MARKETBEAT

Calgary, AB

Office Q2 2019

CUSHMAN & WAKEFIELD

CALGARY OFFICE

Economic Indicators

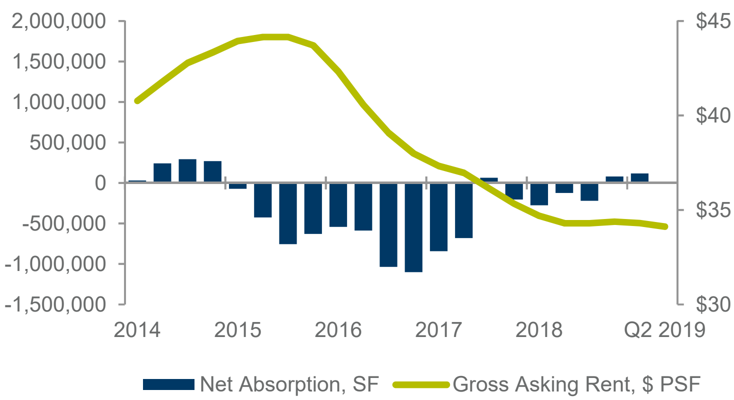
	Q2 18	Q2 19	12-Month Forecast
Calgary Employment	841K	874K	▬
Calgary Unemployment	7.6%	7.0%	▬
Canada Unemployment	5.9%	5.4%	▬

Market Indicators

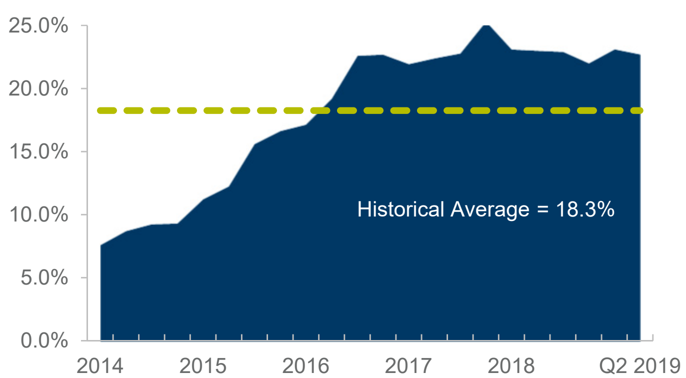
	Q2 18	Q2 19	12-Month Forecast
Overall Availability	21.8%	21.0%	▲
Net Absorption (sf)	196,148	-225,020	▼
Under Construction (sf)	711,813	492,063	▼
Average Asking Rent	$34.57	$33.82	▬

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

Given the soft recovery following the downturn in the oil and gas industry, Calgary continued to see a contraction in both the number and size of corporate offices in Calgary, the latter of which is also a result of tenants finding newer, more efficient floorplates that allow them to reduce their overall operating costs. However, some green shoots have started to emerge. Consumer spending and operating costs continued to increase, and the unemployment rate marginally improved quarter-over-quarter, declining 60 basis points (bps) to close the second quarter of 2019 at 7.0%.

Comparatively, the provincial unemployment rate edged up slightly by 20 bps, closing at 6.7%. Both rates are well above the national average of 5.4%. Alberta's economy remains heavily reliant on crude oil, which has been plagued by transportation issues. While the Trans Mountain pipeline was approved for a second time this quarter, and is expected to create jobs in Alberta and BC, the project remains heavily contested.

Market Overview

As Calgary's economic recovery continues to sputter, the office market has begun to show signs of diversification. Calgary's downtown office market continued to dominate headlines as tenants continue their flight-to-quality and efficiencies, leaving behind large blocks of available space The second quarter of 2019 recorded 225,020 square feet (sf) of negative absorption, which accounted for nearly the entire year-to-date total and helped contribute to the 23 bps increase in availability compared to the first quarter of the year.

Within the downtown submarkets, current availability remained the highest city-wide, with the East Core recording 25.1%, largely due to availability at The Bow, and the West Core recording 32.8%, a 43 bps decline since the first quarter of 2019. The Central Core saw a nearly full point decline in overall vacancy, closing at 18.5%, which is more aligned with vacancy seen in some suburban submarkets.

The Suburban market fundaments saw relatively positive signs in the second quarter of 2019. Current availability overall improved 20 bps to 16.7%. The Southeast had a nearly fully-leased, 29,367-sf new construction completion, and both the Northeast and Southwest submarkets realized strong leasing activity and improved vacancy by 50 bps and 42 bps to 15.2% and 17.1%, respectively, while the Northwest vacancy held steady at 11.0%.

Premium assets continued to garner tenants' attention, accounting for approximately 68.0% of the 1.1 million square feet of quarter-to-date leasing activity from both direct and subleases. However, in order to compete with Class AA product, some landlords of older-generation buildings are turning to renovations, repositioning's, and in some cases, office-to-residential conversations. WeWork entered the Calgary market with two leases, both of which were signed at buildings that are offering tenants more amenities and character in lieu of brand new construction. WeWork took approximately 82,000 sf at The Edison and nearly 78,000 sf at Stephen Avenue Place, which is currently undergoing extensive renovations.

Outlook

With the provincial election done and the upcoming federal election ahead, market confidence will remain scrutinized until the end of the year. However, local efforts have already been enacted by the mayor and Calgary Economic Development, which implemented several programs in an effort to entice corporations to expand and/or relocate to Calgary, driving greater market diversity via incentives and corporate tax cuts. Office fundamentals are expected to remain soft for the foreseeable future; however, with the steps being taken, the market will begin to tighten over the next 12 to 18 months.

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Calgary, AB

Office Q2 2019

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	70	20,800,761	3,857,046	18.5%	20.3%	175,425	297,499	0	$33.32	$35.86
East Core	44	15,758,316	3,948,708	25.1%	27.9%	-274,911	-204,015	492,063	$38.63	$39.62
West Core	49	6,757,428	2,218,959	32.8%	34.0%	-29,031	-245,370	0	$26.43	$24.34
Downtown Total	**163**	**43,316,505**	**10,024,713**	**23.1%**	**25.2%**	**-128,517**	**-151,886**	**492,063**	**$34.19**	**$37.90**
Beltline	110	7,849,190	1,619,851	20.6%	21.3%	-106,103	-101,951	0	$32.22	$35.03
Central Total	**273**	**51,165,695**	**11,644,564**	**22.8%**	**24.6%**	**-234,620**	**-253,837**	**492,063**	**$34.06**	**$37.76**
Northwest	54	2,471,414	272,777	11.0%	13.2%	995	-7,715	0	$37.91	$40.14
Northeast	117	7,370,584	1,118,076	15.2%	15.3%	13,586	-125,509	0	$29.43	$34.07
Southeast	116	7,825,227	1,561,102	19.8%	22.7%	-20,000	107,710	0	$31.26	$32.44
Southwest	50	3,539,300	604,178	17.1%	17.1%	15,019	51,592	0	$32.27	$33.52
Suburban Total	**337**	**21,256,575**	**3,556,133**	**16.7%**	**18.1%**	**9,600**	**26,078**	**0**	**$31.67**	**$33.72**
CALGARY TOTALS	**610**	**72,422,270**	**15,200,697**	**21.0%**	**22.7%**	**-225,020**	**-227,759**	**492,063**	**$33.82**	**$37.36**

*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	12	10,940,367	1,759,479	16.1%	19.0%	-481,169	-309,436	492,063	0	$43.28
Class AA	11	5,957,192	898,967	15.1%	15.4%	-1,266	-57,983	0	0	$39.22
Class A	216	31,672,733	6,492,227	20.5%	22.8%	318,549	546,039	0	29,367	$33.96
Class B	270	19,657,045	5,264,021	26.8%	27.6%	-119,099	-428,470	0	13,406	$27.87
Class C	101	4,194,933	786,003	18.7%	18.9%	57,965	22,091	0	0	$25.98

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Key Lease Transactions Q2 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
700 2nd St SW	59,541	Golder Associates Ltd.	Headlease	Downtown – Central Core
605 5th Ave SW	34,194	TBC	Headlease	Downtown – Central Core
700 9th Ave SW	30,820	TBC	Sublease	Downtown – West Core

Key Sales Transactions Q2 2019

PROPERTY	SF	SELLER/BUYER	PRICE / $PSF	SUBMARKET
738 11th Avenue SW	30,949	MRS Investments Ltd. / Private	$12,205,982 / $394	Southwest
325 Manning Road NE	18,137	Canadian Cancer Society / Private	$4,800,000 / $265	Northeast
1822 10th Avenue SW	13,846	Canada Immigration and Visa Services Inc. / Country Hills Insurance and Financial Services Inc.	$3,300,000 / $238	Southwest

Cushman & Wakefield
250 – 6th Avenue SW,
Suite 2400
Calgary, AB T2P 3H7
www.cushmanwakefield.com

For more information, contact:
Summer Newman
Research Manager
Tel: +1 403 261 1132
summer.newman@cushwake.com

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