

Calgary



Quick Stats

22.0%

Calgary Overall Vacancy

24.2%

Downtown Vacancy

21.8%

Beltline Vacancy

17.1%

Suburban North Vacancy

17.8%

Suburban South Vacancy

2019 saw Calgary's second-consecutive year of positive office market absorption. This positive trend is a good news story but one that hasn't changed the overall negative attitude about Calgary's office space market as vacancy remains historically high. Peak vacancy in Calgary's overall office market was recorded in second-quarter 2018 at 23.5%, and now resides at 22%. Improvement yes, but not significant enough to make any real change in perspective.

2019 is being called a "no growth" year for Calgary's economy. The Conference Board of Canada has revised its GDP growth figure for Calgary to negative 0.4% for 2019. Meanwhile, Statistics Canada has reported December 2019's unemployment rate for Calgary to be 7.1%, the fifth-highest rate for major Canadian cities. Interestingly, overall business confidence is holding its own and in some instances is positive for 2020.

The biggest news lately in Calgary's commercial real estate industry has been the 56 properties placed into receivership from a major private owner. It will take some

time to determine the future course of these properties. There is some fear that many of these properties will be put up for sale at bargain pricing, further deteriorating office property values. Calgary has yet to recover from a downturn in the oil sector that began in 2014 and the overall value of Downtown office properties has fallen by more than \$14 billion between 2015 and 2019, according to The City of Calgary's assessment department.

There is an improved economic outlook for Calgary in 2020 and beyond, according to the Conference Board of Canada, who predicts upwards of 2% annual GDP growth per year going forward. However, this outlook is dependent on increased pipeline capacity and new oilsands investment. The long-term trend is one of improvement, but it is at a pace that will take Calgary a significant amount of time to return to a reasonable balance in the office market. The current outlook for Calgary's office market is seen to be flat. Until economic growth returns to the market, leasing activity in Calgary will remain challenged and positive absorption of space may not be sustainable.



	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	46,382,308	18.2%	6.0%	24.2%	239,089	0	0	\$4 - \$32	\$19.62
Class AA	15,387,381	6.3%	10.7%	17.1%	140,904	0	0	\$22 - \$32	\$22.80
Class A	18,583,335	20.4%	4.9%	25.3%	15,122	0	0	\$13 - \$17	\$18.70
Class B	10,413,962	30.9%	1.8%	32.7%	80,952	0	0	\$8 - \$12	\$16.65
Class C	1,997,630	22.8%	0.9%	23.7%	2,111	0	0	\$4 - \$7	\$15.77
Beltline	8,297,383	15.0%	6.8%	21.8%	69,480	0	0	\$5 - \$24	\$17.75
Class A	3,226,221	10.2%	13.8%	24.0%	43,613	0	0	\$16 - \$24	\$18.99
Class B	3,513,457	18.8%	3.0%	21.8%	-16,420	0	0	\$12 - \$16	\$17.12
Class C	1,557,705	16.5%	0.6%	17.1%	42,287	0	0	\$5 - \$12	\$16.30
Suburban North	10,173,955	16.1%	1.0%	17.1%	28,234	0	39,505	\$6 - \$26	\$14.51
Class A	5,788,044	15.9%	1.1%	16.9%	44,977	0	39,505	\$16 - \$26	\$15.18
Class B	2,872,221	12.0%	1.2%	13.2%	-19,322	0	0	\$9 - \$15	\$14.40
Class C	1,513,690	24.5%	0.5%	25.0%	2,579	0	0	\$6 - \$12	\$12.16
Suburban South	12,238,919	14.3%	3.6%	17.8%	25,271	69,272	172,776	\$6 - \$29	\$14.83
Class A	9,264,997	14.3%	4.1%	18.4%	51,975	69,272	172,776	\$15 - \$29	\$15.11
Class B	1,982,044	16.7%	2.9%	19.7%	-51,335	0	0	\$10 - \$15	\$14.63
Class C	991,878	8.6%	0.0%	8.6%	24,631	0	0	\$6 - \$12	\$12.64
Calgary Total	77,092,565	16.9%	5.0%	22.0%	362,074	69,272	212,281	\$4 - \$32	\$16.83

Quick Stats



UNEMPLOYMENT RATE

7.1% December 2019
7.5% December 2018
7.6% December 2017

EMPLOYMENT (PEOPLE)

870,100 December 2019
842,600 December 2018
832,500 December 2017

LABOUR FORCE

936,600 December 2019
910,800 December 2018
900,600 December 2017

Source: Statistics Canada

LARGE AVAILABILITIES

There are 12 availabilities in Downtown Calgary with over 100,000 sf as one contiguous block. These blocks of space represent 24% of the total availability in the Downtown market with 69% of this space available on a headlease basis.

GDP GROWTH FORECAST

2.0% 2020F
-0.4% 2019
2.9% 2018

Source: Conference Board of Canada

CANADA-US EXCHANGE RATE

\$ 0.7699 December 31, 2019
\$ 0.7330 December 31, 2018
\$ 0.7971 December 29, 2017

Source: Bank of Canada



WTI SPOT PRICE

\$ 61.14 December 31, 2019
\$ 45.15 December 28, 2018
\$ 60.46 December 29, 2017

WCS SPOT PRICE

\$ 38.01 December 31, 2019
\$ 37.33 December 28, 2018
\$ 35.17 December 29, 2017

Source: U.S. Energy Information Administration, Bloomberg

DIFFERENTIAL

\$ 23.13 December 31, 2019
\$ 7.82 December 28, 2018
\$ 25.29 December 29, 2017



5

Number of office buildings under construction across Calgary, representing a total of 213,000 sf



79

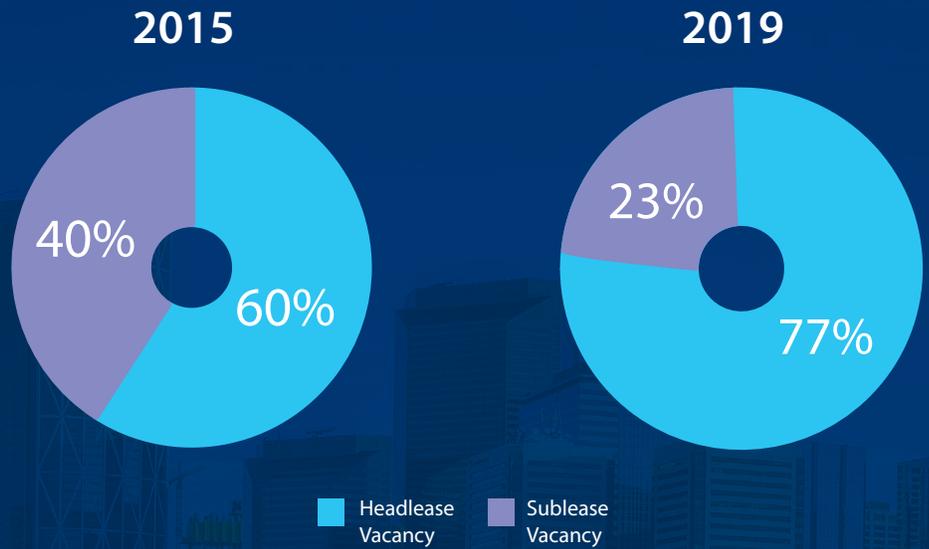
Number of buildings that have over 50% vacancy



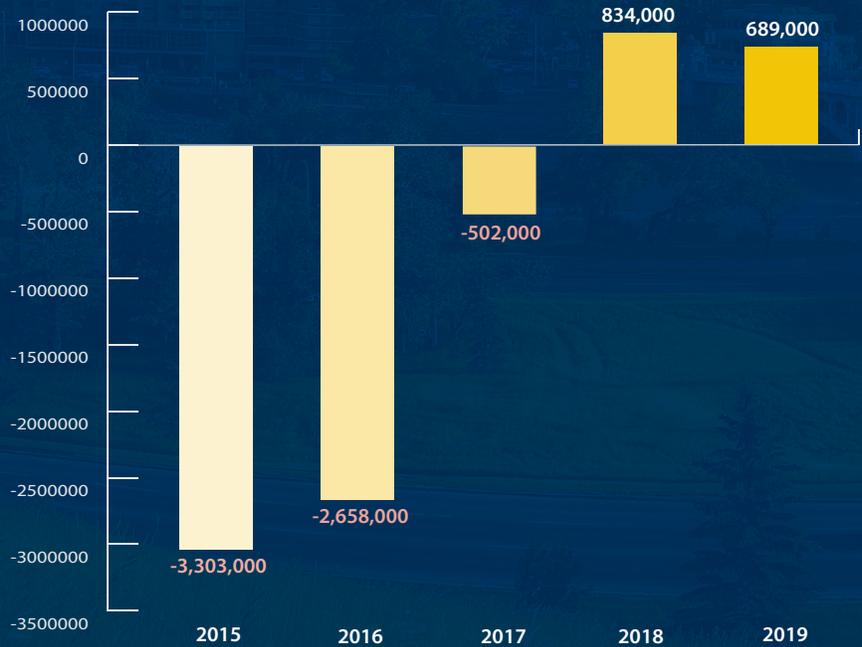
19

Number of space options across Calgary over 100,000 sf available as one contiguous space

Change in Share of Year-End Headlease vs Sublease Space



Overall Calgary Office Annual Absorption



OVERALL

618

Office buildings included in this vacancy analysis

1,976

Vacant pockets of space analyzed this quarter

228

Buildings fully occupied

DOWNTOWN

4 buildings

COMPLETELY VACANT at this time

35 buildings

are currently FULLY OCCUPIED

58 months

since the last new office tower broke ground

2020 GLOBAL FORECAST



Looking for a Global view or a specific market?

2020 Market Forecast by Country, and individual City Forecasts

To find out more: www.avisonyoung.com/2020-forecast



How investors are dealing with low inflation, low interest rate world - and whether they should be concerned about the possibility of a downturn.

What is the CRE industry watching in 2020?

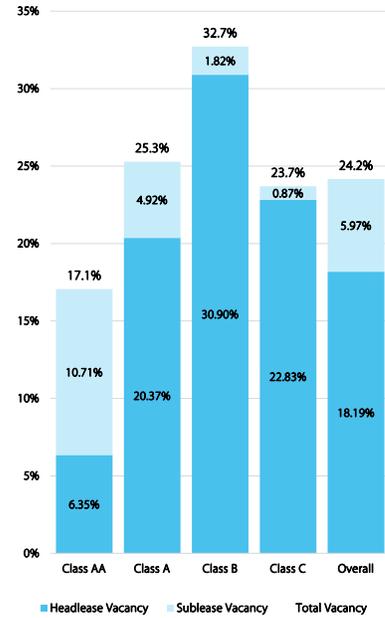
Forget what you may have read in the newspapers, flexible offices are here to stay and will remain one of real estate's hottest growth areas in 2020.



Wellness is the new front in the war for talent, and buildings have a huge part to play in supporting companies' efforts to look after their staff.

What are the ten trends you need to know?

Downtown Calgary Office Vacancy Rates



Downtown Calgary Office Vacancy Rate

Calgary's Downtown office vacancy decreased again. As of fourth-quarter 2019 the Calgary Downtown office vacancy rate is 24.2%. This is down from 24.6% in third-quarter 2019, and down from the peak vacancy for this downturn of 26.4% in second-quarter 2017.



Downtown Calgary Office Absorption

2019 saw Downtown Calgary's second-consecutive year of positive absorption, following three years of negative annual absorption. The 5-year average annual absorption is -836,000 sf/year and the 10-year is -42,000 sf/year, meaning the last ten years have a net cumulative occupancy change of -415,000 sf.



Downtown Calgary Vacant Space

Total vacancy for the Downtown office market is 11.2 msf: 8.4 msf of headlease (75%) and 2.8 msf of sublease (25%). 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%).

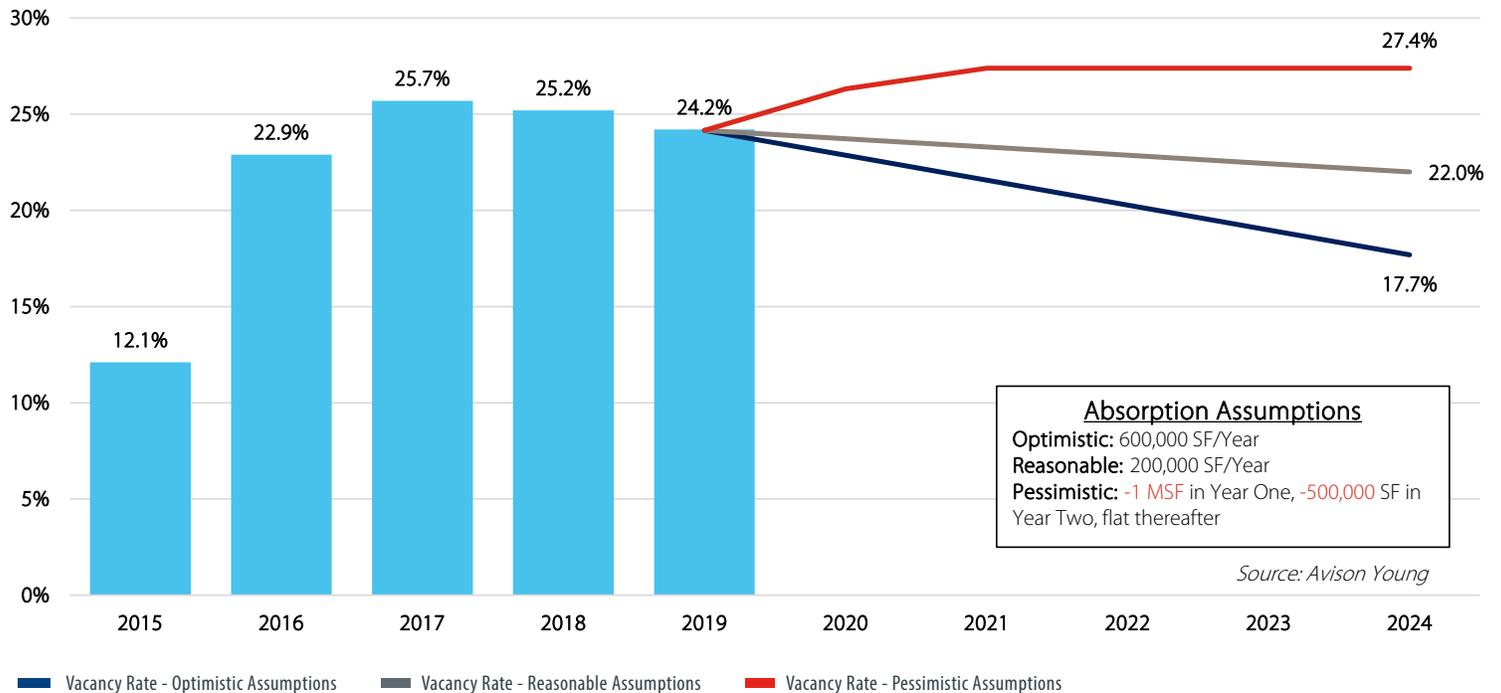


Downtown Calgary Large Availabilities

Another recent office building repurposing project has seen the former Birchcliff Energy Building (630 – 4th Avenue SW) removed from the office inventory as it is being converted to a boutique hotel.

Downtown Calgary Projected Vacancy

(Year End Figures)

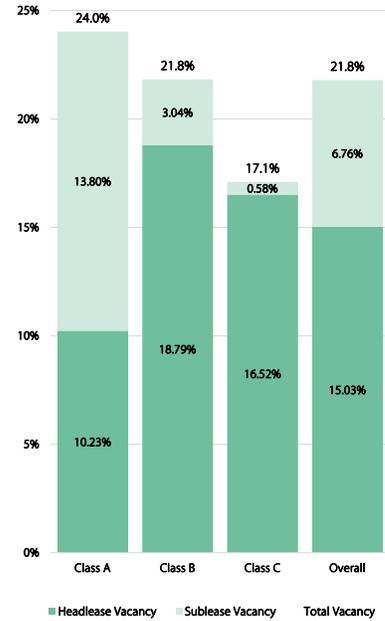


Absorption Assumptions
 Optimistic: 600,000 SF/Year
 Reasonable: 200,000 SF/Year
 Pessimistic: -1 MSF in Year One, -500,000 SF in Year Two, flat thereafter

Source: Avison Young

* Optimistic Assumption based on 1.3M sf absorption over last 2 years

Beltline Calgary Office Vacancy Rates



Beltline Office Vacancy Rate

The vacancy rate in the Beltline office market decreased for the first time since fourth-quarter 2018 to sit at 21.8%, down from 22.2% in third-quarter 2019, but up from 19.4% in fourth-quarter 2018.



Beltline Office Absorption

The Beltline office market saw its third-consecutive year of negative annual average absorption, with negative (-181,000 sf) in 2019. The 5-year average annual absorption for the Beltline is now -109,000 sf/year.



Beltline New Office Listing

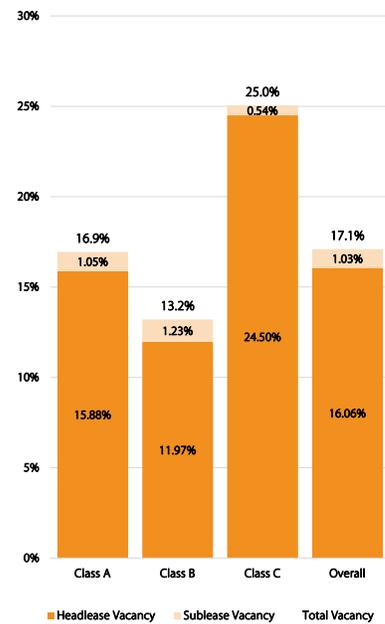
The past few years have seen a number of Beltline buildings removed from the office market inventory, as they have been converted to a different use or the site redeveloped. The most recent building removed is 1216 – 10th Avenue SW, which was converted to self-storage.



Beltline Large Availabilities

There are nine availabilities in Beltline Calgary with over 30,000 sf available contiguously. These nine blocks of space represent 34% of the total availability of space in the Beltline market, 40% of this space is available on a headlease basis, and 84% is class A space.

Suburban North Office Vacancy Rates



Suburban North Office Vacancy Rate

Vacancy has been relatively consistent in the Suburban North office market for over two years having only moved around within a 70-basis-point range. The vacancy rate as of fourth-quarter 2019 is 17.1%, while the quadrants are 18.4% for the Suburban Northeast and 13.4% for the Suburban Northwest.



Suburban North Office Absorption

Absorption in the Suburban North office market for fourth-quarter 2019 was 28,000 sf, making absorption for the year 70,000 sf. The Suburban North office market's 5-year average annual absorption is 12,000 sf per year.



Suburban North Inventory

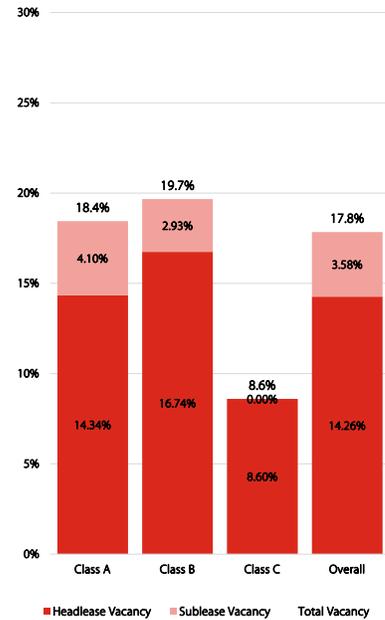
HUB Calgary is a mixed-use student-resident focused building under construction in the Suburban Northwest and will contain 40,000 sf of podium office space. There is no pre-leasing in place for the office component of this project.



Suburban North Large Availabilities

There are nine 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 had the least amount of change in fourth-quarter 2019, but was the second-best performer for positive absorption for the year in suburban Calgary. The vacancy rate is now 17.8%, down from 19.1% in fourth-quarter 2018, while vacancy for the Suburban Southeast is 18.8%, and 15.6% for the Suburban Southwest.



Suburban South Office Absorption

Absorption in the Suburban South office market for fourth-quarter 2019 was 25,000 sf - the sixth consecutive quarter of positive absorption for this area of the market. Absorption for 2019 was 222,000 sf in the Suburban South office market, while the 5-year average annual absorption is 6,000 sf per year.



Suburban South Inventory

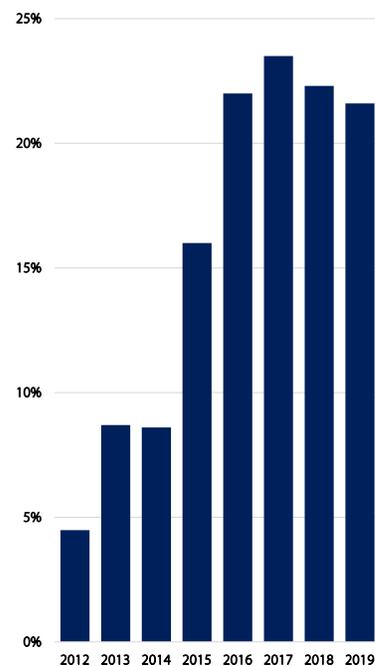
Meadows Mile Professional Centre and Spider Block were completed this quarter, containing a total of 76,000 sf and had 85% leasing completed. Poplar Centre, the PBS Systems Building and Bow45 are under construction, containing 173,000 sf, and are currently 72% pre-leased altogether.



Suburban South Large Availabilities

There are 13 contiguous availabilities in Suburban South Calgary over 30,000 sf. These 13 blocks of space represent 43% of the total availability in the Suburban South office market and 72% is available on a headlease basis.

Calgary Overall Office Annual Vacancy Rate (Year-End Figures)



Overall Calgary Office Vacancy

Calgary's overall office vacancy rate has trended downward over the last 18 months. Fourth-quarter 2019 vacancy decreased to 22% from 22.3% in third-quarter 2019, and almost one and a half percentage points lower than the peak vacancy of 23.5% in second-quarter 2018.



Overall Calgary Office Absorption

2019 was the second-consecutive year of positive annual absorption for Calgary's overall office market. Absorption for 2019 was 689,000 sf. The 5-year annual average absorptions for Calgary's overall office market is -988,000 sf/year.



Overall Calgary Occupancy Costs

Average asking rents remain 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 Opportunities

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 a tenant's lease on an attractive basis. Tenants are finding both options usually result in keeping a tenant's cost structure stabilized or seeing significant cost reduction.

Calgary Q4 2019 Office Construction Summary

Suburban South Under Construction				
Building Name	Address	Office Area (sf)	Expected Completion	% Leased / Pre-Leased
PBS Systems Building	4041 - 128th Avenue SE	80,000	Q4 2020	100%
Poplar Centre	5512 Macleod Trail SW	69,000	Q1 2020	65%
Bow45	4620 Bow Trail SW	24,000	Q2 2021	0%

Suburban South New Supply				
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%
Spider Block	3001 - 14th Street SW	30,800	Q4 2019	100%



Calgary Office Market Outlook

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