

# SUBURBAN OFFICE MARKET ANALYSIS

**22.9%**

OVERALL VACANCY RATE

↓ - 0.5% FROM Q3'17

- Absorption over the fourth quarter totalled positive 86,000 square feet (sf).
- The new, purpose-built Engineered Air Building has been added to our Suburban South inventory.
- Headlease space represented 71% of the total available space, increasing from 69% during the previous quarter.
- Spaces measuring between 2,001 sf and 4,000 sf are the most commonly available spaces in the suburban markets, comprising 37% of all vacancies.
- Large space offerings (15,000 sf and greater) comprised more than 17% of the total space available.
- Tenants continued taking advantage of the suburban markets' ample opportunities to improve their spaces among A Class properties.
- The suburban construction boom that began in mid-2014 was substantially completed. The purpose-built Hexagon Campus is the last major office development in the pipeline.

## Significant moves, announcement and notable transactions:



HOSC Projects leased approximately 26,000 sf in Railway Corporate Centre A.



Rockwell Automation leased approximately 28,000 sf in Fountain Court III.



McMan Youth Family and Community Services leased approximately 20,000 sf in Zurich Court.



Approximately 30,000 sf became available for sublease in the Golder Building.



Nearly 20,000 sf became available for headlease in One Executive Place.



**Royal Vista Professional II**  
4 Royal Vista Way NW

PREPARED BY  
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## Current Vacancy at a Glance

OVERALL RATE **22.9%**

↓ - 0.5% FROM Q3 TO Q4

CLASS A **22.8%**

↓ - 2.5% FROM Q3 TO Q4

CLASS B **25.6%**

↑ + 7.4% FROM Q3 TO Q4

CLASS C **15.6%**

↓ - 2.4% FROM Q3 TO Q4

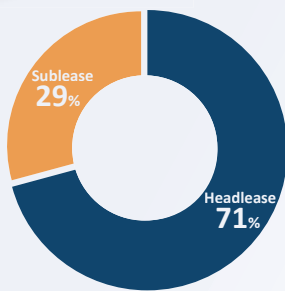
Overall vacancy decreased by 0.5% during the fourth quarter of 2017. We noted substantial leasing activity as the year drew to a close, though it was more about trading-up spaces to improve circumstances in markets flooded with ample available A Class vacancies.

Leasing activity was strong among both A Class and C Class properties. Headlease and sublease opportunities in these classes were absorbed to the tune of 178,000 sf and 85,000 sf, respectively. This absorption came, however, at the expense of B Class space as Tenants either moved into higher-class properties with better locations and amenities, or to lower-class options with extremely discounted rates.

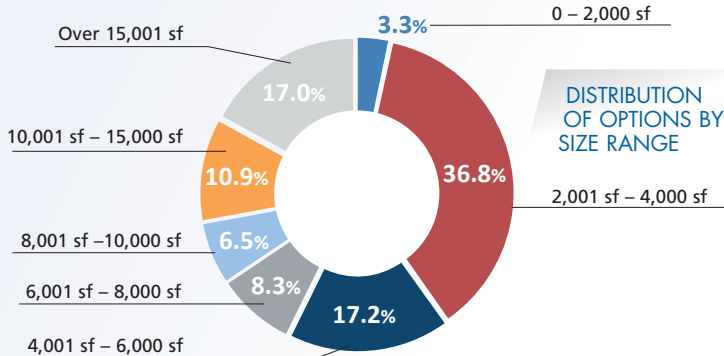
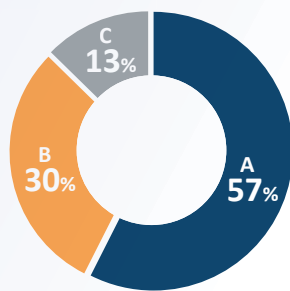
Barclay Street Real Estate's vacancy calculation takes into account all space available for occupancy

within a 6 month period. An additional 23,000 sf of space becomes available for occupancy from January through June, 2018. A further 182,000 sf in existing buildings comes available in 7 – 18 months. Within this coming space is the 90,000 sf Novatel Building, which will be vacated in early 2019 as staff move to the Hexagon Campus. Novatel was purchased by Hexagon in 2008. This shadow vacancy brings the vacancy rate to an estimated 24%.

HEADLEASE VS. SUBLEASE DISTRIBUTION



DISTRIBUTION OF TOTAL AVAILABLE SPACE BY BUILDING CLASS



## Market Review

CONTINUING THE TREND SEEN OVER THE PRECEDING FEW QUARTERS, OVERALL VACANCY IN SUBURBAN CALGARY REMAINED QUITE STABLE WITH ANOTHER QUARTER OF MINIMAL FLUCTUATION IN OVERALL VACANCY. The fourth quarter of 2017 saw suburban vacancy decrease to 22.9%. Net quarterly absorption was positive, boosted by the purpose-built Engineered Air Building which has been added to our inventory.

Calgary's suburban markets experienced a strong fourth quarter as the last of the new office inventory slated for 2017 was delivered. The quick succession of delivery added to already intense competition among Landlords. As we mentioned in an earlier report, Landlords have become increasingly motivated to complete leases with less resistance than during the previous two years. This change in perspective continues to narrow the rent expectation gap between owners and Tenants. Incentives are still the order of the day but these are becoming more specific rather than a blanket approach.

Among Tenants, the draw of new, more efficient spaces also involves substantial improvements or in the new developments, build-outs to suit their needs. On that note, we continued to see an overall trend among Tenants of taking only the amount of space necessary in the near-to medium term, but doing so among spaces allowing them to upgrade their premises, often times at similar rental rates as their previous sites.

The latest building cycle that began in mid-2014 was largely completed at the end of 2017. Several major new developments delivered during the year, including **Harvest Hills Business Centre B**, the **Computer Modelling Group (CMG) Building**, **The Link at Royal Vista** and the **Geo Spectrum Building** in Calgary's suburban north markets. In the suburban south



Hexagon Campus remains the only significant pending office project

markets, the 200,000 sf **ATCO Commercial Centre** was the most significant in terms of overall size, followed by the new **Engineered Air Building** as the final major office completions of the year. The design-built **Hexagon Campus** remains the only significant pending office project.



COVER PAGE

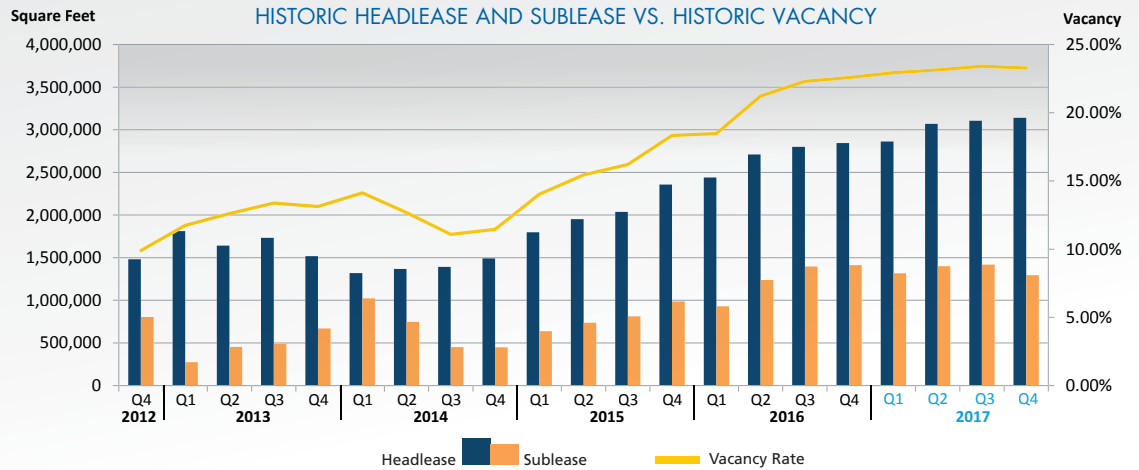
Exterior of Royal Vista Professional II at 4 Royal Vista Way NW



# Vacancy

## Headlease vs Sublease

Distribution between headlease and sublease space for Q4 2017 shifted slightly from the previous quarter, with the former accounting for 71% of the total space while the latter decreased to 29%. This change in distribution is reflective of positive sublease activity and the roll-over of several subleases to direct lease opportunities as space went back to Landlords.



## Vacancy by Building Class and Size Range

Considering the total number of options available in the suburban office market, the greatest number of options (36%) measure between 2,001 sf and 4,000 sf, while the availability of sub-2,000 sf pockets is the tightest at just 3.4%.

This quarter witnessed a net decrease in the total number of headlease options available to 505 from 523 in to the previous quarter. The number of sublease options decreased quarter-over-quarter to 95 from 102 in Q3 2017.

HEADLEASE OPPORTUNITIES BY BUILDING CLASS AND SIZE RANGE

Size Range	A	B	C
0 – 2,000 sf	25	62	59
2,001 sf – 4,000 sf	48	53	42
4,001 sf – 6,000 sf	27	27	12
6,001 sf – 8,000 sf	14	13	6
8,001 sf – 10,000 sf	13	7	5
10,001 sf – 15,000 sf	12	14	6
15,001+	37	12	2
<b>Overall</b>	<b>176</b>	<b>188</b>	<b>132</b>

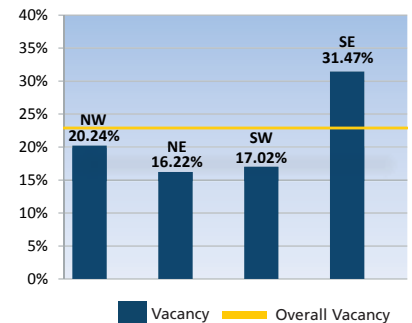
SUBLEASE OPPORTUNITIES BY BUILDING CLASS AND SIZE RANGE

Size Range	A	B	C
0 – 2,000 sf	4	4	7
2,001 sf – 4,000 sf	5	4	6
4,001 sf – 6,000 sf	6	2	2
6,001 sf – 8,000 sf	0	3	2
8,001 sf – 10,000 sf	2	3	0
10,001 sf – 15,000 sf	6	6	2
15,001+	19	5	0
<b>Overall</b>	<b>42</b>	<b>27</b>	<b>19</b>

## Vacancy by Building Class and Location

The following charts provide more detailed performance insight into the vacancy rates among specific building classes and the impact on the individual suburban submarkets.

VACANCY RATE BY LOCATION



VACANCY BY LOCATION AND CLASS (SF)

Sq. Ft. % Vacant

	A	B	C
NW	272,905 26.83%	305,412 43.90%	120,018 31.91%
NE	324,025 16.08%	296,730 14.07%	161,926 9.07%
SW	280,363 11.69%	151,146 31.89%	138,746 17.92%
SE	1,693,347 31.65%	268,439 14.55%	121,202 22.70%

INVENTORY BY LOCATION AND CLASS (SF)

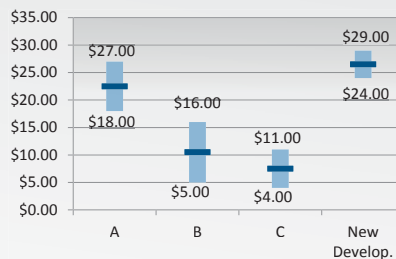
	A	B	C	Total
NW	1,017,265	695,642	376,121	2,089,028
NE	2,015,500	2,109,156	1,784,751	5,909,407
SW	2,398,680	473,978	774,054	3,646,712
SE	5,350,107	1,844,789	533,905	7,728,801
<b>Total</b>	<b>10,781,552</b>	<b>5,123,565</b>	<b>3,468,831</b>	

# Average Costs

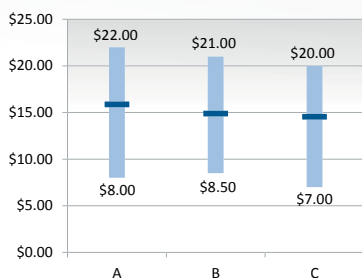
**PARKING RATES AND PARKING RATIOS RANGE BASED ON LOCATION, CLASS, AND THE AGE OF THE BUILDING.** On average, parking rates are between \$0-\$200/stall with a ratio between 1:300-1:500 sf.

Operating costs vary according to the age and location of the building; typically, newer buildings have lower operation costs due to increased HVAC and insulation efficiency but may also offer security and other amenities which will increase these costs.

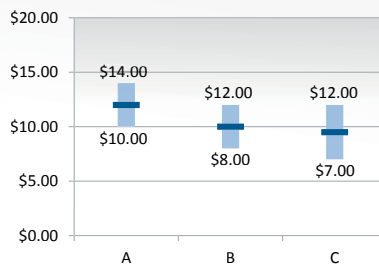
AVERAGE HEADLEASE RATES BY BUILDING CLASS



OPERATING COSTS BY BUILDING CLASS



AVERAGE SUBLEASE RATES BY BUILDING CLASS



# New Projects

	Developer	Size	Status
 <b>HEXAGON CAMPUS</b> 11063 - 14 Street NE	Remington	160,000 sf	2019 100% leased
 <b>ENGINEERED AIR BUILDING</b> 1441 Hastings Cres SE	Engineered Air	100,000 sf	Q2 2018
 <b>ATCO COMMERCIAL CENTRE</b> 5302 Forand Street SW	ATCO	200,000 sf	Complete
 <b>COMPUTER MODELLING GROUP</b> 3710 - 33rd Avenue NW	Remington	90,000 sf	Complete
 <b>7136 - 11TH STREET NE</b>	REID Worldwide Corp.	49,000 sf	Complete
 <b>HARVEST HILLS OFFICE PARK - B</b> 333 - 96th Avenue NE	Qualico Commercial	74,350 sf	Complete
 <b>THE LINK AT ROYAL VISTA</b> 19 Royal Vista Way NW	Martinvest Corp.	28,000 sf	Complete

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