CALGARY FOURTH QUARTER 2016

DOWNTOWN OFFICE MARKET ANALYSIS

23.5%
OVERALL VACANCY RATE
+1.4%
FROM Q3 TO Q4

- Absorption for the fourth quarter totalled negative 596,000 square feet (sf).
- The primary driver of negative absorption this quarter was the pipeline of coming vacancy.
- AA Class space represented the largest pool of vacancy; approximately 364,000 sf of additional premises became available for sublease.
- Significant activity was seen among A Class opportunities, where a net 303,000 sf was absorbed.
- 29 new leasing options were added in the Downtown market during the quarter.
- Sublease space represented 45% of total available space; up slightly from the third quarter.
- We continue to note a lack of available spaces in the 6,000 sf – 10,0000 sf range; 39% of availabilities measure less than 6,000 sf while 47% of available spaces measure more than 10,000 sf.

Significant moves, announcement and notable transactions:

More than 27,000 was leased in 444 Seventh.

Approximately 24,000 sf was subleased from Glencore E & P (Canada) Inc. in BP Centre.

Nearly 199,000 sf was marketed for sublease in Suncor Energy Centre by Cenovus Energy.

Brion Energy placed 112,000 sf in 707 Fifth up for sublease.

Canadian Natural Resources Limited placed more than 100,000 sf of space in Home Oil Tower and Bankers Hall West on the sublease market.

More than 49,000 sf was marketed for sublease in Chevron Plaza by Chevron Canada Resources Ltd.

PREPARED BY
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Current Vacancy at a Glance

OVERALL RATE **23.5%**
+ 1.4% FROM Q3 TO Q4

CLASS AA **19.6%**
+ 5.1% FROM Q3 TO Q4

CLASS A **22.8%**
– 1.8% FROM Q3 TO Q4

CLASS B **28%**
NO CHANGE FROM Q3 TO Q4

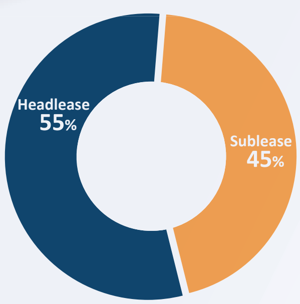
CLASS C **29%**
+ 8% FROM Q3 TO Q4

Over the course of 2016, 2.5 million square feet (msf) of office space was returned to the market, causing the vacancy rate in downtown Calgary to increase by 6.2% year-over-year from Q4 2015. Downtown vacancy sat at 23.5%, representing 9.8 msf of space available for lease within a 41.6 msf inventory. Despite renewed activity among A Class and B Class headlease spaces, the overall trend of negative absorption continued, though as a slowed pace when compared to 2015 and early 2016. It should be noted that 3.9 msf were vacated during the previous year.

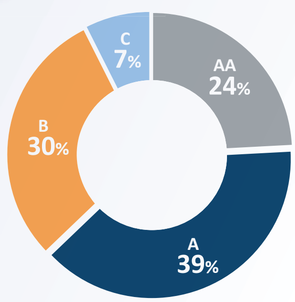
Barclay Street Real Estate's vacancy calculation takes into account all space available for occupancy within a 6 month period. At the end of 2016 there was an additional 619,000 sf of space being marketed for occupancy from January through June, 2017, which includes the 707 Fifth tower.

A further 1.03 msf comes available in 7 – 18 months, which includes the unleased portions of Brookfield Place and TELUS Tower. These developments are scheduled for completion in fourth quarter of 2017 and second quarter of 2018, respectively. This shadow vacancy, brings the vacancy rate in Calgary's Downtown to an estimated 26%.

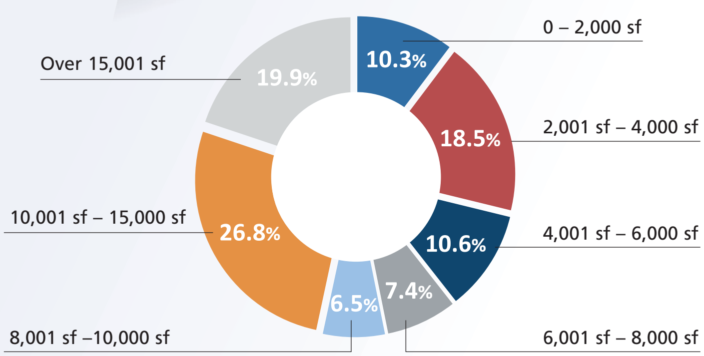
HEADLEASE VS. SUBLEASE DISTRIBUTION

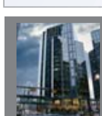


DISTRIBUTION OF TOTAL AVAILABLE SPACE BY BUILDING CLASS



DISTRIBUTION OF OPTIONS BY SIZE RANGE





COVER PAGE

Exterior of Livingston Place West. Over 30,000 sq. ft. of office space available for sub-sublease by Barclay Street Real Estate.

Market Review

A GROWING SENSE OF OPTIMISM THAT THE WORST OF THE DOWNTURN HAD PAST, SET IN DURING THE FOURTH QUARTER AND THIS MINDSET WAS EVIDENT IN THE NUMBER OF LARGE, FULL-FLOOR LEASES AND SUBLEASES CONDUCTED AS THE YEAR DREW TO AN END. While overall vacancy in the Downtown market increased over the final three months of the year, much of the increase is attributed to vacancy in the nearly-complete 707 Fifth tower, in which 262,000 sf remains unleased and a further 112,000 sf is available for sublease by Brion Energy. In the absence of this new inventory calculation, Downtown absorption was essentially flat.

The attractiveness of the Downtown market has steadily increased - for non energy-related companies in particular - as more high-quality, low-cost and often furnished leasing opportunities became available. With the market having become much more accessible and cost-effective, new entrants such as Dominion Diamond Co. are demonstrating interest. In November, the company announced it would move its corporate head office from Yellowknife to Calgary, and it has been suggested that two additional companies have made firm commitments.

The persistently high vacancy rate also created investment opportunity, drawing Slate Properties to purchase a portfolio of office properties from Dream Office REIT during the fourth quarter following a significant asset writedown. The majority of buildings included in the $300 million transaction were in the Downtown and included AltaLink Place, Atrium I and II, Barclay Centre I and II, Dominion Centre, Life Plaza and McFarlane Tower.

A significant trend over 2016, which seemed to accelerate during the fourth quarter, was that of demising large spaces to accommodate office-sharing scenarios for start-ups, junior consulting enterprises and other small one to three-person businesses. We have noted numerous instances where floors in buildings such as Canada Place and the Petex Building have been repurposed and reduced into much smaller areas to meet the demand.


Canada Place


Petex

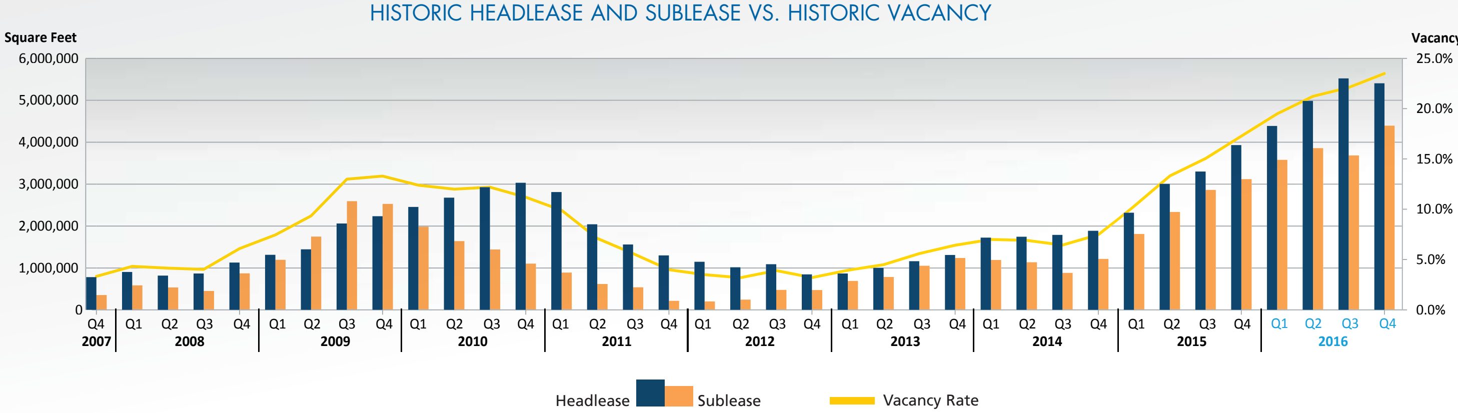
The quickest and most impactful draws on available office space, however, will come from the energy producers who have given up the space in the first place. A stabilization of world oil prices prompted several companies to increases their capital expenditures for 2017, with Cenovus Energy, Crescent Point Energy Corp. and Husky Energy were among the most notable companies to do so. With a general sense of near-term economic recovery and oil prices remaining above $50 per barrel, exploration and development were back on companies' radar. It will take time, however, for the trend to work its way through to a requirement for more personnel and lead to increased need for space.

Vacancy

Headlease vs Sublease

Headlease space experienced net positive absorption of 131,000 sf during the fourth quarter, due to substantial leasing activity among A Class opportunities. The sublease market however, experienced negative net absorption of 726,000 sf. Total available headlease square footage was reduced slightly to 5,409,000 sf, while total available sublease space increased to 4,396,000 sf for a total of 9.8 million square feet.

HISTORIC HEADLEASE AND SUBLEASE VS. HISTORIC VACANCY



Vacancy by Building Class and Size Range

Observing the total number of opportunities available in the downtown, we see the highest concentrations of available options in the 10,000 sf - 15,000 sf range (27%) and greater than 15,001 sf (20%). The 8,000 sf – 10,000 sf range contains the fewest options (6.5%). Total available headlease spaces decreased from 658 in Q3 2016 to 560 in Q4 2016 while total available sublease spaces increased from 292 to 329 at year end. The greatest increase was in AA Class buildings, where an additional 26 options came to market.

HEADLEASE OPPORTUNITIES BY BUILDING CLASS AND SIZE RANGE

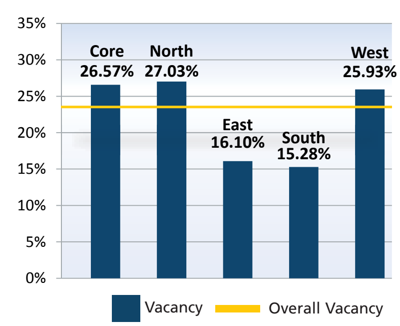
Size Range	AA	A	B	C
0 – 2,000 sf	1	12	46	30
2,001 sf – 4,000 sf	4	39	84	24
4,001 sf – 6,000 sf	2	23	46	13
6,001 sf – 8,000 sf	2	16	20	15
8,001 sf –10,000 sf	6	3	23	12
10,001 sf – 15,000 sf	1	62	69	10
15,001+	21	37	17	0
Overall	**37**	**192**	**305**	**104**

SUBLEASE OPPORTUNITIES BY BUILDING CLASS AND SIZE RANGE

Size Range	AA	A	B	C
0 – 2,000 sf	2	2	4	4
2,001 sf – 4,000 sf	2	8	20	1
4,001 sf – 6,000 sf	3	5	7	5
6,001 sf – 8,000 sf	3	7	7	3
8,001 sf –10,000 sf	3	12	4	1
10,001 sf – 15,000 sf	4	65	42	9
15,001+	61	42	3	0
Overall	**78**	**141**	**87**	**23**

Vacancy by Building Class and Location

VACANCY RATE BY LOCATION



VACANCY BY LOCATION AND CLASS (SF)

Sq. Ft. / % Vacant	AA	A	B	C
CORE	0 / N/A	1,279,952 / 19.71%	735,841 / 31.54%	79,293 / 31.62%
NORTH	1,026,123 / 22.08%	392,610 / 31.51%	43,833 / 16.15%	0 / N/A
EAST	388,003 / 10.66%	492,781 / 20.14%	774,438 / 43.34%	167,264 / 29.50%
SOUTH	581,463 / 15.36%	870,016 / 21.73%	9,519 / 2.49%	7,037 / 2.87%
WEST	373,743 / N/A	758,661 / 30.56%	1,348,701 / 23.84%	475,573 / 33.14%

INVENTORY BY LOCATION AND CLASS (SF)

	AA	A	B	C	
CORE	0	6,494,741	2,332,876	250,792	9,078,409
NORTH	4,646,286	1,245,927	271,473	0	6,163,686
EAST	3,638,356	2,447,201	1,786,950	567,036	8,439,543
SOUTH	3,785,631	4,003,349	381,799	245,273	8,416,052
WEST	0	2,482,247	5,656,835	1,434,990	9,574,072
	12,070,273	16,673,465	10,429,933	2,498,091	

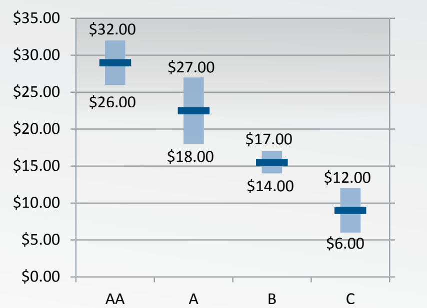
Average Costs

DUE TO THE INCREASING NUMBER OF AGGRESSIVELY PRICED, FLEXIBLE, SHORT-TERM SUBLEASE SPACE AVAILABLE FOR LEASE, HEADLEASE AND RENEWAL RATES CONTINUE TO EXPERIENCE DOWNWARD PRESSURE. Sublease inventory currently represents approximately 45% of total available space and due to such volume, downward pressure continued to effect rates for competing sublease spaces as well as headlease opportunities. As such, in a tenants' market - particularly when leasing activity is slow and/or focused on lease renewals - landlords may be required to price more aggressively in order to compete with extremely motivated sub-landlords.

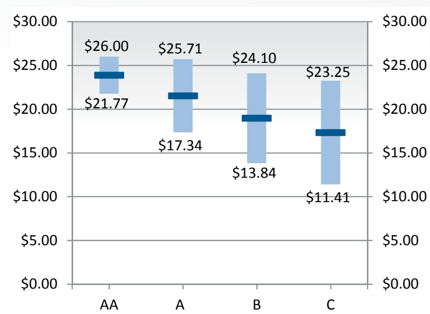
PARKING RATIOS AND RATES BY BUILDING CLASS

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



New Projects

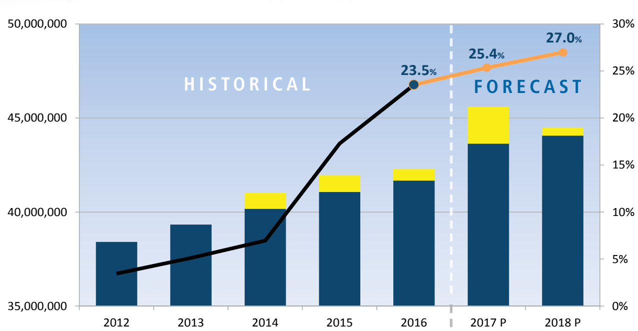
707 5th
707 5 Street SW
Developer: Manulife
Size: 564,000 sf
Status: Q2'17; 46% Leased

BROOKFIELD PLACE I
225 6th Avenue SW
Developer: Brookfield
Size: 1,400,000 sf
Status: Q4'17; 81% Leased

TELUS SKY
7 Avenue & Centre Street SW
Developer: Telus, Allied REIT & Westbank
Size: 430,000 sf
Status: Q2'18; 37% Leased

Vacancy Forecast Including New Inventory

VACANCY FORECAST RESULTING FROM NEW DEVELOPMENTS IN DOWNTOWN



Existing Inventory
New Inventory
Historical Vacancy
15-year average annual absorption (positive 192,000 sf).

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

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