

Calgary



Quick Stats

22.0%

Calgary Overall Vacancy

24.4%

Downtown Vacancy

20.0%

Beltline Vacancy

17.2%

Suburban North Vacancy

18.1%

Suburban South Vacancy

Downtown Calgary office market sees more positive absorption in first half of 2019 than in all of 2018

Second quarter 2019 was a strong quarter for Calgary's office market. At the half way point of 2019 the overall Calgary office market recorded its fourth consecutive quarter of positive absorption, something the market hasn't seen since 2014. This positive trend carried through to the Downtown office market, which also saw its fourth consecutive quarter of positive absorption, a trend not seen in that market segment in seven years. The last time this type of trend was seen in the Downtown market was between 2009 and 2012, seven years ago, when the market was finishing a run of twelve consecutive quarters of positive absorption. Additionally, the cumulative absorption for Calgary's Downtown office market for the first half of 2019, 446,000 square feet (sf), is higher than all of 2018, which saw a total of 400,000 sf of positive absorption for the year.

A collective sigh of relief was made in Calgary following the announcement that

the federal government had approved the Trans Mountain Pipeline. However, until construction is completed and bitumen is flowing, skepticism will remain. While the announcement is a good first step, companies in Calgary are still going to be cautious. It is a single step on a long journey towards Calgary's future.

When West Texas Intermediate (WTI) oil prices collapsed at the end of 2014, from a peak of \$107.95 per barrel on June 20, 2014, falling over US\$80 per barrel over the course of the next 18 months, to a low of US\$26.19 per barrel on February 11, 2016, Alberta and Calgary economies both fell into recession in 2015-2016. Thousands of layoffs followed in downtown Calgary where head offices for Canada's energy sector are concentrated, thus leading to a historic spike of empty office space, close to 27% for Downtown Calgary. Today the picture has improved, but remains challenged. WTI is hovering around US\$50 per barrel in June 2019, Downtown office vacancy around 24%, and the unemployment rate remains stubbornly high.

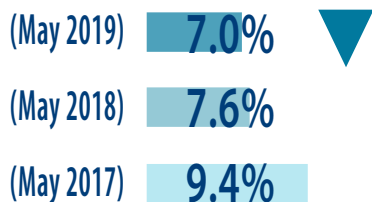
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AVISON YOUNG

		VACANCY	QUARTERLY ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	QUARTERLY NEW SUPPLY (SF)	AVERAGE ASKING NET RENTAL RATES (SF)
Downtown	Q2 2019	24.4%	418,000	0	0	\$4 - \$36
	Q1 2019:	25.3%	28,000	0	460,000	\$4 - \$36
	Q2 2018:	26.0%	-290,000	460,000	0	\$4 - \$36
Beltline	Q2 2019	20.0%	-41,000	0	0	\$5 - \$24
	Q1 2019:	19.5%	-12,000	0	0	\$5 - \$24
	Q2 2018:	19.5%	-60,000	0	28,000	\$5 - \$26
Suburban North	Q2 2019	17.2%	-17,000	0	0	\$6 - \$26
	Q1 2019:	17.1%	76,000	0	0	\$6 - \$26
	Q2 2018:	17.4%	159,000	48,000	160,000	\$6 - \$30
Suburban South	Q2 2019	18.1%	83,000	138,000	0	\$6 - \$29
	Q1 2019:	18.7%	48,000	138,000	0	\$6 - \$29
	Q2 2018:	22.1%	-40,000	31,000	0	\$6 - \$30
Overall	Q2 2019	22.0%	444,000	138,000	0	
	Q1 2019:	22.6%	140,000	138,000	460,000	
	Q2 2018:	23.5%	-231,000	540,000	188,000	

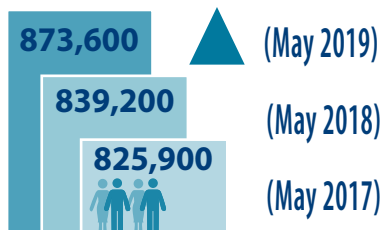


UNEMPLOYMENT RATE

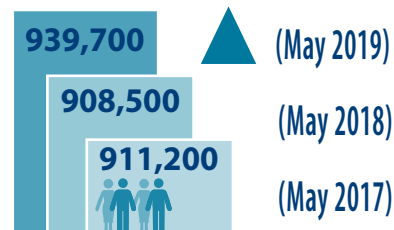


Source: Statistics Canada

EMPLOYMENT (PEOPLE)



LABOUR FORCE (PEOPLE 15 +)

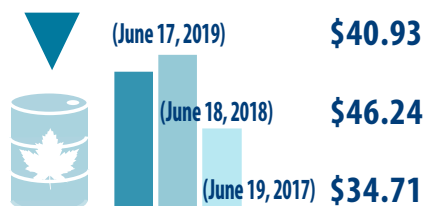


WTI SPOT PRICE (\$US/BARREL)

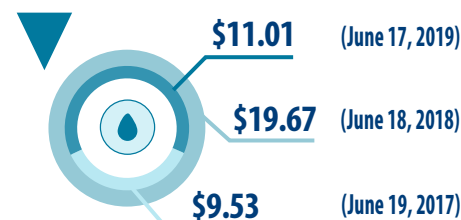


Source: U.S. Energy Information Administration, Bloomberg

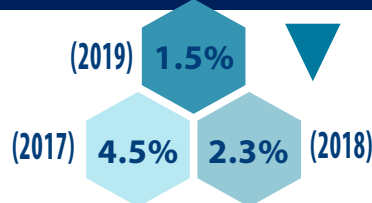
WCS SPOT PRICE (\$US/BARREL)



DIFFERENTIAL (\$US/BARREL)

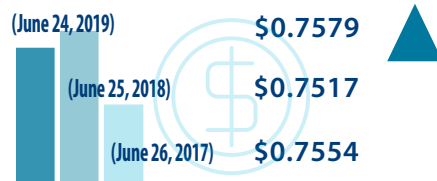


GDP GROWTH FORECAST



Source: Conference Board of Canada, Bank of Canada, Wikipedia

CANADA-US EXCHANGE RATE



BUILDING VACANCY TREND

Fully Occupied	Completely Vacant	
20,429,113 SF	1,264,860 SF	(Q2 2019)
20,048,673 SF	1,086,107 SF	(Q2 2018)
19,797,791 SF	922,319 SF	(Q2 2017)

Source: Avison Young Calgary, Research Department

continued from page 1

Calgary’s overall employment has fully recovered from the losses incurred over the course of the downturn. In May 2015 Calgary’s employment peaked at 826,000 people before beginning its downward slide through the downturn. As of May 2019, Calgary’s employment is 873,600 people, a new peak value and 47,600 people above that pre-downturn peak. In terms of the unemployment rate, recovery does not occur in a straight line, but the general trend for the last year has been pretty flat. The unemployment rate for May 2019 decreased to 7.0%, from 7.6% in April 2019, which was the same as 7.6% 12 months ago in May 2018. The main reason for the unemployment rate not decreasing as employment rises, is that more people are entering the labour force than there are jobs being created. Additionally, those jobs being created are generally not office-based employment this is noteworthy as the types of jobs lost during the downturn haven’t been replaced, even though overall employment has recovered.



Calgary’s unemployment rate remains distant from the low of 4.4% recorded in November 2014, but is below the peak unemployment rate of 10.3% which was recorded over two years ago in November 2016. The most significant job increases have incurred in the transportation and warehousing, manufacturing, and administrative and support services industry sectors. The current outlook for Calgary’s office market is modest growth for the next year.

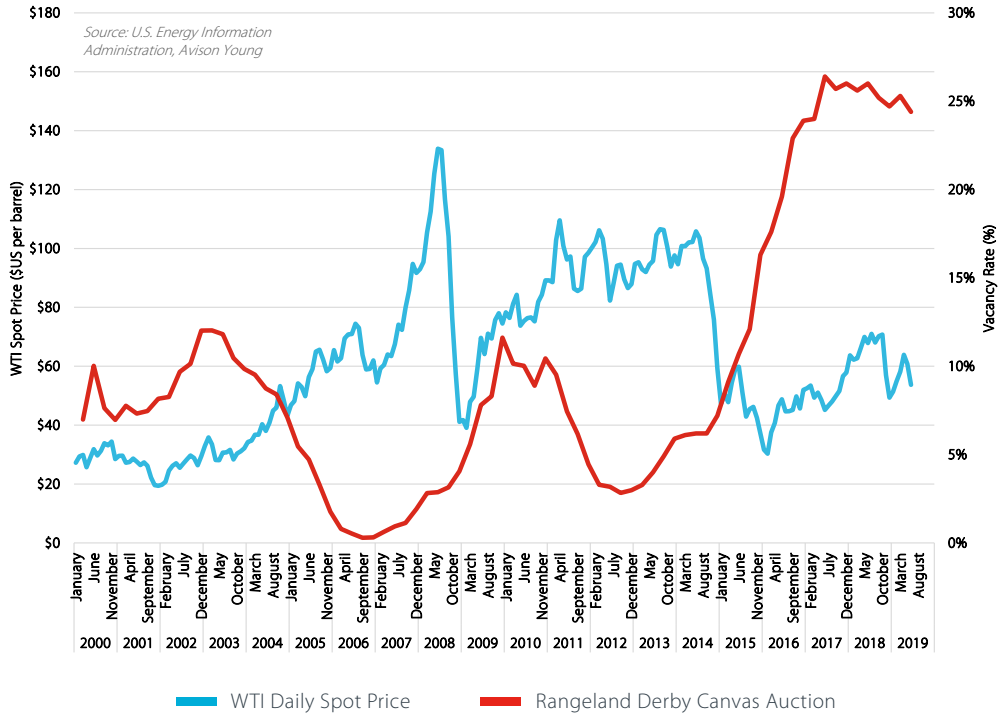
Calgary Overall



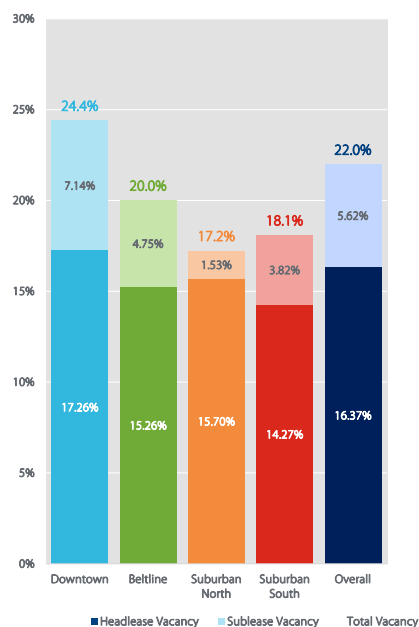
The overall vacancy rate decreased to 22.0% during the second quarter of 2019 from 22.6% in first quarter 2019, and is down from 22.9% recorded 12 months ago in second quarter 2018. Across the entire Calgary office market, there is currently 12.6 million square feet (msf) available as headlease space (space available directly from the landlord), which represents 74% of Calgary’s overall availability, a shift in comparison from 69% two years ago. Absorption for the overall Calgary office market continued to be positive in the second quarter of 2019, with 444,000 square feet (sf) being absorbed. This is the fourth consecutive quarter of positive absorption for the overall Calgary office market. The Downtown

and Suburban South office markets saw positive absorption in second quarter 2019 while the Beltline and Suburban North office submarkets saw negative absorption in second quarter 2019. Approximately 144,000 sf of new office space, in three projects, remains under construction across Calgary, all in the Suburban South office market, with 75% pre-leasing in place. Second quarter 2019 was dominated by three larger lease deals. However, all of these deals were under 100,000 sf. These deals have been a rare exception to the leasing trends of the past few years. Overall, the average office tenant in Calgary has shrunk in size, with the lion’s share of deals being completed today being less than 10,000 sf. This predominance of smaller tenants combined with the high vacancy rate is continuing to pressure landlords to stay competitive and improve their creativity.

Historical Price of Oil vs Calgary Downtown Office Vacancy Rates



Overall Calgary Office Vacancy Rates



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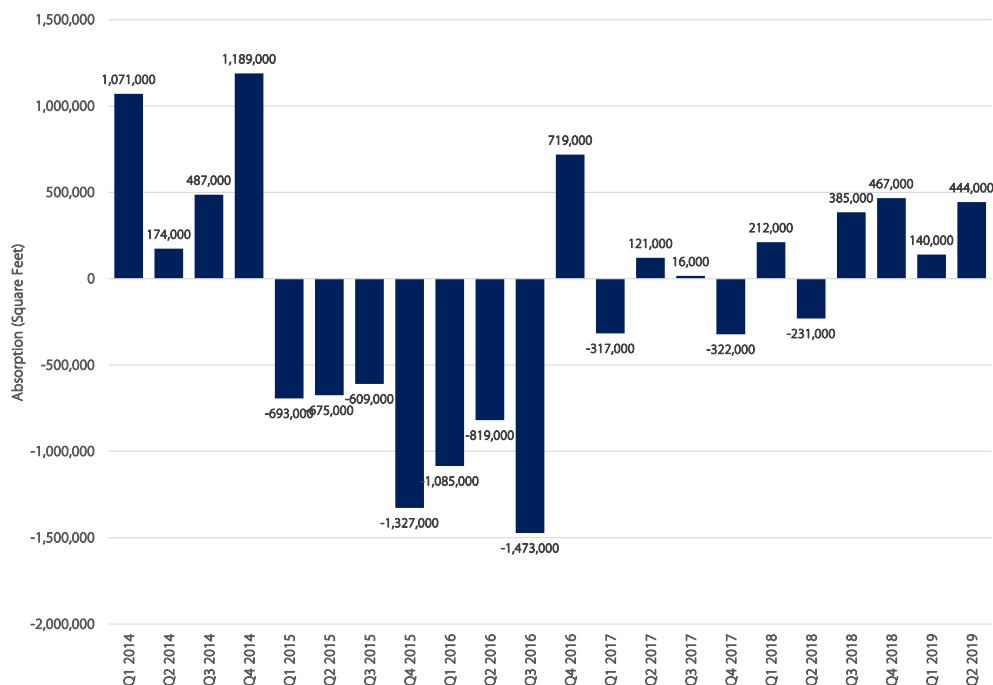
This competitive approach by landlords is furthering the flight-to-quality across the Calgary office market. Tenancies in the lower-class spectrum are now able to consider space in the better-quality buildings due to lower rent and increased availability of options. Landlords and tenants are finding a market that offers both sides opportunities for advantageous deals. Attractive rental rates and inducements are now at levels where tenants can either move into better quality buildings at similar or even lower rates than they are currently paying, or look at early renewals that offer to blend and extend their rates on a reduced financial platform. Either option can result in keeping a tenant's cost structure stabilized or seeing significant cost reduction, depending on the situation.



ATB FINANCIAL | MAY 2019
ALBERTA ECONOMIC OUTLOOK

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Calgary Overall Quarterly Office Absorption



Downtown



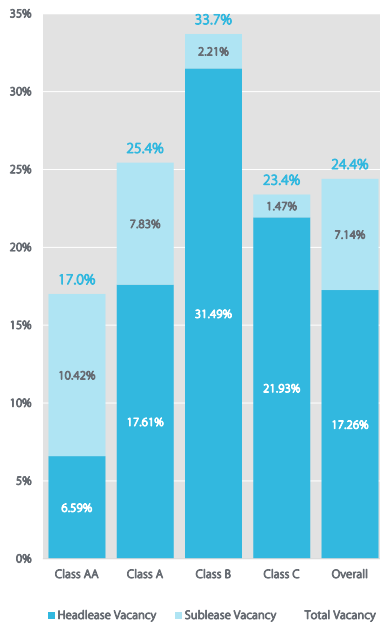
Calgary's Downtown office vacancy decreased once again. As of second quarter 2019 the Calgary Downtown office vacancy rate is 24.4%. This is down from 25.3% in first quarter 2019, and down from 26.0% 12 months ago in second quarter 2018. Peak vacancy for this downtown, so far, occurred in the first quarter of 2017 at 26.4%. With no new construction in the foreseeable future, it is expected that vacancies will now start a slow decline over the next several years.

Total vacancy for the Downtown office market is 11.3 msf, broken down by: 8.0 msf of headlease space (71%) and 3.3 msf of sublease space (29%). It needs to be clarified these numbers only reflect space being marketed and does not include shadow space, which is vacant space that companies have not put on the market for a variety of reasons. There is speculation this number could be anywhere from 2-5% of additional vacancy. Vacancy by class is now: class AA – 17.0%, class A – 25.4%, class B – 33.7%, and class C – 23.4%.

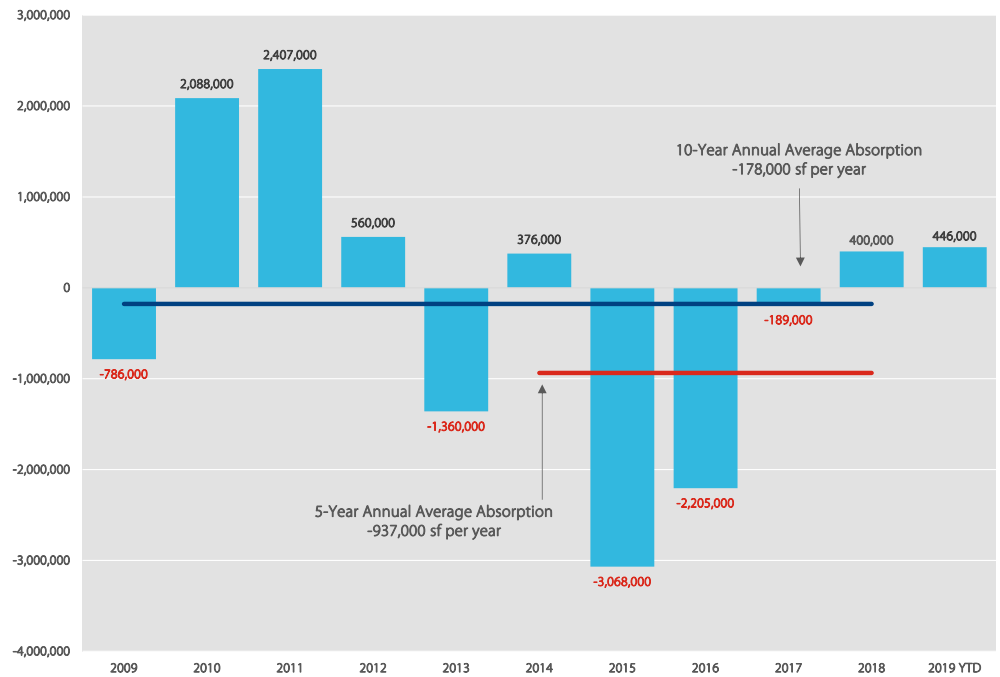
Absorption in the Downtown office market for second quarter 2019 was positive 418,000 sf. This marks the fourth consecutive quarter of positive absorption for the Downtown office market, something the market hasn't seen since a streak of positive absorption starting in fourth quarter 2009 and ending in third quarter 2012 – seven years ago. The Downtown office market appears to be shifting towards stability. However, the forecasts are uncertain as to what the remainder of

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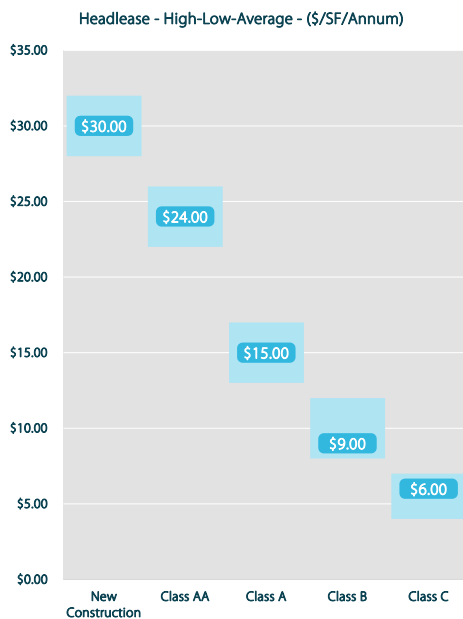
Downtown Calgary Office Vacancy Rates



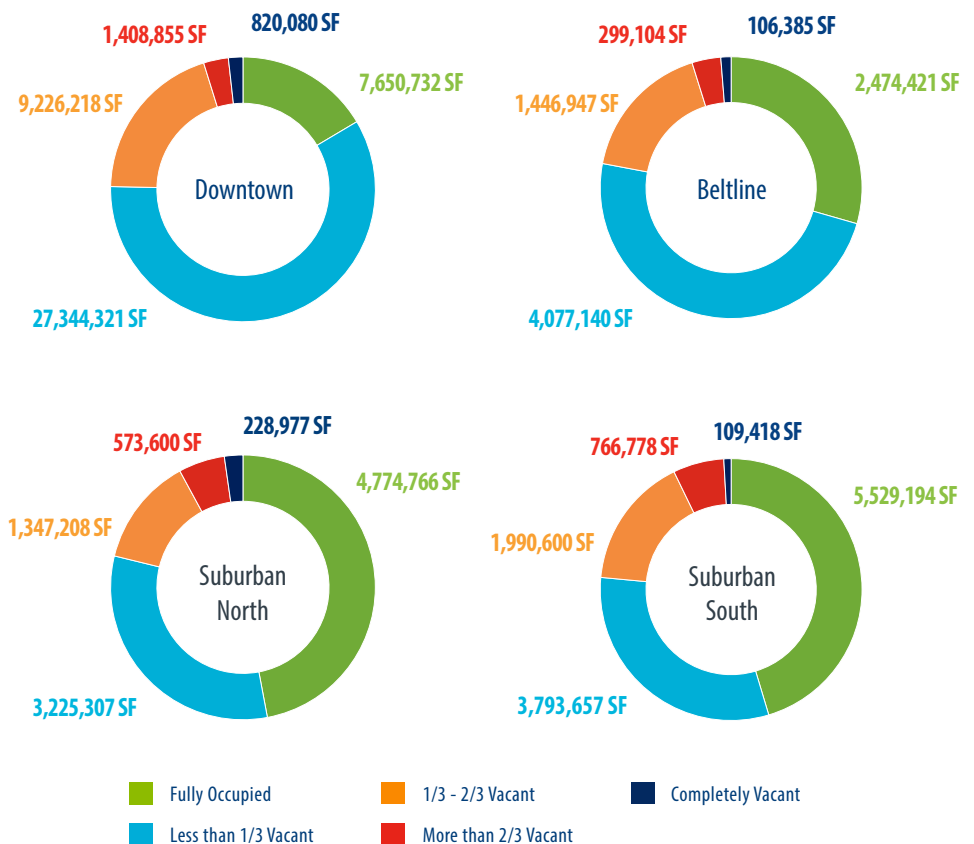
Downtown Calgary 10-Year Average Annual Absorption



Downtown Calgary Office Market Average Asking Rents



Q2 2019 Building Vacancy Snapshot



continued from page 4

2019 saw positive absorption for all classes of Downtown office properties. Over the last three months, class AA buildings saw positive 41,000 sf of absorption, class A saw positive 320,000 sf of absorption, class B saw positive 8,000 sf of absorption, and class C saw positive 49,000 sf of absorption.

The positive absorption for second quarter 2019 is higher than all of 2018, which saw a cumulative total of 400,000 sf of positive absorption. The absorption this quarter is the direct result of three net new leases to Calgary's Downtown office market: Golder Associates relocated from the NE into Stephen Avenue Place and WeWork signing two leases in The Edison and Stephen Avenue Place. These three leases are responsible for over 50% of the Downtown absorption this quarter.



There are 13 availabilities on the market in Downtown Calgary that have over 100,000 sf available as one contiguous block. These 13 blocks of space represent 27% of the total availability of space in the Downtown market and 48% of this space is available on a headlease basis.

Looking to the future for the Downtown Calgary office market, it is expected that absorption will be negative-to-flat through the remainder of 2019, as a couple of large sublease block appear ready to come to market shortly. Downtown Calgary's peak office vacancy is already past. Even with the addition of TELUS Sky in first quarter 2019, vacancy did not rise above the peak vacancy of 26.4% recorded in second quarter 2017 when Brookfield Place was added to the Downtown office market. At this time, even pessimistic assumptions

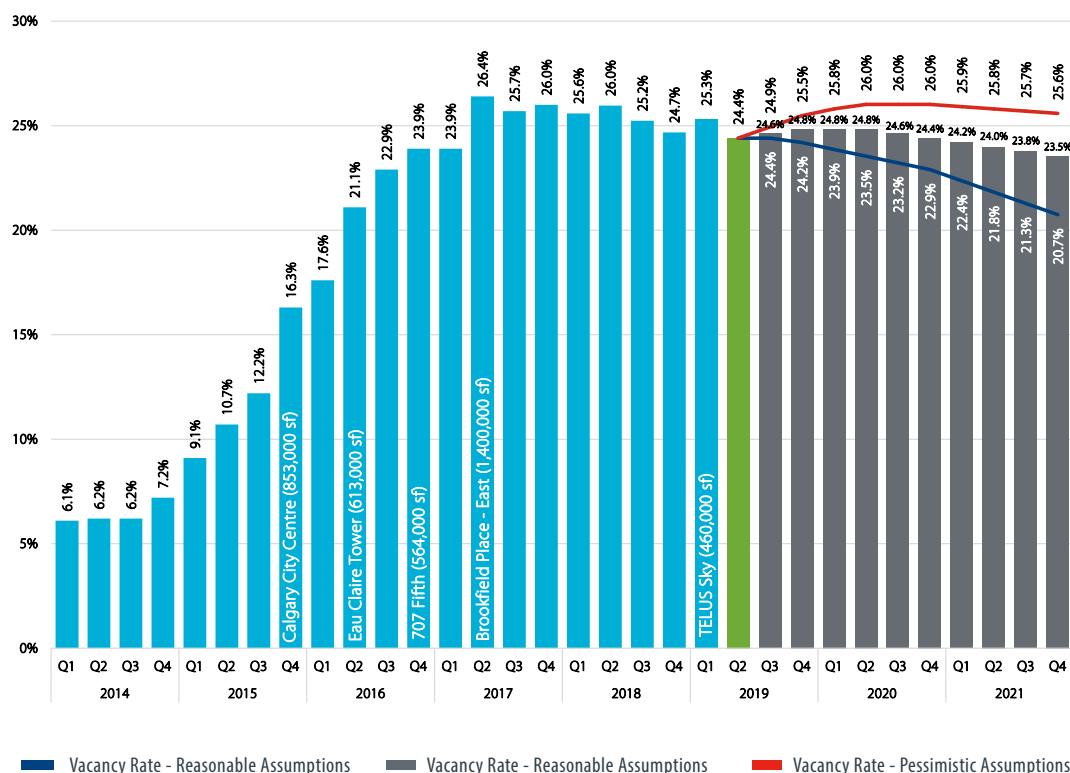
about the forecast no longer push vacancy above the peak recorded in second quarter 2017. Pessimistic and reasonable assumptions see some vacancy increase in the near future, while optimistic assumptions see vacancy decreasing from this point forward. Twelve months from now vacancy predictions are: pessimistic – 26.0%, reasonable – 24.8%, and optimistic – 23.5%.

Beltline



The vacancy rate in the Beltline office market increased marginally again in second quarter 2019 to sit at 20%. This is up from 19.5% in both first quarter 2019 and 12 months ago in second quarter 2018. This is a new peak vacancy for the Beltline market. The previous peak, during this downturn, was 19.7% in third quarter 2018. Total vacancy for the

Downtown Calgary Office Historical and Projected Vacancy



OPTIMISTIC ASSUMPTIONS:

2019: Flat absorption Q3, positive 100,000 sf in Q4
2020: Positive 150,000 sf absorption in each quarter
2021 and beyond: Positive 250,000 sf absorption in each quarter

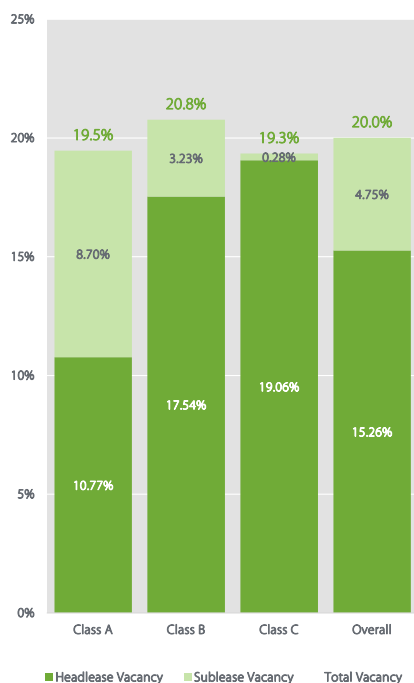
REASONABLE ASSUMPTIONS:

2019: Negative 100,000 sf absorption in each of Q3, and Q4
2020: Flat absorption in each of Q1 and Q2, positive 100,000 sf in each of Q3 and Q4
2021 and beyond: Positive 100,000 sf in each quarter

PESSIMISTIC ASSUMPTIONS:

2019: Negative 250,000 in each of Q3 and Q4
2020: Negative 150,000 sf in Q1, negative 100,000 sf in Q2, flat absorption in each of Q3 and Q4
2021: Positive 50,000 sf in each quarter

Beltline Calgary Office Vacancy Rates



Beltline office market is 1.7 msf, broken down by 1.3 msf of headlease space (76%) and 399,000 sf of sublease space (24%). Vacancy by class is now: class A – 19.5%, class B – 20.8%, and class C – 19.3%.

Absorption in the Beltline office market for second quarter 2019 was negative (-41,000 sf). Both the Beltline office market's 5-year and 10-year average annual absorption are 140,000 sf per year. Looking at the breakdown between building classes, second quarter 2019 saw positive absorption for class A buildings and negative absorption for class B and C buildings. Over the last three months class A buildings saw positive 14,000 sf of absorption, class B saw negative (-37,000 sf) of absorption, and class C saw negative (-19,000 sf) of absorption.

There are four availabilities in Beltline Calgary with more than 30,000 sf available as one contiguous block. These four blocks of space represent 18% of the total availability of space in the Beltline office market and 36% of this space is available on a headlease basis.

Suburban North



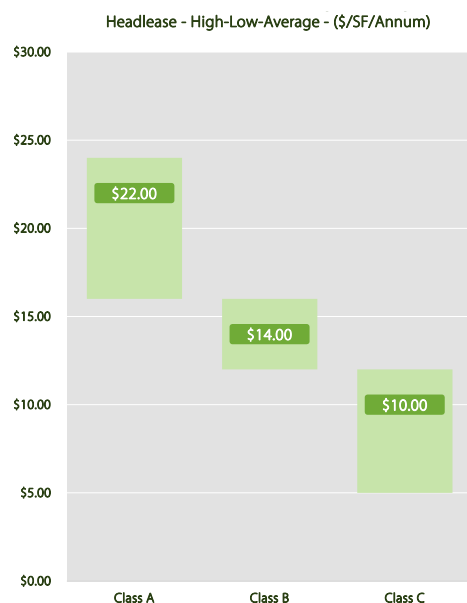
The Suburban North office vacancy rate increased to 17.2% in second quarter 2019 from 17.1% in first quarter 2019, but is down from 17.4% 12 months ago in second quarter 2018. Vacancy



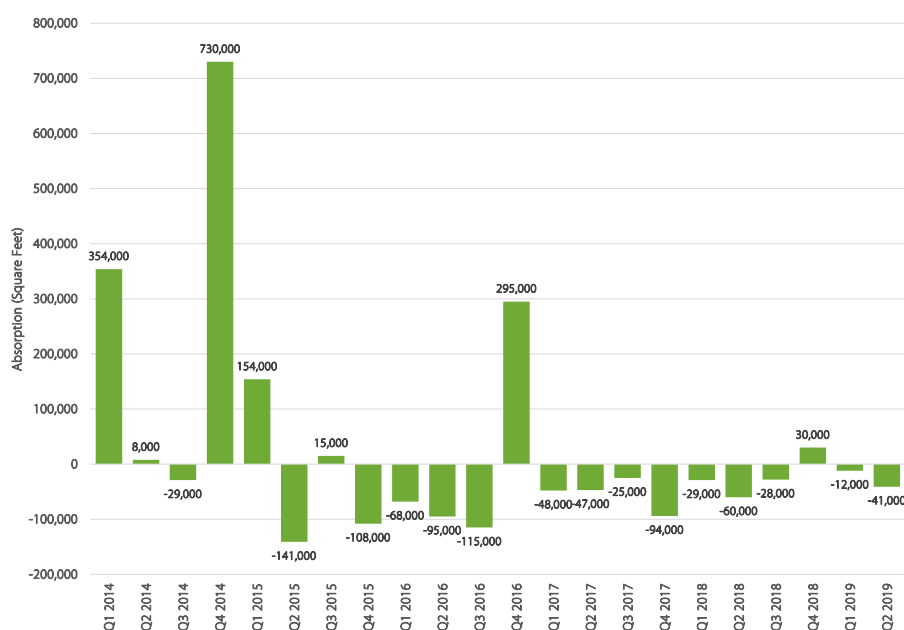
BAYTEX ENERGY | Q2 2019
HEAVY OIL PRICING UPDATE

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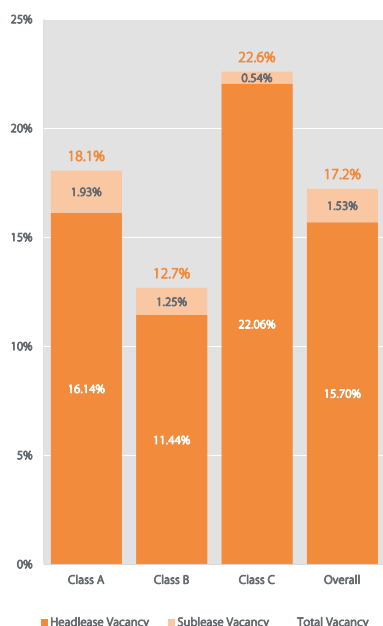
Beltline Calgary Office Average Asking Rents



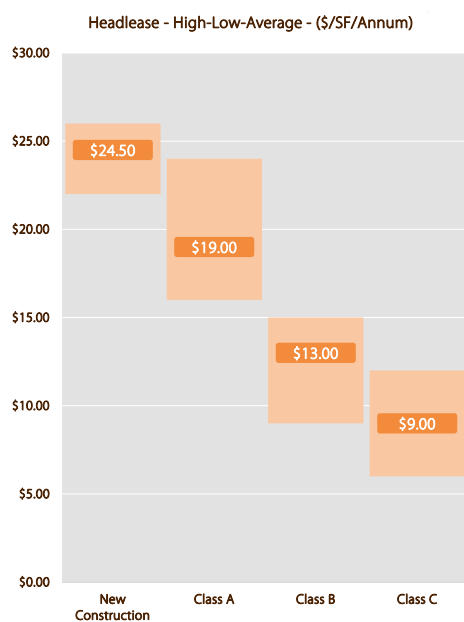
Beltline Calgary Office Quarterly Absorption



Suburban North Calgary Office Vacancy Rates



Suburban North Calgary Office Average Asking Rents



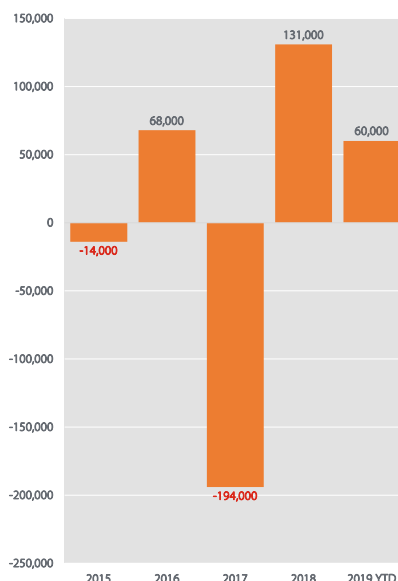
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appears to have peaked during this downturn for this market segment at 21.3% in the third quarter of 2016. Looking at the quadrants themselves, vacancy for the Suburban Northeast is 17.9%, while the vacancy for the Suburban Northwest is 15.3%.

Headlease vacant space increased by 3,000 sf, while sublease vacant space increased by 14,000 sf during the last three months. Total vacancy for the Suburban North office market is 1.7 msf, broken down by 1.6 msf of headlease space (91%) and 156,000 sf of sublease space (9%).

Absorption in the Suburban North office market for second quarter 2019 was negative (-17,000 sf). The Suburban North office market's 5-year average annual absorption is 24,000 sf per year and the 10-year average is 2,000 sf per year. Over the last three months class A buildings saw negative (-5,000 sf) of absorption, class B saw negative (-11,000 sf) of absorption, and class C saw negligible

Suburban North Calgary Annual Office Absorption



change in absorption. Vacancy by class is now: class A – 18.1%, class B – 12.7% and class C – 22.6%.

There are ten availabilities in Suburban North Calgary with more than 30,000 sf available in one contiguous block. These ten blocks of space represent 43% of the total availability of space in the Suburban North office market and 95% of this space is available on a headlease basis.

Suburban South

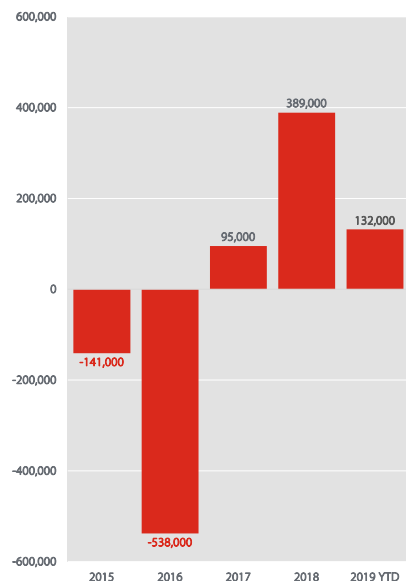


The Suburban South office vacancy rate decreased to 18.1% in second quarter 2019, down from 18.7% in first quarter 2019, and down from 22.1% twelve months ago in second quarter 2018. Vacancy appears to have peaked during this downturn for this market segment at 24.3% in the first quarter of 2017. Looking at the quadrants themselves, vacancy for the Suburban Southeast is 19.5%, while the vacancy for the Suburban Southwest is 14.8%.

Headlease space decreased by 201,000 sf over the last quarter, while sublease space increased by 136,000 sf. Total vacancy for the Suburban South office market is 2.2 msf, broken down by 1.7 msf of headlease space (79%) and 465,000 sf of sublease space (21%).

Absorption in the Suburban South office market for second quarter 2019 was positive 83,000 sf, the fourth consecutive quarter of positive absorption for this area of the market. The Suburban South office market's 5-year average annual absorption is 232,000 sf per year and the 10-year

Suburban South Calgary Annual Office Absorption



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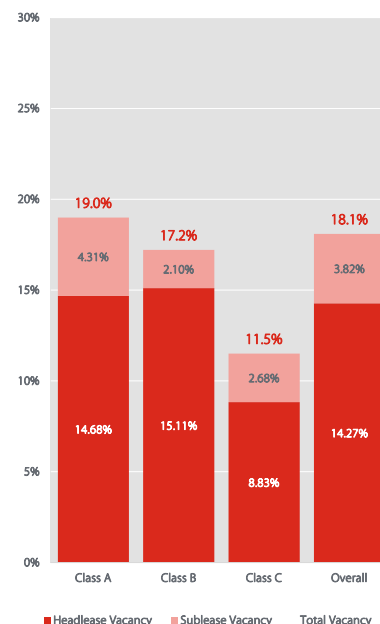
average is 184,000 sf per year. Second quarter 2019 saw positive absorption for class A and B buildings, and negative absorption for class C buildings in the Suburban South office market. Over the last three months class A buildings saw positive 101,000 sf of absorption, class B saw positive 17,000 sf of absorption, and class C saw negative (-35,000 sf) of absorption. Vacancy by class is now: class A – 19.0%, class B – 17.2%, and class C – 11.5%.

There are 17 availabilities in Suburban South Calgary with more than 30,000 sf available in one contiguous block. These 17 blocks of space represent 50% of the total availability of space in the Suburban South office market and 71% of this space is available on a headlease basis.

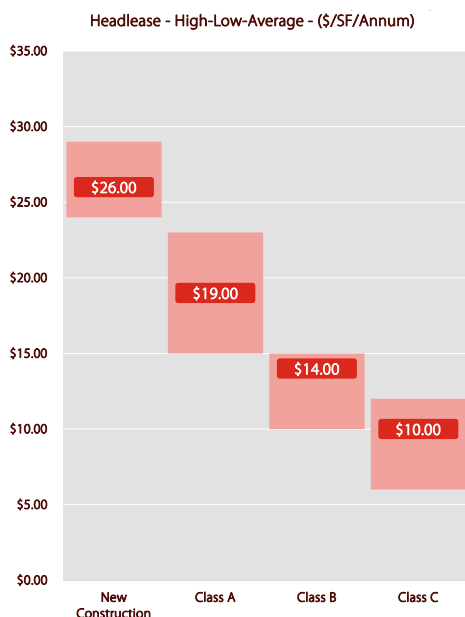
Three office buildings are currently under construction in Suburban South Calgary: Meadows Mile Professional

Centre, Poplar Centre, and Spider Block. These buildings contain 144,000 sf, and are currently 75% pre-leased.

Suburban South Calgary Office Vacancy Rates



Suburban South Calgary Office Average Asking Rents



Calgary Average Taxes & Operating Costs

	Class AA	Class A	Class B	Class C	All Classes
Downtown	\$23.08	\$18.88	\$16.76	\$15.62	\$19.81
Beltline	-	\$18.94	\$17.09	\$16.23	\$17.69
Suburban North	-	\$15.30	\$14.52	\$12.26	\$14.62
Suburban South	-	\$15.66	\$14.56	\$12.33	\$15.19
Overall	\$23.08	\$17.74	\$16.37	\$14.58	\$17.02

(per square foot, per annum)

Changes in Average Taxes & Operating Costs

(Q2 2018 vs Q2 2019)

	Class AA	Class A	Class B	Class C	All Classes
Downtown	\$0.03	-\$1.37	-\$0.58	\$0.05	-\$0.64
Beltline	-	-\$0.48	-\$0.20	-\$0.13	-\$0.30
Suburban North	-	-\$0.26	\$0.57	\$0.08	-\$0.02
Suburban South	-	\$0.54	-\$0.20	\$1.83	\$0.51
Overall	\$0.03	-\$0.66	-\$0.31	\$0.29	-\$0.46

(per square foot, per annum)

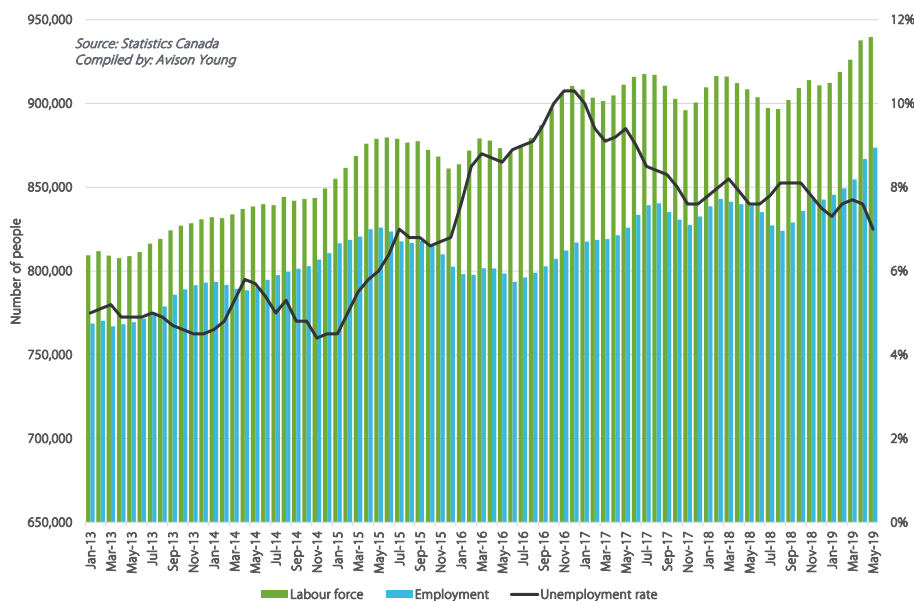
Calgary Q2 2019 Office Construction Summary

Suburban South Under Construction

Building Name	Address	Office Area (sf)	Expected Completion	% Leased / Pre-Leased	LEED Target
Meadows Mile Professional Centre 1 & 2	8500 Blackfoot Trail SE	44,800	Q3 2019	75%	
Poplar Centre	5512 Macleod Trail SW	69,000	Q1 2020	64%	
Spider Block	3001 - 14th Street SW	30,800	Q4 2019	100%	

Calgary CMA Labour Force, Employment & Unemployment Rate

(May 2019)



AVISON YOUNG JULY 2019
BUSINESS IN CALGARY
INTERVIEW [DIFFERENT ROADS
TO THE SAME CASTLE:PG 20]



CANADIAN FEDERATION OF
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BAROMETER INDEX

BONUS STATS

Calgary Office
Market Statistics

Calgary Q2 2019
Office Market
Statistics

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Vacancy by
Location

Vacancy
breakdowns
of Calgary
Submarkets

[CLICK HERE](#)

May Labour Force
Survey

Calgary specific
labour and
employment

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Calgary Q2 2019 Notable Office Leasing Transactions

Downtown

Tenant	Building Name	Address	Size (sf)	Deal Type
WeWork	The Edison	150 - 9th Avenue SW	85,000	Headlease - New
WeWork	Stephen Avenue Place	700 - 2nd Avenue SW	80,000	Headlease - New
Golder Associates	Stephen Avenue Place	700 - 2nd Avenue SW	65,000	Headlease - New

Suburban

Tenant	Building Name	Address	Size (sf)	Deal Type
EllisDon	Quarry Park - North Campus C	140 Quarry Park Boulevard SE	25,000	Headlease - Renewal
Millennium EMS*	Fountain Court II	701 - 64th Avenue SE	20,000	Headlease - New
BBA Engineering	Ronmor Business Centre III	808 - 42nd Avenue SE	12,000	Headlease - New

* Indicates transactions Avison Young was involved in

FOCUS ON INVESTMENT



The start of 2019 has been an interesting one in watching both what office properties have traded and what properties have not. Prospective investors are taking a much more cautious view of challenged office assets than observed in prior years. Where \$150/sf for Downtown class B office buildings was a good approximation of where buildings would trade in 2016–2018, the bid-ask spread has increased enough in 2019 to stall a number of offerings. There are still bids for buildings being brought to market, however, these bids are not at the pricing vendors would have expected 12 months ago.

Part of the reason for this shift in pricing on office assets comes as a result of construction costs for conversion plays coming in higher than originally expected. The new pricing puts negative pressure on building values, especially when they are nearing the end of their useful life in their current forms. Currently some of the most challenged properties in Calgary, in terms of finding and retaining tenants.

The few stable, well-leased assets that have been brought to market have elicited strong offering interest from a diverse group of potential purchasers. Positive absorption in the office leasing market will keep interest high for these stronger-performing assets.

The activity level around both these types of office properties prove that there is still tremendous appetite for Calgary office, albeit at dramatically different prices depending on the characteristics of the offering.

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