

TOC Page 1 - What if Lower for Longer is True? - Part III
Page 4 - Answering the Call
Page 6 - BOMA Insider
Page 9 - Out of Business or Opening Soon?



By Sandy McNair

What if Lower for Longer is True? - Part III

Succeeding in both hot and colder business climates

Not long ago, for many people, Lower for Longer referred to interest rates. Today for many Canadians and most every Albertan Lower for Longer is an even more compelling reference to oil prices and in turn business and consumer confidence as well as growth rates. That is, the rate of growth of the economy, the local population, the participation rate and the employment rate. With implications across Canada, Alberta's, Saskatchewan's and Newfoundland's economic performance has shifted from being one of Canada's key growth engines and performance leaders to the other end of the continuum. For those in the commercial real estate market, Lower for Longer may also be a comment on future rents.

In this article we will explore several future scenarios by taking a close look at our history for lessons with

potentially surprising outcomes for our commercial real estate markets.

Back to the Future – Any Useful Insights and Lessons from 1982?

Between 1979 and 1983 Calgary experienced a growth spike of magical proportions. During those frenzied five years, the total inventory of office space in Calgary more than tripled. In 1981 more than six million square feet was completed. In each of 1979, 1980 and 1982 more than four million square feet was completed with slightly less than four million square feet completed in 1983 for a five-year total of 23.8 million square feet. That's more than what has been or will be completed in the 11 years from 2007 to 2017.

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On a Friday in February of 1982 Calgary's boom ended. Expectations of \$60 per barrel oil were crushed and eventually met a \$10 per barrel reality. Expectations of the then current interest rates of 16 per cent shifted from declining to increasing. By August of 1982 interest rates reached 21.75 per cent. In addition, the federal government's national energy program shifted from being a remote risk to a reality. Until 1982, exploration was a key engine within the energy industry. At that time the hunt for energy included exploratory drilling in the Arctic and elsewhere. By comparison today's energy industry is driven by mining, horizontal drilling and other emerging and breakthrough technologies. A candid look at the energy industry's current and near-term opportunities will include a new-found and mission-critical focus on cost control to match market prices, net of delivery to market costs, even better use of technology as well as environmental stewardship, credible monitoring and compelling communication initiatives.

During the 11 years of 2007 through 2017, Calgary has and will continue to experience another spike in new supply of office space. Perhaps surprising to some industry participants, taking a deeper look at the facts reveals much. While significant, this 11-year cycle has been much less frenzied with less than three million square feet per year being completed and being delivered into a much larger marketplace. Also of note is that 10 million square feet, almost half of the total, has been completed in the beltline and suburbs, shifting the breakdown of total inventory for downtown/beltline/suburbs to 62/12/26 per cent from a breakdown of 64/12/24 per cent in 2006 and a breakdown of 67/12/21 per cent in 1999.

Being human, we all have built-in survival strengths and a few weaknesses. Straight-line thinking is one of those built-in weaknesses. When things are good, like the economy, we expect them to get even better. And our natural predisposition is that a weak economy will get worse. Perhaps this is left over from the fight-or-flight imperative with natural selection over thousands of years favouring flight. In any event most of us do not see the corners in advance. One of the key lessons from 1982 in Calgary is that following the downturn, a bottom is found, but too often straight-line thinking delays and impairs the shift in confidence that contributes to the economy moving ahead. This pattern will likely repeat.

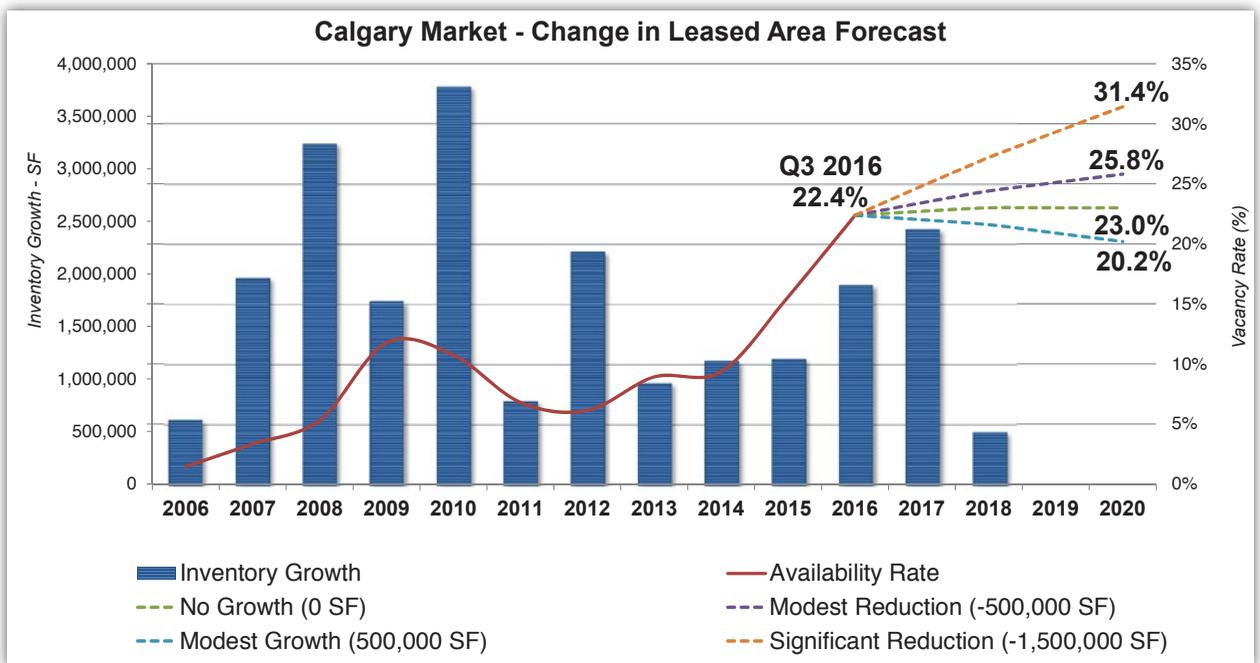
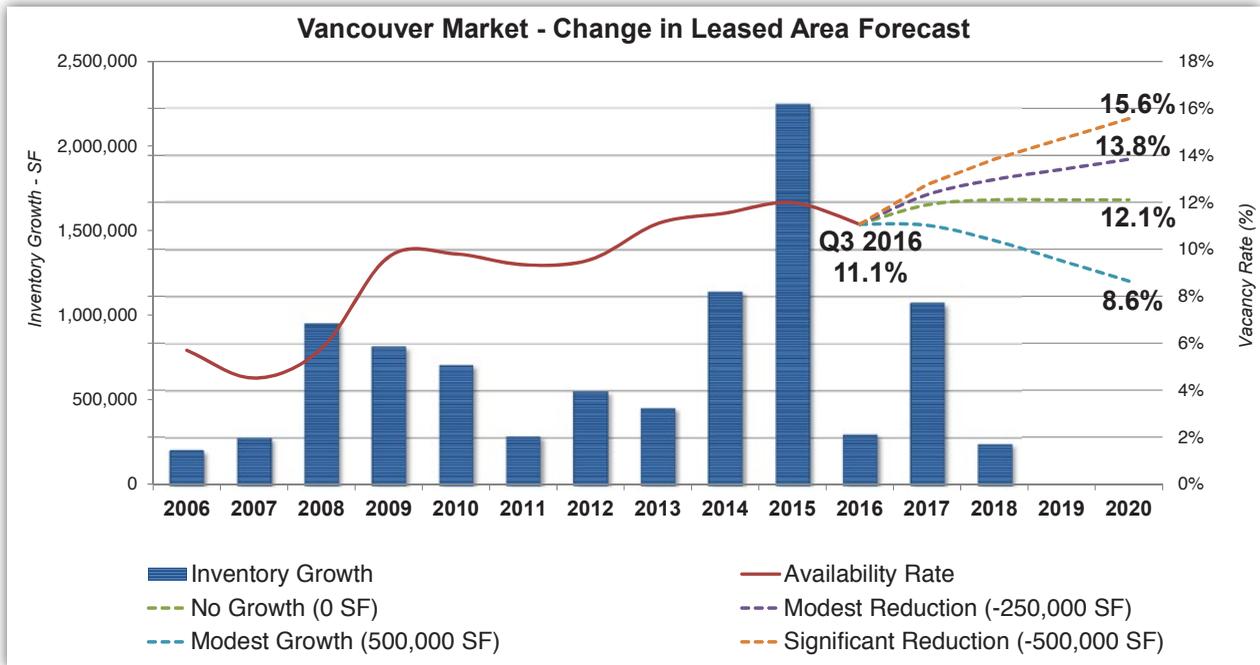
Calgary specifically and most of Canada have the highly-skilled people with "can-do attitudes and cultures" who will pivot and eventually generate new and compelling opportunities.

Alternate Scenarios for the Future

No one can know with precise timing what the future will bring. There are so many variables and way too many potential combinations of local, national and global outcomes to know clearly what will happen next. What we can do is prepare for a range of different futures and scenarios. Stress test. Listen. Think.

Here is but one simplified example of looking at several future scenarios. Perhaps it will inspire you to think about your properties' and portfolios' futures. We would welcome the opportunity to contribute to your processes and thinking.

To help inform each of the forecasting scenarios in the graphic on the opposite page, we have reviewed the 10-year change in leased area (sometimes referred to as absorption) data. The 10-year average for Greater Vancouver is 494,000 square feet with the single year high at almost 1.87 million square feet and the single year low at 1.61 million square feet. For Calgary, the 10-year average is 973,000 square feet with the single year high at nearly 4.94 million square feet and the single year low reaching 3.13 million square feet. While these outliers are single year results they reinforce the need to



look at multiple scenarios as it is unlikely the next five years will resemble the average of the past 10 years.

Preparing to Win or Waiting for ...?

Those who win big, really big, have a pattern of becoming very busy and focused when others are

slowing down, or even hiding while waiting for confirmation of the next upward trend. Those who seek to outperform their peers will be well served to take a similar approach.

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By Lloyd Suchet,
Executive Director,
BOMA Calgary

Answering the Call

As a society, we have made remarkable strides over the last decade in understanding our effect on the environment around us, and developing innovative ideas to lessen our impact. As customers have demanded more sustainable products, and as governments have developed more stringent environmental policies, a wide array of industries have answered the call.

In 2005, the commercial real estate industry in Canada recognized that commercial buildings have an important role to play, and developed a unique, voluntary program designed by industry for industry. That program is BOMA BEST®, and with over 5,000 buildings certified since 2005, it is Canada's largest environmental assessment and certification program for existing buildings. BOMA BEST® has been so successful because it focuses on the things a building manager can control by providing a consistent framework for assessing the environmental performance and management.

BOMA BEST® buildings submit an assessment that is subject to an on-site third-party verification, and are then certified to a level based on their score for three years before they must re-certify. But it doesn't end there as BOMA BEST® is designed to promote continuous improvement, and indeed the data shows that nearly a quarter of BOMA BEST® re-certifications obtain a higher level. The ability for existing buildings to actually improve their environmental performance as they age is an important achievement that cannot be overstated. While new and high-performing buildings are impressive in the way they use new technologies to lessen their environmental impact, they only make up a small proportion of building stock. This means we can make a huge impact by promoting the continual improvement of our older buildings, and this is a task BOMA BEST® is uniquely suited for. The results so far speak for themselves - since 2008, BOMA BEST Bronze and higher buildings have seen a 15 per cent decline in energy use intensity.

Here in Calgary, BOMA BEST® buildings not only have a leg-up in controlling energy costs as the provincial carbon tax comes into effect, but they also have a tangible impact on the tenant. Being that we spend about 90 per cent of our time indoors, it should bring comfort to tenants that BOMA BEST® buildings are being proactively managed to create cleaner, healthier working spaces. In fact, last year the Journal of Portfolio Management published a paper showing BOMA BEST® certified buildings in Canada have higher levels of tenant satisfaction. Given the way BOMA BEST® promotes lower energy and water use, cleaner indoor air, better waste diversion and so on, these results should come as no surprise. So next time you walk into a building, look for the BOMA BEST® logo on the doors or in the lobby and appreciate that those building owners and managers have shown a real commitment to a more sustainable built environment.

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BOMA Insider



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Warren Paulsen & Elton Ma from Brookfield Residential were our guest speakers at the BOMA October Luncheon

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Colliers team accepts their BOMA BEST certificate on Silver Level for 8 West.



By David Parker

Out of Business or Opening Soon?

One has to commend Calgary Economic Development (CED) on its enthusiastic approach of trying to persuade corporate headquarters and branch plants to Calgary. Working with \$2 million from Alberta Economic Development and Trade and \$1 million from Western Economic Diversification Canada, the campaign will target the key sectors of agribusiness, transportation and logistics, renewable and clean energy tech, financial services and creative industries.

A good result would bring huge economic benefits to the city, but I wonder how CED expects to achieve the results. I suggest another approach would be to ensure the ones already here are able to sustain their businesses.

Too many are shutting down due to the cost of doing business in Calgary. We all love the city, but higher assessments, rent increases, city hall development delays and increases in minimum wage equals tough times for many.

Escoba Bistro & Wine Bar's website now says: "Out of business due to the challenging economic climate in Alberta, worsened by our civic, provincial and federal governing bodies." BoConcept, the Danish design store on 11th Avenue SW, has posted it is leaving town. I've been told the Social Page on the corner of 8th Street and 10th Avenue is also closing.

One of CED's targets is the creative industry, yet Marketing magazine reports Travel Alberta has hired DentsuBos, a Toronto-based agency with no offices in the West, to help attract more Asian tourists to the province. We have exceptional creative talent in this province - and they must be given opportunities to work for government agencies.

But the good news is companies are still coming.

At the recent very well-attended NAIOP Real Estate Market Update breakfast, Bernie Bayer of Taurus Properties reported that although rental rates in strong suburban shopping centres are flat, the overall retail vacancy is estimated to be only at four to five per cent.

Downtown street-front retail is at 20 per cent, thanks somewhat to fewer people working downtown and the tough selling job for street-front spaces like Eighth Avenue Place where bicycle lanes impede deliveries, but at top performing power centres it is virtually zero.

Southcentre has welcomed a massive 44,000-square-foot Sporting Life, the first in Western Canada, and a second location is planned for the former Target space in Market Mall.

We look forward to Simons Department Store opening in the Lancaster Building along Stephen Avenue Mall and the huge Saks Fifth Avenue that is taking 116,000 square feet on two levels of Chinook Centre.

Add to these the 50,000-square-foot Cineplex Rec Room at Deerfoot City, two new MEC stores, the large new Bank of Nova Scotia branch, as well as 200,000 square feet of office space in the well underway Brookfield Place - and there is some bright spots on the horizon.

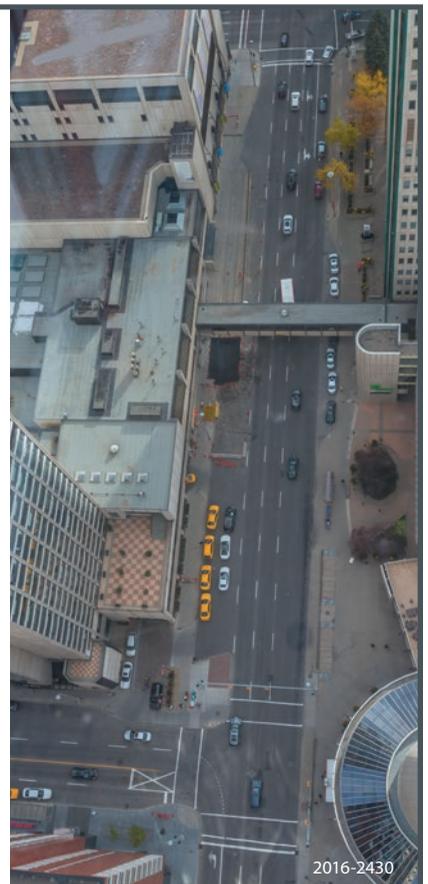


What goes up shouldn't come down.

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Do you own or operate a building that is five storeys or taller? What you need to know:

calgary.ca/buildingmaintenancebylaw



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