

# CALGARY

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## MARKET OVERVIEW & FORECAST

High energy prices are fuelling the Alberta economy and Calgary is a direct beneficiary. GDP growth surged ahead in 2005 reaching 4.6%, and 2006 should see equally solid economic expansion. The construction market remains strong from both the residential and non-residential sectors. Job creation continues at a fast pace, trying to keep up with the amount of investment being driven by the energy sector in the province. This strong growth is leading to tight labour market conditions as the province's unemployment rate has dropped to a historic low. Retail sales continue to soar with consumer demand supported by increased disposable income.

## OFFICE MARKET HIGHLIGHTS

The Calgary office market saw significant activity in 2005, characterized by almost weekly announcements for new office buildings and the projections for more to come. Leading the list of new projects is Livingston Place, Bentall Real Estate Services' new twin tower project in Downtown Calgary, which will add a total of 880,000 square feet of office space to the market. Tenants have been secured to occupy approximately 55.0% of the first Tower and 37.0% of the second Tower.

Encana also announced plans for a mega development on Centre Street between 5th and 6th Avenues. A global design competition is underway and it is expected that the actual final design will include approximately 2.0 million square feet. Most observers agree that this bold new development will draw the business core further to the east, especially when combined with development plans for the East Village and the Stampede expansion.

Matco, Oxford, GWL Realty Advisors, Cadillac Fairview, Yale Developments and others have projects that can be brought to the market fairly quickly once development permits are in place. These projects have the potential to add up to 6.0 million square feet of new office space between 2007 and 2011.

Demand for space continues to significantly outpace available supply. Although a number of developments are underway, the bulk of this space will not come to market until 2007, at the earliest, which leaves a significant challenge for those companies that require space immediately. With vacancy in Class A buildings approaching 1.0%, rental rates have hit record high levels (in the low \$30.00 per square foot net levels and rising). Average net absorption for Class A Downtown office space has averaged approximately 400,000 square feet per year for the past decade, including a record setting overall absorption of roughly 2.0 million square feet in 2005. Expect rental rates to continue to increase in 2006.

## INDUSTRIAL MARKET HIGHLIGHTS

With industrial vacancy at less than 5.0%, there is universal pressure to build new product in the northeast and in the highly developed southeast area where the City of Calgary is releasing industrial land for further development. Industrial rental rates are rising and new records are being set for all product classes.

Notable transactions in 2005 included a 354,000 square foot new design build by Bentall for General Mills, who will occupy 255,000 square feet; a 240,000 square foot building for the Hudson's Bay Company; and the expansion of SCM to 1.0 million square feet.

## INVESTMENT MARKET HIGHLIGHTS

The sale of First Canadian Centre to GWL Realty Advisors set a new benchmark for the Calgary investment market based on price per square foot and going-in yield. A premium for the property's potential expansion of up to 800,000 square feet was also included. With a lack of buildings available to investors in Calgary, King Street Partners has placed their major project, Palliser Square, up for sale. The development allows for up to 890,000 square feet in the form of two future office buildings.

All asset classes are setting record selling prices with cap rates dropping and unprecedented per square foot pricing. High-rise and single family housing starts have hit record levels and prices have continued to rise. Calgary housing developers have slowed their completion schedules to reflect the difficulty of acquiring some building materials and skilled workers.

2005 saw strong interest in the Calgary area from both US and overseas investors. Within the land market alone, three major US based developers have bought or leased land on which to build high quality industrial space.

### CALGARY MARKET AT A GLANCE

POPULATION  
**950,000**

OFFICE INVENTORY  
**46.6 million sf**

OFFICE VACANCY  
**4.2%**

CBD CLASS A VACANCY  
**1.5%**

INDUSTRIAL INVENTORY  
**98 million sf**

INDUSTRIAL VACANCY  
**2.8%**

