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By Sandy McNair

What if Lower for Longer is True? - Part II

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 identify the current industry-wide as well as the city-specific dynamics that make today

unique with potentially surprising outcomes for our commercial real estate markets.

Shifting Industry-Wide Drivers and Dynamics

The fundamentals of supply and demand will always matter and impact all commercial real estate industry participants. Yesterday, today and tomorrow are different from each other. Understanding the underlying drivers and resulting dynamics is a key early step to successfully preparing for the future. Here are five recent and likely ongoing shifts in the drivers for us to explore more deeply as we anticipate the future of specific markets, portfolios, neighbourhoods, occupants and buildings:

Become part of a vibrant, connected, exclusive network.

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• More New Supply

- driven by ongoing pressure from institutional and other investors to place capital;
- appeal of new buildings to occupiers in their “battle for talent” by using new technology at higher densities;
- results in many occupiers more intensely using less but better space;
- presents existing buildings with uneven but significant challenges as supply is no longer being driven by incremental demand.

• Intensification

- accelerating focus on and successes with work/live/learn/shop/play spaces and buildings at downtown and other significant nodes with significant and varied impacts on vibrancy and value.

• Fragmentation

- viewing buildings within the same asset class or geographic market as equivalent or homogeneous is flawed - the averages are dangerous;
- we all need to dig deeper into the details including new attributes and details to understand the risks, strengths and options.

• Conversions and Next Best Use

- identifying and understanding the full range of options and probabilities;
- being ready to go beyond upgrades and repositioning into repurposing as part of a future-proof plan as opposed to hoping to avoid becoming a distressed asset/owner with only the more desperate options remaining.

• Operational Excellence

- new and evolving expectations of tenants and other stakeholders reward those commercial real estate owners, managers and leasing experts with the desire, processes and ability to create, shape, fulfil, communicate and manage expectations in an evolving market;
- superior returns will be even more directly linked to tenant satisfaction, referral, recommendation and retention. Deeply understanding the leading indicators to these outcomes has become the key differentiator in markets that are increasingly over supplied.

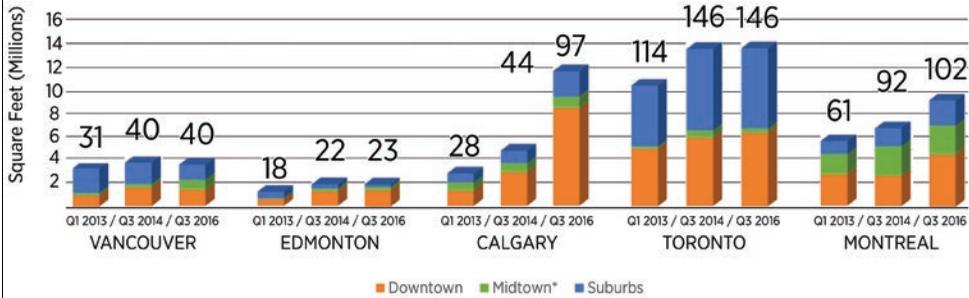
City-Specific and Neighbourhood-Specific Variations

The markets have fragmented and the averages are dangerous. Within the same city, the differences in performance and direction can be stark. In our ongoing search for leading indicators, analytic tools and techniques, we have been isolating and tracking office buildings with one acre or more of space available for lease. As the graphic on the right summarizes, the pattern in Vancouver and Edmonton is more muted than Montreal and Toronto, with Calgary experiencing the steepest increase in both the number of buildings and the total amount of available space in the “One Acre Club.”

In Calgary there are now 81 buildings in the “One Acre Club” that contain in aggregate more than 10 million square feet of available space, or an average of almost three acres for each of those 81 buildings. Only three years ago in Calgary, there were 28 buildings in the “One Acre Club” containing a total of 2.8 million square feet of available space for an average of 2.3 acres per building. Revealed within this data is the relative stability of Calgary’s beltline. In suburban Calgary, the number of buildings in the “One Acre Club” has held steady during the past three years while the total available space has doubled, compared to the 5.6 times increase in the total available space in the “One Acre Club” buildings in downtown Calgary.

Impacting Future Market Behaviour, Performance, and Value

Office Markets Across Canada Number of Buildings & Total Available Area in the 1 Acre Club



Each of the "1 Acre Club" buildings contain more than 43,560 square feet of space available for lease in existing and under construction office buildings as of July 20, 2016.
 Midtown refers to Vancouver Outlying Area in Vancouver, the Government District in Edmonton, and the Beltline in Calgary.

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The premise behind tracking changes in the "One Acre Club" is that the owners, managers, lenders and leasing teams associated with these larger blocks of available space have a material impact on future market behaviour, performance and values in both up and down cycles.

Alternate Scenarios for the Future

Next quarter we will explore future scenarios for Calgary's office markets along with the drivers and logic behind each scenario.

SANDY MCNAIR IS THE DATA CURATOR OF ALTUS DATA SOLUTIONS, A DIVISION OF ALTUS GROUP. IN JANUARY 2016 ALTUS INSITE, REALNET AND SEVERAL OTHER BUSINESSES AND TEAMS WITHIN ALTUS GROUP WERE INTEGRATED TO FORM ALTUS DATA SOLUTIONS. SANDY.MCNAIR@ALTUSGROUP.COM

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Taking Home the EARTH Award

Equium Group's Jonathan Lachance
talks about the experience

On Thursday, May 12, 2016 at the Westin, the Building Owners and Managers Association (BOMA) of Calgary recognized leaders in commercial real estate at the TransCanada BOMA Excellence Awards.

Managed by Equium Group, 639 5th Avenue was the recipient of the EARTH Award, the most rigorous of the awards standards which recognizes buildings that excel in environmentally sound management and resource preservation, and includes occupational health and safety criteria. We interviewed Jonathan Lachance, general manager of Equium Group, about his experience with the BOMA Awards program.

Why did you decide to submit for the Awards this year?

Our organization's core values are based on the notion of sustainable property investment (SPI). Given this notion, we submitted the EARTH Award application due to the recent awards and recognition obtained from BOMA and NAFA, including BOMA BEST Gold (83%), BOMA 360 and the Clean Air Award representing best management practices in the commercial real estate industry.

What benefit, if any, did you find going through the Awards process?

The application provides candidates the opportunity to benchmark best management practices within the field of sustainability and may serve as a template for building

performance enhancement which is a key function towards the overall asset management strategy for commercial property investment.

How has the winning in this category affected your team? Your clients or organization?

Sustainable management practices are no longer optional for commercial property owners. Numerous studies have depicted the premiums associated to sustainable best management practices. These practices are essential in remaining competitive within the market through tenant retention, operating cost reductions and net operating income (NOI) enhancement, which affect the valuation of income-producing assets. Obtaining the BOMA Calgary EARTH Award depicts Equium Group's commitment towards sustainable management practices, which was greatly appreciated by all of its stakeholders including tenants, vendors and our client, Northam Realty Advisors Limited.

What would you say to a company or team that is thinking of entering the Awards next year?

We would recommend that candidates take the time to review the application as soon as it is made available. The requirements are extensive and should not be taken lightly. Regardless, if the application is successful, the EARTH Award is a great opportunity to learn and benchmark sustainable best management practices within property management.



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BOMA Insider



Excellence Awards Recipients



The Property Management Team of the Year - Bow Valley Square, Oxford Properties Group



TOBY Medical Building - East Calgary Health Centre, Bentall Kennedy (Canada) LP



The Building Operations Team of the Year - Keynote One Office Tower, Triovest Realty Advisors



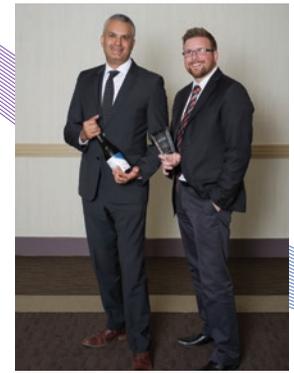
The Malcolm Bryce Award - Tanya Marsh, Cadillac Fairview



The EARTH Award - 639 5 Avenue SW, Equium Group



TOBY Retail Building - Westhills Towne Centre, Triovest Realty Advisors Inc.



The Pinnacle Award for Innovation - ENMAX Energy



TOBY Over 1 Million sq/ft - Eighth Avenue Place, Hines Canada Management



Building Operator of the Year - Matthew Topolovich, Aspen Property Management



TOBY Under 100,000 sq/ft - Quarry Park Professional, Artis REIT

Calgary



It's time to recycle more than this magazine

Nov. 1, 2016 – New recycling requirements for business

Many businesses and organizations are doing a good job recycling, but we need to do more. Nearly 60 per cent of garbage from businesses could have been recycled, but instead goes in the landfill.

Effective Nov. 1, 2016 a new recycling bylaw will require all businesses and organizations to recycle the following:



paper & cardboard



plastic film & containers



metal



untreated wood



glass

Is your business ready?

Contact your garbage collection company or visit calgary.ca/businessrecycling to learn more.

2016-131



TOBY 250,000 – 499,999 sq/ft - Intact Place, Bentall Kennedy (Canada) LP



TOBY Industrial Building - Foothills VII, TOBY 100,000 – 249,999 sq/ft – Plaza 1000, TOBY Retail Building - Westhills Towne Centre, Triovest Realty Advisors Inc.



TOBY Historical Building - Lougheed House, Alberta Infrastructure



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By David Parker

Strolling Around Calgary's East Village

Meeting a couple of friends for lunch at Charbar - loved the charred napa cabbage salad - I took the opportunity to take a good look around East Village, for the first time.

I've been around this city long enough to have lived through several planning sessions for the area, unfortunately divided from the rest of downtown by the 'wall' created by a city municipal building with a block-long backdrop.

I did get excited about what I thought would be a great saviour for the lands when a development around a canal system was presented with restaurants and shops along its banks, but it too was rejected and we waited again.

But this time, it is working.

Thanks to a decision by council to increase the taxable area of the East Village boundaries, the money was found to build up the infrastructure and then thanks to some masterful salesmanship on behalf of the newly formed Calgary Municipal Land Corporation and the willingness of some gutsy residential developers - it is indeed working.

More people will become residents as soon as the towers are completed, but thanks to the Simmons building (that houses Phil & Sebastian, Charbar and Sidewalk Citizen Bakery) many are getting exposure to the district that is bustling with construction.

The very good-looking National Music Centre is open along the 9th Avenue south edge of the community and the Central Library will become another modern icon. They mix well with the "I'm so glad they kept" St. Louis, Hillier Block and King Eddy. Seems a long time since we enjoyed our chicken and chips at the Louis while listening to the "live" horse races.

Anyone still remember the Safeway store in East Village? Getting groceries must be a problem for residents today - and for people living in neighbouring Inglewood and Bridgeland - so the decision to build an urban Loblaws store on the site of the former Calgary Police Association building is of huge benefit to the entire development.

Over \$500 million is being invested in this collaboration of RioCan and Embassy Bosa Inc. to bring another 500 condos to the site - Bosa has committed to a total of 1,100 multi-family units in East Village - plus around 188,000 square feet of retail.

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On the east side of the Simmons Building, the M2 building is beginning construction and will be another exciting addition - a 20,000-square-foot modern block that spills out onto the RiverWalk and will be home to two more restaurants with upper floors of classy office space.

Scheduled to open in September is another confident investment into East Village - two Hilton hotels by Widewaters. Homewood Suites by Hilton and Hilton Garden Inn will offer over 300 rooms, the first by Hilton in Calgary's downtown core.

A stroll around East Village gives one a confident feeling about what was a forgotten area of the city. It has, or has planned, lots of public spaces like 5th Street Square, Celebration Square and Crossroads and there's the new bridge over to St. Patrick's Island (does anyone remember its new name?). Add to that the soon to be opened renovated Deane House restaurant, which is walking distance around Fort Calgary.

I just wish there was a walkway through the municipal building from the library all the way onto Stephen Avenue to really bring East Village into downtown.