CALGARY FIRST QUARTER 2018

DOWNTOWN OFFICE MARKET ANALYSIS

25.6%
OVERALL VACANCY RATE
+0.4% FROM Q4'17

- Absorption for the first quarter totalled negative 192,000 square feet (sf).
- The primary drivers of negative absorption this quarter were A Class and B Class spaces, which accounted for 263,000 sf and 129,000 sf of additional premises available for lease, respectively.
- Positive absorption was noted among AA Class and C class spaces, wherein 147,000 sf and 53,000 sf was taken, respectively.
- Sublease space represented 30% of available space; down slightly from the fourth quarter of 2017.
- We continue to note a lack of available spaces measuring between 6,000 sf and 10,000 sf. Less than 15% of all available space lies within this range.

Significant moves, announcement and notable transactions:

Two floors totaling more than 55,000 sf was leased in Calgary City Centre by Paramount Energy.

Alberta Energy Exchange took two floors of MEG Energy sublease space, totaling more than 55,000 sf in Eau Claire Tower.

Sequoia Oil took two floors of Pengrowth Energy sublease space, totaling approximately 55,000 sf in Livingston Place South.

TD Bank finalized a three-floor renewal/ expansion totaling more than 55,000 sf in TD Canada Trust Tower.

Trident Exploration took two floors of CNRL sublease space totaling approximately 40,000 sf in Bankers Hall - West.

Livingston Place
18th floor office

PREPARED BY
BARCLAY STREET REAL ESTATE

Director of Research – Anthony B. Scott
403-290-0178 • ascott@barclaystreet.com

Current Vacancy at a Glance

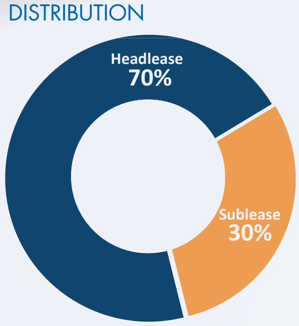
OVERALL RATE	25.6%	+ 0.4% FROM Q4 TO Q1
CLASS AA	19.8%	– 1.0% FROM Q4 TO Q1
CLASS A	24.9%	+ 1.6% FROM Q4 TO Q1
CLASS B	35.0%	+ 1.2% FROM Q4 TO Q1
CLASS C	23.9%	– 2.2% FROM Q4 TO Q1

Following a year in which a total of 1.14 million square feet (msf) of office space was returned to the Downtown market, the first quarter of 2018 was remarkably quiet. During Q1, Barclay Street tracked a net return of only 192,000 sf, which raised vacancy to 25.6%. This is the second smallest increase in vacancy we've seen since 2014. At the end of March, Downtown vacancy represented approximately 11.1 msf of space available for lease within a 43.5 msf inventory.

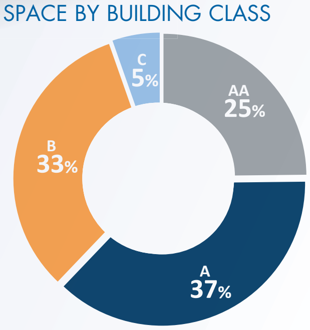
Overall, leasing activity was robust during the first quarter as several companies moved between buildings and upgraded their spaces in the process. The availability of spaces measuring between 6,000 sf and 10,000 sf tightened slightly during the quarter and as noted on the front cover of this report, we noted a second consecutive quarter of activity among spaces measuring greater than 15,000 sf. The latter can be largely attributed to the increasing affordability and the incentives attached to these large spaces.

*Barclay Street Real Estate's vacancy calculation takes into account all space available for occupancy within a 6 month period. As of Q1 2017, an additional 271,000 sf of space is being marketed for occupancy from April through September, 2018. This includes multiple full floors in **Bow Valley II and IV, First Canadian Centre and Watermark Tower**. A further 522,000 sf comes available in 7 – 18 months, which includes the unleased portion of **TELUS Sky**, for which expected completion has been pushed back to mid-2019.*

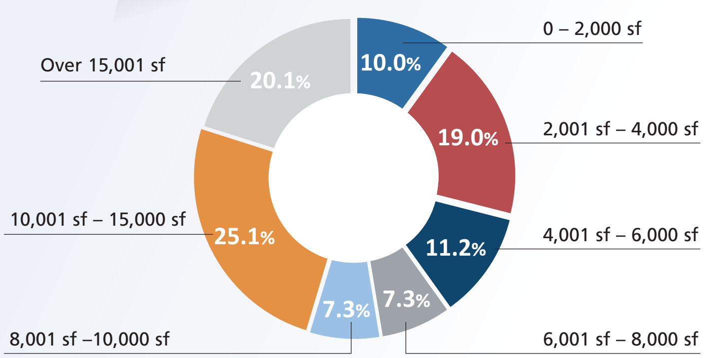
HEADLEASE VS. SUBLEASE DISTRIBUTION



DISTRIBUTION OF TOTAL AVAILABLE SPACE BY BUILDING CLASS



DISTRIBUTION OF OPTIONS BY SIZE RANGE



Market Review

VACANCY IN CALGARY'S DOWNTOWN REMAINED GENERALLY STEADY AS 2018 GOT UNDERWAY, RISING BY JUST 0.4% TO 25.6%. Net absorption during the fourth quarter was negative 192,000 square feet (sf). While overall vacancy in the Downtown market increased, the uptick is largely due to our inclusion of spaces that come available for lease and sublease later this year.

General expectations for a continued economic recovery remain, with sentiment among many large tenants being best classified as cautious optimism. To that end, several full-floor and multi-floor leases and subleases closed during Q1 but did not involve much, if any, expansion of space. Firms not renewing in their current location are taking advantage of AA Class and A Class subleases that come with bargain rates.

While this activity is making a small but noticeable dent in the high percentage of sublease vacancy, the Downtown market has reached a point where sublease spaces are rolling over to headleases due to the still relatively low demand. Between these two phenomena, Barclay Street is tracking an ongoing reduction in the ratio of sublease to headlease spaces. At the end of March, this ratio sat at 30%/70%, down from 34%/66% respectively at the end of December, 2017.

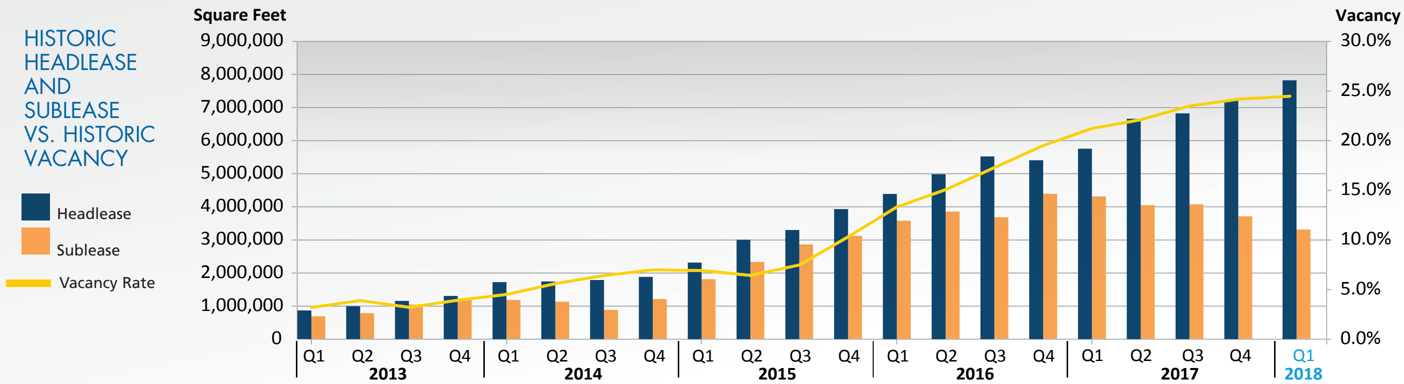
Our take on the above is generally as follows: we've spent three years wondering what the bottom of the market would look like in the Downtown and this appears to be it. The Downtown market has reached a point where Landlords and would-be sublandlords see little-to-no point in marketing additional space and firms with near-terms lease expiries continue to be heavily focussed on opportunities to minimize real estate expenditures while possibly upgrading in the process. And as anticipated, the historically large volume of sublease space is slowly but surely dissipating as noted earlier. From this point, the only bump in the road we see is the unleased office portion of **TELUS Sky** which has the potential to add the better part of one percentage point to Downtown vacancy.

Vacancy

Headlease vs Sublease

The amount of available headlease space increased by 593,000 sf during the first quarter, while the overall volume of sublease space decreased by approximately 401,000 sf. As mentioned in our previous reports, these changes are due to a combination of leasing activity and sublease roll-over.

HISTORIC HEADLEASE AND SUBLEASE VS. HISTORIC VACANCY



Vacancy by Building Class and Size Range

Observing the total number of opportunities available in the downtown, we see the highest concentrations of available options in the 10,000 sf - 15,000 sf range (25.2%) and greater than 15,001 sf (20.1%). The 6,000 sf - 8,000 sf and 8,001 sf – 10,000 sf ranges contain the fewest options at 7.3% each.

Total available headlease spaces increased to 894 from 837 in Q4 2017 while total available sublease spaces increased decreased to 218 from 242 during the previous quarter. The greatest increase was in A Class and B Class buildings, where an additional 29 options and 13 options came to market, respectively. The number of availabilities in AA Class and C Class buildings deceased.

HEADLEASE OPPORTUNITIES BY BUILDING CLASS AND SIZE RANGE

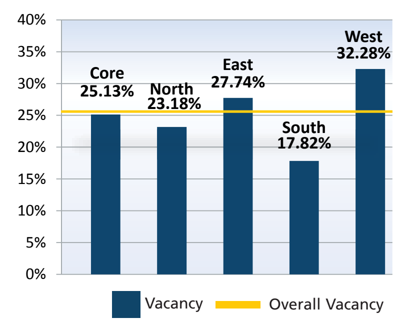
Size Range	AA	A	B	C
0 – 2,000 sf	0	21	58	25
2,001 sf – 4,000 sf	1	56	112	24
4,001 sf – 6,000 sf	4	35	60	16
6,001 sf – 8,000 sf	5	19	30	10
8,001 sf –10,000 sf	7	15	31	10
10,001 sf – 15,000 sf	2	89	124	8
15,001+	46	60	20	8
Overall	**65**	**295**	**435**	**101**

SUBLEASE OPPORTUNITIES BY BUILDING CLASS AND SIZE RANGE

Size Range	AA	A	B	C
0 – 2,000 sf	1	1	4	1
2,001 sf – 4,000 sf	5	6	6	1
4,001 sf – 6,000 sf	2	4	1	2
6,001 sf – 8,000 sf	5	3	6	3
8,001 sf –10,000 sf	2	9	6	1
10,001 sf – 15,000 sf	5	34	17	1
15,001+	60	28	7	1
Overall	**80**	**85**	**47**	**10**

Vacancy by Building Class and Location

VACANCY RATE BY LOCATION



VACANCY BY LOCATION AND CLASS (SF)

Sq. Ft. / % Vacant	AA Sq. Ft.	AA % Vacant	A Sq. Ft.	A % Vacant	B Sq. Ft.	B % Vacant	C Sq. Ft.	C % Vacant
CORE	291,500	20.82%	1,435,681	22.11%	795,457	34.10%	110,454	44.04%
NORTH	1,009,536	21.73%	233,835	18.77%	185,496	68.33%	0	N/A
EAST	698,740	19.20%	732,419	29.93%	839,903	47.00%	69,801	12.31%
SOUTH	415,784	10.98%	1,058,332	26.44%	0	0.00%	25,833	10.53%
WEST	350,034	N/A	692,125	27.88%	1,802,118	32.33%	391,415	27.28%

INVENTORY BY LOCATION AND CLASS (SF)

	AA	A	B	C	
CORE	1,400,000	6,494,741	2,332,876	250,792	10,478,409
NORTH	4,646,286	1,245,927	271,473	0	6,163,686
EAST	3,638,356	2,447,201	1,786,950	567,036	8,439,543
SOUTH	3,785,631	4,003,349	381,799	245,273	8,416,052
WEST	533,000	2,482,247	5,573,629	1,434,990	10,023,866
	14,003,273	16,673,465	10,346,727	2,498,091	

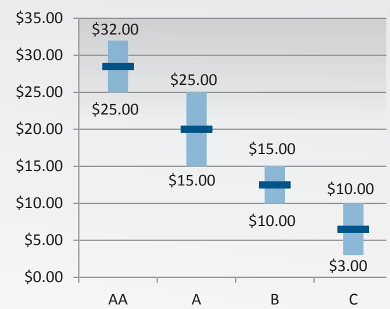
Average Costs

DUE TO THE INCREASING AVAILABILITY OF AGGRESSIVELY PRICED, FLEXIBLE, SHORT-TERM SUBLEASE SPACE, HEADLEASE AND RENEWAL RATES CONTINUE TO EXPERIENCE DOWNWARD PRESSURE, ALBEIT WITH MORE RESISTANCE FROM LANDLORDS AND SUBLANDLORDS THAN IN RECENT YEARS. Sublease inventory represented less than one-third of total available space at 3.3 million square feet. While the amount of sublease space has been decreasing, it is due in large part to the terms expiring and the spaces going back to Landlords for direct lease. Still, this historically large volume continued to keep rates for competing sublease spaces depressed.

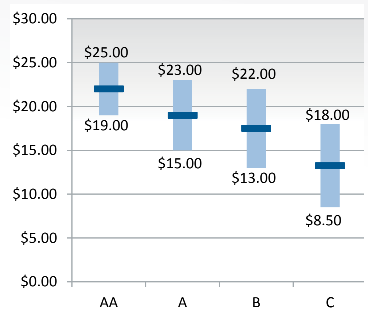
PARKING RATIOS AND RATES BY BUILDING CLASS

Class	Average Parking Ratio (stall: sf)	Average Parking Rate
AA	1: 2,020 sf	$592
A	1: 2,880 sf	$550
B	1: 2,320 sf	$428
C	1: 2,120 sf	$405
Overall	**1: 2,340 sf**	**$494**

AVERAGE LEASE RATES BY BUILDING CLASS

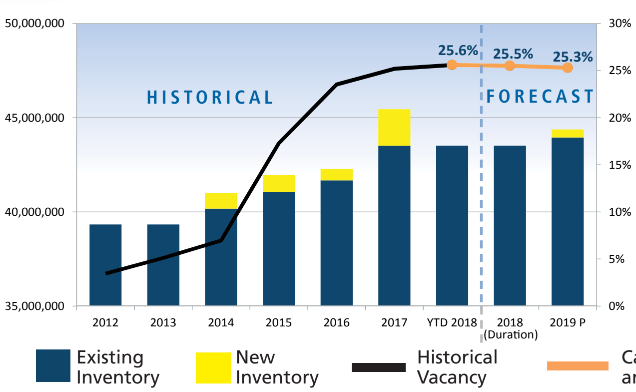


OPERATING COSTS BY BUILDING CLASS



Vacancy Forecast Including New Inventory

VACANCY FORECAST RESULTING FROM NEW DEVELOPMENTS IN DOWNTOWN



This accompanying graph is a representation of potential vacancy outcomes, calculated using historical absorption trends and anticipating the completion of new Downtown developments through 2019. We have forecast future vacancy using historical absorption trends and expected new inventory.

Pending Inventory

TELUS SKY
7 Avenue & Centre Street SW

Developer:	Telus, Allied REIT & Westbank
Size:	430,000 sf
Status:	Q2'19; 37% Leased

BARCLAY STREET REAL ESTATE
OFFICE LEASING TEAM

Bill Falagaris
Vice President
bfalagaris@barclaystreet.com

Dan Harmsen,
Vice President, Associate Broker
dharmsen@barclaystreet.com

Kris Hong
Associate
khong@barclaystreet.com

Allan Jones
Vice President
ajones@barclaystreet.com

Andrew King
Associate Vice President
aking@barclaystreet.com

Ian Robertson
Associate
irobertson@barclaystreet.com

Chris Rundle
Associate
crundle@barclaystreet.com

403-290-0178

BARCLAY STREET REAL ESTATE
TCN WORLDWIDE REAL ESTATE SERVICES

www.barclaystreet.com