CALGARY FOURTH QUARTER 2017

# BELTLINE OFFICE MARKET ANALYSIS

**23.5%**
OVERALL VACANCY RATE
+1.5% FROM Q3'17

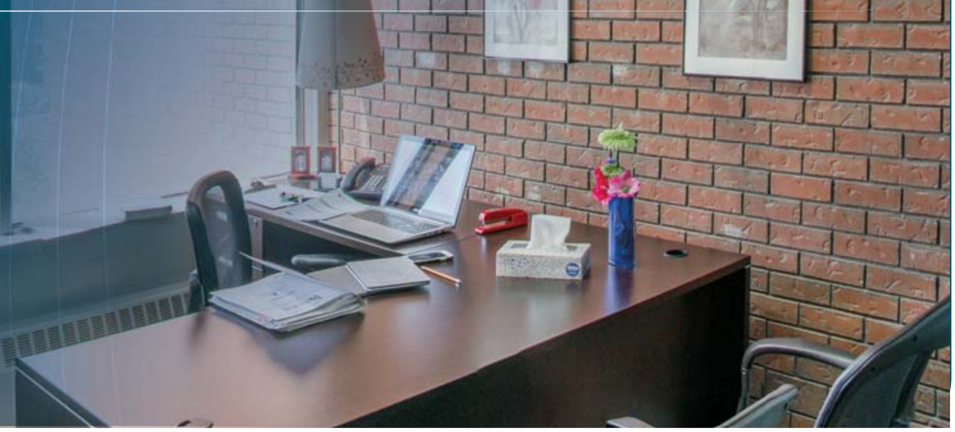
- The Beltline market witnessed a net negative absorption totaling 72,000 square feet (sf) during the fourth quarter.
- Mount Royal Village - West has been added to our Beltline inventory. This new development contributed 30,000 sf of new, unleased office space.
- With the Sam Livingston Building undergoing demolition to make way for a multi-residential development, the building has been removed from Beltline inventory.
- Driving negative absorption during Q4 was a large amount of new A Class space coming to market; much of it being full-floor options.
- There was notable sublease activity during the second quarter, particularly in B Class spaces.
- Half of Beltline headlease availabilities were in B Class buildings.
- Sublease space, as a proportion of vacant space, decreased to 34% from 37% in Q3.
- More than two-thirds of available leasing opportunities were in spaces measuring 6,000 sf or less.

## Significant moves, announcement and notable transactions:

Enerflex Ltd. Extended its lease in Stampede Station I for more than 17,000 sf.

Calgary Business Centre took approximately 10,000 sf in MEG Place.

→



Rockwood Square
Fourth floor office

PREPARED BY
BARCLAY STREET REAL ESTATE

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# Current Vacancy at a Glance

OVERALL RATE **23.5%**
+ 1.5% FROM Q3 TO Q4

CLASS A **25.4%**
+ 4.1% FROM Q3 TO Q4

CLASS B **26.8%**
– 0.9% FROM Q3 TO Q4

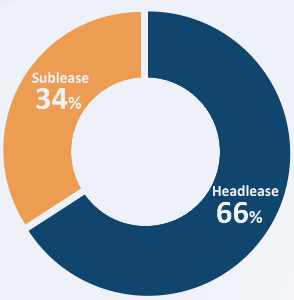
CLASS C **14.1%**
+ 1.1% FROM Q3 TO Q4

*Beltline vacancy increased to 23.5% during the fourth quarter of 2017. Several full-floor options in A Class properties such as Palliser South and Trans Alta Place I space came available, overshadowing strong headlease and sublease activity among B Class properties. In addition,* ***Mount Royal Village – West****, which contains a significant amount of yet-unleased space, was added to our Beltline inventory. The result was a combined 103,000 square feet sf of newly available space.*

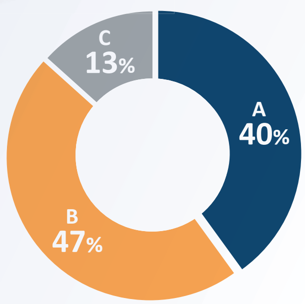
*Barclay Street Real Estate's vacancy calculation takes into account all space available for occupancy within a 6 month period. An additional 49,000 sf of space comes available for occupancy from January through July, 2018.*

*A further 18,000 sf comes available in approximately 12 months, which is the smallest amount of shadow vacancy seen in two years. Taking this pending space into account, the Beltline's projected vacancy rate may increase to 23.7%.*

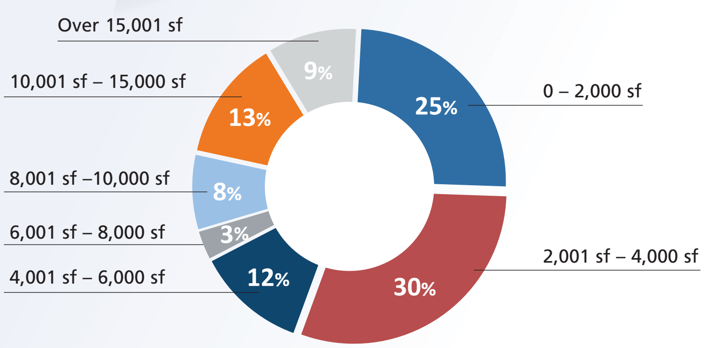
## HEADLEASE VS. SUBLEASE DISTRIBUTION

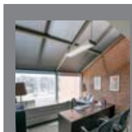



## DISTRIBUTION OF TOTAL AVAILABLE SPACE BY BUILDING CLASS




## DISTRIBUTION OF OPTIONS BY SIZE RANGE



COVER PAGE

**Interior of the office on th fourth floor at Rockwood Square (1032 17th Avenue SW)**

# Market Review

*VACANCY IN CALGARY'S BELTLINE OFFICE MARKET INCREASED BY 1.5% FROM THE THIRD QUARTER, ENDING 2017 AT 23.5%.* This was due to three factors: negative net absorption totalling approximately 73,000 sf, the addition of 30,000 sf of new, unleased space and lastly, a small net decrease in the size of this submarket's inventory.


Mount Royal Village – West is scheduled for completion in Q2 2018

The latter points pertain to the addition of **Mount Royal Village – West** to our inventory, as completion is expected during the second quarter of 2018. We have also removed the **Sam Livingston Building** from inventory due to its demolition. The property and land on which the building sits was bought in recent years with intention to build a multi-residential development. Together, these adjustments resulted in a net inventory reduction of approximately 22,000 sf.

Sam Livingston building is under demolition

Among spaces in the remaining inventory, several new headlease and sublease spaces came available, with some long-standing subleases rolling over and going back to the Landlords. These were primarily in A Class properties. On a positive note, the pipeline of pending leases more than six months in the future has diminished significantly, making this 'shadow vacancy' negligible.

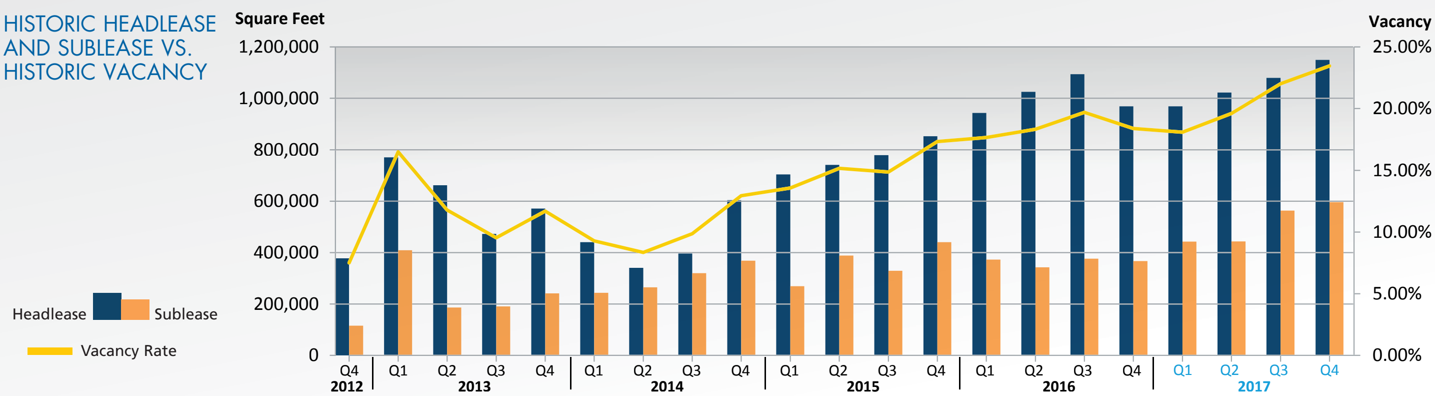
With the Beltline expected to see vacancy remain above 20% well into 2018, we do note that an increasing number of tenants are meeting or have met their right-sizing targets. We anticipate this will further constrict the pipeline of future excess space. Additionally, with previously pending Beltline inventory now incorporated, we anticipate the amount excess space to be marketed will further diminish.

Conditions in this submarket continue to heavily favour the Tenant. Landlords thus remain motivated to be aggressive in keeping existing tenants as well as attracting new prospects. To this end, we note the continuance of a trend among Landlords wherein flexible, low-rate month-to-month lease extensions are offered to Tenants unsure of their short-term space requirements. This provides a means of maintaining their tenant rosters while their Tenants assess their current situations and what their futures look like.

# 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 (55%) of available opportunities measure less than 4,000 sf while options greater than 10,000 sf comprise more than 22% of available spaces. Notably, these options account for more than half of total available square footage.

Total available headlease opportunities increased slightly over the previous quarter to 212, while total available sublease spaces decreased to 63. As mentioned earlier, positive leasing activity among B Class subleases was more than offset by new A Class opportunities.

HEADLEASE OPPORTUNITIES BY BUILDING CLASS AND SIZE RANGE

| Size Range | A | B | C |
|---|---|---|---|
| 0 – 2,000 sf | 5 | 19 | 31 |
| 2,001 sf – 4,000 sf | 11 | 35 | 20 |
| 4,001 sf – 6,000 sf | 6 | 17 | 5 |
| 6,001 sf – 8,000 sf | 2 | 6 | 3 |
| 8,001 sf –10,000 sf | 3 | 12 | 4 |
| 10,001 sf – 15,000 sf | 8 | 14 | 0 |
| 15,001+ | 6 | 3 | 2 |
| Overall | 41 | 106 | 65 |

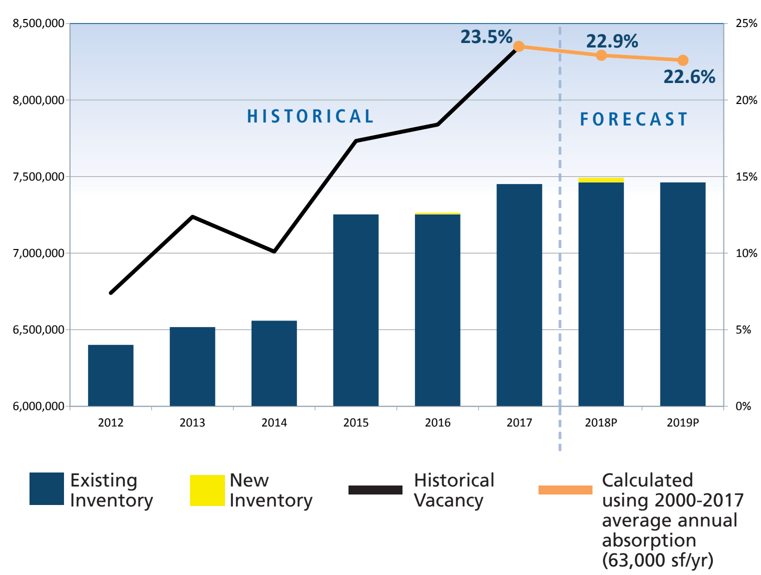
SUBLEASE OPPORTUNITIES BY BUILDING CLASS AND SIZE RANGE

| Size Range | A | B | C |
|---|---|---|---|
| 0 – 2,000 sf | 1 | 5 | 4 |
| 2,001 sf – 4,000 sf | 3 | 7 | 3 |
| 4,001 sf – 6,000 sf | 0 | 4 | 1 |
| 6,001 sf – 8,000 sf | 1 | 4 | 0 |
| 8,001 sf –10,000 sf | 0 | 3 | 0 |
| 10,001 sf – 15,000 sf | 6 | 7 | 0 |
| 15,001+ | 12 | 2 | 0 |
| Overall | 23 | 32 | 8 |

## Vacancy Forecast Including New Inventory

This accompanying graph is a representation of potential vacancy outcomes, calculated using historical absorption trends and anticipating the completion of new Beltline developments through 2019.

VACANCY FORECAST RESULTING FROM NEW DEVELOPMENTS IN BELTLINE



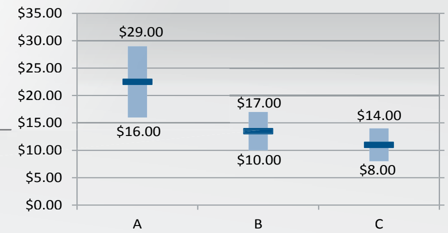
# Average Costs

*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 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 increasingly 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.

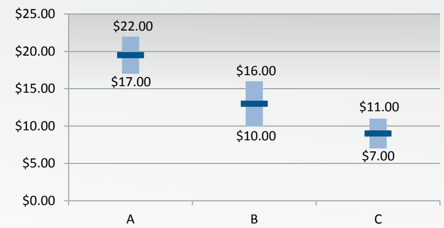
PARKING RATIOS AND RATES BY BUILDING CLASS

| 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** |

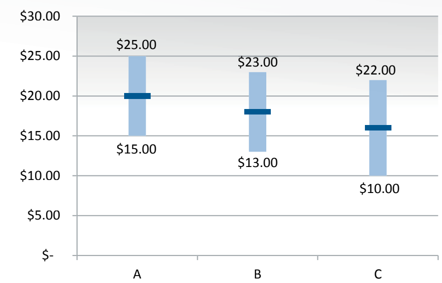
AVERAGE HEADLEASE RATES BY BUILDING CLASS




AVERAGE SUBLEASE RATES BY BUILDING CLASS




OPERATING COSTS BY BUILDING CLASS

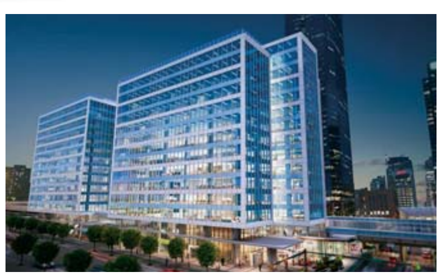



Barclay Street expects operating costs to increase annually by at least the same rate as the rise in property tax each year.

# New Projects

MOUNT ROYAL VILLAGE WEST
1508 8th Street SW

Developer: First Capital
Size: 30,000 sf
Status: Added to inventory



PLACE 10 EAST.
524 10 Avenue SW

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

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