

CALGARY OFFICE

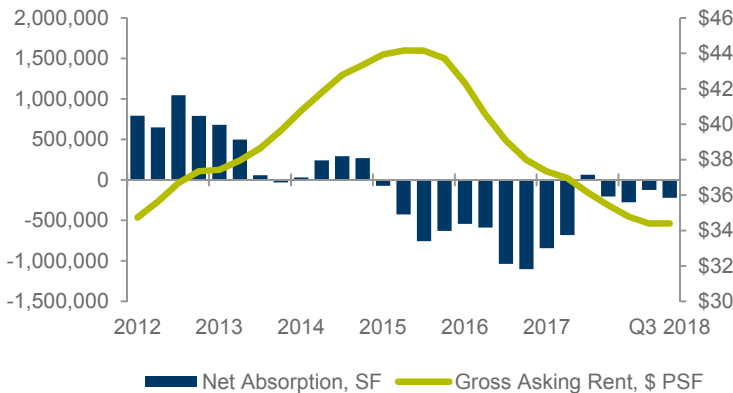
Economic Indicators

	Q3 17	Q3 18	12-Month Forecast
Calgary Employment	838K	823K	■
Calgary Unemployment	8.5%	8.2%	■
Canada Unemployment	6.2%	6.0%	■

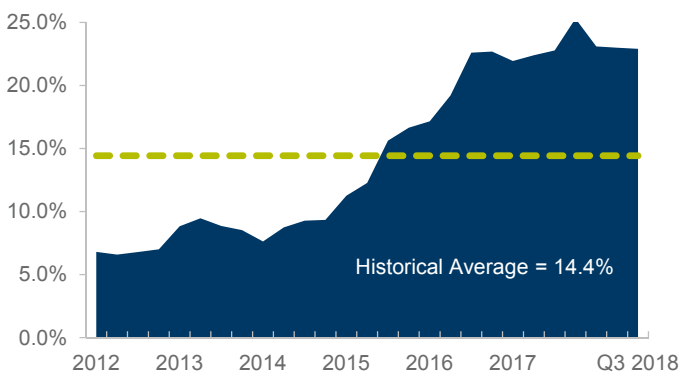
Market Indicators

	Q3 17	Q3 18	12-Month Forecast
Overall Availability	22.8%	21.7%	▲
Net Absorption (sf)	400,110	15,901	▼
Under Construction (sf)	683,817	629,563	▼
Average Asking Rent	\$34.38	\$34.37	■

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

Alberta's economy has been slowly improving, but the new USMCA deal and pipeline discussions continue to generate uncertainty with potential challenges ahead. Alberta's economy remains closely tied to the strength of crude oil prices and the provincial unemployment rate improved (to 6.6% in August 2018 from 7.1% in May 2018), however, Calgary's unemployment rate jumped to 8.2% from 7.7% over that same period. Calgary's unemployment rate continues to lag behind Edmonton's rate of 6.4% as well as the national unemployment rate of 6.0%. WTI prices have hovered around USD \$75/bbl over the past three months, but the Western Canadian Select (WCS) discount has widened from USD \$20/bbl exiting last quarter to USD \$40/bbl. Setbacks on pipelines will continue to pressure the gap between WCS and global benchmark prices. Despite the slow economy and difficult job market, Alberta's population growth remains among the strongest in the country, only trailing that of Ontario and Prince Edward Island over the past three months.

Market Overview

The "flight to quality" trend re-established its dominance in the Calgary office market in the third quarter of 2018, following last quarter's slowing, as tenants took advantage of attractive rents. The Class A/AAA segment's leasing activity for the entire city was 487,000 square feet (sf) in the third quarter of 2018; contributing 70% of the overall leasing activity totals. Overall absorption for the Calgary market was minimal at 16,000 sf. Strong absorption was seen in the Class A/AAA segment with 59,000 sf, with the AAA segment the primary driver with absorption of 128,000 sf. The Downtown Core AAA was stimulated by BMO Capital Markets leasing 70,000 sf in Eighth Avenue Place.

The West Core submarket struggled in the third quarter of 2018, and was the main driver that pulled overall absorption lower. West Core posted overall negative absorption of 227,000 sf with Class B contributing a negative 154,000 sf, largely driven by approximately 112,000 sf of space becoming available in 635 8 Ave SW.

Despite the swings in absorption, overall vacancy remained almost unchanged quarter-over-quarter to sit at 21.7%. The Class A/AAA market also remained flat at 21.1%, while vacancy in the Class B market continued to rise, climbing 50 basis points to 24.1%.

Outlook

Although the strength of Alberta's economy will rest largely on the forces shaping the price of oil, the office market indicators show that the worst may be over. Specifically, rental rates are bottoming and the construction boom injections are close to being exhausted. Telus Sky's completion in the fourth quarter of 2018 will add approximately 279,000 sf of available lease to the market. Following this completion, the downtown vacancy rate should begin to improve as availability of higher quality assets is consumed. Building improvement will be the next phase, such as Hines' upgrading of First Tower. Cushman & Wakefield research expects a gradual reduction in vacancy and modest performance in 2019.

MARKETBEAT

Calgary, AB

Office Q3 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	72	20,310,787	3,950,531	19.5%	20.6%	155,223	575,038	0	\$35.07	\$37.35
East Core	45	15,601,506	4,257,020	27.3%	28.1%	85,019	-293,424	492,063	\$38.35	\$39.48
West Core	55	8,173,885	2,315,535	28.3%	30.4%	-227,308	-208,640	0	\$27.00	\$27.50
Downtown Total	172	44,086,178	10,523,086	23.9%	25.1%	12,934	72,974	492,063	\$34.74	\$37.48
Beltline	108	7,740,736	1,490,752	19.3%	19.9%	77,431	-81,450	60,000	\$33.30	\$35.96
Central Total	280	51,826,914	12,013,838	23.2%	24.3%	90,365	-8,476	552,063	\$34.65	\$37.41
Northwest	54	2,458,008	398,024	16.2%	16.4%	-7,259	44,482	0	\$36.79	\$39.41
Northeast	117	7,370,584	1,013,167	13.7%	15.8%	-27,420	-9,685	72,000	\$28.72	\$34.37
Southeast	114	7,825,227	1,772,478	22.7%	24.1%	-47,182	72,557	5,500	\$32.46	\$33.68
Southwest	50	3,539,300	676,656	19.1%	19.7%	7,397	-38,021	0	\$32.50	\$33.22
Suburban Total	164	21,193,119	3,860,325	18.2%	19.6%	-74,464	69,333	77,500	\$32.06	\$34.03
CALGARY TOTALS	615	73,020,033	15,874,163	21.7%	22.9%	15,901	60,857	629,563	\$34.37	\$37.12

*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	20	16,074,325	2,881,066	17.9%	17.9%	128,393	196,369	492,063	0	\$40.87
Class A	222	34,180,418	7,725,715	22.6%	24.1%	-69,354	-56,918	137,500	0	\$34.81
Class B	267	18,477,872	4,453,944	24.1%	26.0%	-93,406	-187,264	0	0	\$28.02
Class C	106	4,287,418	813,438	19.0%	19.2%	50,268	108,670	0	0	\$25.75

*Rental rates reflect gross asking \$psf/year

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Key Lease Transactions Q3 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
525 8 th Avenue SW	70,363	BMO Capital Markets	Headlease	Downtown – Central Core
2850 Sunridge Boulevard NE	62,511	TBC	Headlease	Northeast
520 3 rd Avenue SW	43,793	TBC	Sublease	Downtown – Central Core
1201 Glenmore Trail SW	24,024	TBC	Headlease	Southwest

Key Sales Transactions Q3 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Hexagon Calgary Campus	160,543	Remington Development / Novatel Inc.	\$107,000,000 / \$666	Northeast
Eau Claire Place II	139,730	Artis / Pacific Reach	\$20,500,000 / \$147	Downtown – Central Core
7136 11 th Street NE	52,585	KV Real Estate / 2129174 Alberta Ltd.	\$7,200,000 / \$137	Northeast

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