



# Top 10 Real **INSIGHTS**

2018 Calgary Real Estate Forum

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**AltusGroup**

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For further details on these top trends please visit the Real Estate Forums Portal at [realestateforums.com](http://realestateforums.com)

## 1. CALGARY'S ECONOMY GAINING GROUND

Employment gains and strong economic growth numbers show signs that the city is entering into recovery.

The Conference Board of Canada predicts that starting in 2019, Calgary's economy will grow on average of 2.4% per year for the following 4 years. This will be one of the highest rates in Canada.

Employment grew by 3.3% in 2017, is expected to grow by approximately 2% in 2018 and continue to grow in the next few years. "Moderate employment growth of one to two per cent annually will trim the unemployment rate to 6.2% by 2022," the board said. By comparison, the national unemployment rate was at 6.0% at the end of Q2 of this year.

According to the Canadian Income Survey by Statistics Canada, which came out in March of this year, Albertans continue to have the highest median employment income in Canada.

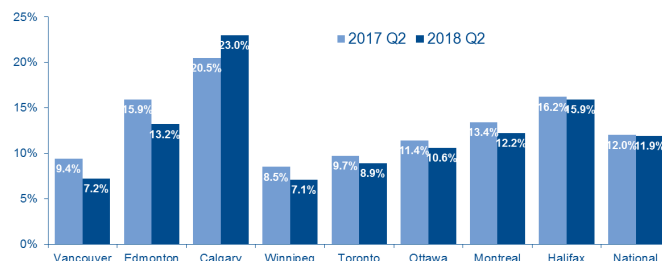
The Conference Board also notes that there are several large infrastructure and commercial building projects that will provide jobs in Calgary for several years, including the \$4.7-billion Green Line LRT line, the \$3-billion StoneGate Landing business park on 1,000 acres north of the airport, the new \$1.4-billion cancer facility at the Foothills Medical Centre and the city's \$87-million upgrades to Crowchild Trail.

In a move to diversify the Calgary economy, the city launched the \$100 MM Opportunity Calgary Investment Fund in April of this year. The program offers opportunities to innovative private, public and NPO companies that will spur economic and employment growth in key industries and emerging sectors, increase the property tax assessment base and provide direct investments and revenues. The program offers opportunities to innovative private, public and NPO companies that will spur economic and employment growth, increase the property tax assessment base and are in emerging sectors.

The Creative Destruction Lab – the program that launched in 2012 at the Rotman School of Management at the University of Toronto has expanded to the Haskayne School of Business at the University of Calgary. The CDL is a seed-stage program for science-based companies that has been very successful in creating equity for its participants having raised \$1.5 BB in equity in its first five years. CDL – Rockies has two streams: The Prime stream includes startups in an array of industries with deep-science and technology innovations; the Energy Stream focuses on emerging technologies in oil & gas, cleantech and power. In the first year of CDL – Rockies, 16 ventures have raised \$11 MM with many of the companies still with open fundraising rounds.

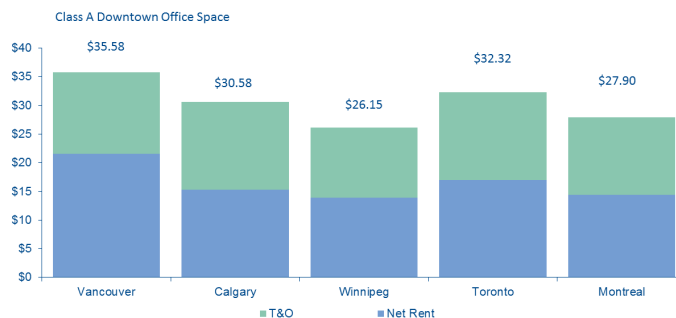
## 2. NEW TRENDS PRESENT NEW OPPORTUNITIES IN HIGH VACANCY OFFICES

### Office Vacancy Rate in Balance Across Canada for the most part



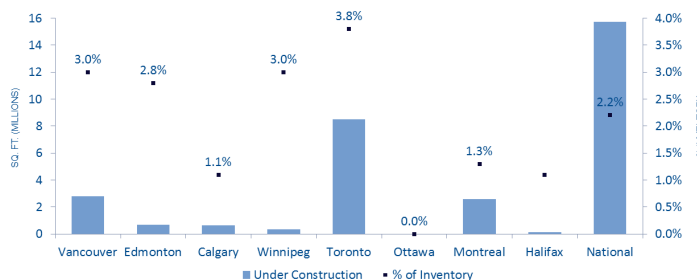
Source: Altus Group

### Rental Rates Continue to be Pressured Downtown



Source: Altus Group

### New Office Construction, as % of Inventory



Source: Altus Group

The budding pot industry and coworking phenomena are emerging trends with an appetite for space.

There were two new buildings completed in second quarter 2018, Hexagon Calgary Campus at 10921 – 14th Street NE (160,000 SF), which was fully leased at the time of completion, and Mount Royal West at 1508 – 8th Street SW (28,000 SF), which was also fully leased at the time of completion. Approximately 540,000 SF of new office space, in four buildings, remains under construction across Calgary, with 37% pre-leasing in place.

In Q2 over 540,000 SF of positive absorption in the downtown market reduced the availability rate by 400 basis points from the vacancy rate, taking it down to 25.2% compared to a year ago. Most of this improvement was in Class A space, according to the Altus Group. Tenants are looking to capitalize on market conditions by transitioning into higher quality office space.

The average asking rent for Class A downtown office space is at \$12.75 PSF. Taxes and operating costs average \$16.90 PSF for the same class of space, Altus's Q2 office report states.

Landlords are making the most of high vacancy rates to repurpose their buildings.

Aspen Properties acquired the former Encana building that was mostly vacant repositioned it as a funky space for start-ups. Aspen equipped the newly named "Edison" building with co-working space, a basketball court, a bike sharing program and is a dog friendly building. The building is now over 60% leased with RocketSpace, the Silicon Valley accelerator and co-working company looking to lease 75,000 SF.

Repurposing Class C office space into studio space for artists and musicians is an idea that is resurfacing. Calgary Arts Development (CAD) has supported that idea as far back as their 2007 Arts Space Strategy & Capital Plan study. According to an article by Richard White, when the wall came down in Berlin, a lot of focus was what to do with the abandoned buildings and industrial space in the former East Berlin area. "For the past 20 years, artists from around the world have flocked to Berlin to make art — partly because of cheap studio/living space. Today, Berlin is one of the world's leading art cities with hundreds of art galleries and thousands of artists creating a vibrant city 24/7".

The flexible space/coworking sector has emerged as the primary growth driver within the office market reports JLL. Expansion from this sector claimed 29.4% of the total US office absorption between Q1 2016 and Q4 2017 (18.1 M SF).

Flexible office inventory in the US currently stands at over 51 M SF. Flexible workspace and shared amenity spaces are projected to encompass approximately 30% of the office market by 2030.

And as a sign of an emerging trend, cannabis-related business, Sundial Growers, leased 13,000 SF in one of the larger deals of Q2.

### 3. HOUSING – STILL A BUYERS MARKET

The Calgary housing market presents an affordable alternative to people priced out of the Vancouver and Toronto markets.

The Spring 2018 Calgary Economic Outlook stated that construction activity in the housing sector is expected to remain below average due to lower levels of net migration, lower household formation rates, and higher interest rates. The demographics of Calgary support continued housing construction in Calgary. Over 2019-2022 the city anticipates a need for 15,600 new single-family dwellings and almost 20,000 total new dwellings.

A July 2018 CMHC report tallies the number of dwelling units under construction at 12,256 and the number of unabsorbed completed units at 1,856. The number of unabsorbed new apartments at 934, is lower than the same period last year.

The average price for a single family detached home is up 7.5% from July 2017 to \$671,231.

The average rent for a two-bedroom condominium apartment was \$1,512 compared to \$1,247 in the purpose-built rental market. While the average vacancy rate for a purpose built unit is 6.3%, the vacancy for a condominium unit was at 3.8%.

The newer purpose-built apartments – those built since 2011 – have a vacancy rate of just 3% as of June 2018, according to Urban Analytic numbers. It was 11% in October 2017.

For the first half of 2018, sales of new multi-family homes in Calgary was up 18% over the same period in 2017, reports Altus Group.

The suburban markets have lead the growth in sales, with new projects in peripheral communities driving sales volumes in 2018 to levels not seen since 2014. The increase in sales has been supported by comparably affordable prices and new projects in key growth regions, such as in Seton in Southeast Calgary near the new South Hospital.

### 4. RETAIL BUOYED BY INCREASE IN CONSUMER SPENDING AND NEW RETAIL DEVELOPMENT

Despite an increase in minimum wage to \$15 in October and the downsizing of bricks and mortar stores, Calgary retail sector showing signs of growth.

In 2017, household income grew by 6.2 % while retail sales and total consumption increased by 7.8 and 4.5% in response. Household income is estimated to grow at 3.2% in 2018, while retail sales and total consumption are estimated to follow at 3.4% in 2018.

Despite positive numbers, the increase of the minimum wage to \$13.60 per hour, increasing to \$15 in October and mandatory vacation pay are adding additional pressure on businesses. In addition, bricks and mortar stores continue to downsize as online sales increase.

In the US, where the average size of a grocery store increased to 45,000 SF from 35,000 in the 1990s, the sizes are coming back down again. Chains such as Aldi and Trader Joe's (owned by the same German company) both operate stores typically under 20,000 SF. They have been very successful and have been expanding. Walmart, has expanded its small store formats, especially in urban neighborhoods, to compete with local grocers and dollar stores. New Staples stores tend to be in the 15,000 SF range where they were once about 20,000 SF. Banks are downsizing from 6,000 to 7,000 SF deals to 3,500 to 4,000 SF and include drive-throughs.

A report by Barclay Street Real Estate says retail vacancy jumped from 3.1% in Q4 2017 to 5.1% in Q1 2018. The report says a little more than 2.1 MM SF of inventory is now available for lease, with approximately 650,000 SF stemming from Sears Canada's store closures. It says delivery of more than 1.7 MM SF of new retail inventory is anticipated this year.

However, in the first half of 2018 120,000 SF of former Sears space was leased.

"Sears former space in Brentwood Village (42,000 SF) was leased to Ashley Furniture and Buybuy Baby and the full main floor at Oxford's Southcentre mall (78,000 SF) has been leased and will be occupied in late 2019. The former Sears space at North Hill Shopping Centre (208,000 SF) will be converted into multi-family product", the Barclay report states.

Genesis Land Development Corp has plans for a new mega mall in Rocky View. The 1.4 MM SF OMNI development will be located on the city's eastern edge. The \$300 MM development will occupy over 1200 acres and include a retail and outlet centre, restaurants and cafes, three boutique hotels, a children's creative zone, a senior's living community and a large office campus.

New Horizon Mall in north Calgary, opened this spring. Developed by the Torgan Group and MPI Property Group, the Asian-themed mall is the first shopping mall in Alberta where each retail store is purchased outright. Stores may be owner-operated or purchased by an independent investor and leased to a retailer. The space was sold at around \$1000 PSF and more than 500 stores were sold.

The legalization of pot has presented a significant opportunity for landlords. The Alberta Liquor and Gaming Commission has not put a cap on the number of licenses that will be issued, but stipulates that no one person or entity can hold more than 15%. The province expects to issue about 250 licenses to private operators in the first year.

Most cannabis dispensaries are looking for 1,200 to 3,000 square feet and the same type of shopping centre or street-front locations traditionally sought by liquor stores.

## 5. TECH IS SHAKING UP THE INDUSTRY

From paying rent to property management, technology is changing the way business is getting done.

### Cryptocurrencies

Calgary is one of the first cities in Canada, to allow renters to use cryptocurrencies to pay for a commercial lease. Tenants in the Real Equity Centre, an office building at 1716 16th Ave. N.W. will have the option of paying their rent in bitcoin (BTC), ether (ETH) or litecoin (LTC), instead of the Canadian dollar. Systems are in place to protect both the tenant and the landlord from wild fluctuations in the value of these cryptocurrencies.

### Internet of Things

In June, Amazon launched Alexa for Hospitality. Alexa for Hospitality works over Echo devices installed in guest rooms which will be customized for the hotel. Via the Echo, guests will be able to ask Alexa for information about the hotel itself – like where the fitness center is located, when the pool is open, and other general information. They'll also be able to order room service, contact the concierge, the front desk, housekeeping, the spa etc.

The Alexa system can be customized further to control various "smart home" features like the lights, blinds, the thermostat, and the TV. In addition, the guests will be able to play music and radio over iHeartRadio and TuneIn. Guests can access third-party apps for things like workouts, airport wait times, meditation and white noise.

According to Amazon, Marriott International will introduce the new Alexa experience at select properties in Marriott Hotels, Westin Hotels & Resorts, St. Regis Hotels & Resorts, Aloft Hotels, and Autograph Collection Hotels starting Summer 2018.

### Blockchain

Blockchain is the digital and decentralized ledger system that records all transactions. Instead of a central hub where transactions are stored, servers and hard drives all over the world hold blocks of data. Blockchain uses cryptography to ensure that the data cannot be counterfeited or changed. Miners validate transactions on blockchain networks for rewards paid in cryptocurrencies.

Because blockchain is a distributed database holding a record of all transactions, the need for a central authority is removed. It is being used to power Smart Contracts, MLS and Land Titles.

Several municipalities in the US have already launched pilot projects to examine the benefits of blockchain for land registry and the transfer of documents. The city of South Burlington in Vermont has partnered with startup Propy, Inc. to convert their current system for real estate transfer document recording to a blockchain-based system.

In Canada, the government is launching a trial program to explore the use of blockchain to make government funding more transparent.

## Proptech

Proptech refers to a classification of startups that offer technologically innovative products or new business models for the real estate industry.

Proptech is based on connecting various pieces of the property market, so that participants in the real estate ecosystem (buyers / sellers, brokers / lenders, tenants / landlords) can make better decisions with less friction.

CB Insights has calculated that since 2012, real estate tech companies have raised almost \$6.4 billion in funding across 817 deals.

## 6. CAPITAL FLOWS THAWING

Despite low investment numbers, key deals are showing signs that there are opportunities in Calgary if you know where to look.

Q1 2018 sales of office-investment properties plunged 83%, according to Altus. Overall investment-property sales slumped 28 per cent in the first quarter, a \$295 MM drop from a year earlier.

Vancouver-based Anthem Properties Group Ltd. has bought the former CBC building just off Memorial Drive in Calgary and will use the site for a future residential redevelopment. The 2.43-acre site is located at 1724 Westmount Boulevard N.W. in the Hillhurst-Sunnyside neighbourhood.

Anthem Properties also acquired two industrial building from Canfirst Capital Management in Q2; a 37,459 SF building in the Greenview Industrial Park for \$6,709,666 and a 83,044 SF building in the Southeast for \$8,180,333

Hines and Oaktree Capital Management have closed the purchase of Calgary's First Tower office building, and plan a "significant capital upgrade program" to reposition the half-vacant class-B property. First Tower is a 27-storey building comprising 708,354 square feet situated in downtown Calgary built in 1981. H&R REIT and Dream were the vendors.

In the multifamily sector, Timbercreek has been active in the Calgary market, picking up Kingsland Gardens, a 213 unit building for \$46 MM and Windsor Place, a 124 unit building for just over \$24 MM.

Earlier this year, LaSalle picked up AHS Building, Southland Plaza, Southport Atrium and Southland Park IV, a total of almost 900,000 SF for \$41,250,000. The Real Estate Council of Alberta acquired 11506 11th Avenue SW for \$21.4 MM or \$672 PSF.

Fiera Properties purchased a 461,817-square-foot industrial portfolio in Calgary and Edmonton from Morguard for \$61.4 million at the beginning of this year.

Slate increased its presence in Calgary with the \$1.4 BB acquisition of 62 Cominar buildings including just under 1 MM SF of office space in Calgary.



## 7. TECH LABOUR POOL IS TALENTED BUT SPARSE

Investment into building a tech oriented labour pool is critical to attracting new companies.

According to Adam Legge, a director at the Haskayne School of Business at the University of Calgary and former head of the Calgary Chamber of Commerce, Calgary has a relatively young population and higher GDP per person than the rest of Canada. The city has highly skilled workers and boasts the highest percentage of engineers in the country.

Currently the city has the highest labour force productivity of major Canadian cities according to the Conference Board of Canada.

Calgary has the third highest education level attained of major cities in Canada. It also has one of the youngest populations of all the major cities in Canada. 36.8 years. The median age in Canada is 40.6 years.

Over 88,000 students are registered at one of Calgary's 8 post secondary school. 27% of all post secondary completions are in STEM programs.

Together with the Creative Destructive Lab, Calgary has 12 additional operating and proposed accelerators and incubators that foster and grow innovative new companies.

However, Calgary's Amazon HQ2 bid attempt has made the city aware that it needs more senior and entry-level tech professionals to attract big tech firms.

"Amazon emphasized it and over and over again, the most important thing is 'Can you build talent?'" said Mary Moran, the CEO of Calgary Economic Development, and the force behind the Amazon HQ2 bid.

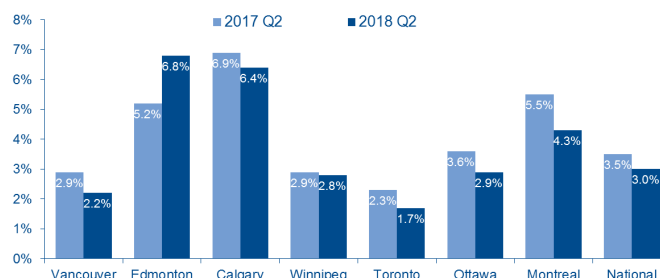
The Calgary Economic Development department launched the Global Skill Strategy, an initiative that helps businesses onboard skilled labour faster. The Strategy includes:

- a two-week processing time for 80% of work permit applications
- work permit exemptions for highly-skilled workers on short-term work assignments and for researchers involved in a short-duration research project in Canada
- a dedicated service channel for companies looking to make large, job-creating investments in Canada

This initiative along with the Calgary Opportunity Fund is strategies the city is employing to diversify and strengthen its workforce.

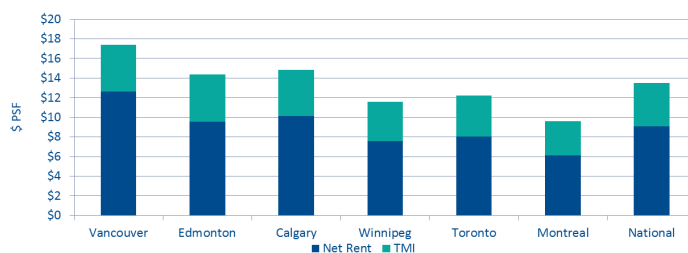
## 8. OVER 2 MM SF OF INDUSTRIAL SPACE SLATED FOR 2018 COMPLETION

### Industrial Vacancy Rates Remain Tight



Source: Altus Group

### Industrial Rental Rates Continue to Creep Up



Source: Altus Group

At the end of Q2, the industrial vacancy rate decreased for the sixth straight quarter to 6.2%, reported Altus, with the average asking price per square foot sitting at \$10.07 PSF net rental rate with taxes and operating costs at \$4.72 PSF.

The national vacancy rate for this asset class sat at 3.0% at the end of Q2 according to Altus Group. 16.4 MM SF of industrial space is under construction, with Toronto and Vancouver accounting for more than half of it. 51.4% of the space is pre-leased.

Industrial rents are on the rise, which is pushing asset values higher. Canada's average industrial net asking rental rate increased by 85 cents PSF year-over-year to finish Q2 2018 at \$8.89 PSF, Altus Group reported.

Cushman and Wakefield estimates that 25% to 30% of industrial leasing can be traced to e-commerce needs. On a global basis, e-commerce concerns take up 20% of new leases, up from less than 5% five years ago, according to Prologis.

Online retailers on average need approximately 1.2 M SF of space per US \$1 B worth of online sales, three times the distribution centre space required for traditional brick-and-mortar retailers, states Prologis.

The opening of the new Amazon fulfillment plan in Balzac was imminent at the time of writing. The 600,000 SF facility, which will process orders from Western Canada is hiring 1,000 new employees and could hire as many as 3,000 when operating at full capacity says the reeve of Rocky View County – of which Balzac is a part.

The demand for warehouse fulfillment space is so great that three storey distribution facilities are starting to gain traction especially in cities with high land values and low vacancy.

Goldman Sachs Group, in partnership with developer Dov Hertz, expects to begin building a three-story facility in Red Hook, Brooklyn in 2019. The warehouse will have truck ramps to the second floor and elevators that can hold a forklift going to the third floor.

A JV between Innovo Property Group (IPG) and Square Mile Capital Management is planning a two-story warehouse in the Bronx that spans 840,000 square feet. 8MM people live within 10 miles of this location.

In Seattle, Prologis' first multi storey facility will be complete this year. The 580,000 SF building will sit on a 13.5 acre site and be 85 feet in height.

There is nearly 2.3 MM SF of new product slated for completion by Q4 2018, according to CBRE. Projects nearing completion include:

- Phase II of Enright's Airport Crossing – 150,000 SF
- Bentall Kennedy's High Plains Industrial Park – 418,000 SF
- One Properties' Stonegate Industrial Centre – 413,000 SF
- Ascendant Commercial's Aero Drive Phase II – 250,000 SF
- Morguard's Grasslands Logistics Centre – 214,000 SF

## 9. STRONG GROWTH IN SECONDARY MARKETS

Calgary's secondary markets are doing well with new industrial and retail developments and healthy home sales.

A new Canadian Tire is now under construction on the west end of Grande Prairie, Alberta. The new building will be much larger than the existing Canadian Tire and will be complete in 2019

A Sephora opened in August of this year in Prairie Mall, Grande Prairie. Prairie Mall reconfigured the former Target space to add more stores including, Ardene, Urban Planet and Marshalls.

Balzac has been a centre of large industrial development. The largest to commence in Q2 was QuadReal's 266,515 SF Building B in Nose Creek Business Park; and Hopewell's announcement of their plans to construct 524,290 feet of new large bay, multi-tenant space in the Crosspointe Industrial Park according to JLL. This is in addition to the new Amazon Fulfillment plant set to open later this year.

Rocky View is the location of the proposed OMNI development by Genesis that will add 1.4 MM SF of mixed use space.

The housing market in communities around Calgary have also benefited from the job growth from the new industrial and retail developments. Nationally, the average house value in Canada has dropped 10 % in Q1 of this year, however, Airdrie's housing market remains almost unmoved. Overall prices in the detached sector remain 5% below previous highs.

## 10. SIGNIFICANT DEVELOPMENT PLAYS INVIGORATE THE CITY

From the completion of the Ring Road to the redevelopment of the Stampede lands, Calgary is on the precipice of major change to its urban areas.

In July Premier Rachel Notley announced that the province would fund the West Ring Road extension to the tune of \$1 BB. The new road will include more than nine KM of six- and eight-lane freeway on the west side of the city between Highway 8 and the Trans-Canada highway at about the 101st Street alignment. It will have six interchanges and 24 bridges. When it's finished in 2022, Calgary's completed ring road will provide just over 100 KM of free-flowing traffic around the city and will link Stoney Trail with Tsuut'ina Trail.

Development is starting on the 1240 acre mixed use First nations project. A partnership between Canderel and the Tsuut'ina First Nation, the three-phase development will leverage the Southwest Ring Road and will include retail, hospitality and entertainment venues, an innovation and research campus, office space, health and community facilities, and parklands.

Proposed construction of a new arena to replace the 35-year-old Scotiabank Saddledome in Victoria Park, the second oldest in the NHL, has led to heated discussions between the Calgary Mayor, Naheed Nenshi, and the Calgary Sports and Entertainment Corporation (CSEC). The estimated \$500 million project would result in a new 19,000 seat event centre and a neighbouring 5,000 seat practice facility. After talks disintegrated last fall, the Calgary City Council has rebooted talks with CSEC which the CSEC has agreed to provided a media ban is put into place.

BMO Centre, the largest convention centre in Alberta measuring the 500,000 SF is set to double in size in a proposed \$500 million expansion plan. It is currently operating at 73% capacity which is one of the highest rates in North America. "We're missing out on 11 to 14 tier one shows per year because we're about half the size we need to be," according to Warren Connell, Calgary Stampede CEO.

Connell said the annual economic impact post expansion of the BMO Centre would be \$267 million to Canada's gross domestic product, including \$223 million for Alberta, 17,057 direct full-time jobs of which 15,080 would be retained in Calgary and more than \$44 million in direct taxes to the three levels of government. Connell is hoping for approval of the expansion by the three levels of government this fall.

The Calgary Municipal Land Corporation (CMLC) held public consultations from April to July of this year to get input into the redevelopment of East Victoria Park which includes the Stampede Park and the BMO Centre. This is a 20 year vision that will ultimately result in 4 MM SF of mixed use development and more than 8,000 new residents.

Arlington Street Investment has acquired 42 buildings along a 10 block stretch of 17th Avenue SW with plans to revamp the district and increase density.

Arlington Street plans to either demolish or renovate all of the 42 buildings it has bought over the last number of years. Construction has already begun on some of these but most won't see major work for five years or more, the developer said. Plans include development ranging from 6 to 30 storeys, include high end and grocery retail space.





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