CALGARY | FOURTH QUARTER 2017

DOWNTOWN OFFICE MARKET ANALYSIS

25.2%
OVERALL VACANCY RATE
+0.2% FROM Q3'17

- Absorption for the fourth quarter totaled negative 41,000 square feet (sf).
- The primary driver of negative absorption this quarter was B Class space, which accounted for substantial amount of additional premises available for lease.
- Positive absorption, however, was noted among AA Class and C class spaces.
- Our Downtown inventory has been adjusted to reflect the pending residential repurposing of Sierra Place.
- Sublease space represented 34% of total available space; down slightly from the third quarter.
- We continue to note a lack of available spaces measuring between 6,000 sf and 10,0000 sf; only 15% of all available space lies within this range.

Significant moves, announcement and notable transactions:


Approximately 40,000 sf was subleased by Spartan Energy in The Bow.


Aon took approximately 27,000 sf of sublease space in Eau Claire Tower.


Four contiguous floors in Livingston Place – South, totaling 80,000 sf, became available for sublease under Pengrowth Energy Corp.


Three contiguous floors in Eighth Avenue Place, totalling 73,000 sf, became available for sublease under General Electric.


Eight floors totalling 119,000 sf became available for headlease in Scotia Centre.

Kraft Building on Stephen Ave
Third floor character office

PREPARED BY
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Current Vacancy at a Glance

OVERALL RATE **25.2%**
+ 0.2% FROM Q3 TO Q4

CLASS AA **20.8%**
– 0.2% FROM Q3 TO Q4

CLASS A **23.3%**
– 0.1% FROM Q3 TO Q4

CLASS B **33.8%**
+ 2.8% FROM Q3 TO Q4

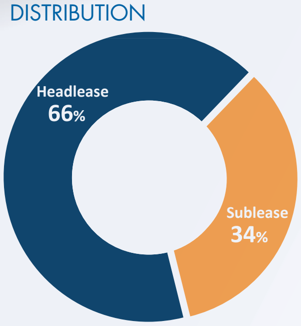
CLASS C **26.1%**
– 7.4% FROM Q3 TO Q4

Over the course of 2017, 1.14 million square feet (msf) of office space was returned to the Downtown market, causing the vacancy rate in downtown Calgary to increase by 2.6% year-over-year. This is the smallest year-over-year increase in vacancy since 2014. At the end of 2017, Downtown vacancy sat at 25.2%, representing approximately 10.9 msf of space available for lease within a 43.5 msf inventory.

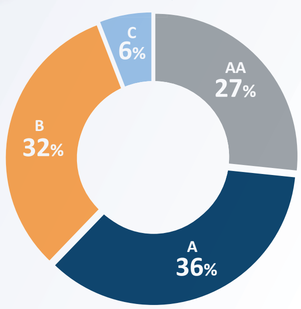
Overall, leasing activity was robust during the fourth quarter as several companies moved between buildings and upgraded their spaces in the process. The availability of spaces measuring between 6,000 sf and 10,000 sf remained tight and we noted a slight uptick in leases among spaces measuring greater than 15,000 sf. The latter can be largely attributed to the increasing affordability and the incentives attached to these large spaces.

Barclay Street Real Estate's vacancy calculation takes into account all space available for occupancy within a 6 month period. At the end of 2017 there was an additional 528,000 sf of space being marketed for occupancy from January through June, 2018, which includes multiple full floors in ***Centrium Place****,* ***Eighth Avenue Place – East*** *and* ***Watermark Tower****. A further 523,000 sf comes available in 7 – 18 months, which includes the unleased portion of* ***TELUS Sky****, for which expected completion has been pushed back to early 2019.*

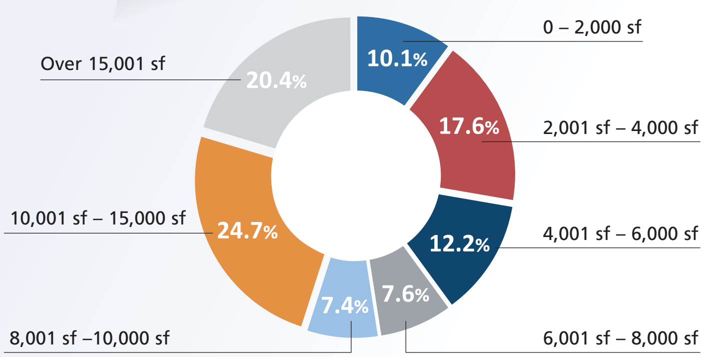
HEADLEASE VS. SUBLEASE DISTRIBUTION



DISTRIBUTION OF TOTAL AVAILABLE SPACE BY BUILDING CLASS



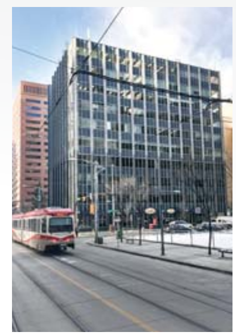
DISTRIBUTION OF OPTIONS BY SIZE RANGE



Market Review

VACANCY IN CALGARY'S DOWNTOWN REMAINED STEADY AT THE END OF 2017, RISING BY JUST 0.2% TO 25.2%. Net absorption during the fourth quarter was negative 41,000 square feet (sf). While overall vacancy in the Downtown market increased, the uptick is largely due to our inclusion of spaces that come available for lease and sublease from January though June, 2018.

Now that **Brookfield Place** has been delivered, Calgary's Downtown construction cycle is substantially complete; only **TELUS Sky** remains in the pipeline and this development will add 430,000 sf to the Downtown inventory. With that said, the additional commercial office space in the building will barely register in the overall inventory, upon completion in early 2019. Among the changes to Calgary's Downtown is our removal of **Sierra Place** from inventory as Artis REIT prepares the building for conversion to a multi-residential development.


Sierra Place will be converted to a multi-residential development.

The results of general optimism surrounding the nascent economic recovery were manifest in a number of large, full-floor leases and subleases closed. On the other hand, the trend of sublease spaces rolling over to headleases due to low demand continued. This rollover has contributed to the ongoing reduction in the ratio of sublease to headlease spaces from 37%/63% respectively in Q3 to 34%/66% at the end of December.

Overall, leasing activity during the fourth quarter was about trading spaces and upgrading in the process. This was demonstrated in the notable increase in B class availability and corresponding decreases in AA Class and A Class vacancies during the quarter. With the attractiveness of the Downtown market steadily increasing over the previous two years, firms that have right-sized and are adequately capitalized have begun taking advantage of the headlease market, where substantial reductions in pricing and aggressive incentives among A and AA spaces have made entering into long-term leases much more affordable. The C Class market has also become increasingly appealing for budget-conscious start-ups, offering numerous single office and shared-office setups available with lease rates often in single digits.

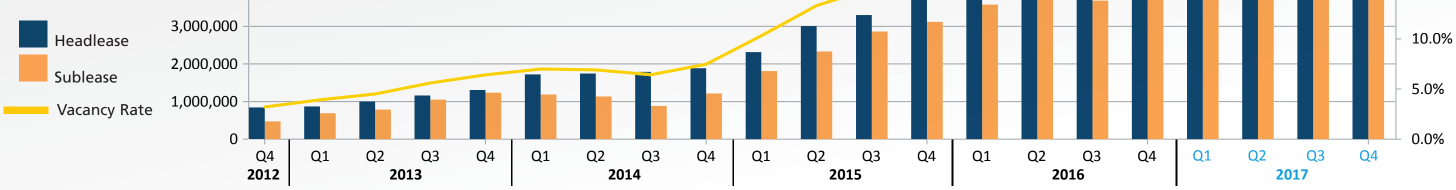
Firms with leases expiring over the coming twelve to fifteen months can look forward to ample opportunities to upgrade their spaces and, in most cases, simultaneously reduce their real estate expenditures. As such, we anticipate seeing a renewed flight to quality through 2018.

Vacancy

Headlease vs Sublease

The amount of available headlease space increasing by 410,000 sf during the fourth quarter, while the overall volume of sublease space decreased by approximately 360,000 sf. As mentioned earlier, these changes are due to a combination of leasing activity and sublease roll-over. Total available headlease square footage rose to 7,238,000 sf and total available sublease space decreased to 3,716,000 sf.

HISTORIC HEADLEASE AND SUBLEASE VS. HISTORIC VACANCY



Vacancy by Building Class and Size Range

Observing 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 (24.7%) and greater than 15,001 sf (20.4%). The 8,000 sf – 10,000 sf range contains the fewest options (7.4%). Total available headlease spaces increased from 837 from 791 in Q3 while total available sublease spaces increased decreased to 242 from 279 in the previous quarter. The greatest increase was in A Class and B Class buildings, where an additional 21 options and 42 options came to market, respectively. The number of availabilities in AA Class and C Class buildings deceased.

HEADLEASE OPPORTUNITIES BY BUILDING CLASS AND SIZE RANGE

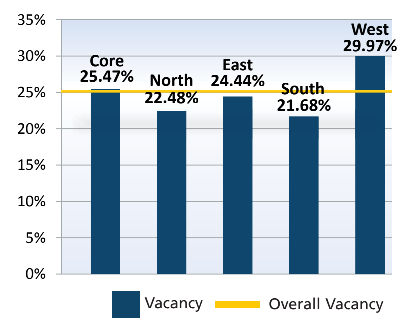
Size Range	AA	A	B	C
0 – 2,000 sf	0	20	61	23
2,001 sf – 4,000 sf	2	48	99	24
4,001 sf – 6,000 sf	7	28	67	16
6,001 sf – 8,000 sf	5	18	33	12
8,001 sf –10,000 sf	4	13	28	13
10,001 sf – 15,000 sf	1	78	107	9
15,001+	50	44	19	8
Overall	**69**	**249**	**414**	**105**

SUBLEASE OPPORTUNITIES BY BUILDING CLASS AND SIZE RANGE

Size Range	AA	A	B	C
0 – 2,000 sf	0	0	3	1
2,001 sf – 4,000 sf	4	6	6	0
4,001 sf – 6,000 sf	3	5	3	2
6,001 sf – 8,000 sf	4	3	4	3
8,001 sf –10,000 sf	3	12	6	1
10,001 sf – 15,000 sf	3	41	26	1
15,001+	63	35	7	1
Overall	**80**	**102**	**55**	**9**

Vacancy by Building Class and Location

VACANCY RATE BY LOCATION



VACANCY BY LOCATION AND CLASS (SF)

Sq. Ft. / % Vacant	AA	A	B	C
CORE	291,500 / N/A	1,577,167 / 24.28%	757,489 / 32.47%	159,832 / 63.73%
NORTH	942,928 / 20.29%	368,977 / 29.61%	51,071 / 18.81%	0 / N/A
EAST	699,422 / 19.22%	403,461 / 16.49%	800,824 / 44.82%	148,876 / 26.26%
SOUTH	626,817 / 16.56%	858,445 / 21.44%	0 / 0.00%	34,098 / 13.90%
WEST	372,784 / N/A	696,372 / 28.05%	1,620,833 / 29.08%	494,625 / 34.47%

INVENTORY BY LOCATION AND CLASS (SF)

	AA	A	B	C	
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	5,573,629	1,434,990	**10,023,866**
	14,003,273	**16,673,465**	**10,346,727**	**2,498,091**	

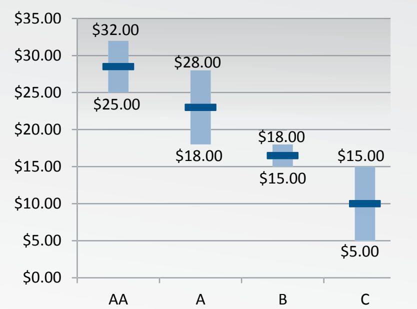
Average Costs

DUE TO THE INCREASING AVAILABILITY OF AGGRESSIVELY PRICED, FLEXIBLE, SHORT-TERM SUBLEASE SPACE, HEADLEASE AND RENEWAL RATES CONTINUE TO EXPERIENCE DOWNWARD PRESSURE. Sublease inventory currently represents approximately one-third of total available space. While the amount of sublease space has been decreasing, it is due in large part to the terms expiring and the spaces going back to Landlords for direct lease. Subleases represented more than 3.7 msf and this volume continues to put downward pressure on rates for competing sublease spaces. As such, in a Tenants' market - particularly when fewer deals are being done - Landlords continue to price aggressively and offer substantial incentives to compete with extremely motivated sub-landlords.

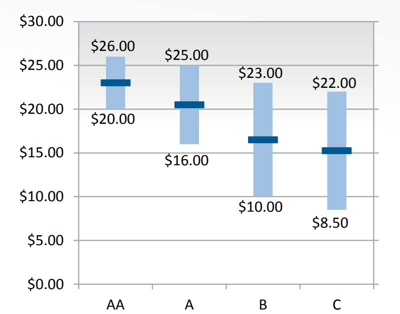
PARKING RATIOS AND RATES BY BUILDING CLASS

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**

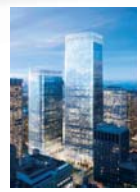
AVERAGE LEASE RATES BY BUILDING CLASS



OPERATING COSTS BY BUILDING CLASS



New Project

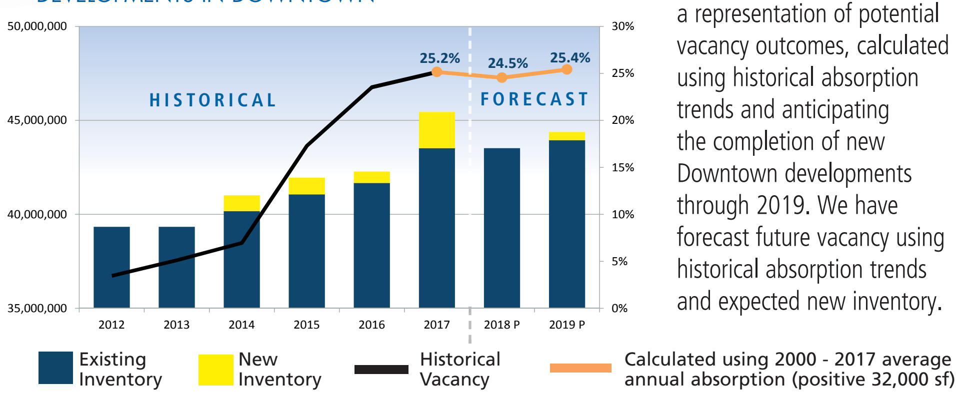


TELUS SKY
7 Avenue & Centre Street SW

Developer: Telus, Allied REIT & Westbank
Size: 430,000 sf
Status: Q2'19; 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 2019. We have forecast future vacancy using historical absorption trends and expected new inventory.

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Citations

StreetInsider.com. (Jan, 2018). Crescent Point Energy (CPG) Announces 2018 Budget, Increase in Uinta Inventory. https://www.streetinsider.com/Corporate+News/Crescent+Point+Energy+%28CPG%29+Announces+2018+Budget%2C+Increase+in+Uinta+Inventory/13672091.html

Thomas, B. (Oct, 2017). Calgary REIT switching office building to residential apartments. Metro News. http://www.metronews.ca/news/calgary/2017/10/26/calgary-reit-switching-office-building-to-residential.html