

## CALGARY OFFICE

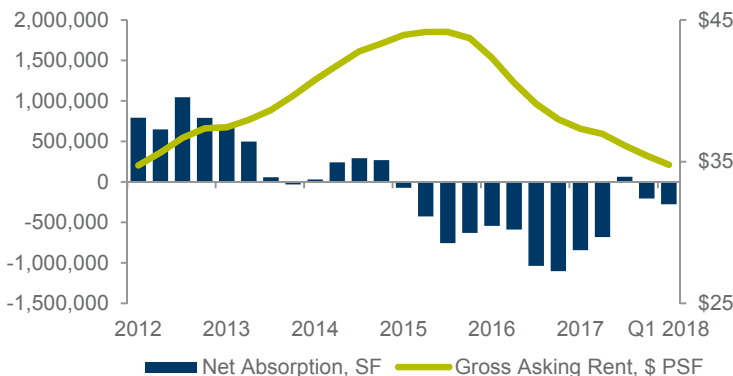
### Economic Indicators

	Q1 17	Q1 18	12-Month Forecast
Calgary Employment	819K	844.5K	▲
Calgary Unemployment	9.4%	7.9%	▼
Canada Unemployment	6.7%	5.8%	▼

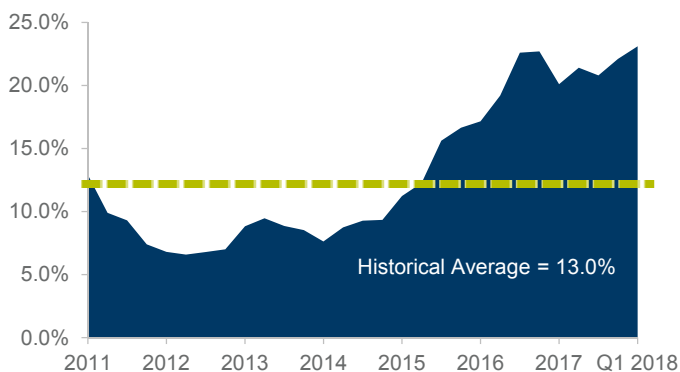
### Market Indicators

	Q1 17	Q1 18	12-Month Forecast
Overall Availability	21.9%	22.0%	▼
Net Absorption (sf)	130,836	-151,192	▲
Under Construction (sf)	2,665,698	711,813	▼
Average Asking Rent	\$36.59	\$34.03	▼

### Overall Net Absorption/Overall Asking Rent 4Q TRAILING AVERAGE



### Overall Availability\*\*



\*\*Overall Availability reflects current availability in addition to upcoming availability in the next 6 months

## Economy

The unemployment rate in Alberta declined to 6.7% in February 2018, bringing Alberta within one percentage point of the national average. Unfortunately, the major driver of this seemingly positive news was a decline in the labour force participation rates. High paying jobs in Calgary's energy sector are not a significant driver of office space demand. On a positive note, oil prices (West Texas Intermediate) continued to trade with relative stability in the \$60 - \$65/bbl range during the first quarter of 2018. However, as capital budgets were announced, it became clear that 2018 capital spending in Alberta would be the lowest since 2009. Although the worst may be behind the Albertan economy, it appears it will not be a smooth road to recovery.

## Market Overview

Calgary's office market continued to bounce along the bottom of the market, showing signs of very slow recovery. A relatively strong leasing activity for the quarter of 1.3 million square feet resulted in another quarter of marginally negative absorption of 151,192 square feet (sf). In Downtown Calgary, vacancy rates increased slightly from 24.0% in the fourth quarter of 2017 to 24.4% in the first quarter of 2018, recording negative absorption of 156,789 sf. Taking a closer look at the figures, there emerges an interesting story of geographic migration, with positive absorption in the Central Core submarket offset by negative absorption in the East and West Core submarkets. For example, Inter Pipeline leased an additional 55,361 sf in Calgary City Centre, while Aon, McLennan Ross and Solium Capital both subletted a floor from MEG Energy in Eau Claire Tower. Dreco Energy Services rounds out the list, taking 24,271 sf at Brookfield's substantially renovated Fifth Avenue Place complex.

The story in the Beltline submarket was similar, with vacancy rates increasing to 19.6% in the first quarter of 2018 from 18.2% last quarter, while recording negative absorption of 109,197 sf. It appears this is a flight-to-quality scenario, as strong negative absorption in the Class B market was offset by positive absorption in Class A product.

In contrast with the Downtown and Beltline markets, the Suburban office market performed well this quarter, recording positive absorption of 114,794 sf and a declining vacancy rate from 19.4% the fourth quarter of 2017 to 18.0% in the first quarter of 2018. This growth was driven in large part by Kiewit Energy's expansion to 50,000 sf in Southland Park II. Despite increasing property taxes in the suburbs, in general the operating cost differential compared with downtown remains substantial, meaning that cost conscious tenants can continue to expect competitive availability in the Suburban market.

## Outlook

Approximately 900,000 sf of available sublet space will revert back to the landlord in 2018, continuing to shift the vacancy problem to the landlords. Both City council and the Calgary Economic Development continue to push for economic diversity, and the Amazon RFP response was an important step in that direction. However, economic growth will still rest largely on the forces shaping the price of oil. Market indicators show that the worst may be over. As a result, Cushman & Wakefield research expects modest performance by the market in 2018, with gradual reductions in vacancy through the end of 2018.

MARKETBEAT

Calgary, AB

Office Q1 2018



SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	TOTAL VACANT (SF)	CURRENT AVAILABILITY RATE	OVERALL AVAILABILITY RATE**	CURRENT NET OVERALL ABSORPTION (SF)	YTD NET OVERALL ABSORPTION (SF)	UNDER CONSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
Central Core	74	20,310,787	4,318,693	21.3%	22.1%	206,876	206,876	0	\$35.47	\$37.56
East Core	51	15,601,506	4,193,859	26.9%	27.2%	-230,253	-230,253	442,052	\$37.16	\$38.07
West Core	69	8,173,885	2,240,297	27.4%	29.9%	-133,402	-133,402	0	\$26.42	\$26.00
<b>Downtown Total</b>	<b>194</b>	<b>44,086,178</b>	<b>10,752,849</b>	<b>24.4%</b>	<b>25.3%</b>	<b>-156,789</b>	<b>-156,789</b>	<b>442,052</b>	<b>\$34.47</b>	<b>\$36.96</b>
Beltline	155	7,740,736	1,518,499	19.6%	20.8%	-109,197	-109,197	0	\$31.77	\$33.73
<b>Central Total</b>	<b>272</b>	<b>51,826,914</b>	<b>12,271,348</b>	<b>23.7%</b>	<b>24.7%</b>	<b>-265,986</b>	<b>-265,986</b>	<b>442,052</b>	<b>\$34.25</b>	<b>\$36.80</b>
Northwest	79	2,458,008	383,467	15.6%	18.7%	59,039	59,039	106,406	\$35.51	\$38.79
Northeast	133	7,370,584	1,023,227	13.9%	15.2%	-19,745	-19,745	72,000	\$29.44	\$34.22
Southeast	144	7,825,227	1,765,178	22.6%	23.3%	79,857	79,857	91,355	\$31.39	\$32.74
Southwest	44	3,539,300	642,992	18.2%	19.4%	-4,357	-4,357	0	\$33.78	\$34.76
<b>Suburban Total</b>	<b>400</b>	<b>21,193,119</b>	<b>3,814,864</b>	<b>18.0%</b>	<b>19.3%</b>	<b>114,794</b>	<b>114,794</b>	<b>269,761</b>	<b>\$32.08</b>	<b>\$34.40</b>
<b>CALGARY TOTALS</b>	<b>778</b>	<b>73,020,033</b>	<b>16,086,212</b>	<b>22.0%</b>	<b>23.1%</b>	<b>-151,192</b>	<b>-151,192</b>	<b>711,813</b>	<b>\$34.03</b>	<b>\$36.57</b>

\*Rental rates reflect gross asking \$psf/year

\*\*Overall Availability reflects current availability in addition to upcoming availability in the next 6 months

SUMMARY BY CLASS	TOTAL BLDGS	INVENTORY (SF)	TOTAL VACANT (SF)	CURRENT AVAILABILITY RATE	OVERALL AVAILABILITY RATE**	CURRENT NET OVERALL ABSORPTION (SF)	YTD NET OVERALL ABSORPTION (SF)	UNDER CONSTR (SF)	YTD CONSTR COMPLETIONS (SF)	OVERALL AVERAGE ASKING RENT*
Class AAA	19	16,074,325	3,069,695	19.1%	19.2%	7,740	7,740	442,052	442,052	\$41.26
Class A	232	34,180,418	7,640,347	22.4%	23.6%	28,450	28,450	256,355	256,355	\$34.15
Class B	322	18,477,872	4,487,022	24.3%	26.0%	-220,342	-220,342	13,406	13,406	\$28.26
Class C	205	4,287,418	889,148	20.7%	21.4%	32,960	32,960	0	0	\$28.01

\*Rental rates reflect gross asking \$psf/year

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Key Lease Transactions Q1 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Calgary City Centre	55,361	Inter Pipeline Ltd.	Headlease	Downtown – Central Core
Southland Park	50,517	Kiewit Energy Canada	Headlease	Southwest
Bankers Hall West Tower	41,086	Trident Exploration	Sublease	Downtown – Central Core
Mount Royal Village West	30,000	Copeman Healthcare Centre	Headlease	Beltline
Eau Claire Tower	27,904	AON	Sublease	Downtown – Central Core

Key Sales Transactions Q1 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
AHS Building, Southland Plaza, Southport Atrium, Southland Park IV	898,352	Southland Park Inc./LaSalle (LCPF Realty Inc.)	\$41,250,000 / \$184	Southwest
1506 11 <sup>th</sup> Avenue SW	31,818	Enright 14 <sup>th</sup> Office Development Ltd./RECA (Real Estate Council of Alberta)	\$21,383,708 / \$672	Southwest

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