



By Sandy McNair

Searching for a Leading Indicator to Future Performance of Calgary's Office Markets?

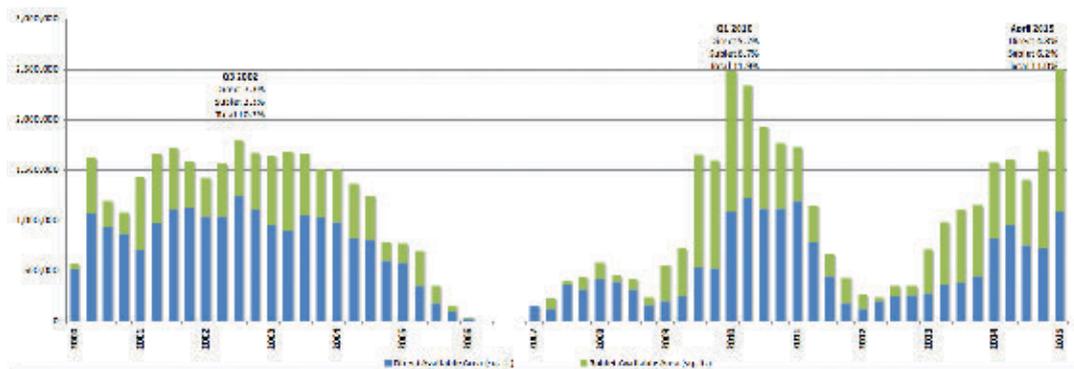
A Close Look at Sublet Available

Much like the canary in the coal mine in the early 20th century, sharp increases in the amount of office space available for lease on the sublet market is often viewed as a key leading indicator of danger. Noticing that your canary had died meant you had better get above ground fast before you died, too. As early warning systems go, this may have been much better than nothing, but still had material drawbacks.

During the past seven months, the amount of office space available for lease on the sublet market in Calgary's

central core class A buildings has leapt from 646,819 square feet or 2.8 per cent in October 2014 to 1,515,840 square feet or 6.6 per cent of the total inventory today. The current conditions nearly parallel those of July 2009 when 476,108 square feet or 2.6 per cent of the total inventory was sublet available. Only nine months later in March 2010 sublet peaked at 1,406,350 square feet or 6.7 per cent of total downtown central core class A inventory. As the chart below shows, the amount of space available for lease on the sublet market climbed very

Three Available Space Peaks in Fifteen Years



All data current as at 19 April, 2015.

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sharply in 2009/2010 (three quarters) and then again in Q4 2014/Q1 2015 (even faster in only two quarters). The decline in Q2 2010 through Q2 2012 (nine quarters), all the way down to a tiny 40,372 square feet or 0.2 per cent of total inventory was almost as dramatic. While some of this space was leased to new tenants, much of it was taken off the market and retained by the initial tenant.

Even with a canary in hand, there is no way to know if sublet has peaked today or if the eventual decline in sublet will be as sharp or as dramatic as it was in the previous cycle.

Taking a deeper look at the dynamics within the current sublet market begins with understanding the number of big blocks of space, the term remaining and the age of the buildings with sublet space. The five buildings with the most sublet space available range from 229,000 to 95,000 square feet in each building which totals 726,159 square feet or 47.7 per cent of the total sublet available in the downtown central core class A market. The next 15 buildings contain 40.4 per cent of the total sublet available space and the remaining 27 buildings contain only 11.9 per cent of the total available sublet space. As Canada's energy industry has matured the big firms have become bigger resulting in a more fragmented office market where the pressure is more concentrated on a smaller number of buildings rather than distributed evenly across the entire downtown central core class A market.

Looking more specifically at the five largest blocks of sublet space available, the remaining terms on the leases are two years, four months; four years, nine months; seven years, seven months; nine years, nine months; and 10 years, five months from today. Four of these large spaces are located in nearly new buildings, completed between 2005 and 2010. Given the long terms remaining on these subleases (an average of seven years) the pressure is felt less by the owners and managers of these buildings and more by everyone else in the market who is trying to lease any space in the market, be it direct or sublet, under construction, nearly new or pre-2000 vintage. In other cycles, typically the sub-landlords have been willing to discount rents in order to obtain some recovery. However, if the outlook for energy prices improve, we have seen in other cycles some of these sub-landlords retain the space for their own use and retract it from the sublet market. Business confidence and the outlook for future energy markets have a material impact on tenants' office leasing behaviour and leasing velocity.

Another source of pressure is from buildings that are currently under construction. Currently seven office buildings containing four million square feet are under construction in downtown with 942,022 square feet remaining to be leased. These buildings will be completed between 2015 and 2018. These new spaces will be competing with all of the other options including the larger blocks of sublet space available.

Significantly not all of the direct or sublet space currently being marketed is immediately available. Some spaces are not available until a new office building is completed or a major energy project is completed. So far we have only looked at downtown central core class A buildings. Looking at all classes of office buildings across all of Calgary, there are currently 268 sublet spaces available in 127 buildings with a total of 3.2 million square feet of sublet space available.

Much like the canary in the coal mine, a rapid increase in sublet space available signals an increase in danger, but it does not provide very much lead time for office building owners and managers to protect themselves. Operational excellence and tenant engagement continues to play a key role in successful commercial real estate investing and management.



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Calgary Flames President & CEO Ken King at the BOMA March Luncheon. (L-R) Lee Thiessen, Todd Thronsdon, Ken King, Ken Dixon, Steve Walton



Todd Hirsch, ATB Economist, at the BOMA April Luncheon. (L-R) Lloyd Suchet, Todd Hirsch, Ann Loewen, Aydan Aslan, Ken Dixon, Bill Sharpe



BOMA Calgary 50th AGM, Chris Nasim, Chair-elect



BOMA Board of Directors at the BOMA Calgary's 50th Anniversary Reception. (L-R) Steve Weston, Lee Thiessen, Lloyd Suchet, Richard Morden



BOMA Board of Directors at the BOMA Calgary's 50th Anniversary Reception. (L-R) Jay De Nance, Dustin Engel, Lloyd Suchet, Aydan Aslan, Ken Dixon



BOMA group volunteered at the Calgary Drop-In Centre in April



BOMA Members at the Ski Day. (L-R) Graham Halsall, Lloyd Suchet, Michel Luhnau, Randy Yee, David Taguchi



(L-R) Ronay Shelton, Maglin; Aydan Aslan, BOMA Calgary; Victoria Shearer Gryffyn, i-Level Design



Up Close with BOMA's Lloyd Suchet

By Lloyd Suchet,
Executive Director,
BOMA Calgary

Interviewed by Leah Stewart, Chair, BOMA Communication Committee

Lloyd Suchet was appointed as the executive director of BOMA Calgary in March, 2015. After growing up in Regina, Suchet's educational and professional experience took him from Edmonton to Ottawa to Calgary. He brings experience as a former political aide to a member of parliament and a federal cabinet minister and was a policy researcher at the University of Calgary School of Public Policy. Suchet now makes sure Calgary's commercial real estate industry has a voice at every level of government in Alberta.

1. Why does this particular line of work interest you? How did you get started?

Like many people I sort of "fell into" BOMA and commercial real estate. My past experience is in the government and academic research, so when BOMA decided to hire a staff person to lead their advocacy and government affairs files it was a natural fit.

2. How did your previous experience prepare you for this role?

No matter where you work, you likely have some identifiable stakeholder who you are accountable to.

You might refer to them as clients in business, or voters in politics, but it always exists. In government, the way we approached governing was to create and support initiatives that delivered value to Canadians. While we communicated with voters and stakeholders frequently, every four years or less they told us how they felt about it in elections. BOMA is no different in that we are accountable to our members, and therefore everything we do seeks to maximize the value of membership to them. We constantly seek our member's feedback, but at the end of the day they give their final verdict in their decisions to renew their membership or not. So the lesson I have learned that I bring with me to BOMA is that you need to constantly engage with members with the goal of staying relevant and providing that value for membership.

I've also had the advantage of working for a number of great bosses, so I had a solid understanding of my own management style and how to best motivate staff towards our shared goals.

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3. What do you enjoy most about the BOMA community?

This one's easy - the people. And I like the term "community" because that is definitely the way it feels at any BOMA event. What I've noticed since starting at BOMA nearly two years ago is that members really have a sense of shared purpose in promoting the industry as a whole. They give up their time not just to gain experience, but because they believe in what BOMA is doing. So when a group of people dedicate themselves to this shared purpose it is no surprise that a real community atmosphere emerges, and the energy it creates is contagious to me and I hope others.

4. What is the most rewarding part of your job?

The most rewarding part of my job is hearing from members that this program or that session helped them in doing their jobs better. That is the type of value for membership that we are constantly striving for. I certainly wouldn't presume we do everything right all the time, but it is hearing those personal success stories that makes our jobs personally rewarding as staff.

5. What is your five-year vision for BOMA Calgary?

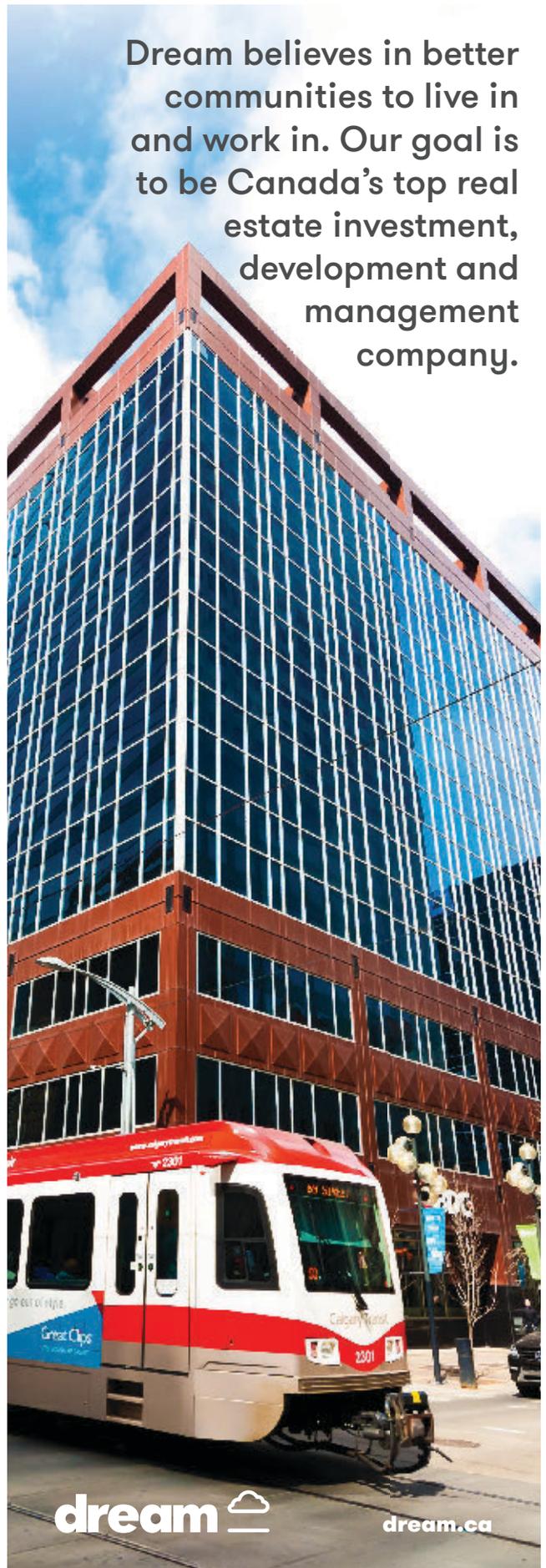
BOMA Calgary just had the benefit of going through a strategic planning process that engaged a wide range of our volunteers and leadership on where BOMA Calgary should be focusing its priorities. The short version is that BOMA should be focusing on advocacy, education and professional development, BOMA Building Environmental Standards (BOMA BEST), and networking. If we focus on those four things and do them well, BOMA Calgary will grow and thrive. This will be achieved through more effective and coordinated committees, and through strategic partnerships with other associations, stakeholders, as well as BOMA Canada and other local BOMA associations. BOMA Calgary's committees have already refocused their work plans and will be expected to show measurable results towards the strategic plan goals. Our vision is to be the valued source of knowledge and leadership for commercial real estate, and this plan will help us get there.

6. How long have you lived in Calgary?

I've been in Calgary for nearly four years now, via Ottawa and Edmonton, but like many Calgarians I was raised in Saskatchewan. Mayor Nenshi actually makes this point often, but my favourite thing about Calgary is that it is as close to a true meritocracy as we have in Canada. Hard work and an entrepreneurial spirit are valued above everything else, and our industry is rife with examples proving this point.

I'm also an avid snowboarder, hiker and fly fisherman so I'd be remiss if I didn't mention the beauty of this area's natural environment and the quality of life it affords all Calgarians.

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By David Parker

A Shopper's Paradise Abounds in Calgary

It was a bit of a squeeze to get through to the BOMA networking function at Township 24 in Bow Valley Square because the bar was packed - and that was at 4:00 in the afternoon. And walking a little later along 8th Avenue Mall it seemed like every restaurant/bar was full of people enjoying an \$8 beer and a \$15 hamburger.

This city is a humming in both the restaurant and retail industries.

And the warmer weather is bringing out many more pedestrians on the mall - until the bikes arrive at least - to wander those bars and stores that stretch from city hall to 8th Street SW.

I wonder if there is another city with so much current expansion going on?

Doesn't seem long since we were wondering if Deerfoot Meadows would be a reality? If the planned expansions at Chinook Centre and Market Mall would be able to attract enough new shops? Yet today there are many more shopping centres and strip malls working on development or big expansion projects throughout all areas of the city.

One of the most welcome will be the coming of retail into East Village; especially a grocery store on the former Calgary Police Association block that will serve a wide audience from Bridgeland to Inglewood as well as downtown.

But people living in the core can also look forward to seeing - at last - the redevelopment of Eau Claire Market that is inching its way through departments at city hall.

People living in the deep south

have no worry of where to buy groceries. Shepard Regional Centre has nine food stores and Seton, already sporting a Save-On, will soon have a Real Canadian Superstore.

Retail was also a while getting off the ground in CrossIron Mills but is bustling today with shoppers making the quick trip from Calgary's northern districts along the so-handy Stoney Trail. Deerfoot Mall was never a huge success but new owner Shape Properties is promising a new name, Deerfoot City, and a pedestrian-friendly re-merchandising of the centre.

Also on the north side of the river, look for a complete change to come to Northland Village Mall. Anchored north and south by Best Buy and Walmart the mall itself will not be recognizable when improvements are made. Same with Stadium Shopping Centre that has been a long time under review but will eventually be reborn into a classy new venue.

The four new highrise condos in Brentwood have already affected Brentwood Village Mall somewhat and watch for the Co-op to be totally revitalized, including a new larger grocery store, gas station and liquor store.

Over on the west side I was excited to see the plans for the lands across the highway from Canada Olympic Park and off one of the city's most affluent corridors, 85th Street SW, to be redesigned with a Main Street stretching eastwards from 85th to 81st, providing locations for more high-end retailers.

Calgary is a shopper's paradise; so let's spend our dollars here.