



ON SPEC:

Commercial Real Estate Developments Push Ahead Without Major Tenants

Stampede Station is the latest mixed-use development to embrace trendy work-lifestyle concept amid booming office demand.

Left to right: His worship Dave Bronconnier, Calgary Stampede Chairman of the Board & President Steve Allan and Alberta Gaming Minister Gordon Graydon.

BY Business in Calgary staff

Errecting a \$300-million office complex without any major tenants signed on before the groundbreaking can be a bad move in most commercial real estate markets, but then the rules don't apply in Calgary's market.

The business community's insatiable appetite for office space has left the city with essentially no empty offices downtown and skyrocketing lease rates. So, when Opus moved ahead with its plans to begin construction of its Stampede Station office complex on Macleod Trail just south of the core, the company had no worries about finding tenants.

"Look at the price of oil," says Hannes Kovac, a partner with Opus Building Corp. who took part in the groundbreaking ceremony in late-June of this year. "We think by the time we're done (construction of Stampede Station), the market is going to be there."

The project also highlights the current trend in commercial developments to include more than just a simple office or warehouse space. People are looking for amenities, a mixture of uses, parking and other "lifestyle"

characteristics to make a project viable in today's market. Stampede Station will be built in stages and will include a full potential for 850,000 square feet of new office space in two towers: Phase One will be a nine-storey, 160,000-square-foot building; Phase Two will be a 19-storey, 320,000-square-foot building with options to build further as demand warrants. It will be complemented by a large, 1,000-unit residential condo development and 125,000 square feet of retail space on the site. There is also a hotel planned adjacent to it.

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"It's almost like we create our own little village," says Kovac, describing the landscaping, set-back architecture and mixed uses planned on the site. "It's good for the entire area." The growing interest among companies of all sizes to explore options outside of the core is boosting the trend. The Beltline and Victoria Park areas are seen as prime areas for this trendy style of architecture and campus-style layout.

"A lot of (developers) try to create this pedestrian-friendly, streetscape atmosphere

... and we used that approach, too,” says Kovac. Modern office developments often demonstrate the qualities found in Stampede Station: fitness facilities, ample parking, proximity to entertainment districts and retail stores, public transportation linkages and some type of residential component.

Quarry Park, the largest mixed use development currently underway in Calgary (and, in fact, one of the largest of its kind in North America), is moving ahead on the old Lafarge site between Riverbend and Douglas Glen along the Bow River. While it’s obviously not a downtown office development, it’s typical of the “lifestyle” kind of development. When fully completed in 2010, the 127-hectare site will include a mix of housing (multi-family townhomes, condos, single-family homes) located near retail and office facilities.

The potential \$1 billion development, being led by Remington Development Corp., is also placing a heavy emphasis on water features, parks and pathways, and an array of entertainment and retail developments as part of the overall community plan. While it has secured Jacobs Engineering as the major tenant in one of the first and largest office buildings on the site, the company is also taking the gamble that the market will fill out the remainder

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of the site as the project progresses. It fits perfectly with the City’s Go Plan.

Back into the downtown area, several other office projects have adopted the campus-style, pedestrian-friendly atmosphere, such as the IBM complex. The second and third towers are now moving ahead along 11th Avenue SW and maintain the same type of “lifestyle” environment with condos and retail located nearby.

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the company isn’t worried about finding tenants. He speculates the office component will be able to offer “way below \$30 per square foot,” yet remains on the major Macleod Trail route located one LRT stop away from the central core.

As for a forecasted rise in vacancy rates, the reality of that has yet to be seen. While there are 14 planned new office towers – ranging from Livingston Place to the EnCana complex – there is only about 1.4 million square feet worth of projects that will actually open their doors to tenants in the next three years, says Michael Gigliuk, director of research in Alberta for CB Richard Ellis.

“You’ve got to look out to 2009, 2010 to see any relaxation

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Artist's rendering of the Trade and Entertainment complex expansion project, courtesy of the Calgary Stampede.

because the first round of developments are leased up,” says Gigliuk, “so provided energy prices remain high, it should remain tight in the core until that next round of developments are completed.” One of the biggest hurdles for the commercial real estate sector is getting approval to move forward from the City of Calgary’s planning and permit office.

Several developers have raised concerns that the amount of time it takes to get a project approved is increasing. Part of the problem is the city is so backlogged with applications from residential, commercial and institutional developers that projects are being delayed. The cost of materials continues to increase and the labour shortage just isn’t going away.

In the past few months, several projects were placed on hold or had prices increased for units, including Union Square (a 340-unit condo) and Gateway Midtown. Sky Tower had to give back purchasers’ deposits on its own 30-storey development in the Beltline.

The City appears to be responding. In August, officials announced the development and building permit office has hired 27 new staff, still representing less than half of what is needed. City council approved 66 new positions in the department earlier this year in addition to the current 350 employees. The most difficult positions to recruit are the actual planners, officials reported.

Officials are also addressing the city’s outdated land-use bylaw document. After being under review for three years, a new draft of the rules was released in August and is open to public consultation for the next month. The re-design is meant for the current market, eliminate unnecessary delays and re-applications, creates new land-use designations and offers more detailed definitions and rules to reflect calls by developers to

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update the process in accordance with today’s market conditions and trends. The new land-use bylaw document will go before the planning commission later this year and will end up in city council’s lap.

Opus’ Kovac says the Stampede Station project, which includes the Sasso residential condo development on the southwest corner of the project, shouldn’t run into those permit problems because of its existing, long-term relationships with its contractors and sub-contractors, as well as city planners (which have given the project the green light).

Stampede Station is using the backing of city planners and competing for that same talent pool of trades workers as the entire area undergoes a dramatic revitalization. It’s proximity to the Talisman Centre, LRT, shopping and the downtown core make it a viable alternative for companies seeking some relief from lease rates that are climbing up to the \$45 mark for premium Class AA office space in the core.

Whatever the future holds for Calgary downtown core and surrounding office markets, it became fairly obvious to Kovac and his partners at Opus that if they were able to be among the first to complete new office projects in the core that they would be a success. The company’s proven success with its Opus 8 building downtown along 8th Avenue SW – now fully leased and slated to begin taking in tenants by next summer – bodes well for the Stampede Station project. In fact, Kovac hasn’t set any concrete limits to the amount of development that could take place on the site, suggesting the tremendous demand in Calgary could end up making the project even bigger. “If the market is right, we may just keep digging the hole,” says Kovac. **BIC**

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~ Kovac.



Breaking ground at Stampede Station are (l to r): Madeline King, alderman and deputy mayor of The city of Calgary; Willard Olauson, president of OPUS Building Corporation; Eileen Stan, executive director of Victoria Crossing BRZ; Guy Scott, president of WAM Development Group; and Hannes Kovac, vice-president, operations of OPUS Building Corporation.