CALGARY FIRST QUARTER 2017

COMMERCIAL OFFICE MARKET UPDATE

Downtown Market

OVERALL RATE **24.2%**
+ 0.7% FROM Q4 TO Q1

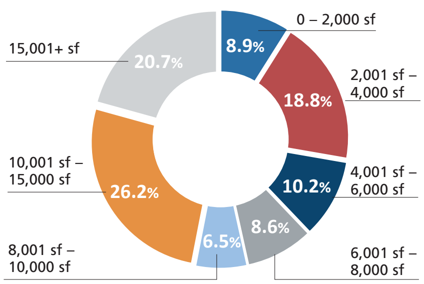
CLASS AA **19.8%**
+ 0.2% FROM Q4 TO Q1

CLASS A **25.1%**
– 2.3% FROM Q4 TO Q1

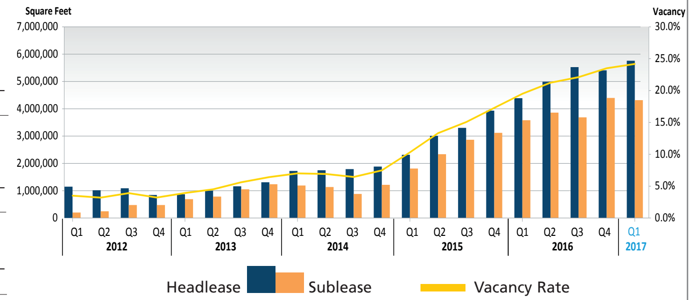
CLASS B **26.3%**
– 1.7% FROM Q4 TO Q1

CLASS C **30.3%**
+ 1.3% FROM Q4 TO Q1

DISTRIBUTION OF OPTIONS BY SIZE RANGE



5-YEAR HISTORIC VACANCY



Interesting things happened in the Downtown market over the first three months of the year; notably in leasing trends at the smallest end of available options. A significant decrease in spaces of 2,000 sf or less occurred, while spaces of greater than 10,000 sf increased. Speaking to the former, we are seeing the emergence of 'green shoots' – small start-ups leasing spaces appropriate to their size. To the latter, some large firms continued divesting themselves of non-core assets, placing full floors on the market to try to recoup costs and lean-up operations. For example, Repsol Oil & Gas Inc. placed three additional floors totaling 60,000 sf up for sublease in Bankers Hall West.

During the first quarter of 2017, 269,683 square feet (sf) of office space was returned to the market, which is the flattest change in market decline we've seen in 10 quarters. The Downtown vacancy rate increased slightly to 24.2%, representing just over 10 million square feet (msf) of space available for lease within a 41.6 msf inventory.

Barclay Street Real Estate's vacancy calculation takes into account all space available for occupancy within a 6 month period. An additional 501,000 sf of space is being marketed for occupancy from April through September, 2017. The forthcoming 707 Fifth building, which is expected to reach completion early in the second quarter comprises the majority of this space. A further 1.01 msf comes available in 7 – 18 months, which includes 457,000 sf up for sublease in The Bow as well as the unleased portions of Brookfield Place and TELUS Tower. The latter developments are scheduled for completion in fourth quarter of 2017 and fourth quarter of 2018, respectively. This shadow vacancy, brings the vacancy rate in Calgary's Downtown to an estimated 26.6%.

Beltline Market

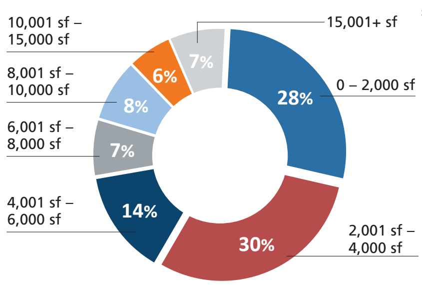
OVERALL RATE **18.1%**
– 0.3% FROM Q4 TO Q1

CLASS A **20.4%**
– 0.1% FROM Q4 TO Q1

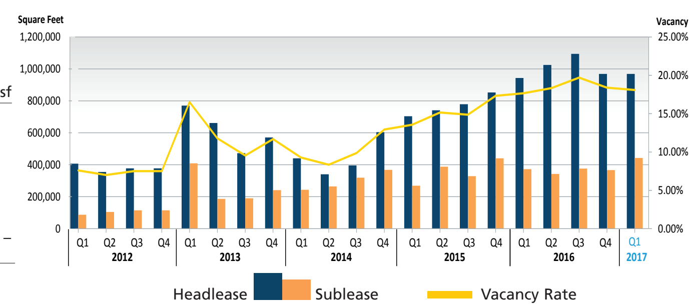
CLASS B **19.8%**
+ 0.9% FROM Q4 TO Q1

CLASS C **11.5%**
– 0.6% FROM Q4 TO Q1

DISTRIBUTION OF OPTIONS BY SIZE RANGE



5-YEAR HISTORIC VACANCY



The Beltline market witnessed a second consecutive quarter of positive absorption as 2017 got underway. Though the Beltline market is expected to remain challenged for the balance of the year, Landlords are becoming significantly more aggressive in making moves to secure existing tenants and attract new prospects. The expectation is that generous tenant inducements such as free rent, furnished space and improvement allowances will continue to be the norm until sustained demand for space demand from tenants begins to erode the large inventory of available spaces.

Beltline Market (cont.)

Vacancy as the end of Q1 was 18.1%; barely budging on a 22,000 square feet (sf) of space taken off the market, which was primarily in A Class and C Class headlease spaces. Notably, the positive absorption calculated during this quarter is again largely due a very small amount of new space becoming available during the quarter and over the coming six months. Through 2015 and 2016, leasing activity was overshadowed by the combination of a sublease deluge in addition to the typical pipeline of pending lease expiries.

Barclay Street Real Estate's vacancy calculation takes into account all space available for occupancy within a 6 month period. An additional 58,000 sf of space will become available for occupancy from April through September, 2017. A further 30,000 sf comes available in 7 – 18 months, which includes Mount Royal Village – West by First Capital Realty which is anticipated in mid-2018. Taking into account the unleased portion of this development, shadow vacancy brings the Beltline's projected vacancy rate to an estimated 18.8%.

Suburban Markets

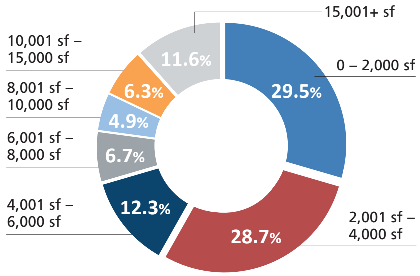
OVERALL RATE **22.9%**
+ 0.3% FROM Q4 TO Q1

CLASS A **26.1%**
– 1.9% FROM Q4 TO Q1

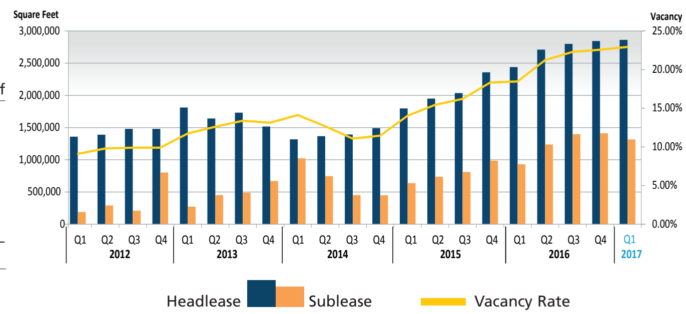
CLASS B **17.0%**
– 0.2% FROM Q4 TO Q1

CLASS C **16.4%**
+ 1.9% FROM Q4 TO Q1

DISTRIBUTION OF OPTIONS BY SIZE RANGE



5-YEAR HISTORIC VACANCY



The suburban markets are in for an interesting year, as several new office developments are slated for delivery and promise to shake-up the leasing environment. This forthcoming competition is driving a notable change in market sentiment among Landlords; an ethos of 'acceptance' is increasingly common, as is a motivation to complete leases with less resistance. As noted in our year-end report, this change in perspective is helping narrow the rent expectation gap between owners and Tenants. Incentives are still the order of the day but these are becoming more specific rather than a blanket approach.

For the second consecutive quarter, overall vacancy in suburban Calgary remained quite stable with net quarterly absorption essentially flat at negative 29,000 square feet. Vacancy rose by 0.3% to 22.9%. An uptick in leasing activity that began early in the third quarter of 2016 continued, with tenants driven by approaching lease expirations to explore the market for deals and potential alternative spaces.

Two new office developments are on the immediate horizon; the CMG Building and 7136-11th Street NE. These developments are scheduled for completion in the second and third quarters, respectively and will add 150,000 sf of new A Class inventory to the Suburban Markets. The former is 100% leased while the latter is approximately 28% leased.

Barclay Street Real Estate's vacancy calculation takes into account all space available for occupancy within a 6 month period. An additional 179,000 sf of space becomes available for occupancy from April through September, 2017, which is entirely headlease expiries. This represents a normal pipeline of coming space and highlights the impact made by the deluge of sublease space marketed over the preceding two years. A further 153,000 sf in existing buildings comes available in 7 – 18 months. This shadow vacancy brings the vacancy rate to an estimated 23.3%.

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