

Energy market remains turbulent as tenants assess space needs

Market themes

1. Alberta's energy market remains in flux as uncertainty towards the future of Keystone XL and Trans Mountain pipelines remains, lending hesitation to business decisions within the Calgary energy sector. Potential construction and completion of these projects will have a large impact on the space needs of TransCanada, owner of Keystone XL, as well as other energy producers and oil services firms in the city.
2. Large sublease vacancy from existing oil and gas related firms remains, offering half of the 3.1 million square feet sublease space in the downtown core. Space options are affordable and abundant for companies trying to relocate downtown from suburban markets or to establish a new presence in the Central Business District.
3. Economic recovery is occurring, but growth isn't significant enough to put a dent in available Calgary office space. 4,000 oil and gas jobs were created in the first quarter of 2018, year-over-year, and Class A leasing activity is increasing. Companies are hiring as well as taking advantage of quality headlease and sublease space at deep discounts from oil price peaks in 2014.

Outlook

Challenges

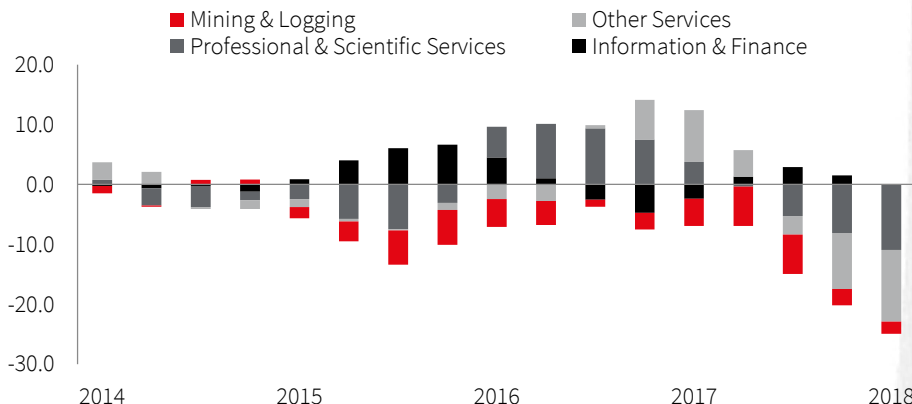
- Legal and regulatory action against the Keystone XL and Trans Mountain pipelines offers uncertainty to the Calgary energy market.
- Over 10.8 million square feet of downtown office space is still vacant.
- Half of downtown sublease space is from energy tenants.

Opportunities

- Options are plenty for suburban tenants to develop a downtown presence due to attractive rates and space availability.
- Class A leasing activity is increasing as companies take advantage of quality sublease and headlease space.
- Growth is occurring, with 4,000 oil and gas related jobs created in Calgary through the first quarter of 2018.

Energy employment

(12-month net change, employment in thousands)



Report and statistics based on Calgary's CBD submarket

Supply

Total energy occupancy: **17.8 m.s.f.**
 Total market inventory: **44.1 m.s.f.**
 Q1 direct vacancy: **17.4%**
 Under construction: **428,599 s.f.**

Demand

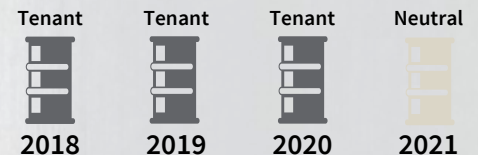
Energy tenants in market: **48.5%**
 Average energy lease size: **39,559 s.f.**
 Energy tenant leasing*: **1.2 m.s.f.**
 Total net absorption*: **-1,487,350 s.f.**

Sublease

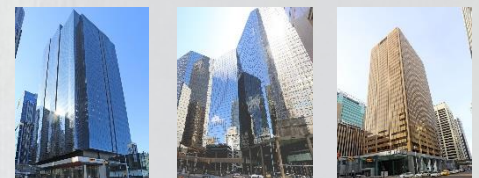
Q1 sublease space: **3.1 m.s.f.**
 10-year sublease average: **1.9 m.s.f.**
 Average remaining term: **12 months**
 Sublease from energy: **50.0%**

*previous 12 months

Leverage



Significant energy transactions



Inter Pipeline

Calgary City Centre CBD
 55,000 s.f.
 Expansion

CGG Veritas

Gulf Canada Square CBD
 48,000 s.f.
 Sublease

Perpetual Energy

Fifth and Fifth CBD
 60,000 s.f.
 Renewal

Energy employment growth

-7.4% year-over-year
-6.2% since 2014