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What Happens Next?

A Candid Look at Calgary's Office Market

By Sandy McNair

Looking at the history of Calgary's real estate markets provides valuable perspective as we anticipate the future. Calgary's office markets experienced a hard landing in 1982. On a single Friday afternoon, the architectural firm I worked for received news from four different clients that each of their 50-storey office towers were now cancelled. But by then it was already too late for a soft landing. As the 60-year completions chart shows (see page 2), 23.8 million square feet of office space had been or was about to be completed in a brief and frenzied six years (1978-1983). This compares to the 15.8 million square feet of office space that has been completed in the eight-year period from 2007-2014 with another 6.1 million square feet due to be completed during 2015-2018. So this 12-year new supply cycle (2007-2018) will add a total of 21.9 million square feet to the office inventory.

Unlike today, the office inventory in the late '70s and early '80s was growing faster than the economy or the population of office workers could grow. As the inventory growth chart shows (see page 2), inventory growth rates in the late '70s ranged from 10 per cent to 20 per cent or more. The economy, the population and the pool of office workers could not grow that fast, even including the impact of workers shifting from farm, ranch or factory work to office work and, as a result, the Calgary office market experienced a very hard landing. Interest rates that spiked at 21 per cent, oil prices that failed to reach the anticipated $60 a barrel and bad policy from Ottawa made matters worse.

The office inventory growth rate in the current 12-year cycle has been roughly four per cent which is closer to actual economic growth rates, actual population growth rates and the office worker growth rates that Calgary has experienced.

The outlook, however, is less clear. Currently, the wind is no longer at our collective backs. Interestingly, only six years ago in Q1 2009, Calgary and the entire planet were in the midst of the global financial crisis with everyone addressing uncertainty, sharp declines in confidence and pricing. No one knew that by Q4 2009 a full recovery for Calgary and Canada would be well underway.

In Q1 2009, expectations included widespread, significant and prompt reductions in headcount in banking, energy and other key Canadian sectors. Those expectations were well ahead of actual behaviour. By 2010 the banking and energy sectors were growing their office footprints not contracting them.

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Business in Calgary

1025, 101 - 6 Ave. SW, Calgary, AB T2P 3P4
Tel: 403.264.3270 • Fax: 403.264.3276
info@businessincalgary.com
www.businessincalgary.com

BOMA Calgary

120, 4954 Richard Road SW, Calgary, AB T3E 6L1
Email: info@boma.ca • Web: www.boma.ca
Tel: 403.237.0559 • Fax: 403.266.5876

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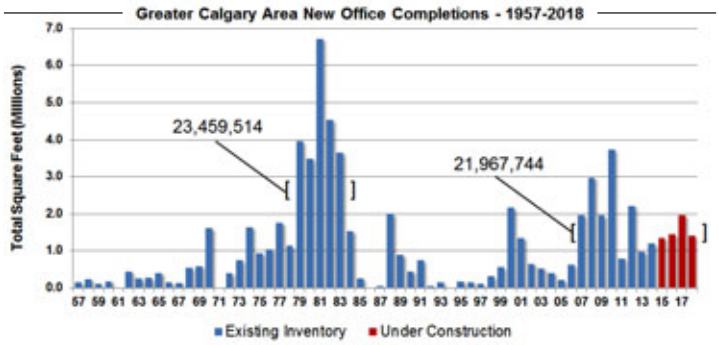
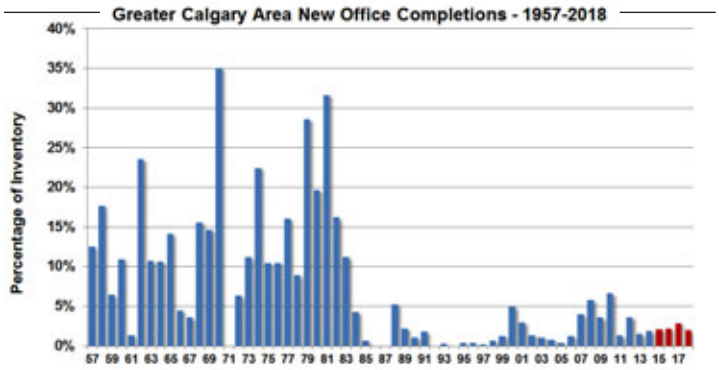
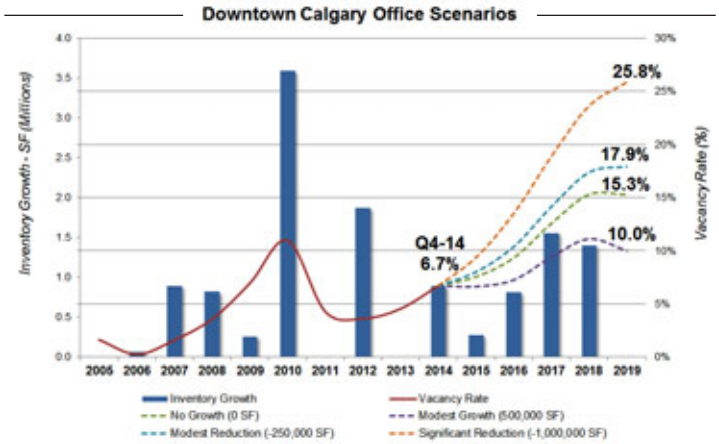


4 million SF is Under Construction in Downtown Calgary
2.1 million SF is Under Construction in Calgary Beltline and Suburbs



Current Inventory Growth Rates approximate GDP, Population and White Collar Growth Rates



Today no one can know how much further confidence, pricing and activity will decline and when and at what pace they will recover. We do know that Calgary's energy firms, the engineering firms and their advisers have assembled and invested in uniquely talented people, so letting huge numbers of them go will be both painful and expensive.

Looking ahead, many different scenarios are possible. As reference points we have generated four scenarios focused on downtown Calgary's status in 2019. Each scenario is anchored by the current market inventory, available and vacant spaces and all the known commitments to take space in existing buildings or those currently under construction as well as the known and estimated backfill implications reaching out to 2019. The four scenarios then depart from each other in the extent of incremental annual demand for each of 2015 through 2019. The scenarios are no growth, modest growth, modest reduction and significant reduction. As indicated in the Downtown Calgary Office Scenarios chart above, these four scenarios generate 2019 vacancy results swinging from 10 to 25.8 per cent.

While there have been single years of significant reduction, this significant reduction scenario anticipates office worker reductions of more than 4,000 per year for each of five years – a truly painful recession with a magnitude and duration not experienced since the 1980s and early 1990s. The other three scenarios more realistically bracket the range of outcomes based upon current behaviours. Given that most everyone who has less than 20 years in the industry has avoided working through a real recession, a few comments may be helpful. If a recession bites in and grinds on, senior managers and business owners are required to make many difficult trade-offs based upon imperfect and flawed information. Examples include: act quickly or defer making overhead and capital project reductions; one large cutback or several smaller ones; reduce pay across the board or eliminate a smaller number of positions; merge or survive solo; move to new, better or more frugal space or sit tight; re-stack and sublet some space or sit tight; increase density or retain current layout; consolidate locations or sit tight; and so on. Identifying and isolating threats, opportunities and distractions is often one key to surviving and thriving.

Certainly, the overall availability and vacancy rates are important but there are other important factors to consider. First, there are many different office markets within Calgary. Downtown, beltline and suburbs all have distinct features and drivers. However, within downtown the options for tenants vary by size of space – small, mid-size, large and very large tenants all have very different choices, preferences and strategies to win the battle for talent. The number of appropriate choices matters. Second, the velocity in the leasing market

Pockets of Pain / Opportunity – The Extent of Concentration of Total Available Space

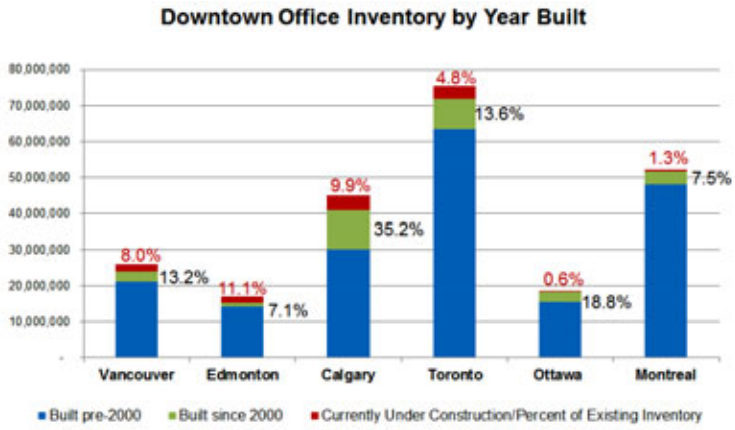
The 8 Buildings with the Most Available Space Compared to the Rest of the Class A Downtown District

Total Available Rates	Vancouver	Edmonton	Calgary	Toronto	Ottawa	Montreal
8 Buildings with the Most Space Available	25.5%	26.6%	21.5%	24.2%	13.7%	32.5%
Rest of Class A Downtown District	6.2%	3.5%	4.0%	7.9%	3.1%	8.0%
All of Class A Downtown District	9.9%	9.3%	7.0%	11.3%	7.2%	12.9%
% of Total Available in the 8 Buildings with the Most Space Available	49%	72%	53%	45%	73%	51%

can affect pricing as much or more than the vacancy rate. A market that completes a lease transaction each week will have different pricing than a market that completes only one leasing transaction a quarter. While most landlords benefit from a tight market, as it softens, pain will be felt, but it will not be felt equally.

Currently, there are a few very large blocks of space in a relatively small number of buildings. The chart on page 4 looks at the eight buildings with the most available space when compared to the rest of the class A downtown office market. Right across the country, the contrast is stark and largely driven by tenants moving to the large buildings that are under construction.

Another reason why the anticipated pain will not be felt evenly across the market is the age, design, management and investments made in improving the buildings and occupier experiences vary so widely. The chart at the beginning of this article and the one above addresses the barbell distribution of Calgary's office inventory. The pre-1983 vintage and post-2007 vintage buildings may find themselves competing more often than anticipated for increasingly discriminating tenants. Those that truly succeed will be using more tools than simply price.



So while there are many risks and room for significant positive and negative surprises, participants in Calgary's office markets will be fully engaged with their eyes wide open and an opportunity to utilize all of their tools, skills, energy and persistence.

SANDY MCNAIR IS THE PRESIDENT OF ALTUS INSITE, A DIVISION OF ALTUS GROUP. SINCE 1997 ALTUS INSITE HAS CONDUCTED MORE THAN 1.8 MILLION TENANT SATISFACTION SURVEYS FOR MANY OF CANADA'S LEADING OFFICE BUILDING OWNERS AND MANAGERS. CONTACT SANDY.MCNAIR@ALTUSINSITE.COM OR VISIT WWW.ALTUSINSITE.COM.

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Ken Dixon, BOMA Board Chair, presenting Bill Partridge with a painting by William Duma as a retirement gift.

Fred Edwards donates $100K to the BOMA Calgary Foundation.

Carmel Smetschka and Steve Walton, Golf Committee Co-Chairs present the ENMAX BOMA Golf Classic donation to the BOMA Calgary Foundation.

BOMA Board Members (from left to right) Dustin Engel, Chris Nasim, Ken Dixon, Richard Morden

David Parker and Lee Thiessen

Bill Partridge and Don Fairgrieve-Park

Redeveloping Calgary's Transit Vision

By Lloyd Suchet,
Director Government
& Regulatory Affairs,
BOMA Calgary

As many Calgarians can attest, taking a bus to the C-Train station negates most of the benefits to taking the C-Train in the first place. City policy should make it easier to ride transit, not more difficult.

Not far from my home is the Westbrook Station - a part of the new west leg of the C-Train. The station itself is modern and functional, with an attractive exterior and office space above the station. But it is the land around the station that first catches one's eye when passing on 17th Avenue SW. The station is surrounded by bare land, or rather, mud in the winter and dust in the summer with a sprinkling of windblown trash. Thankfully, this eyesore has an end game that nicely illustrates the promise of a relatively new concept for Calgary – Transit Oriented Development, or TOD. TODs take advantage of transit hubs to create dense mixed-use development with residential, retail and office property. In short, a transit hub attracts people, who in turn attract businesses, and TODs are the planning mechanism that enables this type of community.

TODs for new stations like Westbrook are somewhat straightforward as the land around the station has been appropriated. But what about existing stations on older train lines? This past fall the city released their plans to redevelop the 20 acres around Anderson Station from its current use as a park-and-ride lot, to a TOD. This is valuable land that the city hopes to develop, however – unlike the Westbrook site – it means a loss of some 1,250 park-and-ride stalls. This, naturally, is unwelcome news to those residents who use the C-Train, and should be unwelcome news to anyone who thinks that improved transit is the best way to accommodate commuters as Calgary grows. We can debate the future of Calgary's economy in light of volatile oil prices ad nauseam, but throughout booms and busts, the population in recent decades has always increased and urban planning should recognize this. Likewise, despite physical constraints, downtown Calgary will continue to be the most dense cluster of employment, which transportation planning should (and does) recognize. Consequently, the amount of workers downtown will continue to increase, while the road infrastructure will not. In fact the city seems determined to actually decrease the amount of driving lanes to make way for bicycles. So how will workers get downtown in the future? Bicycles, which currently account for two per cent of downtown trips, may see some uptick as the city builds new cycling infrastructure, but cannot be expected to shoulder the load. Instead the job will fall to transit, which in 2011 for the first time was responsible to transporting half of downtown workers from their communities to their offices.

This brings us back to Anderson Station, and how the city plans to redevelop other C-Train sites in the future. If we expect and rely on transit to handle the increase in workers downtown, it would seem an odd policy to remove the park-and-ride stalls that accommodate many of the workers. As many Calgarians can attest, taking a bus to the C-Train station negates most of the benefits to taking the C-Train in the first place. City policy should make it easier to ride transit, not more difficult.

Mayor Nenshi has subsequently floated the idea of changing city policy to ensure parking is not lost at C-Train stations as the area is redeveloped, which would likely mean multi-level parking structures to replace the surface lots. This idea should be seriously looked at as a solution to the dilemma of TODs. Ideologues who attempt to pit cars against bicycles, and urban versus suburban residents, serve no productive purpose. This issue provides a unique opportunity to grow and develop Calgary in a way that benefits everyone. The city can redevelop land to a more productive use like a TOD, while continuing to make it easier for residents to use transit. I hope we don't squander the opportunity.

Calgary's Sky Refusing to Fall

By David Parker

No doubt there will be many affected by the current blip in our economy. But I don't believe the sky is falling and we have much to be thankful for.

Yes, the oil and gas industry is a huge driver but fortunately in a city of around 1.2 million we have other strengths thanks to a planned diversification program that began many years ago.

A key is the huge industry that has developed because of the growth of our transportation sector.

I can remember sitting around the Calgary Economic Development Authority boardroom table some 25 years ago talking about how we could prosper as a distribution centre for Western Canada. We had the Trans-Canada Highway; the north/south road corridor all the way down through the U.S. to Mexico; transcontinental rail lines; and our airport was growing at a remarkable pace.

Decision made and we set about targeting companies. And I well remember Westfair Foods being the first major to relocate its distribution centre here because I took the telephone call from a furious Winnipeg alderman who was not too pleased at losing a big company.

That was the trigger that caused the explosion that has seen this city indeed become a very busy transportation hub with the construction of hundreds of thousands of square feet of warehousing and distribution facilities. And they brought the need for the development of intermodal yards for both CN and CP Rail helping to bring a huge increase in the amount of truck sales and service. Many run in and out of the airport's Aero Drive where the package delivery companies have their sorting facilities.

Most of the major national retailers own or have use of distribution facilities in Calgary. For instance, Walmart not only has the huge building and yard by Supply Chain Management south of McKnight Blvd. NE but has built in the industrial lands to the east of the QEII in Balzac.

Thanks to lower land costs and no business taxes that area continues to grow like topsy – including the casino and racetrack that appear to be finally on the right track – and although we have to wonder what will happen to the one-million-square-foot Target centre, Ross Perot Jr. is going ahead with a 500,000-square-foot warehouse nearby.

There seems to be no let-up in office tower construction in downtown, condominiums are rising or are in the serious planning stages, and Calgary is still an exciting target for light industrial.

There seems to be no let-up in office tower construction in downtown, condominiums are rising or are in the serious planning stages, and Calgary is still an exciting target for light industrial.

Looking over the map in the BOMA Calgary Building Guide, it is easy to see the industrial growth up and down the east side of the city.

A good example of the confidence in Calgary is the focus here by Vancouver-based Beedie Development Group.

It began its foray into Alberta with the development of Highland Park Industrial in Airdrie where the massive Costco warehouse is located, and has now branched out into the southeast with a 130,000-square-foot distribution centre for Tree of Life and other warehousing and industrial bays in East Lake, Starfield Industrial Park and its biggest to date, a 235,000-square-foot centre for PTW Energy Services in Frontier Business Park.

The sky might look a little darker for some but the sky is not falling on Calgary.