

Calgary, AB



Vacancy Rates

25.7%

Downtown

22.5%

Beltline

18.5%

Suburban North

20.6%

Suburban South

23.5%

Overall

Big changes

Calgary's office market is changing rapidly. What does this mean for tenants and landlords in our market?

Calgary has opportunities

Calgary is going through a rapid evolution, both for its major industry and as a result of COVID-19. Adoption of new technologies and processes is creating change in how businesses define their needs for space. This last quarter witnessed the start of these changes in the office market. We are a unique engine of collective intelligence – driven by collaboration and global insight; fueled by local market expertise; and equipped with data and the smartest technology – we translate insight into solutions and advantage.

The market is changing

With an incredibly challenged market, landlords are looking everywhere for new tenants. We have started to see a migration of tech-based companies into Calgary's downtown core. Two great examples of these are Symend and Useful. Combined, they took 105,000 square feet

in First Tower through significant growth to their business. The combination of amenities, public transportation and cost competitiveness have allowed the downtown market to expand its reach throughout the city for new tenancy.

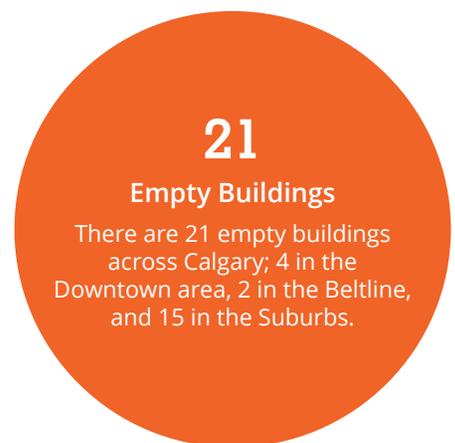
In counterpoint to this flow of companies into Calgary's downtown core, suburban low-rise space has the potential to also increase in popularity as companies look to reduce their reliance on elevators, due to COVID-19 sensitivities. Suburban space, with its high parking ratios and lower population densities, offers a different solution for companies. It will take time to see the larger pattern changes in the overall market, but we anticipate significant flux in what types of office space is popular. As such, office vacancy across Calgary is expected to be erratic in the coming quarters as companies decide their future drivers for space.

Smaller tenants; different space requirements.

Transaction activity today is showing itself to be reflective of the true makeup of Calgary's businesses. According to Calgary Economic Development's Calgary Small Business Fact Sheet, 2020 Edition, 95% of all businesses in Calgary have fewer than 50 employees. This correlates highly to the leasing activity we see taking place across the market, as the lion's share of deals completed today are less than 10,000 square feet.

This predominance of smaller tenants being active in the market is pressuring landlords to better cater to this size of tenant. Traditionally single tenant buildings and floorplates are being renovated to better serve the needs of smaller tenants. We are also seeing technology increasing in importance, including those previously considered luxuries – such as an app on your phone to call an elevator. Watch for technology to be an even bigger driver to upgrade buildings.

Q3 2020 Highlights



Downtown



Vacancy

Vacancy increased once again to 25.7% in Q3 2020. This is up from 25% in Q2 2020, and from 24.6% in Q3 2019. Downtown Calgary's office vacancy remains below the peak vacancy for this downturn of 26.4% in Q2 2017.



Absorption

Q3 2020 saw negative absorption of -311,000 sf. This was the largest negative absorption quarter Downtown Calgary has seen since Q3 2016, when -1.2 msf of absorption was recorded.



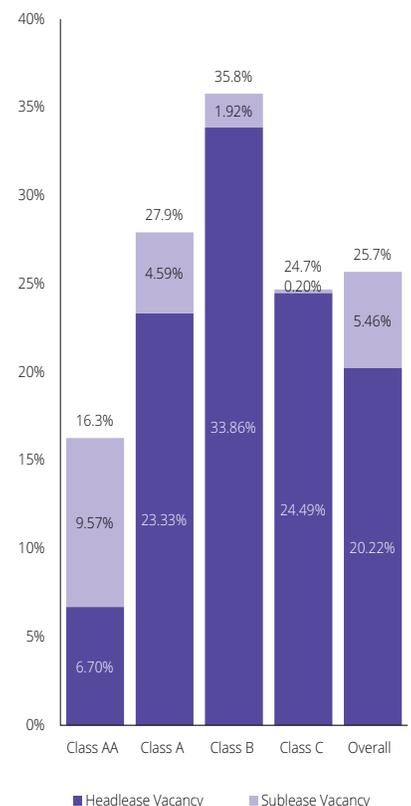
Vacant space

Total vacancy for the Downtown office market is 11.8 msf; 9.4 msf of headlease (79%) and 2.5 msf of sublease (21%).

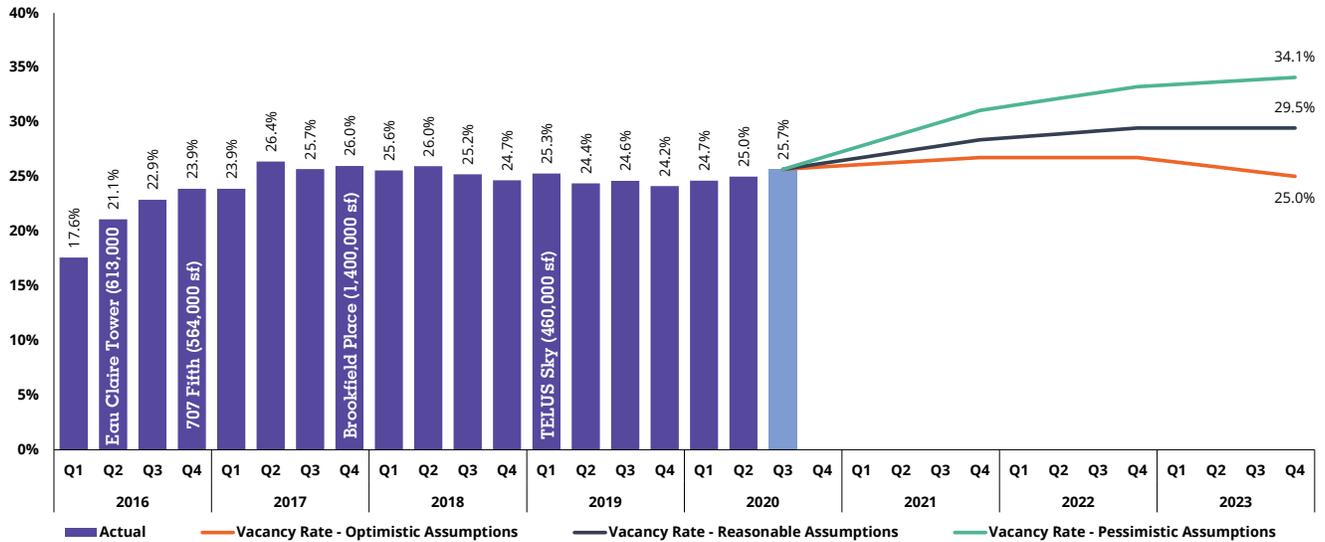


Large Availabilities

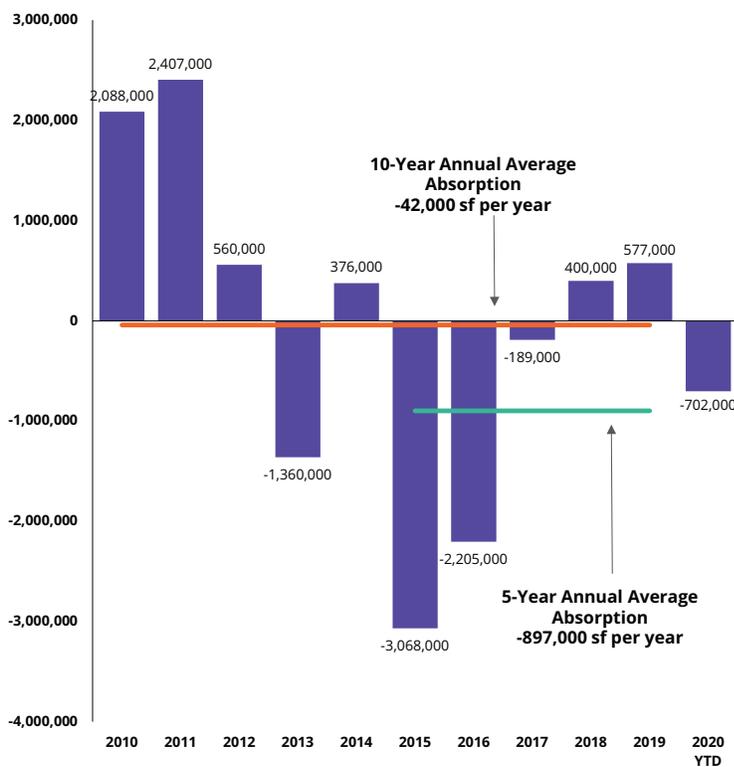
There are 13 availabilities in Downtown Calgary with over 100,000 sf as one contiguous block. These blocks of space represent 23% of the total availability in the Downtown market with 69% of this space available on a headlease basis.



Downtown Calgary Office Historical & Projected Vacancy



Downtown Calgary 5-Year & Average 10-Year Annual Absorption



Empty Buildings

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

Fully-occupied Buildings

There are 41 office buildings over 20,000 sf (17% of overall inventory) in Downtown Calgary that have no availability.



Beltline



Vacancy

The vacancy rate in the Beltline office market increased once again to sit at 22.5%, up from 22.4% in Q2 2020, and up from 22.2% in Q3 2019. This is a new record-high vacancy for the Beltline, exceeding the previous record set last quarter



Absorption

Absorption for Q3 2020 was negative 5,000 sf in Calgary's Beltline office market. Net absorption for the last 12 months is positive, the only submarket of the city to remain such, with a cumulative change of 33,000 sf.



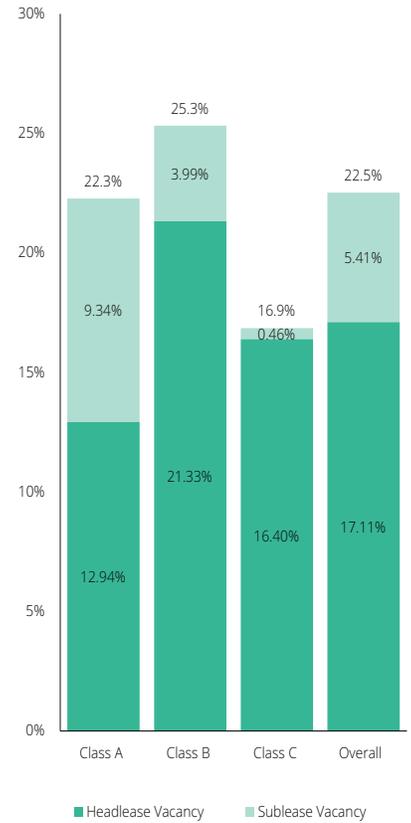
Empty buildings

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 are an additional four properties that have greater than 75% vacancy.



Large Availabilities

There are seven availabilities in Beltline Calgary with over 30,000 sf available contiguously. These seven blocks of space represent 29% of the total availability of space in the Beltline market, 50% of this space is available on a headlease basis.



Suburban North



Vacancy

The vacancy rate as of Q3 2020 is 18.5%, up from 18.1% in Q2 2020, and from 17.4% in Q3 2019. Meanwhile vacancy in the quadrants are 18.5% for the Suburban Northeast and 18.6% for the Suburban Northwest.



Absorption

Absorption in the North office market was negative once again in Q3 2020, recording -146,000 sf of absorption for the quarter, and bringing the 12 month cumulative net absorption to -230,000 sf for the area.



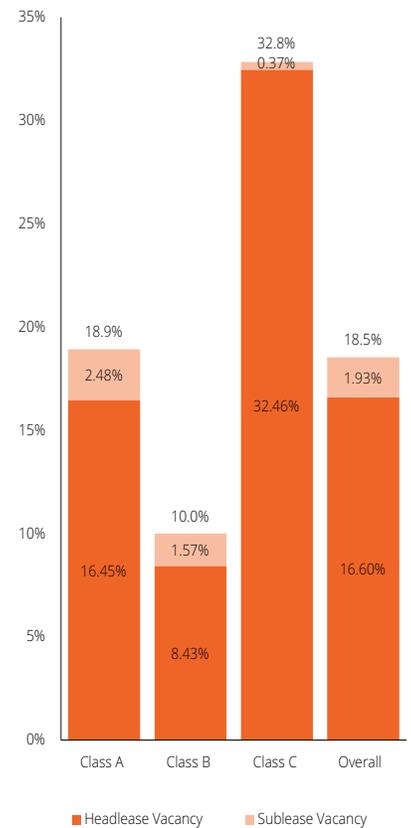
Construction and New Supply

HUB Calgary, a mixed-use student-resident focused building, containing 40,000 sf of podium office space was completed this quarter, with no pre-leasing in place. Meanwhile, Hexagon committed to take all of 26,000 sf in a building adjacent to their NE facility, triggering construction. University District's Block 23 also started construction with completion expected in fall next year.



Large Availabilities

There are 12 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 77% of this space is available on a headlease basis.



Suburban South



Vacancy

The vacancy rate increased to 20.6% in Q3 2020, up from 16.8% in Q2 2020, and from 17.6% in Q3 2019. Meanwhile vacancy for the Suburban Southeast is 22%, and 17.6% for the Suburban Southwest.



Absorption

Q3 2020 was the largest negative absorption quarter for the Suburban South since Q4 2013. Absorption for Q3 2020 was -452,000 sf. Cumulative net absorption for the last 12 months has turned negative at -250,000 sf in the Suburban South office market.



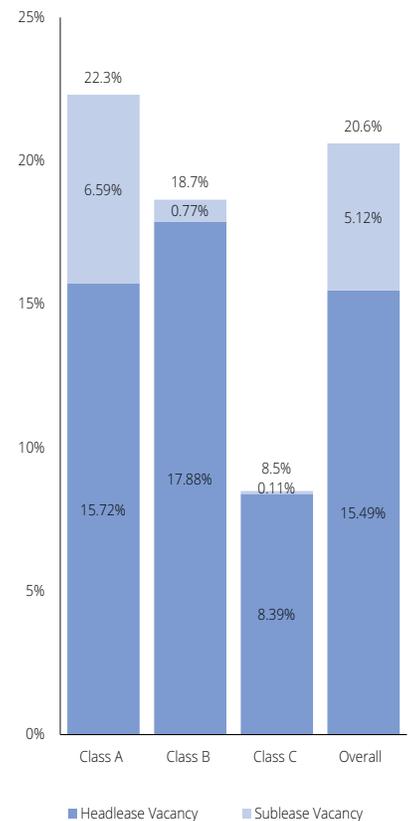
Construction and New Supply

Poplar Centre was completed this quarter with 45% pre-leasing in place. The PBS Systems Building and Bow45 remain under construction for the Suburban South office market of Calgary. These two buildings contain a total of 104,000 sf, and are currently 29% pre-leased altogether.



Large Availabilities

There are 18 contiguous availabilities in Suburban South Calgary over 30,000 sf. These 18 blocks of space represent 49% of the total availability in the Suburban South office market and 59% is available on a headlease basis.

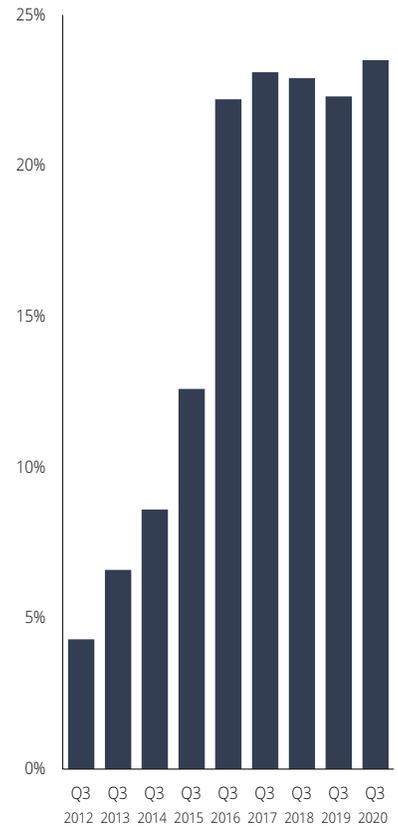


Overall



Vacancy

Q3 2020 saw vacancy increase to 23.5% from 22.5% in Q2 2020, and is also up from 22.3% in Q3 2019. This is a return to the peak vacancy for Calgary's office market, previously seen in Q2 2018, Q4 2017 and Q2 2017.



Absorption

The overall absorption in Calgary's office market in Q3 2020 was negative, with 914,000 square feet of occupancy lost during the quarter. Almost all gains in net absorption for the last 12 months across Calgary's entire office market have been wiped out, with the cumulative total now -910,000 square feet. 2020 will be Calgary's worst year for negative absorption since 2016.



Occupancy Costs

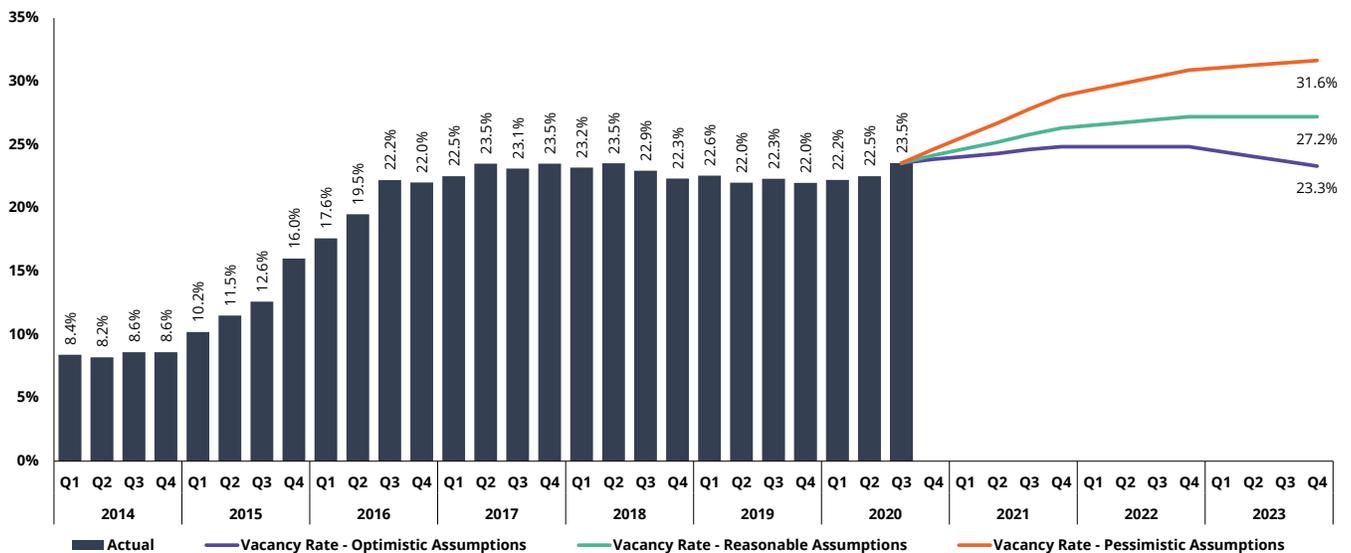
Due to the prolonged downturn in Calgary, average asking rents appear to have dropped as far as landlords are willing to go at this time and have shown little movement in 2020.



Tenant Inducements

There is continuing pressure on landlords to stay competitive in terms of inducements/tenant improvement allowances, free rent periods, blend and extend opportunities, and improve their creativity by being flexible with lease terms and building amenities.

Overall Calgary Office Historical & Projected Vacancy



Calgary Q3 2020 Office Market Statistics

	New Supply (sf)	Inventory (sf)	Number of Buildings	Headlease Vacancy (sf)	Sublease Vacancy (sf)	Total Vacancy (sf)	Headlease Vacancy Rate	Sublease Vacancy Rate	Total Vacancy Rate	Occupancy (sf)	Absorption for Quarter (sf)	Under Construction (sf)
Downtown	0	46,302,235	169	9,364,048	2,529,638	11,893,686	20.2%	5.5%	25.7%	34,408,549	-310,925	0
Class AA	0	15,381,587	19	1,030,248	1,472,655	2,502,903	6.7%	9.6%	16.3%	12,878,684	89,055	0
Class A	0	18,587,645	50	4,337,059	852,739	5,189,798	23.3%	4.6%	27.9%	13,397,847	-179,643	0
Class B	0	10,422,313	66	3,528,761	200,509	3,729,270	33.9%	1.9%	35.8%	6,693,043	-207,084	0
Class C	0	1,910,690	34	467,980	3,735	471,715	24.5%	0.2%	24.7%	1,438,975	-13,253	0
Beltline	0	8,191,078	109	1,401,500	443,221	1,844,721	17.1%	5.4%	22.5%	6,346,357	-4,960	0
Class A	0	3,203,193	31	414,485	299,168	713,653	12.9%	9.3%	22.3%	2,489,540	90,029	0
Class B	0	3,430,180	55	731,588	136,938	868,526	21.3%	4.0%	25.3%	2,561,654	-95,006	0
Class C	0	1,557,705	23	255,427	7,115	262,542	16.4%	0.5%	16.9%	1,295,163	17	0
Suburban North	39,505	11,001,435	175	1,826,259	212,696	2,038,955	16.6%	1.9%	18.5%	8,962,480	-146,281	78,930
Class A	39,505	6,493,600	82	1,068,209	160,892	1,229,101	16.5%	2.5%	18.9%	5,264,499	-108,138	78,930
Class B	0	2,935,115	57	247,535	45,984	293,519	8.4%	1.6%	10.0%	2,641,596	-12,789	0
Class C	0	1,572,720	36	510,515	5,820	516,335	32.5%	0.4%	32.8%	1,056,385	-25,354	0
Suburban Northeast	0	8,341,682	123	1,429,909	114,291	1,544,200	17.1%	1.4%	18.5%	6,797,482	-123,398	26,400
Class A	0	4,916,177	55	743,575	62,487	806,062	15.1%	1.3%	16.4%	4,110,115	-77,874	26,400
Class B	0	2,128,744	40	207,328	45,984	253,312	9.7%	2.2%	11.9%	1,875,432	-21,806	0
Class C	0	1,296,761	28	479,006	5,820	484,826	36.9%	0.4%	37.4%	811,935	-23,718	0
Suburban Northwest	39,505	2,659,753	51	396,350	98,405	494,755	14.9%	3.7%	18.6%	2,164,998	-22,883	52,530
Class A	39,505	1,577,423	26	324,634	98,405	423,039	20.6%	6.2%	26.8%	1,154,384	-30,264	52,530
Class B	0	806,371	17	40,207	0	40,207	5.0%	0.0%	5.0%	766,164	9,017	0
Class C	0	275,959	8	31,509	0	31,509	11.4%	0.0%	11.4%	244,450	-1,636	0
Suburban South	68,871	12,455,087	175	1,929,234	637,881	2,567,115	15.5%	5.1%	20.6%	9,887,972	-452,287	104,445
Class A	68,871	9,433,406	114	1,483,013	621,238	2,104,251	15.7%	6.6%	22.3%	7,329,155	-419,030	104,445
Class B	0	2,029,803	40	363,000	15,588	378,588	17.9%	0.8%	18.7%	1,651,215	-20,164	0
Class C	0	991,878	21	83,221	1,055	84,276	8.4%	0.1%	8.5%	907,602	-13,093	0
Suburban Southeast	0	8,555,783	127	1,327,497	552,421	1,879,918	15.5%	6.5%	22.0%	6,675,865	-429,789	80,000
Class A	0	6,643,659	85	1,038,459	545,107	1,583,566	15.6%	8.2%	23.8%	5,060,093	-402,147	80,000
Class B	0	1,089,083	25	210,366	6,259	216,625	19.3%	0.6%	19.9%	872,458	-14,549	0
Class C	0	823,041	17	78,672	1,055	79,727	9.6%	0.1%	9.7%	743,314	-13,093	0
Suburban Southwest	68,871	3,899,304	47	601,737	85,460	687,197	15.4%	2.2%	17.6%	3,212,107	-22,498	24,445
Class A	68,871	2,789,747	28	444,554	76,131	520,685	15.9%	2.7%	18.7%	2,269,062	-16,883	24,445
Class B	0	940,720	15	152,634	9,329	161,963	16.2%	1.0%	17.2%	778,757	-5,615	0
Class C	0	168,837	4	4,549	0	4,549	2.7%	0.0%	2.7%	164,288	0	0
Suburban Total	108,376	23,456,522	348	3,755,493	850,577	4,606,070	16.0%	3.6%	19.6%	18,850,452	-598,568	183,375
Class A	108,376	15,927,006	196	2,551,222	782,130	3,333,352	16.0%	4.9%	20.9%	12,593,654	-527,168	183,375
Class B	0	4,964,918	97	610,535	61,572	672,107	12.3%	1.2%	13.5%	4,292,811	-32,953	0
Class C	0	2,564,598	57	593,736	6,875	600,611	23.2%	0.3%	23.4%	1,963,987	-38,447	0
Calgary Total	108,376	77,949,835	628	14,521,041	3,823,436	18,344,477	18.6%	4.9%	23.5%	59,605,358	-914,453	183,375
Class AA & A	108,376	53,099,431	296	8,333,014	3,406,692	11,739,706	15.7%	6.4%	22.1%	41,359,725	-527,727	183,375
Class B	0	18,817,411	218	4,870,884	399,019	5,269,903	25.9%	2.1%	28.0%	13,547,508	-335,043	0
Class C	0	6,032,993	114	1,317,143	17,725	1,334,868	21.8%	0.3%	22.1%	4,698,125	-51,683	0

Average Taxes & Operating Costs

	Class AA	Class A	Class B	Class C	All Classes
Downtown	\$22.05	\$18.35	\$16.43	\$15.75	\$19.16
Beltline	-	\$18.22	\$16.82	\$16.08	\$17.26
Suburban North	-	\$14.96	\$14.18	\$12.41	\$14.33
Suburban South	-	\$15.52	\$14.53	\$12.34	\$15.07
Overall	\$22.05	\$17.27	\$16.04	\$14.49	\$16.63

(per square foot, per annum)

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