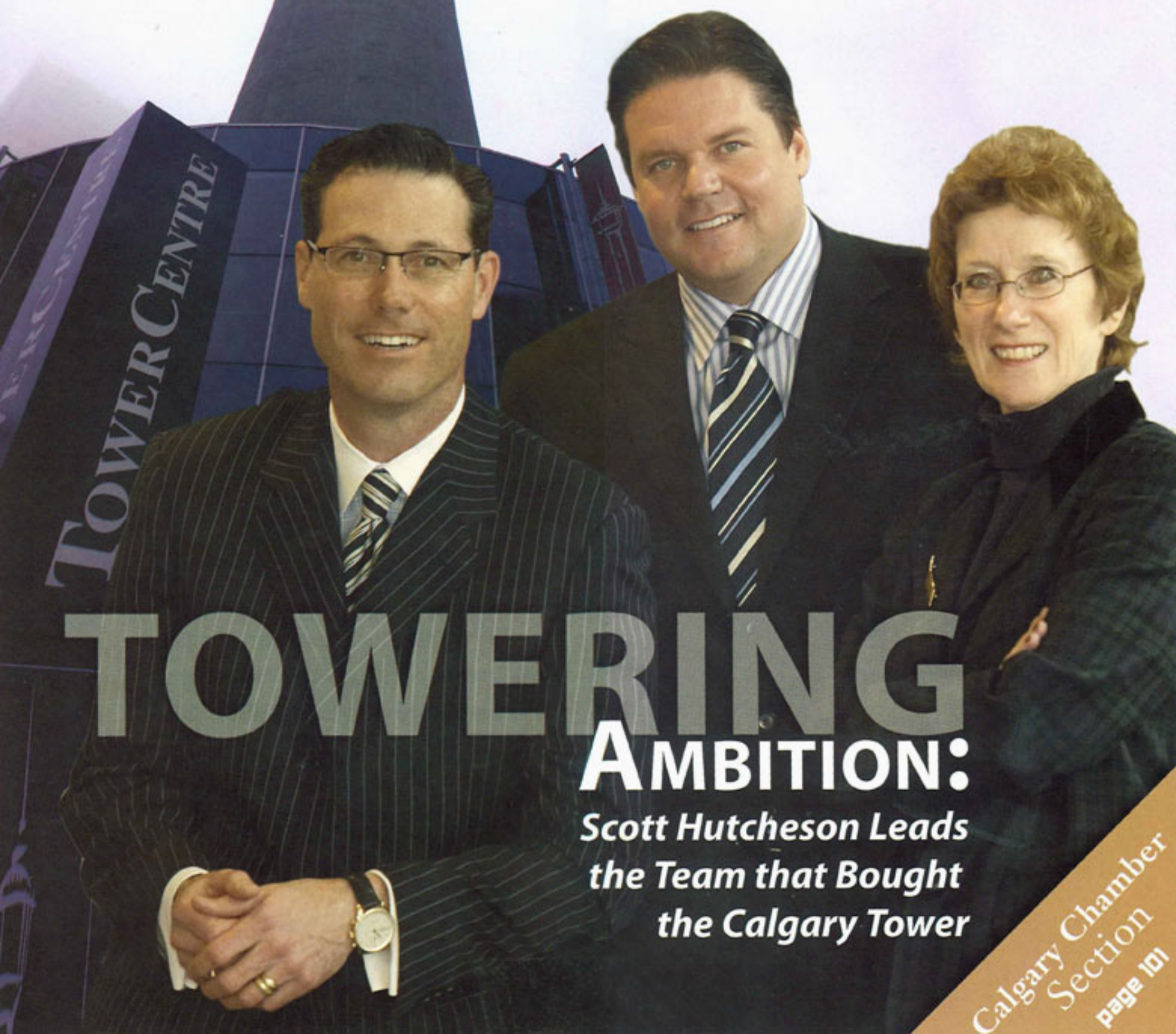


Business

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TOWERING AMBITION:

The new owner of the Calgary Tower built an empire eluding bigger players in the city's hot office market. Now, Scott Hutcheson embarks on a new vision for an iconic piece of land in Calgary.

BY DEREK SANKEY

Flying under the radar of large institutional investors, Scott Hutcheson has built up a "critical mass" of office properties in downtown Calgary, the most recent addition being the Calgary Tower and its surrounding land.

His strategy has been very simple: buy up Class B towers that were overlooked by large investors like pension funds and turn them into gold by improving and upgrading the properties, fetching much higher prices. It's a strategy that is paying off well for Hutcheson and his team at home-grown Aspen Properties Ltd.

"Our strategy was to become the largest owner of B buildings when the institutions didn't have to price those out of our range," says Hutcheson, president and chief executive officer of Aspen. "It created a good value-add program in every case." Aspen now owns about 2.5 million square feet of Class B office space in 12 towers in Calgary, among them buildings such as Canadian Centre, the Ford Tower and now One Palliser Square – an additional 371,505 square feet alone.

The latest addition is by far one of the most promising. While the Calgary Tower itself won't be going anywhere,

Scott Hutcheson
Photo by Mathieson and Hewitt Photography



"My child went to school and told his class that his daddy bought the Calgary Tower," he explains. "But the students and so many other people said: 'You can't (own it). Calgary owns it.'"

L-R: Scott Hutcheson, Greg Guatio and Veronica Bouvier
Photo by Mathieson and Hewitt Photography

the larger site – which encompasses almost two city blocks of prime real estate – is set to undergo significant changes in the near future, says Hutcheson.

"The opportunity with the Tower is to use that icon of the downtown ... into the future on that city block," he says. "It was really easy to be attracted to this asset right from the start." It was August last year when Hutcheson first heard rumblings that the block might be up for sale. But it wasn't until December that he was working on the deal under contract with the previous owners, KingStreet Capital. On March 1 of this year, the deal was sealed for \$150 million which gave Aspen the Calgary Tower, the 1,374-stall parkade, One Palliser Square, Tower Centre office and retail, as well as two new potential office towers to flank either side of the Tower itself.

Hutcheson admits that when he was working the deal, much of the prestige and cultural importance of the site was lost on him at first. "I can honestly say that I did not fully appreciate what an icon it was when I first went under contract on the property," says Hutcheson. It soon became clear to him, though. "My child went to school and told his class that his daddy bought the Calgary Tower," he explains. "But the students and so many other people said: 'You can't (own it). Calgary owns it.'"

As a business person, he always tries to "sterilize" business deals to remove the emotional portion. His appreciation for the entire site has grown exponentially since taking on the property. "The end result is that I have a much greater feeling of respect and responsibility as the owner of the Calgary Tower and the last thing myself or my partners would want is to have their children left with the legacy that we did something inappropriate to the Tower," says Hutcheson, a native of Huntsville, Ont.

After going to the University of Utah on a skiing scholarship, Hutcheson worked in the U.S. as an investment banker with Goldman Sachs, returned to business school and held various jobs south of the border before looking back to Canada. "I'm a Canadian and I felt a desire to return to Canada long-term at some point in my career," says Hutcheson. The prospects in Alberta looked very favourable to him by the late 1990s. The nearby Rocky Mountains didn't hurt either, since Hutcheson was on the Canadian National Ski Team from 1978-82. "(Alberta's) education, its youth, its livability, the mountains, the entrepreneurial spirit, the lack of bureaucracy (and) the pro-business community were all drivers and attractive to me." He moved his family to Calgary in 1998.

He started talking to Steven Funk, founder of private equity investment firm Grand Marais, and by early 1998 Hutcheson was being backed by Funk to start Aspen Properties through its parent company, CML Global Capital Ltd. Hutcheson, Funk and his other partners, Greg Guatto and Veronica Bouvier, sat on the board of CML Global as the company bought and sold various assets.

In January of 2005, the group of principals privatized CML Global – the previously public company that owned Aspen – as well as another firm half-owned by the group called Consolidated Properties Ltd. The end result is today's privately held Aspen Properties Ltd, which owns the entire portfolio of properties under CML Global.

"It's been a very busy time," says Guatto, chief operating officer of Aspen. "We've been virtually under contract buying and selling assets since the time I got here." Guatto landed at Aspen five years ago after leaving what was then known as TrizecHahn.

He has also come to appreciate the scope of the new property Aspen just purchased. "(The Calgary Tower) is something that comes with a lot of attention, which we weren't seeking," says Guatto. "It's part of the city's identity and we have to strongly consider that and incorporate that into any development that we do."

The Calgary Tower has been a bit of a hot potato in the real estate world. This is the second time it has been sold in two years. Before KingStreet Capital, the property was owned by Vancouver-based Bentall Corp., which bought the Tower and Palliser Square for about \$70 million in 1999. Built in 1968, the Tower cost a mere \$3.5 million to build and was named the Husky Tower. Renamed as a tribute to Calgarians in 1971, it has now had a total of six owners – four within the past 10 years.



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Hutcheson attributes the turnover in ownership to shortening real estate cycles, in large part. "Assets are traded more frequently, there's more pressure on the businesses to perform in a very short period of time and there's more liquidity in the world," he says. With the average life of a CEO now around 18 months, "you're forced to do things today that maybe the CEOs were given five or 10 years to perform a generation ago."

Investor impatience is partly to blame, too, because they use these properties as investment vehicles and they want big returns now, especially in a market where values continue to soar and likely will for the foreseeable future, says Hutcheson. "I'm not sure whether people are or aren't willing to bet on this cycle being different this time, but I know we are. It's my job to figure out the best strategy for us and in the next five years, I see a great cycle for two reasons," he explains.

First, unconventional oil – i.e. the oilsands – is more economically viable than ever before. With oil at \$60 per barrel, it's no secret that billions of dollars continue to pour into these massive projects. Even if prices took a significant dip to, say, \$40 a barrel, it would still represent an economically viable force to be reckoned with.

Given that context, Hutcheson notes that more than half of our economy is fully dependent on gas and oil. India, China and U.S. make an even better case. The global demand for Alberta's black gold just doesn't appear to be ready to wane anytime in the next one, or even two, decades.

But the Calgary Tower property and its related assets are just one of many new directions that Aspen is taking with respect to a vision for downtown office towers. Hutcheson says his aim to turn Class B buildings into Class A properties through careful improvements and upgrading.

"It has been very important for us to reach a critical mass in terms of the portfolio here so that we could provide the A-class amenities to the B-class buildings," such as concierge services, security, economies of scale and to make Aspen's building lobbies

“feel more like hotels than subway stations,” says Hutcheson.

In Calgary’s thriving downtown market – vacancy rates hover around two per cent or less for prime space – it’s a gamble that Aspen believes will be well worth the investments. And he’s not alone. People in the commercial real estate game are well aware of the space crunch downtown, which has led many companies not directly related to the oil and gas industry to look elsewhere.



“Anybody who’s out there looking for a large block of space, the only options they really have is to look at the towers coming out of the ground ... or the suburban markets.”

“The demand is just ridiculous,” says Randy Fennessey, president of Colliers International Inc. (Calgary). “Anybody who’s out there looking for a large block of space, the only options they really have is to look at the towers coming out of the ground ... or the suburban markets.”

Many new buildings will be sprouting up in the next couple of years and beyond, the first of which is the Livingston Place project in Eau Claire. It happens to be right beside a piece of land set to be developed by Cadillac-Fairview and Aspen, called City Centre for the time being. It’s a joint venture owned 50-50 by the two companies, although the ground-breaking has yet to begin. The developers have re-applied to the City of Calgary for a new development permit to incorporate several design changes, says Hutcheson.

Even when you take into account all of the new projects on the books, though, it remains a fairly bleak outlook (for tenants paying upwards of \$40 per square foot). That’s because out of a total existing space of 32 million square feet in the core, there is currently only about 400,000 square feet of available space spread out over 70 buildings. “There are lots of closets available and places to put your golf clubs, but there isn’t functional floor space available in many cases,” Hutcheson says.

Aspen, for example, owns 2.5 million square feet but has only about 12,000 square feet of vacancy in its 12 buildings. Hutcheson says that if a conservative estimate of 500,000 square feet of space is absorbed per year in the next decade as new projects come on stream, you would need to add seven to eight million square feet more during that time just to keep the vacancy rates where they are now. To make it a truly healthy market, considered to be a

vacancy rate of about five per cent, would require 12 million square feet to be built in the next 10 years, says Hutcheson.

His company took a totally different strategy in the Edmonton market, which has been historically much softer than Calgary's. Instead of buying up Class B properties in that city, Aspen decided to go for three of the best buildings in town. It bought up three Class A buildings: Scotiaplace, Allstream and ING. "Many assets in the downtown of Edmonton have quadrupled in the past 20 months or so," says Hutcheson. Base rents have climbed from \$7-8 per square foot to \$18 today and are forecast to reach \$24 next year. Aspen holds a total of 1.1 million square feet in that market.

Back here in Calgary, Hutcheson and his team are eager to set about improving the B-class properties. "We first attack a building from a standpoint of life and safety, upgrading the mechanical, electrical, code work ... and we're at that stage with some of our buildings today," he says. "We want to be the best B-landlord in the country."

As for those two towers proposed to flank either side of the Calgary Tower? Well, it will likely be sooner than later that news arrives on that front. Hutcheson won't yet release any details, but suffice it to say plans are well in the works. "I would say that strategically, it would be part of our program to execute on the west tower sometime in the next 12 months," says Hutcheson. To date, he has not secured an anchor tenant for the property.

Guatto agrees the timing and conditions look right to get mov-

ing. "We're gearing up to look at going quickly on that ... because of where the market is today," he says. In the meantime, the entire team is quite happy to call Calgary home at such a promising time in its life. "I can't see anything on the horizon ... that would stop Calgary from becoming a world-renowned city and continuing on its growth. It's a phenomenal place to live, the business environment is terrific - all the ingredients are here." ■

ASPEN PROPERTIES LTD. at a glance:

- Privately owned by CML Global Capital Ltd.
- Bought the Calgary Tower and surrounding assets for \$150 million in March 2006
- Owns 12 buildings in Calgary (2.5 million square feet of Class B) and 3 buildings in Edmonton (1.1 million square feet of Class A)
- Headquartered in Calgary
- Corporate team: Scott Hutcheson, president and CEO; Greg Guatto, COO/principal; Veronica Bouvier, vice-president accounting and administration; Steven Funk, board member of CML Global Capital Ltd.