



Calgary Office Market Report

First Quarter 2010

**AVISON
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Intelligent
Real Estate Solutions

Calgary Overview - Vacancy 11.0%

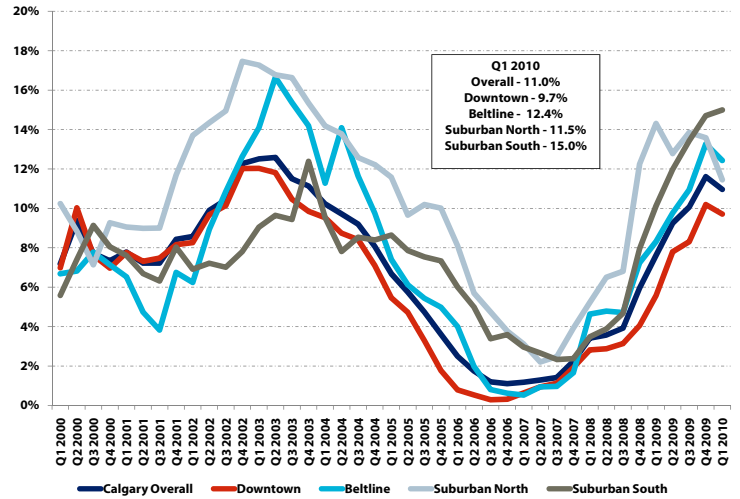
During the past 18 months, office vacancy has steadily increased while asking rents have steadily decreased. This has given tenants the opportunity to move up in quality and/or location using the same budget set two years ago. As a result vacancy rates are now staggered dramatically between the classes of buildings, with class A space having the lowest vacancies, class B having higher levels of vacancy, and class C having the most vacancy.

Vacancies have declined across all areas of the city in first quarter 2010, demonstrating the underlying health of the Calgary office market. Impending completions of more new inventory will drive up vacancy rates twice as fast as the market can absorb the space, but the key point here is that even though vacancy is rising, occupancy is increasing as well. Vacancy rates are expected to rise for at least the next two years. However, absorption of office space is anticipated to be positive for 2010, finishing the year with a cumulative total around positive 1.5 million square feet (msf). Unoccupied new construction and vacant backfill space will continue to push vacancy rates up, but economic growth and corporate expansion will continue to absorb more space. Peak city-wide office vacancy is projected to be around 15% in spring 2012. The vacancy numbers from this downturn are not expected to be as severe as those seen in the downturns of the early 1980s and 1990s when vacancy rates over 20% were recorded.

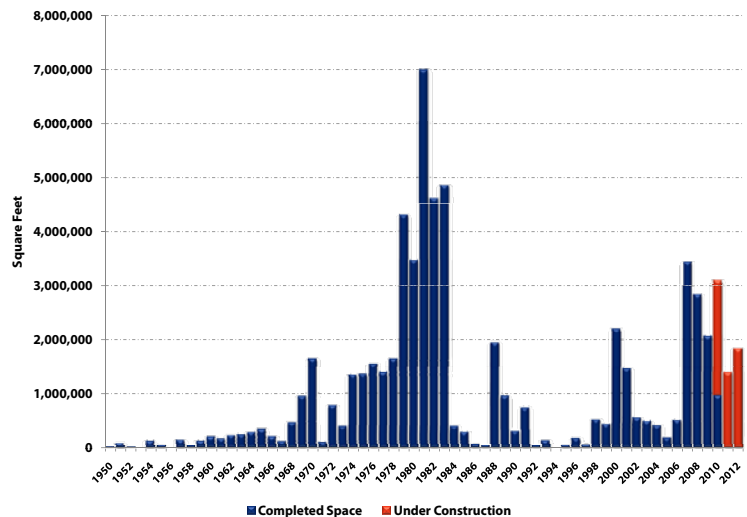
Within the entire Calgary market there are 3.9 msf of head lease office space available for tenants, out of a total city-wide inventory of 61.3 msf. Sublease space adds a further 2.8 msf of space. While the absorption figures for Downtown Calgary appear high, these numbers are exaggerated due to deals delayed by Christmas/New Year's holidays and tenant transitions between old and new buildings not having fully played out. These results will likely be offset during second quarter 2010. Absorption for the overall city in first quarter 2010 was positive 1.2 msf, with Downtown at positive 967,000 square feet (sf), the Beltline at positive 44,000 sf, the Suburban North having posted absorption of positive 176,000 sf, and the Suburban South at positive 49,000 sf. This made up a lot of ground on the negative 1,006,000 sf of absorption recorded for all of 2009.

The outlook for Calgary vacancy remains uneasy, as the amount of vacant newly-completed and/or backfill space currently on the market and expected to continue entering the market is overwhelming. There are currently 10 office buildings under construction in

Calgary Office Quarterly Vacancy Rates

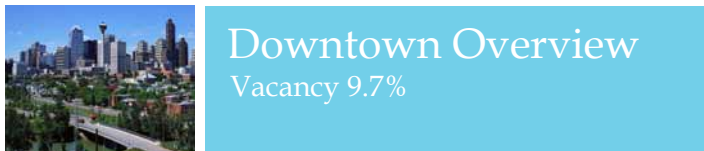


Total New Calgary Office Construction By Year



Calgary, containing approximately 5 msf, of which 37% is available for lease, either as head lease space or sublease space. Meanwhile, of the 2.9 msf of office space completed in the city in 2008, 20% is available for lease, for the 2.7 msf completed in 2009, 20% is also available for lease, and of the 975,000 sf completed so far in 2010, 39% is available for lease.

Calgarians have one of the most positive outlooks on market recovery in Canada. Projections for the next 12 to 18 months are somewhat conservative and are based on the assumption that the economy will continue to perform at levels similar to or slightly better than where it is performing today. Corporate growth is being witnessed again, but vacancy will remain high. Tenant versus landlord expectations in the meantime have changed dramatically from the pre-downturn dealings, and significantly altered office leasing, with landlords showing high motivation to lease their space.



The Downtown market has entered the calm before the storm, experiencing the first decline in vacancy since third quarter 2006. This will be a short-lived situation though, as once those buildings still under construction are completed, available space will rise once again, pushing the vacancy rate up as well. The Downtown Calgary office leasing market is facing tough times over the next couple of years.

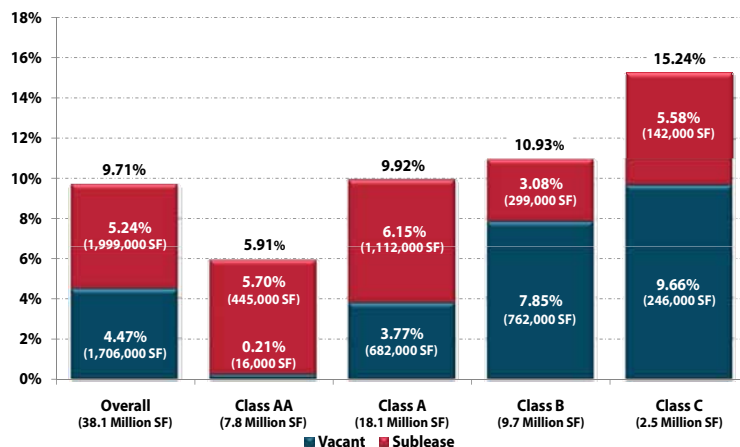
The current vacancy rate is 9.7% for the entire Downtown market, down from 10.2% in fourth quarter 2009, and up from 5.6% one year previous. Sublease space continues to exceed head lease space, a situation that started in second quarter 2009. The total combined vacancy is comprised of 4.5% head lease space and 5.2% sublease space. Looking at the specific classes of buildings, class AA space has a vacancy rate of 5.9%, class A 9.9%, class B 10.9%, and class C has a vacancy rate of 15.2%.

Companies appear to have slowed down in shedding space in an effort to cut costs, and in some cases, expansions are starting to take place once again. The amount of sublease space in the Downtown market has decreased 99,000 sf in the past three months, bringing the total amount of sublease space available to 1,999,000 sf. Combining the current sublease vacancy with head lease vacancy, which is at 1.7 msf, there is a total combined vacancy of 3.7 msf. Sublease space available in the Downtown market could still potentially double by spring 2012, even with the currently improving economic conditions. The biggest reason for this being the fact EnCana will complete their move into The Bow between second quarter 2011 and first quarter 2012, and their existing 1.7 msf of space, spread between seven different Downtown buildings, will be placed on the sublease market.

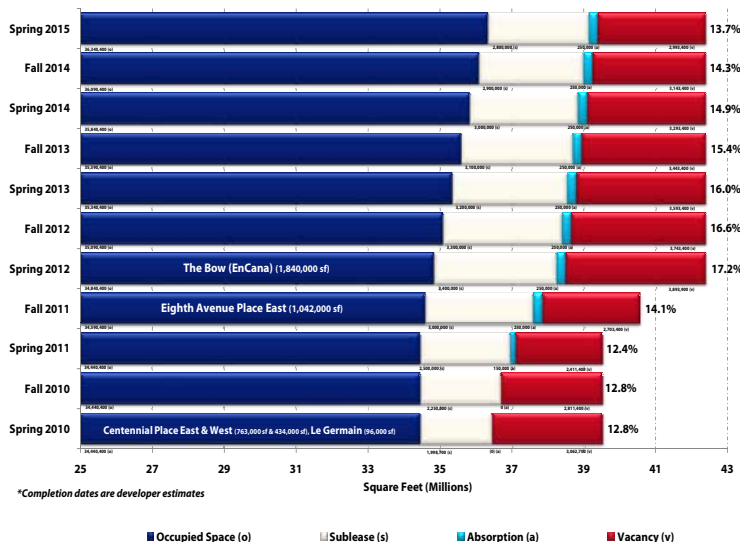
Head lease vacancy is divided between 95 buildings, with the largest contiguous pocket being 208,000 sf in the recently completed 18-storey Palliser South. The previously existing building with the largest contiguous pocket of head lease space available is Gulf Canada Square with 95,000 sf. The Downtown market's sublease space meanwhile is divided between 64 buildings, with the largest contiguous pocket being 329,000 sf in the newly completed Jamieson Place. However, there are currently nine pockets of contiguous sublease space greater than 50,000 sf, including the one previously mentioned. The Downtown building with the highest vacancy rate is Place 9-6 at 75% vacancy. It has 98,000 sf of head lease space and 15,000 sf of sublease space. There is an additional 1.3 msf of head lease space in existing buildings coming available after April 1st, 2010, pushing the potential current availability rate up to 13.5%.

Average asking net rental rates stabilized in the first quarter of 2010, after experiencing 20% to 40% decreases during 2009. With head lease space competing for tenants with sublease space, sometimes even in the same building, combined with additional inventory soon to be added to the market, further declines in rental rates are possible. In the Downtown core, class AA head lease space is currently asking an average of \$35 per square foot (psf) net, class A \$25 psf net, class B \$15 psf net and class C \$12 psf net. For new

Downtown Calgary Q1 2010 Vacancy Rates
(Including Sublease Space)



Calgary Downtown Office New Construction, Absorption, Sublease & Vacancy Forecast



construction the current average for asking net rental rates has settled at \$33 psf net, after a volatile year in 2009. Average sublease asking rates on the other hand are currently \$27.50 psf net for class AA space, \$15 psf net for class A space, \$10 psf net for class B space, and \$8 psf net for class C space.

Absorption for first quarter 2010 nearly undid the damage done for all of 2009. For the first time since third quarter 2008, positive absorption was recorded. The first three months of 2010 saw 967,000 sf of positive absorption. This is an abrupt about-face from the negative 1.3 msf recorded for all of 2009. The Downtown market averaged absorption of 984,000 sf annually between 2003 and 2008. In 2002 there was negative absorption of 1.1 msf. The 10-year average for Downtown absorption is 491,000 sf. Current estimates for the year anticipate that absorption will be flat, with companies shedding unnecessary expansion space to free up cash for operations being offset by corporations moving into larger premises in newly completed buildings. Expected to further add to the expanding amount of available space, are the three buildings to be completed this year, none of which are fully committed to tenants.

There are five remaining office buildings still under construction, containing 4.2 msf in Downtown Calgary. These are: Le Germain (Spring 2010), Centennial Place East & West (Spring 2010), Eighth Avenue Place East (Fall 2011) and The Bow (Spring 2012). These five buildings are currently 68% pre-leased, and have less than 2% of their space currently being marketed for sublease. There was one building completed in first quarter 2010, Jamieson Place which added 875,000 sf to the Downtown inventory. While the building was fully leased at the time of completion, 38% of the building remained available for sublease at the end of the quarter.

Starting in the second quarter of 2009, sublease space began to exceed head lease space in the Downtown market. This created a situation where landlords became highly competitive over tenants, resulting in aggressive lease rates, extensive inducement packages and large tenant improvement allowances. Landlords have been keen to get deals done. Tenants are being presented with some excellent opportunities at this time and many are taking advantage of the opportunity to be able to afford higher quality space at lease rates that are similar to what they budgeted for two years ago for much lower quality space.

Downtown Calgary Notable Lease Deals - First Quarter 2010

| Tenant | Area Leased (SF) | Building | Vacancy Type | Lease Type |
|-----------------------|------------------|------------------|--------------|------------|
| BP Canada | 280,400 | BP Centre | Headlease | Renewal |
| Daylight Energy Trust | 120,800 | Sun Life Plaza 3 | Sublease | Expansion |
| Macleod Dixon | 119,100 | Canterra Tower | Headlease | Renewal |
| AMEC | 105,700 | Sun Life Plaza 3 | Sublease | New |
| Alliance Pipelines | 105,000 | Fifth & Fifth | Headlease | Renewal |

A lot of tenant movement is anticipated as new buildings are completed over the next few quarters. As quickly as these new towers fill up, vacancy signs will be posted on the buildings they are leaving behind. It is forecasted that vacancy in the downtown market will close the year around 13%, and will continue to rise until early 2012, when all of the buildings under construction today will be completed. Due to improved economic conditions, both locally and globally, vacancy is now anticipated to peak around 17% in spring 2012, instead of the previously predicted 20%.

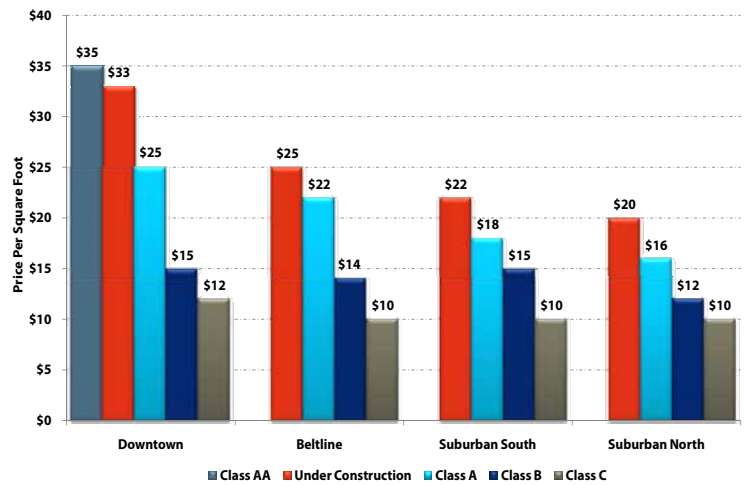


Beltline Overview Vacancy 12.4%

The vacancy rate for Beltline Calgary is 12.4% for first quarter 2010, down from 13.3% in fourth quarter 2009 and up from 8.3% one year ago. Sublease space decreased 69,000 sf during the past three months, while head lease space increased 25,000 sf during the same time period. Looking at the specific classes of buildings, class A has a vacancy of 9.0%, class B has a vacancy of 13.4%, and class C has a vacancy of 17.3%.

There is currently 490,000 sf of vacant head lease office space and a further 290,000 sf of sublease space out of a total possible inventory of 6.3 msf (99 buildings) in the Beltline market. The direct vacancy is divided among 54 buildings, with the largest contiguous pocket

Calgary Office April 2010 **Average Asking** Headlease Rates



being 22,000 sf in Keynote. The sublease space is divided between 21 buildings, with the largest contiguous pocket being 43,000 sf in 902 – 11th Avenue SW.

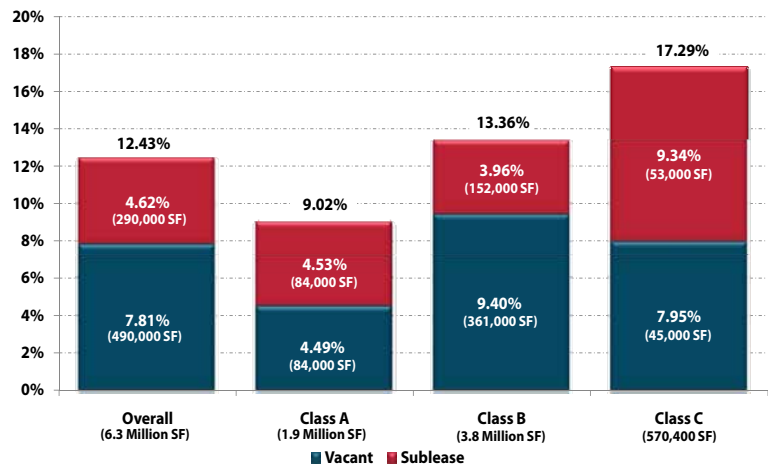
Average Beltline asking net rental rates have remained relatively flat for the past couple of quarters, after experiencing 15% to 25% decreases in 2009. Class A space is currently asking \$22 psf net, class B \$14 psf net and class C \$10 psf net. For new construction the current average asking net rental rate is \$25 psf net, due to the scarcity of new product entering the market. Average sublease asking rates, on the other hand, have fallen into the \$12 psf net range.

Absorption for the first quarter of 2010 is almost equal to the absorption for all of 2009. Total absorption recorded for the quarter was positive 44,000 sf. For all of 2009 the absorption was 50,000 sf. The beltline has not recorded negative annual absorption since 2002, which had negative 119,000 sf of absorption. It is estimated that the Beltline absorption will remain positive for this year. Only a small amount of space is being marketed as coming available after April 1st, bringing the potential availability rate up to 12.9%.

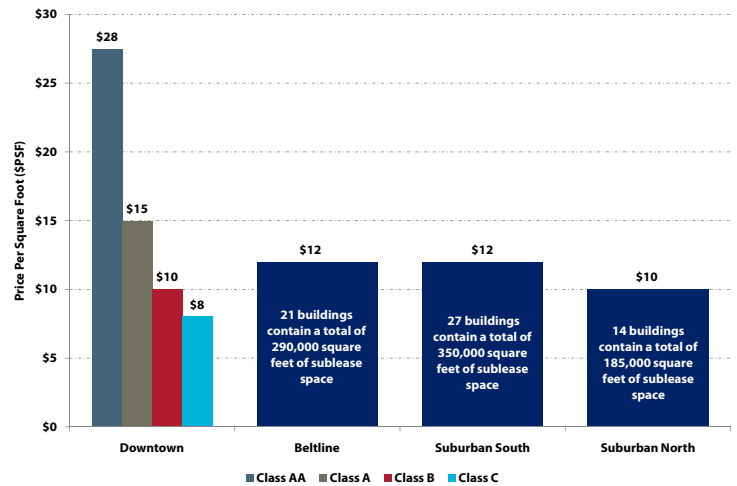
There is one remaining office building still under construction in the Beltline area of Calgary containing a total of 240,000 sf, the Calgary Board of Education Centre, expected to be completed in spring 2011. No additional new construction is expected to be announced anytime in the next couple of years. Currently, the building under construction is 83% pre-leased. No new buildings were completed in first quarter 2010.

With no new buildings entering the market this year it is expected that the market will remain steady throughout 2010. Assuming a moderate level of absorption as a result of improving economic conditions, vacancy had already reached its peak, but vacancy will rise close to 12% again in spring 2011, once the Calgary Board of Education Centre is completed.

Beltline Calgary Q1 2010 Vacancy Rates (Including Sublease Space)



Calgary Office April 2010 Average Asking Sublease Rates



Beltline Calgary Notable Lease Deals - First Quarter 2010

| Tenant | Area Leased (SF) | Building | Vacancy Type | Lease Type |
|-------------------------------|------------------|--------------------|--------------|------------|
| London Life | 21,000 | IBM Building A | Headlease | Renewal |
| Can Am Geomatics* | 20,500 | Central Park Plaza | Headlease | Renewal |
| Storm Ventures International* | 10,300 | Central Park Plaza | Headlease | New |

* Indicates transactions Avison Young was involved with



Suburban North Overview Vacancy 11.5%

After recording the city's only declining vacancy for the year in 2009, the Suburban North's vacancy rate fell again in the first quarter of 2010. The Suburban North's vacancy rate for first quarter 2010 decreased to 11.5%, down from 13.6% at the end of fourth quarter 2009, and down from 14.3% one year ago. Looking at the specific quadrants within the north continues to show two very different markets for office space. The Northwest currently has a vacancy of 5.5%, while the Northeast has a vacancy of 13.1%. For the overall Calgary suburban market, vacancy is currently 13.3%.

In the last three months there has been a 173,000 sf decrease in available head lease space and a 4,000 sf decrease in sublease space. Within the entire Suburban North market there is now 764,000 sf of head lease office space available for tenants, divided between 62 buildings, with the largest contiguous pocket being 87,000 sf in Medallion Centre, which was completed in 2008. Sublease

space adds a further 185,000 sf of space divided between 14 buildings, the largest contiguous pocket of which is 70,000 sf in the Bell Canada Building.

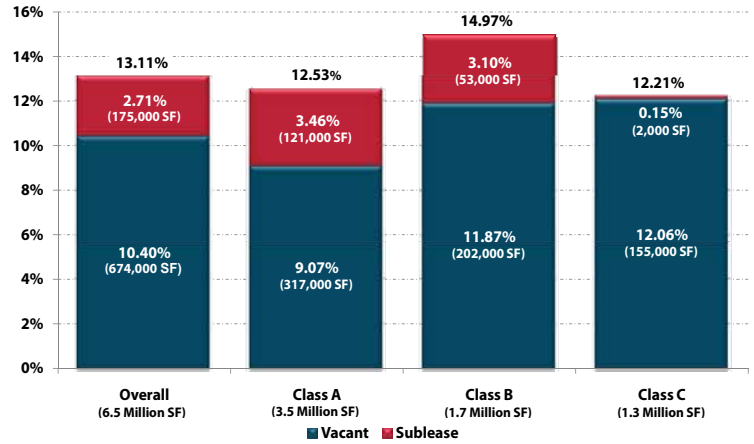
Average asking net rental rates in the Suburban North have not seen as much movement over the past year versus other areas of Calgary. Rates in this area are traditionally some of the lowest in the city and only saw declines of 15% to 25%. Class A space is currently asking for \$16 psf net, class B \$12 psf net, and class C is currently asking \$10 psf net. For new construction the average asking net rental rate remains at \$22 psf net. Average sublease asking rates have continued their downward trend, and are now in the \$10 psf net range.

As the only area of the city with six-digit positive absorption in 2009, the Suburban North market is continuing to record positive absorption in 2010. Absorption for the first three months of the year was positive 177,000 sf, while it was positive 238,000 sf for all of 2009. With no further losses in occupancy anticipated for the remainder of the year, absorption will likely remain on the positive side for the year, in the Suburban North market.

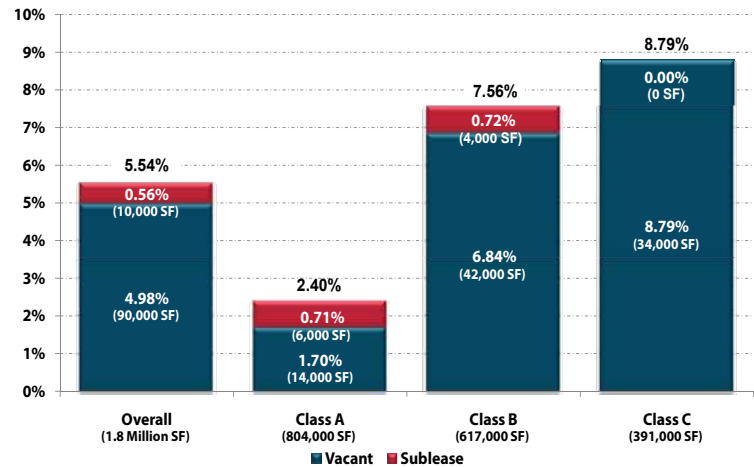
There are currently two office buildings under construction in the north end of Calgary, containing approximately 156,000 sf. These buildings are: Cambrian Wellness Centre II (Spring 2010) and WinSport Canada Tower (Spring 2011). These buildings are currently 40% pre-leased. No new buildings were completed in first quarter 2010.

The slowdown in the leasing market in Calgary caused the brakes to be applied on a lot of development. This has resulted in the withdrawal of a number of proposed projects, causing the increase in vacancy to be slower than the Suburban South. Vacancy in the Suburban North has already reached its forecasted peak, but is expected to continue to hover around the 11% mark until the middle of 2011.

Calgary Suburban Northeast Q1 2010 Vacancy Rates (Including Sublease Space)



Suburban Northwest Calgary Q1 2010 Office Vacancy Rates (Including Sublease Space)



Suburban North Calgary Notable Lease Deals - First Quarter 2010

| Tenant | Area Leased (SF) | Building | Vacancy Type | Lease Type |
|---------------------------|------------------|----------------------------|--------------|------------|
| Harris Canada | 36,700 | 6732 - 8th Street NE | Headlease | New |
| Apex Limited Partnership* | 15,800 | North Hill Shopping Centre | Headlease | New |
| Precision Geomatics | 14,000 | Deerfoot Court | Headlease | New |
| Cornerstone Engineering | 13,600 | Deerfoot Court | Headlease | New |

* Indicates transactions Avison Young was involved with



Suburban South Overview Vacancy 15.0%

The vacancy rate for the Suburban South is 15.0%, up from 14.7% at the end of fourth quarter 2009 and up from 10.1% one year ago. The Southwest quadrant has a vacancy rate of 12.5%, and the Southeast quadrant has a vacancy rate of 16.3%.

Within the Suburban South market there is a total of 939,000 sf of vacant head lease space available, divided among 59 buildings. This is up 31,000 sf from fourth quarter 2009. The largest contiguous pocket available is 75,000 sf in Quarry Park Professional Centre (109 Quarry Park Boulevard SE). Sublease space adds a further 350,000 sf of options divided between 27 buildings. This is up 7,000 sf from fourth quarter 2009. The largest contiguous sublease option in the Suburban South is 41,000 sf in Railway Corporate Centre A (6807 Railway Street SE).

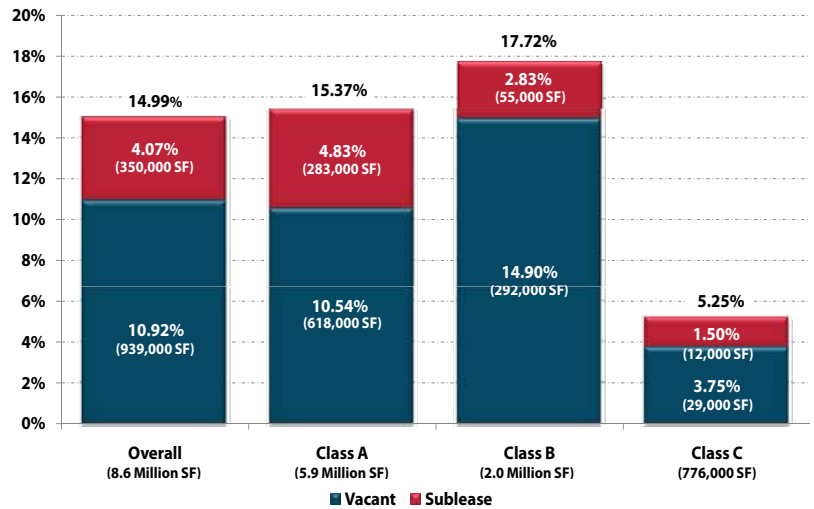
Average asking net rental rates for first quarter 2010 in the Suburban South areas didn't witness any change versus the previous quarter, after sliding downwards 15% to 25% over the past year. Rates are expected to decline further however, as more space becomes available on the market in the coming year. Class A is now asking \$18 psf net, class B \$15 psf net, and class C \$10 psf net. For new construction the average asking net rental rate has decreased to \$22 psf net. Meanwhile, average sublease asking rates are now around the \$12 psf net range.

The total absorption for the first quarter of 2010 was positive 49,000 sf. This is a pleasant turn of events after absorption for all of 2009 totaled negative 15,000 sf, well below the five-year average of 455,000 sf per year. With a large amount of newly-completed vacant space on the market, absorption is anticipated to remain positive throughout the remainder of the year as corporations start to grow and spend money again.

In the South end of Calgary there are currently two office buildings under construction, containing approximately 332,000 sf. These buildings are: Quarry Central (Fall 2010) and Atlantic Avenue Art Block (Fall 2010). These two buildings are currently 7% pre-leased. Emerson Centre (Quarry Park Boulevard Centre) was completed this quarter and was 83% leased upon opening. However, 34,000 sf of space was brought back to the market as sublease space.

Higher availability of land, quick access and shorter construction times than centrally located sites meant a large volume of new construction took place in the suburban market in the last couple of years. Demand, however, has slowed significantly over the past 18 months, as companies reduced the amount of space they were using. As with the rest of the city, vacancy in the Suburban South is expected to continue to rise until all new construction is completed. In the case of the Suburban South, vacancy may potentially reach its peak around 17%, by the end of 2010.

Suburban South Calgary Office Q1 2010 Vacancy Rates (Including Sublease Space)

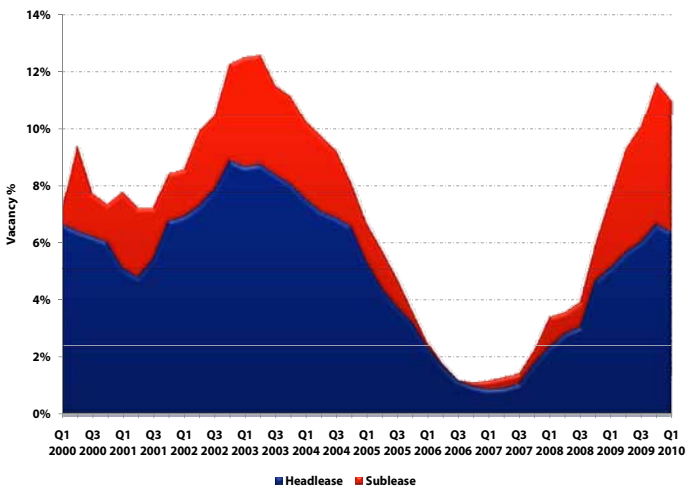


Suburban South Calgary Notable Lease Deals - First Quarter 2010

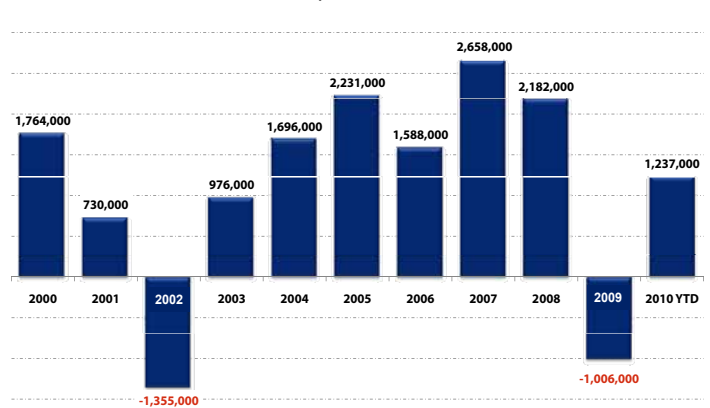
| Tenant | Area Leased (SF) | Building | Vacancy Type | Lease Type |
|--------------------------|------------------|----------------------|--------------|------------|
| Ikon-Ricoh | 14,000 | Airstate Centre | Headlease | New |
| Beta Machinery Analysis* | 13,500 | Ronmor Business Park | Headlease | New |
| i-Stock Photo | 10,500 | LocalMotive Crossing | Headlease | Expansion |

* Indicates transactions Avison Young was involved with

Historical Overall Calgary Office Availability



Overall Calgary Office Absorption (Square Feet)





Palliser South
208,000 Sq. Ft.
Downtown Office
Headlease Opportunity



1108 - 4th Street SW

1,500 - 150,000 Sq. Ft.
Downtown Office
Headlease Opportunity



Jamieson Place

85,000 Sq. Ft.
Downtown Office
Sublease Opportunity



634 - 6th Avenue SW

3,000 - 50,000 Sq. Ft.
Downtown Office
Headlease Opportunity



Centennial Place East

43,000 Sq. Ft.
Downtown Office
Sublease Opportunity



1223 - 31st Avenue NE
36,000 Sq. Ft.
Suburban Office
Sublease Opportunity



221 - 18th Street SE
1,200 - 26,370 Sq. Ft.
Suburban Office
Headlease Opportunity



Copperfield Centre
Up to 23,500 Sq. Ft.
Suburban Office
Headlease Opportunity



Lincoln Park Centre
2,200 - 16,600 Sq. Ft.
Suburban Office
Headlease Opportunity



OPUS II
15,078 Sq. Ft.
Suburban Office
Sublease Opportunity



7180 - 11th Street SE
2,200 - 12,273 Sq. Ft.
Suburban Office
Headlease Opportunity



Central Park Plaza
2,600 - 10,261 Sq. Ft.
Beltline Office
Headlease Opportunity

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