

COMMERCIAL REAL ESTATE INVESTMENT ANALYSIS

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“Residential Land, Multi-Residential and Industrial sales led Calgary’s commercial real estate investment market in a continued recovery during 2017. Multi-Residential and Residential Land investments both grew more than one-third year-over-year, demonstrating the health and strength of the Greater Calgary Area.”



David Wallach, *CCIM, President & Broker*
Barclay Street Real Estate

THROUGHOUT 2017, CALGARY’S COMMERCIAL REAL ESTATE (CRE) INVESTMENT MARKET CONTINUED TO SEE VERY STRONG QUARTERLY INVESTMENT.

The resurgence of transactions was such that the first three quarters of 2017 posted substantial year-over-year increases in dollar volume averaging more than \$365 million. The fourth quarter alone saw more than \$860 million transacted, bringing total CRE investment to \$2.35 billion. On a year-over-year basis, Calgary also saw a substantial uptick in CRE investment activity, with 25% more properties changing hands than during 2016. On a dollar volume basis however, the generally smaller nature of transactions during 2017 brought the year to a close approximately \$277 million shy of previous year levels. The latter is due to the absence of major institutional purchases of similar scale to those made by the Canadian Pension Plan Investment Board (CPPIB) and Healthcare of Ontario Pension Plan (HOOPP) in late 2016.

In comparison to 2016 when \$2.63 billion transacted across the Office, Retail, Industrial, Multi-Residential and ICI/Residential land asset classes, a little more than \$2.35 billion was invested to December 31st, 2017; a difference of approximately ten percent. The year began much like 2016 left off, with very strong overall investment. Supported by transactions such as Slate Properties’ dozen-building office portfolio purchase from Dream Office REIT, first-quarter investment exceeded that of Q1 2016 by a wide margin. As mentioned above, this year-over-year dollar volume increase carried through to the third quarter of 2017. The fourth quarter however, is when the cumulative capital invested was overshadowed by the aforementioned late-year 2016, large institutional office purchases.

Several significant shifts in investor focus were noted: as mentioned earlier, activity in the commercial office asset class was very strong, with the number of sales more than doubling. Overall dollar volume however, was approximately two-

| | Year-End 2016 | Year-End 2017 | Year-Over-Year Change |
|-----------------------------------|-----------------|-----------------|-----------------------|
| Total Dollar Volume | \$2,631,670,526 | \$2,354,468,924 | (\$277,201,602) |
| Volume Excluding Residential Land | \$2,400,004,964 | \$2,035,620,675 | (\$364,384,289) |
| Residential Land Only | \$231,665,562 | \$318,848,249 | \$87,182,687 |



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BARCLAY STREET REAL ESTATE

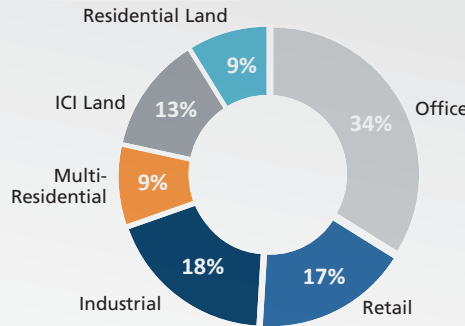
Director of Research – Anthony B. Scott
403-290-0178 • ascott@barclaystreet.com



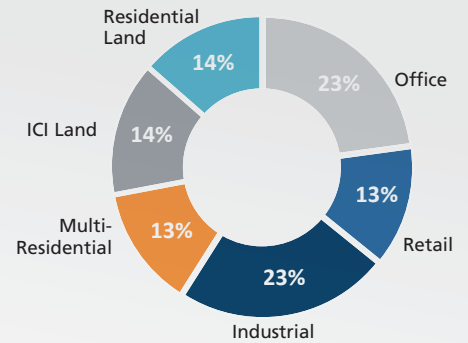
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→ thirds of 2016 office investment. The Industrial, Multi-Residential and Residential Land asset classes also saw increased sales, with dollar volume in the two land assets classes increasing by more than one-third each. Notably, Retail investment decreased to 68% of 2016 levels due to fewer purchases of \$25 million and greater. Barclay Street tracks activity level (the number of transactions) by property price range, which yields data showing investor focus was more balanced than seen in the previous two years; a growing proportion of transactions are taking place among properties priced in the \$5 million to \$10 million and \$10 million to \$25 million price ranges.

YEAR-END 2016 COMMERCIAL REAL ESTATE INVESTMENT SALES OF \$1M AND GREATER



YEAR-END 2017 COMMERCIAL REAL ESTATE INVESTMENT SALES OF \$1M AND GREATER



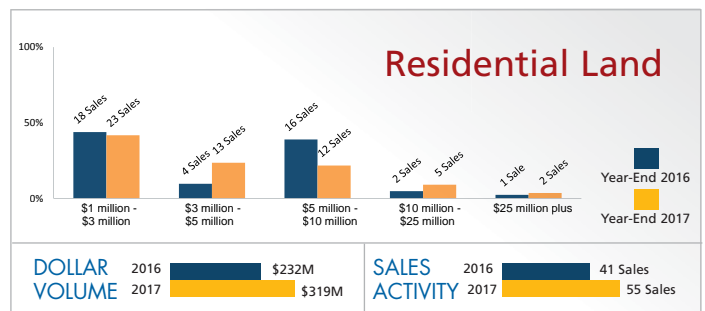
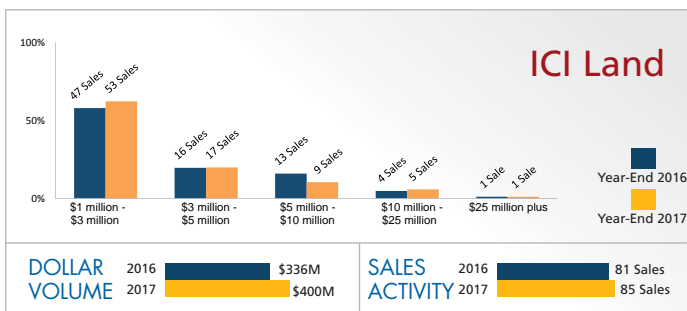
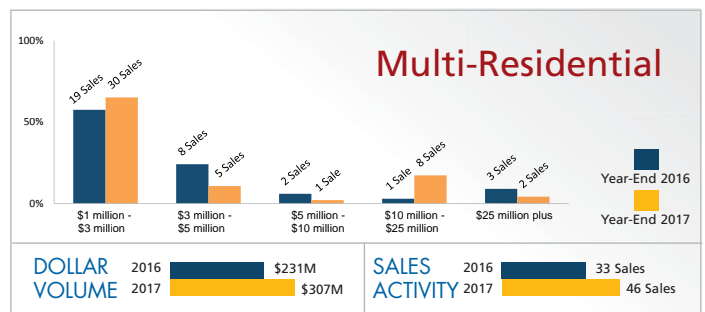
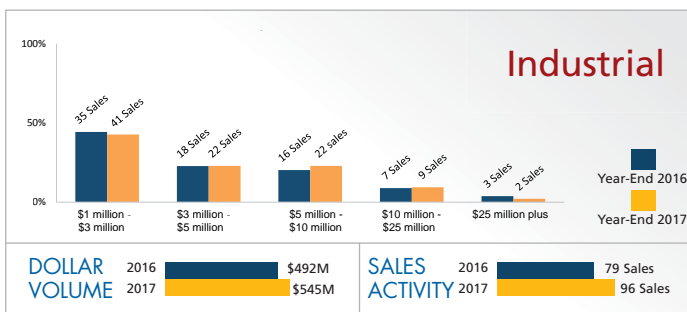
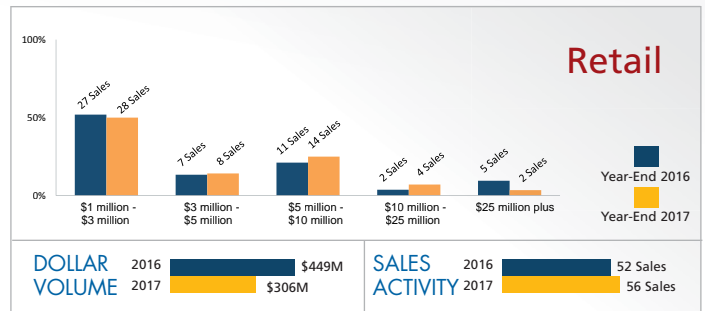
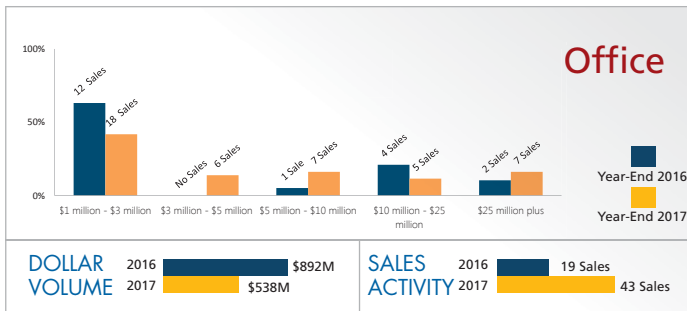
TOTAL DOLLAR VOLUME



TOTAL SALES ACTIVITY



YEAR-END 2017 VS. YEAR-END 2016 TRANSACTION ACTIVITY DISTRIBUTION, PERCENTAGE OF TOTAL SALES



Office Investment

THE OFFICE INVESTMENT MARKET IN CALGARY SAW 43 OFFICE TRANSACTIONS EQUAL TO OR GREATER THAN \$1 MILLION, TOTTALLING \$538 MILLION DURING 2017.

OFFICE TRANSACTIONS OVER \$1 MILLION (TOTAL ANNUAL)

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|----------------------------------|-----------------|-----------------|---------------|---------------|---------------|---------------|
| Total \$ Volume | \$1,454,441,564 | \$1,067,696,088 | \$712,276,508 | \$223,984,241 | \$891,683,036 | \$537,729,320 |
| # of Transactions | 44 | 34 | 24 | 19 | 19 | 43 |
| Avg. Bldg. Price per Square Foot | \$377 | \$392 | \$426 | \$340 | \$366 | \$296 |
| Average Price Per Transaction | \$33,055,490 | \$34,178,465 | \$29,678,188 | \$11,788,644 | \$46,930,686 | \$12,505,333 |
| Average Building Size (sf) | 87,603 | 82,556 | 69,722 | 44,035 | 167,501 | 86,534 |

Source: RealNet.ca

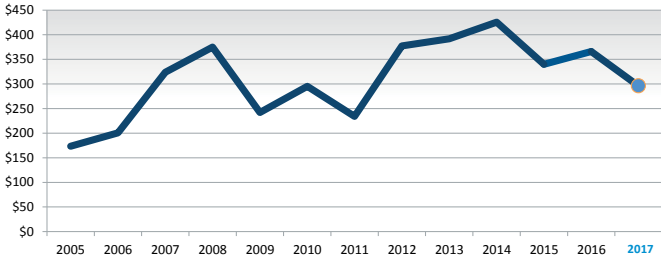
While the number of sales was more than double that seen in 2016, dollar volume was 60% of previous year levels. 2016 office investment was boosted in the fourth quarter by the Canadian Pension Plan Investment board (CPPIB) and Healthcare of Ontario Pension Plan (HOOPP) purchasing stakes in Downtown office buildings and the phenomenon carried over into the first half of 2017 as Slate Properties and Q4 Financial Group invested heavily in Class A and B properties from Dream Office REIT and Artis REIT, respectively. Toward the end of 2017, Bentall Kennedy purchased three buildings from Artis REIT in Quarry Park for \$98 million. Despite these significant purchases however, office investment fell short of previous year levels.

and this is indicative of the general type of properties sought by non-institutional investors.

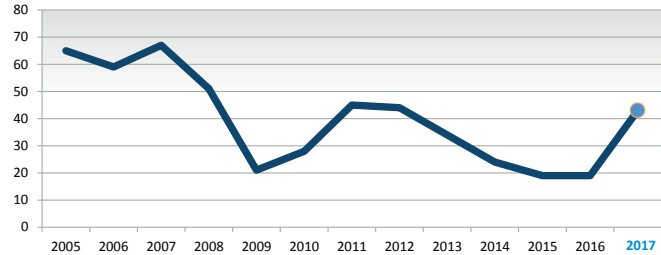
In the absence of the above-noted transactions, investor interest remained focused on lesser-quality assets; primarily B Class properties changed hands as well as several C Class assets. Only a handful of office condominium transactions were closed during 2017 and there was substantial variation among them, with two purchases in the fairly new Fairmore Business Park, two units in the older Parkside Place building and one in an A Class development in the residential area of Chaparral. The difference in quality from the commercial office properties was reflected in the price per square foot, with the office condos transacting at an average of \$414 per square foot (p/sf) and office buildings averaging \$284 p/sf. At year end, pricing per square foot decreased notably from previous years

During 2017, one building did sell in Calgary’s Beltline for an unusually high \$940 per square foot; a small building sitting on a two-lot property designated Direct Control and allowing for high-density multi-dwelling development. Given the strength seen in the land asset classes and other nearby multi-residential growth, we may well see a trend of residential developers outbidding traditional office asset investors to secure promising future development sites.

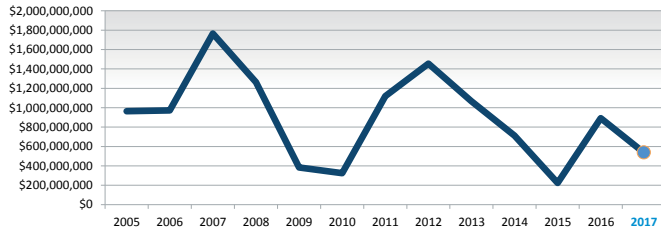
AVERAGE PRICE PER SQUARE FOOT



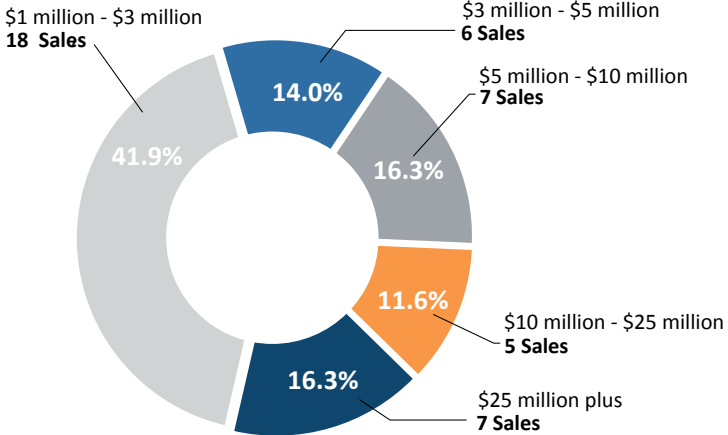
NUMBER OF TRANSACTIONS



TOTAL \$ VOLUME



YEAR-END 2017 OFFICE INVESTMENT ACTIVITY DISTRIBUTION



Retail Investment

CALGARY'S RETAIL ASSET CLASS DEMONSTRATED LESS ROBUSTNESS AS AN INVESTMENT ASSET CLASS THAN 2016, DECREASING TO \$306 MILLION FROM \$449 MILLION AT THE END OF LAST YEAR.

This is due in large part to greatly diminished big-ticket transactions of \$25 million or greater. Whereas five sales took place above this threshold by December 31st, 2016, 2017 saw just two. The largest purchases of the year were the Horizon Heights mall at 3508 32nd Avenue NE for \$34 million and 11440 Braeside Drive SW for \$35 million, both to private investors.

While dollar volume in Calgary's retail asset class fell by approximately 32% year-over-year, activity exceeded 2016 levels by 8% with 56 transactions completed. Investors continued to

RETAIL TRANSACTIONS OVER \$1 MILLION (TOTAL ANNUAL)

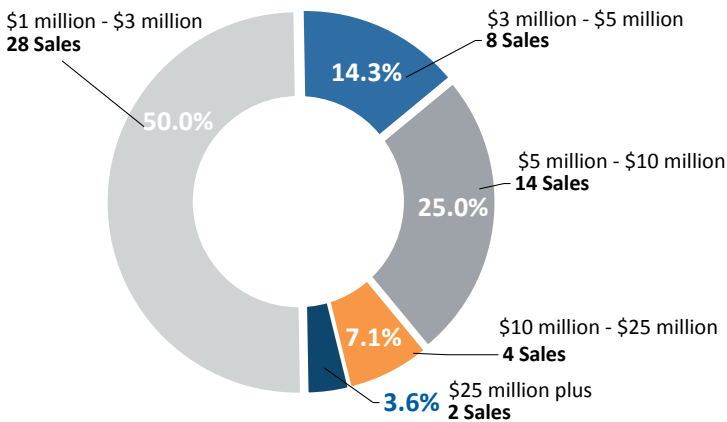
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Total \$ Volume | \$485,217,641 | \$249,741,704 | \$392,663,729 | \$222,026,567 | \$449,222,745 | \$305,754,000 |
| # of Transactions | 41 | 40 | 58 | 43 | 52 | 56 |
| Avg. Bldg. Price per Square Foot | \$278 | \$343 | \$371 | \$384 | \$399 | \$455 |
| Average Price Per Transaction | \$11,834,577 | \$6,243,543 | \$6,770,064 | \$5,163,409 | \$8,638,899 | \$5,459,893 |
| Average Building Size (sf) | 42,512 | 18,192 | 18,557 | 13,442 | 28,192 | 13,056 |

Source: RealNet.ca

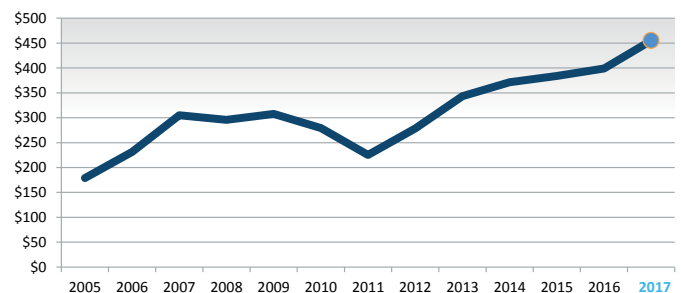
focus on retail properties priced in the \$1 million to \$3 million dollar range, though slightly less-so than at year-end 2016 when 52% of sales closed in this price category. We also observed an increased appetite for higher-priced product in the \$5 to \$10 million dollar range. Overall, price per square foot (psf) continued a multi-year upward trend, boosted by several properties selling for more than \$700 psf. Notable in this regard were the sales of the Scotiabank at 55 McKenzie Town (\$879 psf) and Bannerman Block (837 psf).

Generally, the ongoing increase in price per square foot is tied to positive market forces in Calgary's retail markets as diminished year-over-year vacancy supported higher property valuations. Of note, retail vacancy rates in the Central Business District (the Downtown and Beltline) continued to decrease. In the Beltline, activity percolated along the 4th Street corridor and 17th Avenue, where previously difficult properties benefitted from ongoing activity.

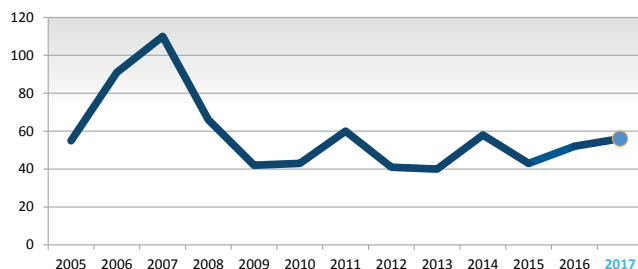
YEAR-END 2017 RETAIL INVESTMENT ACTIVITY DISTRIBUTION



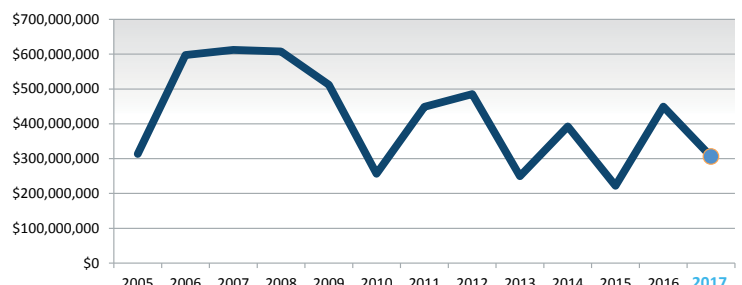
AVERAGE PRICE PER SQUARE FOOT



NUMBER OF TRANSACTIONS



TOTAL \$ VOLUME



For detailed Retail Leasing Analysis of the Calgary market go to barclaystreet.com/research

Industrial Investment

AT THE END OF 2017, CALGARY'S INDUSTRIAL SALE MARKET SHOWED ONGOING SIGNS OF REJUVENATION.

Total dollar volume rose by 11% year-over-year to \$545 million on a substantial increase in sales activity. Significant contributors to this upward trend in dollar volume were the sales of 5505 & 5543 72nd Avenue S.E. for \$65.75 million to Richmond Holdings (2015) Ltd. and 10121 Barlow Trail N.E. for \$35 million to Brandt Tractor*. In the final quarter of the year, Amazon invested in a 600,000 square foot distribution centre at bclMC's Nose Creek Business Park in Balzac.

After reaching peak industrial vacancy at the end of 2016/beginning of 2017 at 7.9%, the end of 2017 brought a vacancy rate of just 6.52%. The notable decrease was brought by a confluence of two primary factors: very little new construction in combination with strengthened leasing, especially with third-party distribution companies such as Amazon. Growth of existing companies along with new entrants assisted in the positive absorption seen in 2017. Food distribution and food processing were notable contributors to this growth, in addition to non-oil and gas manufacturing and 3PL companies. Taken in the larger context of the year, this shows that the Calgary & area industrial market is recovering. Further evidence of this was the stabilization of net effective rents (NERs) among most asset types.

During 2017, we observed a stable demand for higher-priced assets priced above \$10 million and a marked increase in the sales of properties priced between \$5 million and \$10 million. Sales activity among assets priced less than \$5 million also increased year-

*Facilitated by Barclay Street Real Estate Ltd.

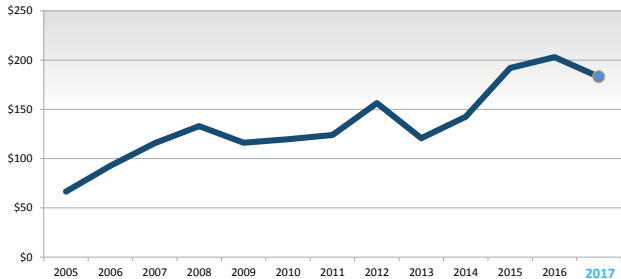
INDUSTRIAL TRANSACTIONS OVER \$1 MILLION (TOTAL ANNUAL)

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Total \$ Volume | \$380,328,379 | \$641,773,697 | \$614,294,285 | \$322,786,141 | \$491,665,051 | \$545,320,418 |
| # of Transactions | 82 | 85 | 94 | 80 | 79 | 96 |
| Average Price per Square Foot | \$156 | \$121 | \$142 | \$192 | \$203 | \$183 |
| Average Price | \$4,638,151 | \$7,550,279 | \$6,535,046 | \$4,034,827 | \$6,223,608 | \$5,680,421 |
| Average Building Size (sf) | 30,408 | 62,530 | 47,389 | 26,580 | 43,941 | 46,928 |

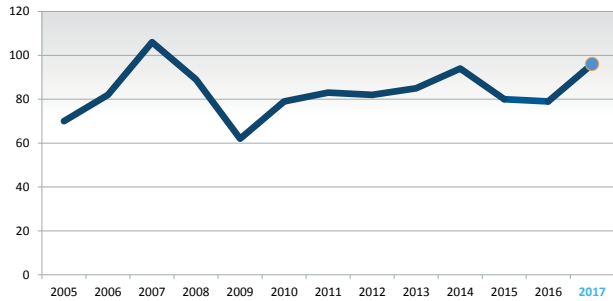
Source: RealNet.ca

over-year. Barclay Street first observed the uptick in larger-priced properties at mid-year 2016 when dollar volume at mid-year nearly equaled that of full-year 2015. A contributing factor to the overall transaction count during 2017 was pricing adjustments on the part of owners, which reached a low point based on market performance over the previous two years. With pricing reaching more favourable levels, purchaser activity was triggered.

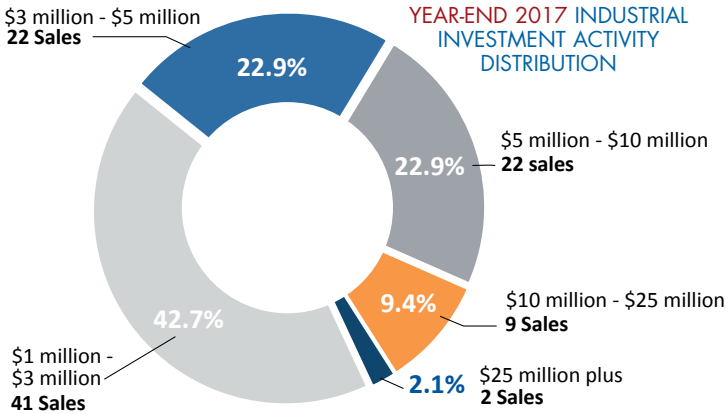
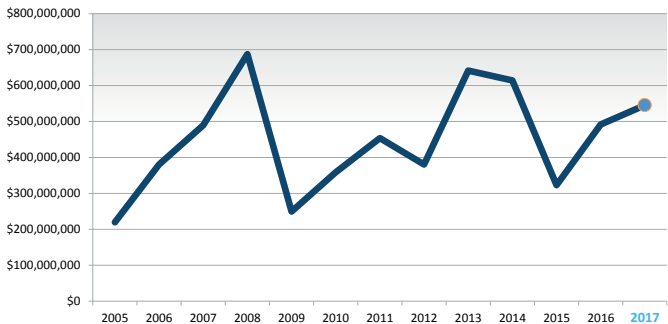
AVERAGE PRICE PER SQUARE FOOT



NUMBER OF TRANSACTIONS



TOTAL \$ VOLUME



Multi-Residential Investment

ACTIVITY ON THE PART OF INVESTORS IN CALGARY'S MULTI-RESIDENTIAL MARKET INCREASED SUBSTANTIALLY ON A YEAR-OVER-YEAR BASIS, TRANSLATING INTO A 33% BOOST IN DOLLAR VOLUME.

During 2017, \$307 million was invested in this asset class and we noted ongoing consistency in the broad variety of properties transacted and average size (number of units) as owners responded to pent-up demand. During 2017, the average size of a multi-residential property was 46 units versus 33 at the same time last year. As noted in the transactions table, 2016 and 2017 saw demand return for large properties after three years of caution among investors. Over the year, three properties consisting of greater than 200 units changed hands and five in the mid-100 unit range, increasing the average.

MULTI-RESIDENTIAL TRANSACTIONS OVER \$1 MILLION (TOTAL ANNUAL)

| | 2012 | 2013 | 2014 | 2015 | 2016 | YTD 2017 |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Total \$ Volume | \$406,429,820 | \$184,119,075 | \$195,877,359 | \$150,944,958 | \$231,084,167 | \$306,942,000 |
| # of Transactions | 38 | 43 | 59 | 30 | 33 | 46 |
| Average Price per Unit | \$172,655 | \$170,323 | \$183,922 | \$264,816 | \$230,970 | \$191,120 |
| Average Price | \$10,695,522 | \$4,281,839 | \$3,319,955 | \$5,031,499 | \$7,002,551 | \$6,672,652 |
| Average Building Size (Units) | 65 | 25 | 18 | 19 | 33 | 46 |

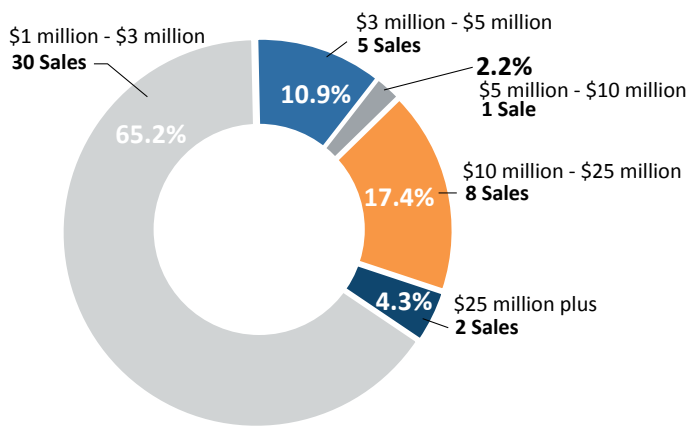
Source: RealNet.ca

In 2016, two properties greater than 200 units transacted with one greater than 100 units. In the two preceding years no properties larger than 154 units transacted.

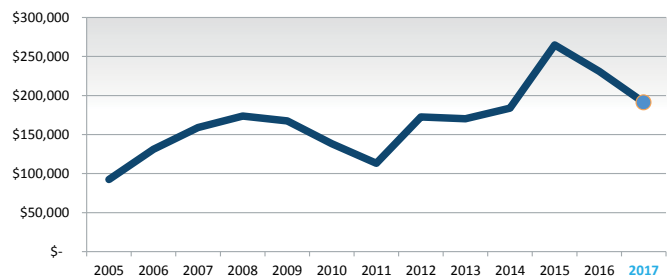
The most significant Multi-Residential transactions to take place during 2017 were the sales of Kingsland Gardens to Timbercreek for \$46 million and Parkview Village Apartments to Killam Properties. As alluded to above, these properties comprise 213 and 204 units, respectively.

Continuing from 2016, a more diversified appetite among investors was evident for properties across all price ranges. Referring to the distribution pie chart below, Barclay Street's analysis shows that increased investor emphasis was placed on properties priced in the \$10 million to \$25 million dollar range than during 2016. That said, average price per unit decreased year-over-year to approximately \$191,000 from \$231,000 at the end of 2016.

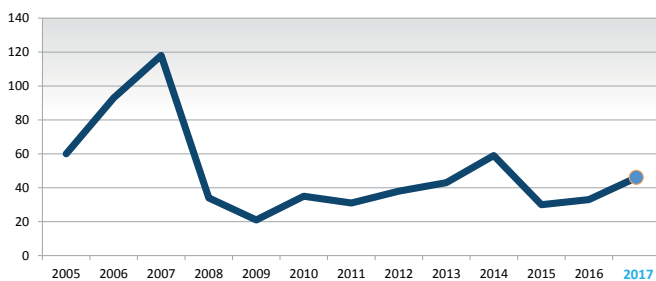
YEAR-END MULTI-RESIDENTIAL INVESTMENT ACTIVITY DISTRIBUTION



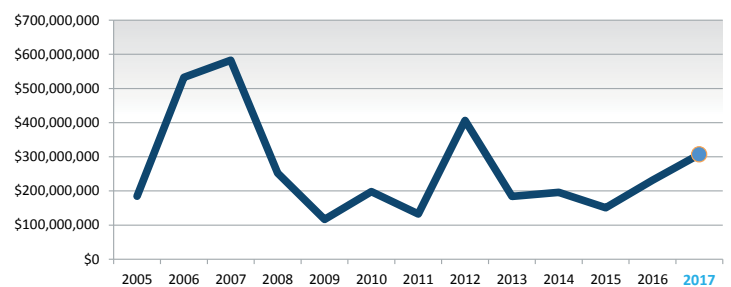
AVERAGE PRICE PER UNIT



NUMBER OF TRANSACTIONS



TOTAL \$ VOLUME



ICI & Residential Land Investment

THE ICI LAND (INDUSTRIAL, COMMERCIAL AND INVESTMENT) SECTOR REPRESENTED THE GREATER ASPECT OF LAND INVESTMENT SALES DURING 2017, CONTRIBUTING APPROXIMATELY \$340 MILLION OF THE \$659 MILLION INVESTED IN THIS ASSET CLASS.

ICI+RESIDENTIAL LAND TRANSACTIONS OVER \$1 MILLION (TOTAL ANNUAL)

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Total \$ Volume | \$412,082,148 | \$480,240,938 | \$816,045,293 | \$584,721,695 | \$568,015,527 | \$658,723,186 |
| # of Transactions | 60 | 42 | 149 | 84 | 122 | 140 |
| Average Price per Acre | \$589,902 | \$352,378 | \$443,601 | \$306,527 | \$111,752 | \$120,889 |
| Average Price | \$6,868,036 | \$5,520,011 | \$5,479,154 | \$6,849,377 | \$4,901,424 | \$4,897,885 |
| Total Land Area (Acres) | 699 | 1,363 | 1,840 | 1,770 | 5,083 | 5,449 |
| Average Land Area (Acres) | 12 | 16 | 12 | 21 | 34 | 35 |

Source: RealNet.ca

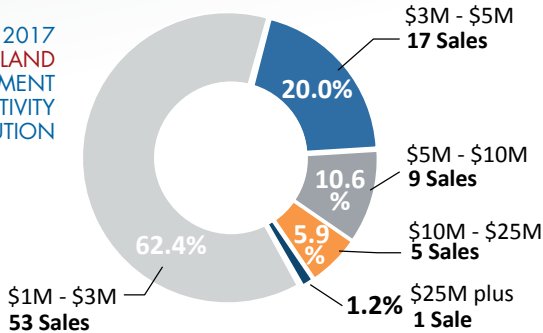
Total ICI land dollar volume was on par with 2016 and the average transaction sat at \$4 million, which is down slightly from \$4.2 million a year earlier. The latter is largely the result of fewer mid-priced (\$5 million to \$10 million) assets changing hands and a slight increase in transactions at the low end of the price spectrum.

In terms of investment activity, 85 transactions occurred during the year in this category versus 81 one year prior. The largest ICI Land

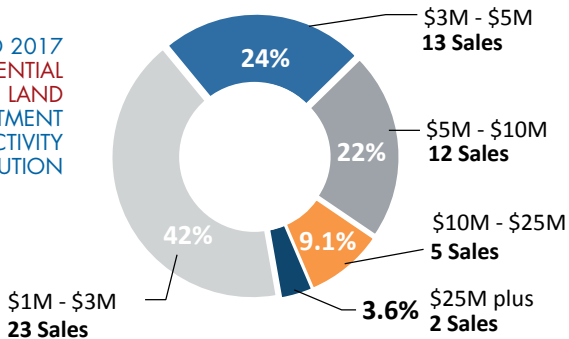
transaction of the year was the \$50.5 million dollar purchase of 8.47 in Rosscarrock, north of 17th Avenue SW and west of 33rd Street, by EMWS Holdings Ltd. from the City of Calgary. The next largest transaction of the year was the \$17.75 million purchase of land at 221 9th Avenue S.E. purchase from Pasutto's Hotels (1984) Ltd. by AIMco and Cidex Developments Ltd. In the latter, 1.26 acres was bought. On a year-over-year basis, average price per acre increased markedly to \$949,000 in 2017 versus just over \$675,000 at the end of 2016.

Residential Land sales totalled approximately \$319 million to the end of 2017 at an average of \$5.8 million per transaction. These metrics were boosted on a year-over-year basis by Hines' purchase of the Sam Livingston Building and the 1.4 acres on which it sat early in the year for \$40.7 million. This transaction was the largest by far of the year. The site was earmarked for future high-density residential

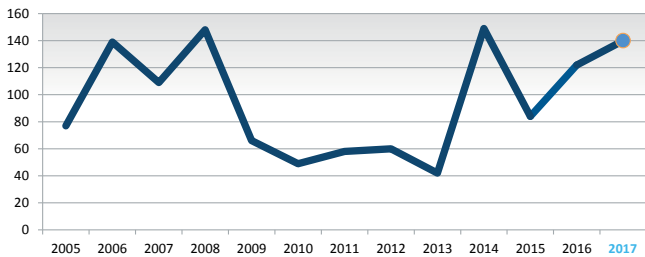
YEAR-END 2017 ICI LAND INVESTMENT ACTIVITY DISTRIBUTION



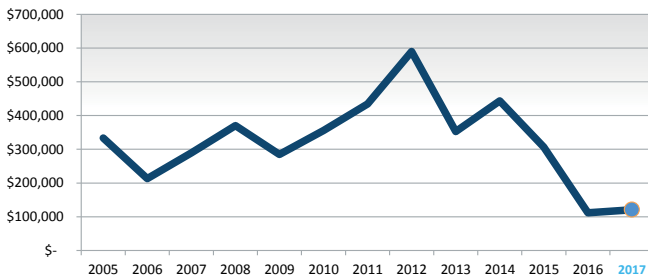
YEAR-END 2017 RESIDENTIAL LAND INVESTMENT ACTIVITY DISTRIBUTION



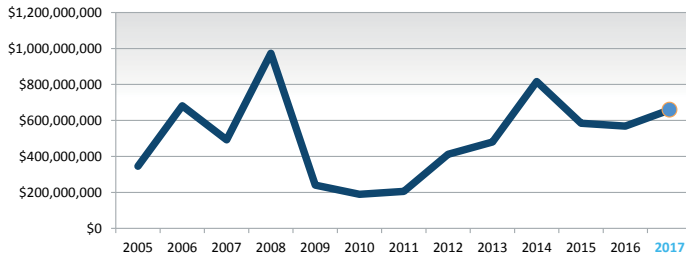
ICI+RESIDENTIAL NUMBER OF TRANSACTIONS



ICI+RESIDENTIAL AVERAGE PRICE PER ACRE



ICI+RESIDENTIAL TOTAL \$ VOLUME



← development and in December the building underwent demolition. Interestingly, the largest transactions by price took place in the first half of the year, whereas the largest purchases by size (acres) occurred in August and September, and consisted

of long-term hold purchases of 156.3 acres on the south side of 17th Avenue, east of 100th Street S.E. by Truman Homes and 156.25 acres on the southwest corner of 17th Avenue and Range Road 284 by Homes By Us Ltd., each from private land owners.

BARCLAY STREET REAL ESTATE INVESTMENT TEAM | 403-290-0178



KELLY CARVER

VICE PRESIDENT, ASSOCIATE BROKER
kcarver@barclaystreet.com



GEORGE LARSON

VICE PRESIDENT
glarson@barclaystreet.com



DOUG GRINDE

VICE PRESIDENT
dgrinde@barclaystreet.com



JON MOOK

EXECUTIVE VICE PRESIDENT
jmook@barclaystreet.com



CASEY STUART

VICE PRESIDENT
cstuart@barclaystreet.com



DAN HARMSEN

VICE PRESIDENT, ASSOCIATE BROKER
dharmsen@barclaystreet.com



KALINKA IVANOVA

RPA, CCIM, ASSOCIATE
kivanova@barclaystreet.com



DAVID WALLACH

CCIM PRESIDENT, BROKER
dwallach@barclaystreet.com

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Barclay Street Real Estate Mid-year 2017 Analyses: Downtown, Beltline and Suburban Office Market, Retail Market and Industrial Market