

# Downtown Calgary State of the Economy

## Corporate Economics (March 2021)

### Economic Headwinds since 2014

The City of Calgary has faced a multitude of economic headwinds since 2014. Despite signs of economic resilience and recovery from 2017 to 2019, the global COVID-19 pandemic had a disproportionate effect on Calgary and its downtown commercial core. Simultaneously, the city is contending with health-related business restrictions, another collapse in oil prices, and a multi-generational office vacancy crisis.

Since 2014, Calgary has underperformed the rest of Canada economically on many fronts. For instance, following the 2020 COVID-19 economic shock, Calgary's gross domestic product (GDP) is back to early 2014 levels, while GDP for Canada has been set back to only 2017 levels. Calgary's 2020 unemployment rate (11.7%) was the highest for the city since 1983. In contrast, Canada's 2020 unemployment rate of 9.5% was the highest national rate since 1996. Calgary's workforce lost approximately 7,800 full-time jobs from January 2014 to February 2021. Some estimates show that full-time industries that are likely major contributors to Calgary's downtown<sup>1</sup> have fared even worse over this time frame. Job losses in these full-time roles were approximately 23,500 full-time positions compared with a gain of approximately 5,700 full-time jobs in other roles.<sup>2</sup>

Resource revenues made up about 13 per cent of the Alberta government's total revenues in the 2019-2020 fiscal year. The province has identified that a one-dollar change in the price of a barrel of West Texas Intermediate (WTI) has a \$230 million impact on Alberta government revenue. 2020 was a difficult year for WTI, as at 39 US\$/bbl, this was the lowest priced year since 2003 and was down 58 per cent from the 2014 WTI annual average price of 93 US\$/bbl. Despite the recent setbacks, there is optimism ahead for Alberta. Specifically, a survey of professional forecasters expects real GDP growth of 5.6 per cent in 2021, the strongest annual growth since 2014 (5.9 per cent). The rationale is strength in oil prices from November 2020 onwards and a resilient housing market that should boost business and consumer sentiment.

### A Historic Challenge for Calgary Commercial Real Estate

Calgary's downtown is a key economic hub of the region. Following multi-year economic challenges, Calgary's downtown core is recording historic commercial vacancy rates not seen since the early 1980s. Q4 2020 estimates of Calgary's downtown office vacancy rate ranges from 25 to 29.5 per cent, far surpassing the most recent office vacancy peak of approximately 22 per cent in 1983. Some Canadian cities (e.g. Vancouver and Ottawa) have seen strengthening commercial rent prices and a rebound in non-residential construction in 2020. By contrast, average commercial rents and investment have continued to tumble in Calgary.

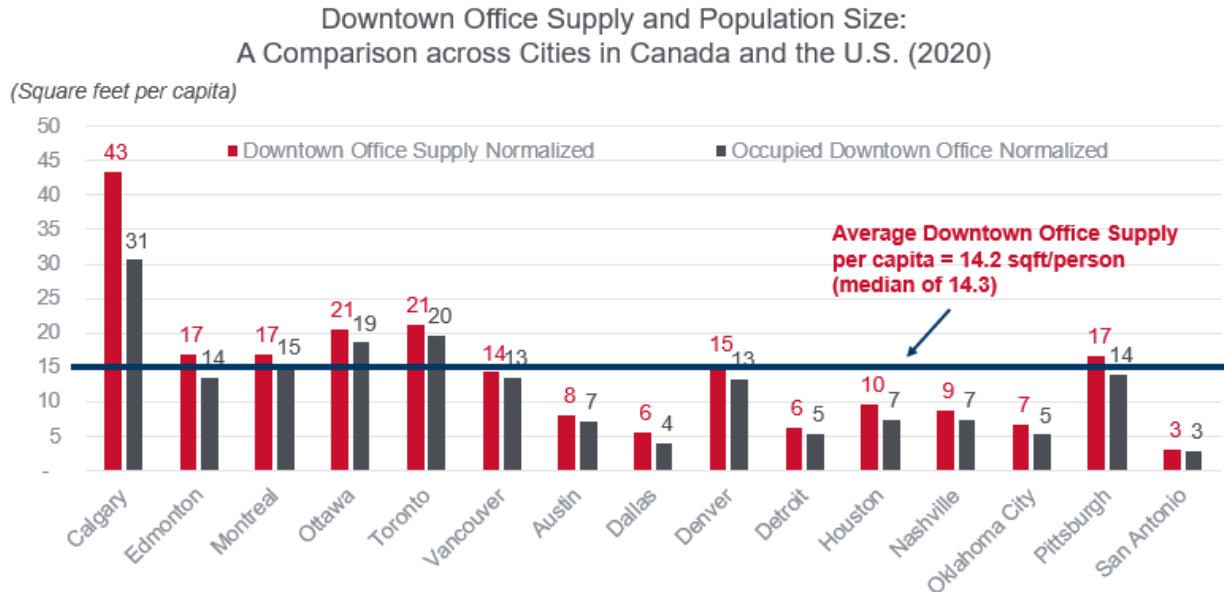
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<sup>1</sup> Industries here consist of (a) Mining and Oil and Gas Extraction, (b) Finance, Insurance, Real Estate and Leasing, (c) Professional, Scientific and Technical Services, (d) Information, Culture and Recreation, (e) Business, Building and Other Support Services, and (f) Public Administration.

<sup>2</sup> Offsetting full-time job losses in industries that are likely major contributors to Calgary's downtown were gains in full-time employment over the same time period in (a) Educational Services, (b) Transportation and Warehousing, and (c) Health Care and Social Assistance.

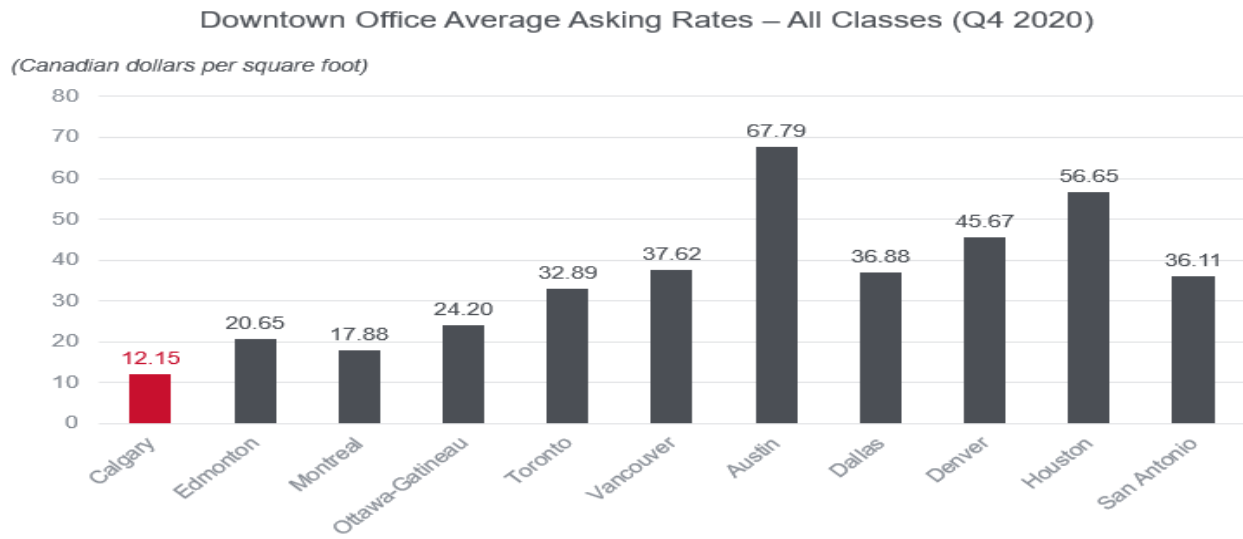
## Calgary's Affordable, High-Quality Office Space among its North American Peers

Calgary's downtown office space is unique relative to 14 comparable cities across Canada and the United States. When normalizing for population, Calgary has the highest downtown office supply and occupancy per capita among the comparable North American cities.



Source: CBRE, Corporate Economics, Oxford Economics, Statistics Canada, The City of Calgary, U.S. Census Bureau, U.S. Department of Commerce

Compared to other downtown metro areas, Calgary office space is very affordable, with Q4 2020 asking rates averaging \$12.15 per square foot, compared to current per-square-foot lease rates of \$32.89 in Toronto, \$37.62 in Vancouver, \$45.67 (CAD) in Denver, \$56.65 (CAD) in Houston, and \$67.79 (CAD) in Austin. Despite low prices for several years, market forces have not stimulated demand making government policy changes to address high vacancy compelling.



Source: CBRE, Corporate Economics