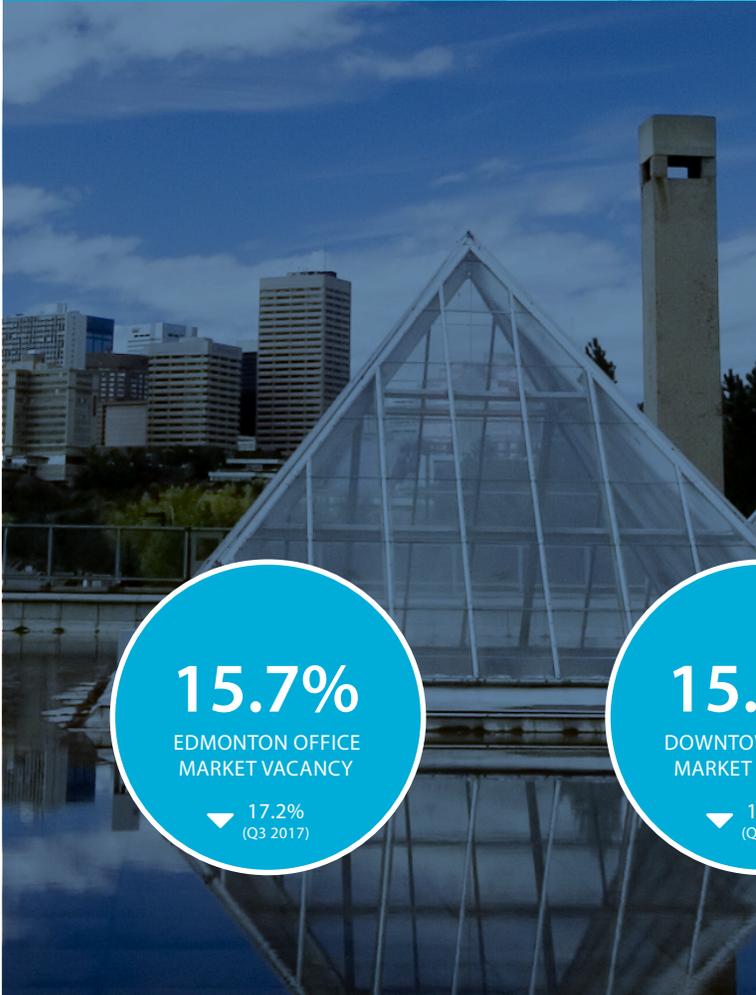


2017 | Year End

Office Market Report
EDMONTON



15.7%

EDMONTON OFFICE
MARKET VACANCY

▼ 17.2%
(Q3 2017)

15.3%

DOWNTOWN OFFICE
MARKET VACANCY

▼ 16.9%
(Q3 2017)

16.3%

SUBURBAN OFFICE
MARKET VACANCY

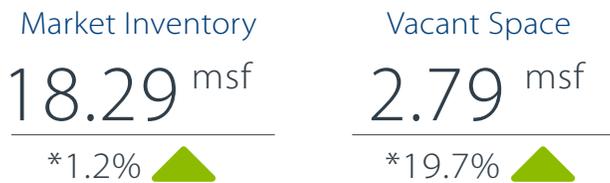
▼ 17.1%
(Q3 2017)

Market Trends

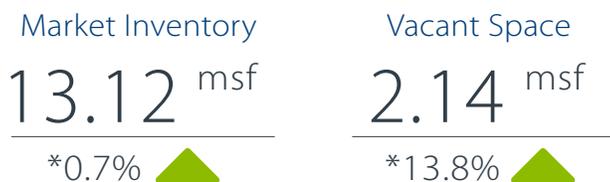
Edmonton's downtown Financial district is in the midst of an unprecedented development period that is reshaping the market. The transformation is being driven by the introduction of 1.8 msf of class AAA office space over a three year period from 2016 to 2018. The phased integration of three towers – Enbridge Centre, Edmonton Tower, and Stantec Tower – has prompted a flight to quality scenario as tenants vacated primarily class A space to take advantage of the new developments. The increase in office inventory partly contributed to the increase in year-over-year vacancy rate from 12.9% to 15.3% in the downtown districts. Compounding the effect was the recessionary period felt throughout the Alberta economy in the wake of the 2014 oil price decline. In general, the city-wide trend saw vacancy levels consistently increase throughout 2016 and the first half of 2017. The most recent two quarters are showing signs of stability as many of the city's sub-markets experienced modest positive absorption.

Annual Market Fundamentals

Downtown



Suburban



Downtown Financial District Average Lease Rates



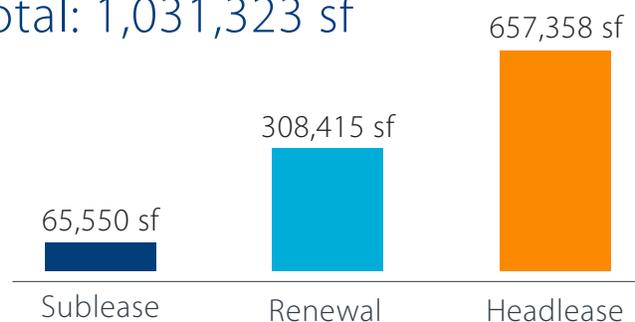
*percentage change year-over-year (msf = million square feet)

Our fully integrated team approach delivers optimal results for our clients. Contact us to discuss how we can assist to successfully meet your real estate objectives.

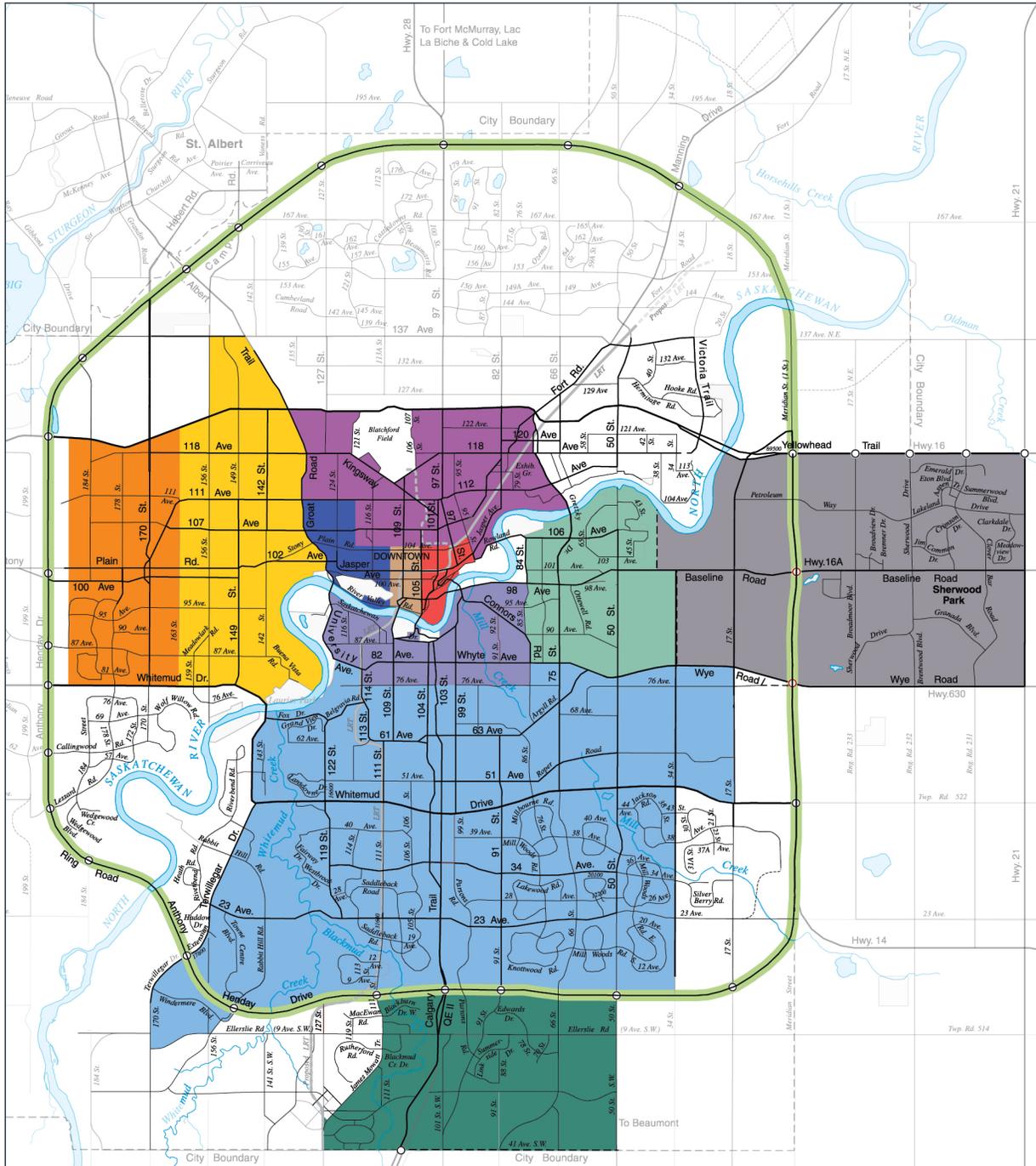


2017 Transactions by our Office Team

Total: 1,031,323 sf



Edmonton Office Market Districts



- | | | | | | | | |
|--|--------------------------|---|-------------------------------------|---|--------------|---|---------------|
|  | WEST END |  | 118 TH AVENUE & KINGSWAY |  | WHYTE AVENUE |  | EASTGATE |
|  | 149 TH STREET |  | DOWNTOWN GOVERNMENT |  | SOUTHSIDE |  | SHERWOOD PARK |
|  | 124 TH STREET |  | DOWNTOWN FINANCIAL |  | SUMMERSIDE | | |

DOWNTOWN FINANCIAL

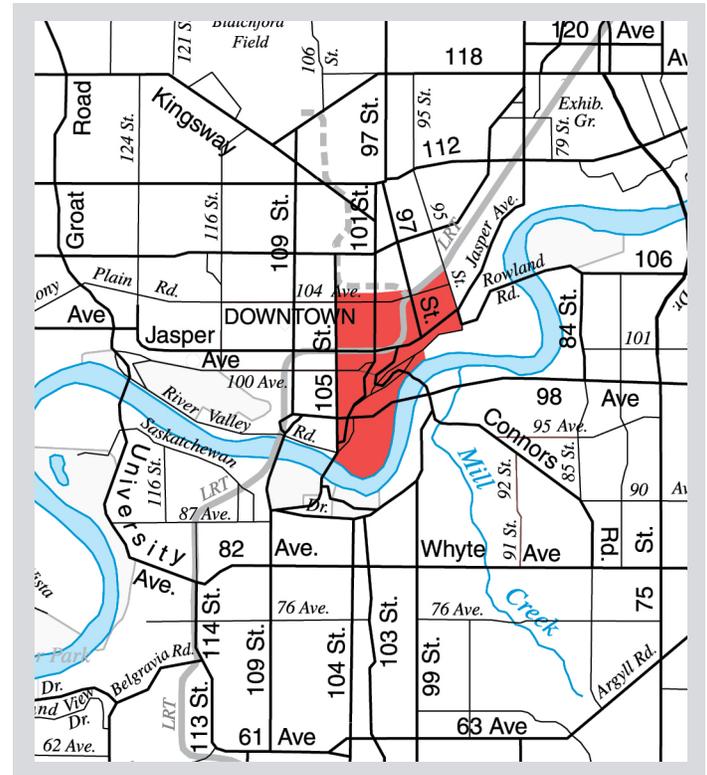
The transformation of the city skyline continues as ICE District takes shape. The first quarter of 2017 marked the opening of Edmonton Tower. The introduction of 610,000 class AAA office space caused a migration from class A buildings as tenants seized leasing opportunities for upgraded space. **Vacancy rate for class A buildings rose to as high as 23.9% in mid-2017.** Redevelopment projects on dated office buildings are expected in the short term as the market responds to the inventory surplus. The **purchase of the 123,000 sf Bank of Montreal Building and its subsequent demolition by Regency Developments** is indicative of the changing supply dynamics in the Financial core.

Sales transactions in the district were highlighted by **Dream REIT's disposition of the HSBC Bank Place, Milner Building, and Enbridge Place - selling the buildings for a combined \$67.5 million.** The valuation on the combined 766,000 sf was significantly lower than the remainder of the sales in the district.

Year-to-date absorption received a significant boost late in the year with announcements of **Alberta Health Services expanding their operations in CN Tower by 54,000 sf and game developer BioWare expecting to occupy 75,000 sf in Epcor Tower** in 2018.

HIGHLIGHT

Stantec Tower celebrated a milestone in the fourth quarter of 2017 with the topping off of the commercial segment of the building. The skyscraper incorporates a transfer slab on the 30th floor in order to accommodate an additional 36 floors of residential condos. The architectural feat is the first of its kind in Edmonton. Completion is expected in 2018 and will add 620,000 sf of class AAA office space to the Downtown Financial district.



AVAILABLE CONTIGUOUS SPACE

LARGEST SUBLEASE AVAILABLE:

TD Tower
10088 - 102 Avenue **83,026 sf**

LARGEST HEAD LEASE AVAILABLE:

Enbridge Tower
10201 Jasper Avenue **182,476 sf**

*Property is expected to undergo redevelopment in mid-2018.

			
	ABSORPTION YTD	VACANCY	INVENTORY
Downtown Financial Subtotal	394,418 sf	15.9%	12,512,852 sf



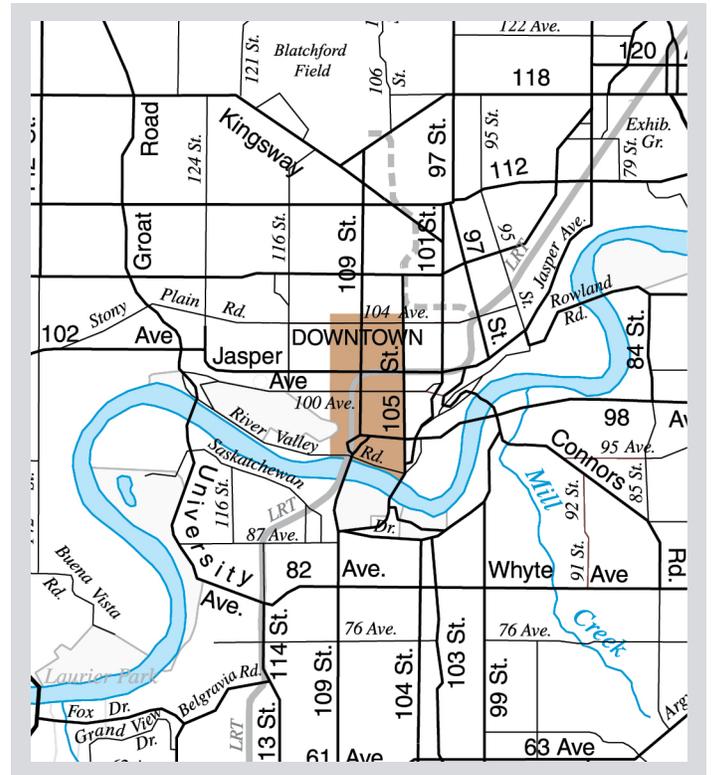
DOWNTOWN GOVERNMENT

The Downtown Government district tends to observe low vacancy rates and absorption volatility relative to the Financial district due to its concentration of public service tenants on long term leases. In 2017, the district did, however, encounter significant negative absorption of 320,000 sf due in part to the **Government of Alberta's withdrawal from the 159,000 sf Centre West building**. Qualico Commercial later sold the vacant building to Strategic Group in the fourth quarter. Other notable sales include Baker Centre, Highfield Place, and HSBC Building as part of Dream REITs exit from the market.

The Government district holds a relatively high proportion of class C office space, making up 24% of its inventory. Migration to upgraded space is forcing landlords to offer competitive pricing and larger tenant improvement allowances. In some cases, conversion to residential space is a suitable option – as demonstrated by the planned **repurposing of Harley Court by Strategic Group to multi-family**, effectively removing 150,000 sf from the office market.

HIGHLIGHT

ProCura Developments completed its renovation of WSP Place, adding a modern accent to the prominent 109 Street and Jasper Avenue intersection. The building integrates solar and co-generation energy systems to achieve an LEED Gold standard. Modernization of this kind is symbolic of the need for developers to add value through capital investment in the increasingly competitive environment.



AVAILABLE CONTIGUOUS SPACE

LARGEST SUBLEASE AVAILABLE:

Devonian Building
11150 Jasper Avenue

53,160 sf

LARGEST HEAD LEASE AVAILABLE:

Centre West
10035 - 108 Street

76,392 sf

*Property is expected to undergo redevelopment in 2018.



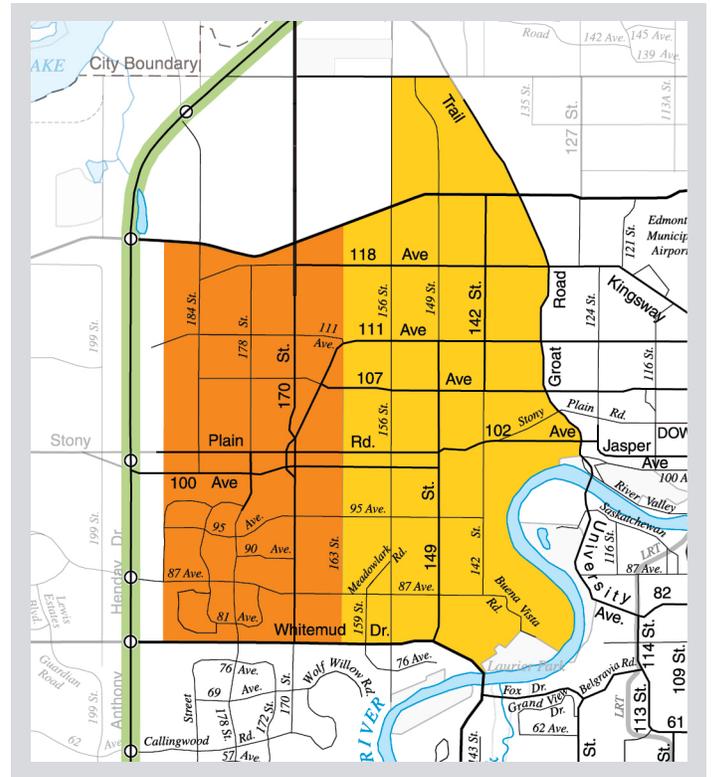
WEST END AND 149TH STREET

Vacancy rates in the West End remain stable and far below the remainder of the market. The district experienced modest positive absorption of 24,000 sf while its vacancy rate maintained between eight and nine percent throughout the year. **Stuart Olson moved to occupy 16,000 sf on 137 Avenue in the fourth quarter of the year.**

The 149th Street district experienced relatively low levels of leasing and sales activity with negative absorption of 31,000 sf and four sales transactions. The area maintained a vacancy rate above the city average throughout 2017, closing the fourth quarter at 17.2%. The most **prominent leasing availability remains Bonaventure Gate on St. Albert Trail with nearly 97,000 sf of contiguous space** available for lease.

HIGHLIGHT

Construction began in mid-2017 on the mixed-use development known as West Block on 142 Street and Stony Plain Road. **Beaverbrook Group will closely integrate 55,000 sf of contemporary office space with additional high-end retail and residential**, embedding the modern urban centre in the mature Glenora neighbourhood.



AVAILABLE CONTIGUOUS SPACE

LARGEST SUBLEASE AVAILABLE:

Sterling Business Centre
17420 Stony Plain Road **2,300 sf**

LARGEST HEAD LEASE AVAILABLE:

Bonaventure Gate
13140 St. Albert Trail **96,804 sf**



ABSORPTION
YTD



VACANCY



INVENTORY

West End	24,446 sf	8.1%	2,065,205 sf
149 th Street	(31,218) sf	17.2%	1,339,504 sf



124TH STREET AND 118TH AVENUE & KINGSWAY

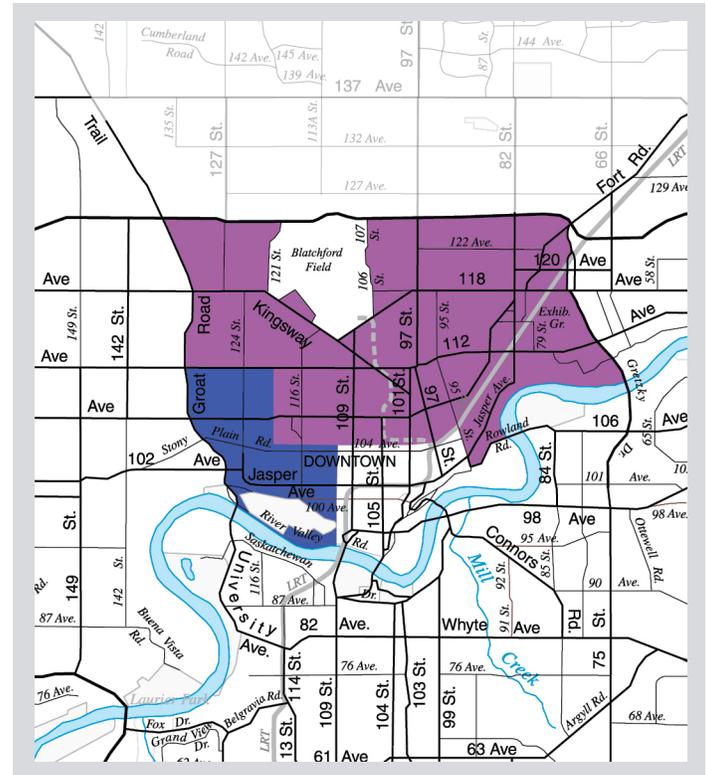
The 124th Street, 118th Avenue & Kingsway districts are relatively small suburban office markets with little absorption volatility. After vacancy increased during the previous year in each case, 118th Avenue & Kingsway experienced positive absorption of 25,000 sf while 124th Street gained 17,000 sf in 2017.

In the 118th Avenue & Kingsway district, **Royal Alex Place repurposed its third floor to residential rental units, removing 16,000 sf of class B space** from the district's inventory. Sales transactions saw an increase over the previous year with 75,000 sf traded for over \$14 million in 10 transactions.

In December, the **City of Edmonton announced the Blatchford Field Redevelopment Project is on pace to begin construction in 2018** with the first residents expected to move in before 2020. Over the next two decades, the former airfield will develop into a sustainable community housing 30,000 residents.

HIGHLIGHT

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 18,000 sf of loft style, brick class A office space**. The historic building will also house a micro-brewery and restaurant and is expected to be fully restored by spring/summer of 2018.



AVAILABLE CONTIGUOUS SPACE

LARGEST SUBLEASE AVAILABLE:

McLennan Ross Building
12220 Stony Plain Road

9,006 sf

LARGEST HEAD LEASE AVAILABLE:

Plaza 124
10216 124 Street

25,000 sf



ABSORPTION
YTD

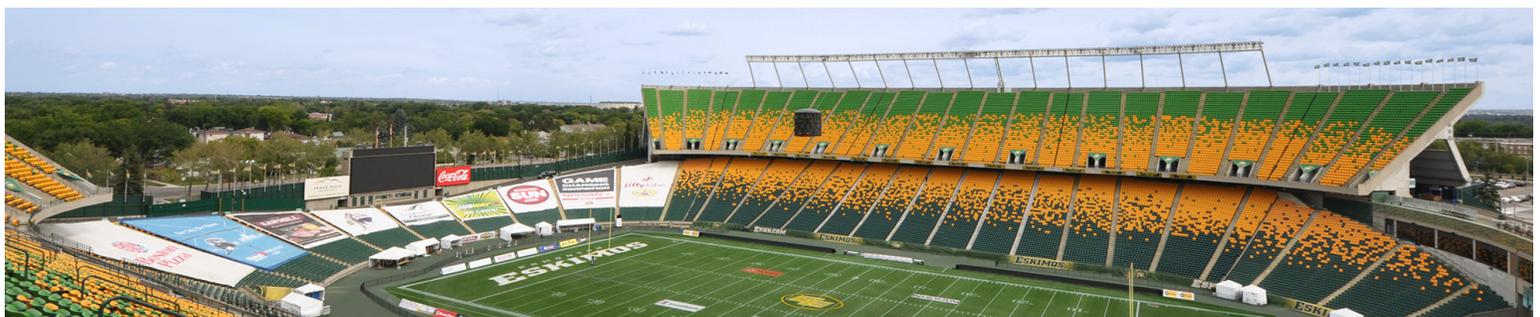


VACANCY



INVENTORY

	ABSORPTION YTD	VACANCY	INVENTORY
124 th Street	16,979 sf	12.7%	1,026,446 sf
118 th Avenue & Kingsway	25,268 sf	8.6%	814,029 sf



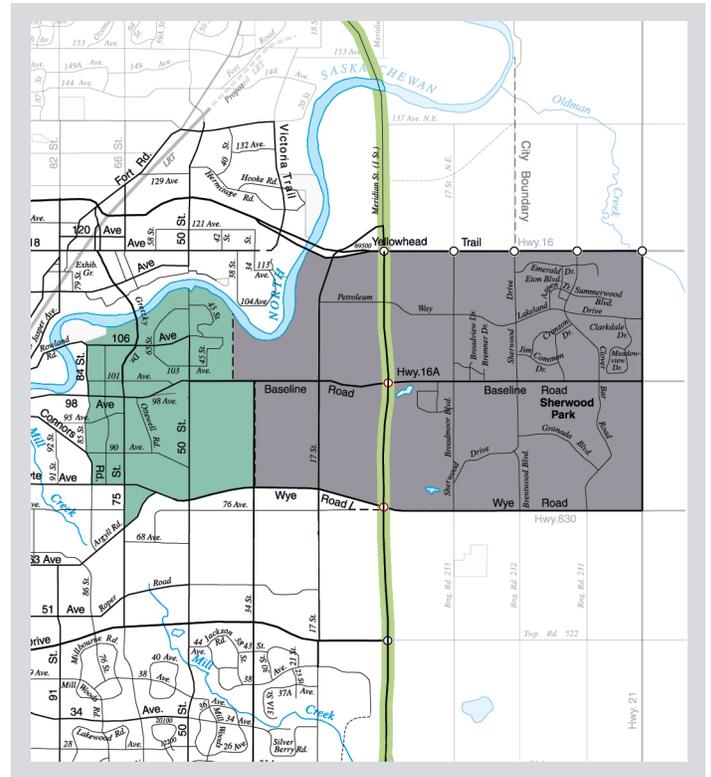
EASTGATE AND SHERWOOD PARK

The Eastgate and Sherwood Park districts continue to experience the highest vacancy rates in the city, due in part to economic conditions in the oil and gas sectors. Eastgate witnessed a significant surge in vacancy levels, most of which is concentrated in 50th Street Atria, Plaza 50 and the Edmonton Sun Building. 50th Street Atria added 130,000 sf of sublease space to the market in the second quarter that contributed to a near doubling of vacancy in 2017. **The district closed the year with an 8.8 percentage point increase in overall vacancy rate.**

In Sherwood Park, the **Broadmoor Place office complexes have seen increased leasing activity with over 40,000 sf leased in 2017.** The area also experienced increased sales velocity over the previous year with five office condominiums changing hands for over \$3 million cumulatively. Prominent vacancies remain however, including 62,000 sf in 2134 Premier Way and 44,000 sf in the Millennium Professional Building.

HIGHLIGHT

The Sherwood Park and Eastgate districts stand to benefit from improved energy market forecasts in 2018. In the past, high growth in energy sectors have translated to favourable economic conditions in the districts' office market. Forecasted improvement in the demand for oil in 2018 should aid in driving office market metrics toward city-wide averages.



AVAILABLE CONTIGUOUS SPACE

LARGEST SUBLEASE AVAILABLE:

50th Street Atria
9405 50 Street **129,194 sf**

LARGEST HEAD LEASE AVAILABLE:

Broadmoor Place I
2899 Broadmoor Boulevard **76,998 sf**



ABSORPTION
YTD

Eastgate

(82,154) sf

Sherwood
Park

(91,427) sf



VACANCY

26.1%

27.9%



INVENTORY

1,193,380 sf

1,309,724 sf



WHYTE AVENUE, SOUTH SIDE AND SUMMERSIDE

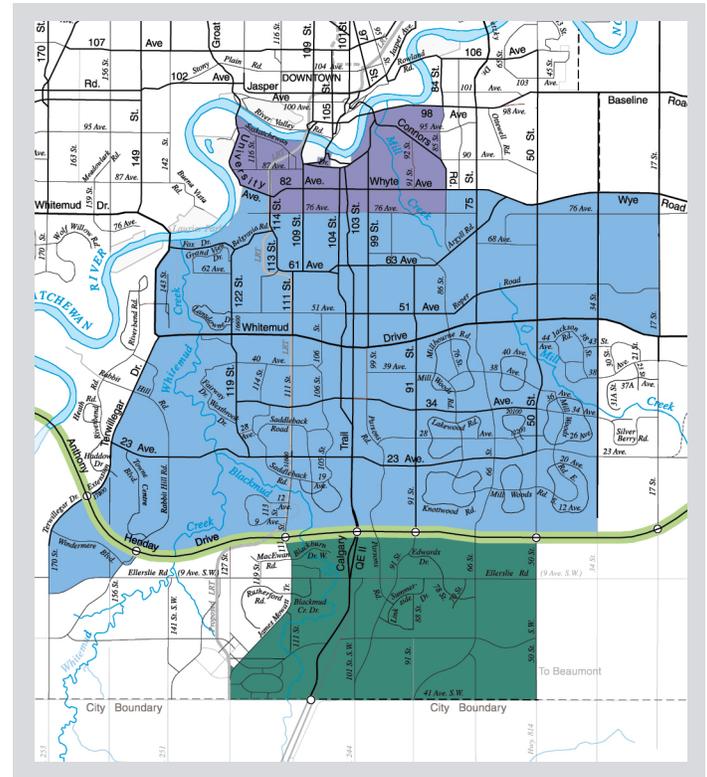
Whyte Avenue, Edmonton's smallest sub-market, witnessed reduced leasing activity and overall absorption held constant with the prior year. The area is preparing to introduce **Wexford Developments' Raymond Block - a mixed-use development which will include 20,700 sf of second floor office space.**

The Southside district remains the largest suburban sub-market with 3.9 msf of office space inventory. As such, the district observed the most sales activity, bolstered by a high proportion of condominium sales, with 42 transactions combining for 130,000 sf traded for over \$39 million. Southside vacancy rate held slightly above the city average, closing the year at 17.3%.

The Summerside district maintained a vacancy rate near 10% and experienced 15,000 sf of negative absorption for the year. The area boasts primarily modern class A space surrounded by rapidly developing residential land. **Melcor Developments' Village at Blackmud Creek continues to take shape and will add 36,000 sf of space in 2018**, half of which is pre-leased at year end. The quality of office space in the area is reflected in high asking lease rates relative to other suburban districts.

HIGHLIGHT

Construction began on the Valley Line - Southeast LRT route, aimed at connecting Mill Woods to the Downtown core. With 11 street-level stops, Southside and Whyte Ave residents will benefit from the direct route by 2019. The leg of the route is part of a multi-phased infrastructure project that will add up to 40 km of rail to the LRT Network over the next two decades.



AVAILABLE CONTIGUOUS SPACE

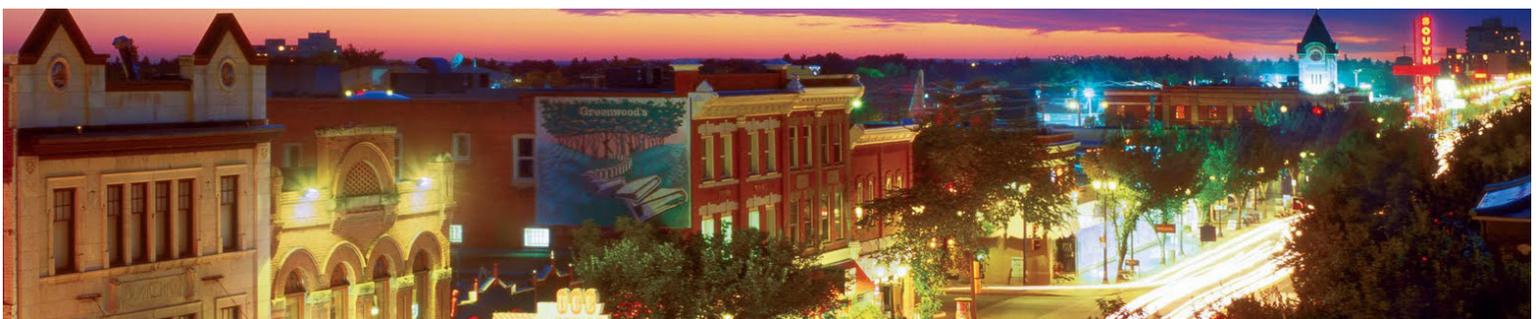
LARGEST SUBLEASE AVAILABLE:

Elm Business Park - Building IV
9426 51 Avenue **19,800 sf**

LARGEST HEAD LEASE AVAILABLE:

Weber Centre
5555 Calgary Trail South **38,795 sf**

	 ABSORPTION YTD	 VACANCY	 INVENTORY
Whyte Avenue	(865) sf	12.1%	606,343 sf
Southside	60,862 sf	17.8%	3,890,388 sf
Summerside	(18,874) sf	11.2%	878,841 sf



2018 Market Outlook

The recent influx of class AAA office space carries a residual effect on the availability of class A space in the Downtown core. Coupled with an energy market slump, the city was mired in a two-year market trend of negative absorption and rising vacancy that reached new highs in 2017. The city posted its first positive annualized GDP growth this year since 2014. With supporting indications of reduced unemployment rate and increased household spending, Edmonton's economy is firmly in a recovery stage. The effects on the office market were apparent in the stabilization of vacancy rates in the second half of 2017. We expect leasing activity to gain positive momentum in 2018 based on growth in many key economic indicators in the Alberta economy.

The Alberta Treasury Board and Finance publishes a metric to track provincial economic activity called the Alberta Activity Index (AAX). The Index is a weighted average of nine monthly indicators used to gauge the state of the economy. A close examination of the relationship between AAX and Edmonton's market demand for office space appears to share a strong correlation, with changes in the Index generally leading to changes in office space demand three to four quarters later. The AAX gained over 5% in 2017 as the provincial economy experienced substantial growth in several key sectors. The end year figures in these provincial accounts, coupled with favourable projections from local economists, garner confidence that demand of office space will continue to trend upward in 2018.

2017 Growth Rates in Alberta's Key Economic Variables



	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	183,772	0	608,007	10.3% ▼ (4.8%)	10.3% ▼ (4.8%)	- - -	\$19.25 - -	\$35.00 - -
A	24	7,633,824	1,191,220	346,525	(175,811)	20.1% ▼ (2.6%)	15.6% ▼ (1.2%)	5.7% ▼ (0.3%)	\$18.50 - -	\$21.25 ▲ \$0.50
B	17	2,015,390	209,780	2,095	(34,120)	10.5% ▼ (4.4%)	10.4% ▼ (4.4%)	0.1% - -	\$16.00 - -	\$16.75 ▲ \$1.50
C	16	1,078,638	51,359	0	(3,658)	4.8% ▲ 0.1%	4.8% ▲ 0.1%	- - -	\$12.75 ▲ \$0.50	\$15.25 ▲ \$0.75
SUBTOTAL :	60	12,512,852	1,636,131	348,620	289,094	15.9% ▼ (2.4%)	13.1% ▼ (2.1%)	3.5% ▼ (0.2%)	\$16.50 ▲ \$0.25	\$20.00 ▲ \$1.00

Government										
A	15	2,685,390	287,094	54,159	(128,727)	12.7% ▲ 0.2%	10.7% ▲ 0.2%	2.0% - -	\$15.00 ▼ (\$0.25)	\$16.25 ▼ (\$0.50)
B	16	1,712,339	203,977	0	(35,256)	11.9% ▲ 0.8%	11.9% ▲ 0.8%	- - -	\$13.75 - -	\$14.75 - -
C	23	1,377,716	264,926	0	(159,840)	19.2% ▲ 0.2%	19.2% ▲ 0.2%	- - -	\$12.75 ▲ \$0.25	\$12.00 - (\$0.50)
SUBTOTAL :	54	5,775,445	755,997	54,159	(318,070)	14.0% ▲ 0.4%	13.1% ▼ 0.4%	0.9% - -	\$14.00 - -	\$14.75 ▼ (\$0.50)

Suburban										
118 Ave & Kingsway	22	814,029	70,253	0	25,268	8.6% ▼ (4.7%)	8.6% ▼ (4.7%)	- - -	\$11.25 - -	\$14.25 ▼ (\$0.50)
124 Street	26	1,026,446	120,893	9,006	16,979	12.7% ▼ (0.9%)	11.8% ▼ (1.8%)	0.9% ▲ 0.9%	\$14.00 - -	\$17.25 ▲ \$1.00
149 Street	39	1,339,504	230,648	0	(31,218)	17.2% ▼ (1.1%)	17.2% ▼ (0.6%)	0.0% ▼ (0.5%)	\$11.50 - -	\$14.25 ▲ \$1.50
Eastgate	17	1,193,380	157,258	153,833	(82,154)	26.1% ▼ (5.6%)	13.2% ▼ (5.5%)	12.9% ▼ (0.1%)	\$11.50 ▲ \$0.50	\$14.25 ▼ (\$2.00)
Southside	88	3,890,388	662,297	31,363	60,862	17.8% ▲ 0.2%	17.0% ▲ 0.2%	0.8% ▲ 0.1%	\$12.25 - -	\$17.75 - -
Summerside	26	878,841	87,934	10,459	(18,874)	11.2% ▲ 2.4%	10.0% ▲ 3.5%	1.2% ▼ (1.1%)	\$11.50 ▲ \$0.50	\$20.25 ▼ (\$1.50)
West End	42	2,065,205	145,391	20,864	24,446	8.1% ▼ (0.5%)	7.0% ▲ 0.4%	1.0% ▼ (1.0%)	\$11.00 - -	\$15.75 ▼ (\$0.25)
Whyte Avenue	15	606,343	73,164	0	(865)	12.1% ▼ (1.4%)	12.1% ▼ (1.4%)	- - -	\$16.75 - -	\$19.00 ▼ (\$0.25)
Sherwood Park	32	1,309,724	366,007	0	(91,427)	27.9% ▲ 3.0%	27.9% ▲ 3.0%	0.0% ▼ (1.3%)	\$8.75 ▲ \$0.25	\$16.50 ▼ (\$0.25)

Totals										
Downtown Total:	114	18,288,297	2,392,128	402,779	(28,976)	15.3% ▼ (1.9%)	13.1% ▼ (1.3%)	2.2% ▼ (0.6%)	\$15.25 - -	\$18.00 ▲ \$0.25
Suburban Total:	307	13,123,860	1,913,845	225,525	(162,921)	16.3% ▼ (0.6%)	14.6% - -	1.7% ▼ (0.4%)	\$11.75 - -	\$16.75 - -
Overall:	421	31,412,157	4,286,204	714,168	(191,897)	15.7% ▼ (1.4%)	13.7% ▼ (0.8%)	2.0% ▼ (0.5%)	\$12.75 - -	\$17.00 - -

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

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