

Edmonton

Office Market
Q2 2018

“Recognize there’s more to Alberta and Edmonton than oil and gas. When there are success stories about technology companies in the area, and a younger generation coming up is reading them, they want to be part of that.”

- SCOPE AR CO-FOUNDER DAVID NEDOHIN ON EDMONTON’S POTENTIAL AS AN AUGMENTED REALITY HUB.

* Kent, Gordon. “Edmonton set to be centre for augmented reality industry.” *Edmonton Journal*. April 10, 2018.

Edmonton’s Emerging Tech Industry

The Government of Alberta’s Growth and Diversification Act, passed in June 2018, details the framework for public investment in the province’s technology sector. The provincial government is projecting a labour shortage of computer and information systems professionals by 2025 and has committed \$50 million over five years to counteract the potential shortfall. The policy intends to add 3,000 post-secondary student positions in tech as well as support tax credits for small business investment in the industry.

In his State of the City Address in May, Mayor Don Iveson focused on talent and innovation as pillars for growth alongside investment and exports. “Let’s actively shape Edmonton’s economic future by leveraging our local tech talent to help make our established companies become as competitive and innovative

as they can be,” Mayor Iveson stated when discussing the strategy. As part of the vision, the Mayor foresees an “innovation corridor” that runs through downtown along the Metro Line LRT from the University of Alberta to NAIT, connecting a series of places that foster innovation, entrepreneurship, creativity, and a vibrant urban lifestyle.

Tech business incubators are playing a pivotal role in driving industry innovation. TEC Edmonton operates the TEC Innovation District in downtown’s Enterprise Square, focused specifically on providing mentorship and collaboration spaces for tech entrepreneurs and their start-up companies. Innovation is not only happening downtown – the Edmonton Research Park in the Southside hosts over 1,500 members at 55+ companies working in IT, software development,

Tech in Edmonton (continued)

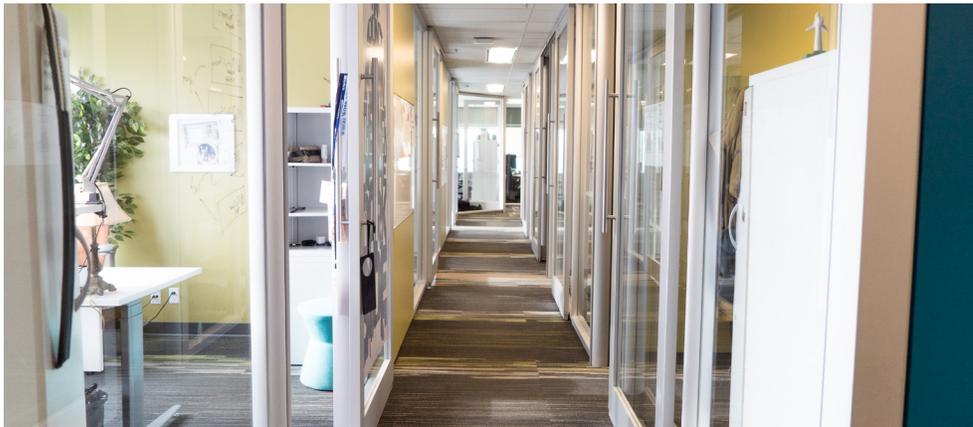
medical hardware and other advanced technology industries. The campus stimulates business development by offering shared workspaces and coaching from industry experts.

Price Waterhouse Cooper's Cities of Opportunity 7 Report cites intellectual capital and innovation, transportation and infrastructure, health, safety and security as leading factors in attracting and retaining talent.

The tech industry is highly labour intensive and employment is growing fast; jobs in the sector have grown by 30.4% nationally in the past five years¹. To grow the city's tech sector, it must develop and retain its talent. In that respect, Edmonton is in a strong position with talent pipelines from the University of Alberta, NAIT, MacEwan University, Concordia University, CDI College and Robertson College all having

comprehensive programs. These post-secondary institutions are key talent generators, but several other factors will contribute to retention. Competition for talent is fierce and historically, labour has migrated to Vancouver, Toronto, or south of the border. To continue to grow the talent pool, Edmonton must leverage its competitive advantages, namely, the current downtown transformation and its appeal to the workforce.

The composition of downtown Edmonton is changing in an unprecedented way. Not only is the quality and mix of commercial real estate evolving, the city is building a vibrancy that is drawing attention. At the Edmonton Real Estate Forum in May, Founding Partner of Toronto-based Slate Asset Management, Blair Welch, discussed how the perception of Edmonton as an oil and gas city is changing around Canada. Developers and investors, as well as tech talent, are keeping a close eye on the city's position in the greater marketplace. The ICE District often dominates headlines as a landscape-changing development, but notable projects like the Royal Alberta Museum and the Stanley A. Milner Library contribute to the vibrancy enhancing the downtown environment.



Office Stats



¹The Conference Board of Canada, Canadian Industrial Outlook, Spring 2018.



Air Canada began offering daily, year-round direct flights from Edmonton to San Francisco on May 1, 2018. Enhancing the interconnectedness with Silicon Valley is a valuable step in building Edmonton's tech industry.



First & Jasper as the Technology Centre

Trust Science Inc. - Using publicly available data, Trust Science develops algorithms that grant insight into an individual's or business's trustworthiness. Their machine learning models can assist users in reducing risk and making more informed business decisions. The company recently expanded into approximately one half floor in First & Jasper.

Alberta Machine Intelligence Institute (AMII) - As part of the University of Alberta, AMII employs students, programmers, and staff to advance research in machine intelligence. Their wide range of research in artificial intelligence applications includes adaptive prosthetics, disease diagnostics, and information extraction. They will move to occupy nearly two full floors in First & Jasper.

Tech in Edmonton

The tech industry, although highly competitive on talent, is known for developing business clusters to add value through synergies. Often, established tech companies will draw other, smaller organizations into the region where entrepreneurs may mutually support innovation. The emerging sector is currently gaining momentum downtown as several flourishing companies have leased space. Perhaps the best example of clustering is in First & Jasper as a central hub for the industry in Edmonton.



Tech in Edmonton

Google DeepMind - Working in collaboration with the University of Alberta, one of the world leaders in artificial intelligence development will serve as a technology anchor in the expanding business cluster. The tech giant's subsidiary is at the forefront of advanced machine learning and applies its research to healthcare and consumer products.

BioWare - One of Edmonton's well-known success stories, the video game developer has launched titles that are recognized around the world. Founded in Edmonton in 1995, the company's early success led to acquisition by Silicon Valley-based Electronic Arts in 2000. The company has a subsidiary office in Austin, TX and their continued success will lead to expansion to 75,000 sf in EPCOR Tower in early 2019.

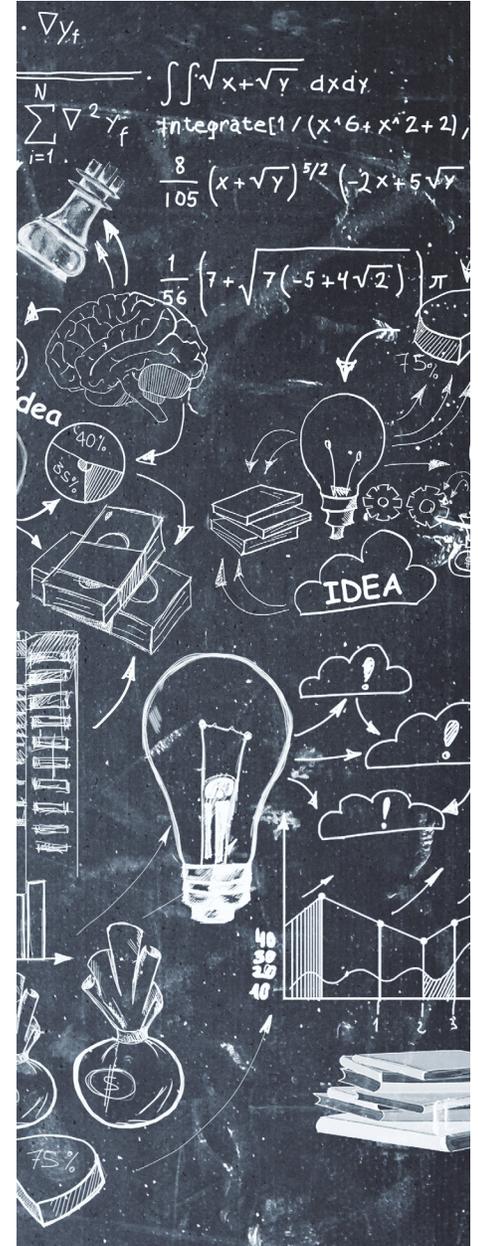
Granify - Located at Enbridge Place, their advertising technology analyzes consumer patterns and enables e-commerce businesses to tailor their services to specific customers. Granify was founded in Edmonton in 2012 and grew from 4,000 sf to over 10,000 sf in 2018 while also establishing a satellite office in Austin, TX.

Serious Labs Inc. - The virtual reality developer builds immersive training solutions by blending simulation, instructional design and gamification to construct workforce education models.

DevFacto - The software consulting and management firm was recognized as one of Canada's 500 fastest growing companies in 2017 by Canadian Business magazine and is located in Scotia Place.

Scope Technologies Inc. - A developer of augmented reality applications, Scope Technologies is the largest of its kind in Edmonton. With 25 employees working in the Dorchester Building, the company expects to double its workforce and office footprint this year.

INVIDI Technologies Corporation - Founded in Edmonton in 2000, INVIDI uses targeted data to optimize digital marketing to audience segments. The company has grown to five offices throughout North America since its inception and will relocate from Scotia Place to a full floor in TELUS House at ATB Place.



Avison Young is a full-service commercial real estate services firm with a unique model, culture and approach. We are a private company, designed to put our client relationships and their success at the centre of everything we do.



Investment in dated, or obsolete, office properties is adding value and reshaping the market dynamics in Edmonton's downtown.



WSP Place is symbolic of Edmonton's downtown modernization with its innovative exterior architecture.



The former YMCA space on 102A Avenue will be repurposed to include micro-apartments, a food hall, and boutique office space.



The 106-year-old Brighton Block will be restored to include 17,000 sf of office space in a mixed-use development.

Reimagining Edmonton's Downtown



Effect on Downtown
Vacancy Rate **0.69%**

Q3 2017

Strategic Group will convert the Government district class C office building to 177 one and two bedroom apartment rental units targeted toward students and young adults. The project is expected to be completed by late 2018.



Effect on Downtown
Vacancy Rate **0.74%**

Q1 2018

Strategic Group plans to convert the class C office building to 154 residential apartment units with main floor retail.



Effect on Downtown
Vacancy Rate **0.58%**

Q1 2018

Regency Developments purchased and demolished the building with the expectation to build a high-rise residential tower.



Effect on Downtown
Vacancy Rate **0.37%**

Q2 2018

Stromiga Real Estate Development will convert six vacant floors to 78 open concept loft-style apartment units.



Effect on Downtown
Vacancy Rate **0.89%**

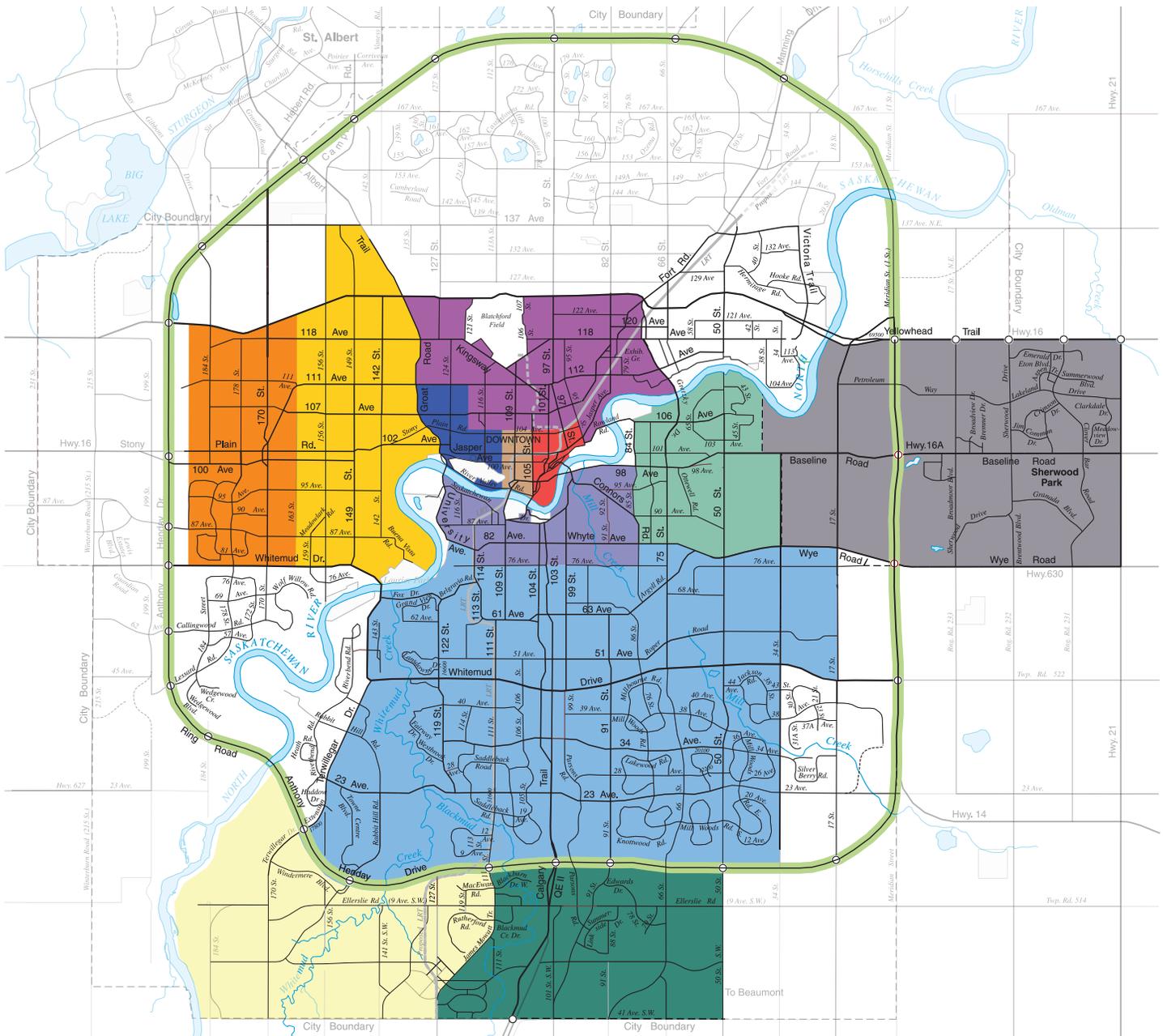
Q2 2018

Lighthouse Hospitality is repurposing the tower to a 300 room hotel with main floor retail with expected completion by 2020.

Edmonton Market Review

Edmonton Office Market Districts

- West End
- Downtown Government
- Summerside
- 149th Street
- Downtown Financial
- Eastgate
- 124th Street
- Whyte Avenue
- Sherwood Park
- 118th Ave & Kingsway
- Southside
- Windermere





AVAILABLE CONTIGUOUS SPACE

Largest head lease available:

119,998 sf

Scotia Place

10060 Jasper Avenue

Largest sublease available:

22,979 sf

Enbridge Place

10130 - 103 Street

Downtown Financial

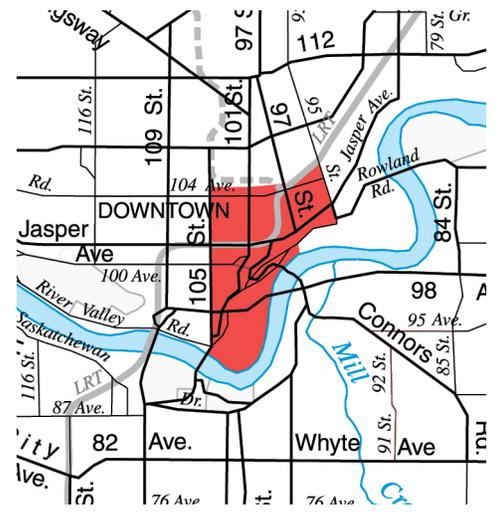
The Downtown Financial district continues to experience increased leasing activity as tenants migrate to improved office space. The second quarter of 2018 recorded notable sub-lease absorption with **82,000 sf leased in TD Tower as Edmonton Police Services will relocate from their Downtown Division** at 9620 – 103a Avenue.

Redevelopment efforts continue to shape the downtown office inventory. The **fully-vacant Enbridge Tower was purchased on May 1, 2018 for \$22 million with the intention to convert the property into a 300 room hotel with main floor retail.** The removal of the 184,000 sf office tower represents a vacancy rate reduction of 1.5% in the Financial district and 0.5% decrease overall.

In Commerce Place, 25,600 sf of office space will be repurposed to accommodate Goodlife Fitness. **HSBC Bank Place is currently undergoing extensive renovations to modernize its prominent 101 Street & 103 Avenue location.** Regency Developments' demolition of the 123,000-sf Bank of Montreal Building is now complete and awaits development adjacent to the ongoing Valley Line LRT construction on 102 Avenue.

Innovative mixed-use developments will add a new dynamic to the market. In the Quarters, Primavera Development Group will restore the vacant 106-year-old Brighton Block to add 17,000 sf of office space and an additional three floors within the 36,000-sf mixed-use property. Similarly,

Beljan Development will redevelop the former YMCA on 102A Avenue to accommodate boutique office space alongside micro-apartments, a fitness centre, and an open food hall.



Downtown Financial
Subtotal



Absorption YTD
154,617 sf



Vacancy
13.6%



Inventory
12,185,647 sf



AVAILABLE CONTIGUOUS SPACE

Largest head lease available:

89,741 sf

Highfield Place

10010 - 106 Street

Largest sublease available:

189,304 sf

Stantec Centre

10160 - 112 Street

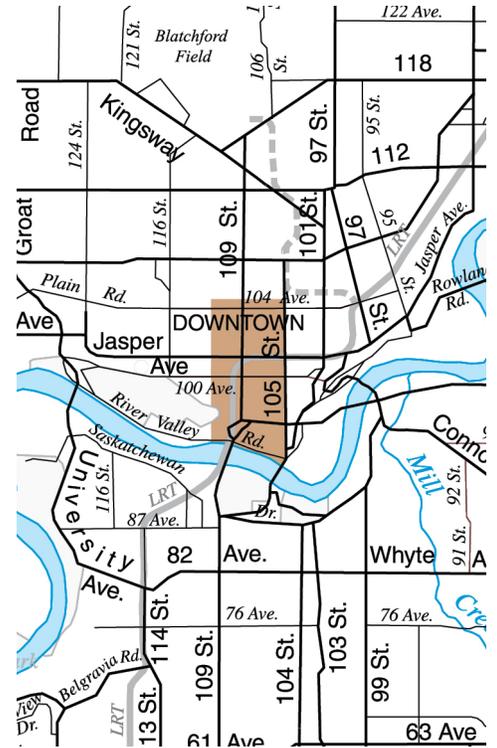
Downtown Government

The effect of repurposing office space is most pronounced in the Downtown Government district. **Floors six to eleven in the Financial Building have been marked for conversion to residential** and, when combined with Harley Court and Centre West, **contribute to 384,000 sf of class C vacant office space effectively removed from the market in the past year.** These projects alone accounted for an approximate six percent decrease in Government district vacancy rate.

The introduction of Stantec Tower will result in a surge of negative absorption in the district as Stantec consolidates in class AAA office space in the Financial district. The **move in late 2018 will**

make 124,000 sf available in the Devonian Building and 189,000 sf in Stantec Centre available for sub-lease.

The historical Dorchester Building on 109 Street and 104 Avenue has experienced a number of smaller lease deals totaling 10,400 sf for firms drawn to the building's unique brick and beam architecture and prominent location. Scope Technologies Inc. occupies 4,400 sf and is working to expand into another 4,000 sf. Flight Centre Travel Group (Canada) Inc. has leased 2,900 sf while Ruker Inc. and Pixel Army, marketing and web design firms, have leased 1,200 and 2,300 sf respectively.



Downtown Government Subtotal



Absorption YTD
20,194 sf



Vacancy
10.2%



Inventory
5,431,618 sf

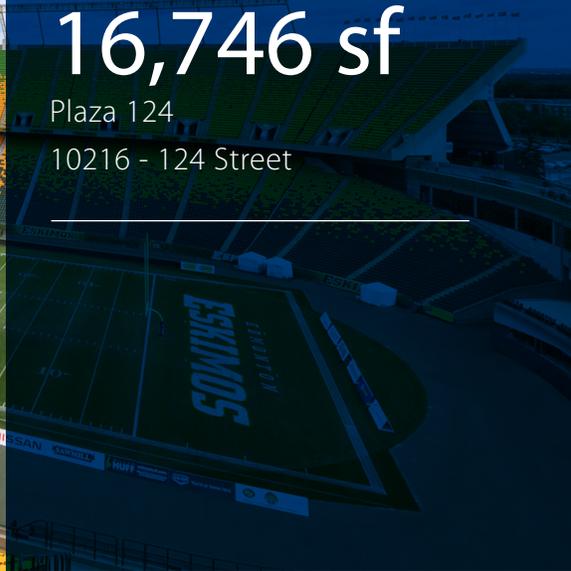


AVAILABLE CONTIGUOUS SPACE
Largest head lease available:

16,746 sf

Plaza 124

10216 - 124 Street



124th Street and 118th Avenue & Kingsway

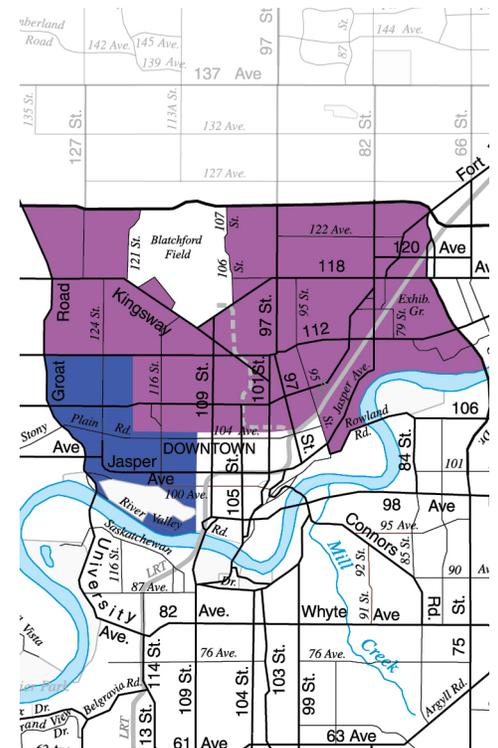
The 124th Street and 118th Avenue & Kingsway districts are relatively small suburban office markets with low absorption volatility.

Development by First Capital Realty and Sun Life continues at the Edmonton Brewery District. The **104-year-old Molson Tower is being reconstructed to accommodate 20,700 sf of loft style, exposed brick office space.** The heritage building will also house a micro-brewery and restaurant and is expected to be substantially completed in the third quarter of 2018.

In the 118th & Kingsway district, **40,000 sf of office inventory from Royal Alex Place was removed from the**

marketplace as Hungerford Properties is preparing to repurpose the building to residential apartments.

The City of Edmonton will develop the former Blatchford Airfield into a sustainable community housing 30,000 residents and will be fully powered with renewable energy. Over the next two decades, the 536-acre region will host 6,000 multi-residential properties and a commercial town centre that the City of Edmonton **expects to include one to two million square feet of office space upon completion.**



124th Street and 118th Avenue & Kingsway Subtotal

124th Street

118th Avenue & Kingsway



Absorption YTD

(8,702) sf

(2,734) sf



Vacancy

12.6%

9.2%



Inventory

1,030,896 sf

772,921 sf



AVAILABLE CONTIGUOUS SPACE

Largest head lease available:

76,998 sf

Broadmoor Place I

2899 Broadmoor Boulevard

Largest sublease available:

129,194 sf

50th Street Atria

9405 - 50 Street

Eastgate and Sherwood Park

The recessionary conditions continue to be felt in the Eastgate district which reflects the highest vacancy rate of the city's submarkets. At nearly 28%, the elevated vacancy rate contributed to depressing the weighted average gross rental rate to \$27.50 psf.

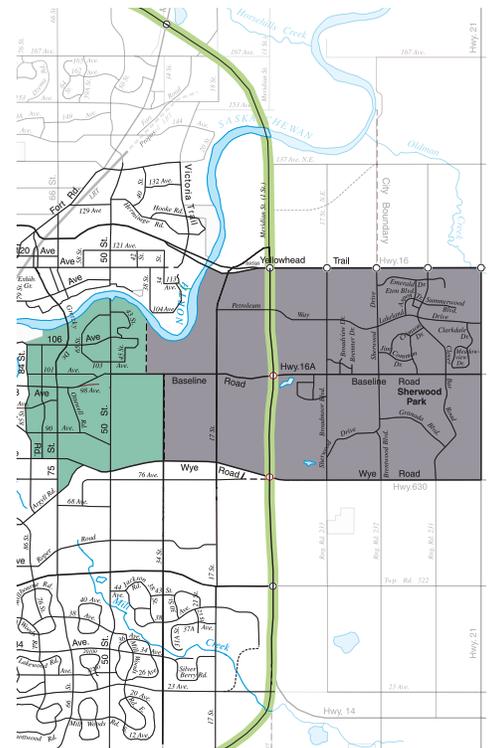
Contributing to negative absorption in the Eastgate district is the **30,000 sf available in the former Fluid Life Building on 48 Street** after the oil analysis company relocated to their newly constructed Summerside office.

In Sherwood Park, leasing activity has strengthened after the vacancy rate reached as high as 27.9% at year-end 2017. **A flurry of deals have**

removed pockets of availability from Broadmoor Place in the past year.

Notable deals in the 10-building office complex include Northlands leasing 16,000 sf, ADT Security Services leasing 10,000 sf, and Vertex Resource Group Ltd. expanding their footprint by 5,000 sf.

The newly developing Savona Centre on Festival Lane will be available for fixturing in the third quarter of 2018 and offers 12,000 sf of second and third floor professional office space for lease. The site is part of a larger development that includes two additional buildings comprised of luxury residential condos.



Eastgate and Sherwood Park Subtotal

Eastgate
Sherwood Park



Absorption YTD
(58,461) sf
22,852 sf



Vacancy
27.9%
26.2%



Inventory
1,375,954 sf
1,309,724 sf



AVAILABLE CONTIGUOUS SPACE
Largest head lease available:

58,146 sf

Commerce South Office Park
Building C
5008 - 86 Street

Largest sublease available:

19,800 sf

Elm Business Park - Building IV
9426 - 51 Avenue

Whyte Avenue and Southside

Wexford Developments' Raymond Block on Whyte Avenue is an example of a growing trend of mixed-use buildings with modern design in suburban submarkets. The total building size of 132,000 sf will be made up of 95 residential apartments, main floor retail and 20,700 sf of second floor office space.

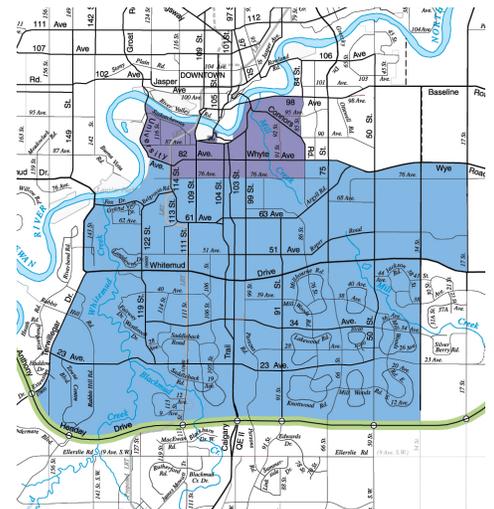
Southside, the city's largest suburban submarket with over 3.5 million square feet, maintains a vacancy rate above the city average and has experienced modest positive absorption year-to-date.

The DDC Professional Building, a 29,000-sf healthcare professional centre on Gateway Boulevard, is expecting completion in the third quarter of 2018.

At the intersection of Calgary Trail and Whitemud Boulevard, the EPC Southtrail Plaza is available for pre-leasing. The **55,000-sf project, expected to be available in summer 2019**, will comprise of second floor office space atop retail shops and professional services.

Significant infrastructure developments - the Valley Line LRT and 50 Street expansion - will reshape the southeast quadrant. Construction of the LRT line is ongoing and, when completed, will act as a direct route connecting Mill Woods to the Downtown core. In May, **the federal government announced a \$40 million commitment to widen 50 Street and add grade separation** at the rail

crossing near Sherwood Park Freeway. Construction is expected to begin in 2020 and conclude in 2023.



Whyte Avenue and Southside Subtotal

Whyte Avenue
Southside



Absorption YTD
(16,163) sf
14,803 sf



Vacancy
14.0%
17.8%



Inventory
638,343 sf
3,625,580 sf



AVAILABLE CONTIGUOUS SPACE

Largest head lease available:

18,887 sf

Ellwood Office Park - Phase 2
1003 Ellwood Road

Largest sublease available:

8,259 sf

Cassel Centre
2627 Ellwood Drive SW

Summerside and Windermere

In the first quarter of 2018, Avison Young defined Windermere as a distinct submarket due to its makeup of modern class A office space at premium rates.

To date, the submarket is comprised of 350,000 sf, including 20,000 sf that recently became available in the Windermere Health & Business Centre, **with an additional 174,000 sf under construction or planned.** Office market expansion in the region bears attention as the population is expected to nearly double in the next five years, according to the City of Edmonton Growth Monitoring Report.

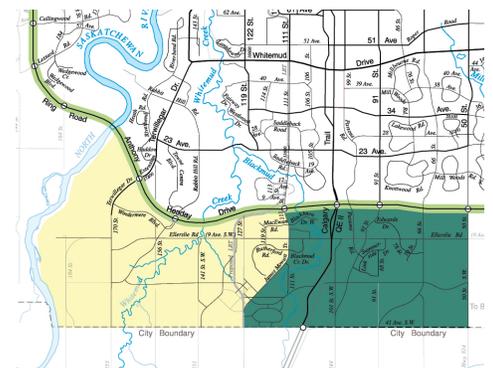
Two notable future Windermere developments currently in pre-leasing are the 122,000-sf Ocean Cloud Professional Centre and the 29,000-sf Heritage Valley

Medical Town Centre, each with expected delivery in 2019.

In the Summerside district, Melcor Developments' Village at Blackmud Creek expanded with the **introduction of an additional 45,000-sf building with 18,000 sf remaining available for lease.** Second and third floor space has been leased by CPA Western School of Business and RBC Dominion Securities respectively. The business park will continue to expand to include a total 725,000 sf of commercial inventory.

East of Queen Elizabeth II Highway, commercial expansion continues along 91 Street and Parsons Road, including the 38,000-sf Fluid Life Building. Edmonton Business Campus is an 83-acre future

commercial development with the first of its buildings, the **60,000-sf HealthPointe Building, to be completed in late 2018.** The building has only 8,000 sf available for lease. The remaining space will be occupied by Healthpointe Medical Centres and SCM Insurance Services, who have leased 20,000 sf and 32,000 sf respectively.



Summerside and Windermere Subtotal

Summerside
Windermere



Absorption YTD
(3,860) sf
855 sf



Vacancy
14.2%
9.0%



Inventory
937,841 sf
348,042 sf

	Buildings	Total Inventory	Direct Vacancy	Sublease Vacancy	Absorption (YTD)	Vacancy Rate	Vacancy Direct	Vacancy Sublease	Additional Rent* (Op. Costs & Property Tax)	Average* Asking Rates
Financial										
AAA**	3	1,785,000	215,601	0	(1,810)	12.1% ▲ 1.7%	12.1% ▲ 1.7%	- - -	\$19.50 - -	\$35.00 - -
A	23	7,333,051	943,845	233,055	152,737	16.0% ▼ (3.8%)	12.4% ▼ (2.6%)	3.1% ▼ (1.5%)	\$18.50 - -	\$22.25 - -
B	16	1,988,921	204,473	0	7,402	10.3% ▼ (0.3%)	10.3% ▼ (0.3%)	- - -	\$17.00 - -	\$15.50 ▲ \$0.25
C	16	1,078,675	48,733	6,338	(3,712)	5.1% ▼ (1.1%)	4.5% ▼ (1.1%)	0.6% - -	\$16.25 ▲ \$0.25	\$15.50 ▲ \$0.25
SUBTOTAL :	58	12,185,647	1,412,652	239,393	154,617	13.6% ▼ (2.1%)	11.3% ▼ (1.7%)	1.9% ▼ (1.0%)	\$18.25 - -	\$22.50 - -
Government										
A	15	2,678,488	265,703	53,140	22,390	11.9% ▲ 0.7%	9.9% ▲ 0.7%	2.0% - -	\$15.50 - -	\$17.00 ▲ \$0.75
B	16	1,601,331	208,261	1,263	(5,547)	13.1% ▼ (0.1%)	13.0% ▼ (0.1%)	0.1% - -	\$14.75 ▼ (\$1.00)	\$15.00 ▲ \$0.75
C	22	1,242,324	27,508	0	3,351	2.4% ▼ (5.7%)	2.4% ▼ (5.7%)	- - -	\$13.50 - -	\$12.00 ▼ (\$0.25)
SUBTOTAL :	53	5,431,618	501,472	54,403	20,194	10.2% ▼ (0.3%)	9.2% ▼ (0.3%)	1.0% - -	\$14.75 ▼ (\$0.50)	\$15.50 ▲ \$0.50
Suburban										
118 Ave & Kingsway	21	772,921	70,792	0	(2,734)	9.2% - -	9.2% - -	- - -	\$13.25 ▲ \$0.50	\$15.25 - -
124 Street	27	1,030,896	129,595	0	(8,702)	12.6% ▼ (0.5%)	12.6% ▲ 0.4%	- ▼ (0.9%)	\$15.00 ▼ (\$0.25)	\$15.50 ▼ (\$0.25)
149 Street	39	1,339,504	178,945	3,482	48,221	13.6% ▼ (0.3%)	13.4% ▼ (0.5%)	0.2% ▲ 0.2%	\$12.00 ▲ \$0.25	\$14.25 ▼ (\$0.75)
Eastgate	18	1,375,954	230,204	154,251	(58,461)	27.9% ▲ 1.2%	16.7% ▲ 1.8%	11.2% ▼ (0.6%)	\$12.25 ▼ (\$0.25)	\$15.00 - -
Southside	81	3,625,580	614,065	30,688	14,803	17.8% ▼ (0.3%)	16.9% ▼ (0.3%)	0.8% - -	\$13.00 ▼ (\$0.25)	\$17.50 - -
Summerside	28	937,841	121,455	11,859	(3,860)	14.2% ▲ 1.5%	13.0% ▲ 1.5%	1.3% - -	\$13.00 ▲ \$0.50	\$20.50 ▲ \$0.75
Windermere	12	348,042	31,193	0	855	9.0% ▲ 3.6%	9.0% ▲ 3.6%	- - -	\$13.50 ▲ \$0.25	\$25.25 ▼ (\$0.25)
West End	42	2,108,629	162,663	18,564	22,391	7.8% ▲ 0.7%	7.6% ▲ 0.7%	0.1% - -	\$10.75 ▲ \$0.50	\$15.50 ▲ \$0.50
Whyte Avenue	16	638,343	89,327	0	(16,163)	14.0% ▲ 2.2%	14.0% ▲ 2.2%	- - -	\$18.75 ▲ \$0.25	\$19.50 ▼ (\$0.75)
Sherwood Park	32	1,309,724	343,155	0	22,852	26.2% ▼ (1.2%)	26.2% ▼ (1.2%)	- - -	\$9.50 - -	\$16.50 - -
Totals										
Downtown Total:	111	17,617,265	1,914,124	293,796	174,811	12.5% ▼ (1.9%)	10.6% ▼ (1.4%)	1.6% ▼ (0.7%)	\$17.25 - -	\$20.50
Suburban Total:	316	13,503,831	1,971,394	202,447	29,684	16.1% ▲ 0.2%	14.6% ▲ 0.4%	1.5% ▼ (0.2%)	\$12.75 ▼ (\$0.25)	\$16.75 ▲ \$0.25
Overall:	427	31,104,699	3,885,518	496,243	204,495	14.1% ▼ (1.0%)	12.3% ▼ (0.7%)	1.6% ▼ (0.4%)	\$15.50 - -	\$19.00 ▲ \$0.25

**AAA Class office buildings include Edmonton Tower, Epcor Tower and Enbridge Centre

*Weighted average based on current availabilities.

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