Edmonton Journal

A golden opportunity for dowdy downtown; Flood of office space opening up this year will give firms an attractive alternative to the 'burbs

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Section: Business
Byline: Gary Lamphier
Column: Gary Lamphier
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Illustrations: Shaughn Butts, The Journal / Real estate broker Cory Wosnack of Avison Young says Edmonton's vacant office space in top-tier downtown towers will balloon to 1.2 million square feet after the new Epcor Tower opens later this year -an inventory equivalent to two Epcor Towers.; / Thousands of square feet of space will become available in the four buildings; Larry Wong, The Journal, File / After the opening of the Epcor Tower;

This is a city that can't help but grow, as the city's chief economist likes to say.

For Edmonton, it's already baked into the pie. The real question is: What kind of growth does this city want?

Will it remain an esthetically challenged, relentlessly utilitarian industrial burg -the "boiler room" of Canada, as Mordecai Richler once dubbed it?

Or will Edmonton evolve into something better -a more physically attractive, dynamic, culturally enriched 21st-century metropolis? The choice is ours.

When the planet's second-largest oil reserves are located in your backyard and crude is selling for $108 US a barrel, that unleashes huge opportunities.

No wonder more than $30 billion is pouring into new and existing oilsands projects every year. But most of the spinoff benefits are on the city's periphery.

Unfortunately, Edmonton's second-rate downtown core -unlike Calgary's -doesn't reflect the city's bright future. It's the hole in the doughnut, an underwhelming turnoff for residents, visitors, employers and employees alike.

Over the years, many senior execs have told me they've had a tough time recruiting senior staff to work downtown. Some firms simply moved to Calgary.

Although it's improving, Edmonton's gap-toothed core remains riddled with grimy parking lots, strug-gling retailers and acres of empty office space. In other cities, the demand for new condos and downtown office space would have filled these gaps years ago. But Edmonton isn't Calgary or Vancouver.

Despite its growing heft, this city has few major head offices. Even worse, many of the firms that are here shun the core, operating instead out of spartan digs in lowrent industrial parks.

? TD Tower: 70,000 square feet

? BMO Building: 55,000 square feet

? Manulife Place: 25,000 square feet

? GE Place: 200,000 square feet

Like the fabled gnomes of Zurich -the mysterious Swiss bankers who lived underground, counting their cash -too many of this city's top players are all but invisible, with no downtown presence.

The good news? There will soon be a golden opportunity to alter those dynamics and attract more firms downtown. And it has zip to do with the new arena redevelopment zone unveiled by the city this week.

Once Epcor, Capital Power and the federal Justice Department move into the new Epcor Tower later this year, the vacant office space in toptier downtown towers will balloon to 1.2 million square feet, says Cory Wosnack, a commercial real estate specialist with Avison Young.

That's more than 10 per cent of all the office space in the city's financial district, and it's equivalent to two new Epcor Towers. The empty space will be sprinkled throughout such trophy buildings as the TD Tower, GE Place (Epcor's current home on Jasper Avenue), Manulife Place and the BMO Building, across from Edmonton City Centre mall.

The looming space glut also includes more than 316,000 square feet of space that's expected to hit the market at Telus House and Scotia Place and 174,000 square feet still to be filled at the new Epcor Tower.

"The vast majority of the space that's going to be available is in Class A or AA buildings. So these are very good-quality buildings," Wosnack says.

Now, with growing competition among property owners to lure new tenants downtown, he says local firms will have a rare opportunity to move into top-quality office space at rockbottom rates, with juicy inducement packages thrown in.

"We'll be seeing rental rates in the $18-to $20-per-square-foot range for Class A and AA buildings in the financial district, versus $16 to $18 in the suburbs. So you're looking at just a 10-per-cent gap in rates, with inducement packages in the financial district double those in the suburbs," Wosnack says.

If you're a firm that's looking for 50,000 sq ft of contiguous office space in Edmonton, there are currently only three options in the suburbs and nine in the core, he notes. All of the latter are in Tier 1 buildings.

"If you want to be in the suburbs and you want to be in a new office building, you'll be paying rates of around $25 to $27 per square foot. Or you can move downtown into a topquality building that's had millions of dollars worth of upgrades, and pay rates of $18 to $20 a square foot, so it's a pretty attractive alternative."

Although local firms have historically had "champagne tastes on a beer budget" when it comes to office space, Wosnack says times are finally changing.

With another energy boom looming and worker shortages forecast by 2012, companies are already duking it out to attract top employees. And that means offering more attractive work environments.

"It really is going to result in a very healthy office market two years from now, where we'll have single-digit vacancy rates and more people working downtown," Wosnack predicts.

His own firm, Avison Young, is a prime example. The company is moving into new space in the Bell Tower in June.

"That's going to be our new base, since we've outgrown our space here (at Scotia Place). We're preparing to hire more staff and we're gearing up for business growth. So we're taking advantage of an outstanding real estate deal that wouldn't have existed two years ago."

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Calgary Herald

Bank sells $116M stake in Scotia Centre; Montreal trust to take 50% interest

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Byline: Dan Healing
Source: Calgary Herald
Illustrations: Ted Rhodes, Calgary Herald / After competitive bidding, Homburg Canada REIT is investing in 50 per cent and will take over the management of the Scotia Centre in downtown Calgary.;

Calgary's strengthening office market has persuaded a Montrealbased real estate trust to invest $116 million for a half interest in the 607,000-square-foot Scotia Centre in downtown Calgary. And more real estate purchases are likely, says the president and chief executive of Homburg Canada Real Estate Investment Trust.

"Absolutely, there will be more," said Jim Beckerleg in an interview Friday.

"There's nothing specific or imminent at the moment, but we've definitely identified Alberta and specifically the Calgary area as an area of focus for us."

Homburg Canada REIT was spun out as a separate publicly traded company last year in a reorganization of Homburg Invest Inc. It announced Friday it will buy 50 per cent of Scotia Centre and take over as manager. Scotiabank will maintain a 50 per cent interest and stay on as an anchor tenant. The stake was won through a competitive bidding process.

Jim Rea, vice-president and partner with Colliers International in Calgary, said it's tough to compare pricing because properties like Scotia Centre don't come on the market very often but he thinks the buyer paid a fair price.

"I think they're buying it at less than replacement cost for a new building, certainly," he said. "It represents good value. It's not a new building by any stretch of the imagination but it's well-located and generally well-maintained and welltenanted."

John Savard, vice-president with CITI Commercial Real Estate Services in Calgary, said the city's office vacancy rates are steadily improving but it's still a tenant's market.

Calgary had negative absorption of almost 1.6 million square feet in 2009 as a slowdown in the oilpatch led to companies curtailing their office expenses.

"The vacancy rate is trending downward, starting the year at 14.4 per cent, and we're looking at this quarter to see positive absorption continue," said Savard, noting his numbers include the uncompleted Bow tower.

"But we're still expecting vacancy to be in double digits in the next few years. So it's going to remain a tenant's market."

Savard added lease rates are bouncing back from their lows, with B Class building space going for 20 per cent more so far this year than last year.

"There's been tremendous absorption in the Calgary market," noted Beckerleg.

"The market is projecting over 500,000 square feet of absorption in this first quarter of 2011 after a strong market last year.

We believe everything is pointing to a very solid performance in the office market over the next few years."

He said there are no immediate plans to spend capital on Scotia Centre, which is 96 per cent occupied.

The purchase is to be funded by a seven-year, 4.6 per cent, $69.6-million first mortgage provided by Scotiabank and the use of $46.4 million of cash from the proceeds of the REIT's public offering.

"Homburg Canada REIT meets our need for a partner with financial stability with a reputation for quality management," said George Marlatte, Scotiabank's senior vice-president for the prairie region, in a statement. "We look forward to a long-term relationship with them."

Beckerleg said Homberg Canada REIT owns 10 per cent of the Penn West Centre in Calgary and manages it and has seven other suburban office buildings in Calgary. It also owns a small retail centre in Edmonton.

Scotia Centre is a 42-storey Class A office tower with a three-storey retail concourse.

It has 520,000 square feet of office space and 88,000 square feet of retail space.

The five largest tenants of Scotia Centre are Scotiabank, Gowlings, Shaw Cablesystems, NuVista Energy and Chinook Energy, who together occupy 63.2 per cent of the building, Homberg Canada REIT said.

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The Globe and Mail

The jobs are back: More U.S. hiring points to growing confidence

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Page: B1
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Byline: Kevin Carmichael
Dateline: WASHINGTON

WASHINGTON -- The U.S. economy is hitting its stride, reaching a pace that will help it push through headwinds such as rising energy costs.

Payrolls for Canada's biggest trading partner increased by a net 216,000 jobs in March, surpassing economists' expectations and bringing the unemployment rate to a two-year low.

U.S. factories are leading the rebound in employment and are expected to continue adding to payrolls in the months ahead. Stock markets continued a winning streak Friday, with the Dow Jones industrial average reaching the highest point since the summer of 2008, as investors grew increasingly confident that the world's largest economy now can be counted on for sustainable, if unspectacular, economic growth.

It's difficult to overstate the significance the jobless rate at this moment in American history. Joblessness dominates the political discourse, and the Federal Reserve's controversial attempt to stimulate demand by purchasing $600- billion (U.S.) in U.S. government debt is focused on reducing the unemployment rate.

"The pace of hiring is now running at a cruising speed generally associated with the expansion phase of the economic cycle and a declining unemployment rate," Stéfane Marion, chief economist at Montreal-based National Bank Financial, said in a note to clients Friday. "This development should help put to rest about the sustainability of the current business cycle."

The U.S. Labour Department said Friday the average rate of hiring over the previous three months accelerated to 188,000 from 167,000 in February.

That jump in hiring represents the fastest pace since early 1987. A separate Labour survey of households showed the unemployment rate fell to 8.8 per cent in March, the lowest in two years and the fourth-consecutive monthly decline from a rate of 9.8 per cent in November.

Significant hiring has been the missing ingredient in the U.S. recovery. Hiring was notably absent as the economy began expanding from an 18-month recession in June, 2009.

The monthly unemployment rate was as low as 4.4 per cent in 2007, a year when more than 146 million people had jobs. By October, 2009, the jobless rate had surged to 10.1 per cent, and over the 13 months that followed, the rate never dipped lower than 9.5 per cent. In 2010, the number of employed was only a little more than 139 million.

But - at last - hiring appears to be catching up with other positive indicators, such as buoyant stock markets, higher corporate profits and record exports.

The net 216,000 non-farm jobs created was greater than the Wall Street consensus. The biggest drag on hiring was the public sector, where states and municipalities, struggling to shrink bloated deficits, cut some 14,000 positions in March. It was the fifth-consecutive monthly decline in government employment.

Factories are driving employment growth as they take advantage of a weaker dollar to gain a bigger share of booming overseas demand in countries such as China and Brazil. Manufacturing payrolls increased by 17,000 in March, the fifth straight monthly increase.

There were 196,000 more people working in manufacturing in March than a year ago. Separately, the Tempe, Ariz.-based Institute for Supply Management's said its manufacturing index was 61.2 in March compared with 61.4 in February, suggesting that factory activity remained at the highest level since May, 2004. The institute's employment gauge slipped to 63 from 64.5 the prior month, a level that nonetheless signals strong hiring intentions, economists said.

Increased hiring suggests companies are gaining confidence that the economy is strong enough to withstand shocks, unlike last summer, when Europe's sovereign debt crisis flared, forcing the Fed to launch its asset-purchase program to keep economic growth from flagging.

As the effects of the financial crisis began to recede, companies chose to try to keep up with demand by boosting productivity rather than taking on new salaries. But efficiency gains are finite. Many companies now are at a point where they must add workers or forego sales.

"We're at the point where productivity is maxed out, so job growth is going to come," James McNerney, chief executive officer of Boeing Co., said Thursday at conference in Washington hosted by the Export-Import Bank. Mr. McNerney said Boeing, the world's second-biggest plane maker, will add 3,000 jobs this year to "fund demand."

While hiring is picking up, the pace is modest, and therefore the majority of the Fed's policy makers likely will be persuaded to spend the full $600- billion.

Pierre Lapointe, global macro strategist at Brockhouse Cooper in Montreal, reminded clients in a note that it will take monthly job creation of 250,000 to make a serious dent in the unemployment rate, which remains well above the Fed's preferred level of about 5.5 per cent.

Calgary Herald

Wary businesses keep economy simmering; Faith in future remains high despite caution

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Byline: Dan Healing
Source: Calgary Herald
Illustrations: Stuart Gradon, Calgary Herald / Felix Rooke, of Calgary model-making firm Replicate Designs, says many local businesses "are talking the talk but, in our business, not so many of them are walking the walk.";

Calgary's confident swagger remains, but its unshakable belief in future prosperity is being tinged with caution these days, suggests a new poll provided to the Calgary Herald.

"There is definitely a lot of optimism -I feel optimistic -because we've got a lot of quotes out there," said Felix Rooke, a vice-president and co-owner of six-year-old Calgary model-making firm Replicate Designs.

He said the company, which sells to architects, real estate developers and the oil and gas industry, has grown to annual sales of more than $1 million, and the current market is among the best he's experienced for his promotional and advertising dependent business.

But it could always be better.

"A lot of people are talking the talk but, in our business, not so many of them are walking the walk," said Rooke.

"They're not picking up the pen and signing on the dotted line."

The latest Alberta Business Confidence Index report, based on polling conducted in March by Leger Marketing for PricewaterhouseCoopers, finds consumer attitudes were about the same, but business optimism shrank after a sharp jump in the previous poll in January.

"We had a real spike in January. It jumped up quite high in a number of categories," said Ian Gunn, partner and leader of private company services practice for PWC in Alberta.

"The overall index from a business and consumer standpoint remains positive (in March), as in very optimistic, but the consumer side stayed flat.

"From the business side, there was a bit of a pullback, and the biggest pullback was on current and future business conditions, which have been a leading indicator in earlier surveys."

Index numbers above 100 indicate optimism, and numbers below 100 show pessimism.

The overall consumer index for March was 108, unchanged from January, and the overall business index was 122, down from 127.

Business confidence in current and future business conditions came in at 159 -a very high number -but slipped from 167 and 172, respectively, in the January poll.

Last week, the Conference Board of Canada said its monthly index measuring consumer confidence dropped sharply in March, while its U.S. counterpart fell to a three-month low.

It blamed a barrage of negative news, including upheaval in the Middle East and North Africa and the fallout from the Japan earthquake and tsunami.

Gunn said the March poll included an add-on question about what effect a higher oil price would have on the Alberta economy.

A majority of both consumers and business respondents concluded it would mean higher costs and lower profits for businesses while creating more demand for labour.

Gunn said the higher concern about business costs ties in with high confidence numbers on future employment -Albertans aren't worried about keeping their jobs, which means they can afford to be concerned about the business health of their employers.

The confidence index is based on interviews with 274 Calgary and Edmonton chamber of commerce members and 900 consumers.

The margin of error is plus or minus 3.3 per cent, 19 times out of 20.

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The Globe and Mail

Surprised by the market's strength? You're not alone

Mon Apr 4 2011
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Regardless how many generations it may take for the Fukushima Daiichi nuclear power plant area to become habitable again, investors decided early into the crisis that it was a short-term phenomenon for the markets.

Against a backdrop of the nuclear fallout, turmoil in North Africa and the Mideast, the sovereign debt powder keg in Europe, rising inflation and historic debt loads in the U.S., the S&P 500 just completed its best first quarter in 13 years, gaining 5.4 per cent. In Toronto, the S&P/TSX almost matched the feat, advancing 5 per cent.

"We've been surprised by the market strength," says Roland Chalupka, chief investment officer and portfolio manager with Fiduciary Trust Company of Canada.

He is in good company. Rising stock prices have occurred on declining volumes, which from a technical point of view is considered evidence of weaker conviction.

The markets continued the upward trajectory Friday, the first day of the second quarter, thanks to better-than-expected job numbers in the United States, where the private sector added 230,000 jobs last month, helping push the unemployment rate down to 8.8 per cent, from 9.8 per cent, in just four months.

The strong job figures create a dilemma for investors: Should they take them as a signal of a rebounding economy, or view the figures as a catalyst that will cause the Fed to tighten its monetary policy?

The day before the better-than-expected job numbers were released, Minneapolis Federal Reserve Bank president Narayana Kocherlakota suggested the Fed may need to raise interest rates late this year to try to keep inflation under control. In Europe, where high sales tax has helped drive inflation, the central bank is expected to raise rates on Thursday, and then deliver another round of tightening in July.

Almost certainly, this quarter will mark the end of the U.S. Federal Reserve's second round of quantitative easing, or QE2. On Tuesday, the Fed releases the minutes of its March 15 meeting. They will be scrutinized by the market for policy intentions, but there's little hope at this point for QE3 in the second half of the year.

This poses another conundrum: Does the end of the unprecedented flow of cheap money remove the fuel for further stock rallies, or does it signal to investors that the economy is now primed to take off on its own?

"We're starting to see the end of the liquidity trade," says Ric Palombi, portfolio manager with McLean & Partners Wealth Management Ltd. in Calgary.

"There's some partying like it's 1999. But given the runup in the markets, it's only natural to look at QE2 and some indicators and see more difficult and volatile markets in the second half."

Even with U.S. unemployment suddenly down, there are still 13.5 million people in the U.S. who want to work but can't find a job. To put that into perspective, Canada's total work force is 18.7 million.

On Monday, the Bank of Canada's Business Outlook Survey is expected to signal an improving economy, and economists will be watching for signs of whether the central bank may raise rates earlier than first expected.

First-quarter financial results begin to flow in earnest next Monday with U. S. aluminum producer Alcoa Inc. reporting. "We expect a good [earnings] season, but maybe not as good as the past few quarters," Mr. Chalupka says.

At the moment, he favours defensive stocks and energy companies. He's cool towards utilities as their yields become less appealing in the runup to rising interest rates.