

Calgary

Calgary has returned to positive economic growth, but the long-term view of the market remains challenged.

After two years of crushing recession, Calgary's economy began to grow again in 2017. Despite the recession officially being behind us now, its negative effects continue to linger. The path to recovery remains long and difficult. Looking forward, the forecast is not for clear, blue skies, but there are no storm clouds gathering either. This year's focus will be about building momentum for the future.

According to the **Conference Board of Canada** Calgary's 2017 GDP growth led the country at 6.9%, and is forecasted to regain a dominant position in economic growth between 2018 and 2021. Calgary's real GDP is forecasted to grow by 2.5% in 2018, fully recouping the economic losses experienced after the oil price collapse in 2014. However, long-term growth is forecasted to take place at a slower pace than Calgary experienced during the previous decade.

One of the strongest indicators for Calgary's recovery is that employment has fully recovered from the losses incurred over the last two years. In May 2015 Calgary's employment peaked at 826,000 people before beginning its downward slide through the downturn. As of March 2018, Calgary's employment is 842,900 people (16,900 people above that previous peak). In terms of the unemployment rate, recovery does not occur in a straight line, but the general trend has been downwards over the last year. The unemployment rate for March 2018 increased to 8.2%, from 7.5% in December 2017, but is down from 9.2% 12 months ago in March 2017. Calgary's unemployment rate remains distant from the low of 4.4% recorded in November 2014, but is well below the

peak unemployment rate of 10.3% which was recorded over a year ago in November 2016.

However, like much of Calgary's economy, excitement around these gains needs to be tempered. Most of the gains were in lower-paying jobs, suggesting that while there was overall gain in employment, the new jobs were not of the same quality as those that were lost. The good news is that over the last year Full-Time employment has shown positive gains, while Part-Time employment has seen a decline in the number of positions. Also, Calgary's labour force has grown faster than it has created jobs in the past few months. While this is good news that people are entering or returning to the local job market, it is putting upward pressure on Calgary's unemployment rate. It is hoped that as economic recovery takes a stronger hold, companies will create more jobs in those highly-skilled, higher-pay occupations.

Market Facts

23.2%

Calgary Overall Vacancy

25.6%

Downtown Vacancy

18.5%

Beltline Vacancy

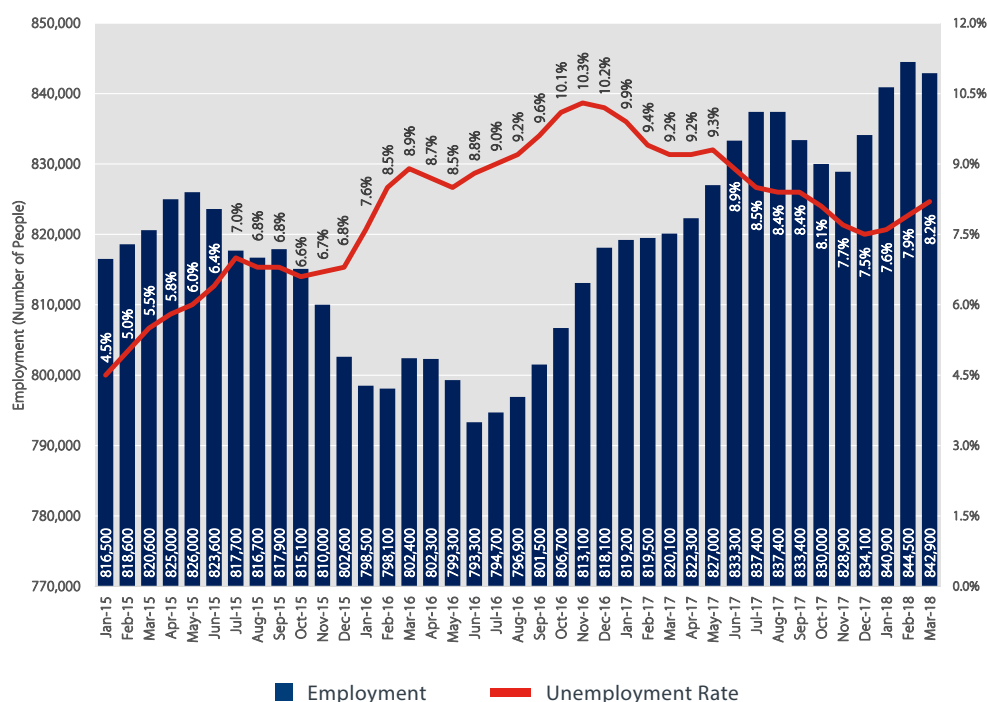
17.7%

Suburban North Vacancy

21.8%

Suburban South Vacancy

CALGARY CMA EMPLOYMENT AND UNEMPLOYMENT RATE

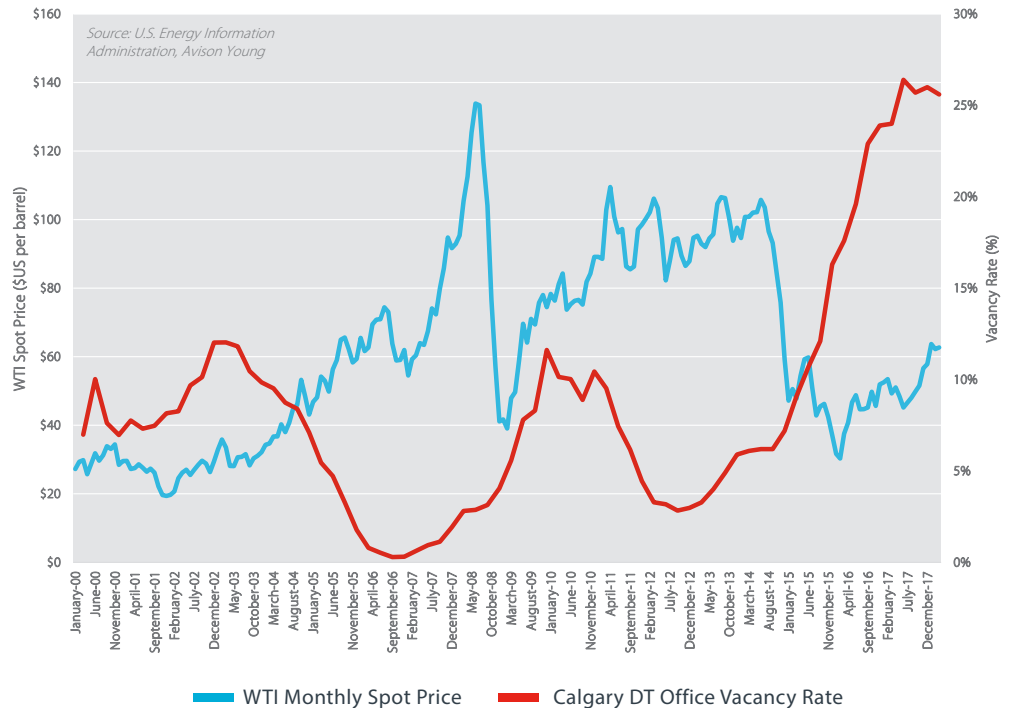


Getting oil to tidewater is the largest dark cloud hanging over Calgary's economic recovery. Oil prices for **West Texas Intermediate (WTI)** have been above US\$60 a barrel since late December. However, Alberta oil continues to trade at a discount. **Western Canadian Select (WCS)**, which is the benchmark price for much of the crude oil in Alberta, had a price differential of US\$24.28 a barrel (or 39%) below **WTI** in first quarter 2018. While **WTI** benchmark prices continue to strengthen and perform well from a global market perspective, **WCS** differentials widened as a result of increasing inventories and the inability to increase exports to markets other than the U.S. According to a recent Alberta Government provincial fiscal report, even if three new oil pipelines (**Keystone XL**, the **Trans Mountain** expansion, and **Enbridge's** Line 3 replacement project) are built, the province will still face constraints moving crude to market throughout 2018 and 2019. In order for Calgary's predominantly energy-based economy to get back into firm growth mode, a solution to the ongoing pipeline bottleneck issues needs to be found.

Another opportunity for the economy to find success is diversification. Growth in sectors outside of the traditional major players has great potential. Students today are preparing for jobs that didn't exist ten years ago. Calgary is well-positioned to take advantage of the opportunity to prepare for and create the businesses, jobs and workplaces of tomorrow. Calgary continues to have one of the youngest age demographic for a work force in any major city in Canada and this will translate into opportunities for the city.

In March 2018, **Calgary City Council** approved the city's \$100 million Economic Development Investment Fund in full, including the creation of a new city-owned agency. The aim of the fund is to diversify the economy, create jobs, support ways to reduce the downtown office vacancy rate and help local companies expand. Ideas around advancement of the agri-food sector,

HISTORICAL PRICE OF OIL VERSUS CALGARY DOWNTOWN OFFICE VACANCY RATE

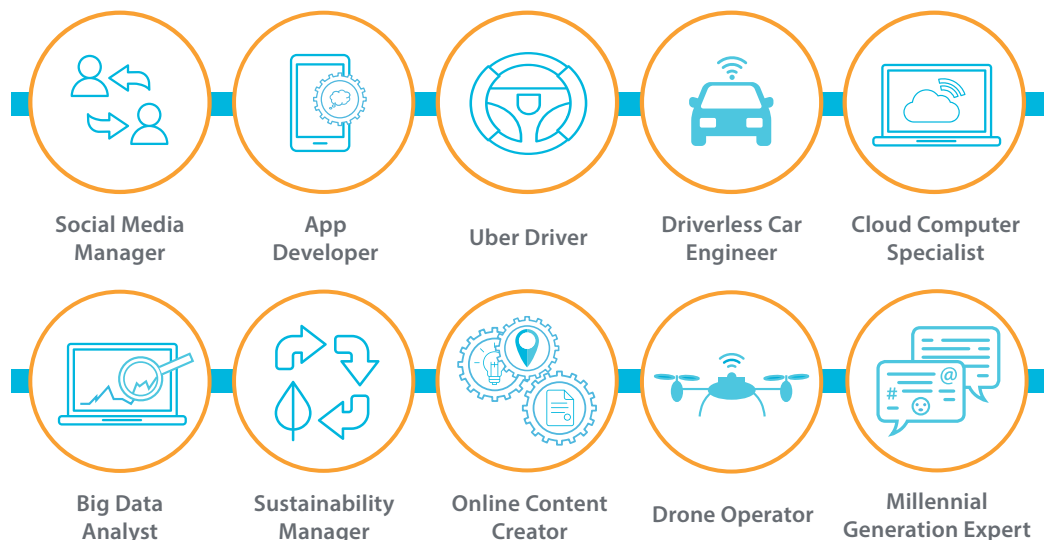


aiding in conversion of unoccupied buildings, and enabling Calgary to be a city where autonomous vehicles can be tested are just some of the early ideas. This new agency will consider all opportunities or potential investments and allow Calgary to compete nationally and internationally for projects that will enable economic growth, retention and diversification, create employment and increase the property tax assessment

base. It is anticipated that applications for funding will begin being accepted in second quarter 2018.

While things are looking up in terms of Calgary's economic growth, and the groundwork is being laid for future growth and evolution, it is going to take more time before a higher share of Calgarians feel their outlook has moved towards the positive side of the scale.

TOP 10 JOBS THAT DIDN'T EXIST IN THE 90'S



Calgary Overall



The Calgary office market started the year on a positive note. After the beleaguered Downtown market reached its peak vacancy in second quarter 2017, the first quarter of 2018 saw vacancy make an improvement. The overall vacancy rate decreased to 23.2% during the first quarter of 2018 from 23.5% in fourth quarter 2017, but up from 22.5% 12 months ago in first quarter 2017.

This decrease in vacancy was predominantly due to the absorption of space in the Downtown market, including the first occupancy in the newly completed Brookfield Place tower being completed. Headlease space (space available directly from the landlord) currently represents 74% of Calgary’s overall availability.

Large, contiguous blocks of office space continue to stand out in the market analysis. Contrary to the prevailing beliefs, these blocks are available predominantly on a headlease basis. Large block space, defined as one contiguous availability over 100,000 square feet (sf) in the Downtown market, or over 30,000 sf in the Beltline and surrounding suburban markets, represent between 17% and 63% of the vacancy for their respective market segments and 33% of the city-wide vacancy.

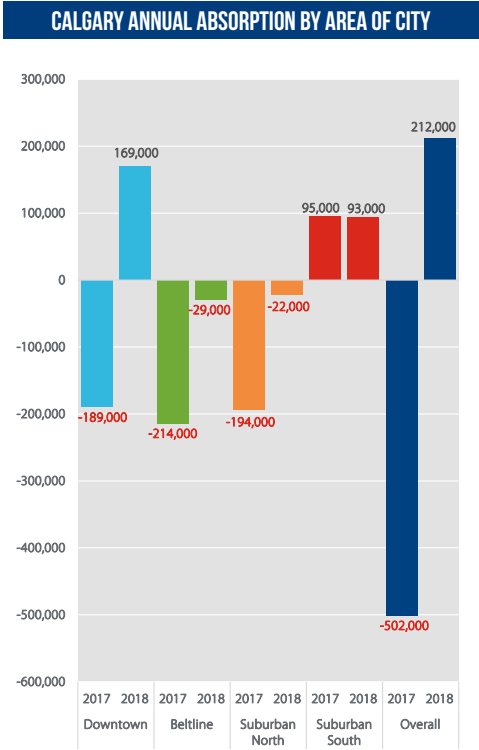
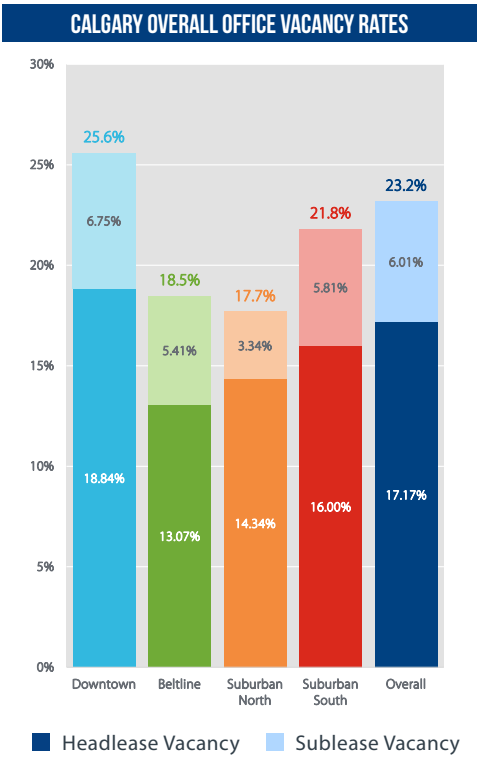
Many landlords are considering what alternatives are available for their older, less-desirable office properties. The second office-to-residential conversion of this downturn is in the works, this time taking place in the Beltline. Removing some older, obsolete buildings from Calgary’s office inventory will help with the overall vacancy problem, and a number of buildings are being considered for this program. 2018 will likely see more of these come to realization.

Absorption for the overall Calgary office

market returned to being positive in the first quarter of 2018, with positive 212,000 sf being absorbed. The positive absorption was seen in the Downtown and Suburban South office market segments in first quarter 2018, while the Beltline and Suburban North office market segments saw negative absorption. The 5-year average annual absorption for Calgary’s overall office market is negative (-1,245,000 sf) per year and the 10-year average is 284,000 sf per year.

The ranges for average asking rents are starting to tighten as leasing activity increases. While the averages have not seen much movement over the last quarter, thanks to a larger number of transactions there is more information available to more accurately identify what range they should fall within.

Quoted taxes and operating costs average \$17.59 per square foot (psf) for all building classes, across the entire city. Class AA buildings average \$23.28 psf, class A buildings average \$18.58 psf, class B buildings average \$16.72 psf, and class C buildings average \$14.23 psf. These numbers are further broken down within



the specific area of city sections later in this report. However, it is important to note that assessments for office properties are seeing a divergence. Average assessments have decreased slightly over the last three months in the Downtown and Beltline office markets, while the suburban office markets have seen slight increases in average assessments. The 2018 tax rates will be released in April, which is when further adjustments to taxes and operating costs are anticipated. Due to the high levels of vacancy in the central areas of Calgary, the tax burden has seen some shifting to suburban properties.

There was one new building completed in first quarter 2018, **14th Street Office Building** at 1506 – 11th Avenue SW (38,000 sf), which was 73% leased at the time of completion. Approximately 700,000 sf of new office space, in five buildings, remains under construction across Calgary, with 56% pre-leasing in place. The majority of this is in Downtown (66%), followed by the Suburban North (26%), Suburban South (4%), and Beltline (4%). Very little new construction is anticipated to be announced in the city for several years,

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given the widespread availability across the entire Calgary office market.

While energy and energy servicing companies continue to make up a large share of the leasing transactions being recorded, growth from areas such as information and technology, not-for-profits, government, business services and green technology are definitely being noticed. Also, activity by smaller tenants is growing noticeably. Demand for space under 5,000 sf continues to be high. However, due to an abundance of existing options in this size range and pressure on landlords to demise larger blocks of space that aren't moving, rental rates remain competitive and inducements (such as free rent and

improvement allowances) are substantial in many cases. Meanwhile, the market for large pockets of space will continue to have significant competition for the foreseeable future, maintaining the downward pressure on rental rates within this category.

As Calgary comes off the bottom of this downturn, it is expected that a flight-to-quality will continue. Flight-to-quality is where tenants move away from class B and C buildings and move to class A and AA buildings at almost the same or lower cost structure. This can already be seen with higher vacancy rates in lower-quality buildings.

FOCUS on Investment

The start of 2018 has seen a continuation of the narrative witnessed throughout 2017 where value add office plays and core office investments continue to be top of mind for active participants in our market.

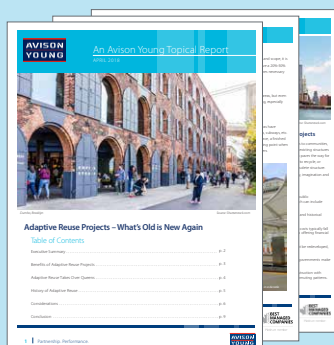
A listing at **1120 – 68 Avenue NE**, one that Avison Young represents, saw two rounds of bids for a newer-vintage, 90,133 sf office building. There are a number of market participants willing to aggressively pursue quality office assets even with (and because of) substantial near-term leasing risk.

Another recent transaction, **Intrinsic Group's** purchase of the **Wi-Lan Building**, commonly referred to as the **Yellow Pages Building**, is a unique example of an office real estate investment that takes advantage of negative market sentiment allowing a purchaser to buy a best-in-class building at a substantial discount to replacement costs.



Introducing Avison Young's Latest Topical Report: *Adaptive Reuse Projects - What's Old is New Again*

[VIEW OR DOWNLOAD REPORT HERE](#)



CALGARY Q1 2018 UNDER CONSTRUCTION AND NEW SUPPLY

Downtown Under Construction

Building Name	Address	Office Area (sf)	Expected Completion	% Leased / Pre-Leased	LEED Target
TELUS Sky	110 - 7th Avenue SW	460,000	Q4 2018	39%	Platinum

Beltline Under Construction

Building Name	Address	Office Area (sf)	Expected Completion	% Leased / Pre-Leased	LEED Target
Mount Royal West	1508 - 8th Street SW	28,000	Q2 2018	100%	

Beltline New Supply

Building Name	Address	Office Area (sf)	Expected Completion	% Leased / Pre-Leased	LEED Target
14th Street Office (RECA Building)	1506 - 11th Avenue SW	36,000	Complete	72%	

Suburban North Under Construction

Building Name	Address	Office Area (sf)	Expected Completion	% Leased / Pre-Leased	LEED Target
Hexagon Calgary Campus	10921 - 14th Street NE	160,000	Q2 2018	100%	
One North Business Centre	1348 Northmount Drive NW	20,000	Q2 2018	35%	

Suburban South Under Construction

Building Name	Address	Office Area (sf)	Expected Completion	% Leased / Pre-Leased	LEED Target
Macleod Professional Centre	3916 Macleod Trail SE	31,000	Q3 2018	53%	

Downtown

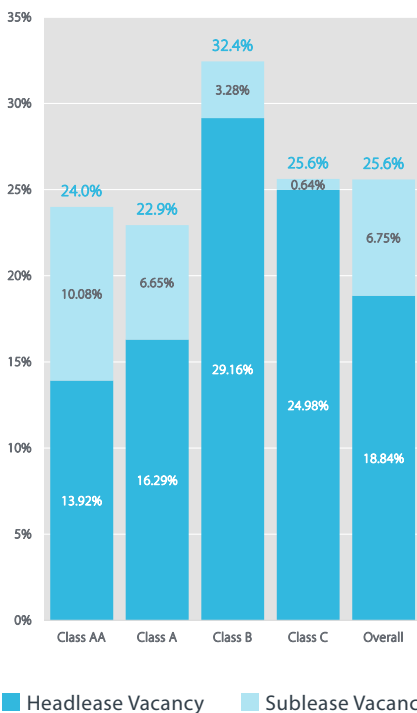


The Downtown Calgary office market saw vacancy decrease to its lowest level since this time last year. Downtown Calgary office vacancy, as of first quarter 2018 is 25.6%. This is down from 26.0% in fourth quarter 2017, but up from 24.0% 12 months ago in first quarter 2017.

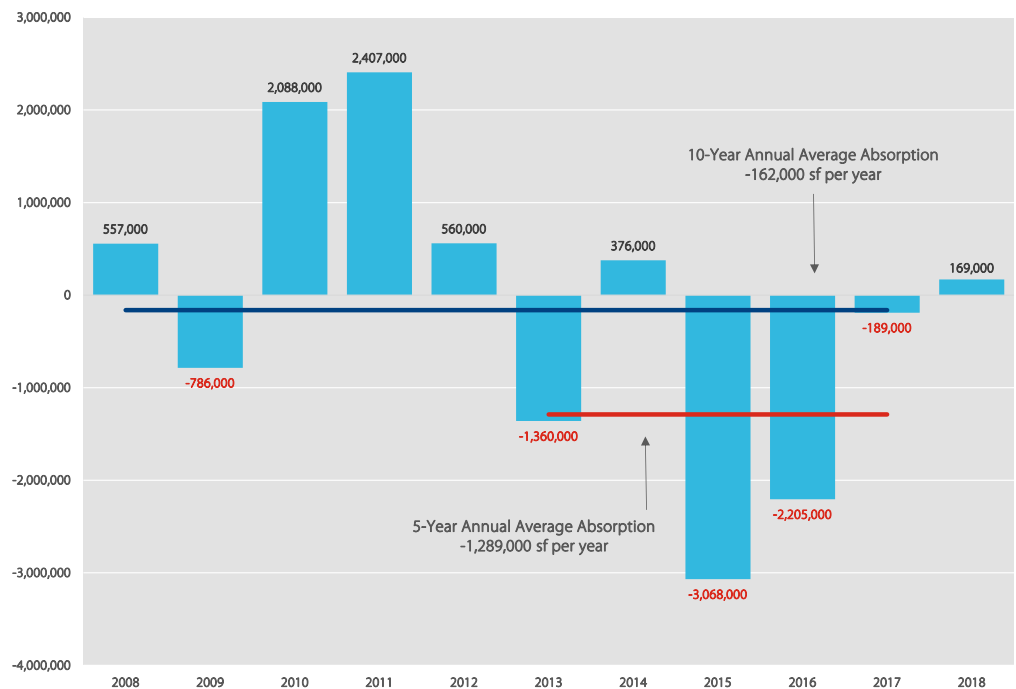
Total vacancy for the Downtown office market is 11.7 msf, broken down by: 8.6 msf of headlease space (74%) and 3.1 msf of sublease space (26%). It is anticipated that sublease availability will continue to be seen transitioning to headlease availability over the course of the next year as sublease terms continue to expire.

First quarter 2018 saw the return to positive absorption for class AA and C buildings. Over the last three months, class AA buildings saw positive 368,000 sf of absorption, class A saw negative (-157,000 sf) of absorption, class B

DOWNTOWN CALGARY OFFICE VACANCY RATES



DOWNTOWN CALGARY 5 YEAR AND 10 YEAR AVERAGE ANNUAL ABSORPTION



saw negative (-52,000 sf) of absorption, and class C saw positive 10,000 sf of absorption. Vacancy by class is now: class AA -24.0%, class A -22.9%, class B -32.4%, and class C -25.6%.

All indicators point to Calgary's Downtown office market having found peak vacancy for this cycle. Absorption in the Downtown office market for first quarter 2018 was positive 169,000 sf. Over the last 12 months downtown Calgary has a cumulative negative absorption of (-23,000 sf). This is a noticeable improvement over the negative (-3.1 msf) of absorption recorded in 2015, negative (-2.2 msf) of absorption recorded in 2016, and negative (-189,000 sf) of absorption recorded in 2017. Thanks to the extreme nature of the downturn over the last three years, the 5-year average annual absorption is negative (-1,289,000 sf per year) and the 10-year average annual absorption is now negative (-162,000 sf per year). For reference, the annual absorption in 2014 was 376,000 sf, and negative (-1.4 msf) in 2013.

Average asking rents for headlease space in Downtown range between \$4 and \$36 per

square foot, per annum. New Construction buildings typically range between \$32 and \$36 psf (average \$35 psf). Class AA buildings typically range between \$22 and \$26 psf (average \$24 psf). Class A buildings typically range between \$13 and \$17 psf (average \$15 psf). Class B buildings typically range between \$8 and \$12 psf (average \$9 psf). Class C buildings typically range between \$4 and \$7 psf (average \$6 psf). Location, building quality, size of space, and length of term will all play into ultimately determining what the asking rate for a property is. Sublease opportunities can offer substantial discounts from these rates and vary widely.

Similarly, quoted taxes and operating costs average \$20.71 psf for all building classes, in the Downtown market. Class AA buildings average \$23.28 psf, class A buildings average \$20.56 psf, class B buildings average \$17.46 psf, and class C buildings average \$15.56 psf. There is currently downward pressure on assessments for downtown office properties, potentially resulting in further declines in taxes and operating costs. This is a direct result of the weak economy and high vacancy rates.

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There are 15 availabilities on the market in Downtown Calgary that have over 100,000 sf available as one contiguous block. These 15 blocks of space represent 26% of the total availability of space in the Downtown market and 65% of this space is available on a headlease basis.

Brookfield Place Calgary – East was added to inventory in second quarter 2017. This 1.4 msf office tower is 79% pre-leased, and first quarter 2018 saw the first of the occupancy for the building with Scotiabank being phased in. This one building increased the downtown office inventory by 3%.

The last remaining office building under construction in downtown Calgary is **TELUS Sky**. It contains 460,000 sf of new office space, which will result in a 1% increase in inventory, and is 39% pre-leased - with approximately a year to go before occupancy starts to take place. As a result of the current economic conditions and weak demand for space

DOWNTOWN CALGARY OFFICE MARKET AVERAGE ASKING RENTS



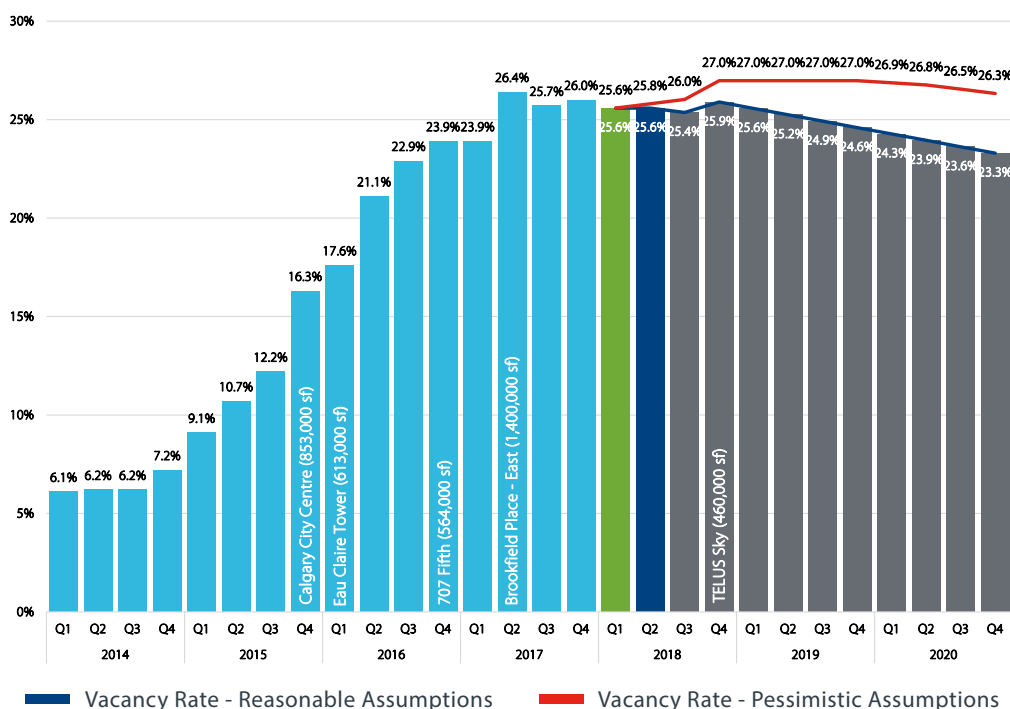
no new development is expected to be announced in Calgary's downtown core for several years.

Looking to the future, without a substantial change in the Calgary economy, **TELUS Sky** will potentially push vacancy up to 27%, using pessimistic assumptions. The current realistic prediction is that absorption will be flat for the second quarter of 2018, positive 100,000 sf in each of Q3 and Q4 2018, and rising to 150,000 sf per quarter in 2019 and beyond. These reasonable assumptions indicate that Q2 2017 was the peak vacancy for this downturn at 26.4%. Even with the addition of one more building in a year's time, vacancy is forecasted to rise to 25.9%, remaining below the peak value recorded in 2017.



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DOWNTOWN CALGARY OFFICE HISTORICAL AND PROJECTED VACANCY



REASONABLE ASSUMPTIONS:

2018: Flat absorption in Q2, and positive 100,000 sf in each of Q3 and Q4

2019 and beyond: Positive 150,000 sf in each quarter

PESSIMISTIC ASSUMPTIONS:

2018: Negative 100,000 sf in each of Q2, Q3 and Q4

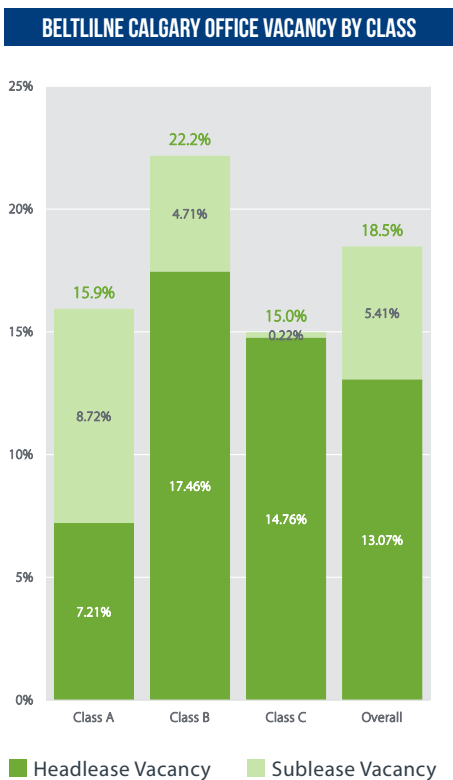
2019: Flat absorption

2020: Positive 50,000 sf in each of Q1 and Q2, positive 100,000 sf in each of Q3 and Q4

Beltline



The vacancy rate in the Beltline office market edged upwards again to sit at 18.5% in first quarter 2018. This is up from 17.4% in fourth quarter 2017, and from 16.4% 12 months ago in first quarter 2017. The current vacancy also remains below the peak of 19.1% recorded in third quarter 2016.



Total vacancy for the Beltline office market is 1.5 msf, broken down by: 1,084,000 sf of headlease space (71%) and 449,000 sf of sublease space (29%).

Looking at the breakdown between building classes, first quarter 2018 saw negative absorption for class A buildings and positive absorption for class B and C buildings. Over the last three months class A buildings saw negative (-53,000

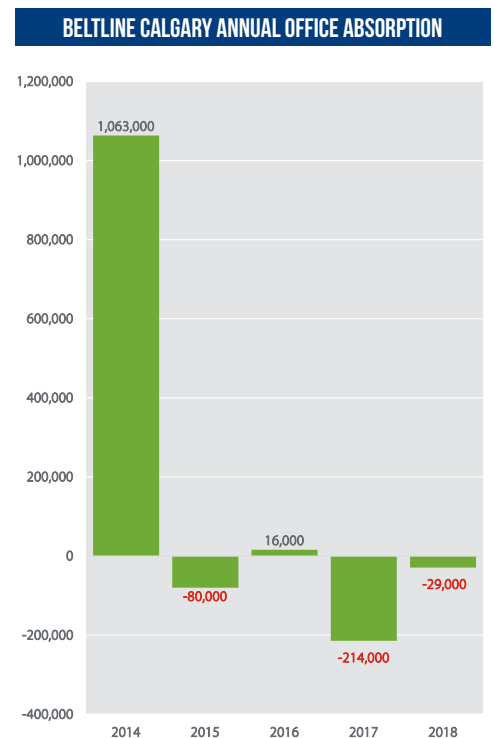
sf) of absorption, class B saw positive 20,000 sf of absorption, and class C saw positive 4,000 sf of absorption. Vacancy by class is now: class A – 15.9%, class B – 22.2%, and class C – 15.0%.

Absorption in the Beltline office market for first quarter 2018 was negative (-29,000 sf). The Beltline office market's 5-year average annual absorption is 112,000 sf per year and the 10-year average is 174,000 sf per year.

For the second time during this downturn cycle, a long-standing office building is working its way towards being converted to a residential property. The **Stephenson Building** (1177 – 11th Avenue SW) is a 62,000-sf, seven-storey, class B office building owned by **Strategic Group**. Avison Young has removed this property from the inventory of office properties, as space is no longer being actively marketed for lease.

Average asking rents for headlease space in the Beltline range between \$5 and \$26 per square foot, per annum. Class A buildings typically range between \$18 and \$26 psf (average \$22 psf). Class B buildings typically range between \$12 and \$16 psf (average \$14 psf). Class C buildings typically range between \$5 and \$12 psf (average \$10 psf). Location, building quality, size of space, and length of term will all play into ultimately determining what the asking rate for a property is. Sublease opportunities can offer substantial discounts from these rates and vary widely.

Similarly, quoted taxes and operating costs average \$18.04 psf for all building classes, in the Beltline market. Class A buildings average \$19.60 psf, class B buildings average \$17.27 psf, and class C buildings average \$16.23 psf.



There are six availabilities in Beltline Calgary with more than 30,000 sf available as one contiguous block. These six blocks of space represent 17% of the total availability of space in the Beltline office market and 37% of this space is available on a headlease basis.



According to **ATB Financial's Business Beat Index**, which measures Alberta business owners' confidence in their

own business operations, economic optimism is up compared to the past two years: [CLICK HERE](#)



Calgary Q1 2018 Office Market Statistics

[DOWNLOAD CHART HERE](#)

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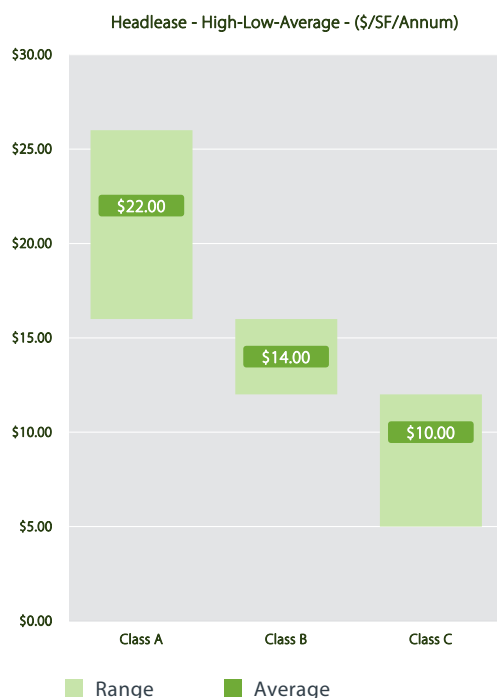
No new projects commenced in first quarter 2018. One project, **14th Street Office Building** at 1506 – 11th Avenue SW (36,000 sf) was completed, with 73% pre-leasing in place. One project, **Mount Royal West**, remains under construction and as of first quarter 2018 is fully leased.



Want to know more about Calgary's new \$100 Million **Economic Development Investment Fund (EDIF)**?

Overview from **Calgary Economic Development** [CLICK HERE](#)
City of Calgary Fund Governance and Terms of Reference [CLICK HERE](#)

BELTLINE CALGARY OFFICE MARKET AVERAGE ASKING RENTS



CALGARY'S UNEMPLOYMENT RATE IS NOW 8.2%.

How does this compare to other markets, provinces and the Canadian average? What industries have been gaining jobs in the last year? View Calgary specific analysis and graphs of **Statistics Canada's Labour Force Survey** for March 2018, prepared by Avison Young's Calgary Research team (month-over-month and year-over-year comparisons).

[CLICK HERE](#) to view

CALGARY Q1 2018 NOTABLE OFFICE LEASING TRANSACTIONS

Downtown

Tenant	Building Name	Address	Size (sf)	Deal Type
Alberta Infrastructure	Century Park Place	855 - 8th Avenue SW	48,000	Headlease
Baker Hughes*	Gulf Canada Square	401 - 9th Avenue SW	47,000	Headlease
Nuvista Energy	Eighth Avenue Place - East	525 - 8th Avenue SW	37,000	Headlease
CGG Services*	Gulf Canada Square	401 - 9th Avenue SW	35,000	Sublease

Beltline

Tenant	Building Name	Address	Size (sf)	Deal Type
Copeman Healthcare*	Mount Royal West	1508 - 8th Street SW	28,000	Headlease
Katz Group Real Estate*	Joffe Place	708 - 11th Avenue SW	6,500	Headlease
Tara D. Pipella Professional Corp.*	Dorchester Square	13323 - 8th Street SW	6,300	Headlease

Suburban North

Tenant	Building Name	Address	Size (sf)	Deal Type
General Dynamics*	1020 - 68th Avenue NE	1020 - 68th Avenue NE	148,000	Headlease
Platifab	Yellow Pages Building	2891 Sunridge Way NE	16,000	Headlease
Health Sciences Association of Alberta*	Harvest Hills Office Park A	333 - 96th Avenue NE	12,500	Headlease

Suburban South

Tenant	Building Name	Address	Size (sf)	Deal Type
Rockwell Automation	Fountain Court 3	709 - 64th Avenue SE	25,000	Headlease
Masuch-Albert LLP	Blackfoot Point 4	8820 Blackfoot Trail SE	16,000	Headlease
Zephyr Sleep Technologies	Blackfoot Point 2	8826 Blackfoot Trail SE	8,500	Headlease

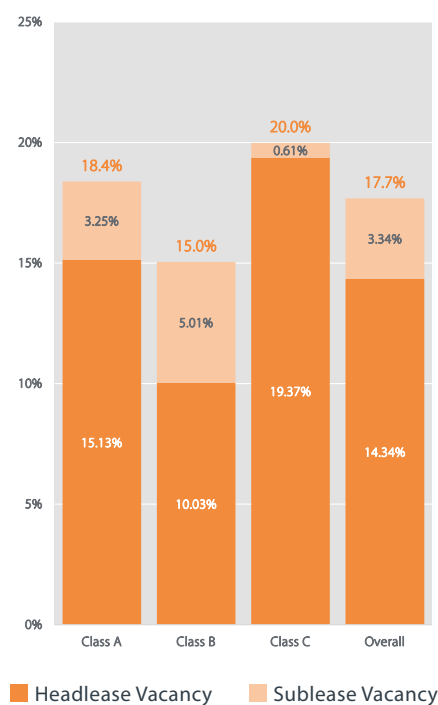
* Indicates transactions Avison Young was involved in

Suburban North



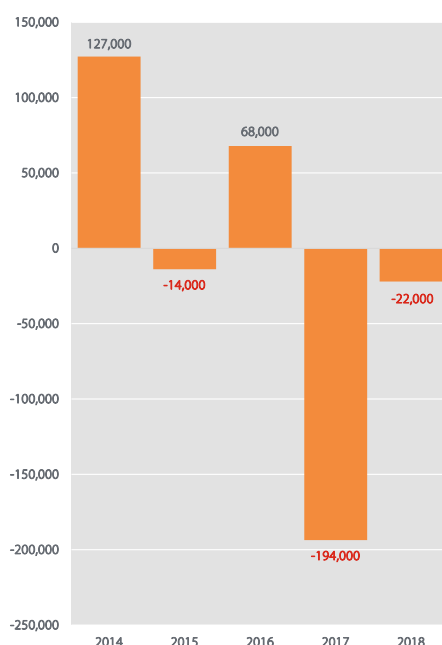
The Suburban North office vacancy rate increased to 17.7% in first quarter 2018, up from 17.5% in fourth quarter 2017, but down from 19.0% 12 months ago. Vacancy appears to have peaked during this downturn for this market segment at 21.3% in the third quarter of 2016. Looking at the quadrants themselves, vacancy for the Suburban Northeast is 16.9%, while the vacancy for the Suburban Northwest is 19.8%. Meanwhile the overall suburban office vacancy rate is 19.9%.

SUBURBAN NORTH CALGARY OFFICE VACANCY BY CLASS



Headlease space increased by 35,000 sf, while sublease space decreased by 13,000 sf during the last three months. Total vacancy for the Suburban North office market is 1.8 msf, broken down by 1.4 msf of headlease space (81%) and 331,000 sf of sublease space (19%).

SUBURBAN NORTH CALGARY ANNUAL OFFICE ABSORPTION



First quarter 2018 saw positive absorption for class A buildings, and negative absorption for class B and C buildings in the Suburban North. Over the last three months class A buildings saw positive 13,000 sf of absorption, class B saw negative (-14,000 sf) of absorption, and class C saw negative (-21,000 sf) of absorption. Vacancy by class is now: class A – 18.4%, class B – 15.0%, and class C – 20.0%.

Absorption in the Suburban North office market for first quarter 2018 was negative (-22,000 sf). The 5-year average annual absorption for the Suburban North office market is negative (-177,000 sf per year), and the 10-year average annual absorption is 28,000 sf per year.

Average asking rents for headlease space in the Suburban North range between \$6

and \$30 per square foot, per annum. New Construction buildings typically range between \$25 and \$30 psf, (average \$27 psf). Class A buildings typically range between \$18 and \$26 psf (average \$19 psf). Class B buildings typically range between \$9 and \$15 psf (average \$13 psf). Class C buildings typically range between \$6 and \$12 psf (average \$9 psf). Location, building quality, size of space, and length of term will all play into ultimately determining what the asking rate for a property is. Sublease opportunities can offer substantial discounts from these rates and vary widely.

Similarly, quoted taxes and operating costs average \$14.52 psf for all building classes, in the Suburban North market. Class A buildings average \$15.38 psf, class B buildings average \$13.95 psf, and class C buildings average \$12.19 psf.

There are 14 availabilities in Suburban North Calgary with more than 30,000 sf available in one contiguous block. These 14 blocks of space represent 43% of the total availability of space in the Suburban North office market and 78% of this space is available on a headlease basis.

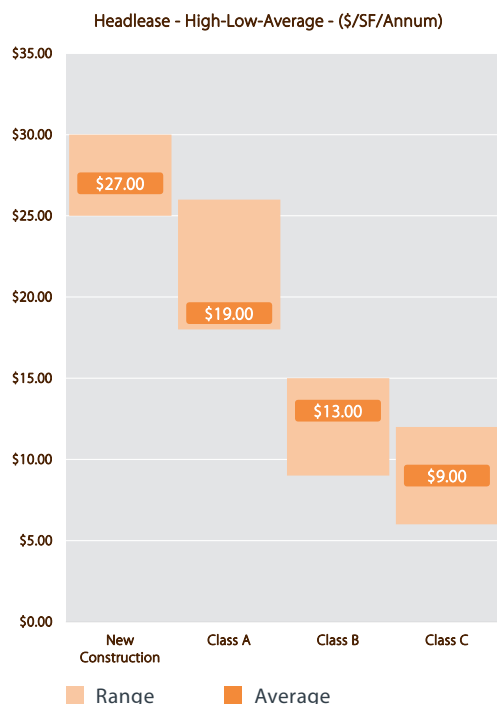
No new office buildings were added to inventory in first quarter 2018 in the Suburban North office market. Two office buildings remain under construction in Suburban North Calgary. These are: **Hexagon Calgary Campus**, and **One North Business Centre**. They represent 181,000 sf of new space, which will increase the Suburban North office inventory by 2%.

CALGARY OFFICE MARKET AVERAGE TAXES AND OPERATING COSTS

	Class AA	Class A	Class B	Class C	All Classes
Downtown	\$23.28	\$20.56	\$17.46	\$15.56	\$20.71
Beltline	-	\$19.60	\$17.27	\$16.23	\$18.04
Suburban North	-	\$15.38	\$13.95	\$12.19	\$14.52
Suburban South	-	\$15.01	\$14.64	\$10.48	\$14.57
Overall	\$23.28	\$18.58	\$16.72	\$14.23	\$17.59

(per square foot, per annum)

SUBURBAN NORTH OFFICE MARKET AVERAGE ASKING RENTS



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The good news is the **Hexagon Calgary Campus** building is being purpose-built for its owner-user, and as such, combined these two buildings are 93% pre-leased.

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Suburban South



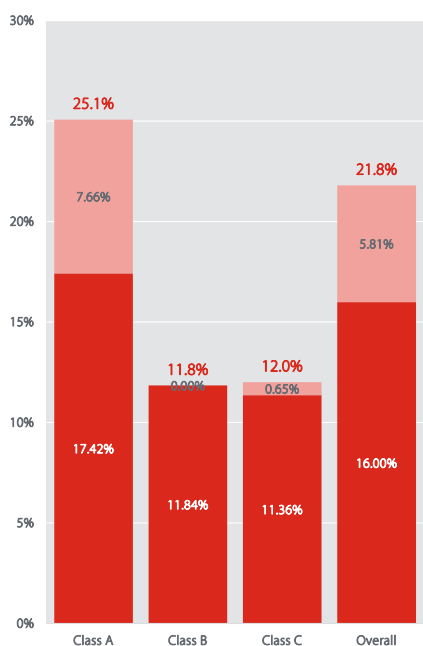
The Suburban South office vacancy rate decreased to 21.8% in first quarter 2018, down from 22.6% in fourth quarter 2017, and from 24.3% twelve months ago in first quarter 2017. Vacancy appears to have peaked during this downturn for this market segment at 24.3% in the first quarter of 2017. Looking at the quadrants themselves, vacancy for the Suburban

Southeast is 23.2%, while the vacancy for the Suburban Southwest is 18.7%. Meanwhile the overall suburban office vacancy rate is 19.9%.

Headlease space increased by 84,000 sf over the last quarter, while sublease space decreased by 179,000 sf. Total vacancy for the Suburban South office market is 2.6 msf, broken down by 1.93 msf of headlease space (73%) and 700,000 sf of sublease space (27%).

First quarter 2018 saw positive absorption for all classes of buildings in the Suburban South office market. Over the last three months class A buildings saw positive 52,000 sf of absorption, class B saw positive 36,000 sf of absorption, and class C saw positive

SUBURBAN SOUTH CALGARY OFFICE VACANCY BY CLASS

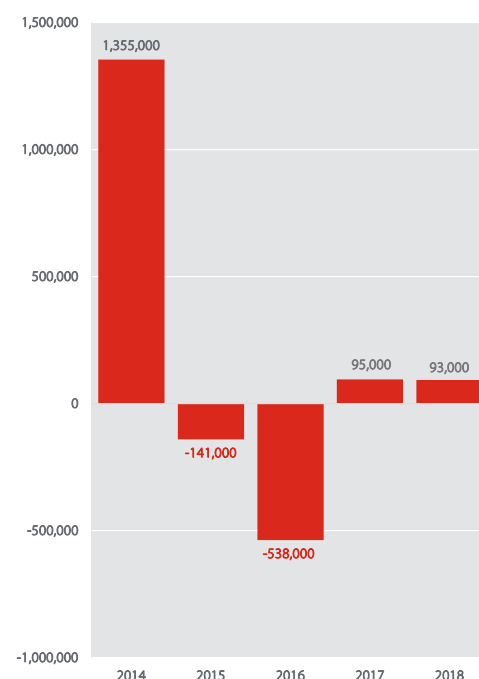


■ Headlease Vacancy ■ Sublease Vacancy

6,000 sf of absorption. Vacancy by class is now: class A – 25.1%, class B – 11.8%, and class C – 12.0%.

Absorption in the Suburban South office market for first quarter 2018 was positive 93,000 sf. The 5-year annual

SUBURBAN SOUTH CALGARY ANNUAL OFFICE ABSORPTION

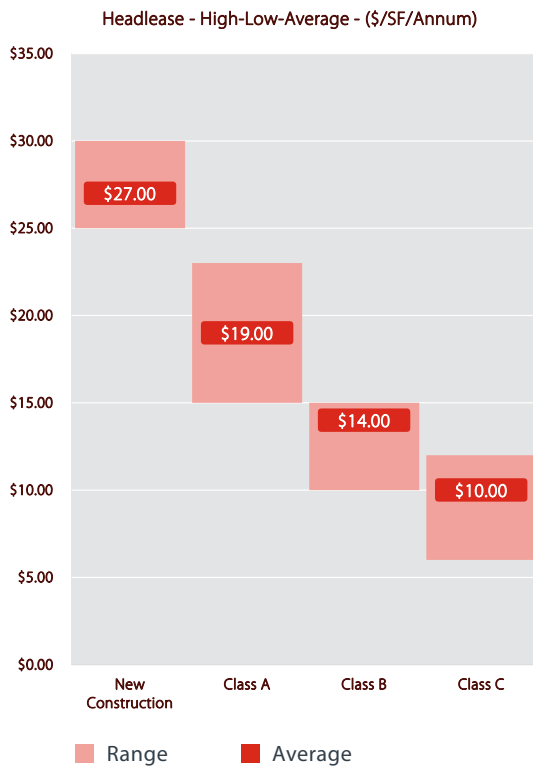


average absorption is 109,000 sf per year, and the 10-year annual average absorption is 257,000 sf per year.

Average asking rents for headlease space in the Suburban South range between \$6 and \$30 per square foot, per annum. New Construction buildings typically range between \$25 and \$30 psf, (average \$27 psf). Class A buildings typically range between \$15 and \$23 psf, (average \$19 psf). Class B buildings typically range between \$10 and \$15 psf, (average \$14 psf). Class C buildings typically range between \$6 and \$12 psf, (average \$10 psf). Location, building quality, size of space, and length of term will all play into ultimately determining what the asking rate for a property is. Sublease opportunities can offer substantial discounts from these rates and vary widely.

Similarly, quoted taxes and operating average \$14.57 psf for all building classes, in the Suburban South market. Class A buildings average \$15.01 psf,

SUBURBAN SOUTH OFFICE MARKET AVERAGE ASKING RENTS



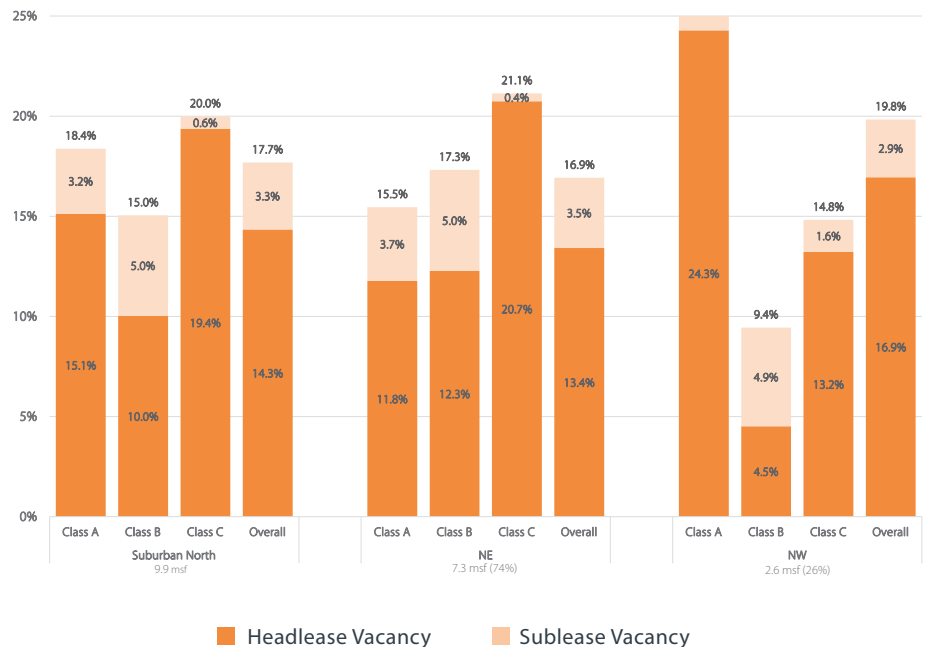
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class B buildings average \$14.64 psf, and class C buildings average \$10.48 psf.

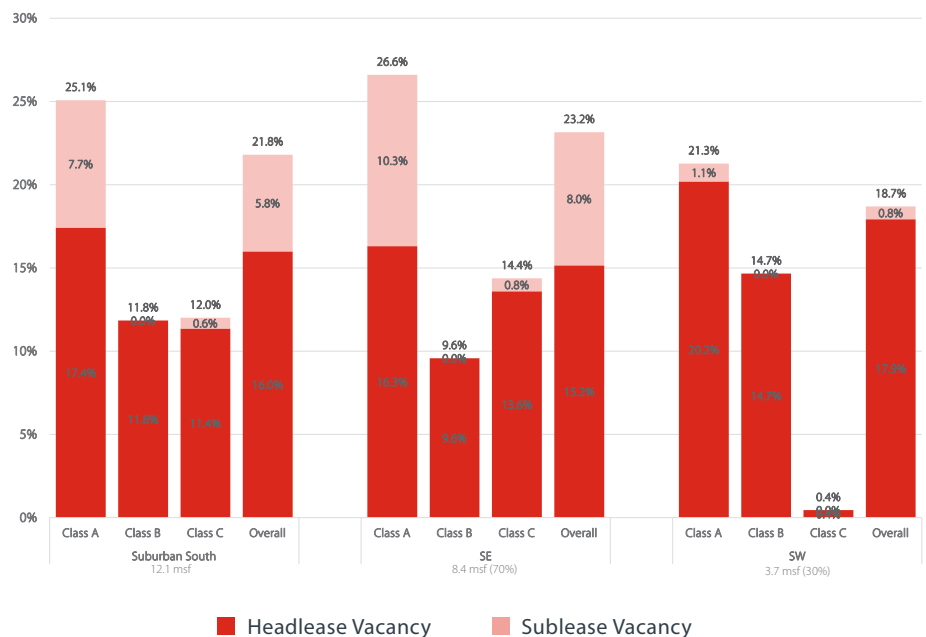
There are 20 availabilities in Suburban South Calgary with more than 30,000 sf available in one contiguous block. These 20 blocks of space represent 63% of the total availability of space in the Suburban South office market and 67% of this space is available on a headlease basis.

No new buildings were added to inventory in first quarter 2018. One office building remains under construction in Suburban South Calgary: **Macleod Professional Centre**. This building contains 31,000 sf of new space, and is currently 53% pre-leased. Given the current, widespread availability in the office market and slow absorption of space, limited new construction is anticipated to commence in 2018. ■

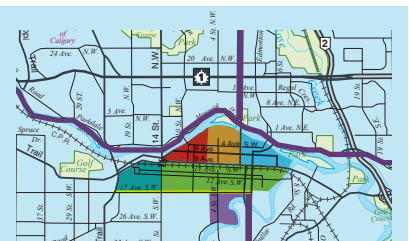
SUBURBAN NORTH OFFICE VACANCY BY LOCATION



SUBURBAN SOUTH OFFICE VACANCY BY LOCATION



In this new series of graphs (above), view the differences in vacancy rates for further geographic breakdowns of the four main Calgary submarkets. Click [HERE](#) to view the entire series.



FEATURED DOWNTOWN

Fina Building



736 - 8th Avenue SW
HEADLEASE Opportunity
From 1,897 sf up to 13,649 sf

Hanover Place



101 - 6th Avenue SW
HEADLEASE Opportunity
From 997 sf up to 222,662 sf

FEATURED BELTLINE

RECA Building



1506 - 11th Avenue SW
HEADLEASE Opportunity
3,453 sf

Gulf Canada Square



401 - 9th Avenue SW
SUBLEASE Opportunity
From 3,567 sf up to 340,126 sf

FEATURED SUBURBAN NORTH

Centre 810



7777 - 10th Street NE
SUBLEASE Opportunity
3,634 sf

FEATURED SUBURBAN SOUTH

1212 - 58th Avenue SE



HEADLEASE Opportunity
From 1,700 sf up to 11,711 sf

325 Manning Road NE



325 Manning Road NE
HEADLEASE Opportunity
From ±1,000 sf - ±18,107 sf

Snowdon Block



2010 - 11th Street SE
HEADLEASE Opportunity
From 1,369 sf up to 2,840 sf

Avison Young Calgary Office Team

Taylor Archer

taylor.archer@avisonyoung.com

Loveleen Bhatti

loveleen.bhatti@avisonyoung.com

Roseleen Bhatti

roseleen.bhatti@avisonyoung.com

Rachel Carter

rachel.carter@avisonyoung.com

Eric Demaere

eric.demaere@avisonyoung.com

Spencer Duff

spencer.duff@avisonyoung.com

Steve Goertz

steven.goertz@avisonyoung.com

Larry Gurtler

larry.gurtler@avisonyoung.com

Eric Horne

eric.horne@avisonyoung.com

Chris Howard

chris.howard@avisonyoung.com

Jason Kopchia

jason.kopchia@avisonyoung.com

Tinyan Leung

tinyan.leung@avisonyoung.com

Jordyn Malkinson

jordyn.malkinson@avisonyoung.com

Miri Mammadov

miri.mammadov@avisonyoung.com

Paul McKay

paul.mckay@avisonyoung.com

Alexi Olcheski

alexi.olcheski@avisonyoung.com

Nairn Rodger

nairn.rodger@avisonyoung.com

Kirsten Scott

kirsten.scott@avisonyoung.com

Glenn Simpson

glenn.simpson@avisonyoung.com

Anna Sorensen

anna.sorensen@avisonyoung.com

Mark St. Pierre

mark.stpierre@avisonyoung.com

Todd Thronson

todd.thronson@avisonyoung.com

Alex Wong

alex.wong@avisonyoung.com

Allan Zivot

allan.zivot@avisonyoung.com

Business Condominium Team

Pali Bedi

pali.bedi@avisonyoung.com

Fred Clemens

fred.clemens@avisonyoung.com

Puneet Nagpal

puneet.nagpal@avisonyoung.com

For more information, please contact:

Research

Susan Thompson | 403.232.4344

susan.thompson@avisonyoung.com

Graphics

Penelope Johnson

penelope.johnson@avisonyoung.com



Intelligent
Real Estate
Solutions

Eighth Avenue Place West - Suite 1200, 585 - 8th Avenue SW, Calgary, AB T2P 1G1 | T 403.262.3082 F: 403.262.3325

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