

BELTLINE OFFICE MARKET ANALYSIS

22.3%
OVERALL VACANCY RATE

↓ -1.2% FROM Q4'17

CLASS A **23.8%**

↓ -1.6% FROM Q4 TO Q1

CLASS B **25.3%**

↓ -1.5% FROM Q4 TO Q1

CLASS C **14.2%**

↑ +0.1% FROM Q4 TO Q1

- The Beltline market witnessed an overall reduction in vacancy on a combination of positive net absorption totaling 29,000 square feet (sf) during the fourth quarter.
- Strategic Group is planning a residential repurposing of the 61,000 sf Stephenson Building. As such, all vacant space has been taken off the market.
- A Class sublease spaces were particularly busy, accounting for approx. 36,000 sf of absorption.
- Nearly half of Beltline availabilities were in B Class buildings.
- Sublease space, as a proportion of vacant space, decreased to 33% from 34% in Q4 2017.
- More than half of available Beltline leasing opportunities were in spaces measuring 4,000 sf or less.



Foundation Building
Fourth floor professional / office

PREPARED BY
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Current Vacancy at a Glance

OVERALL RATE **22.3%**

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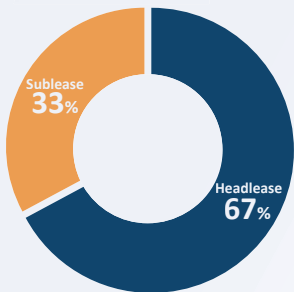
a 6 month period. An additional 56,000 sf of space comes available for occupancy from April through September, 2018.

The pipeline of shadow vacancy, which we define as space coming available in seven to twelve months, became increasingly constricted. A further 3,000 sf in existing buildings comes available in at the end of this year. This is the smallest amount of shadow vacancy seen in more than two years. Taking this pending space into account, the Beltline's projected vacancy is unchanged.

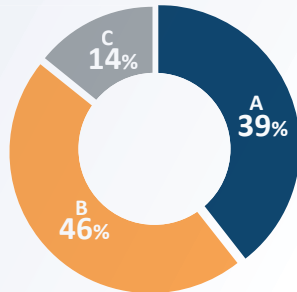
Beltline vacancy decreased to 22.3% during the first quarter of 2018. Few full-floor options in A Class properties came available this quarter, with the most notable being in **IBM Buildings A and C**. A few full-floor subleases came to market as well, in **Keynote Building and Trans Alta Place I**. These new listings, however, were more than offset by the leasing of **Mount Royal Village – West**, which was added to our Beltline inventory in the fourth quarter of 2017. In addition, full floors in **IBM Building A, Keynote Building and Palliser South**. Further, Strategic is making moves to repurpose the Stephenson Building for residential and as such, the available space in the property has been taken off the market.

Barclay Street Real Estate's vacancy calculation takes into account all space available for occupancy within

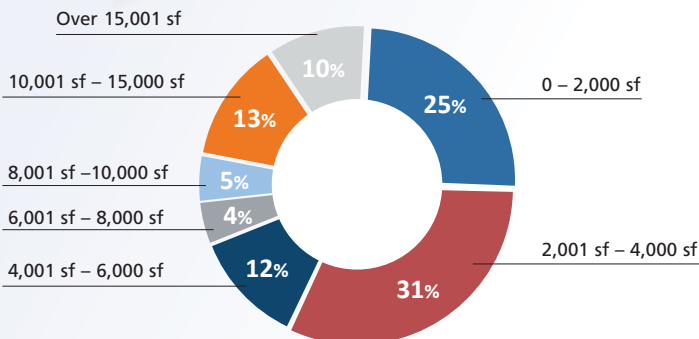
HEADLEASE VS. SUBLEASE DISTRIBUTION



DISTRIBUTION OF TOTAL AVAILABLE SPACE BY BUILDING CLASS



DISTRIBUTION OF OPTIONS BY SIZE RANGE



Market Review

VACANCY IN CALGARY'S BELTLINE OFFICE MARKET DECREASED BY 1.2% OVER THE FIRST QUARTER OF 2018, ENDING MARCH AT 22.3%. This was due to two factors: positive net absorption totalling approximately 29,000 sf and the removal of vacant space in the Stephenson Building as the Landlord prepares to redevelop it.

Positive absorption was supported by activity among A Class properties as tenants took advantage of the ample opportunities to secure the best-quality space available in this submarket while conditions remain in their favour. This came primarily at the expense of B Class properties. In fact, were it not for the removal of office vacancies in the **Stephenson Building**, the B Class office inventory would have registered negative absorption and the Beltline overall would have registered negative net absorption.



Stephenson Building on 11th Avenue SW – Beltline troublemaker

Among spaces in the remaining inventory, several new headlease and sublease spaces came available and some long-standing subleases rolled over, going back to the Landlords. As we noted in our previous market report, the pipeline of pending leases more than six months in the future has diminished significantly, making this 'shadow vacancy' negligible.

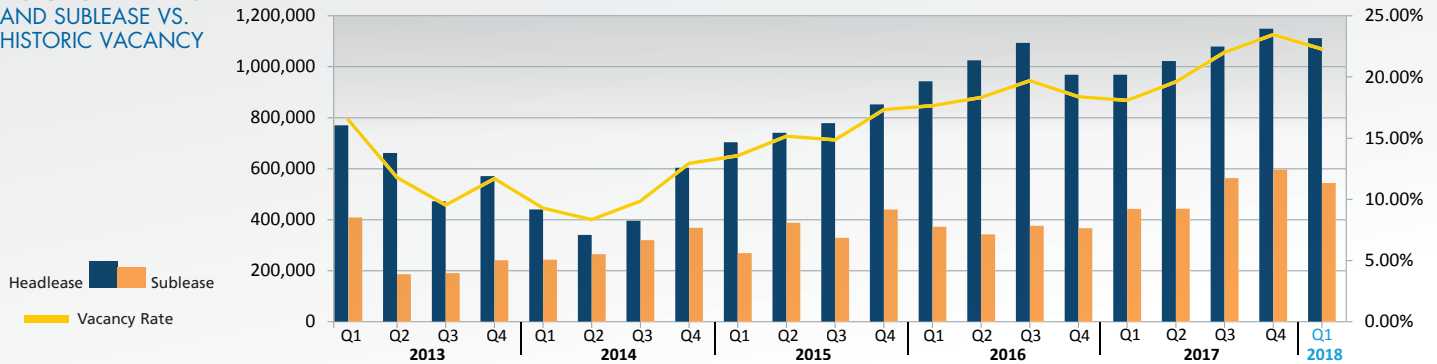
With the Beltline expected to see vacancy remain above 20% well into 2018, we anticipate the pipeline of future excess space will remain constricted now that a substantial number of tenants are meeting or have met their right-sizing targets. Additionally, with no new product currently in the works, we anticipate the amount excess space to be marketed will remain extremely small.

Conditions in this submarket continue to heavily favour the Tenant. As such, Landlords remain motivated to keep tenants and attract new prospects. This is particularly true for owners of B Class and C Class properties who must reconcile offering the very low rates expected by tenants with the higher operating costs in their properties. To this end, Landlords have become increasingly amenable to gross deals that allow for all costs to be rolled-up into attractive packages.

Vacancy

Headlease vs Sublease

HISTORIC HEADLEASE AND SUBLEASE VS. HISTORIC VACANCY



Vacancy by Building Class and Size Range

When considering the total number of opportunities available in the Beltline, more than half (56%) of available opportunities measure less than 4,000 sf while options greater than 10,000 sf comprise just under one-quarter (23%) of available spaces. These large options account for more than half of total available square footage.

HEADLEASE OPPORTUNITIES BY BUILDING CLASS AND SIZE RANGE

Size Range	A	B	C
0 – 2,000 sf	4	20	31
2,001 sf – 4,000 sf	11	32	22
4,001 sf – 6,000 sf	5	18	1
6,001 sf – 8,000 sf	1	8	5
8,001 sf – 10,000 sf	3	6	4
10,001 sf – 15,000 sf	8	15	0
15,001+	7	3	2
Overall	39	102	65

SUBLEASE OPPORTUNITIES BY BUILDING CLASS AND SIZE RANGE

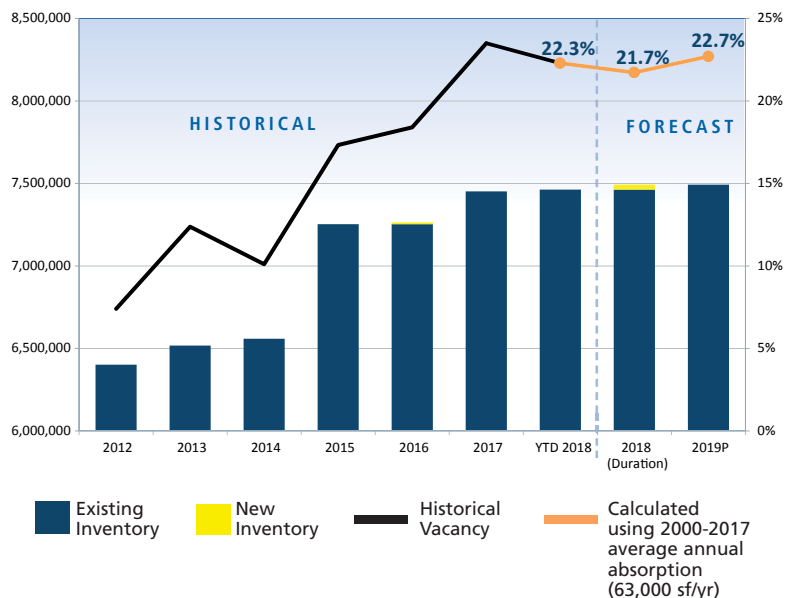
Size Range	A	B	C
0 – 2,000 sf	2	2	4
2,001 sf – 4,000 sf	4	8	3
4,001 sf – 6,000 sf	1	6	1
6,001 sf – 8,000 sf	1	4	0
8,001 sf – 10,000 sf	0	0	0
10,001 sf – 15,000 sf	4	6	0
15,001+	11	3	0
Overall	23	29	8

The number of available headlease opportunities decreased slightly over the previous quarter to 206, and total available sublease spaces also decreased to 48. As mentioned earlier, the above-noted decreases reflected a combination of positive leasing activity and removal of vacancies for a pending office property repurposing.

Vacancy Forecast Including New Inventory

This accompanying graph is a representation of potential vacancy outcomes, calculated using long-term historical absorption trends and the anticipated completion of new Beltline developments through 2019.

VACANCY FORECAST RESULTING FROM NEW DEVELOPMENTS IN BELTLINE



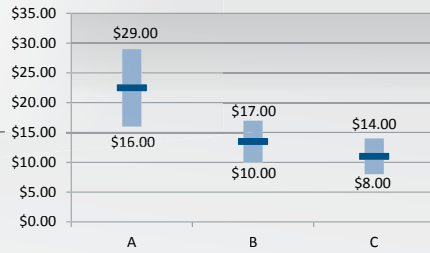
Average Costs

BARCLAY STREET CONTINUES TO ANTICIPATE DOWNWARD PRESSURE ON RENTAL RATES FOR THE FORESEEABLE FUTURE, THOUGH LESS-SO THAN DURING THE PRECEDING TWO YEARS. With space in pending and proposed taken out of the equation, the still-elevated inventory of opportunities and below-average absorption rates will keep vacant spaces on the market for longer than historical average periods. As landlords deal with persistently high vacancy, they remain increasingly motivated to keep existing tenants to recover operating costs and maintain cash flow. Low rates with significant inducements remain readily available as motivation for existing tenants to stay.

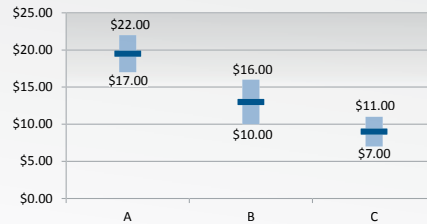
PARKING RATIOS AND RATES BY BUILDING CLASS

Class	Average Parking Ratio (stall: sf)	Average Parking Rate
A	1: 1,081 sf	\$425
B	1: 1,056 sf	\$350
C	1: 899 sf	\$275
Overall	1: 1,237 sf	\$340

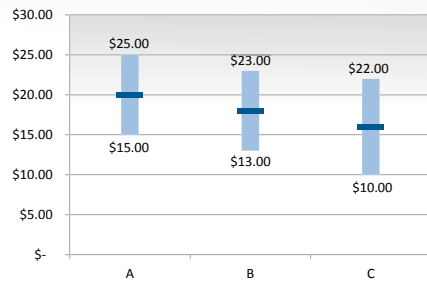
AVERAGE HEADLEASE RATES BY BUILDING CLASS



AVERAGE SUBLEASE RATES BY BUILDING CLASS



OPERATING COSTS BY BUILDING CLASS



Barclay Street expects operating costs to increase annually by at least the same rate as the rise in property tax each year.

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New Projects

	Developer	Size	Status
 MOUNT ROYAL VILLAGE WEST 1508 8th Street SW	First Capital	30,000 sf	Added to inventory
 RECA BUILDING 1506 11 Avenue SW	Enright	36,000 sf	Added to inventory
 PLACE 10 EAST 524 10 Avenue SW	Centron	316,500 sf	On Hold Pending additional pre-leasing

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LOCAL EXPERTISE MATTERS

