CALGARY YEAR-END 2018

BELTLINE OFFICE MARKET ANALYSIS

22.4%
OVERALL VACANCY RATE
+ 0.2% FROM Q3'18

- The Beltline market witnessed a small, overall increase in vacancy, resulting from negative net absorption totaling 12,000 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.

Significant moves, announcement and notable transactions:

The Law Society of Alberta leased approximately 60,000 sf in 333 Centre.

1702 4th Street SW
Office space for lease

PREPARED BY
BARCLAY STREET REAL ESTATE

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Current Vacancy at a Glance

OVERALL RATE **22.4%**
+ 0.2% FROM Q3 TO Q4

CLASS A **24.5%**
– 0.3% FROM Q3 TO Q4

CLASS B **25.3%**
+ 2.0% FROM Q3 TO Q4

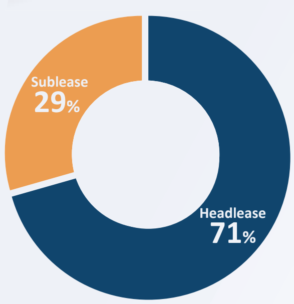
CLASS C **13.6%**
– 1.9% FROM Q3 TO Q4

Beltline vacancy increased by two-tenths of a percent to 22.4% during the final quarter of 2018. A handful of new full-floor options came available this quarter and these were typically subleases in A Class buildings. These contributed to the relatively small amount of net negative absorption for the quarter, which totaled 11,678 square feet. With that said however, absorption in the Beltline for 2018 in its entirety was positive at nearly 24,000 sf. According to our records, the last year in which the Beltline's net annual absorption was positive, was 2013.

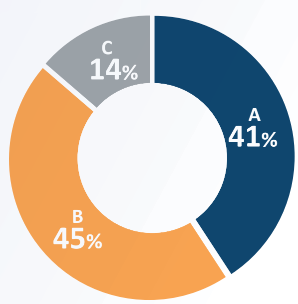
Barclay Street Real Estate's vacancy calculation takes into account all space available for occupancy within a 6-month period. An additional 29,000 sf of space comes available for occupancy from January through June, 2019.

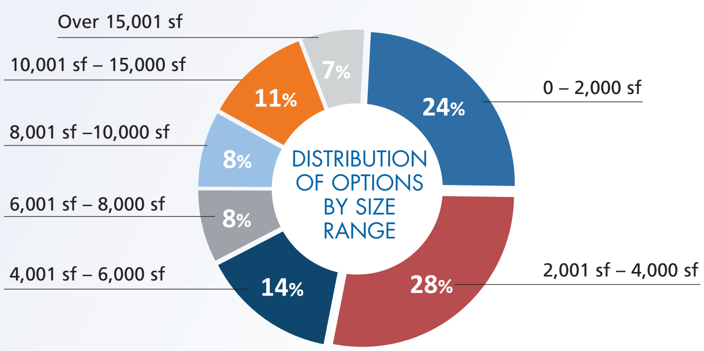
Anticipated shadow vacancy, which we define as space coming available in seven to twelve months, remained fairly small. A further 77,000 sf in existing buildings comes available later next year and it's worth pointing out that this marks a jump in shadow vacancy in comparison to the small amounts we've tracked over the preceding few quarters. With that said, shadow vacancy remains well-below that seen during 2016 and 2017. Taking this pending space into account, the Beltline's projected vacancy would increase to approximately 23.4%.

HEADLEASE VS. SUBLEASE DISTRIBUTION



DISTRIBUTION OF TOTAL AVAILABLE SPACE BY BUILDING CLASS





Market Review

VACANCY IN CALGARY'S BELTLINE OFFICE MARKET INCREASED BY 0.2% OVER THE FOURTH QUARTER OF 2018, ENDING THE YEAR AT 22.4%. While net absorption was negative 11,678 sf, it paled in comparison to the average quarterly absorption of negative 38,000 sf tracked over the preceding two years. The culprit of negative absorption this quarter was B Class properties, in which a net 61,000 sf was placed on the market. C Class properties on the other hand, saw the greatest amount of space taken off the market.

We have anticipated for some time that vacancy in the Beltline would remain above 20% well into – or through – 2018. The upside is that the pipeline of future excess space appears poised to remain constricted, since a substantial number of tenants are meeting or have met their right-sizing targets. Additionally, with no new product currently in the works, we anticipate the amount excess space to be marketed will remain small.

For the Beltline, 2018 represented a transformational year in terms of commercial developments, redevelopments and new construction. While the face of the Beltline began changing substantially at the end of 2017 with the demolition of the **Sam Livingston Building**, 2018 began with the removal of the **Stephenson Building** from the Beltline's office inventory as Strategic Group announced its intent to repurpose the building for residential use. Some new inventory was added at mid-year, in the form of the **RECA Building** and **Mount Royal Village – West**; the latter being a mixed-use property that boasts Canadian Tire, Urban Fare and Copeman Healthcare.

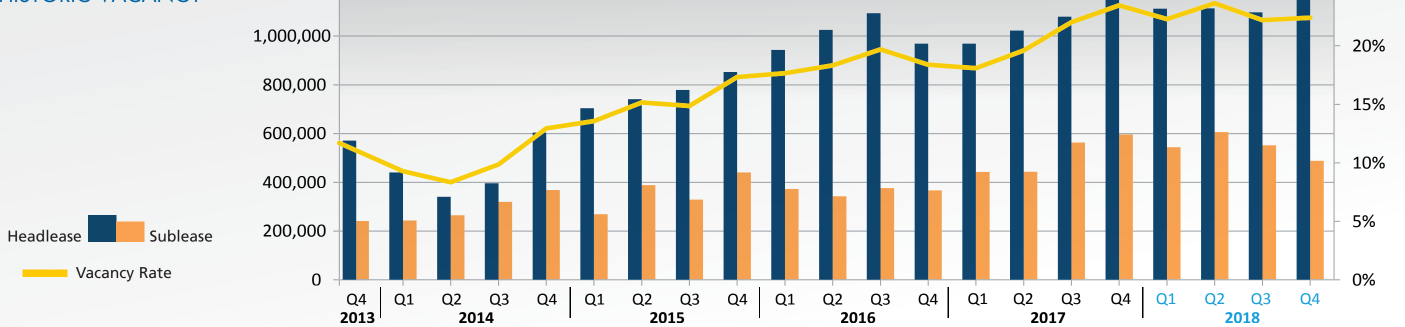
RECA Building

The changes continued through the second half of the year as further construction in this submarket focused on multi-residential developments, be they condominium developments or extended-stay rentals, such as the **Residence Inn by Marriott.** Demolition of the Curtis Block was substantially concluded and construction of Strategic Group's **ONE** multi-residential development ramped-up. Construction of the underground parkade for the **500 Block** progressed substantially. This project by Hines will replace the aforementioned Sam Livingston Building with multi-residential development comprising 463 units, split between a 7-story mid-rise block and a 35-story highrise.

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 (52%) of available opportunities measured less than 4,000 sf while options greater than 10,000 sf remained steady at just under one-fifth (18%) of available spaces, after decreasing in Q2 from 23% at the beginning of 2018. These large options however, continued to account for a little under half of total available square footage.

The number of available headlease opportunities increased slightly over the previous quarter to 231, while total available sublease spaces also decreased to 56. As mentioned in a previous report, the above-noted decreases reflects a combination of positive leasing activity and turnover of some long-standing subleases to Landlords.

HEADLEASE OPPORTUNITIES BY BUILDING CLASS AND SIZE RANGE

Size Range	A	B	C
0 – 2,000 sf	7	33	24
2,001 sf – 4,000 sf	16	32	21
4,001 sf – 6,000 sf	9	22	1
6,001 sf – 8,000 sf	2	12	2
8,001 sf –10,000 sf	8	5	7
10,001 sf – 15,000 sf	7	12	1
15,001+	5	3	2
Overall	54	119	58

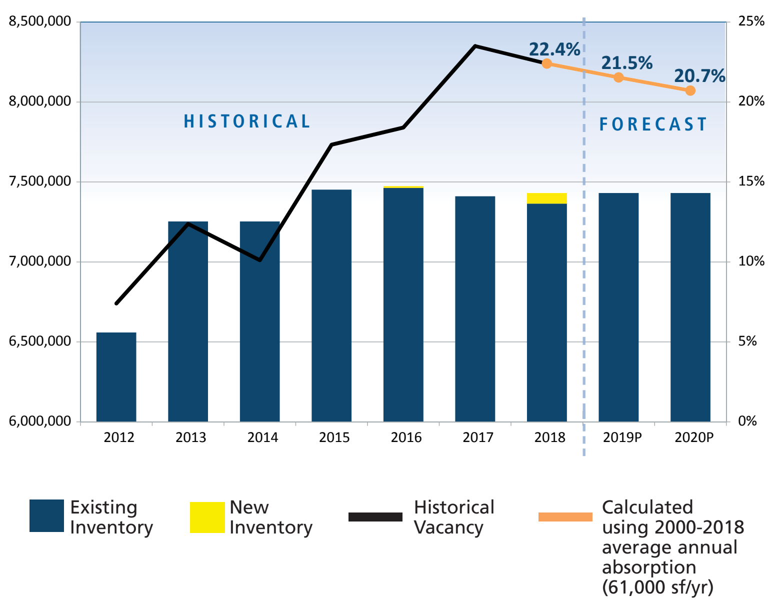
SUBLEASE OPPORTUNITIES BY BUILDING CLASS AND SIZE RANGE

Size Range	A	B	C
0 – 2,000 sf	2	2	2
2,001 sf – 4,000 sf	6	4	1
4,001 sf – 6,000 sf	2	6	1
6,001 sf – 8,000 sf	3	3	0
8,001 sf –10,000 sf	0	3	0
10,001 sf – 15,000 sf	7	5	0
15,001+	8	1	0
Overall	28	24	4

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

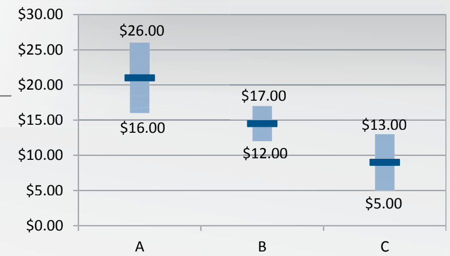
BARCLAY STREET CONTINUES TO ANTICIPATE DOWNWARD PRESSURE ON RENTAL RATES FOR THE FORESEEABLE FUTURE, THOUGH LESS-SO THAN DURING THE PRECEDING THREE YEARS. With space no pending commercial properties under construction and the proposed Place 10 remaining on-hold, the still-elevated inventory of opportunities 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.

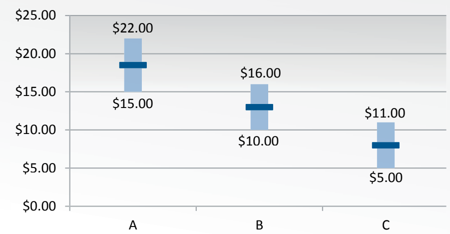
PARKING RATIOS AND RATES BY BUILDING CLASS

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**

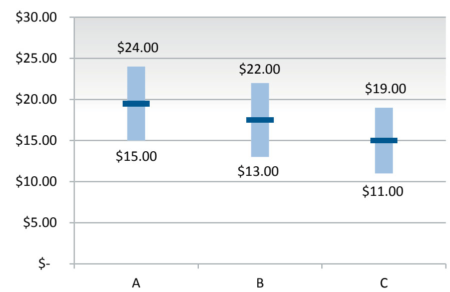
AVERAGE HEADLEASE RATES BY BUILDING CLASS



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.

Pending Project

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

Additional materials:

Gamble, A. (November 2018). Progress Continues at 500 Block. SKYRISE Calgary. https://calgary.skyrisecities.com/news/2018/11/progress-continues-500-block

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/

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