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COVER Office leasing pulls 6,000 more workers into the downtown as economy picks up and new towers studied

Crowding in Calgary

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The Calgary economy has picked up the pace again, returning to the form that created 125,000 new jobs in seven years.

Job growth in Canada's energy capital is also beginning to recover, after sinking to a nine-year low in 2003. Even better, a much higher proportion of 2004's new jobs were full-time.

Even so, Calgary isn't expected to achieve the growth pace of its pedal-to-the-metal heydays. Net migration is expected to be about 5,000 in the April 2004 to April 2005 census year, much lower than the 13,000 average of the preceding five years. And job creation will be only 60 per cent of what it was in those years.

Population is expected to reach 1 million by 2008, at an annual growth rate of 1.8 per cent, compared to the 3.1 per cent average in 1998–2002.

On balance, the outlook is still very good.

After a decline in 2003, oil and gas industry employment increased by 6,200 in the first eight months of 2004, and by 12,900 in professional, scientific and technical services. Oil nudging US$50 a barrel will have that effect.

If the narrow streets of the city core feel more crowded these days, they are. "There's been net easing of 1.2 million square feet of office space in 2004," said **Richard White**, executive director of the **Calgary Downtown Association**.

"That's the equivalent of one **Banker's Hall** tower, and that means about 5,000 to 6,000 people added to the downtown workforce," White said.

And the streets could get a lot busier.

Calgary is already the head office capital of Western Canada. Currently, nine of the *Financial Post*'s Top 50 companies are headquartered in Calgary, compared with 18 in first-place Toronto. But a study of 52 cities by the U.S.-based **The Boyd Co. Inc.** found that Calgary has the lowest head office operating costs in North America. The study found that Calgary annual operating costs for a typical corporate headquarters of US$14.1 million, the lowest in the survey. By contrast, San Francisco had the highest cost at US$22.4 million.

Richard White, executive director of the Calgary Downtown Association: "The streets are getting busier" in the head office capital of Western Canada

> Calgarians as a whole are pretty confident

Outlook

Richard Corriveau, Canada Mortgage and Housing Corp. (CMHC) senior market analyst, remarks: "High oil and gas prices have had no huge impact on consumer confidence. Calgarians as a whole are pretty confident in the state of our economy regardless."

It's an affluent city, with the majority of people still in their prime spending years. In 2001, 48 per cent of households had an annual income of $60,000 or more.

The retail sector is flourishing. Several major regional shopping centres have built major additions in recent years, and have had no trouble leasing the space. **Deerfoot Meadows**, a new $500-million retail centre, has a strong line-up of tenants waiting for space that opens in 2005. Last year, retail investment in the city was up 44 per cent from a year earlier, according to a **Royal LePage** study. Major transactions last year included the sale of **Eau Claire Market**. At year end, both the **Anthem** Retail Portfolio and **Narland** Retail Portfolio were in play.

But Calgary isn't the boomtown of 25 years ago. "We've come of age," White said. "One consequence is that we have a much more diversified downtown. We're getting offices, but also new condos, a new courthouse, a new hotel, new theatres. And it's not just a downtown phenomenon; it's spread throughout the city."

More mature

"They're still not building office towers on spec. Every development starts with a tenant that will take up, usually, about 50 per cent of the space. It's a much more disciplined economy than it was 25 years ago," White said.

There's a possibility, but no certainty, that another high-rise office tower will begin construction in 2005. The provincial government's courthouse building, now under construction, is expected to free up as much as a half-million square feet of space now being leased from the private sector.

Even so, Calgary's construction industry remains strong, employing a much larger than usual proportion of the workforce. Major projects proposed, under way or recently completed in September 2004, totalled $7.9 billion. Infrastructure was $2.7 billion of the total, institutional building $2 billion, while commercial/retail accounted for $1 billion and tourism and recreation for $900 million.

"We've not only become the financial capital of Western Canada, we've also become the distribution centre," White said.

The petroleum industry's capital requirements, which have vastly increased in the era of oil sands development, helped turn Calgary into a financial hub for the western part of the country.

And a location on major cross-Canada road and rail routes, and a north-south road and rail corridor to the United States, made Calgary a natural location for huge distribution warehouses whose service area spans four provinces and reaches into the U.S. The industrial vacancy rate in Calgary rose slightly last year, to 5.8 per cent, but capitalization rates for new buildings remain in the 7 per cent to 8 per cent range, analysts estimate.

Calgary's airport, one of the busiest in Canada, contributes nearly $4 billion to the local GDP. It is getting $800 million of improvements through 2007.

The oil and gas business has also made Calgary a major engineering centre. For example, the 12.9-kilometre Confederation Bridge, linking Prince Edward Island to the mainland, was designed in Calgary.

Meanwhile the industrial market remains fairly loose with an estimated 5.8 per cent vacancy rate, as compared to Edmonton and Vancouver, which are both less than 4 per cent. Capitalization rates for new projects, however, remain around 7 per cent to 8 per cent, according to **Karen Barry**, associate vice-president, investment, with Royal Lepage Commercial in Calgary. "Investors are actively pursuing these types of investments," Barry noted.

The Calgary investment market has been so buoyant in fact that better commercial buildings are being listed with no set price in a buyer bid process. And it is not uncommon for "institutional level" properties to attract a dozen bidders, Barry said. An example is **Woodlands Village**, a mixed retail and office project in SW Calgary that is expected to have a crowd of buyers signed up by the January 21 deadline.

Youth rules

Of Canada's 10 largest market regions, Calgary has the youngest population and the largest proportion of people with post-secondary education. It also has the country's highest concentration of science, mathematics and engineering specialists: 44 per thousand, twice the Canadian average. And Calgary's public library reports the highest per-capita lendings in Canada. Calgary's trademark white hat covers some active brains.

Agriculture was Calgary's founding industry and it's still significant today. Alberta farm cash receipts were $8.3 billion in 2001. Drought and BSE have taken a toll since, but recovery is beginning. Farm equipment and supplies, product marketing and processing, livestock shows and sales, conventions and farm publications all contribute to the city's economy.

Tourism is a billion-dollar business in Calgary, with more than 4 million visitors annually, including more than 100,000 convention

This old bank building downtown is listed for $6 million as a prime retail site. (Listing agent: Karen Barry at kbarry@royallepage.com.) Some sites are sold under open bids

Calgary and the Rocky Mountain resorts has been recovering since 9/11.

The danger of relying too heavily on one industry has haunted Calgary for more than 30 years, and it has inspired vigorous efforts to diversify the local economy.

An entrepreneurial spirit and an educated, technically skilled population have encouraged growth of high-tech industry in wireless communication, software and other industries. Altogether, information technology, telecommunications and life sciences sectors contribute more than $7 billion to the Calgary economy.

In addition, the city and provincial governments, post-secondary schools and the private sector have joined in efforts to incubate new high-tech industry here.

Calgary Technologies Ltd., for example, is a partnership of the municipality, the **Chamber of Commerce and University of Calgary** that's meant to attract and strengthen high-tech companies. Founded in 1981, it operates technology incubator programs and two research parks in Calgary.

Calgary's more moderate growth rate has provided breathing space to improve overstretched roads and transit. With $1 billion in city has embarked on a very aggressive catch-up program that will double its transportation investment for the next five years.

Calgary commercial realtors are bullish on this year's outlook.

As Barry noted: "Purchasing activity in investment real estate should continue at a fevered pace, fueling the primary factor affecting value — elevated demand and limited supply."

The outlook for the residential market is less clear, according to Canada Mortgage and Housing Corp.

House prices

The city's frenetic pace of housing construction has been slowing for several years, and the trend is expected to continue in 2005, according to CMHC's Corriveau, who forecasts a mild decline in 2005 to 13,500 new homes.

"Fundamental elements for new home demand will continue to show signs of weakness, at least by Calgary's standards," Corriveau observes.

The average new house in Calgary sold for about $281,000 in 2004. The price is expected to rise 5.3 per cent in 2005 to $296,000.

2004, and are forecast to increase 4.6 per cent to $252,600 in 2005, CMHC said. That's weakness, "by Calgary standards."

Not surprisingly in a fast-growing city, the housing stock is fairly new, with about half built since 1975.

Sixty-nine per cent of Calgary's private dwellings are owner-occupied — the highest ownership rate in Canada. Sixty per cent of dwellings are single-family houses, 21 per cent are apartments and 15 per cent are row houses and semi-detached.

Many investors who bought Calgary condos to rent out as an alternative to under-performing stocks are having second thoughts as vacancy rates increase, Corriveau said. Vacancies are the highest in 11 years, with little relief expected in 2005.

Those who sell will be competing with new offerings from builders who have already created a large inventory: in August 2004 the number of unsold new condos was 56 per cent higher than a year earlier.

Meanwhile construction was near a 22-year high with 77 per cent absorption of completed

Quick facts

Calgary

Population 933,495
Average house price $221,000
Average family income $80,000
Number of head offices 9
Top employers Professional, scientific and technical, oil and gas, construction, manufacturing.