

# The Office Report Q1 2013



Intelligent Real Estate Solutions

## Calgary Overall - Vacancy 5.7%

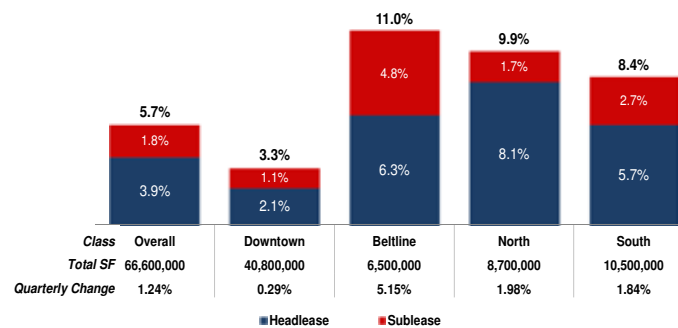
The office leasing market in Calgary has changed significantly since the end of 2012, with vacancy rising to 5.7% overall. Vacancy increased for the first time in 9 quarters in Q4 2012, and this trend has continued into 2013 with a 1.24% rise in overall vacancy. Quarterly negative absorption amounted to -735,000 sq. ft., with sublease vacancy largely responsible for this trend. Total sublease vacancy has risen from 0.8% to 1.8%, and most initial reactions point to a slowdown in pipeline development and reduced budgets in oil sands projects as being the primary driving forces behind this downturn. On the other hand, headlease vacancy remained stable and experienced a minimal 0.2% rise in vacancy. Demand for quality office space is still evident within the market and is exemplified by the fact that there were multiple deals over 50,000 sq. ft. of direct space that were completed during the quarter. Supporting this claim is the fact that Class AA vacancy once again decreased and remains virtually fully occupied at 0.31%.

A variety of energy and engineering firms are responsible for increasing the amount of sublet space, likely due to lack of growth and caution within the energy sector. Most notably, WorleyParsons, who occupy approximately 700,000 sq. ft. across the city, have put most of their space on the sublet market with the goal of subleasing approximately 200,000 sq. ft. This strategy will give them flexibility in offloading whichever space is most in demand. As expected with completions and budget reductions for pipeline and oil sands projects, scaling back is a normal course of action as seen in previous cycles. It is certainly a possibility, however, many of the companies currently marketing sublease space may reclaim their sublets in the future. This event was witnessed during the financial crisis of 2008, when sublease space rose to the point where it outweighed head lease available

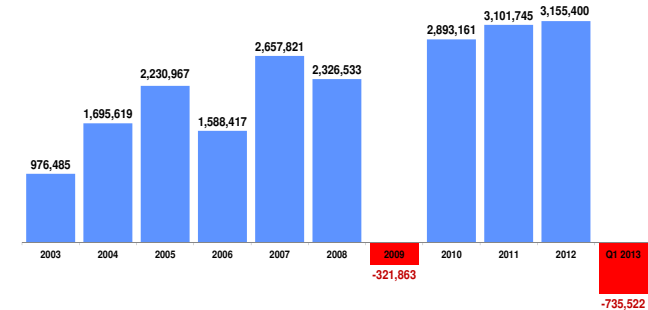
space. This effect normalized within two years as Calgary recovered much quicker than anticipated, prompting companies to reclaim their sublet spaces being offered to the market.

Alberta's unemployment rate remained the second lowest nation-wide at 4.5% as of February 2013, and total capital investment is expected to reach a record high of \$100.6 billion in 2013. On a macroeconomic scale, Alberta comprises less than 10% of Canada's total population, yet is responsible for more than 25% of total economic activity. Despite these statistics, a sense of caution can be felt within the energy sector. The price of crude oil plateaued due to effectively full pipelines, and rumours of energy companies putting projects on hold continue to surface. The energy sector is in a state of flux due to a potential paradigm shift in national environmental policies and the impending approval of the Keystone XL pipeline. Depending on the outcome of these events, the near future of the energy industry will be uncertain. Consequently, this will play a large part in the outcome of Calgary's office leasing market for 2013.

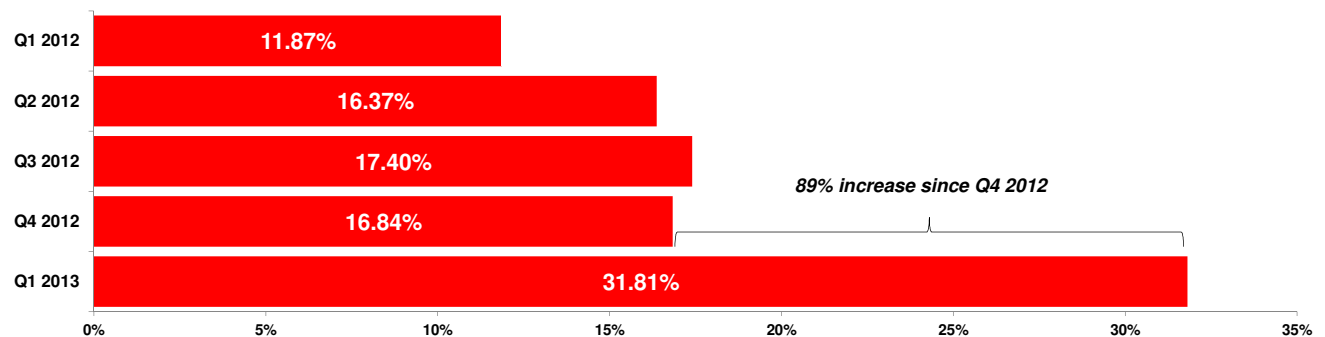
Overall Calgary Office Vacancy Rates



Overall Calgary Annual Office Absorption (sf)



Sublet Space as % of Total Vacancy (Overall Office Market)



## Downtown - Vacancy 3.3%

Calgary's downtown leasing market witnessed a modest 0.3% increase in vacancy quarter-over-quarter. An increasing supply of sublet space for

Class A assets appears to be the main stimulant of this trend, producing negative absorption amounting to -174,000 sq. ft. It must be noted, however, that headlease vacancy across the Class A & B segments actually decreased quarter-over-quarter. The Class AA segment continues to show no signs of diminished demand while sitting at 0.3%, providing support towards the argument that there is still high demand for the best and most modern available space in the market. Diverse forces appear to be affecting the headlease and sublease submarkets comprising the downtown market, and it may be more practical to examine each segment individually under current conditions.

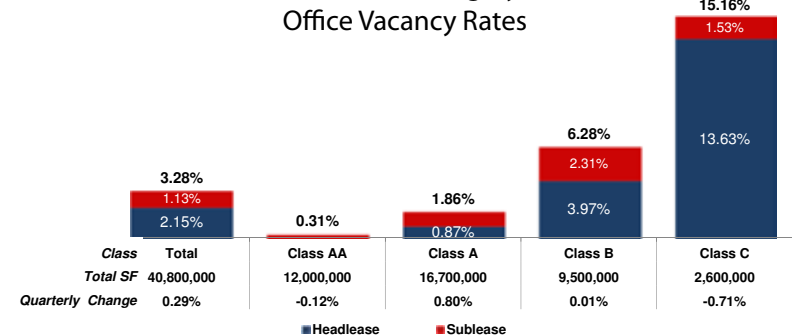
Asking rates in the Downtown continue to remain among the highest in the nation with all class segments witnessing steady increases year-over-year (fig 1). During the past two years, demand for quality space has drastically outweighed supply, resulting in these consistent increases. While New Construction and Class AA rates have been in the mid-to-high \$40's/sq. ft. range for some time, Class A space is now hovering around the \$40/sq. ft. mark. Class B asking rates have also seen significant change witnessing the highest increase, growing by 51.2% year-over-year. This was largely caused by demand spillover from the Class AA/A segments. Class AA/A vacancy levels are still under the 2% mark, effectively pushing residual demand into the Class B/C segments.

It is interesting to note that despite the sense of caution within the economy, developers have continued with construction of new office buildings within the downtown market. Four new Class AA office towers are at various stages of construction: City Centre, 3 Eau Claire, Eau Claire Tower, and 225 Sixth. City Centre is an 820,000 sq. ft. downtown core high-rise that is 18% pre-leased and is now under construction. 3 Eau Claire is a twin-tower multiuse development in which Shaw Communications has leased 100% of the available office space to satisfy additional requirements for growth. The construction of Eau Claire Tower was also recently announced with MEG Energy agreeing to lease out 11 of 25 floors. Still to come, Brookfield Properties is marketing their development at 225 Sixth, former location of the Herald Block, with plans to surpass The Bow as Western Canada's tallest tower. The development is still in active pre-leasing stages as Brookfield is in preliminary discussions with various lead tenants before commencing construction. This development movement is similar to the one seen during the recent financial crisis, where most downtown construction continued on pre-recession schedules. Of note, back in 2008, Eighth Avenue Place West went ahead with no pre-leasing at all and is now fully occupied prior to completion. Experienced developers understand leasing cycles and develop space for the next cycle of demand.

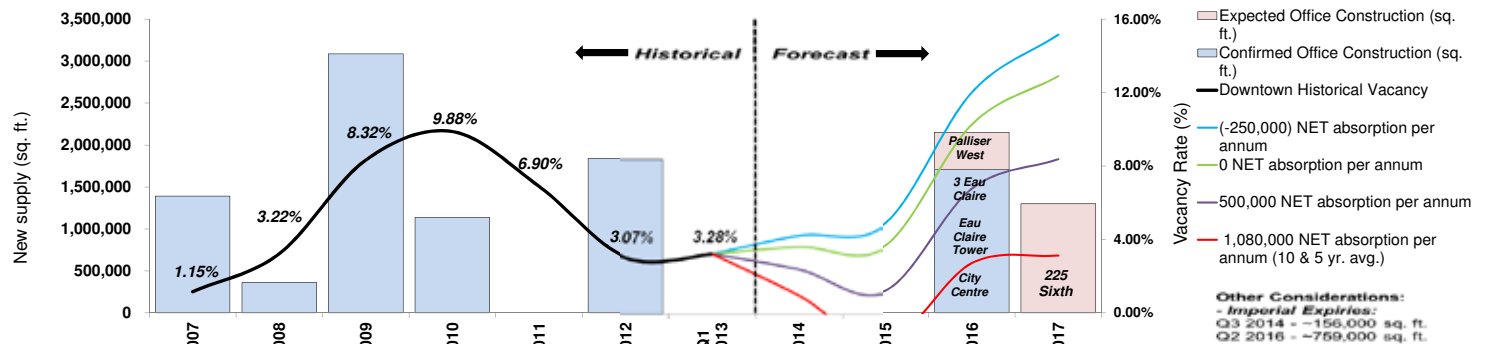
(Fig 1) Downtown Calgary Office Average NET Asking Rates



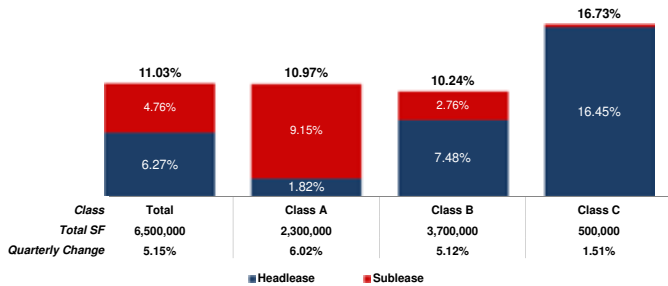
Downtown Calgary Office Vacancy Rates



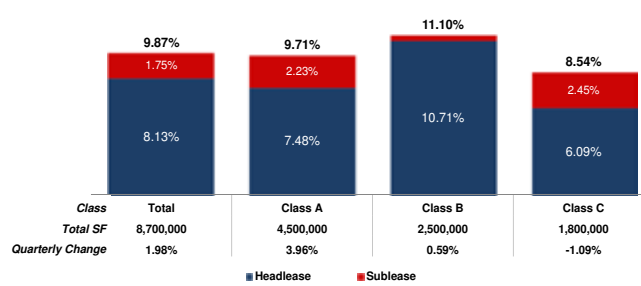
Downtown Calgary Office Vacancy & Construction Forecast



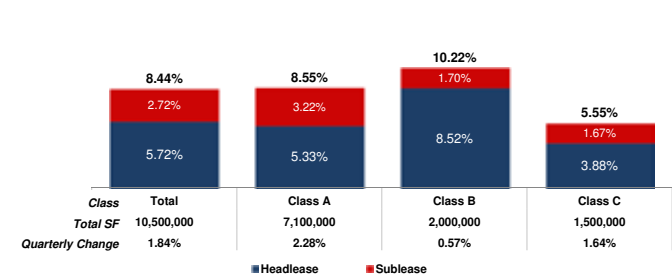
Beltline Office  
Overall Vacancy Rates



North Calgary  
Overall Vacancy Rates



South Calgary  
Overall Vacancy Rates



## Beltline - Vacancy 11.0%

The Beltline has been the most dynamic submarket during the start of 2013. A resounding 5.15% increase in overall vacancy has been witnessed, resulting in current vacancy being pushed to 11.03% overall. Like in the downtown market, sublease space has been a substantial contributory to this movement. Vacancy increased from 1.3% to 4.8% quarter-over-quarter, signifying that 226,000 sq. ft. of sublet space has been introduced to market. Consequently, total absorption amounted to negative 332,000 sq. ft. for the quarter, which is in contrast to the 5-year quarterly average of 53,000 sq. ft. Notably, Class A direct vacancy actually fell from 3.2% to 1.8% overall while sublease vacancy skyrocketed upward. Similar to the downtown, office market demand is focused on quality space in the Beltline, although it is overshadowed by the current resurgence of sublet space.

2013 will present a variety of new Class A options for tenants seeking modern, high-quality space in the Beltline. There are four significant developments slated for delivery in 2013, including 20/20, Maxwell Bates Block, The Biscuit Block, and Centre 10. These buildings, however, currently have a combined vacancy rate of 48%. If they are unable to secure additional tenants before completion, their introduction to market will cause direct vacancy to rise, effectively pushing overall vacancy even further upwards.

## Suburban North - Vacancy 9.9%

The North has traditionally been a softer submarket within Calgary's office leasing market. Vacancy rates are typically higher due to lower levels of demand and construction activity in comparison to the dynamic markets in the central business district. Yet, it appears the forces currently shaping those markets are having an impact on the North in comparable proportions. Vacancy rose 1.98% quarter-over-quarter, which is similar to the 1.24% increase experienced by the overall office market. The North, like the Downtown, surprisingly realized a decrease in Class C vacancy, which fell to 8.5% due to 45,000 sq. ft. of positive headlease absorption.

On the development front, Remington Development Corp. announced plans to move forward with the construction of the Meredith Block, which will add 131,000 sq. ft. of quality office space to market. The only building to be completed this quarter is the Royal Vista Business Park by Maple Reinders which contains



19,000 sq. ft. of Class A space. This property is fully leased to a mix of small tenants, including Maple Reinders who occupy 9,000 sq. ft.

## Suburban South - Vacancy 8.4%

Growth in the Suburban South took a hit this quarter as vacancy levels rose by 1.84% overall. This caused vacancy to reach 8.44% primarily due to the sublet space being offered by WorleyParsons. Headlease vacancy, conversely, dropped from 6.1% to 5.7% as the amount of vacant space decreased across the Class A & B segments. Once again, it can be seen that direct vacancy and sublet vacancy are moving in different directions in today's dynamic leasing market.

Two new developments were completed during the quarter: West 85th and Westmount Court. These buildings contain 59,000 sq. ft. of Class A space and have vacancy rates of 89% and 41%, respectively. There are numerous developments slated for delivery in the latter half of 2013, including Blackfoot Point Buildings 1-3 and Britannia Crossing, which will bring 83,000 sq. ft. of Class A space to market.

# AVISON YOUNG FEATURED OFFICE LISTINGS



**444 Seventh**  
**444 - 7th Avenue SW**  
 Up to 191,826 SF  
 Contiguous (Fall 2016)  
 Downtown Office  
 Lease Opportunities



**Connaught Centre**  
**1207 - 11th Avenue SW**  
 55,431 SF Total  
 1,819 SF Up to  
 Full Floors Available  
 Downtown Office  
 Sublease Opportunities



**1108**  
**1108 - 4th Street SW**  
 Up to 186,000 SF  
 Beltline Office  
 Lease Opportunities



**634**  
**634 - 6th Avenue SW**  
 70,000 SF Building  
 35,000 SF Remaining  
 Fall 2014 Occupancy  
 Downtown Office Condos  
 Lease/ Sale Opportunities



**Maxwell Bates Block**  
**2207 - 4th Street SW**  
 20,300 SF Remaining  
 Suburban Office  
 Lease Opportunities



**Mission Commercial Centre**  
**333 - 24th Avenue SW**  
 14,610 SF Available  
 Beltline Office  
 Lease Opportunities



**Zurich Court**  
**1538 - 25th Avenue NE**  
 47,402 SF Total  
 Main and 2nd Floor  
 Suburban Office  
 Lease Opportunities

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## Calgary Office Leasing Team

Christopher Baradoy	403.265.9552 ext. 221
Nathan Donahue	403.232.4320
Erik Dobrovolsky	403.232.4315
Brock Evans	403.232.4383
Matt Evans	403.232.4301
Tracy Fu	403.232.4304
Steve Goertz	403.232.4322
Larry Gurtler	403.232.4326
Eric Horne	403.232.4339
Chris Howard	403.265.9552 ext. 223
Craig Hulsman	403.232.4337
Will Mulane	403.232.4325
Alexi Olcheski	403.232.4332
Doug Pilip	403.232.4317
Nairn Rodger	403.232.4309
John Savard	403.232.4341
Glenn Simpson	403.232.4329
Mark St. Pierre	403.232.4319
Nicole St. Pierre	403.232.4336
Peter Thorpe	403.232.4342
Todd Thronson	403.232.4343
Alex Wong	403.232.4327
Gordon Woodman	403.232.4323
Allan Zivot	403.232.4307

## Business Condominium Team

Pali Bedi	403.232.4311
Fred Clemens	403.232.4312

## Research

Petar Hrkac	403.232.4344
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