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Media Release

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• Click here to view Avison Young's Mid-Year 2015 Canada, U.S. and U.K. Office Market Report:
http://www.avisonyoung.com/fileDownloader.php?file=files/content-files/Research/Links/2015/AYMid15CanadaUSUKOfficeMktReportAug12_15Final.pdf

Economic headwinds challenge Canadian office market fundamentals, U.S. sector shows resilience

Avison Young releases its Mid-Year 2015 Canada, U.S. and U.K. Office Market Report

Toronto, ON — The Canadian and U.S. office sectors appear to be moving in opposite directions. Stymied by less-than-stellar economic results, Canadian markets are seeing mixed performance, while U.S. indicators have been largely positive. Despite the differences, there are similarities – mounting concern surrounding depressed oil prices and the burden placed on markets tied to the energy industry (such as Calgary and Houston) on both sides of the border.

These are some of the key trends noted in **Avison Young's *Mid-Year 2015 Canada, U.S. and U.K. Office Market Report***, released today.

The report covers the office markets in 50 Canadian, U.S. and U.K. metropolitan regions: **Calgary**, **Edmonton**, **Guelph (Southwestern Ontario)**, **Halifax**, **Lethbridge**, **Montreal**, **Ottawa**, **Quebec City**, **Regina**, **Toronto**, **Toronto West/Mississauga**, **Vancouver**, **Winnipeg**, **Atlanta**, **Austin**, **Boston**, **Charleston**, **Charlotte**, **Chicago**, **Cleveland**, **Columbus**, **OH**; **Dallas**, **Denver**, **Detroit**, **Fairfield County**, **Fort Lauderdale**, **Houston**, **Indianapolis**, **Las Vegas**, **Long Island**, **Los Angeles**, **Miami**, **Minneapolis**, **New Jersey**, **New York**, **Oakland**, **Orange County**, **Orlando**, **Philadelphia**, **Pittsburgh**, **Raleigh-Durham**, **Reno**, **Sacramento**, **San Diego County**, **San Francisco**, **San Mateo**, **Tampa**, **Washington, DC; West Palm Beach** and **London, U.K.**

"In this, our annual mid-year review of the office sector across North America, we are pleased to report that, as Avison Young continues to grow, so does our coverage of the property markets, which has expanded to 50 office markets from 39 during the past year, including additional cities in Canada and the U.S., plus London in the U.K.," comments **Mark E. Rose**, Chair and CEO of Avison Young.

Rose continues: “The economic well-being of both Canada and the U.S. impacts directly on property market fundamentals, and there appears to be a widening divergence in economic performance between the two countries, resulting in a corresponding shift in their respective office market indicators.”

“In the U.S., the Federal Reserve continues to signal it will raise interest rates later this year, though slowly. And in July, the Bureau of Labor Statistics reported the unemployment rate continued to fall in June. Amidst these signs of recovery, the U.S. office market continued to strengthen in the 12-month period ending June 30. Meanwhile, Canada is seeing what has been described as a mild contraction, as the Bank of Canada made a further cut to interest rates and revised down its annual growth forecast. Employment levels have stalled through the first half of the year. The price of oil also has certainly affected some markets more than others – but overall, while vacancy is retreating in the U.S., it is starting to creep up in Canada,” says Rose.

According to the report, of the 50 office markets tracked by Avison Young in Canada, the U.S. and U.K., market-wide vacancy rates decreased by varying degrees in 34 (or more than two-thirds) of the markets, on an annualized basis.

Development activity has surged, with almost 43 million square feet (msf) of office space completed across the 50 markets, up from 38 msf in the previous one-year period, while the under-construction tally is approaching the 100-msf mark – roughly 4 msf ahead of the 2014 pace.

CANADA

Already contending with a burgeoning development pipeline, Canadian office market fundamentals faced additional headwinds from weaker-than-expected economic indicators through the first half of 2015. While performance was mixed among the 13 markets surveyed, depressed oil prices are taking a toll in Alberta – particularly Calgary. Meanwhile, workplace strategies and urban intensification continue, and as purely office development sites become increasingly scarce, urban renewal and mixed-use development – combining office, retail and residential – are found across many of Canada’s downtown markets.

“Improving market fundamentals in the U.S. office sector are a welcome relief, and though Canada’s sound property fundamentals are being tested as indicated by the latest results, it’s difficult not to take a glass-half-empty point of view,” states **Bill Argeropoulos**, Principal and Practice Leader, Research (Canada) for Avison Young. “No doubt, the plunge in the price of oil has shocked the system, suppressing GDP growth and keeping employment growth at bay. Commodity-based and development-laden markets will likely experience a flight to quality, making it difficult for landlords to maintain occupancy levels and generate any notable rental rate growth, thus shifting the tenant-landlord balance that some markets have enjoyed.”

Argeropoulos adds: “Notwithstanding some softening in the Canadian office sector, we expect the marketplace to stay active in coming quarters, supported by diverse local office market drivers. If we take the glass-half-full perspective, the markets have yet to realize the full benefits of the recent interest-rate cut and a low dollar. The wild card is that U.S.-based tenants continue to show considerable interest in expanding or establishing a foothold in major Canadian centres, a trend that has the potential to offset some of the negatives.”

Notable First-Half 2015 Canadian Office Market Highlights:

- Varying and sporadic absorption levels, coupled with new office completions, lifted Canada's overall vacancy rate 110 basis points (bps) from one year earlier to 10.3% at the midway point of 2015. Vacancy climbed in 11 of 13 markets.

- Quebec City (8.6%) and Lethbridge (16.5%) posted the lowest and highest vacancy rates, respectively; the greatest swing occurred in Calgary (11.5%, +320 bps).

- Weighed down by Calgary's woes, Canada's Western markets collectively saw vacancy spike 160 bps over the previous year to 10.3% at mid-year 2015. Eastern markets witnessed a modest 30-bps bump to 10%.

- Downtown markets as a whole expanded, posting 8.8% vacancy at mid-year 2015, up 160 bps year-over-year – more than half of the markets remained in single-digit territory. Downtown vacancy jumped significantly in Calgary (10.7%, +450 bps) and Vancouver (9.8%, +340 bps).

- Suburban markets recorded positive growth as vacancy retreated marginally (12.1%, -20 bps), led by strong year-over-year absorption numbers from Toronto (13%, -120 bps). Unlike downtown, less than half of the suburban markets displayed single-digit vacancy.

- Canada delivered 8.5 msf annualized of new office space (42% in Toronto), with developers slightly favouring completions in the country's downtown markets. This trend reversed the previous 12-month tally, when suburban outpaced downtown completions by more than two to one.

- Despite a decline from 2014, more than 20 msf is under construction across Canada (52% preleased and representing 3.9% of existing inventory). Calgary (6.2 msf / 51% / 8.9%) and Toronto (5.7 msf / 57% / 3.2%) are the most active and together account for almost 60% of the development pipeline.

- In the past year, the average asking gross rent for class A downtown office space in Canada fell to $43.47 per square foot (psf) (-$0.52 psf), while rising modestly for suburban class A product ($41.34 psf, +$0.83 psf).

U.S.

In contrast to office market conditions in Canada, according to the report, the 4.4-billion-square-foot U.S. office sector continues to experience broad-based improvement with all but five cities citing lower vacancy when compared with 2014.

"U.S. office markets continued to strengthen between mid-year 2014 and mid-year 2015, reflecting business confidence, job growth and falling unemployment levels," notes **Earl Webb**, Avison Young's President, U.S. Operations. "Office market indicators have been positive with strong net absorption and rising class A rents. The increased positive absorption is a notable indicator of tenant expansion even as efficient space design has been widely adopted. Both are trends we anticipate will take us into 2016."

According to the report, by mid-year 2015 many U.S. cities had returned to a leasing atmosphere favourable to landlords, even while tenants continued their flight to quality and as square feet under development trended higher.

Notable First-Half 2015 U.S. Office Market Highlights:

- Overall office vacancy fell to less than 13% at mid-year 2015, dropping by 60 bps since the same point in 2014 – though downtown markets remained much healthier and averaged slightly less than 11% vacant. This differential highlights an urban-centric workforce and the desirability of 24-hour environments.

- San Francisco recorded 5.3% vacancy, the country's lowest overall rate, while the tightest downtown market was also found in Northern California with San Mateo reporting a vacancy rate of 1.1%.

- At mid-year 2015, annual net absorption was 46 msf, an increase of more than 10% year-over-year, and both suburban and downtown markets recorded positive net absorption for the 12-month period.

- Dallas (6.5 msf), Boston (3.9 msf) and New York (3.6 msf) recorded the greatest amount of absorption between mid-year 2014 and mid-year 2015.

- Pricing has been trending upward with class A asking rents in downtown markets averaging more than $50 psf on a gross basis, and up by 5% year-over-year.

- New York, the country's largest office market with 435 msf, reported the country's highest class A rent – $78.57 psf gross. San Francisco ($67 psf), Boston ($62.80 psf) and Washington, DC ($56.09 psf) round out the list of larger markets with downtown asking rents north of $55 psf.

- During the 12-month period ending June 30, 2015, a total of 33 msf of new office space was delivered in Avison Young's U.S. markets. Most of that was located in suburban markets where 25 msf, or 0.9% of inventory, was delivered. In contrast, just 8 msf, or 0.5% of downtown inventory, was completed.

- 71 msf remained under construction at mid-year 2015, compared with 65 msf at the same time in 2014. Houston (11 msf), Dallas (8 msf) and Washington, DC (8 msf) represent the three leading U.S. cities in terms of total office space under development. On the whole, preleasing activity in new development has been significant and averages 58%.

"Though the square footage under construction is growing, the danger of oversupply in most U.S. markets is slight, and the new supply will be needed as business expansion intensifies," adds Webb. "As the U.S. accelerates into a landlord-controlled market, occupiers should be prepared for higher rents in the coming months. Energy-driven markets, such as Houston, will bear watching, as projects underway will likely soften overall office conditions. And in Washington, DC, formerly one of the country's strongest markets, high vacancy persists."

Webb concludes: "Nevertheless, the outlook for office properties is the strongest we've seen since the Great Recession, and well-located, urban or transit-oriented stock will lead the office recovery."

Please turn to the following pages of the report for highlights in the local markets. For further info/comment, please contact the Avison Young representatives listed below. Thank you.

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