

BELTLINE OFFICE MARKET ANALYSIS

22.2%
OVERALL VACANCY RATE

↓ -1.4% FROM Q2'18

CLASS A **24.8%**

↓ -1.2% FROM Q2 TO Q3

CLASS B **23.3%**

↓ -0.1% FROM Q2 TO Q3

CLASS C **15.5%**

↓ -1.5% FROM Q2 TO Q3

- The Beltline market witnessed an overall reduction in vacancy, resulting from positive net absorption totaling 70,700 square feet (sf) during the quarter.
- Class B sublease spaces were the primary driver of absorption this quarter.
- Nearly half of Beltline availabilities however, remained in Class B properties.
- Sublease space, as a proportion of vacant space, decreased to 33% from 35% during Q3.
- More than half of available Beltline leasing opportunities were in spaces measuring 4,000 sf or less.



Mount Royal Place
Beltline office space for sublease

PREPARED BY
BARCLAY STREET REAL ESTATE

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Current Vacancy at a Glance

OVERALL RATE **22.2%**

↓ - 1.4% FROM Q2 TO Q3

CLASS A **24.8%**

↓ - 1.2% FROM Q2 TO Q3

CLASS B **23.3%**

↓ - 0.1% FROM Q2 TO Q3

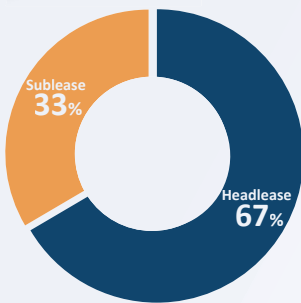
CLASS C **15.5%**

↓ - 1.5% FROM Q2 TO Q3

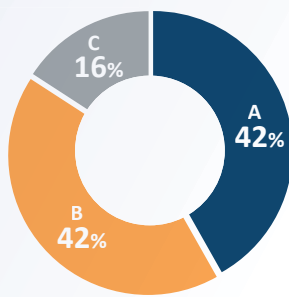
Beltline vacancy decreased to 22.2% during the third quarter of 2018. A handful of full-floor options came available this quarter and were primarily in Class C and Character buildings. The most notable of these was the full third floor of the **Hotel Arts Office Complex**. At the other end of the property class spectrum was the **Buro Block** in Sunalta, which is available for lease in its entirety. These new listings, however, were more than offset by the leasing of large spaces in **Palliser South** and **ATCO Centre II**. Barclay Street Real Estate's vacancy calculation takes into account all space available for occupancy within a 6 month period. An additional 19,000 sf of space comes available for occupancy from October, 2018 through March, 2019.

The pipeline of shadow vacancy, which we define as space coming available in seven to twelve months, became increasingly constricted. A further 39,000 sf in existing buildings comes available later next year and it's worth pointing out that 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

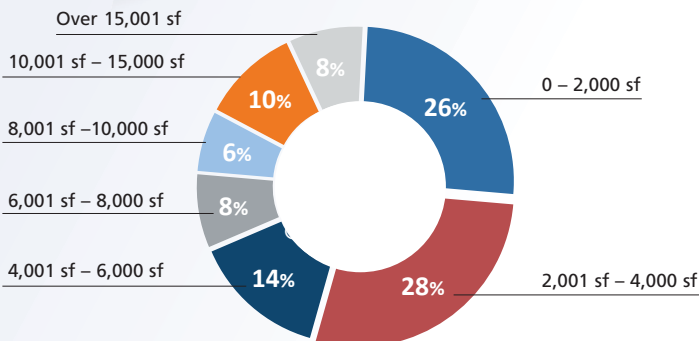
HEADLEASE VS. SUBLEASE DISTRIBUTION



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 1.4% OVER THE THIRD QUARTER OF 2018, ENDING SEPTEMBER AT 22.2%. Positive absorption was supported by sublease activity among B Class properties, where vacancy was reduced by approximately 63,000 square feet (sf). Net sublease absorption across all classes totalled more than 54,000 sf.

The third quarter of 2018 continued a multi-quarter trend wherein tenants took advantage of the ample headlease opportunities in A Class properties and made moves 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. C Class properties showed positive demand during Q3.

Speaking to pending availability, the pipeline of space being marketed for lease more than six months in the future continued to constrict. As noted in our mid-year report, this reduction has rendered 'shadow vacancy' in the Beltline negligible.

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 generally 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.

The face of the Beltline underwent notable changes through the quarter, as the Curtis Block at 2nd Street and 12th Avenue SE became the latest office property to undergo demolition. New construction in this market has shifted markedly toward multi-residential developments, be they condominium developments or extended-stay rentals, such as the Residence Inn by Marriott at the former Alberta Boot site. Nearby, construction of the underground parkade for a multi-residential development at the former Sam Livingston Building progressed. Then in late September, Strategic

Group announced that construction of its residential ONE development will move forward.

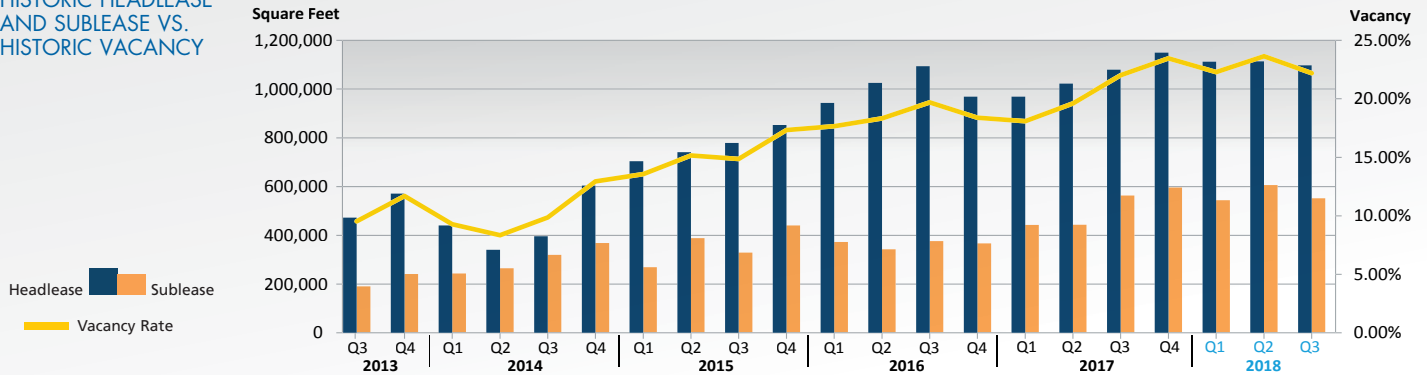


500 Block - new multi-residential development at the former Sam Livingston Building site.

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 (54%) of available opportunities measure less than 4,000 sf while options greater than 10,000 sf decreased and comprised just under one-fifth (18%) of available spaces. These large options however, continued to 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	7	27	28
2,001 sf – 4,000 sf	11	34	22
4,001 sf – 6,000 sf	7	21	4
6,001 sf – 8,000 sf	2	11	4
8,001 sf – 10,000 sf	3	4	6
10,001 sf – 15,000 sf	6	9	1
15,001+	6	3	2
Overall	42	109	67

SUBLEASE OPPORTUNITIES BY BUILDING CLASS AND SIZE RANGE

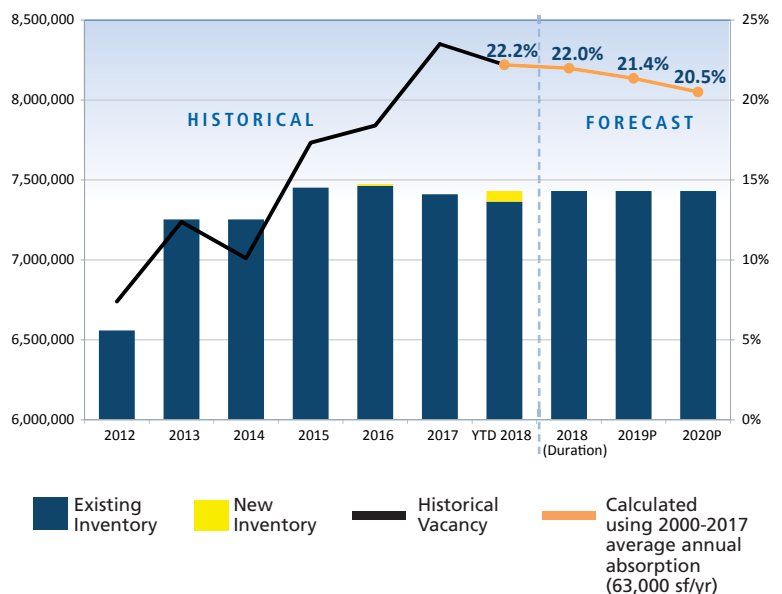
Size Range	A	B	C
0 – 2,000 sf	0	3	4
2,001 sf – 4,000 sf	5	5	1
4,001 sf – 6,000 sf	2	5	1
6,001 sf – 8,000 sf	2	3	0
8,001 sf – 10,000 sf	1	4	0
10,001 sf – 15,000 sf	8	5	0
15,001+	10	1	0
Overall	28	26	6

The number of available headlease opportunities decreased slightly over the previous quarter to 220, and total available sublease spaces also decreased to 60. As mentioned earlier, the above-noted decreases reflects a combination of positive leasing activity and turnover of some long-standing subleases to Landlords.

Vacancy Forecast Including New Inventory

This graph is a representation of potential vacancy for the Beltline, calculated using long-term historical absorption trends through 2020.

VACANCY FORECAST RESULTING FROM NEW DEVELOPMENTS IN BELTLINE



Average Costs

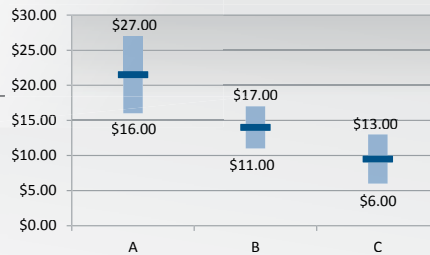
BARCLAY STREET CONTINUES TO ANTICIPATE DOWNWARD PRESSURE ON RENTAL RATES FOR THE FORESEEABLE FUTURE, THOUGH LESS SO THAN DURING THE PRECEDING TWO YEARS. With space in pending and proposed properties now taken out of the equation, the still-elevated inventory of opportunities and below-average absorption rates will keep vacant spaces on the market for longer than historical average periods.

As landlords deal with persistently high vacancy, they remain 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.

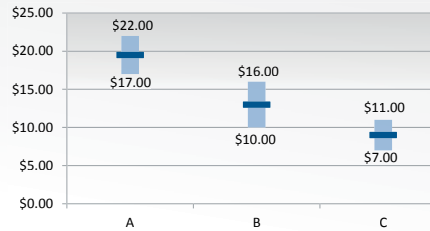
PARKING RATIOS AND RATES BY BUILDING CLASS

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

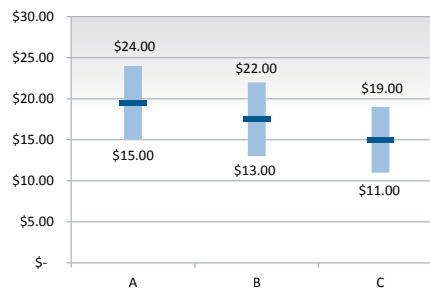
AVERAGE HEADLEASE RATES BY BUILDING CLASS



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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Pending Project

	Developer	Size	Status
 <p>PLACE 10 EAST 524 10 Avenue SW</p>	Centron	316,500 sf	On Hold Pending additional pre-leasing

Additional materials:

Mitnas, M. (Oct. 2017). *Residence Inn by Marriott Tops Out in the Beltline*. Skyrise Calgary. <https://calgary.skyrisecities.com/news/2017/10/residence-inn-marriott-tops-out-beltline>

Strategic Group (Sept. 2018). *Strategic Group commences construction of \$150 million 37-storey project in downtown Calgary*. <https://strategicgroup.ca/news/strategic-group-commences-construction-of-150-million-37-storey-project-in-downtown-calgary/>

Skyrise Cities. (Sept. 2016). *Calgary | 500 Block | 110m | 35s | Hines | S.C.B.* <https://skyrisecities.com/forum/threads/calgary-500-block-110m-35s-hines-s-c-b.26129/>

Mitnas, M. (Jan. 2018). *Demolition for Hines-Developed 500 Block Advances*. Skyrise Cities. <https://calgary.skyrisecities.com/news/2018/01/demolition-hines-developed-500-block-advances>

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