

The Office Report

4th Quarter
2011



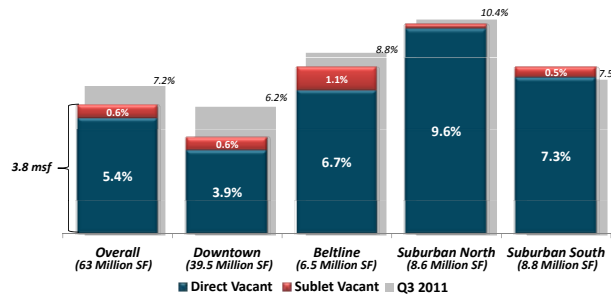
Calgary Overview - Vacancy 6%

Calgary's office leasing market had a record year with 3.1 million square feet (msf) absorbed since January. In this quarter alone, overall vacancy dropped from 7.2% in September to 6% by year end. The flight to quality has continued to drive this dynamic growth as class AA vacancies dropped significantly to 0.3% from 8.2% at this time last year. Sustained demand and scarcity of high quality space has driven class A and B vacancy downward as well, while class C vacancy has maintained at 11.6% for the past six months. Market-wide there is 3.4 msf of headlease and 370,000 sf of sublease space vacant and available for tenants out of a total 63 msf inventory. Downtown vacancy is at 4.5%, Beltline is 7.8%, Suburban South is 7.8% and Suburban North is 9.8%. All the above submarkets saw vacancy decline over the past quarter with the exception of Suburban South which loosened slightly as a number of large class A spaces became available.

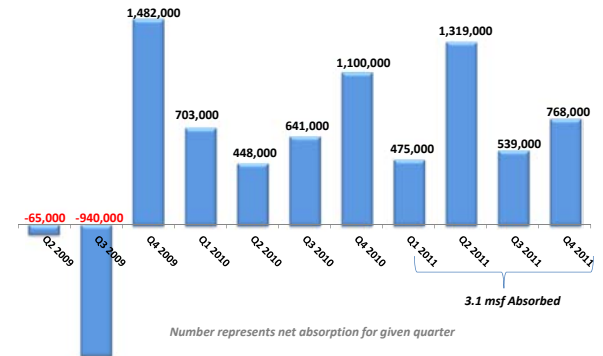
While vacancy continues to drop and annual absorption reaches record levels, there remain dark clouds in other parts of the world that could negatively impact Alberta. The International Monetary Fund projects that the U.S. economy will contract by 1.8% in 2012. As the importer of 87% of Alberta's total exports, a slowing of the U.S. recovery is bound to hit Alberta. The Eurozone debt crisis also continues to remain volatile and a default in Greece could have significant ramifications for the rest of Europe and its trading partners. Fortunately, Alberta's exposure to Europe as an export market is the lowest of all Canadian provinces (less than 1% of total Alberta exports in 2010 went to Europe).

Despite these challenges to the global economic outlook, Alberta remains a centre of growth. Alberta's real Gross Domestic Product (GDP) is projected by TD Economics to grow by 2.6% in 2012 compared with a national average of 1.7%. Job growth is also expected to outpace the rest of the country and the Alberta unemployment rate should hit 5% in 2012 – significantly lower than the national average. Further, the plummeting AA class vacancy over the past year has bred confidence in the Calgary office market amongst developers. Accordingly, the co-owners of Eighth Avenue Place have announced the immediate start of construction on the second phase West Tower. This 850,000 square foot 40 storey AA class office building should be ready for occupancy by spring of 2014 and has already landed a lead tenant. Oxford has also shown interest in building on their site in Eau Claire and could be ready to proceed with those plans early in 2012. Cadillac Fairview is also very close to moving forward with the City Centre office development, having terminated the leases of current tenants occupying the site. Brookfield Office Properties has also terminated the leases of some 60 tenants that occupy the site for the 1.3 msf Herald building. Even in a slow growth climate Alberta is proving to be one of the most attractive places to do business.

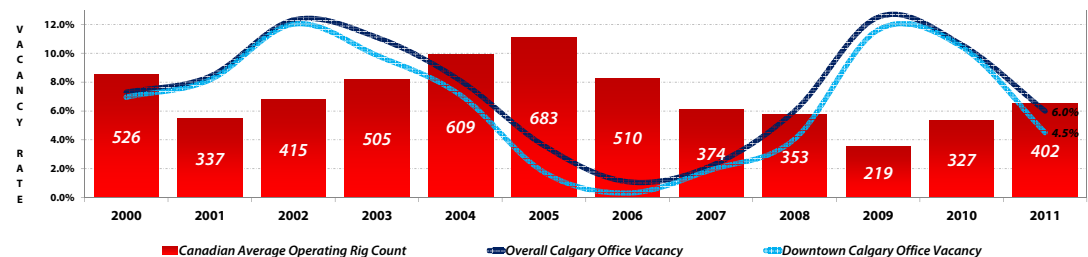
Overall Calgary Q4 2011 Office Vacancy Rates



Calgary Overall Quarterly Office Absorption (sq. ft.)



Canadian Drilling Rig Activity & Calgary Office Vacancy Rates



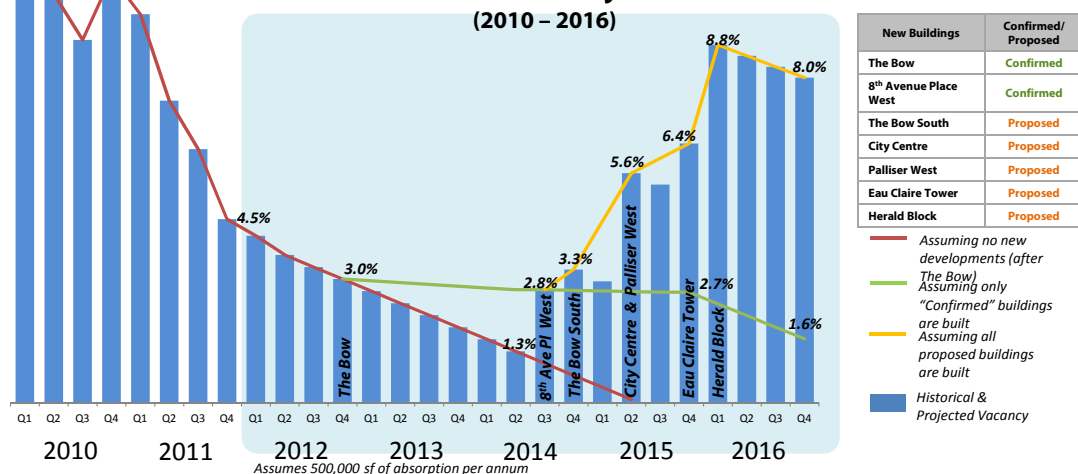
*Drilling Data Source: Canadian Association of Oilwell Drilling Contractors

Downtown - Vacancy 4.5%

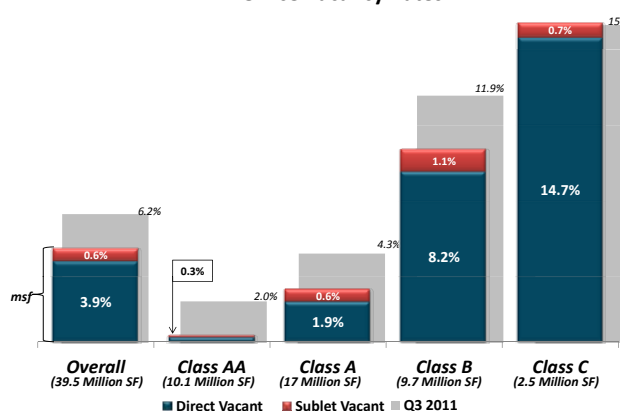
Record breaking downtown office leasing activity over the past 2 years has restored most of the post-2008 losses. In 2011, 2.4 msf of downtown office was absorbed and vacancy dropped from 10.6% to 4.5%. In the fourth quarter alone there was 650,000 sf of absorption and a 1.7% drop in the downtown vacancy rate (6.2% to 4.5%). Consistent with previous quarters, most of this leasing activity has been in A/AA class spaces. Class A vacancy in the downtown is now 2.5% vacant, and class AA vacancies are virtually non-existent at 0.3%. Scarcity of space in class A/AA buildings is also having an effect on the class B vacancy rate which has been in steady decline over the past year. Only the class C market has not recovered since 2008, with vacancy now at 15.4% having remained in the mid-high teens since 2009.

The flight to quality trend continues to shape Calgary's office leasing market, and has prompted a new development cycle. Eighth Avenue Place II (West Tower), the Eau Claire Tower, Herald Block and the City Centre building would add a combined 3.3 msf to the downtown market over the next 5 years and have a significant impact on vacancy. The effect of these developments on the downtown market has been projected in the adjacent forecast chart.

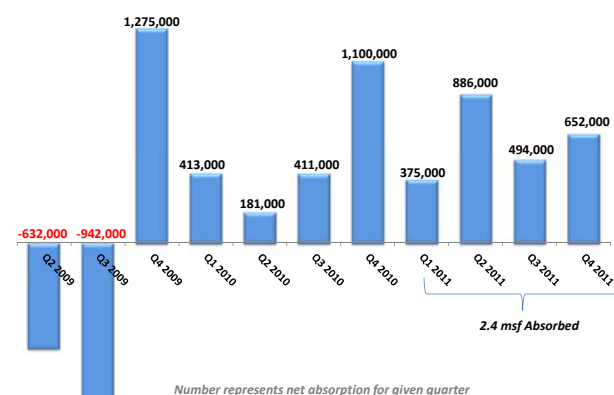
Downtown Calgary Office Vacancy Historical & Projected (2010 - 2016)



Downtown Calgary Q4 2011 Office Vacancy Rates



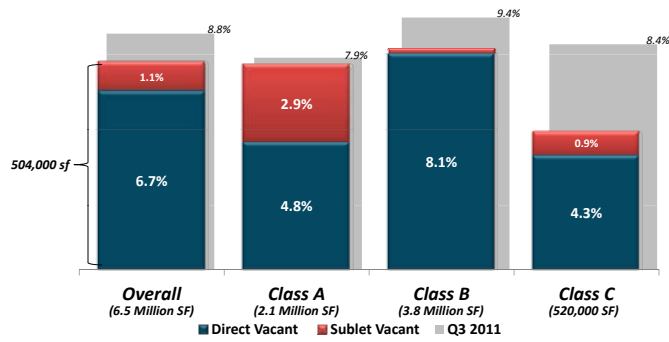
Calgary Downtown Quarterly Office Absorption (sq. ft.)



Avison Young Downtown Calgary Notable Lease Deals - Q4 2011

Tenant	Area Leased (SF)	Building	Vacancy Type
MEG Energy Corporation	66,000	Centennial Place	Headlease
Sunshine Oilsands Ltd.	52,000	8 West	Headlease
Schlumberger Canada Ltd.	17,000	One Palliser Place	Headlease
ACM Automation Inc.	12,000	Place 9-6	Headlease
Baker Hughes Canada Company	11,000	Gulf Canada Square	Headlease
Bryan & Company Calgary LLP	10,000	8 West	Headlease
Enseco Services Corp.	10,000	First Street Plaza	Headlease

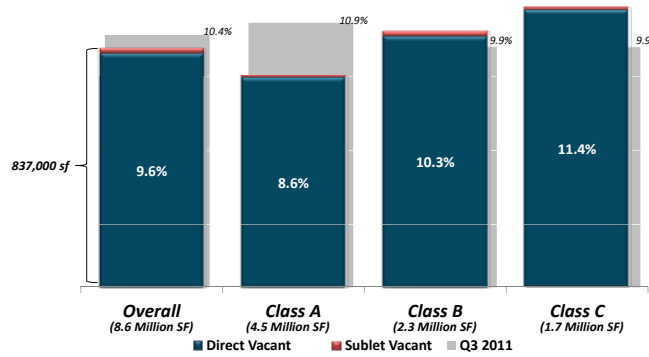
**Beltline Calgary Q4 2011
Office Vacancy Rates**



Beltline - Vacancy 7.8%

The first three quarters of 2011 saw incremental vacancy rate increases in the Beltline, moving from 7.5% in March up to 8.8% in October. In the fourth quarter, vacancy has again dropped and rested at 7.8% with all building classes showing positive absorption levels (90,000 sf net). Moving into 2012, if demand remains high and quality space in the downtown core becomes increasingly scarce, we should expect absorption to remain positive and class A Beltline vacancy (currently at 7.7%) to decline. To meet this expected demand there are currently two office properties under construction in the Beltline: Hanson Square and Centre 10. These two buildings combined will add almost 400,000 sf of office space. In addition, Strategic Group has recently confirmed that they intend to proceed with construction of 2020 4th, a mixed use retail/office development that would add 115,000 sf of office space to the Beltline by the end of 2013.

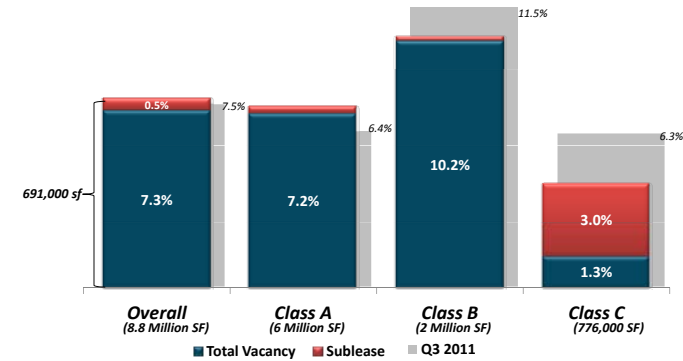
**Suburban North Calgary Q4 2011
Office Vacancy Rates**



Suburban North - Vacancy 9.8%

Both the Northeast and Northwest office markets registered drops in vacancy for the fourth quarter of 2011. Northeast vacancy changed only marginally (10.5% to 10.2%) while the Northwest registered significant growth (10.1% to 8.3%) over the past 3 months. The overall Suburban North market was 10.4% vacant in the third quarter and has since decreased to 9.8%. Since the 2008 recession, Suburban North office vacancy has fluctuated between 10% and 14% with no clear direction of recovery. Only now, with downtown vacancy becoming increasingly scarce can we see evidence of demand moving to the suburban markets. The 2.2% decrease in class A vacancy further enforces this point. Scarcity in downtown A/AA spaces has forced tenants to look to the suburbs to meet their premises requirements. Assuming leasing activity stays at current levels, we expect this trend to continue applying downward pressure on vacancy rates.

**Suburban South Calgary Q4 2011
Office Vacancy Rates**



Suburban South - Vacancy 7.8%

Vacancy in the Suburban South increased marginally by 0.3%, settling at 7.8% vacant with -26,000 sf of absorption. This small vacancy increase is an anomaly rather than the beginning of a slowing trend in the Suburban market; accordingly, we expect strong growth through 2012. In the fourth quarter class A vacancy increased to 7.5% while both B and C class spaces showed signs of growth closing the year at 10.4% and 4.3% respectively. Historical vacancy rates in the Suburban South have generally remained lower than other suburban markets. It is therefore unsurprising to see a number of new developments move into construction phase. Three buildings in Quarry Park, Chaparral Valley Square, Westmount Corporate Campus and Britannia Crossing together will add some 600,000 sf of new office space to the Suburban South.

AVISON YOUNG FEATURED OFFICE LISTINGS



Burns Building
237 - 8th Avenue SE

308 SF up to 11,652 SF
Downtown Office
Lease Opportunities



8West
903 - 8th Avenue SW

From 1,919 SF up to 7,071 SF
Downtown Office
Lease Opportunities



404 - 6th Avenue SW
From 3,105 SF up to 12,437 SF
Downtown Office
Lease Opportunities



Place 9-6
940 - 6th Avenue SW
From 2,150 SF up to 15,364 SF
Downtown Office
Lease Opportunities



Northwest Centre I & II
4500 & 4520 - 16 Avenue SW

Northwest Centre I
46,309 SF (11,030 3rd floor)
Northwest Centre II
8,940 SF
2 Building Office Complex
Suburban Office
Lease Opportunities



Stockman Centre
2116 - 27 Avenue NE
438 SF - 8,134 SF
Suburban Office
Lease Opportunities



Calgary Office Leasing Team

Matt Evans	403.232.4301
Tracy Fu	403.232.4304
Steve Goertz	403.232.4322
Larry Gurtler	403.232.4326
Eric Horne	403.232.4339
Allen Jovica	403.232.4344
Andrew King	403.232.4320
Ben Morrison	403.232.4385
Alexi Olcheski	403.232.4332
Mark St. Pierre	403.232.4319
Doug Pilip	403.232.4317
Nairn Rodger	403.232.4341
Glenn Simpson	403.232.4329
Peter Thorpe	403.232.4342
Todd Thronson	403.232.4343
Stephen Woodward	403.232.4316
Alex Wong	403.232.4327
Allan Zivot	403.232.4307

Business Condominium Team

Pali Bedi	403.232.4311
Fred Clemens	403.232.4312

AVISON YOUNG
Gulf Canada Square
#309, 401 - 9th Avenue SW, Calgary, AB T2P 3C5
T 403.262.3082 F 403.232.3325 www.avisonyoung.com
Avison Young Real Estate Alberta Inc.

For full brochures on any of our listings, please visit us at: www.avisonyoung.com



Intelligent
Real Estate Solutions