

# SUBURBAN OFFICE MARKET ANALYSIS

**19.1%**  
OVERALL VACANCY RATE

↓ -1.4% FROM Q2'18

CLASS A **20.2%**

↓ -0.9% FROM Q2 TO Q3

CLASS B **23.8%**

↓ -1.9% FROM Q2 TO Q3

CLASS C **9.1%**

↓ -1.7% FROM Q2 TO Q3

- Absorption over the third quarter totalled positive 331,000 square feet (sf).
- The new, purpose-built Hexagon Campus has been added to our Suburban NE inventory and accounted for 160,000 sf of net absorption.
- Sublease space represented 18% of the total available space, decreasing from 22% during the previous quarter.
- Spaces measuring 4,000 sf or less are the most commonly available spaces in the suburban markets, comprising 55% of all vacancies.
- The suburban construction boom that began in mid-2014 is nearly complete. The Macleod Professional Centre is the last major office development remaining in the pipeline.



**Campana Place**  
Office space on 14th Street NW for lease

PREPARED BY  
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## Current Vacancy at a Glance

OVERALL RATE **19.1%**

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Overall vacancy decreased by 1.4% during the third quarter of 2018. We noted substantial leasing activity as the quarter progressed, though approximately half was concentrated in the Jacobs Building.

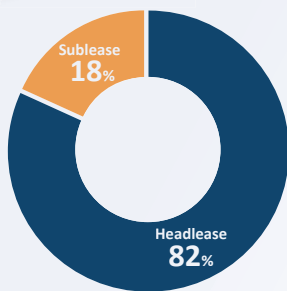
Additional contributors to the positive absorption calculated during the quarter were the move by Hexagon into its new, purpose-built campus, which expanded the company's footprint substantially. Meanwhile in the South East submarket, Enmax expanded its space in Highfield Industrial.

The activity we've seen has had a stabilizing effect on higher quality product. Landlords of B and C Class properties meanwhile, remained motivated to complete leases with less resistance to maintain their tenant bases. On that note, the rent expectation gap between owners and tenants has narrowed significantly

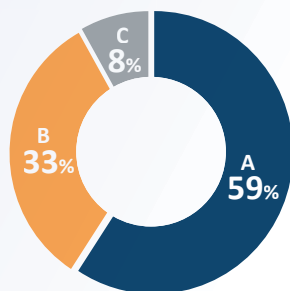
but with the very low rents we've seen emerge since early 2016, little room remains for negotiation downward.

Barclay Street Real Estate's vacancy calculation takes into account all space available for occupancy within a 6 month period. An additional 356,000 sf of space becomes available for occupancy from October 2018 through March, 2019. Within this coming space is the 90,000 sf **Novatel Building** due to the company's move to the Hexagon Campus. A further 156,000 sf in existing buildings comes available in 7 – 18 months. This shadow vacancy brings the vacancy rate in Calgary's Suburban markets to an estimated 19.4%.

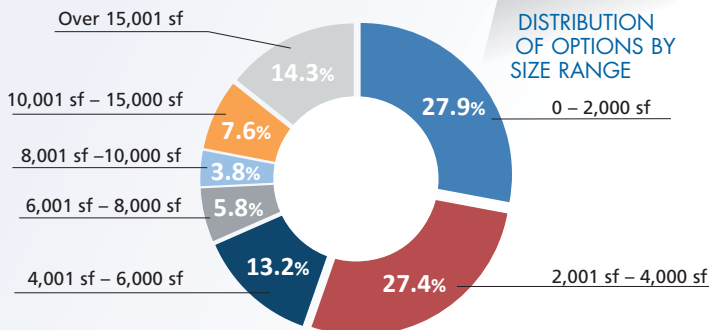
HEADLEASE VS. SUBLEASE DISTRIBUTION



DISTRIBUTION OF TOTAL AVAILABLE SPACE BY BUILDING CLASS



DISTRIBUTION OF OPTIONS BY SIZE RANGE



## Market Review

*BUCKING THE TREND SEEN OVER THE PRECEDING FEW QUARTERS, OVERALL VACANCY IN SUBURBAN CALGARY DIPPED SUBSTANTIALLY DURING THE THIRD QUARTER OF 2018. Q3 SAW SUBURBAN VACANCY DECREASE TO 19.1%.* Net quarterly absorption was positive, due in large part to substantial leasing activity as the quarter progressed, though approximately half was concentrated in the **Jacobs Building** where Canadian Tire Corp. took approximately 200,000 sf to amalgamate its Western Canadian operations and those of its subsidiaries.



Additional contributors to the positive absorption calculated during the quarter were the move by Hexagon into its new, purpose-built campus, which expanded the company's footprint substantially. Meanwhile in the South East submarket, Enmax expanded its space in the Highfield industrial area.

Continuing the trend that took hold during mid-2017, touring activity in suburban Calgary remained strong, with a strong emphasis being placed the A Class market by tenants drawn of new, more efficient spaces. Given this demand for A Class space, rental rates for this higher-quality product has shown signs of stabilizing, while Landlords of B Class and C Class properties remained motivated to complete leases with minimal resistance and increased creativity. These Landlords however, eased back on further concessions to rental rates via increased emphasis on gross rent deals.

The latter approach holds appeal to both their remaining tenant bases and to prospective tenants whose primary goal is minimizing costs. 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. Leasing incentives remained a common and appealing concession were used more judiciously as the year progressed; applied in specific circumstances rather than a blanket approach.



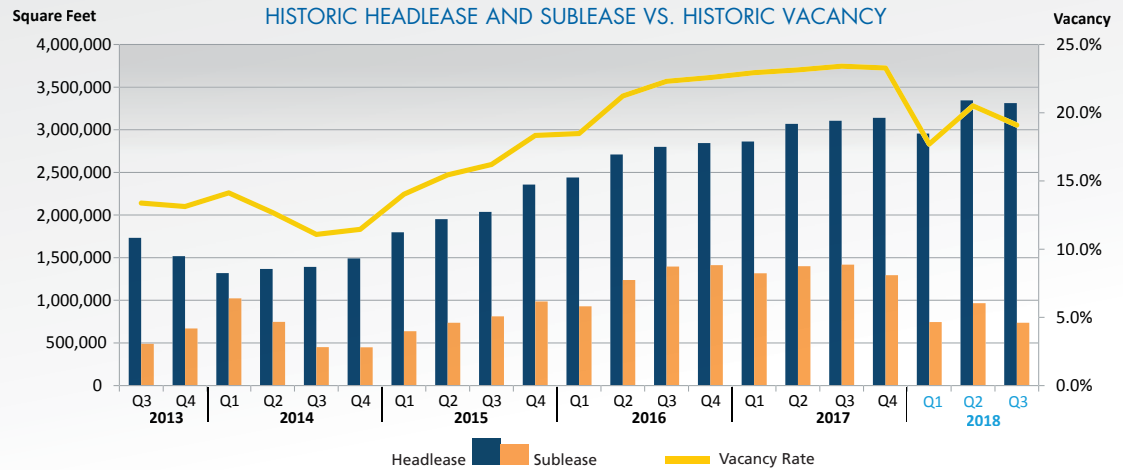
COVER PAGE

Interior of Suite 201 in Campana Building on 14th Street NW, Calgary

# Vacancy

## Headlease vs Sublease

Distribution between headlease and sublease space for Q3 2018 shifted notably from the previous quarter, with the former accounting for 82% of the total space while the latter decreased to 18%. This change in distribution is reflective of positive sublease activity and the aforementioned Jacobs Building sublease was a major contributor.



## Vacancy by Building Class and Size Range

Considering the total number of options available in the suburban office market, the greatest number of options (28%) measure between 2,000 sf or less, followed closely by spaces measuring 2,001 sf to 4,000 sf at (27%). Spaces measuring 8,001 to 10,000 sf comprised the lease available range of spaces at just 3.8% of overall availability.

This quarter witnessed a net decrease in the total number of headlease options available to 501 from 515 in to the previous quarter.

The number of sublease options decreased quarter-over-quarter to 50 from 56 at mid-year.

### HEADLEASE OPPORTUNITIES BY BUILDING CLASS AND SIZE RANGE

Size Range	A	B	C
0 – 2,000 sf	25	75	53
2,001 sf – 4,000 sf	58	56	28
4,001 sf – 6,000 sf	24	23	14
6,001 sf – 8,000 sf	11	13	6
8,001 sf – 10,000 sf	11	3	3
10,001 sf – 15,000 sf	15	19	2
15,001+	44	18	0
<b>Overall</b>	<b>188</b>	<b>207</b>	<b>106</b>

### SUBLEASE OPPORTUNITIES BY BUILDING CLASS AND SIZE RANGE

Size Range	A	B	C
0 – 2,000 sf	0	1	0
2,001 sf – 4,000 sf	6	2	1
4,001 sf – 6,000 sf	4	3	4
6,001 sf – 8,000 sf	2	0	0
8,001 sf – 10,000 sf	3	1	0
10,001 sf – 15,000 sf	2	4	0
15,001+	15	2	0
<b>Overall</b>	<b>32</b>	<b>13</b>	<b>5</b>

## 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	220,130 sf	1,317,476 sf	16.71%
B	108,390 sf	739,264 sf	14.66%
C	44,791 sf	385,321 sf	11.62%
<b>Overall NW</b>	<b>373,311 sf</b>	<b>2,442,061 sf</b>	<b>15.29%</b>

### NE VACANCY BY BUILDING CLASS

Class	Vacant	Inventory	Vacancy
A	386,107 sf	2,222,000 sf	17.38%
B	108,390 sf	2,291,563 sf	16.84%
C	149,228 sf	1,857,839 sf	8.03%
<b>Overall NE</b>	<b>643,725 sf</b>	<b>6,371,402 sf</b>	<b>14.46%</b>

### SW VACANCY BY BUILDING CLASS

Class	Vacant	Inventory	Vacancy
A	151,496 sf	2,572,047 sf	5.89%
B	342,690 sf	473,978 sf	72.30%
C	110,340 sf	792,591 sf	13.92%
<b>Overall SW</b>	<b>604,526 sf</b>	<b>3,838,616 sf</b>	<b>15.75%</b>

### SE VACANCY BY BUILDING CLASS

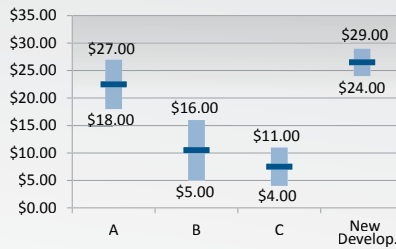
Class	Vacant	Inventory	Vacancy
A	1,640,828 sf	5,899,755 sf	27.81%
B	484,678 sf	2,040,258 sf	23.76%
C	25,979 sf	577,549 sf	4.50%
<b>Overall SE</b>	<b>2,151,485 sf</b>	<b>8,517,562 sf</b>	<b>25.26%</b>

# Average Costs

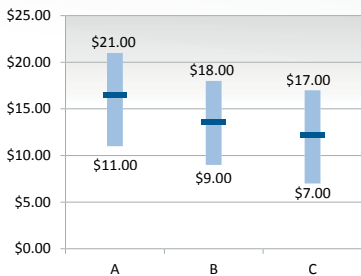
**PARKING RATES AND PARKING RATIOS RANGE BASED ON LOCATION, CLASS, AND THE AGE OF THE BUILDING.** On average, parking rates are between \$0-\$200/stall with a ratio between 1:300-1:500 sf.

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.

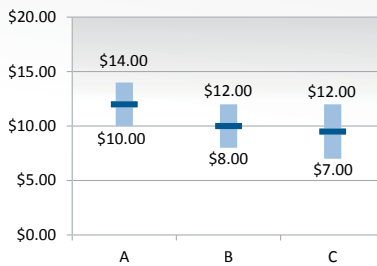
AVERAGE HEADLEASE RATES BY BUILDING CLASS



OPERATING COSTS BY BUILDING CLASS



AVERAGE SUBLEASE RATES BY BUILDING CLASS



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# Newest Inventory

	Developer	Size	Status
 <b>MACLEOD PROFESSIONAL CENTRE</b> 3916 Macleod Trail SE	OPUS	31,000 sf	Q4 2018 50% leased
 <b>HEXAGON CAMPUS</b> 11063 14th Street NE	Remington	160,000 sf	Complete
NO PHOTO <b>ENGINEERED AIR BUILDING</b> 1441 Hastings Crescent SE	Engineered Air	100,000 sf	Complete
 <b>ATCO COMMERCIAL CENTRE</b> 5302 Forand Street SW	ATCO	200,000 sf	Complete
 <b>COMPUTER MODELLING GROUP</b> 3710 33rd Avenue NW	Remington	90,000 sf	Complete
 <b>7136 11th STREET NE</b>	REID Worldwide Corp.	49,000 sf	Complete

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