

# The Occupier

## Year-End Suburban Office Market







## Table of Contents

1. Market Overview
  - Notable Transactions
  - Year-end Vacancy Summary
  - Graph: Breakdown of Vacancy: Headlease vs Sublease
  - Graph: Suburban Office Vacancy
  - Large Blocks of Contiguous Space
2. Market Forecast
  - Anticipated Trends

# Market Overview

## Suburban Office Market

Positive absorption in Q4 may be the leading indicator of mild recovery in 2022 as Covid-19 recedes and energy sector prices continue to recover.

The effects of Covid-19, layered on top of historic high vacancy office market conditions, and coupled with demand and price destruction in the Energy Sector, had created a rather dim prognosis for recovery in Calgary Suburban office markets entering 2021. Cresa had forecast that “at best, by year end, office Markets may reflect a bottoming out of basic rent rates and vacancy rates, potentially setting the stage to move gingerly from a recessionary market phase to the early stages of a very mild recovery phase by mid- 2022 and into 2023”.

That prediction was somewhat accurate as 2021 began with two quarters of substantial negative absorption, followed by mildly increasing leasing activity, with Q4 yielding the first positive quarter for absorption in two years. While the year ended with continued year over year negative absorption in the suburbs, the net negative change was minor compared to years past and the mood is entirely

different, with mild occupancy recovery and positive absorption through 2022 forecast. “Why the Calgary mood change?”

### Energy Price Recovery & Lessening Covid- 19 Restrictions

Oil and gas prices achieved unexpected highs during the last two quarters of 2021, with WCS averaging in the \$53 BOE range throughout December and gas rising above \$4.00 GJ consistently through Q4. Despite the Covid-19 pandemic and its Delta and Omicron variants, and the related lock downs and travel restrictions, global demand remained firm for both at year end. For WCS, that demand fueled price growth averaging 40% higher (year over year) from 2020. With demand growing, and commodity prices rising, amidst the financial discipline still present throughout the sector, Cap Ex budgets are seeing modest increases for 2022 and that could and conceivably should lead to additional leasing activity and absorption in the suburban office market.

## Calgary Suburban Notable Transactions

Tenant	Building	Submarket	Area (sf)	Type
Avenue Living Asset Mgmt	Glenmore Professional Centre	SW	70,000	Headlease
AECOM	Quarry Crossing Building B	SE	22,000	Headlease
LivingWorks	Winsport	NW	15,200	Headlease
Farm Credit Canada	Hopewell Corporate Centre	NE	13,300	Headlease
Mattamy Homes	2583 - 29 Street NE	NE	23,198	Renewal

Suburban Supply

22,884,109 sf



Suburban Vacancy

20.72%



Overall Suburban  
Vacancy

4,741,614 sf

Even though the Omicron variant is still present, declined symptoms as compared to earlier variants, provide a confidence that vaccine efficacy is high, supporting surveys that suggest a gradual return through the first two quarters could take place.

### **Return to Work and the Hybrid Workspace Environment**

C-suite executives, & workers from a wide variety of industries appear to share one common perspective: the long-debated return to the office will begin to happen in 2022. Another common perspective is that hybrid models are going to remain, with a portion of workers continuing to work from home and a portion of workers blending office days and work from home days. *Executives and employees alike have learned that while the work from home experience is viable from a technology and function standpoint, workers sorely miss the everyday personal interactions that spark ideas and build corporate cultures.* With return to work, tenants now have a greater understanding of space requirements and, with that understanding replacing uncertainty, office leasing decision velocity will grow and should bring about increased leasing activity.

Now that the return to the office is taking place, the office landscape itself is characterized by various hybrid models now. Calgary is no different. With office vacancy remaining at historic highs, what is less certain is “what long term impact the hybrid applications will have on tenant demand and per-square-foot needs”. *Office executives are challenging architects and designers to provide workspaces that deliver innovative, rewarding experiences in the office that support a continued return to the office.*

### **Quality Prevails; Inducements Remain Invest or Divest**

Leasing activity across the suburbs reflects greater demand for Class A premises. As the amount of sublease space on the market decreases, and landlords control more space, Class A rates are forecast to firm up slightly, although, sizeable tenants with quality covenants are still able to gain considerable inducements to produce the net effective rates that would be expected in a market with 21% vacancy. Suburban Class A net effective rents hover in the mid teens while Class B net effective rates range from the low to mid single digits. Lower class space will continue to see very aggressive lease rates and NER's approaching or falling below zero as landlords compete to retain tenancies.

### **Invest or Divest**

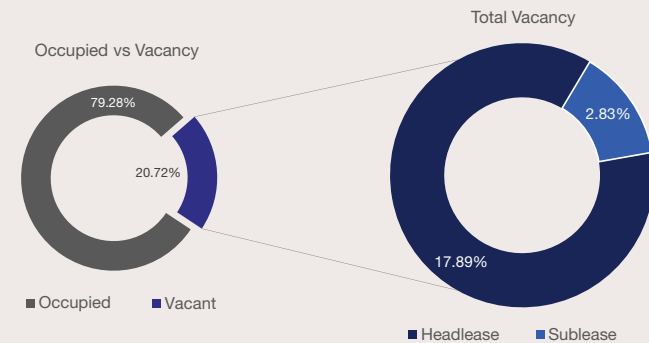
Furthermore, these landlords will be faced with additional decisions regarding capital investment in their assets. Challenged lower class buildings will require renovations to attract tenants and raise their community profile. The challenge for these owners is balancing the amount of investment required to renovate or re-purpose against the return that the investment provides. If the return is not deemed attractive enough or the risk is too great, then they will look to divest and rely on the attractiveness of the Calgary investment market versus more costly markets like the lower mainland in British Columbia where development opportunity is scarce and expensive.



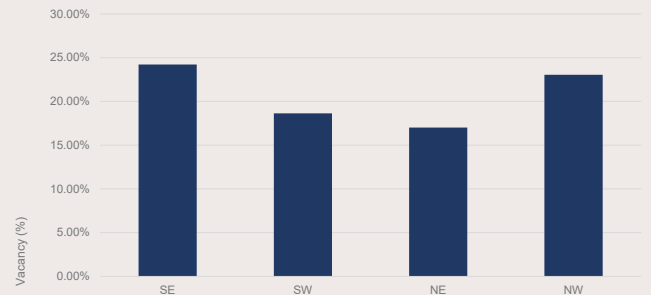
## Year-End 2021 Vacancy Summary, Suburban Office

QUADRANT	TOTAL INVENTORY (sf)	HEADLEASE (sf) (%)	SUBLEASE (sf) (%)	TOTAL (sf) (%)
SE	8,575,859	1,870,787 21.81%	206,255 2.41%	2,077,042 24.22%
SW	4,971,815	849,486 17.09%	76,777 1.54%	926,263 18.63%
NE	6,866,684	1,021,208 14.87%	147,890 2.15%	1,169,098 17.03%
NW	2,469,751	352,322 14.27%	216,889 8.78%	569,211 23.05%
<b>Total Suburban</b>	<b>22,884,109</b>	<b>4,093,803 17.89%</b>	<b>647,811 2.83%</b>	<b>4,741,614 20.72%</b>

### Breakdown of Vacancy: Headlease vs Sublease



### Suburban Office Vacancy



## Large Blocks of Contiguous Space

*New Developments not included*

BUILDING NAME	BUILDING ADDRESS	FLOOR	AREA (sf)	LEASE TYPE
SMART Technologies	3636 Research Road NW	1-4	204,642	Sublease
2535 - 3 Avenue SE	2535 - 3 Avenue SE	2-8	187,702	Headlease
Sundance West I	1000, 15 Sunpark Plaza SE	1-4	171,422	Headlease
3030 Building	3030 - 2 Avenue SE	1-3	110,238	Headlease
1120 - 68 Avenue NE	1120 - 68 Avenue NE	1-2	90,133	Headlease
Sundance Place	23 Sunpark Drive SE	1-4	89,323	Headlease
Airport Corporate Centre	1601 Airport Road NE	4-6	63,507	Headlease
Quarry Park - Jacobs	205 Quarry Park Blvd. SE	3	63,335	Sublease
Sundance Plaza	60 Sunpark Plaza SE	1-4	60,022	Headlease
Heritage Square	8500 Macleod Trail SE	4	57,255	Headlease
Cardel Building at Quarry Park	180 Quarry Park Boulevard SE	2-3	52,964	Headlease
Southland Park II	10333 Southport Road SW	4	50,506	Headlease
Heritage Square	8500 Macleod Trail SE	5	49,907	Headlease
480 - 36 Avenue SE	480 - 36 Avenue SE	2-6	48,081	Headlease
Mountain View Bus. Campus, 300	300, 4000 - 4 Street SE	2-3	47,091	Sublease
Deerfoot Junction I & II	3215 - 3225 - 12 Street NE	1-3	45,523	Sublease
Swift Centre	7136 - 11 Street NE	1-3	42,027	Headlease
Connect First Place	2850 Sunridge Blvd. NE	Main	40,928	Headlease



# Market Forecast

## Suburban Office Market

From an occupiers perspective, suburban office markets remain firmly favourable. Abundant supply, near record high vacancy and compelling inducements create an environment for increasing leasing activity.

Recovery has many forms. Some suburban tenants are shrinking their office footprints, while others, (Avenue Living for example) are growing. Still others are testing new workplace strategies. Tech sector, life sciences, and medical are all sectors on the rise. The University District, Uxborough Medical and Cambrian Medical are examples of medical office development under construction or proposed. In the case of life sciences and tech sector though, Calgary must compete with other jurisdictions across North America for large tenants in these sectors so the ability to attract these tenancies is largely dependent upon the continued overall recovery of the local economy.

Suburban office market vacancy remains near record highs at a year end mark of 20.72%. However, with continued energy sector price and demand recovery, and the end of Covid 19 work restrictions on the horizon, there exists at least a sprinkling of good news to get excited about with realistic forecasts of mild vacancy recovery and positive absorption through 2022.

From an occupier's perspective, suburban market conditions remain firmly favourable as there is availability of space in over 200 tracked suburban office buildings, including more than 30 options over 25,000 sf.

## Anticipated Trends

### Base Rental Rates

Overall basic rent has generally bottomed out. Rates will remain flat with 20% vacancy and not anticipated to rise. Once vacancy drops another 203%, rates should begin to creep.



### Vacancy Rate

Some positive absorption expected with a vacancy rate declining to 18% by year-end



### Sublease Vacancy

Decreasing slightly to approximately 550,000 sf by year-end



### Absorption

Positive 200,000 sf for 2022

### Avenue Living Asset Management relocating to Glenmore Professional Centre

Avenue Living recently completed a transaction for approximately 70,000 sf in Glenmore Professional Centre. They will move into the space formerly occupied by Bantrel Co. and is a substantial growth in size for Avenue Living.

Glenmore Professional Centre

BANTREL

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