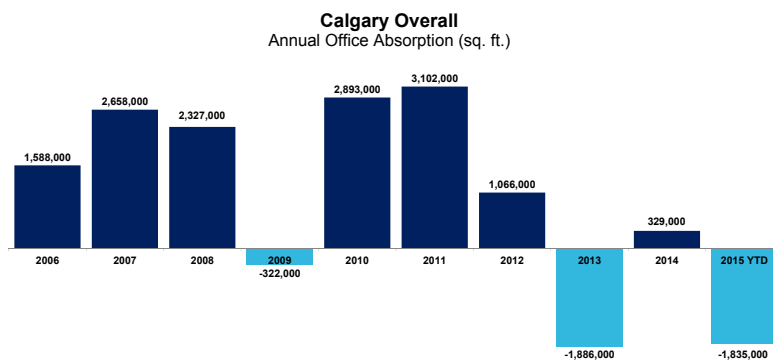


The second quarter of 2015 saw a continuation of the downturn in Calgary's commercial office market, with additional space placed on the market citywide. With oil prices making a slow recovery to the low \$60/barrel range, energy companies remained cautious with their outlook for the coming 12-24 months. Adding to the overall uneasiness was the election of the New Democratic Party to a majority government in Alberta. Among various policies in the party platform are the implementation of environmental protection programs and a royalty review, each of which generated uncertainty within Alberta's energy industry as to what the financial costs and long-term effects may be. The energy industry remains very cautious with a strong focus being on managing costs.



The current environment is proving to be conducive to merger and acquisition activity as smaller players find it increasingly difficult to stay in the game. This period of merger and acquisition activity is expected to lead to additional sublease space being placed on the market as 2015 draws to a close. Noteworthy on this point are the June 2015 Crescent Point/Legacy Oil + Gas Inc. and Trinidad Drilling Ltd./ CanElson Drilling Inc. mergers. The move by Trinidad Drilling will increase its exposure to the Bakken and Permian Basins where oil production costs are low, to set itself up for oil price recovery. Positioning of this nature is featured more prominently in the energy sector

as crude oil extraction slowly increases, thanks to continued stabilization in oil prices. Recent oil supply and distribution numbers show total crude oil extraction increased by 7.8 per cent from February to March.

### Calgary Q2 2015 Office Construction Summary

Class	Building	District	Office Area (sf)	Expected completion	% Leased/ Pre-leased	LEED Target
AA	Calgary City Centre	Downtown	820,000	Q4 2015	81%	Gold
	Eau Claire Tower	Downtown	615,000	2017	75%	Gold
	707 Fifth Street	Downtown	564,000	Q2 2017	45%	Gold
	Telus Sky	Downtown	460,000	Q1 2018	50%	Platinum
	Brookfield Place Calgary - East	Downtown	1,400,000	2018	71%	Gold
A	Place 10 - East Tower	Beltline	316,500	Q2 2017	0%	Silver
	Corus Block	Suburban South	18,400	Q4 2015	100%	
	Quarry Crossing B	Suburban South	162,000	Q4 2015	0%	Gold
	Seton Professional Centre - East Building	Suburban South	44,000	Q2 2016	90%	
	Seton Professional Centre - West Building	Suburban South	53,000	Q2 2016	31%	
	Imperial Oil Campus - Phase II	Suburban South	661,000	Q2 2016	100%	Gold
	The Odeon	Suburban South	38,000	Q2 2016	23%	
	Mountain View Business Campus Building IV	Suburban South	75,000	Q3 2016	0%	
	Quarry Crossing II Building D	Suburban South	150,000	Q2 2017	0%	Gold
	Quarry Crossing II Building C	Suburban South	181,000	Q3 2017	0%	Gold
	Quarry Crossing II Building E	Suburban South	181,000	Q3 2017	0%	Gold
	The Windsor	Suburban South	70,000	Q2 2017	0%	
	Fountain Court Building III	Suburban South	29,500	TBD	0%	
	Crowfoot 75	Suburban North	51,800	Q3 2015	0%	LEED Shadow
	Meredith Block	Suburban North	161,000	Q3 2015	15%	Gold
Computer Modelling Group (CMG) Building	Suburban North	90,000	Q2 2017	100%		
The District at North Deerfoot	Suburban North	96,000	Q2 2017	0%		

### Calgary Q2 2015 Office Completion Summary

Class	Building	District	Office Area (sf)	Completion	% Leased	LEED Target
A	Fountain Court Building I	Suburban South	24,400	Q2 2015	19%	
	Fountain Court Building II	Suburban South	36,500	Q2 2015	0%	
	Snowdon Block	Suburban South	21,000	Q2 2015	15%	
	Quarry Crossing A	Suburban South	161,000	Q2 2015	64%	Gold
	Arcuri Business Centre	Suburban North	27,000	Q2 2015	0%	

Demand for office space, particularly in Calgary's downtown market, remained decidedly cool. Leasing activity in the second quarter was largely the result of necessity and was far outweighed by the addition of new space to the market. It is anticipated this trend will continue through the third and fourth quarters with a diminishing delta. We have seen the effects of the slowdown in rental rate reductions across all office classes, with the greatest softening occurring in the B and C class markets. Landlords and sublandlords were faced with increasing competition due to the flood of new leasing opportunities, coupled with

a lack of prospective tenants in the market for new premises. This situation created downward pressure on rental rates and created an environment in which inducements such as tenant improvement allowances and free rent have been increased.

On that note, the current abundance of subleases also represents an environment of increased risk for prospective subtenants. The current economic situation has facilitated competition so fierce that in some instances, spaces have been marketed at operating cost recovery only. This situation has been seen to occur when the remaining term of a lease is shorter than 18 months. In this regard, caution should be exercised and a moment taken to examine the particulars of these opportunities. For example, one consideration is the strength of a given sublandlord's covenant. There have been some significant situations in Calgary where this issue has come back to hurt the subtenant.

### Calgary Overall - Vacancy 11.5%

Within the Calgary market there was 5.1 million square feet (msf) of headlease office space available, out of a city-wide inventory of 70 msf. This represents an increase of approximately 131,000 square feet (sf) from first quarter of 2015. Sublease space adds a further 3 msf of space, up approximately 676,000 sf from the previous quarter. Absorption for the overall city in the second quarter of 2015 was negative 826,000 square feet (msf), with the Downtown at negative 538,000 sf and the Beltline at negative 147,000 sf. The Suburban North market posted absorption of negative 40,000 sf, and Suburban South absorption was negative 101,000 sf.

Overall vacancy within Calgary's office leasing market rose in the second quarter of 2015, reaching 11.5%. This takes into account all space available for occupancy within a six month period to calculate vacancy. Using this method, we see 241,000 sf of headlease space and 111,000 sf of sublease space in existing buildings coming available between July 1st and December 31st, 2015.

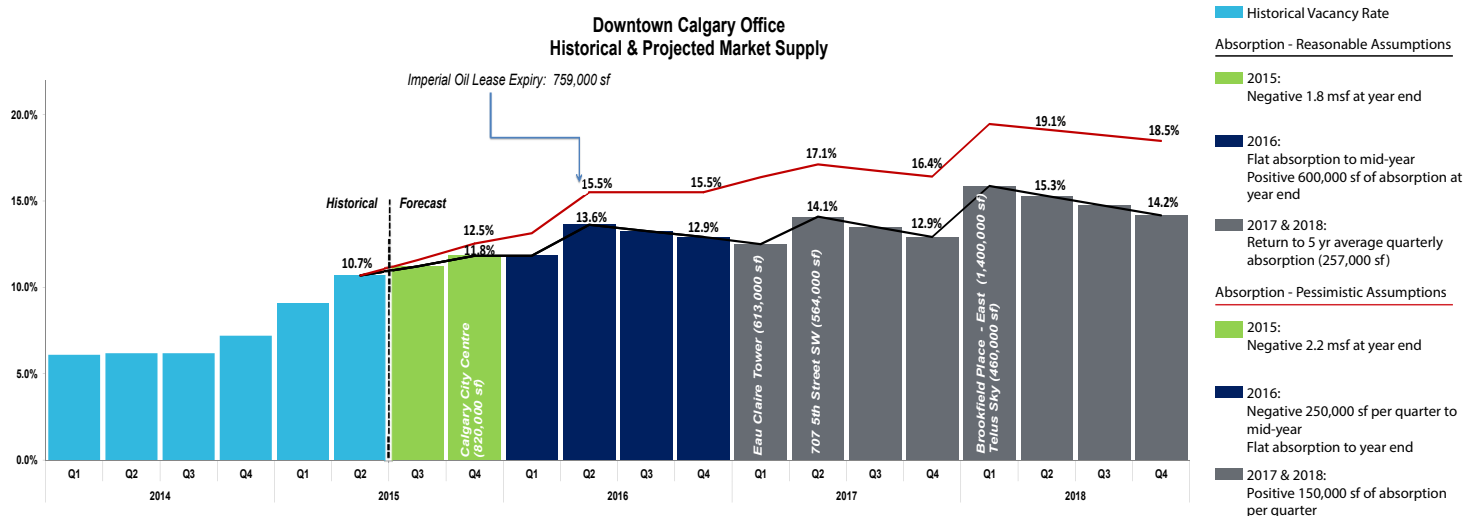
There are currently 23 office developments under construction in Calgary, containing approximately 6.2 msf of office space. Of the 1.2 msf of office space remaining for delivery in 2015, 540,000 sf remains available for lease. Construction continues on a speculative basis for several projects, such as Meredith Block (Remington), Place 10 (Centron) and Quarry Crossing B (Remington). The latest project to move forward is Mountain View Business Campus IV by Cominar REIT.

The effects of a building boom that began in mid-2014 began to manifest in the second quarter of 2015 as approximately 249,000 sf of new office product was completed and the redeveloped 21,000 sf Snowdon Block came available. In total, 270,000 sf was added to the suburban market, primarily in the Suburban South. Four of the five new properties were spec-built projects which bore the risk of reaching completion with substantial vacancy. In that regard, 159,000 sf remains vacant.

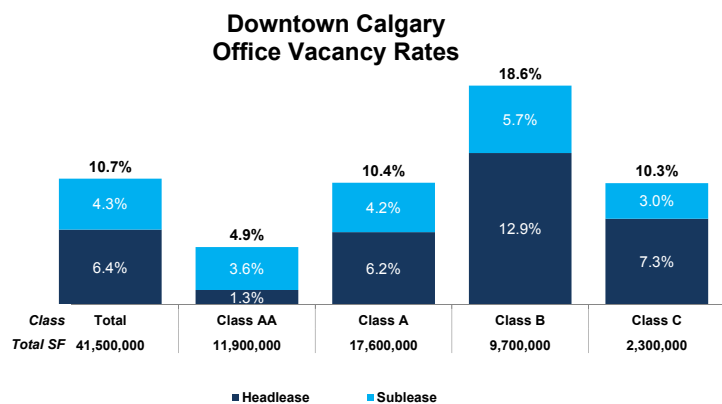
### Downtown - Vacancy 10.7%

The second quarter of 2015 saw the vacancy rate for Downtown rise to 10.7%, up significantly from 9.1% in first quarter of 2015, and up from 8.3% one year prior. Looking at specific building classes, class AA space had a vacancy rate of 4.9%, class A was at 10.4%, class B at 18.6%, and class C had a vacancy rate of 10.3%.

The Calgary market remained on unsure footing despite the rise in oil prices over the second quarter, averaging \$60 per barrel at June 30th. There are lingering concerns surrounding the longevity of this new pricing floor, which, coupled with ongoing uncertainties surrounding the new Provincial government has caused concern in the real estate community. Additional spaces continued to be placed on the sublease market as companies made further moves to trim expenses and limit their exposure to the market. Landlords also found themselves with large amounts of headlease space to fill.



Absorption for the second quarter of 2015 was negative 538,000 sf, which continues to reinforce a wait-and-see approach taken by many tenants whose leases expire over the next 24 months. In addition to the new vacancy being marketed in Q2, we continue to see large pockets of very attractive AA and A Class headlease space remain on the market for long periods of time. One example of this is Devon Tower, in which multiple floors have been on the market since mid-2014.



With respect to Downtown office construction, the downtown core can expect nearly four million square feet of newly developed office space over the coming three years. Downtown projects include:

- ✓ **Calgary City Centre** remains approximately 80% pre-leased. This building is expected to be ready for tenant occupancy by the end of 2015.
- ✓ The 25-storey, 613,000 sf **Eau Claire Tower** project by Oxford Properties remained 75% pre-leased. This building will complete Oxford's Eau Claire lands redevelopment and is anticipated in Q1, 2017.
- ✓ The 27-storey **707 Fifth** will contain 564,000 sf of office space when complete in mid-2017. This tower is being built by Manulife with Brion Energy as the lead tenant. Current vacancy is 240,000 sf
- ✓ The office portion of the 58-storey, 750,000 sf mixed-use **Telus Sky** tower has 315,000 sf remaining for lease. Completion is anticipated in 2018.
- ✓ The core for the 1.4 million square foot (msf) **Brookfield Place Calgary** tower has progressed significantly by the end of the second quarter, reaching nearly 16 floors. Cenovus has leased approximately 1,000,000 square feet in this tower, which will be the tallest in Calgary when completed in 2018.

Several large pockets of headlease space were available in the Downtown market. In Bow Valley Square IV and Calgary Place I, approximately 200,000 sf and 145,000 of headlease space remained available, respectively. In 840 Seventh, more than 107,000 sf could be found. As to large pockets of sublease

space, four consecutive floors could be found in BP Centre totaling 95,000 sf and there were three full floors in Penn West Plaza equaling 64,000 sf. Three contiguous floors totaling 59,000 sf remained available in Devon Tower.

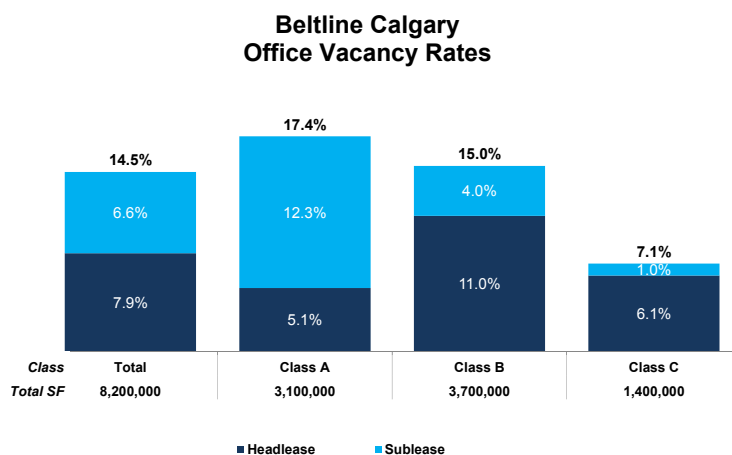
An additional 285,000 sf comes available in the second half of 2015, with 165,000 sf of that being headlease space. Notable pockets of space will be the 27th floor of AMEC Place at 16,000 sf and two floors in Calgary House at 15,000 sf each. The largest block of sublease space will be three floors totaling 42,000 sf in the Alberta Treasury Branch building. This space comes available in September.

## Beltline - Vacancy 14.5%

The Beltline vacancy rate increased to 14.5% for second quarter 2015, up from 12.5% in the first quarter of 2015 and up from 10.4% recorded one year prior. The amount of available headlease space decreased by 3,000 sf during the quarter, while available sublease space increased by 150,000 sf. Looking at the specific classes of buildings, class A had a vacancy of 17.4%, class B had a vacancy of 15%, and class C had a vacancy rate of 7.1%.

During the second quarter of 2015, 639,000 sf of vacant headlease office space was available and a further 541,000 sf of sublease space was available out of a total Beltline market inventory of 8.2 msf. Absorption over the second quarter of 2015 was negative 147,000 sf, an increase from the negative 35,000 sf during the first quarter of 2015 and down from the positive 153,000 sf witnessed one year earlier.

The newest addition to the Beltline, 11th Avenue Place, remains approximately 40% vacant, making this property the largest pocket of available space in this market. In 1216-10th Avenue SW, three consecutive floors comprising 47,000 sf of headlease space was available. In 333-11th, multiple suites totaling 61,000 sf could be found. With respect to large pockets of sublease space, two consecutive floors comprising 38,000 sf could be found in IBM Building C and 37,000 sf could be found among two consecutive floors in Stampede Station.



In the second quarter of 2015, 60,000 sf of high quality space entered the market for sublease in Keynote Tower.

Only one office building remains under construction in the Beltline at this time.

- ✓ Centron Group is moving forward on spec with **Place 10 - East Tower**. Delivery of this 14-storey, 316,500 sf office building is expected in mid-2017.

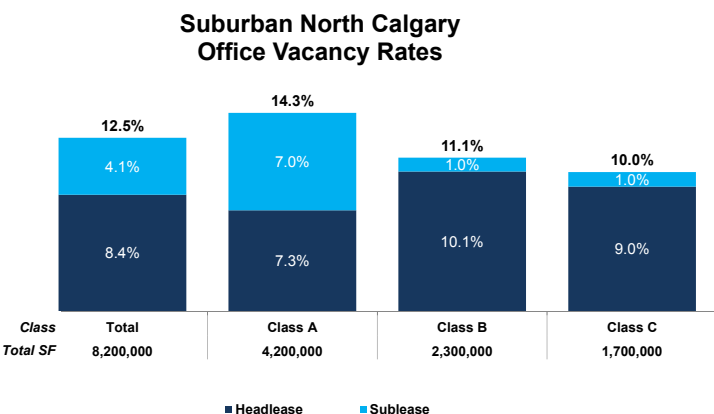
## Suburban North – Vacancy 12.5 %

Vacancy in the Suburban North market increased to 12.5% in the second quarter of 2015, up from 12.1% at the end of first quarter of 2015 and up from 10.8% one year prior. Vacancy in the Northwest was 19.3%, while the Northeast had a vacancy of 9.8%. Looking at specific building classes, class A space had a vacancy rate of 14.3%, class B had 11.1%, and class C had a vacancy rate of 10%.

Over the second quarter of 2015 there was a 13,000 sf increase in available head lease space and an increase of approximately 27,000 sf in available sublease space. Within the entire Suburban North market, 696,000 sf of head lease office space was available for tenancy, with the largest pockets being 63,000 sf in Cambrian Centre I – East, 39,000 sf in Deerfoot Atrium South and 36,000 sf in 1111- 49th Avenue NE. Sublease space adds a further 340,000 sf of space, with Deerfoot Atrium North containing three blocks of space totaling more than 74,000 sf.

Absorption for the second quarter of 2015 was negative 40,000 sf, up from the negative 13,000 sf witnessed for the first quarter of 2015 and down from the positive 33,000 sf witnessed one year prior. Contributing to negative absorption in this market was Arcuri Business Centre, which reached completion the end of the second quarter with no pre-leasing in place. This two-storey, 27,000 sf development is the first of three projects to be completed in the Suburban North market this year.

With respect to Suburban North office construction, two developments containing 213,000 sf of office space are in the final stages of completion and are anticipated in the third quarter of 2015.



- ✓ **Crowfoot 75** by Telsec. This 52,000 sf speculative office project is expected early in the third quarter of 2015. As of the second quarter of 2015, no leasing had been completed.
- ✓ **Meredith Block** by Remington Development Corp. This project in Calgary's historic Bridgeland community is expected to come on-line during the third quarter of 2015. Approximately 15% of this seven-storey project had been pre-leased to IBI Group Inc. as of the second quarter of 2015.

## Suburban South – Vacancy 11.5%

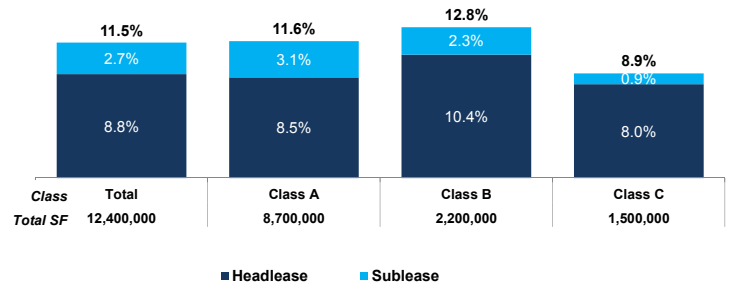
The vacancy rate for the Suburban South was 11.5% in the second quarter of 2015, up from 11% at the end of first quarter of 2015 but down from 12.5% one year prior. The rise in vacancy

was caused primarily by the unleased portions of Fountain Court, Snowdon Block and Quarry Crossing A hitting the market. The Southwest quadrant had a vacancy rate of 13.6%, and the Southeast quadrant had a vacancy rate of 10.7%. Looking at specific building classes, class A space had a vacancy rate of 11.6%, class B had 12.8%, and class C had a vacancy rate of 8.9%.

Within the Suburban South market there was a total of 1 million square feet of vacant headlease space available. This is up 74,000 sf from first quarter of 2015. The largest contiguous pocket of available headlease was in Sundance Place, where all four floors comprising 168,000 sf were available. Another large headlease option in the Suburban South was Southland Park II where 101,000 sf could be found among two floors. Sublease space adds a further 332,000 sf of options. This is up 11,000 sf from the previous quarter. More than 71,000 sf of sublease space could be found in the Golder Building among three floors. In Railway Corporate Centre B, Jacobs Canada placed 25,000 sf on the market.

Net absorption for the second quarter of 2015 was negative 101,000 sf, up from negative 35,000 sf in the first quarter of 2015 and down from positive 153,000 sf one year prior. The primary contributors to the overall weakness of this market were the first two buildings of Fountain Park, the Snowdon Block redevelopment and Quarry Crossing A, all of which were completed during this quarter and brought substantial vacancy. Buildings I and II at Centron's Fountain Court development were completed at the end of June with Building I approximately 19% leased. No leasing had been completed in Building II, leaving approximately 56,000 sf of space vacant among these two buildings. The redeveloped Snowdon Block by Heritage Property Corporation was completed early in the second quarter and was approximately 15% leased. Quarry Crossing A by Remington Development Corp. was approximately 64% leased at introduction.

### Suburban South Calgary Office Vacancy Rates



Twelve developments comprising more than 1.6 msf of office space are currently underway in the Suburban South market, two of which are expected to come on-line in the fourth quarter. Major projects include:

- ✓ **Quarry Crossing B** by Remington Development Corp. is expected in the fourth quarter of 2015. No pre-leasing had been completed in this building as of the end of the second quarter.
- ✓ Cominar REIT is moving forward with **Mountain View Business Park, Building IV** as a spec development, under the expectation that the local economy will have recovered by the time of completion. Delivery of this building is anticipated in mid-2016.
- ✓ **The Odeon** by Ronmor Developers in the heart of Marda Loop combines a mix of office and retail space. This development is expected to reach completion during the second quarter of 2016. The office portion was approximately 23% pre-leased as of the second quarter of 2015
- ✓ The final two buildings for the **Imperial Oil Campus, Phase II** in Quarry Park are expected to come on-line in mid-2016. These buildings will add approximately 661,000 sf of office space to this market.
- ✓ **Seton Professional Centre East & West** buildings are expected to be available for tenant fixturing in mid-2016. These three-storey office buildings comprise approximately 97,000 sf of office space.
- ✓ Remington Development Corp. is proceeding with **Quarry Crossing C, D and E** in anticipation of future demand. These three, five-storey office buildings will contain a total of 512,000 sf of office space. Delivery is anticipated in late 2017.

#### References:

Avison Young Research | Ford, N. (June 2015). *Alberta oil extraction heats up*. The Owl. Retrieved from: <http://us7.campaign-archive1.com/?u=e425b7083c1526d250de3c060&id=6d25321486&e=fa1dba77ef> | *Yadullah, H. (June 2015). Trinidad Drilling Ltd. And CanElson Drilling Inc. to merge in \$506-million deal that creates oil giant. Financial Post.* Retrieved from: [http://business.financialpost.com/news/energy/trinidad-drilling-ltd-and-canelson-drilling-inc-to-merge-in-506-million-deal-that-creates-oil-drilling-giant?\\_\\_lsa=2d44-4461](http://business.financialpost.com/news/energy/trinidad-drilling-ltd-and-canelson-drilling-inc-to-merge-in-506-million-deal-that-creates-oil-drilling-giant?__lsa=2d44-4461)



# Featured Office Listings



**Gulf Canada Square**

401 - 9 Avenue SW  
Sublease Opportunity



**11500 - 29 Street SE**

Lease Opportunity



**Horizon Business Centre I**

2635 - 37 Avenue NE  
Lease Opportunity



**Place 800**

800 - 6 Avenue SW  
Sublease Opportunity



**Centre 15**

1509 Centre Street SW  
Lease Opportunity



**Westmount Court**

5010 Richard Road SW  
Sublease Opportunity



**McFarlane Tower**

700 - 4 Avenue SW  
Sublease Opportunity



**Bicult Block**

438 - 11 Avenue SE  
Sublease Opportunity

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