

DOWNTOWN OFFICE MARKET ANALYSIS

24.6%

OVERALL VACANCY RATE

↑ +0.4% FROM Q1'17

- Absorption for the second quarter totalled positive 502,000 square feet (sf).
- The absorption calculation includes 1.14 million square feet (msf) of headleases by Cenovus Energy and Scotiabank in Brookfield Place. Absent these leases, net absorption would have been negative.

- Net vacancy however, increased during the quarter due to additional headless space coming to market, including the remaining portion of Brookfield Place.
- Significant activity was seen among Downtown subleases, with CIBC and GeoLogic each making multi-floor deals.
- Overall, 49 new leasing options were added in the Downtown market over the first quarter.
- Sublease space represented 38% of total available space; down slightly from the first quarter.
- The 6,000 sf to 10,000 sf size range continues to offer the fewest leasing opportunities. More spaces measuring 10,000 sf and greater came to market this quarter, which includes the unleased floors in Brookfield Place.

Significant moves, announcement and notable transactions:



RocketSpace leased 75,000 sf in 150 – 9th Avenue SW as the company makes its first foray into the Canadian market.



CIBC subleased two floors in The Bow, totalling approximately 70,000 sf.



GeoLogic subleased approximately 49,000 sf of ConocoPhillips' space in Gulf Canada Square.



Husky Energy took back multiple floors in Western Canada Place, ostensibly for future use while Connectfirst Credit Union took the 27th floor.



Meloche Monnex Inc. placed more than 16,000 sf in Palliser One on the sublease market.



PREPARED BY
BARCLAY STREET REAL ESTATE

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



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Current Vacancy at a Glance

OVERALL RATE **24.6%**

↑ + 0.4% FROM Q1 TO Q2

CLASS AA **21.0%**

↑ + 1.2% FROM Q1 TO Q2

CLASS A **24.0%**

↓ - 1.1% FROM Q1 TO Q2

CLASS B **28.9%**

↑ + 2.6% FROM Q1 TO Q2

CLASS C **30.3%**

↔ NO CHANGE FROM Q1 TO Q2

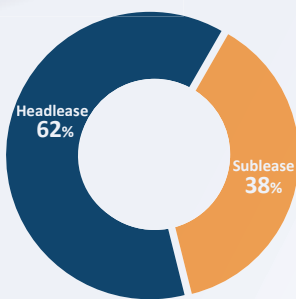
With the addition of Brookfield Place to our Downtown inventory, net absorption for the second quarter of 2017 was positive 502,000 sf. With this new building however, came approximately 260,000 sf of unleased space. This new vacancy, in addition to 378,000 sf of other new availabilities, caused the vacancy rate in Downtown Calgary to increase by 0.4% to 24.6%. This represents approximately 10.7 msf of space available for lease within a 43.6 msf inventory.

Overall, leasing activity stalled during the second quarter though the diminished availability of spaces measuring 6,000 sf and smaller held over from Q1. The fewest opportunities are in the 6,000 sf to 10,000 sf size range while more spaces measuring 10,000 sf and greater came to market.

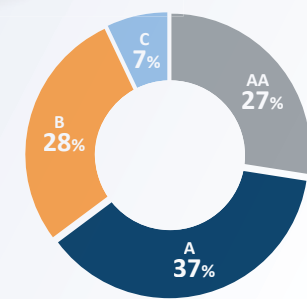
Barclay Street Real Estate's vacancy calculation takes into account all space available for occupancy within a 6 month period. At mid-year 2017 there was an additional 745,000 sf of space being marketed for occupancy from July through December, 2017. A further 346,000 sf comes available in 7 – 18 months,

which includes the unleased portion of TELUS Tower. TELUS Tower is currently scheduled for completion in fourth quarter of 2018. This shadow vacancy brings the vacancy rate in Calgary's Downtown to an estimated 25.4%.

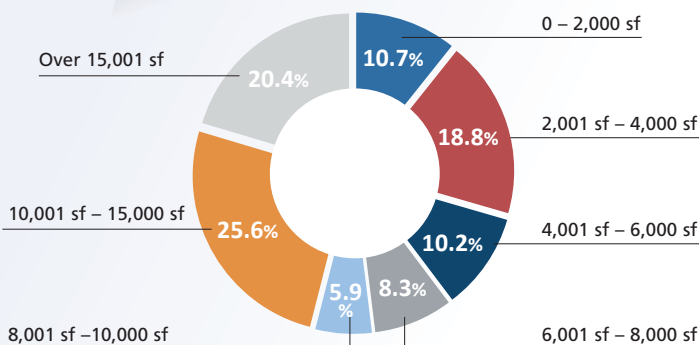
HEADLEASE VS. SUBLEASE DISTRIBUTION



DISTRIBUTION OF TOTAL AVAILABLE SPACE BY BUILDING CLASS



DISTRIBUTION OF OPTIONS BY SIZE RANGE



Market Review

VACANCY IN CALGARY'S DOWNTOWN REMAINED RELATIVELY STEADY AT MID-YEAR 2017, RISING BY 0.4% TO 24.6%. Absorption for the second quarter was positive 501,000 square feet (sf) and this calculation includes the addition of Brookfield Place to the Downtown inventory. This is the newest tower to be introduced to the Downtown at it is expected to open during the fourth quarter 2017. Of the 1.4 million square feet (msf) Brookfield Place adds to inventory, more than 80% is leased by Cenovus Energy and Scotiabank. The positive absorption created by adding new inventory however, masks the underlying numbers for Q2. In the absence of the Brookfield Place adjustment, the market experienced negative absorption due to ongoing headlease and sublease availabilities coming to market.



TELUS Sky is the only remaining Downtown office development in the pipeline.

With this significant development now accounted for, TELUS Sky is the only remaining Downtown office development in the pipeline. With that said, the 430,000 sf of commercial office in the building will barely register in the overall inventory at completion in Q4 2018.

The sense of optimism that the worst of the downturn has past persists and this mindset was evident in the number of large, full-floor leases and subleases conducted in Gulf Canada Square The Bow as the year progressed. While overall vacancy in the Downtown market increased, much of the increase is attributed to spaces that come available for lease and sublease in the third and fourth quarter of this year.

The attractiveness of the Downtown market has steadily increased - for incoming and incumbent companies alike - as more high-quality, low-cost and often furnished leasing opportunities were made available. With the market having become much more accessible and cost-effective, new entrants such as RocketSpace can be enticed to set up shop and make the most of a Calgary's well-educated and entrepreneurial workforce.

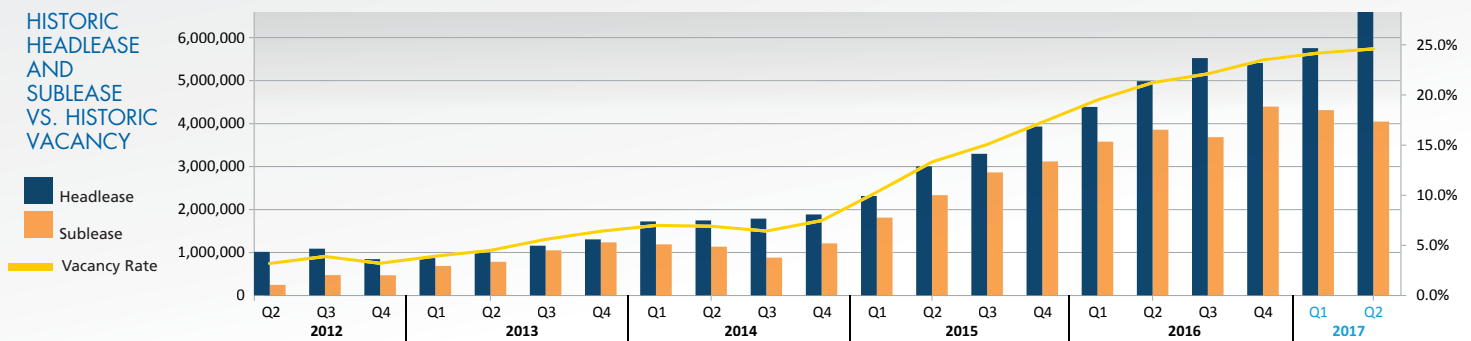
What remains to be seen is the impact, if any, of the energy sector mergers and acquisitions made early in the second quarter. Enbridge acquired Spectra Energy Corp. and Trican Well services merged with Canyon Services Group. Further, Canadian Natural Resources Limited (CNRL) purchased assets from Shell and Marathon while Cenovus acquired ConocoPhillips' Canadian assets. Given that all companies involved have leaned-up significantly over the preceding two years, how much - if any - new office vacancy to result is uncertain.

Vacancy

Headlease vs Sublease

Headlease and sublease spaces each experienced positive net absorption during the second quarter, though as noted earlier, the former is a function of adding the nearly fully-leased Brookfield Place to our Downtown inventory. Otherwise, absorption would have been negative, as 89 new headlease options were made available.

Total available headlease square footage increased to 6,633,000 sf, while total available sublease space decreased to 4,050,000 sf. Total vacancy in the Downtown at mid-year was 10.7 million square feet (msf).



Vacancy by Building Class and Size Range

Examining 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 (25.6%) and greater than 15,001 sf (20.4%). The 8,000 sf - 10,000 sf range contains the fewest options (5.9%) and as noted earlier, the number of spaces under 4,000 continued to diminish.

HEADLEASE OPPORTUNITIES BY BUILDING CLASS AND SIZE RANGE

Size Range	AA	A	B	C
0 - 2,000 sf	2	18	50	33
2,001 sf - 4,000 sf	5	38	98	26
4,001 sf - 6,000 sf	4	26	48	18
6,001 sf - 8,000 sf	5	20	27	12
8,001 sf - 10,000 sf	3	11	24	8
10,001 sf - 15,000 sf	1	81	78	13
15,001+	39	48	16	7
Overall	59	242	341	117

SUBLEASE OPPORTUNITIES BY BUILDING CLASS AND SIZE RANGE

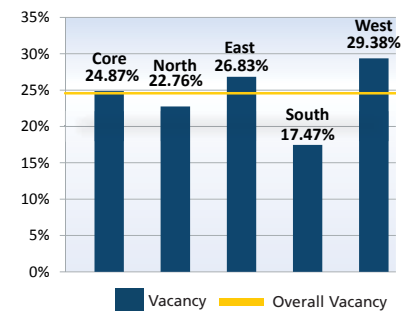
Size Range	AA	A	B	C
0 - 2,000 sf	0	2	4	3
2,001 sf - 4,000 sf	5	11	10	3
4,001 sf - 6,000 sf	2	5	1	3
6,001 sf - 8,000 sf	5	6	9	3
8,001 sf - 10,000 sf	4	8	3	1
10,001 sf - 15,000 sf	3	54	31	7
15,001+	64	33	5	0
Overall	83	119	63	20

Total available headlease spaces increased during the second quarter to 759 while total available sublease spaces decreased to 285. Sublease activity was strongest in A Class buildings; 34 options were taken off the market. The greatest number of new

headlease options were in B Class buildings, where an additional 50 options came to market.

Vacancy by Building Class and Location

VACANCY RATE BY LOCATION



VACANCY BY LOCATION AND CLASS (SF)

Sq. Ft.	AA	A	B	C
CORE	260,000	1,554,201	649,549	142,622
NORTH	979,504	381,940	41,355	0
EAST	719,473	577,580	818,142	149,239
SOUTH	611,492	777,240	62,036	19,840
WEST	372,684	707,482	1,443,689	444,617
% Vacant				
CORE	N/A	23.93%	27.84%	56.87%
NORTH	21.08%	30.66%	15.23%	N/A
EAST	19.77%	23.60%	45.78%	26.32%
SOUTH	16.15%	19.41%	16.25%	8.09%
WEST	N/A	28.50%	25.52%	30.98%

INVENTORY BY LOCATION AND CLASS (SF)

	AA	A	B	C	Total
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	5,656,835	1,434,990	10,107,072
Total	14,003,273	16,673,465	10,429,933	2,498,091	

Average Costs

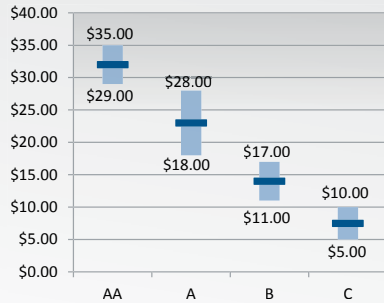
THE ABUNDANCE OF AGGRESSIVELY PRICED, FLEXIBLE, SHORT-TERM SUBLEASE SPACE CONTINUES TO PLACE DOWNWARD PRESSURE ON HEADLEASE AND RENEWAL RATES. Sublease inventory currently represents approximately 38% of total available space and at this volume, rates for competing sublease spaces are at historic lows. Calgary remains very much in a tenants' market.

A significant trend in the Downtown has also been the lowering of operating costs and municipal taxes; the latter due to lowered property valuations in this submarket. This overall decrease benefits existing and potential Tenants by lowering net rental rates.

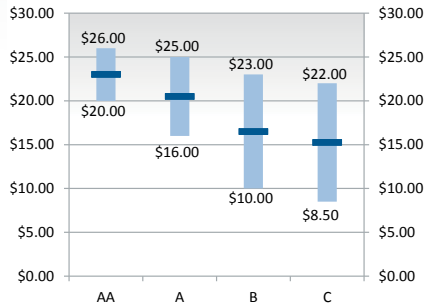
PARKING RATIOS AND RATES BY BUILDING CLASS

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



New Projects



707 5th
707 5 Street SW
Developer: Manulife
Status: **Completed**



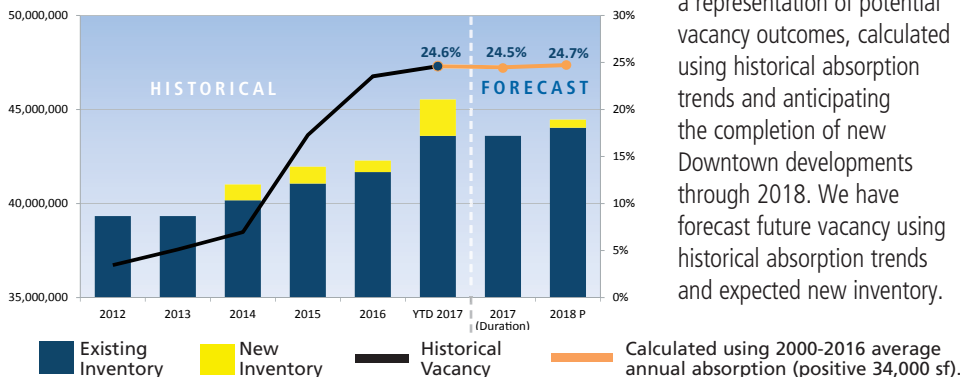
BROOKFIELD PLACE I
225 6th Avenue SW
Developer: Brookfield
Size: 1,400,000 sf
Status: Added to inventory;
81% Leased



TELUS SKY
7 Avenue & Centre Street SW
Developer: Telus, Allied REIT & Westbank
Size: 430,000 sf
Status: Q4'18; 37% Leased

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 2018. We have forecast future vacancy using historical absorption trends and expected new inventory.

Citations

Cryderman, K. (April, 2017). *Cenovus relocation delayed amid oil downturn.* The Globe and Mail. <https://www.pressreader.com/canada/the-globe-and-mail-bc-edition/20170403/281788513906380>

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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BARCLAY STREET REAL ESTATE OFFICE LEASING TEAM

Bill Falagaris, Associate
bfalagaris@barclaystreet.com

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

Kris Hong, Associate
khong@barclaystreet.com

Allan Jones, Associate
ajones@barclaystreet.com

Jace Jonsson, Associate
jjonsson@barclaystreet.com

Andrew King, Vice President
aking@barclaystreet.com

Ian Robertson, Associate
irobertson@barclaystreet.com

Christopher Rundle, Associate
crundle@barclaystreet.com

Jameson Welbourn, Associate
jwelbourn@barclaystreet.com

403-290-0178