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OFFICE MARKET IS EAST VERSUS WEST WITH DEMAND HIGHEST IN WEST AND LITTLE SPACE; LOWER DEMAND IN EAST BUT MORE SPACE.

Current Class A downtown vacancy rates in Calgary, Toronto, will remain low in 07- 08 but will rise substantially as new buildings come on stream

Canada's office market in the first half of 2007 continues to be healthy but also clearly reflects a tale of two regions: the red hot western area of the country where demand is at exceedingly high levels versus the eastern section where overall demand is less robust. In the west, the strong demand is coupled with an acute shortage of available Class A space while in the east there is less demand as the region heads into a period during which a substantial amount of available new construction is underway or planned, CB Richard Ellis Limited says in its report covering the first half of 2007.

The differences in demand in the two sections of the country is clearly evident by comparing the average vacancy rates for downtown Class A office space in the four leading western cities … Vancouver, Calgary, Edmonton and Winnipeg … where the average vacancy rate is 4.9% whereas in the six leading eastern Canadian cities it is 8.3%.

Notwithstanding the strong demand for office space in individual markets such as Calgary, Vancouver and Edmonton, Canada's national (combined downtown and suburban) Class A vacancy rate stayed unchanged at 7.3% in the second quarter of the year. The national asking rent for Class A office space in Canadian cities rose slightly to $17.93 per square foot in the second quarter from $17.68 in the first three months of the year.

Blake Hutcheson, president of CB Richard Ellis Limited, said that the record low current vacancy rates in some Canadian markets underscores the fact that they are very healthy markets and while this is positive for the industry he cautions that the low vacancy rates are not going to continue indefinitely. "There is a substantial amount of construction underway or pending in Calgary, Toronto, Edmonton and Montreal and as this is completed we will see individual market vacancy rates rise. This will have an impact not only on individual markets but the national vacancy rate as well. Our projections are that by 2009 the vacancy rate in Downtown Class A office space in Toronto will rise to 13% from a projected 2008 low of 4.8% as a result of 4 million SF of new construction coming on the market. Downtown Class A office space in Calgary is expected to increase to 7% by 2009, still very low but nearly three times the current level of 2.4%. This will be reflected in better leasing opportunities for many tenants."

Hutcheson said that as in past surveys individual markets are affected by varying factors. For example, Vancouver's overall downtown class office market vacancy rate at 3.5% is the lowest in its history. "This is exciting for owners and it is going to stay low for some time because the high demand for space is coupled with an acute shortage of available space for construction of new downtown office buildings.

"Calgary has a miniscule downtown Class A vacancy rate … shared with Vancouver for Canada's lowest Class A vacancy rate at 2.4% … and a very strong demand for space which continues to outstrip supply for office space. However, the Calgary downtown office market, which at $43.90 psf for Class A office space has the highest asking rent in Canada, will not remain that tight because nearly 9.1 million square feet of new space is now under construction or planned in the total Calgary market. This will, of course, impact on the downtown market as tenants will have more alternatives to locate in other areas of the city.

As the new space comes to market the vacancy rate in Calgary will rise to a level that will provide a much better balance for both landlords and renters.

“Edmonton is showing strong growth with its downtown Class A vacancy rate dropping from 6.8% in the first quarter of 2007 to 4.8% in the second. The growth in demand for office space in Edmonton is reflected in downtown Class A rents which rose to $21.26 psf in the second quarter of 2007 from $18.83 psf in the first quarter of the year. While some additional construction is planned for Edmonton it is not expected to come on stream in the near future and this will continue to keep rents for Class A office space healthy and growing.”

Toronto, which represents about 40% of the entire Canadian office market, saw its downtown second quarter Class A vacancy rate virtually unchanged at 6.4%, up from 6.3% in the first quarter of the year. Nevertheless, in the second quarter of the year, Toronto office rents rose to $21.61 psf from $20.84 psf in the preceding quarter. Although the Toronto market is only one of twelve key markets measured by CBRE, its sheer size … Toronto office market alone is larger than all the eastern or western markets combined … it has a disproportionately large impact on the national vacancy rates and rents.

Montreal, Canada’s second largest office market saw the vacancy rate for Class A downtown office space drop to 9.3% from 9.7% in the first quarter of the year.

The decline in the vacancy rate for the suburban market was more pronounced, dropping to 14.4% from 15.1% in the first quarter.

Hutcheson said that “we expect the national office vacancy rate to continue to fall for the remainder of 2007 and in 2008 as result of greater leasing velocity in both eastern and western Canada. Also we see rental rates increasing in many markets with tenant inducements offered by landlords declining for the most part. For the time being tenants with space requirements will have to be more strategic and creative in securing new space or expanding their premises. For the most part Canada will remain a landlord’s market but this will change in markets such as Calgary and Toronto as the new buildings are added to the inventory and the vacancy rates rise. In anticipation of the additional office space coming to market, landlords are taking steps to secure existing tenants.”

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