CALGARY SECOND QUARTER 2017

BELTLINE OFFICE MARKET ANALYSIS

19.6%
OVERALL VACANCY RATE
+1.5% FROM Q1'17

- The Beltline market witnessed a net 115,000 square feet (sf) of negative absorption during the second quarter.
- Driving negative absorption during Q2 was a large amount of new and pending headlease space coming to market; more than 112,000 sf in total across all building classes.
- There was notable sublease activity during the second quarter, particularly in A Class spaces.
- The majority of new and pending Beltline vacancies were in B Class buildings.
- Approximately half of all headlease availabilities were in B Class buildings.
- Sublease space, as a proportion of vacant space, decreased to 30%.
- More than 53% of available leasing opportunities measured 4,000 sf or less.

Significant moves, announcement and notable transactions:


More than 21,000 sf was leased by Groundswell Group at 11th Avenue Place.


In Biscuit Block, Source Energy subleased approximately 16,000 sf from Enabil Solutions Inc.


Enabil Solutions Inc. meanwhile, took a smaller former Source Energy space in Biscuit Block.


Mount Royal Place
Fifth floor office

PREPARED BY
BARCLAY STREET REAL ESTATE

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Current Vacancy at a Glance

OVERALL RATE **19.6%**
+ 1.5% FROM Q1 TO Q2

CLASS A **19.2%**
– 0.8% FROM Q1 TO Q2

CLASS B **24.3%**
+ 4.5% FROM Q1 TO Q2

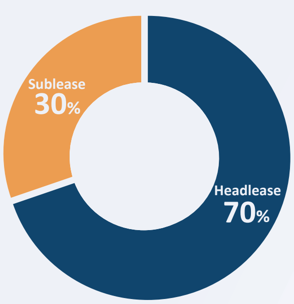
CLASS C **11.9%**
+ 0.4% FROM Q1 TO Q2

Beltline vacancy increased by 1.5% during the second quarter of 2017, rising to 19.6% at mid-year. Despite strong leasing activity among A Class subleases, the quarter witnessed net negative absorption totaling 115,000 sf as new headlease and sublease opportunities came available - primarily among B Class buildings.

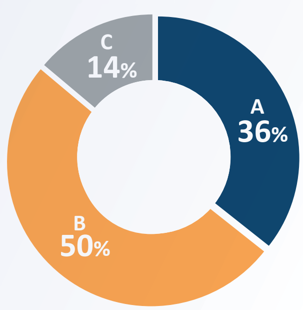
Barclay Street Real Estate's vacancy calculation takes into account all space available for occupancy within a 6 month period. An additional 73,000 sf of space comes available for occupancy from July through December, 2017.

*A further 30,000 sf comes available in approximately 12 months, represented by **Mount Royal Village – West** by First Capital Realty. This development is expected to reach completion later in the second quarter of 2018. Taking into account the unleased portion of this development, shadow vacancy brings the Beltline's projected vacancy rate to 20%.*

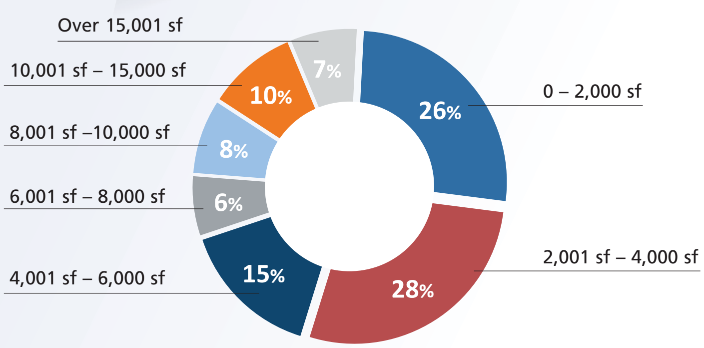
HEADLEASE VS. SUBLEASE DISTRIBUTION



DISTRIBUTION OF TOTAL AVAILABLE SPACE BY BUILDING CLASS



DISTRIBUTION OF OPTIONS BY SIZE RANGE



COVER PAGE
Interior of the office on fifth floor at Mount Royal Plaza (1414 8th Street SW)

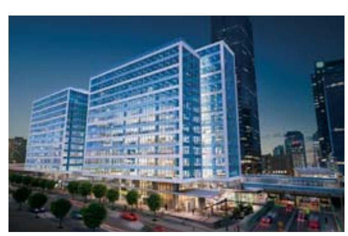
Market Review

FOLLOWING TWO CONSECUTIVE QUARTERS OF POSITIVE ABSORPTION, THE BELTLINE MARKET WITNESSED NET NEGATIVE ABSORPTION TOTALLING 115,000 SQUARE FEET (SF) DURING THE SECOND QUARTER OF 2017. In contrast with the first quarter, the majority of activity was in the sublease market and was largely confined to spaces in A Class buildings. In total, approximately 40,000 sf of A Class sublease space was taken but was overshadowed by new subleases coming to market in B Class and C Class buildings. Likewise, several new headlease options were offered across all building classes.

During the second quarter, total available headlease vacancy increased by 112,000 sf, which brought available direct lease space to just over 1 million square feet (msf). Sublease space in the Beltline increased slightly from the first quarter to 443,000 sf. These market conditions continue to heavily favour tenants and we anticipate this to be the case for some time. We continue to note a diminished sense of urgency among tenants who must make leasing decisions over the coming 12 to 18 months, due to the vast array of choices – many of which have lingered for a year or more.

With the current challenged conditions in the Beltline market anticipated to remain during the balance of 2017, we do note that an increasing number of tenants are meeting or have met their right-sizing targets. Additionally, pending new Beltline inventory is minimal. Taking this in account, it is anticipated that the amount excess space to be marketed will diminish. That said, the conditions in this submarket continue to heavily favour Tenants and prospective tenants. Landlords thus remain motivated to be aggressive in renewing existing tenants as well as attracting new prospects. The expectation is that tenant inducements such as free rent, furnished space and improvement allowances will continue until the economy improves and a sustained demand for space demand from tenants begins to erode the large inventory of available spaces.

Mount Royal Village – West is scheduled for completion in 2018



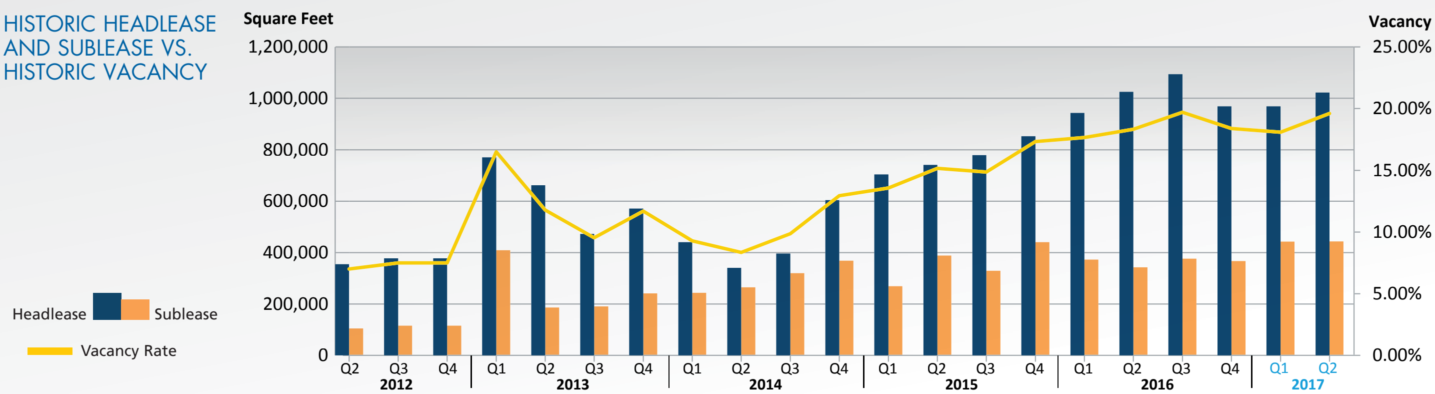
Place 10 remains on-hold

As mentioned above, the pipeline of coming availabilities expected to remain limited for the foreseeable future. The only pending development at this time is **Mount Royal Village – West**, which is scheduled for completion in 2018. **Place 10** by Centron Group remains on-hold until the required pre-leases can be secured.

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, 54% of available opportunities measure less than 4,000 sf while options greater than 10,000 sf comprise 17% of available spaces. Notably, these options account for approximately half of the total available square footage.

HEADLEASE OPPORTUNITIES BY BUILDING CLASS AND SIZE RANGE

Size Range	A	B	C
0 – 2,000 sf	5	19	34
2,001 sf – 4,000 sf	10	32	17
4,001 sf – 6,000 sf	6	21	6
6,001 sf – 8,000 sf	2	7	2
8,001 sf –10,000 sf	3	9	4
10,001 sf – 15,000 sf	7	10	0
15,001+	4	4	1
Overall	**37**	**102**	**64**

SUBLEASE OPPORTUNITIES BY BUILDING CLASS AND SIZE RANGE

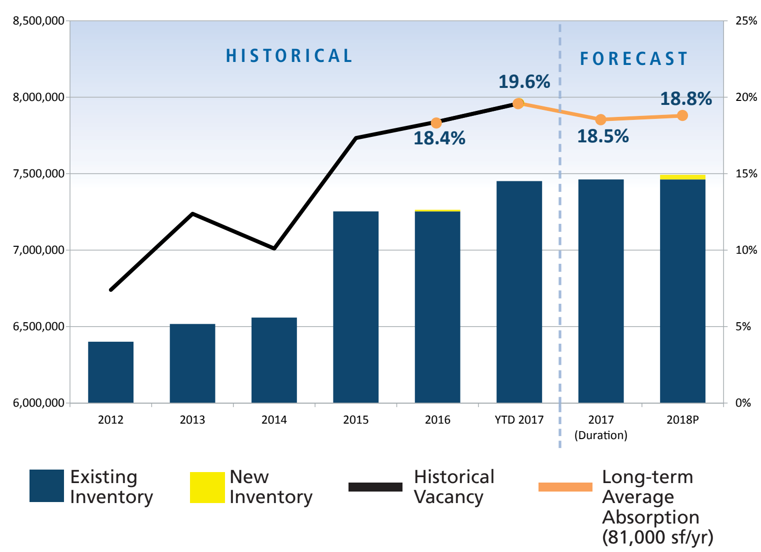
Size Range	A	B	C
0 – 2,000 sf	2	6	0
2,001 sf – 4,000 sf	3	5	3
4,001 sf – 6,000 sf	0	5	0
6,001 sf – 8,000 sf	3	2	0
8,001 sf –10,000 sf	0	3	1
10,001 sf – 15,000 sf	2	5	0
15,001+	7	2	0
Overall	**17**	**28**	**4**

Total available headlease opportunities increased slightly to 203 in Q2 2016 from 194 during the previous quarter, while total available sublease spaces decreased by two to 49. As mentioned earlier, substantial activity among A Class subleases was offset by new B Class opportunities. As a result, the number of A Class opportunities decreased by 5% while in B Class buildings, the number of available options increased by a corresponding 5%.

Vacancy Forecast Including New Inventory

The accompanying graph is a representation of potential vacancy outcomes, calculated using historical absorption trends and anticipating the completion of new Beltline developments through 2018. We have forecast future vacancy using historical absorption trends and expected new inventory.

VACANCY FORECAST RESULTING FROM NEW DEVELOPMENTS IN BELTLINE



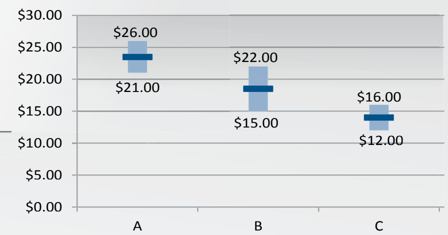
Average Costs

BARCLAY STREET REAL ESTATE CONTINUES TO ANTICIPATE DOWNWARD PRESSURE ON RENTAL RATES FOR THE FORESEEABLE FUTURE; a result of space in pending and proposed developments remaining available, an elevated inventory of opportunities and below-average absorption rates keeping them 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. Lower rates with significant inducements remain readily available as motivation for existing tenants to stay.

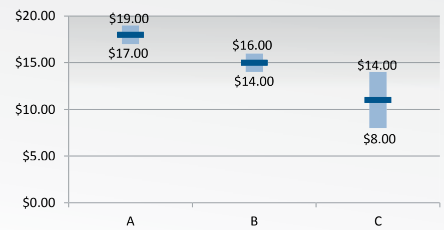
PARKING RATIOS AND RATES BY BUILDING CLASS

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**

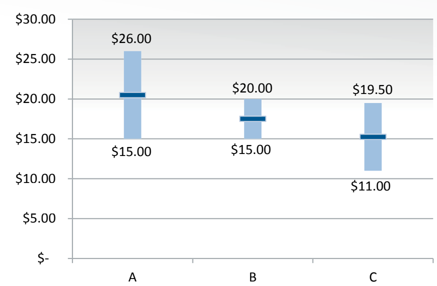
AVERAGE HEADLEASE RATES BY BUILDING CLASS



AVERAGE SUBLEASE RATES BY BUILDING CLASS



OPERATING COSTS BY BUILDING CLASS

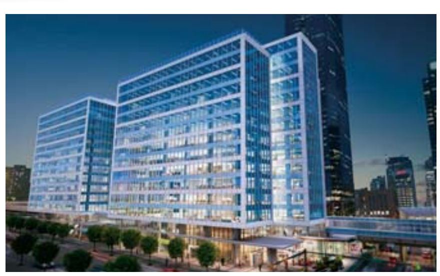


Barclay Street expects operating costs to increase annually by at least the same rate as the rise in property tax each year.

New Projects

MOUNT ROYAL VILLAGE WEST
1508 8th Street SW

Developer: First Capital
Size: 30,000 sf
Status: 2018



PLACE 10 EAST.
524 10 Avenue SW

Developer: Centron
Size: 316,500 sf
Status: On hold
Pending additional pre-leasing

Citations

Southwick, R. (June, 2017). 'Nowhere to go but up': Poll says Calgary businesses more optimistic about economy. Calgary Herald. http://calgaryherald.com/business/local-business/calgary-businesses-more-optimistic-about-economy-poll

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