CALGARY THIRD QUARTER 2017

COMMERCIAL OFFICE MARKET OVERVIEW

Downtown Market

OVERALL RATE **25.0%**
+ 0.4% FROM Q2 TO Q3

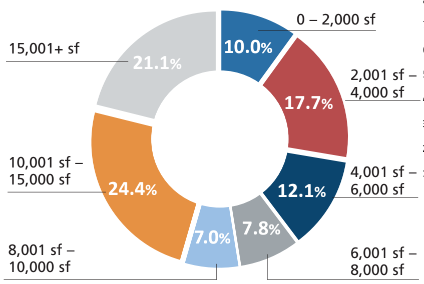
CLASS AA **21.0%**
NO CHANGE FROM Q2 TO Q3

CLASS A **23.4%**
– 1.7% FROM Q2 TO Q3

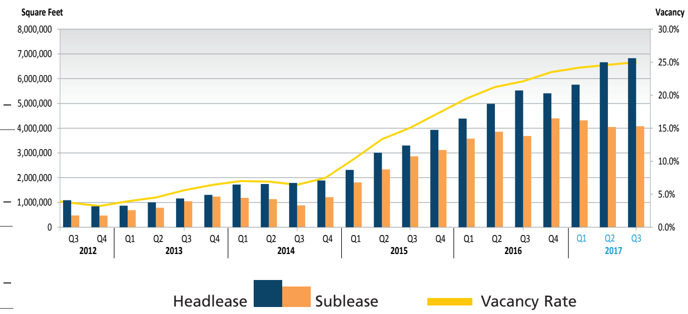
CLASS B **31.0%**
+ 4.7% FROM Q2 TO Q3

CLASS C **33.5%**
+ 3.2% FROM Q2 TO Q3

DISTRIBUTION OF OPTIONS BY SIZE RANGE



5-YEAR HISTORIC VACANCY



Vacancy in Calgary's Downtown remained relatively steady over the third quarter of 2017, rising by 0.4% to 25%. Q3 proved quiet in comparison to the preceding 11 quarters, posting negative net absorption totalling 193,000 square feet (sf). Now that Brookfield Place has been delivered, Calgary's Downtown construction cycle is substantially complete; only TELUS Sky remains and that development will add 460,000 sf to the Downtown inventory.

We continue to see the results of a general economic optimism, which was manifest in a number of large, full-floor leases and subleases closed. On the other hand, we are seeing a trend of sublease spaces rolling over to headleases. This rollover has steadily reduced the ratio of sublease to headlease spaces from 43%/57% respectively in Q1 to 37%/63% at the end of September. 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 October 2017 though March 2018.

The attractive lease rates and variety of spaces continue to draw the attention of current Beltline and Suburban-based firms, particularly those whose space needs land in the 5,000 sf to 8,000 sf range. With firms focused on operating lean and minimizing costs, potential expansion needs are being regarded as a nice problem to have, but one that will be taken into consideration at the expiration of the lease, rather than risk taking too much space at the outset.

In the short-term, we anticipate seeing the introduction of new space stemming from the large-scale energy sector mergers and acquisitions made early in the second quarter. In addition, at the other end of the spectrum are seeing some small businesses being bought by medium-sized firms. Consequently, it is anticipated that more sub-2,000 sf spaces will become available in the coming nine to twelve months.

Beltline Market

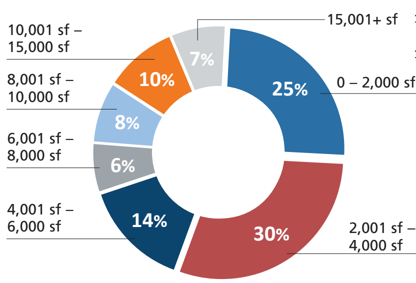
OVERALL RATE **20.5%**
+ 0.9% FROM Q2 TO Q3

CLASS A **21.3%**
+ 2.1% FROM Q2 TO Q3

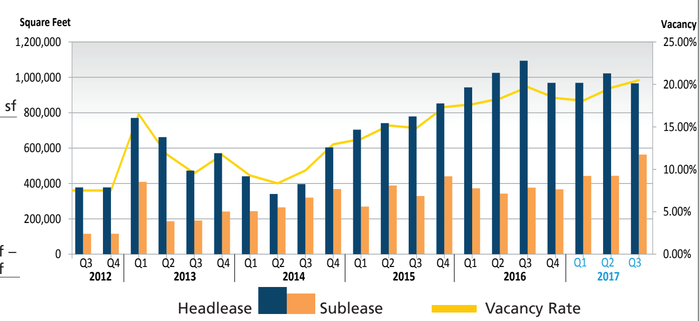
CLASS B **24.0%**
– 0.3% FROM Q2 TO Q3

CLASS C **13.0%**
+ 1.1% FROM Q2 TO Q3

DISTRIBUTION OF OPTIONS BY SIZE RANGE



5-YEAR HISTORIC VACANCY



Vacancy at the end of Q2 was 20.5%. This is an increase of just under 1% and is due to 64,000 square feet (sf) of new space coming available, the majority of which was new sublease opportunities across all building classes. Among headleases, we noted significant activity in B Class properties. In total, approximately 49,000 sf of B Class headlease space and 22,000 sf of A Class space was leased.

With the Beltline expected to see vacancy remain above 20% into 2018, we do note that an increasing number of tenants are meeting or

Beltline Market (cont.)

have met their right-sizing targets and this is expected to further constrict the pipeline of future excess space.

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 who were unsure of 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.

As we mentioned above, the pipeline of coming availabilities has diminished substantially. At September 30th, the Beltline office market had just over 65,000 sf of space becoming available from October through March 2018, which Barclay Street takes into account for our calculations. Additionally, pending new Beltline inventory is minimal with Mount Royal West, which is expected late in the second quarter of 2018, slated add 30,000 sf of office space.

Mount Royal Village – West is scheduled for completion in 2018

Suburban Markets

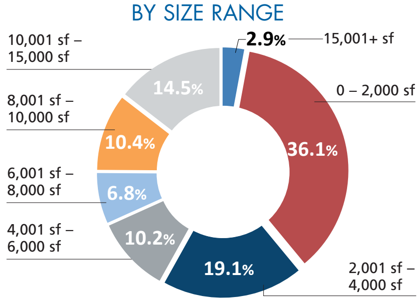
OVERALL RATE **23.6%**
+ 0.5% FROM Q2 TO Q3

CLASS A **25.3%**
+ 0.2% FROM Q2 TO Q3

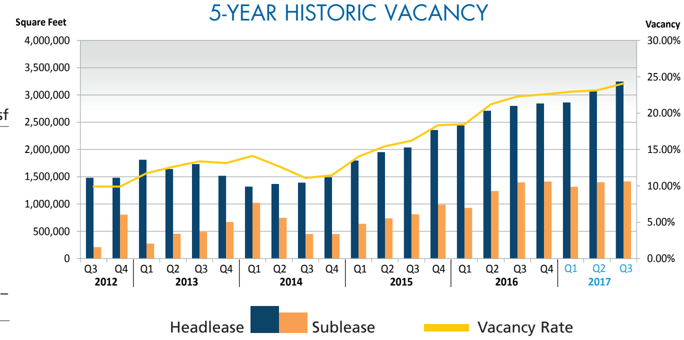
CLASS B **18.2%**
– 0.7% FROM Q2 TO Q3

CLASS C **18.0%**
+ 0.9% FROM Q2 TO Q3

DISTRIBUTION OF OPTIONS BY SIZE RANGE



5-YEAR HISTORIC VACANCY



During the third quarter of 2017, Calgary's suburban markets experienced a small uptick in vacancy, driven by a substantial amount of new C Class space coming to market. This was driven in large part by Tenants taking advantage of opportunities to upgrade their spaces at current low market prices. The Suburban markets overall, have remained quite stable this year, having risen only 1% since the end of 2016. Net absorption this quarter was negative 54,000 square feet, causing vacancy to rise by one-half percent to 23.6%.

The suburban markets have had an interesting year, with several new office developments delivered. This has shaken-up the leasing environment by adding substantial shiny, new inventory to compete with existing buildings. In response, we have seen a considerable number of Landlords with older or less conveniently-accessible properties accelerate show-suiting programs in hopes of stimulating competitive activity.

Among Tenants, the aforementioned draw to new, more efficient spaces also involves substantial improvements or in the new developments, build-outs to suit their needs. We have also noted an overall trend of taking only the space needed in the short-term as considerations for future growth and the extra space required to accommodate it become secondary to securing low rent.

The silver lining is that the most recent building cycle is substantially complete. 2017 has seen three new developments comprising approximately 169,000 sf completed to date. The 200,000 sf ATCO Commercial Centre is slated to be the final major office completion of the year. The design-built Hexagon Campus represents the last of the major remaining projects under construction.

Hexagon Campus represents the last of the major remaining projects under construction

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DIRECTOR OF RESEARCH
Anthony B. Scott
ascott@barclaystreet.com

OFFICE LEASING TEAM

Bill Falagaris, Associate
bfalagaris@barclaystreet.com

Dan Harmsen,
Partner, Vice President, Associate Broker
dharmsen@barclaystreet.com

Kris Hong, Associate
khong@barclaystreet.com

Allan Jones, Associate
ajones@barclaystreet.com

Andrew King,
Associate Vice President
aking@barclaystreet.com

Ian Robertson, Associate
irobertson@barclaystreet.com

Chris Rundle, Associate
crundle@barclaystreet.com

Jameson Welbourn, Associate
jwelbourn@barclaystreet.com