empty Buildings

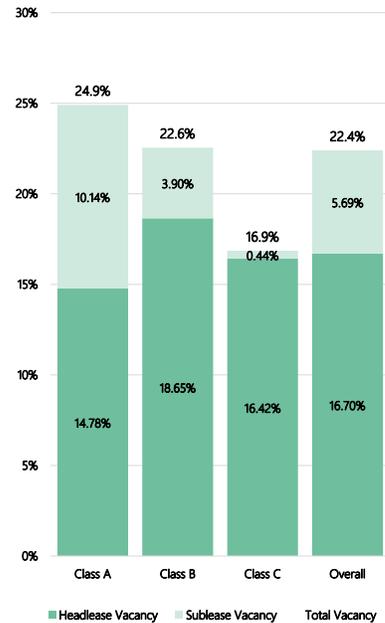
Out of 169 office building currently tracked in Downtown Calgary, there are four completely empty office buildings. There are an additional six properties that have greater than 75% vacancy.

Avison Young COVID-19 Resource Centre



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

Beltline Calgary Office Vacancy Rates



Beltline Office Vacancy Rate

The vacancy rate in the Beltline office market increased once again to sit at 22.4%, up from 21.4% in first-quarter 2020, and up from 20% in second-quarter 2019. This is a new record-high vacancy for the Beltline, exceeding the previous high of 22.2% recorded in third-quarter 2019.



Beltline Office Absorption

Absorption for second-quarter 2020 was negative 82,000 sf in Calgary's Beltline office market. Net absorption for the last 12 months is also negative, with a cumulative change of -158,000 sf.



Beltline Empty Buildings

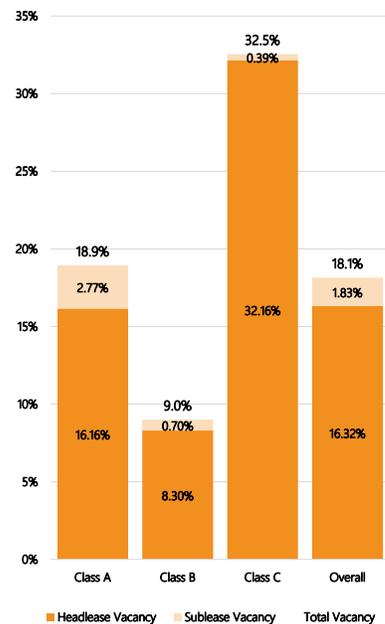
Out of 109 office buildings over 20,000 sf currently tracked in Beltline Calgary, there are two which are completely empty, both of which are available for sublease. There is one additional property that has greater than 75% vacancy.



Beltline Large Availabilities

There are nine availabilities in Beltline Calgary with over 30,000 sf available contiguously. These nine blocks of space represent 35% of the total availability of space in the Beltline market, 57% of this space is available on a sublease basis.

Suburban North Office Vacancy Rates



Suburban North Office Vacancy Rate

The Suburban North office market was the only submarket in Calgary to see its vacancy decrease this quarter. This decrease was due to the completion of deals that had been started prior to the pandemic shutdown. The vacancy rate as of second-quarter 2020 is 18.1%, down from 18.8% in first-quarter 2020, but up from 17.2% in second-quarter 2019. Meanwhile vacancy in the quadrants are 18.7% for the Suburban Northeast and 16.6% for the Suburban Northwest.



Suburban North Office Absorption

Absorption in the Suburban North office market was positive once again in second-quarter 2020, recording 62,000 sf of absorption for the quarter, and bringing the 12-month cumulative net absorption to -101,000 sf for the area.



Suburban North Large Availabilities

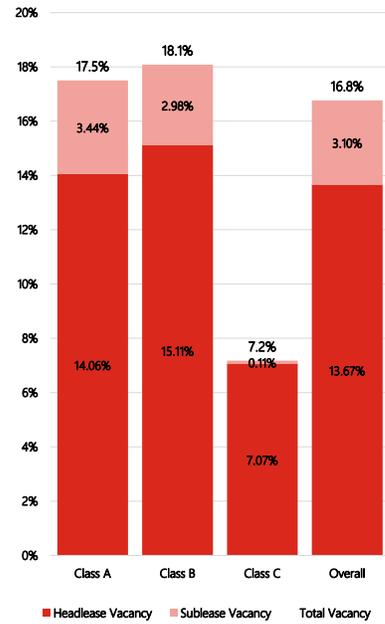
There are 10 available options for contiguous blocks of office space over 30,000 sf in Suburban North Calgary. These blocks represent 53% of the total availability in the Suburban North office market and 21% of this space is available on a sublease basis.



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, with completion expected later this summer.

Suburban South Office Vacancy Rates



Suburban South Office Vacancy Rate

The vacancy rate increased to 16.8% in second-quarter 2020, up from 16.4% in first-quarter 2020, but remains down from 18.1% in second-quarter 2019. Meanwhile vacancy for the Suburban Southeast is 17.2%, and 15.8% for the Suburban Southwest.



Suburban South Office Absorption

The Suburban South office submarket in Calgary saw its first negative absorption quarter in two years. Absorption for second-quarter 2020 was -47,000 sf. Cumulative net absorption for the last 12 months remains positive at 268,000 sf in the Suburban South office market. The last negative absorption quarter in the Suburban South office market was the second quarter of 2018.



Suburban South Inventory

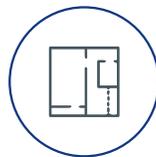
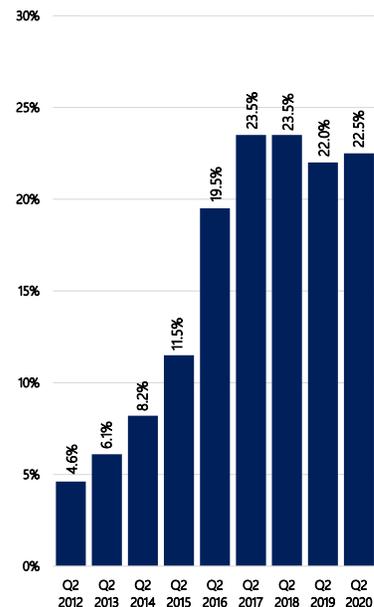
Poplar Centre, the PBS Systems Building, and Bow45 remain under construction for the Suburban South office market of Calgary. These three buildings contain a total of 173,000 sf, and are currently 65% pre-leased altogether.



Suburban South Large Availabilities

There are 13 contiguous availabilities in Suburban South Calgary over 30,000 sf. These 13 blocks of space represent 45% of the total availability in the Suburban South office market and 27% is available on a sublease basis.

Calgary Overall Office Vacancy Rate (Second Quarter Comparison)



Overall Calgary Office Vacancy

Second-quarter 2020 saw vacancy increase to 22.5% from 22.2% in first-quarter 2020, and is also up from 22% in second-quarter 2019. Changes to Calgary's office vacancy are expected to be erratic in the coming quarters as companies decide the future of their requirements under the new COVID-19 reality, however the direction vacancy will ultimately trend in remains uncertain.



Overall Calgary Office Absorption

The overall absorption in Calgary's office market in second-quarter 2020 was negative, with 234,000 square feet of occupancy lost during the quarter. Net absorption for the last 12 months across Calgary's entire office market has returned to a negative figure for the first time in two years at -252,000 sf. The last time Calgary had a cumulative negative 12 months of absorption was Q2 2018 with -325,000 sf.



Overall Calgary Occupancy Costs

Average asking rents are expected to experience downward pressure in the coming months as company's assess their new reality from the COVID-19 pandemic. It is anticipated that free rent and flexible terms of lease will be significant drivers for completing deals over the next several months.



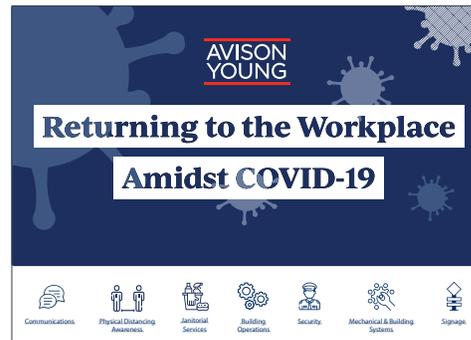
Overall Calgary Additional Rent

Taxes and operating costs have seen an average decrease of 34 cents per square foot to \$16.68 psf over the last year. Downtown properties saw the largest decreases, falling an average of 63 cents per square foot. However, all areas of Calgary saw their average taxes and operating costs decrease over the last year.

Calgary Q2 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	48%	
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%	

With the understanding that businesses and jurisdictions around the globe will experience different response-recovery life cycles, and therefore need thoughtful and evolving recovery plans based upon the best and most up-to-date information from our health care professionals, local governments and industry organizations, this document contains guidelines from the Avison Young Real Estate Management Services team to assist owners and occupiers in navigating their “Returning to the Workplace Amidst COVID-19” strategy and adjustments for the “new normal.”



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