

SUBURBAN OFFICE MARKET ANALYSIS

22.6%

OVERALL VACANCY RATE

↑ **+0.3%**
FROM Q3 TO Q4

- Absorption over the fourth quarter of 2016 was essentially flat, totalling a net negative 32,000 square feet (sf).
- Leasing activity in the Suburban SE and NE was stronger than recently seen, resulting in positive absorption totalling 68,000 sf and 32,000 sf, respectively.

- The majority of new space coming to market were in the Suburban NW.
- Headlease space accounts for 67% of the total available space; unchanged from the previous quarter.
- 55% of the overall number of opportunities available measure less than 4,000 sf; down from more than 59% during the previous quarter.
- Large space offerings (15,000 sf and greater) comprise 14.5% of the total space available.
- The Odeon by Ronmore was completed during the fourth quarter and contributed positive absorption to the Suburban SE market.

Significant moves, announcement and notable transactions:



Three floors in Honeywell Building, totaling 62,000 were leased by the Alex Group.



Alberta Infrastructure took 34,000 sf in Westland Professional Centre.



Approximately 14,000 sf became available for sublease in Fisher Park II.



More than 13,000 sf became available for lease in UBG Building.



More than 12,000 sf became available for sublease in 3636 7th Street SE from Sharpe's Audio Visual



PREPARED BY
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Current Vacancy at a Glance

OVERALL RATE **22.6%**

↑ + 0.3% FROM Q3 TO Q4

CLASS A **28%**

↑ + 4.5% FROM Q3 TO Q4

CLASS B **17.2%**

↓ - 7.8% FROM Q3 TO Q4

CLASS C **14.5%**

↓ - 0.1% FROM Q3 TO Q4

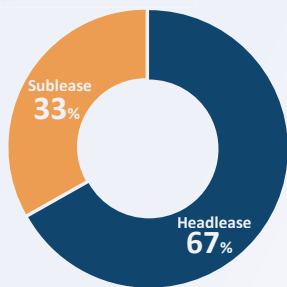
Overall vacancy increased by 0.3% during the Fourth quarter to 22.6%. The distribution of vacancies by suburban building class changed significantly as a result of strong B Class leasing activity which was balanced off by a significant amount of new A Class space coming to market. Vacancy in B Class buildings decreased by 10% while A Class vacancy rose by the corresponding 10%. In the end, an additional 32,000 square feet (sf) of sublease space was also placed on the market.

Barclay Street Real Estate's vacancy calculation takes into account all space available for occupancy within a 6 month period. An additional 230,000 sf of space becomes available for occupancy from January through June, 2017, of which 152,000 sf is 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.

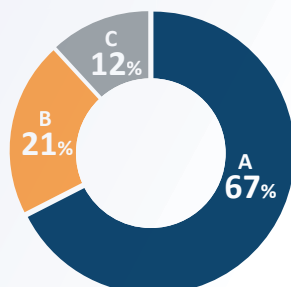
Two new office developments are on the immediate horizon; Harvest Hills Business Park 'B' and Walden Square. These developments are scheduled for completion in Q1 2017, and will add 90,000 sf of new A Class inventory to the Suburban Markets. Each development is approximately 50% pre-leased.

A further 57,000 sf in existing buildings comes available in 7 – 18 months. This shadow vacancy brings the vacancy rate to an estimated 22.9%.

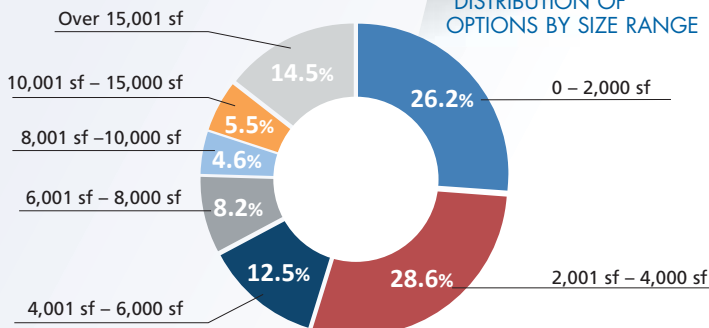
HEADLEASE VS. SUBLEASE DISTRIBUTION



DISTRIBUTION OF TOTAL AVAILABLE SPACE BY BUILDING CLASS



DISTRIBUTION OF OPTIONS BY SIZE RANGE



Market Review

THE OVERALL VACANCY RATE IN SUBURBAN CALGARY WAS ESSENTIALLY FLAT DURING THE FOURTH QUARTER, RISING A FRACTION OF A PERCENT TO 22.6% FROM 22.3% IN Q3 2016.

This change is reflective of net negative absorption totalling 32,000 square feet (sf), which represents a significant reduction in new vacancies coming to the market over that seen over course of 2015 and the first nine months of 2016. This is due, in part, to a notable change in market sentiment among Landlords, wherein an 'acceptance' mentality emerged and with it, a motivation to complete leases with less resistance.

Helping that matter was a continued uptick in leasing activity that began early in the third quarter, as lease end dates approached and tenants explored the market for deals and potential alternative spaces. With the above-noted change in Landlord perspective came a narrowing of the rent expectation gap between Landlords and Tenants, though it is worth mentioning that there was an emergence of several 'sub-urban legends' as 2016 progressed. Stories began circulating in the Tenant market, detailing rock-bottom leases and nearly unbelievable incentives being offered by Landlords as a new standard practice. While it true that Landlords have been under significant pressure due to an abundance of choices comprising more than 4.2 million square feet (msf), cooler heads continued to prevail and incentives applied in specific and appropriate circumstances, not as a blanket leasing approach.

Six new developments comprising 275,000 sf were completed over course of 2016, with **The Odeon** by Ronmore being the final delivery of the year. Overall demand was mixed, with some buildings boasting strong pre-leasing in the lead-up to delivery, while appetite for space in others was low. Of the new suburban inventory introduced during the year, an average of 46% of it was spoken for at completion. **The Seton Professional Centre** buildings were in greatest demand.

With respect to coming developments, more than 634,000 sf is slated for the suburban markets over the coming 12 months. Expected in the first quarter of 2017 are **Harvest Hills Business Park Building B** and **Walden Square**. In the second quarter, **7136 – 11th Street NW** and the **Computer Modelling Group (CMG) Building** are anticipated, while **Maple Leaf Professional Centre** is expected in Q3 2017. **ATCO Commercial Centre** is scheduled for completion in the fourth quarter. **The Windsor**, originally slated for Q4 2017 delivery, is being repositioned as a retail/residential mixed-use development.



The Windsor

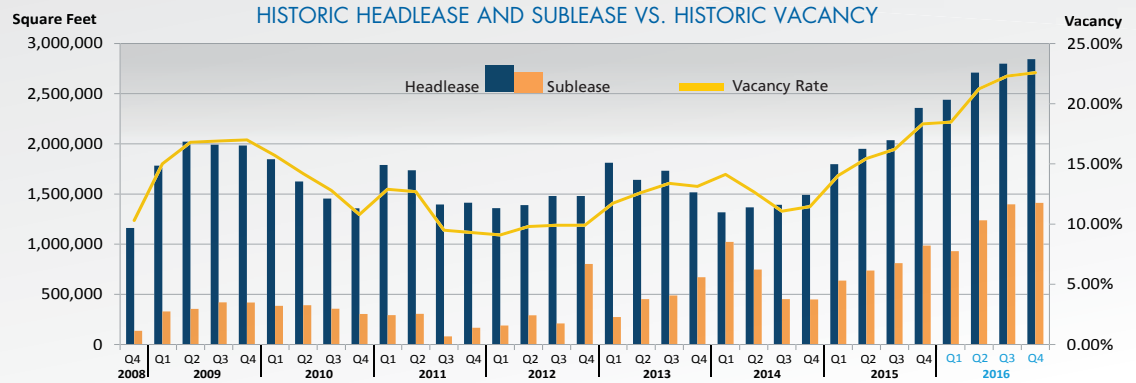


COVER PAGE

Exterior of Lincoln Park Office Centre at 5 Richard Way SW. Office space in this building available for lease by Barclay Street Real Estate.

Headlease vs Sublease

Distribution between headlease and sublease space for Q1 2016 shifted slightly from the previous quarter; headlease space accounted for 72% of the total space while sublease accounted for 28%. This change in distribution reflects a quarter-over-quarter 82,000 sf increase in headlease space and a decrease in sublease space of 57,000 sf.



Vacancy

Vacancy by Building Class and Size Range

Considering the total number of options available in the suburban office market, 71% of all opportunities measure less than 6,000 sf, up from 69% in Q4 2015. More specifically and as stated earlier, nearly two-thirds of available spaces measure 4,000 sf or less. On a square footage basis, of the 3.37 million square feet (msf) currently available in the suburban markets, opportunities measuring 6,000 sf or less comprise 2.09 msf.

HEADLEASE OPPORTUNITIES BY BUILDING CLASS AND SIZE RANGE

Size Range	A	B	C
0 – 2,000 sf	31	45	58
2,001 sf – 4,000 sf	46	46	51
4,001 sf – 6,000 sf	33	16	13
6,001 sf – 8,000 sf	28	6	4
8,001 sf – 10,000 sf	12	4	5
10,001 sf – 15,000 sf	10	8	5
15,001+	35	8	1
Overall	195	133	137

SUBLEASE OPPORTUNITIES BY BUILDING CLASS AND SIZE RANGE

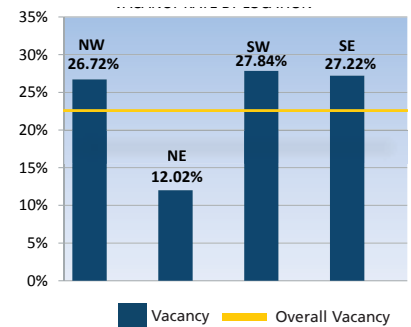
Size Range	A	B	C
0 – 2,000 sf	3	4	2
2,001 sf – 4,000 sf	7	2	4
4,001 sf – 6,000 sf	5	0	1
6,001 sf – 8,000 sf	0	4	3
8,001 sf – 10,000 sf	4	0	0
10,001 sf – 15,000 sf	3	3	1
15,001+	28	6	1
Overall	50	19	12

Vacancy by Building Class and Location

The following charts provide more detailed performance insight into the building classes and their impact on the suburban market. The most significant contributors to vacancy in the Suburban NW are Arcuri Business Centre (27,000 sf), Crowfoot 75 (54,000 sf) and the SMART Technologies building (205,000 sf). These pockets of space account for approximately 16% of overall vacancy in the NW quadrant.

In the Suburban SE, vacancy remained elevated due to several very large blocks of vacant space in: the Cardel Building (104,000 sf), the Jacobs Building (138,000 sf), Quarry Crossing B (162,000 sf), Sundance Place (168,000 sf) and Sundance West I (154,000 sf). These pockets of space account for approximately 10% of overall vacancy in the SE quadrant.

VACANCY RATE BY LOCATION



VACANCY BY LOCATION AND CLASS (SF)

Sq. Ft. / % Vacant

	A	B	C
NW	379,624 42.21%	69,595 10.00%	77,413 20.58%
NE	429,971 22.22%	352,806 16.73%	176,748 9.90%
SW	505,074 22.97%	46,873 9.89%	148,717 19.21%
SE	1,557,338 29.75%	410,711 22.40%	101,163 18.95%

INVENTORY BY LOCATION AND CLASS (SF)

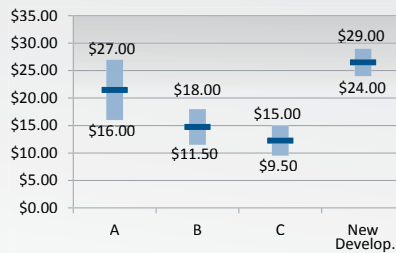
	A	B	C	Total
NW	899,311	695,642	376,121	1,971,074
NE	1,935,080	2,109,156	1,784,751	5,828,987
SW	2,198,680	473,978	774,054	3,446,712
SE	5,235,483	1,833,289	533,905	7,602,677
Total	10,268,554	5,112,065	3,468,831	

Average Costs

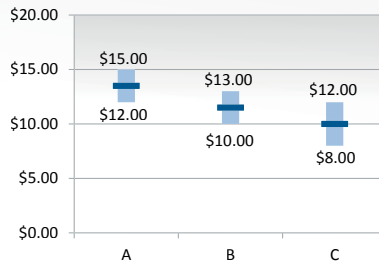
PARKING RATES AND PARKING RATIOS RANGE BASED ON LOCATION, CLASS, AND THE AGE OF THE BUILDING. On average, parking rates are between \$0-\$200/stall with a ratio between 1:300-1:500 sf.

Operating costs vary according to the age and location of the building; typically, newer buildings have lower operation costs due to increased HVAC and insulation efficiency but may also offer security and other amenities which will increase these costs.

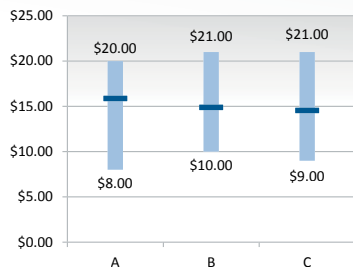
AVERAGE HEADLEASE RATES BY BUILDING CLASS



AVERAGE SUBLEASE RATES BY BUILDING CLASS



OPERATING COSTS BY BUILDING CLASS



New Projects

	Developer	Size	Status
 ATCO COMMERCIAL CENTRE 5302 Forand Street SW	ATCO	200,000 sf	Q4 2017
 COMPUTER MODELLING GROUP 3710 - 33rd Avenue NW	Remington	90,000 sf	Q2 2017 100% leased
 7136 - 11TH STREET NE	REID Worldwide Corporation	60,000 sf	Q3 2017 28% leased
 HARVEST HILLS OFFICE PARK - B 333 - 96th Avenue NE	Qualico Commercial	74,350 sf	Q1 2017 52% leased
 HEXAGON CAMPUS 11063 - 14 Street NE	Remington	160,000 sf	2019 100% leased
 MAPLE LEAF PROFESSIONAL CENTRE 15 Royal Vista Way NW	Maple Leaf Self Storage	140,000 sf	Q3 2017 74% leased
 THE ODEON 2040 - 33 Street SW	Ronmor	25,000 sf	Complete

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Citations

Damiani et al. (March 2008). *Planning Sustainable Suburban Communities in Calgary: Evaluation and Reporting Framework*. University of Calgary. Retrieved from: https://www.ucalgary.ca/cities/files/cities/Sustainable_Suburbs.pdf