

SUBURBAN OFFICE MARKET ANALYSIS

17.7%
OVERALL
VACANCY RATE

- Spaces measuring less than 2,000 sf are the most commonly available spaces in the suburban markets, comprising nearly 32% of all vacancies.
- The availability of 8,000 sf – 10,000 sf spaces was extremely tight at only 3.7% of available spaces.
- Tenants continued taking advantage of the suburban markets' ample opportunities to improve their spaces among A Class properties.
- The suburban construction boom that began in mid-2014 was substantially completed. The purpose-built Hexagon Campus is the last major office development in the pipeline.

Significant moves, announcement and notable transactions:



General Dynamics leased approximately 148,000 sf in 1020 – 68th Avenue NE .



Masuch Law LLP leased approximately 12,000 sf in Blackfoot Point 4. (Barclay Street-facilitated deal)



Absorb Software leased approximately 13,000 sf in Dominion Bridge.



Windfire Building
2115 27th Avenue NE, Calgary

PREPARED BY
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Current Vacancy at a Glance

For 2018 and going forward, we have reassessed our tracking methodology and inventory. Given the change in strategy, quarter-over-quarter comparisons in vacancy and absorption are unavailable for this report.

OVERALL VACANCY RATE **17.7%**

CLASS A **17.0%**

CLASS B **24.0%**

CLASS C **11.2%**

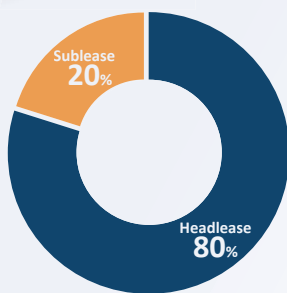
The new year got off to a quiet start in the suburban office markets, with a low volume of leasing activity but notable interest among undecided tenants to tour previously unattainable premises. We continue to note that the emphasis in year-to-date leasing activity is on trading-up spaces to improve circumstances in markets flooded with ample A Class availabilities.

As with the previous quarter, this activity came at the expense of B Class space as Tenants either moved into higher-class properties with better locations and amenities, or to lower-class options with extremely discounted rates.

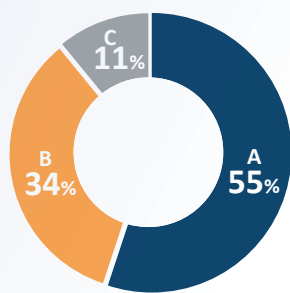
Barclay Street Real Estate's vacancy calculation takes into account all space available for occupancy within a 6 month period. An additional 202,000 sf of space becomes available for occupancy from April through September, 2018, which includes the **Macleod Professional Centre**. A further 136,000 sf in existing buildings

comes available in 7 – 18 months. Within this coming space is the 90,000 sf **Novatel Building**, which will be vacated in early 2019 as staff move to the **Hexagon Campus**. Novatel was purchased by Hexagon in 2008. This shadow vacancy brings the vacancy rate to an estimated 18.1%.

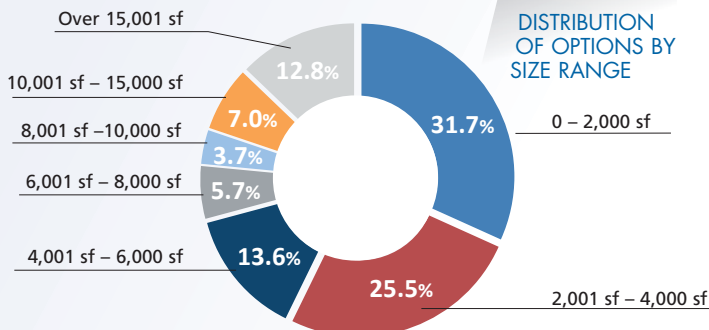
HEADLEASE VS. SUBLEASE DISTRIBUTION



DISTRIBUTION OF TOTAL AVAILABLE SPACE BY BUILDING CLASS



DISTRIBUTION OF OPTIONS BY SIZE RANGE



Market Review

CONTINUING THE TREND THAT TOOK HOLD IN MID-2017, TOURING ACTIVITY IN SUBURBAN CALGARY REMAINED STRONG, WITH NUMEROUS FIRMS EXPLORING THE A CLASS MARKET AS THEY CONSIDER LEAVING THEIR CURRENT B CLASS AND C CLASS LOCATIONS. The draw of new, more efficient spaces typically involves substantial improvements in local amenities and in the case of new developments, build-outs to suit their needs.

On the latter point, we continued to see an overall trend among Tenants of taking only the amount of space necessary in the near-to medium term, but doing so among spaces allowing them to upgrade their premises, often times at similar rental rates as their previous sites.

Given the ongoing increase in demand for A Class space, two things have happened that are noteworthy. First, rental rates have begun to settle into a 'comfort zone' in higher quality product. While Landlords have become increasingly motivated to complete leases with less resistance than during the previous two years, there is push-back emerging among them to rental rates moving lower in B Class and/or C Class properties despite the steady migration out of these buildings.

Secondly, we've noted an increased prevalence of gross rent deals among B Class and C Class properties as owners of this product attempt to retain their tenant bases. In either case, the rent expectation gap between owners and tenants has narrowed significantly and there appears to be little room left for further reductions. Incentives are still the order of the day but these are becoming more specific rather than a blanket approach.

The end of the building cycle that began in mid-2014 is now on the horizon, with the **Macleod Professional Centre** due late this year and the design-built **Hexagon Campus** representing the final significant pending office project. The latter new product is anticipated in early 2019.



In response to the new inventory brought to market in the previous two years, we continue to see a considerable number of Landlords with older or less conveniently-accessible properties accelerate show-suiting programs in hopes of stimulating competitive activity.

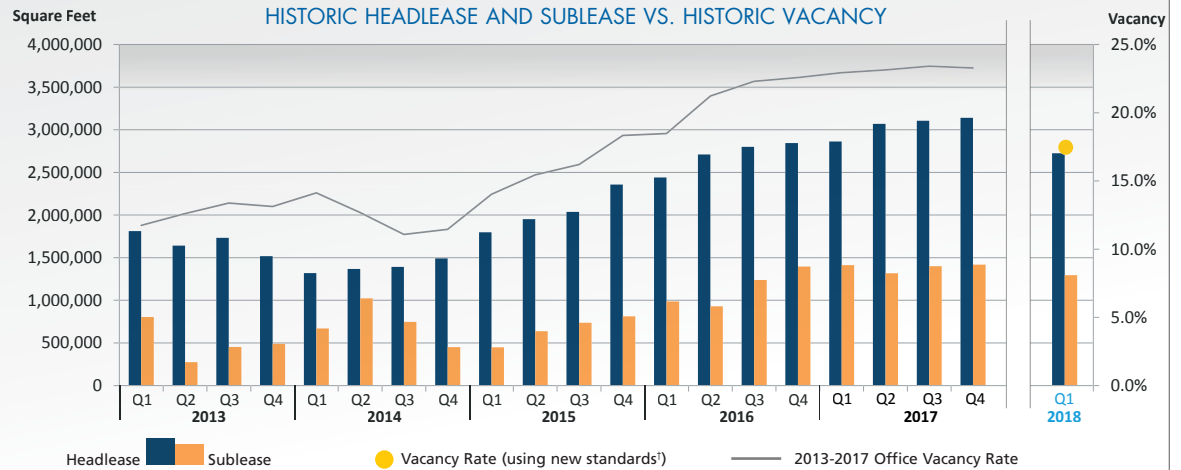


COVER PAGE
Exterior of Windfire Building at 2115 27th Avenue NE in Calgary

Vacancy

Headlease vs Sublease

Distribution between headlease and sublease space during Q1 2018 sat at 80% and 20% respectively. As in Calgary's other office submarkets, there has been a combination of leasing activity and sublease expiries that continues to erode at the previously very large quantity of sublease space on the market.



Vacancy by Building Class and Size Range

Considering the total number of options available in the suburban office market, the greatest number of options (57%) measure less than 4,000 sf, while the availability of spaces measuring 6,000-8,000 sf was just 3.7%.

During the first quarter of 2018, there were a total of 491 available headlease options, with the majority (201) being in B Class properties. There were 53 sublease options available, with the majority (30) in A Class properties.

HEADLEASE OPPORTUNITIES BY BUILDING CLASS AND SIZE RANGE

Size Range	A	B	C
0 – 2,000 sf	26	79	60
2,001 sf – 4,000 sf	39	58	35
4,001 sf – 6,000 sf	25	22	16
6,001 sf – 8,000 sf	15	8	6
8,001 sf – 10,000 sf	10	4	4
10,001 sf – 15,000 sf	14	13	4
15,001+	36	17	0
Overall	165	201	125

SUBLEASE OPPORTUNITIES BY BUILDING CLASS AND SIZE RANGE

Size Range	A	B	C
0 – 2,000 sf	3	3	1
2,001 sf – 4,000 sf	4	3	0
4,001 sf – 6,000 sf	5	2	4
6,001 sf – 8,000 sf	0	1	1
8,001 sf – 10,000 sf	1	1	0
10,001 sf – 15,000 sf	4	3	0
15,001+	13	4	0
Overall	30	17	6

Vacancy by Building Class and Location

The following charts provide more detailed performance insight into the vacancy rates among specific building classes and the impact on the individual suburban submarkets.

NW VACANCY BY BUILDING CLASS

Class	Vacant	Inventory	Vacancy
A	261,597 sf	1,317,476 sf	19.86%
B	115,471 sf	739,264 sf	15.62%
C	42,117 sf	385,321 sf	10.93%
Overall NW	419,185 sf	2,442,061 sf	17.20%

NE VACANCY BY BUILDING CLASS

Class	Vacant	Inventory	Vacancy
A	246,361 sf	2,062,000 sf	11.95%
B	115,471 sf	2,291,563 sf	18.95%
C	173,853 sf	1,857,839 sf	9.36%
Overall NE	535,685 sf	6,211,402 sf	13.76%

SW VACANCY BY BUILDING CLASS

Class	Vacant	Inventory	Vacancy
A	226,578 sf	2,572,047 sf	8.81%
B	335,583 sf	473,978 sf	70.80%
C	131,558 sf	792,591 sf	16.60%
Overall SW	693,719 sf	3,838,616 sf	18.07%

SE VACANCY BY BUILDING CLASS

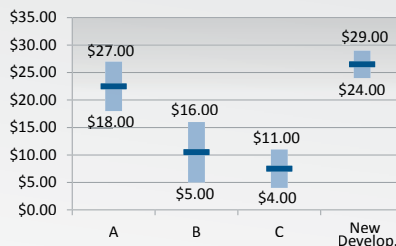
Class	Vacant	Inventory	Vacancy
A	1,303,748 sf	5,868,699 sf	22.22%
B	450,590 sf	2,040,258 sf	22.08%
C	56,634 sf	577,549 sf	9.81%
Overall SE	1,810,972 sf	8,486,506 sf	21.34%

Average Costs

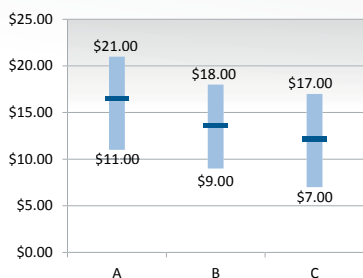
PARKING RATES AND PARKING RATIOS RANGE BASED ON LOCATION, CLASS, AND THE AGE OF THE BUILDING. On average, parking rates are between \$0-\$200/stall with a ratio between 1:300-1:500 sf.

Operating costs vary according to the age and location of the building; typically, newer buildings have lower operation costs due to increased HVAC and insulation efficiency but may also offer security and other amenities which will increase these costs.

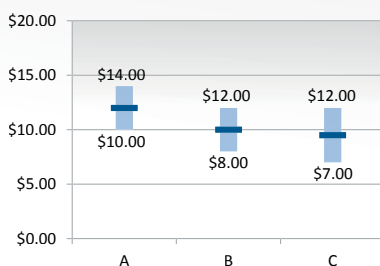
AVERAGE HEADLEASE RATES BY BUILDING CLASS



OPERATING COSTS BY BUILDING CLASS



AVERAGE SUBLEASE RATES BY BUILDING CLASS



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Newest Inventory

	Developer	Size	Status
 HEXAGON CAMPUS 11063 14th Street NE	Remington	160,000 sf	2019 100% leased
 ENGINEERED AIR BUILDING 1441 Hastings Crescent SE	Engineered Air	100,000 sf	Complete
 ATCO COMMERCIAL CENTRE 5302 Forand Street SW	ATCO	200,000 sf	Complete
 COMPUTER MODELLING GROUP 3710 33rd Avenue NW	Remington	90,000 sf	Complete
 7136 11th STREET NE	REID Worldwide Corp.	49,000 sf	Complete
 HARVEST HILLS OFFICE PARK - B 333 96th Avenue NE	Qualico Commercial	74,350 sf	Complete
 THE LINK AT ROYAL VISTA 19 Royal Vista Way NW	Martinvest Corp.	28,000 sf	Complete

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