BELTLINE OFFICE MARKET ANALYSIS

17.9%
OVERALL VACANCY RATE
–1.8%
FROM Q3 TO Q4

- The Beltline market witnessed a net 135,000 square feet (sf) reduction in available space, due to a combination of positive absorption and repurposing of inventory during the fourth quarter.
- The primary driver of absorption during Q4 was headlease activity; more than 116,000 sf in total across all building classes.
- The focus of leasing activity during the fourth quarter was in B Class headlease opportunities, accounting for more than 96,000 sf of overall absorption.
- The majority of Beltline vacancies remain in A Class buildings, which accounted for approximately 44% of overall vacancy.
- More than half of all sublease availabilities were in A Class buildings.
- Sublease space, as a proportion of vacant space, remained largely unchanged at 26%.
- More than 56% of available leasing opportunities measured 4,000 sf or less.

Significant moves, announcement and notable transactions:


Rogers Insurance took two full floors plus a partial floor in Stampede Station, totaling 56,000 sf.


More than 22,000 sf was leased in 11th Avenue Place by Blue Earth Renewables.


More than 22,000 sf was leased in Keynote Building by Triovest.


Westland Insurance leased 10,000 sf in ArriVa.


The 1110 Building was repurposed for storage, removing the building from office inventory.


More than 11,000 sf was made available for lease in 1015 Fourth.


Approximately 7,500 sf was marketed for sublease by Enabil Solutions Inc. in Biscuit Block.

PREPARED BY
BARCLAY STREET REAL ESTATE

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Current Vacancy at a Glance

OVERALL RATE **17.9%**
– **1.8%** FROM Q3 TO Q4

CLASS A **21.4%**
NO CHANGE FROM Q3 TO Q4

CLASS B **17.6%**
– **3.8%** FROM Q3 TO Q4

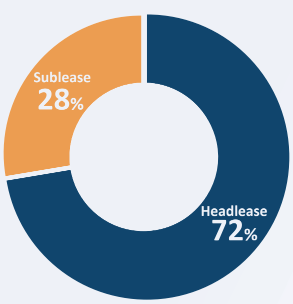
CLASS C **12.1%**
– **0.9%** FROM Q3 TO Q4

During the fourth quarter of 2016, Beltline vacancy decreased by 1.8%% to end the year at 17.9%. This quarter witnessed net positive absorption of 135,000 sf, bringing full year absorption to negative 41,000 sf. This represents a significant improvement over 2015 when a total of 429,000 square feet was returned to the market.

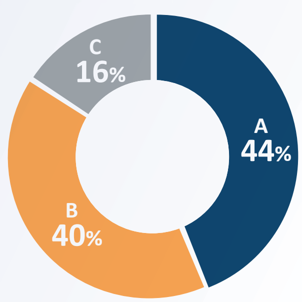
Barclay Street Real Estate's vacancy calculation takes into account all space available for occupancy within a 6 month period. Additional 116,000 sf of space will become available for occupancy from January through June, 2017.

*A further 30,000 sf comes available in 7 – 18 months, which includes **Mount Royal Village – West** by First Capital Realty which is scheduled for completion in the second quarter of 2018. Taking into account the unleased portion of this development, shadow vacancy brings the Beltline's projected vacancy rate to an estimated 18.6%.*

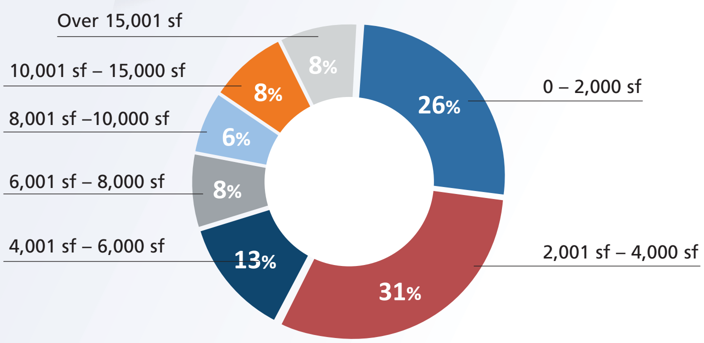
HEADLEASE VS. SUBLEASE DISTRIBUTION



DISTRIBUTION OF TOTAL AVAILABLE SPACE BY BUILDING CLASS



DISTRIBUTION OF OPTIONS BY SIZE RANGE



COVER PAGE

Exterior of Eagle Block at 1209 1st Street SW. Second floor office/retail in recently renovated character Beltline building, available for lease by Barclay Street Real Estate.

Market Review

THE BELTLINE MARKET WITNESSED NET POSITIVE ABSORPTION DURING THE FOURTH QUARTER OF 2016, TOTALLING 135,000 SQUARE FEET (SF). In contrast with the third quarter of the year, sublease activity was largely confined to spaces in B Class buildings, although activity was observed among C Class and Character buildings. Specifically, more than 116,000 sf of positive absorption was tracked among B Class buildings, while Character and C Class buildings saw 6,000 sf and 4,000 sf of positive absorption, respectively.

It is notable that the positive absorption calculated during this quarter is largely due a relatively small amount of new space becoming available in the first six months of 2017; made so by the virtual absence of new subleases. Over the preceding eight quarters, leasing activity has been overshadowed by the combination of a sublease deluge plus the typical pipeline of pending lease expiries.

During the fourth quarter, total available headlease vacancy decreased by 125,000 sf, which brought available headlease inventory to approximately 969,000 sf. Sublease space in the Beltline reached 366,000 sf, representing a decrease of approximately 9,700 sf over Q3 2016. Despite the uptick in activity, market conditions continue to heavily favour tenants and will remain so for some time. We continue to note a diminished sense of urgency among tenants who must make leasing decisions over the coming 12 to 18 months, due to the vast array of choices – many of which have lingered for a year or more.

It is anticipated that the Beltline market will remain challenged during 2017, but conditions have motivated Landlords to become significantly more aggressive in securing existing tenants in their portfolio as well as attracting new prospects. The expectation is that tenant inducements such as free rent, furnished space and improvement allowances will continue until the economy improves and a sustained demand for space demand from tenants begins to erode the large inventory of available spaces.

It is also anticipated that the pipeline of coming availabilities will remain limited, with major vacancies being primarily headlease expiries such as IBM's surrendered space in **IBM Building A** and opportunities in pending developments such as **Mount Royal Village – West**, which is scheduled for completion in 2018. **Place 10** by Centron Group remains on-hold until the required pre-leases can be secured.

IBM Building A

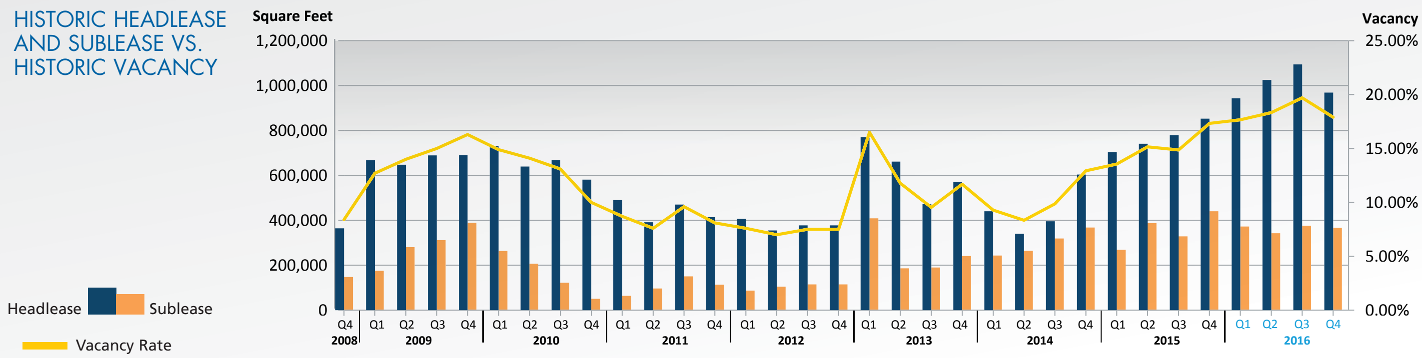
Mount Royal Village – West

Place 10

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, 69% of available opportunities measure less than 6,000 sf while options greater than 10,000 sf comprise 16% of available spaces. Notably, these options account for 50% of the total available square footage.

Total available headlease spaces decreased slightly from 201 in Q3 2016 to 192 at year-end, while total available sublease spaces remained unchanged at 40. Looking at specific building classes, the greatest change occurred in B Class buildings, where the number of available options was reduced by approximately 5%.

HEADLEASE OPPORTUNITIES BY BUILDING CLASS AND SIZE RANGE

Size Range	A	B	C
0 – 2,000 sf	8	17	27
2,001 sf – 4,000 sf	13	34	18
4,001 sf – 6,000 sf	5	16	5
6,001 sf – 8,000 sf	2	7	3
8,001 sf –10,000 sf	2	9	2
10,001 sf – 15,000 sf	5	7	1
15,001+	7	2	2
Overall	**42**	**92**	**58**

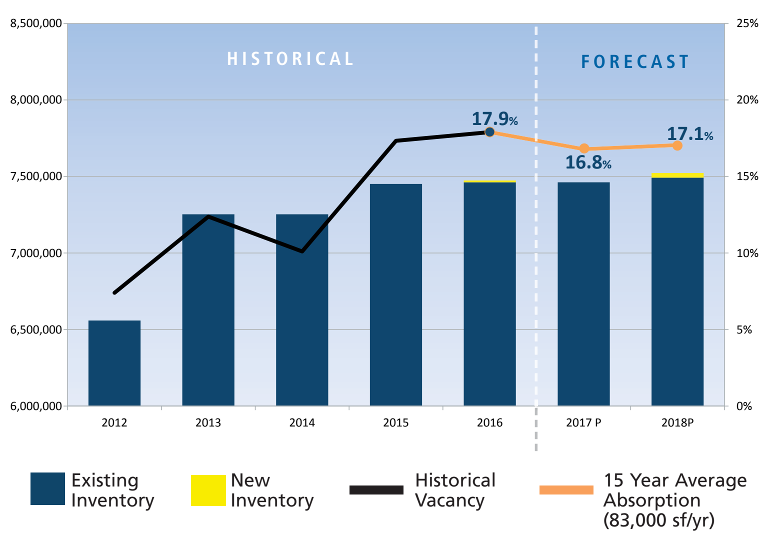
SUBLEASE OPPORTUNITIES BY BUILDING CLASS AND SIZE RANGE

Size Range	A	B	C
0 – 2,000 sf	3	2	3
2,001 sf – 4,000 sf	3	3	1
4,001 sf – 6,000 sf	0	3	0
6,001 sf – 8,000 sf	4	2	0
8,001 sf –10,000 sf	0	1	1
10,001 sf – 15,000 sf	3	3	0
15,001+	8	0	0
Overall	**21**	**14**	**5**

Vacancy Forecast Including New Inventory

The accompanying graph is a representation of potential vacancy outcomes, calculated using historical absorption trends and anticipating the completion of new Beltline developments through 2018. We have forecast future vacancy using historical absorption trends and expected new inventory.

VACANCY FORECAST RESULTING FROM NEW DEVELOPMENTS IN BELTLINE



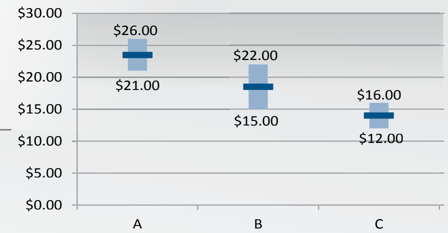
Average Costs

BARCLAY STREET CONTINUES TO ANTICIPATE FURTHER DOWNWARD PRESSURE ON RENTAL RATES; a result of space in new developments remaining available, an elevated inventory of opportunities and below-average absorption rates keeping them on the market for longer than historical average periods. As landlords experience persistent vacancy, they become increasingly motivated to fill their vacancies in order to recover operating costs and maintain cash flow. Lower rates with significant inducements will attract new tenants, as well as motivate existing tenants to move on the basis that their relocation costs are being absorbed by competitive landlords.

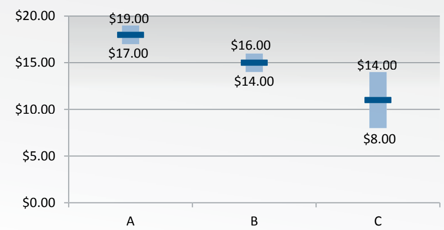
PARKING RATIOS AND RATES BY BUILDING CLASS

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**

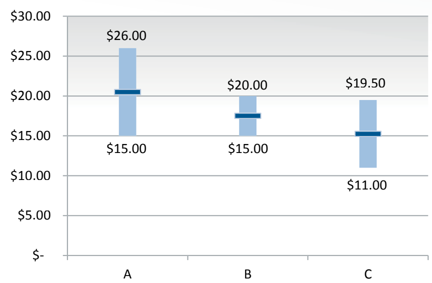
AVERAGE HEADLEASE RATES BY BUILDING CLASS



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.

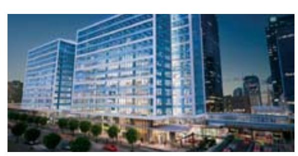
New Projects

MARK ON 10TH
901 10th Avenue SW

Developer: Qualex Landmark
Size: 11,289 sf
Status: Complete

MOUNT ROYAL VILLAGE WEST
1508 8th Street SW

Developer: First Capital
Size: 30,000 sf
Status: 2018



PLACE 10 EAST.
524 10 Avenue SW

Developer: Centron
Size: 316,500 sf
Status: On hold
Pending additional pre-leasing

Citations

Morgan, G. (August, 2016.). Construction work slows in Calgary as recession delays office tower projects. Financial Post. http://business.financialpost.com/news/property-post/construction-work-slows-in-calgary-as-recession-delays-office-tower-projects?__lsa=c419-65bd

Varcoe, C. (Dec., 2016). Growing signs of a thaw for Canada's oilpatch in 2017. Calgary Herald. http://calgaryherald.com/storyline/varcoe-growing-signs-of-a-thaw-for-canadas-oilpatch-in-2017

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