

DOWNTOWN OFFICE MARKET ANALYSIS

24.6%

OVERALL
VACANCY RATE

↓ - 0.2%
FROM Q3 '18

- Absorption for the third quarter totalled positive 217,000 square feet (sf).
- The primary driver of absorption this quarter was A Class space, in which approximately 138,000 sf was taken off the market.
- Sublease space represented 24% of available space; this continued a multi-quarter downward trend.
- Availability of spaces measuring between 6,000 sf and 10,000 sf continued to be tight, with approximately 16% of all available space within this range.

Significant moves, announcement and notable transactions:



Nexen Energy/CNOOC subleased 290,000 sf in The Bow.



Canadian Energy Services subleased approximately 53,000 sf in Centrium Place.



Canadian Centre
Building's lobby

PREPARED BY
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Current Vacancy at a Glance

OVERALL RATE **24.6%**

↓ - 0.2% FROM Q3 TO Q4

CLASS AA **18.5%**

↓ - 0.1% FROM Q3 TO Q4

CLASS A **23.1%**

↓ - 0.8% FROM Q3 TO Q4

CLASS B **34.4%**

↓ - 1.1% FROM Q3 TO Q4

CLASS C **24.8%**

↑ + 2.2% FROM Q3 TO Q4

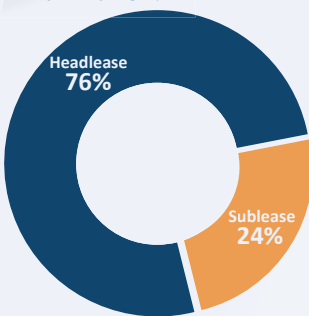
Net absorption for the final quarter of 2018 was positive 217,000 sf. With **TELUS Sky** added to our inventory in the previous quarter and its vacant space accounted for, we can now focus on space at-hand. The vacancy rate in Downtown Calgary decreased by two-tenths of a percentage point to 24.6%. This represents approximately 10.7 million square feet (msf) of space available in a total inventory of 43.5 (msf).

Overall, leasing activity was robust during the quarter, as several companies moved between buildings and upgraded their spaces in the process. Spaces measuring between 6,000 sf and 10,000 sf remained the tightest group of available spaces during the quarter. This was the case through all of 2018 and through 2017 as well. Notable again during the fourth quarter as in Q3, was ongoing activity among spaces measuring greater than 15,000 sf. Users of these large spaces continued to benefit from the affordability and accompanying incentives. At the other end of the spectrum and as with Q3, another noticeable decrease - of about one-half percent - was noted in the availability of spaces measuring less than 2,000 sf.

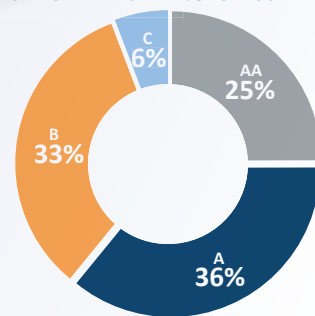
Barclay Street Real Estate's vacancy calculation takes into account all space available for occupancy

within a 6-month period. As of Q4 2018, an additional 874,000 sf of space was being marketed for occupancy from January through June, 2019. This includes several full floors in **715 Fifth** and **Calgary Place** as well as multiple new full floors being made available for sublease in **The Bow**. A further 45,000 sf comes available in 7 - 18 months.

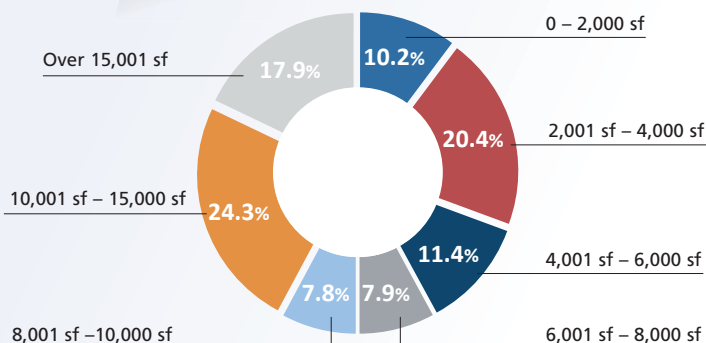
HEADLEASE VS. SUBLEASE DISTRIBUTION



DISTRIBUTION OF TOTAL AVAILABLE SPACE BY BUILDING CLASS



DISTRIBUTION OF OPTIONS BY SIZE RANGE



Market Review

VACANCY IN CALGARY'S DOWNTOWN CONTINUED TO STAY WITHIN A NARROW BAND OF UPWARD/DOWNWARD MOVEMENT AS 2018 PROGRESSED, FALLING BY TWO-TENTHS OF A PERCENT.

The positive net absorption during the fourth quarter was driven primarily by sublease activity, which was focussed in AA Class and A Class properties. This continued a multi-quarter trend wherein Sublandlords benefitted from large users seeking to improve their spaces by moving to higher-quality buildings while locking-in with lower rates for longer terms.



Nexen Tower

Major news of the fourth quarter surrounded Nexen/CNOOC's agreement to sublease eight floors totalling about 290,000 sf from Cenovus in **The Bow**. It's anticipated that **Nexen Tower** - where the company currently occupies 680,000 sf - will be left behind in the future move. While the sublease announcement was welcome news, it brought the

prospect of a significant amount of future vacancy as a potential consequence.

As a partial result of the above-noted sublease activity, we've observed an ongoing reduction in the ratio of available sublease to headlease space. At the end of December, this ratio sat at 24%/76%, down from 26%/74%, respectively in the third quarter.

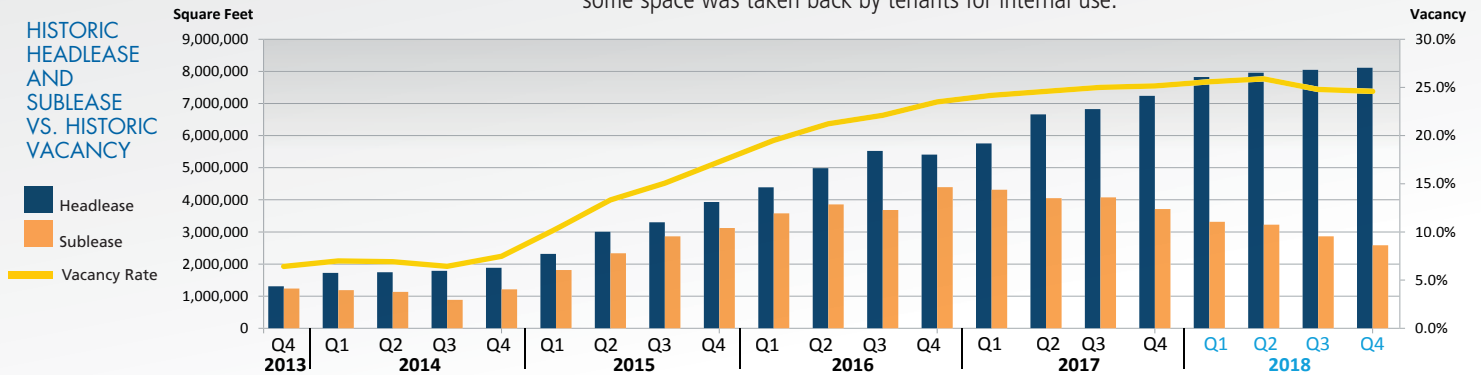
We continue to be of the view that we're seeing the bottom of the market in the Downtown. With the historically large volume of sublease space has remained well-below its high in Q1 2016. Further, with Landlords and would-be sublandlords continuing to exercise restraint in marketing additional space, we anticipate that the sublease market will remain within a narrow band between its current position and pre-recession five-year average of 34%.

Aggregate Downtown off absorption for the year was positive, totalling 247,000 sf. As we noted in an earlier market report however, the recession has flattened eighteen years of average annual absorption in the Downtown. As we highlight in our vacancy forecast chart, should the Downtown market return to it's long-term average, we anticipate vacancy though 2019 and 2020 being flat.

Vacancy

Headlease vs Sublease

The amount of available headlease space increased by approximately 64,000 sf during the quarter, while the overall volume of sublease space decreased by approximately 281,000 sf. As mentioned earlier and in our previous reports, some of these changes are due to sublease roll-over. In Q4 however, leasing activity was the primary driver, while some space was taken back by tenants for internal use.



Vacancy by Building Class and Size Range

The highest concentrations of available options in the 10,000 sf - 15,000 sf range (24.3%) and in the 2,000 sf - 4,000 sf range (20.4%). The 6,000 sf - 8,000 sf and 8,001 sf - 10,000 sf ranges contain the fewest options at 7.9% and 7.8% each. Total available headlease spaces decreased to 916 from 926 in Q3 and total available sublease spaces increased decreased to 171 from 177 during the previous quarter.

The greatest decreases were among B Class and A Class buildings, where 19 options and 11 options were taken off the market, respectively. Net availabilities increased however, among AA Class in C Class properties.

HEADLEASE OPPORTUNITIES BY BUILDING CLASS AND SIZE RANGE

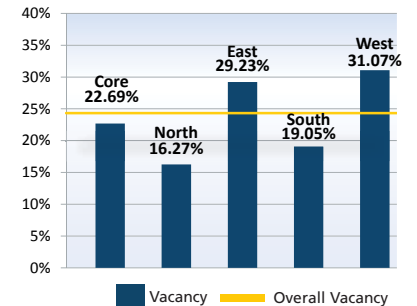
Size Range	AA	A	B	C
0 - 2,000 sf	0	29	54	18
2,001 sf - 4,000 sf	7	55	110	33
4,001 sf - 6,000 sf	6	32	59	15
6,001 sf - 8,000 sf	1	23	39	10
8,001 sf - 10,000 sf	6	22	27	16
10,001 sf - 15,000 sf	7	100	126	4
15,001+	37	49	23	8
Overall	64	310	438	104

SUBLEASE OPPORTUNITIES BY BUILDING CLASS AND SIZE RANGE

Size Range	AA	A	B	C
0 - 2,000 sf	2	2	4	2
2,001 sf - 4,000 sf	3	4	6	3
4,001 sf - 6,000 sf	2	3	6	1
6,001 sf - 8,000 sf	4	5	1	3
8,001 sf - 10,000 sf	2	8	3	1
10,001 sf - 15,000 sf	2	11	12	1
15,001+	51	24	4	1
Overall	66	57	36	12

Vacancy by Building Class and Location

VACANCY RATE BY LOCATION



VACANCY BY LOCATION AND CLASS (SF)

Sq. Ft.	% Vacant	AA	A	B	C
CORE	16.96%	237,431	1,643,806	765,301	120,909
NORTH	14.04%	652,371	117,421	232,766	0
EAST	25.77%	1,056,273	687,269	820,139	37,700
SOUTH	9.91%	375,252	1,198,235	2,339	27,833
WEST	65.65%	349,924	588,692	1,741,823	434,070

INVENTORY BY LOCATION AND CLASS (SF)

	AA	A	B	C	Total
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	4,099,540	2,447,201	1,786,950	567,036	8,900,727
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
Total	14,464,457	16,673,465	10,346,727	2,498,091	

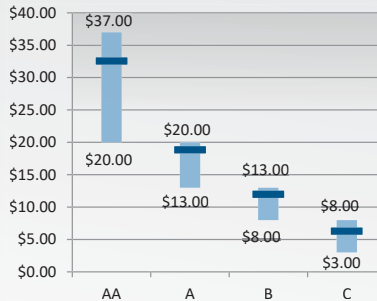
Average Costs

DUE TO THE INCREASING AVAILABILITY OF AGGRESSIVELY PRICED, FLEXIBLE, SHORT-TERM SUBLEASE SPACE, HEADLEASE AND RENEWAL RATES CONTINUED TO EXPERIENCE DOWNWARD PRESSURE, ALBEIT WITH MORE RESISTANCE FROM LANDLORDS AND SUBLANDLORDS THAN IN RECENT YEARS. Sublease inventory represented just under one quarter of total available space at 2.59 million square feet. During 2018 – particularly through the second half of the year – we observed a substantial uptick in sublease activity. This is a notable departure from term expiration and the spaces going back to Landlords for direct lease being the primary driver of reduction.

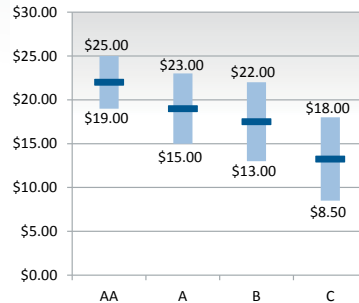
PARKING RATIOS AND RATES BY BUILDING CLASS

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



Newest Inventory



TELUS SKY
 7 Avenue & Centre Street SW
 Developer: TELUS, Allied REIT & Westbank
 Size: 430,000 sf
 Status: Added to inventory

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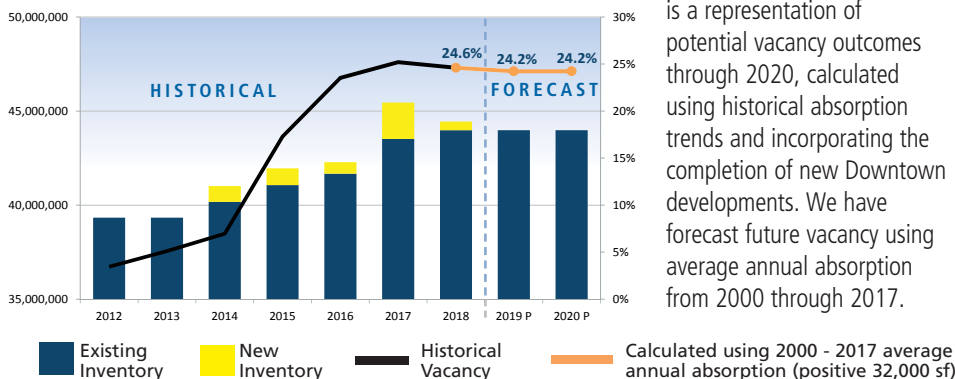
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Vacancy Forecast Including New Inventory

VACANCY FORECAST RESULTING FROM NEW DEVELOPMENTS IN DOWNTOWN



This accompanying graph is a representation of potential vacancy outcomes through 2020, calculated using historical absorption trends and incorporating the completion of new Downtown developments. We have forecast future vacancy using average annual absorption from 2000 through 2017.

Reference

Chan, K. (Nov. 2018). Nexen taking over 290,000-sq-ft of office space in Calgary's Bow Tower. Urbanized. <https://dailyhive.com/calgary/nexen-headquarters-calgary-bow-tower>