

Varcoe: Calgary office vacancy rate creeps above 30% — 'Like climbing out of a hole made of quicksand'

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Chris Varcoe, Calgary Herald

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A report released Monday by CBRE Ltd. found the downtown office vacancy rate in Calgary increased during the first quarter to 30.2 per cent. Gavin Young/Postmedia

Two major factors could shake up efforts to revitalize the downtown and fill empty office buildings in the core.

One is ongoing oilpatch consolidation, which has pushed the downtown office vacancy rate back above 30 per cent during the first three months of the year.

The tremors from U.S. tariff threats are creating uncertainty, but have not yet fully struck — and hopefully can be avoided.

On Monday, a report released by commercial real estate firm CBRE noted the downtown office vacancy rate increased during the first quarter to 30.2 per cent — its highest point since last spring — and up from 29.5 per cent at the end of last year.

“Merger and acquisition activity is resulting in consolidated office footprints in Calgary, whose downtown was impacted by the exit of Chevron,” CBRE said in a news release.

In October, Chevron announced it would exit Alberta by selling its 20 per cent stake in the Athabasca Oil Sands Project, along with properties in the Duvernay formation, to Canadian Natural Resources for \$8.85 billion.

The U.S. oil supermajor owns Chevron Plaza on Fifth Avenue S.W. and has put the building up for sale. Company officials confirmed Monday the office tower, built in 1981, has 24 occupiable floors with 265,000 square feet of rentable space.

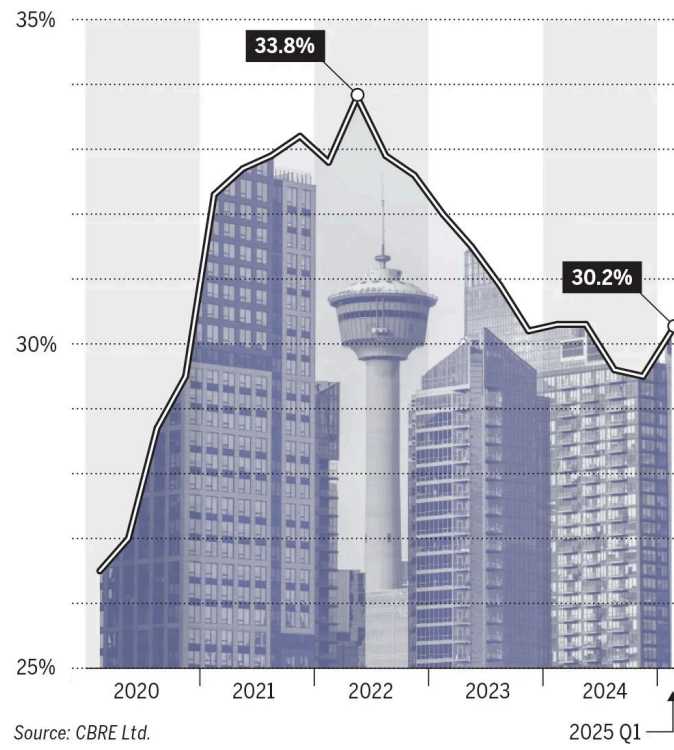
Downtown office vacancies climbed sharply last decade after global oil prices crashed.

As more people worked remotely and some businesses closed during the pandemic, the rate peaked at 33.8 per cent during the second quarter of 2022. It gradually eased below 30 per cent at the end of December, before edging back up this winter.

“It’s just a sign of turbulent times, whether it be COVID, work from home, oilpatch consolidating, tariffs — it just seems like it’s one thing after another. It’s like climbing out of a hole that’s made of quicksand,” said Greg Kwong, CBRE’s Alberta executive chair.

VACANCY RATE TICKS UPWARDS

The downtown office vacancy rate increased during the first quarter of 2025 to 30.2% — its highest point since last spring.



DARREN FRANCEY / POSTMEDIA

However, there are bright spots ahead for downtown Calgary, he noted.

A number of downtown office buildings have traded hands from institutional to private equity investor, “and private equity typically buys on optimism. So, there are a lot of people out there that are placing money on the long-term viability of Calgary’s downtown office space,” Kwong said.

“And if it wasn’t for a lot of these mergers and acquisitions (M&A), a lot of companies are renewing their leases.” The city’s overall office vacancy rate sat at 26.1 per cent during the quarter. Calgary and Halifax saw the largest improvement in suburban office vacancy rates compared with other large Canadian cities, CBRE reported.

The trend of oilpatch consolidation continues as companies seek to become larger, have better access to capital and become more relevant for investors. However, M&A activity often leads to layoffs. It also triggers more office space being vacated.

Last year, the total value of mergers and acquisitions activity among upstream oil and gas companies jumped to \$20.4 billion, up 24 per cent from the previous year, according to data from Sayer Energy Advisors.

There are also indications of another busy year shaping up in 2025 amid further sector consolidation.

So far this year, the value of the deal-making has reached about \$8.6 billion, including this month's blockbuster merger between Whitecap Resources and Veren Inc., noted Sayer president Tom Pavic.

As well, several energy sector companies have begun to review their strategic alternatives, which could include potential asset divestments or a corporate sale.

"Bottom line: I would say expect more M&A this year," said BMO analyst Jeremy McCrea.

"I think everything is 'pencils down' here until we figure out what will happen with tariffs. But once we see what ultimately happens, I think there will be some (leaders saying), 'OK, let's get together here.'"

U.S. President Donald Trump has pledged to place 10 per cent tariffs on Canadian energy and 25 per cent on other exports, with more details expected as soon as this week.

Tariffs imposed on the country's energy sector could hinder downtown Calgary's office occupancy growth in the short to medium term, as it could lead to less industry spending or lower revenues, the CBRE report stated.

Without the tariff threat, demand for office space would likely be higher, said Kwong.



Greg Kwong, executive vice-president and regional manager of CBRE, looks over downtown Calgary from his office on Jan. 12, 2022. Darren Makowichuk/Postmedia file

Meanwhile, the city of Calgary continues to move ahead with its plans to convert some vacant downtown office buildings into residential properties.

Since unveiling its office conversion program in 2021 — providing civic grants to eligible projects — 11 such initiatives have been approved by the city.

The strategy to revitalize the downtown and transform aging office buildings into residences will add vibrancy to the core, but it will take time, said Trent Edwards, Canadian president for Brookfield Properties Development and co-chair of Calgary Economic Development's real estate sector advisory committee.

For every one step back — such as the Chevron office space being vacated — there are two steps forward, he said.

"We are still in the second or third inning," Edwards said.

"We have got the commitment from private industry of converting some of these buildings and putting a significant amount of capital in to do it."

Calgary Downtown Association executive director Mark Garner agreed the new projects will bring more people into the downtown, and attract more amenities such as grocery stores and new restaurants into the area.

"We are in a good spot," he said.

"Yeah, you get a little bump or a little hiccup here, but it's all explainable. And then next month or next quarter, you are going to see the (vacancy) number reduced yet again."

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