

The Occupier

Mid-Year 2022 Suburban Office Market



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Market Overview

Suburban Office Market

As the Bank of Canada aggressively raised lending rates through the first two quarters, fears of recession grip businesses and consumers alike, in the aftermath of pandemic lock downs. Over the 12 months from the end of Q2 in 2021 to the end of Q2 2022, inflation in Canada jumped 9%. The build up of unspent money accumulated through 2020 and 2021 is now simply chasing too few goods and services. The result is an economic surge in demand and a bottleneck in supply. Continued Covid outbreaks and resultant labor shortages exacerbate the condition.

The good news is that unemployment is decreasing, and surging oil and gas prices through 2022, have significantly bolstered the balance sheets of businesses throughout the energy sector who are now recording much needed surpluses. This is a 180 degree turnaround from 18 months ago and is good news for Calgary. Even if it has not translated to immediate upticks in office occupancy for major energy sector tenants to date, the economic environment is ripe for continued M&A activity in the sector which could well translate into transaction demand.

Suburban transactions continue to be dominated by smaller occupiers, as large tenant leasing activity remains slow and many large floor plates continue to remain vacant. There continues to be a flight to quality as indicated by the preponderance of absorption concentrated in A class assets. Amenity rich buildings or development communities, such as University District, Quarry Park and Seton, which provide the sought-after work/life balance (restaurants, gyms, retail, child care) that office workers cherish, are winning in the competition to attract new tenants. Parking rates and availability in the suburbs continue to be an attractive advantage for employers looking to provide staff with increased cost effective workplace benefits.

Rental rates are holding steady and in scenarios where landlords are looking for increased base rental rates, inducements such as free rent and tenant improvement allowances are offsetting rents leading to flat Net Effective Rents.

Supply chain issues are leading to longer construction lead times and increased costs for office build-outs, and availability concerns are steering clients to look for move-in

Calgary Suburban Notable Lease Transactions

Tenant	Building	Sub-Market	Area (sf)	Type
Fortress Engineering	Sundance 1000	SE	25,000	Headlease
Baker Tilly Catalyst LLP	CTC Building, Quarry Park	SE	19,000	Headlease
Symphony of Health Connections	Crowfoot 75	NW	18,593	Headlease
Burns & McDonnell	Keynote Tower	SE	15,813	Headlease
Aim Land	Sundance 6000	SE	15,071	Headlease
WealthCo Financial	CTC Building, Quarry Park	SE	12,000	Headlease
360 Energy	Mountainview Business Campus	SE	11,784	Headlease

Suburban Supply
22,807,732 sf

Suburban Vacancy
17.96%

Overall Suburban Vacancy
4,096,650 sf

Quarterly Absorption
568,587 sf

Calgary Suburban Notable Sale Transactions

Vendor/Purchaser	Building	Area (sf)	Price
Vendor: Artis REIT Purchaser: Private Investor (Tejinder Walia)	8500 Macleod Trail SE	315,152	\$23 million \$72.98 per sf
Vendor: Remington Development Corp. Purchaser: Hexagon Automation	Hexagon 14th Street NE	25,064	\$14.7 million \$586.89 per sf
Vendor: Northeast Yuvraj Holdings Ltd. Purchaser: KV Capital	SWIFT Centre NE	58,566	\$6.4 million \$114.69 per sf

ready (built out) premises to preserve capital outlay. Lead times, cost increases and inflationary concerns are also stimulating continued short-term renewal decisions as tenants grapple with ever changing market conditions. Tenants are advised to give themselves plenty of time to thoroughly understand the suburban office landscape or face cost implications as more tenants come off the sidelines in the post Covid environment.

The narrowing gap between current vacancy and future availability is a positive sign, as is the lower vacancy rate at the end of Q2. It is important to note that in some instances, this is a result of occupiers pulling sublease space from the market rather than a clear sign of lease driven absorption.

Time will tell if occupier demand is trending up, and what the vacancy effect will be as hybrid work models and increasingly flexible corporate workplace

policies continue to take hold. Many indicators project occupiers in all sectors reducing tenancy footprints (think work from home/work from anywhere) through the coming several quarters. With current vacancy rates remaining high, at just under 20%, there is certainly not widespread demand triggering new construction supply, however, developments in the North West, specifically Uxbridge and University District, driven by proximity to hospitals (Alberta Children’s, Foothills Medical and Calgary Cancer Center) are seeing good leasing velocity and interest.

The outlook is resoundingly more positive than in the past two years. Pandemic concerns have dissipated significantly, while economic concerns around interest rates and inflation have increased. Consequently, we forecast flat suburban office vacancy through the balance of the year.

Heritage Square



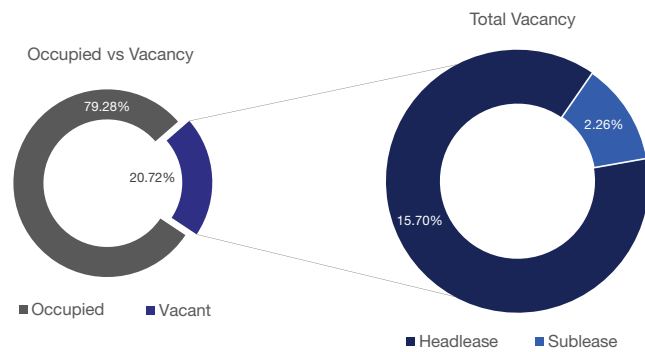
Heritage Square recently sold for \$23M

Artis REIT recently sold Heritage Square to a private investor for \$23 million. The asset is part of the last six of Artis REIT’s office towers to be sold in a move to shift their portfolio away from the Calgary market.

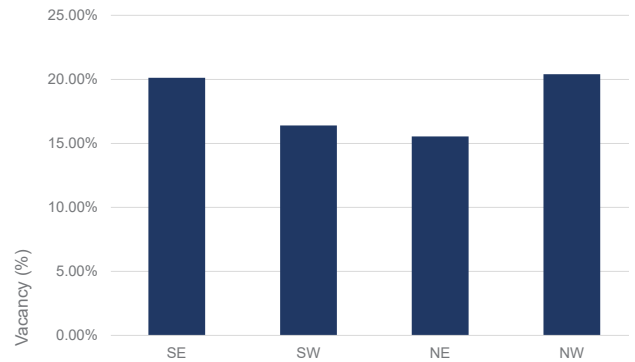
Mid-Year 2022 Vacancy Summary, Suburban Office

QUADRANT	TOTAL INVENTORY		HEADLEASE		SUBLEASE		TOTAL	
	(sf)	(sf)	(%)	(sf)	(%)	(sf)	(%)	
SE	8,498,356	1,559,077	18.35%	151,231	1.78%	1,710,308	20.13%	
SW	4,971,815	770,384	15.50%	44,653	0.90%	815,037	16.39%	
NE	6,866,684	968,164	14.10%	99,081	1.44%	1,067,245	15.54%	
NW	2,470,877	283,562	11.48%	220,498	8.92%	504,060	20.40%	
Total Suburban	22,807,732	3,581,187	15.70%	515,463	2.26%	4,096,650	17.96%	

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	1-5	205,276	Sublease
Third Avenue Building	2535 - 3 Avenue SE	2-8	178,815	Headlease
Sundance West I	1000, 15 Sunpark Plaza SE	1-4	148,422	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	87,523	Headlease
Airport Corporate Centre	1601 Airport Road NE	4-6	63,507	Headlease
Quarry Park Professional Centre	109 Quarry Park Boulevard SE	2-3	59,359	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
Mountainview Bus. Campus	300, 4000 - 4 Street SE	2-3	47,091	Sublease
Connect First Place	2850 Sunridge Blvd. NE	Main	40,928	Headlease
Vista Heights Office Complex - A	1925 - 18 Avenue NE	2	39,338	Headlease
ICON Business Park	10 Smed Lane SE	2	31,642	Sublease
Southland Park II	10333 Southport Road SW	2	29,603	Headlease
Quarry Crossing, Bldg B	28 Quarry Park Blvd. SE	Main	29,486	Headlease

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strategically.**
**Acting
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