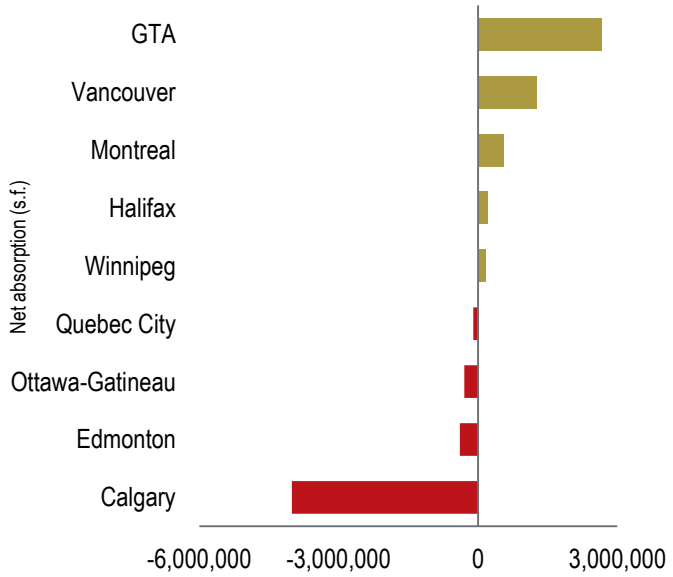
Office Market Overview:
Canada Q4 2016

Canada office market overview

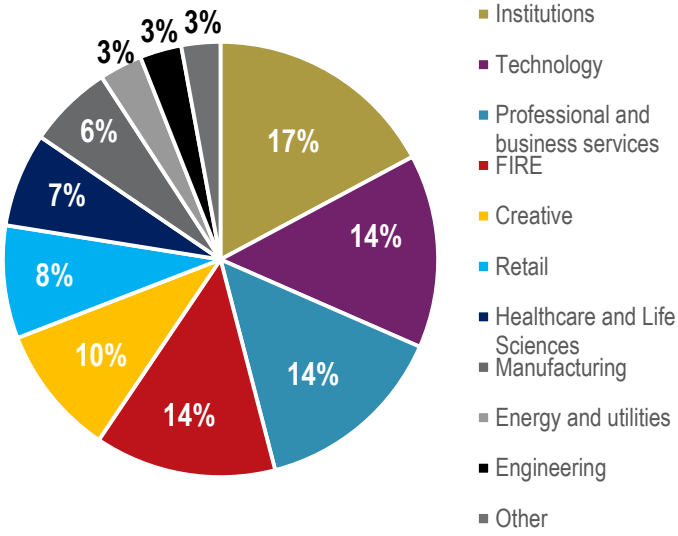
The national office market has witnessed vast variations across geographies and markets, ending the year much the way it began. The Greater Toronto Area (GTA) and Metro Vancouver markets remained in the drivers' seat, both posting consistent positive absorption throughout the year, with Toronto in particular finishing off the year with a strong fourth quarter. Montreal's steady economic and employment growth translated into 550,937 square feet of positive net absorption for the year. At the other end of the spectrum is Calgary which posted negative net absorption in all four quarters for a total of negative 4,004,131 square feet. Edmonton and Ottawa-Gatineau also lagged with negative net absorption in three of the last four quarters. Collectively, the national office market experienced a strong rebound in the fourth quarter with 774,768 square feet of positive net absorption. The performance in the fourth quarter wasn't enough to offset the first three quarters as the year and the year ended with 297,964 square feet of negative net absorption. However, without Calgary's absorption the national office market would have posted over four million square feet of net absorption in 2016 bringing it above the long term average of 3.5 million square feet (2007-2016).

Positive net absorption across several office markets in 2016 (s.f.)



Source: JLL Research

Institutions behind the majority of fourth quarter leasing activity (>20,000 s.f.)



Source: JLL Research

Leasing Activity

Downtown office markets were again the most active, fueled by the urbanization trend and better transit-accessibility. The fight for and retention of talent is a key priority among companies, particularly in the technology sector, and as the millennial generation continues to cluster near central business districts, downtown office markets will remain the hot spot for leasing activity.

Although there were no 'blockbuster' deals completed in the fourth quarter, a handful of leases in the 100,000 square foot range were inked in the GTA and Montreal office markets. AMD renewed 108,000 square feet at 1 Commerce Valley Dr. E, YellowPages secured 150,000 square feet at Le Nordelec in Montreal, and Scotia Bank renewed 139,220 square feet at 1002 Sherbrooke W., also in Montreal. Institutions accounted for approximately 17 percent of leasing activity in the fourth quarter followed by Technology companies (14%) and Professional and business services (14%).

Canada office market overview cont.

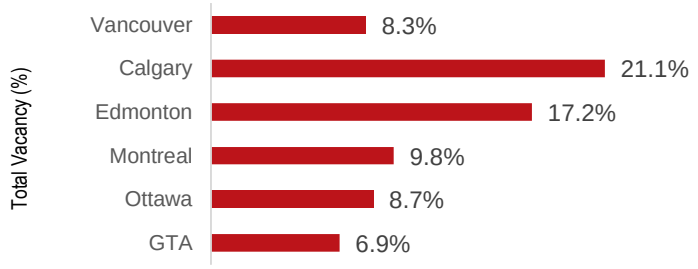
Few large blocks in Downtown Vancouver and Toronto

In downtown Toronto and Vancouver, robust demand and a limited development pipeline have caused the number of available large blocks to diminish rapidly. In downtown Toronto, the number of large blocks (>100,000 s.f.) available has fallen from seventeen over the last twelve months, to the current seven while in Vancouver only two blocks were available for lease at the end of the quarter. With continued strong demand and no new large office developments announced in 2016, this number is expected to contract further. For the suburban market, the silver lining will lie in properties who can offer large contiguous blocks of space with excellent transit-accessibility and modern amenities. Whether this will create significant activity remains to be seen - but it is highly likely that companies will increasingly consider a dual option and house some of their operations in suburban markets until new product is made available downtown.

Vacancy continues to rise

The Canadian office market has seen a consistent rise in vacancy rates and the fourth quarter was no exception. Total vacancy climbed to 12.1 percent, a 20 basis point increase from the previous quarter and a 500 basis point increase from the cyclical low reached in Q3 2012 (7.1%). Nationally, the sustained rise has been driven primarily by a sizeable amount of new supply added during the last phase of the current construction cycle. In addition as the Calgary and Edmonton office markets continue to feel the effects of a weakened economy in Alberta, their vacancy rates have reached 20.9 and 15.2 percent respectively, further contributing to the rise in the national vacancy rate.

Downtown vacancy rates across office markets

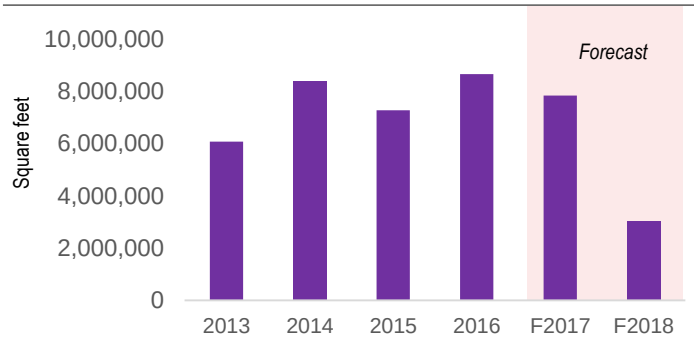


Source: JLL Research

Construction peaks in 2016 but can demand keep up?

The current construction cycle reached its peak in 2016 with over 8.6 million square feet completed, of which 2.4 million were added in the fourth quarter. Three significant office towers opened their door to tenants in the fourth quarter – One York and the Globe and Mail Centre (Downtown Toronto), and Edmonton Tower (Edmonton) where the City of Edmonton will occupy nearly 400,000 square feet. All three towers were nearly 100 percent leased on completion and as such will not add significant vacant space to the inventory. There is still over 12 million square feet in the construction pipeline across Canada including Brookfield Place East (1.4 m.s.f.) in Calgary, EY Tower (900,848 s.f.) in Toronto and Stantec Tower (578,000 s.f.) in Edmonton.

Canada total construction completions by year (s.f.)



Source: JLL Research

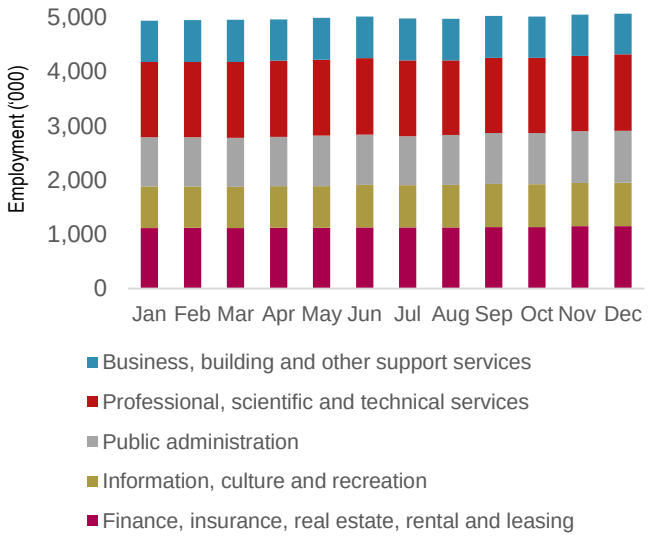
Cautious and optimistic will define 2017

The outlook for 2017 remains optimistic although we will see strong variations across the country. Toronto and Vancouver are expected to remain in the drivers' seat with demand outpacing supply. Montreal ended the year with improving market conditions, which are expected to flow into 2017, fueled by businesses pursuit for talent, particularly tech talent in urban locations. Conversely, we remain cautious on Calgary and Edmonton and both markets will continue to grapple with a combination of negative economic growth and oversupply. Despite Calgary's office market sentiment has bottomed, an estimated one million square feet of "ghost space" (unoccupied but not marketed) office space in addition to new inventory will keep any market improvements in check for some time.

Canada economic overview

The national labour market posted gains in 2016 as employment increased by 1.2 percent on a yearly basis and the workforce bulked up by 214,100 net new jobs, the strongest results for annual job growth since 2012. Canada beat economists' expectations in December by adding 53,700 jobs. On a yearly basis, employment increased by 2.0 percent in the service sector, while it declined by 1.6 percent in the goods-producing sector. The goods-producing sector was hardest hit by a decline in the natural resources sector (oil and gas extraction, mining, quarrying and forestry), down 8.3 percent on a yearly basis. The mixed story is expected to produce an annual GDP of 1.8 to 2.0 percent for 2016. Office demand increased across several markets as employment in the information, culture and recreation industry rose by 6.5 percent on a yearly basis. We have noticed an upward trend in this industry and expect it to continue further in 2017.

Demand for office space expected to increase across service sectors (Jan-Dec +2.6%)



Source: Statistics Canada, JLL Research

Employment in public administration increased by 3.9 percent on a yearly basis in Quebec, Alberta and Saskatchewan. With more and more people being employed in finance, insurance, real estate, rental and leasing, up 3.5 percent on a yearly basis, we expect demand for office space to increase in 2017.

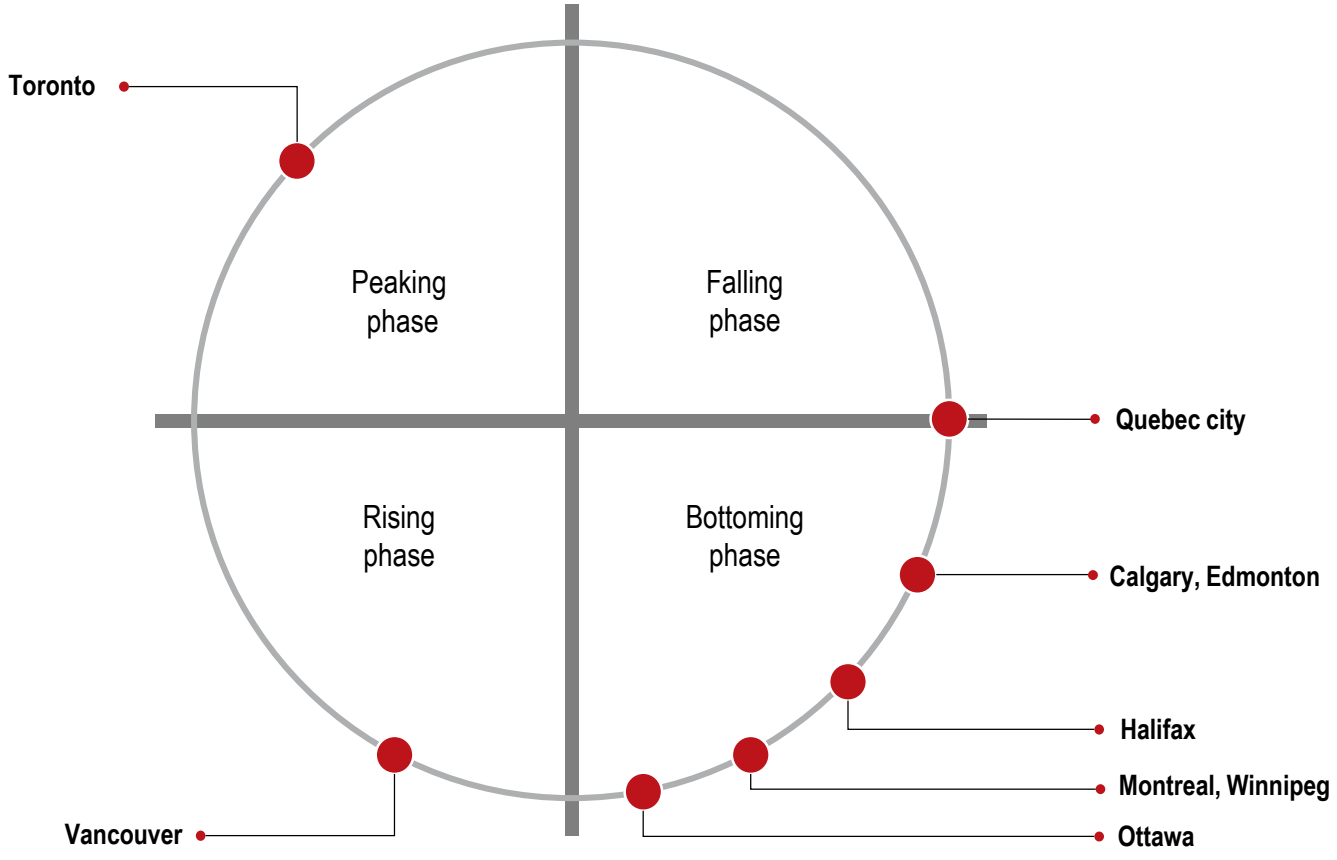
In 2016, British Columbia recorded the fastest employment growth rate among the provinces for a second consecutive year, up 3.1 percent. The gains were across industries and we foresee more demand for office space ahead as employment in the province has been trending upward since spring 2015. Quebec posted employment gains of 2.2 percent followed by Ontario, up 1.2 percent. As expected in Alberta, employment fell by 0.8 percent on a yearly basis due to a slowdown in the economy. Apart from Alberta, we note that the growth in employment is across industries and with unemployment rates decreasing further across provinces, we expect the demand for office space to increase ahead.

Canada posted a trade surplus of $526 million in November, its first in more than two years, as exports jumped and imports posted a modest gain. Exports rose 4.3 percent, mostly due to an increase in sales of metal and non-metallic mineral products and record exports to countries other than the United States. Exports to countries other than the U.S. increased 9.5 percent to hit a record $12 billion, beating the previous record set in December 2011. Imports increased by 0.7 percent in November as Canada brought in more energy products.

Federal measures to tighten mortgage eligibility rules, soft income growth and the upswing in interest rates after the US presidential election suggest that the housing sector might provide less support to the economy in coming quarters. Housing starts in Canada decreased to a seasonally adjusted annualized rate of 183,989 units in November 2016 (compared to 212,271 units in 2015) from a downwardly revised 192,297 units in October and below market expectations of 191,200. Urban starts decreased in Ontario, Quebec and in Atlantic Canada, but increased in British Columbia and in the Prairies.

The Bank of Canada held its overnight rate at 0.5 percent at the end of 2016. The Bank of Canada estimates that the economy is on course to grow a little over 2 percent in 2017. While uncertainty in the economy persists, which the Bank acknowledges, and until a major downside risk materializes, we foresee a healthy demand for office space in 2017 across most markets.

Canadian Office property clock



Reading the clock

JLL's office clock demonstrates where each market sits within its real estate cycle. Markets generally move clockwise around the clock. Geographies on the left side of the clock are generally landlord-favourable, while markets on the right side of the clock are typically tenant-favourable.

In the fourth quarter the majority of office markets found themselves nearing the bottoming face of the property clock indicating that rents fall at a slower rate (or remain) below level that supports replacement cost and approach cyclical lows. Vancouver and Toronto, on the other hand, are in the rising and peaking market quadrant indicating sustained strong demand, vacancy below equilibrium levels and rising rents.

Nationally, the overall asking net rent increased slightly to reach $18.17 per square foot, up 0.4 percent quarter-over-quarter but down 3.0 percent year-over-year. Downtown Toronto saw the largest increase among the major markets with average Class A rents up 3.0 percent the fourth quarter to reach $29.41 per square foot. The downtown Toronto market continues to defy expectations and strong demand is forcing tenants to act quickly to secure the few quality options left. In turn, landlords are increasing their asking rents, a trend that is expected to continue in 2017 as opportunities will only become scarcer.

The dramatic drop in Downtown Calgary's rents slowed in the fourth quarter down 'only' 1.0 percent from the third quarter to $19.36 per square foot.

Downtown Toronto

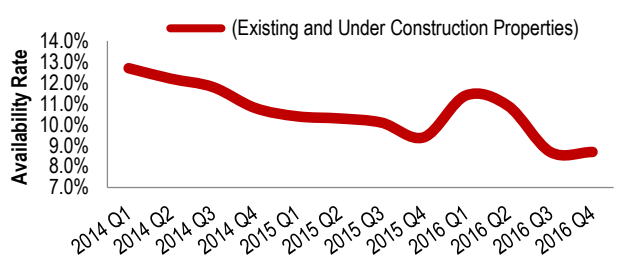
Tenants face increasing pressure down the road

Economic Fundamentals
Toronto's economy continues to perform, currently being the second fastest growing metropolitan area in Canada, with real output projected to expand 3.4 percent in 2016, and 2.6 percent in 2017, according to the Conference Board of Canada. Office-using employment is projected to remain stable in 2017, declining 0.5 percent, yet expanding 2.7 percent in 2018, driven primarily by the professional services, finance, and insurance employment groups.

Amid strong absorption and declining availability, rents experience bump
At time of delivery this quarter, One York and the Globe and Mail Centre were 100 percent and 98 percent preleased, respectively. However, although the downtown Toronto market has seen approximately 2.3 million square feet (3.1% of market inventory) of office space delivered this past year, putting upward pressure on the vacancy rate, the availability rate (for existing and under construction properties) has moved in the opposite direction – currently approaching five-year lows, at 8.7 percent. The reason is two-fold: firstly, strong fourth quarter net absorption of 549,110 square feet (as well as strong absorption in the 12 quarters prior), and, secondly, due to a marginal development pipeline for 2017-2019. This quarter, landlords have responded to this environment by increasing rental rates. Having remained largely unchanged for the first three quarters of 2016, rates have experienced a sizable bump this past quarter, with Downtown Class A net rents rising 4.0 percent year-over-year and Downtown Class B net rents rising 6.8 percent year-over-year. We expect this trend to persist into the next two years, as EY Tower is the last large (>500,000 s.f.) project awaiting delivery until 2020.

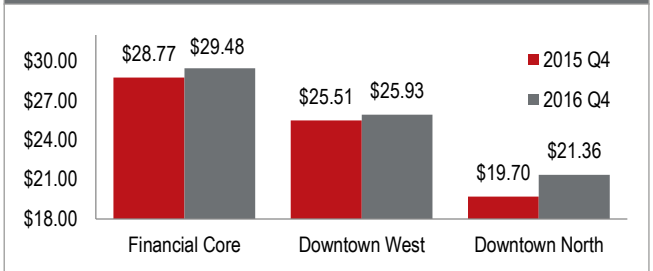
Class B, the star performer of 2016
While the "flight to quality" trend has undoubtedly shaped much of the Downtown office market over the last few years, Class B properties have resurfaced this year. Some landlords have been focused on repositioning these assets, keen to attract rapidly growing tech and various creative firms. A contrasting strategy pursued by others has been to attract government ministries with large contiguous space requirements at below market rents. In both cases, Class B properties have performed well, posting +335,000 square feet of absorption this year (~2 percent of market stock), their strongest performance in five years. Meanwhile, Class B vacancy rates are consistently amongst the lowest on the submarket level, posting an impressive 4.2 percent vacancy rate for Downtown Toronto overall.

Availability rate falls with no major supply after EY Tower



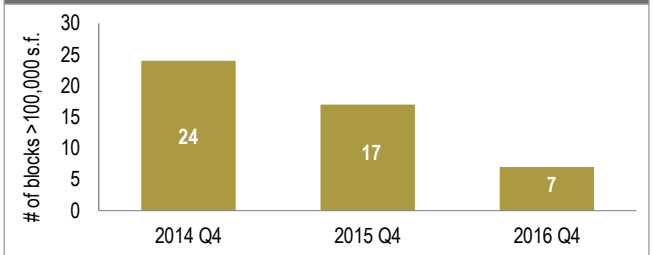
Source: JLL Research

Overall asking net rent growth across submarkets



Source: JLL Research

Large block availability is limited compared with past years



Source: JLL Research

74,589,463 Total inventory (s.f.)	**549,110** Q4 2016 net absorption (s.f.)	**$29.41** Class A asking net rent	**2,506,639** Total under construction (s.f.)
6.9% Total vacancy	**1,053,980** YTD net absorption (s.f.)	**4.0%** Class A net rent growth (y-o-y)	**57.0%** Total preleased

Suburban Toronto

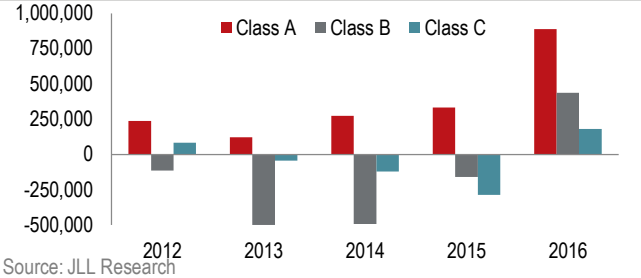
Suburban office fundamentals improve

Improving fundamentals lead to pre-recession absorption levels.
The suburban GTA saw 694,383 square feet of positive net absorption in the fourth quarter and 1,506,013 square feet of positive net absorption for the year. This is the strongest annual net absorption seen since 2008 and has helped push vacancy from a cyclical peak of 14.1 percent down to 13.3 percent. The GTA West which contributed to most of the Q4 absorption saw vacancy drop 140 basis points to 15.5 percent since last quarter. Major GTA West occupancies this quarter include Scotiabank that took the BlackBerry vacancy at Tahoe Boulevard, Technical Standards & Safety Authority at 345 Carlingview Drive and SNC-Lavalin at 2251 Speakman Drive. Additionally KPMG occupied their tower at Vaughan Metropolitan Centre.

Are suburban tenants leaving for downtown?
As office tenants are increasingly looking for transit accessible space close to the millennial population there have been some high profile movers out of the suburbs to downtown including Apple, YellowPages, Nike and Capitol One. However, as absorption numbers indicate, most suburban tenants have either been renewing, moving within the suburbs or even expanding their footprint in the suburban Toronto office market. This past quarter GM has expanded their commitment to over 150,000 square feet of net new space at 101 McNabb and Home Depot renewed and expanded their presence to a total of 128,000 square feet at 1 Concorde Gate. At Vaughan Metropolitan Centre KPMG has opened their Vaughan office contributing to growth in their overall suburban presence while PwC will be expanding their current Vaughan presence when they move into 90,000 square feet at VMC phase two in Q4 2019. GFL Environmental, currently located in an industrial building, signed a lease at the KPMG tower which will also contribute to positive net absorption within the office market.

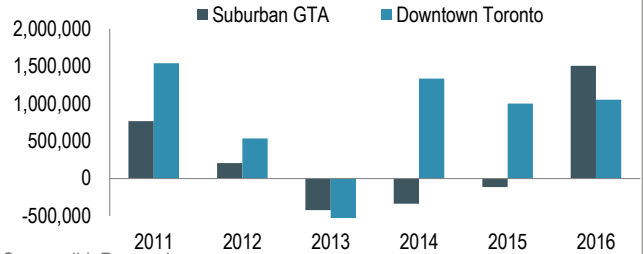
Will large corporate tenants increasingly use dual locations?
Low vacancy, rising rents and a limited development pipeline are significant constraints for downtown tenants looking for additional space. Recent leasing by KPMG, PwC, Scotiabank and TD all represent large downtown headquartered companies taking advantage of the lower costs, significant available space and a shorter cycle for new development in the suburbs. With the major downtown developments for 2017/2018 largely pre-leased large downtown tenants will likely continue to look for suburban space to house some of their operations.

Suburban GTA net absorption by class since 2012



Source: JLL Research

Net absorption - Suburban vs. Downtown



Source: JLL Research

Average gross asking rent - Suburban vs. Downtown

$28.75 vs. $50.70

Suburban *Downtown*

Source: JLL Research

88,715,690 Total inventory (s.f.)	**694,383** Q4 2016 net absorption (s.f.)	**$14.80** Average asking net rent	**1,053,881** Total under construction (s.f.)
13.3% Total vacancy	**1,506,013** 2016 net absorption (s.f.)	**3.7%** 12-month gross rent growth	**47.0%** Total preleased

Ottawa and Gatineau

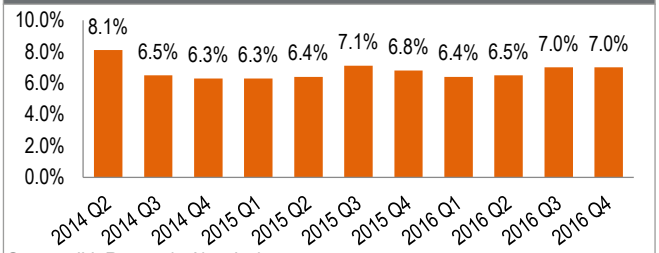
A quiet quarter in Ottawa to end the year

Economic Fundamentals
Following a period of lackluster economic growth, Ottawa and Gatineau's economy is beginning to show signs of rejuvenation. Preliminary figures by the Conference Board of Canada indicate output growing 1.6 percent in 2016, and a projected 1.7 percent in 2017. Meanwhile, much-awaited increases in fiscal spending and hiring by the federal government are expected to provide an increase in public administration employment of 1.4 percent in 2017, after a minor gain of 0.6 percent in 2016 and consecutive decline the three years prior. Furthermore, office-using employment is expected to rise 1.9 percent which bodes well for office leasing activity.

Market awaits effects of federal hiring
While Ottawa's economy is showing signs of awakening, the office market continues to idle. After an uneventful fourth quarter, downtown Ottawa vacancy remains relatively unchanged at 10.2 percent, while overall downtown asking net rents stand at $17.67 per square foot, relatively unchanged over the third quarter but down 2.9 percent year-over-year. As tenant-favourable conditions persist, government agencies have been particularly aggressive on their renewals. They have yet to be aggressive in expanding their footprint, however, predominantly focusing on reducing their footprint through 'workplace 2.0'. As hiring activity picks up in the public sector in the coming year, the market will be awaiting news of potential relocations.

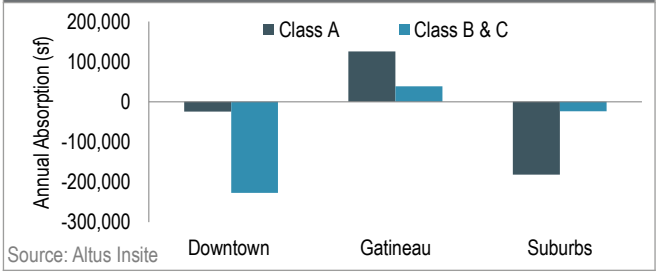
Downtown Class A market marches to the beat of its own drummer
As Ottawa-Gatineau's office market has continued to soften, the downtown Class A market has proven resilient, particularly among the high-end Class A properties. Renewals and tenants 'flight-to-quality' has kept the vacancy rate in check and in fact decreased slightly from a high of 8.7 percent in Q3 2012, to the current 7.0 percent. In contrast to Class B and C properties, which have continued to experience negative absorption, Class A absorption and rents have remained flat in 2016. Furthermore, there are signs of change at the top end of the Class A market, as indicated by a reduction in inducements offered by certain landlords, resulting in a minor rise to the net effective rent on final deals.

Downtown Class A vacancy rate



Source: JLL Research, Altus Insite

Annual net absorption figures vary across the board



Source: Altus Insite

Class A average asking net rents by submarket (p.s.f.)

$24.63	$17.50	$15.72
Downtown	**Gatineau**	**Suburbs**

Source: JLL Research

43,532,305 Total inventory (s.f.)	**-144,948** Q4 2016 net absorption (s.f.)	**$15.69** Average asking net rent	**480,778** Total under construction (s.f.)
10.9% Total vacancy rate	**-291,716** 2016 net absorption (s.f.)	**-0.8%** 12-month rent growth	**52.9%** Total preleased

Montréal

2016 ends with accelerated positive absorption

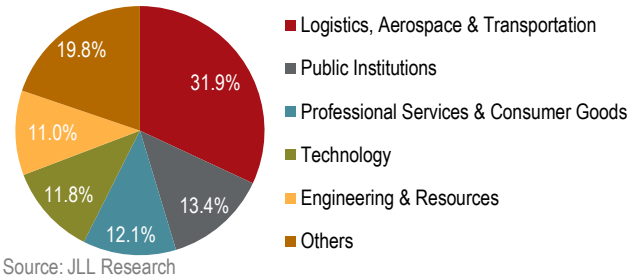
Unemployment rate hit five year low
The unemployment rate in the GMA has dropped for a third consecutive quarter to reach 8.1 percent, accelerated by the growth trend seen in the labour market. In the last year, the unemployment rate has dropped by 230 basis point to fall below 9.0 percent for the first time in five years. The recent sustained positive momentum in the labour market has helped total available sublease space fall below 1.0 million square feet for the first time since Q3 2011.

Strong leasing momentum in 2016 slows rising vacancy across the GMA
The office leasing market is beginning to reap the benefits from the improving labour market with total net absorption in 2016 reaching 550,937 square feet. This notable increase represents the largest annual office leasing demand gain in the GMA since the end of 2012. Two large notable transactions this quarter in the downtown submarket include the relocation of Ernst & Young and the TMX Group. Both tenants are vacating approximately 190,000 square feet of second generation class A space to lease 143,000 square feet of brand new LEED certified AAA space at the Deloitte and Manulife Towers. The moves by these two large organizations represent nearly a 25 percent space optimization and is a perfect example of the space utilization trend seen in markets across Canada.

That being said, new construction and building conversion activity remained high this year with over 1.0 million square feet of space being added to the market inventory. All the available space added from new construction and building conversions in 2016 was in the Midtown and Suburban submarkets. The supply and demand dynamics observed in the GMA for 2016 have significantly tempered the increase in total vacancy. Following its smallest annual increase since 2011, the total vacancy rate has inched upwards only 30 basis points year-over-year to reach 12.9 percent.

Outlook remains favourable for tenants with large office space requirements
Although market conditions have improved in the last 12 months, the total amount of available space across the GMA remains historically high. In fact, the current total vacancy rate of 12.9 percent is 320 basis points above the 10 year market average of 9.7 percent. We anticipate tenant favourable market conditions up to the end of 2017 or until the market posts at least four quarters of strong consecutive positive net absorption.

Available sublease space by tenant industry



Source: JLL Research

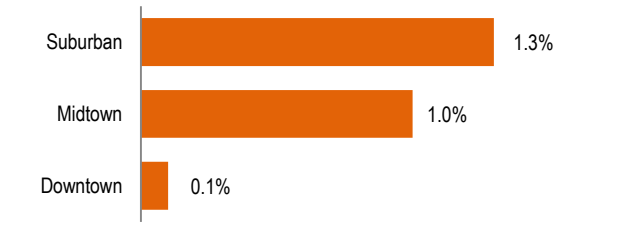
Vacant LEED certified space in Downtown Montreal

1,035,598 s.f.

in a total of 16 buildings / 17% of all vacant space

Source: JLL Research

Percentage change in occupied area through 2016



Source: JLL Research

96,856,268 Total inventory (s.f.)	**637,324** Q4 2016 net absorption (s.f.)	**$14.84** Average asking net rent	**1,534,048** Total under construction (s.f.)
12.9% Total vacancy	**550,937** 2016 net absorption (s.f.)	**0.7%** 12-month rent growth	**68.7%** Total preleased

Montréal

L'année 2016 prend fin avec une accélération de l'absorption positive

Le taux de chômage a atteint son plus bas niveau en cinq ans

Le taux de chômage a chuté pour un troisième trimestre consécutif dans la Grande région de Montréal (GRM), pour atteindre 8,1 pour cent, en raison de la croissance tendancielle observée sur le marché du travail. Au cours de la dernière année, le taux de chômage a chuté de 230 points de base, pour glisser sous le seuil de 9,0 pour cent pour la première fois en cinq ans. Le dynamisme soutenu du marché du travail que l'on constate depuis peu a également entrainé une diminution de l'espace disponible en sous-location, qui a chuté sous le million de pieds carrés pour la première fois depuis le troisième trimestre de 2011.

En 2016, le dynamisme de l'activité de location a freiné l'augmentation du taux d'inoccupation dans l'ensemble de la GRM

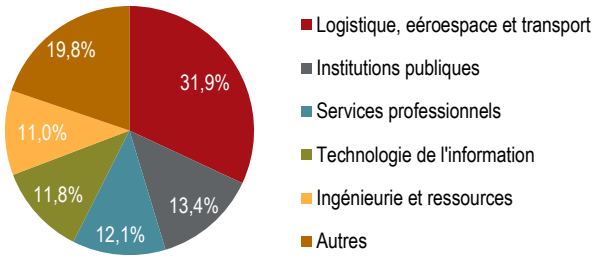
Le marché de la location des espaces de bureaux commence à bénéficier de l'amélioration du marché du travail. De fait, en 2016, l'absorption nette totale a atteint 550 937 pieds carrés. Cette hausse substantielle représente la plus importante augmentation annuelle de la demande pour les espaces de bureaux dans la GRM depuis la fin de 2012. Deux transactions se sont démarquées, au cours du dernier trimestre, dans le sous-marché du Centre-Ville : celles d'Ernst & Young et du Groupe TMX, qui ont choisi de nouveaux locaux. En effet, ces deux locataires libèreront environ 190 000 pieds carrés d'espace de catégorie A de deuxième génération pour louer 143 000 pieds carrés d'espace neuf de catégorie AAA, certifié LEED, dans les tours Deloitte et Manuvie. Pour ces deux grandes entreprises, emménager dans de nouveaux locaux représente une optimisation d'espace de près de 25,0 pour cent, ce qui constitue un parfait exemple des tendances observées dans les marchés canadiens, en matière d'utilisation d'espace.

Ceci étant dit, les activités de construction neuve et de conversion d'immeubles sont demeurées vigoureuses cette année. En effet, plus d'un million de pieds carrés d'espace a été ajouté à l'inventaire du marché. La totalité de l'espace disponible ajouté en 2016 par les nouvelles constructions et les conversions d'immeubles se trouve dans les sous-marchés du Centre-de-l'île et de la banlieue. La dynamique de l'offre et de la demande observée en 2016 dans la GRM a sensiblement ralenti l'augmentation de la quantité d'espace inoccupé. Suite à sa plus faible augmentation annuelle depuis 2011, le taux d'inoccupation total n'a progressé que de 30 points de base par rapport à l'année précédente, pour atteindre 12,9 pour cent.

Les perspectives demeurent favorables pour les locataires ayant d'importants besoins d'espace de bureaux

Bien que les conditions du marché se soient améliorées au cours des 12 derniers mois, la quantité totale d'espace disponible dans l'ensemble de la GRM demeure historiquement élevée. En fait, le taux d'inoccupation total actuel de 12,9 pour cent surpasse de 3,2 pour cent la moyenne des dix dernières années, qui est de 9,7 pour cent. Nous prévoyons que les conditions du marché demeureront favorables aux locataires jusqu'à la fin de 2017, ou jusqu'à ce que le marché affiche au moins quatre trimestres consécutifs de forte absorption nette positive.

Espaces disponible en sous-location par secteur d'activité



Source: JLL Recherche

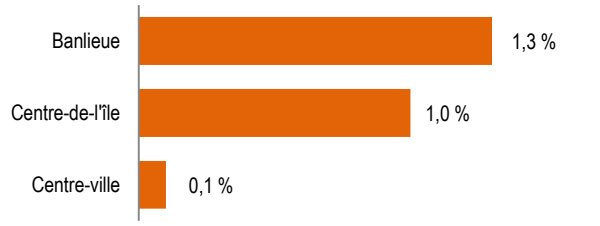
Espaces LEED inoccupés au centre-ville

1 035 598 pi²

dans 16 immeubles / 17 % des espace inoccupés

Source: JLL Recherche

Changement des espaces occupés en 2016



Source: JLL Recherche

96 856 268 Inventaire total (pi²)	**637 324** Absorption nette T4 2016 (pi²)	**14,84 $** Loyer net moyen demandé	**1 534 048** En construction (pi²)
12,9 % Taux d'innocupation global	**550 937** Absorption nette 2016 (pi²)	**0,7 %** Changement en % des loyers globaux sur 12 mois	**68,7 %** Pré-loué

Edmonton

Soft market conditions creates opportunities in 2016

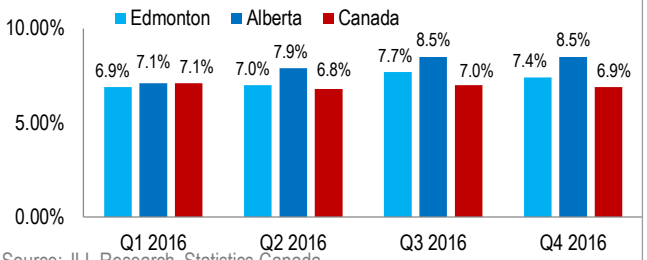
Edmonton unemployment 2016
2016 ended with Edmonton's unemployment rate increasing from 6.9 percent in Q1 to 7.4 percent. Even though the city's average is lower than the provincial by 110 basis points it seems likely that unemployment will remain stable for some time before we see any improvements. The price of oil looks to be more optimistic with WTI ending the year at US$53.72 per barrel which is a US$14.26 per barrel increase from the first quarter of 2016.

The ups and downs of Edmonton's office market
Edmonton saw positive net absorption equating to 37,365 square feet in the fourth quarter. This is a result of the city beginning their move into its new office tower in the Ice District and the Alberta School Employee Benefit Plan moving into Allendale Centre East, located in the South Side submarket. In total, the city will occupy 399,445 square feet in Edmonton Tower, however, the move-ins will take place in stages on a bi-weekly basis ending Q2 2017, thus the impact on absorption will be gradual.

Centre West received bad news in Q4, as the Provincial Government announced it will be leaving the building by Q3 2017. This move will add approximately 145,000 square feet of vacancy to the downtown Government District. Half of the employees will relocate to the Neil Crawford Centre on the South Side while the other half will be distributed to multiple buildings in the Government District. The decision was based on consolidating their workforce into other leased and owned buildings, ensuring good work spaces and managing lease costs efficiently.

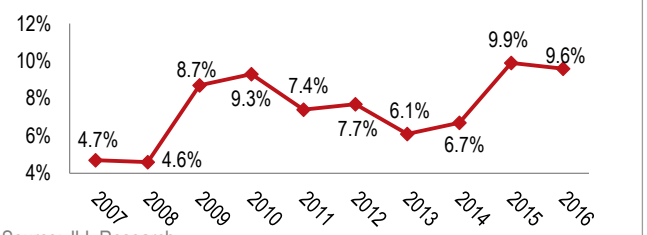
2017 forecast: stabilized rents with a chance of higher inducements
The average net rental rates were stable throughout 2016 dropping a mere 0.1 percent to $19.50 per square foot. Class A net rental rates, on the other hand, saw a more substantial drop ending 2016 at $21.27 per square foot, down 5.4 percent since the beginning of the year. The Class A rents are seeing more competition with new inventory being introduced which is one of several factors why the drop in rates. We expect in 2017 that landlords will offer up additional inducements rather than dropping rates further and that higher allowances will be easier to obtain for tenants since landlords wish to remain competitive against newer inventory. The introduction of three new office buildings increased the inventory by 3.9 percent in 2016 while Stantec Tower (578,000 s.f.) is still under construction. Edmonton began the year with a 10.2 percent vacancy rate and ends it at 15.2 percent, a direct result of new construction completions and negative absorption. Due to a lack of office demand we expect these trends to continue into 2017.

Comparing Edmonton's unemployment rate



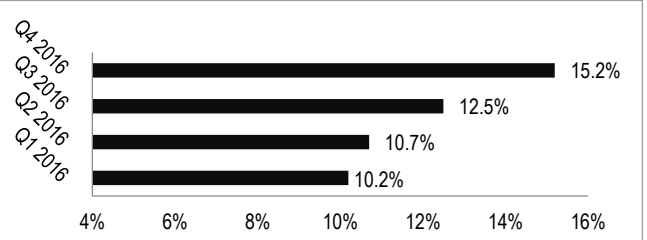
Source: JLL Research, Statistics Canada

A look back at the Government District's total vacancy



Source: JLL Research

Edmonton's total vacancy by quarter in 2016



Source: JLL Research

25,129854 Total inventory (s.f.)	**-391,379** YTD 2016 net absorption (s.f.)	**$19.50** Direct average asking net rent	**802,306** Total under construction (s.f.)
15.2% Total vacancy	**37,365** Q4 2016 net absorption (s.f.)	**-8.3%** 12-month net rent growth	**88.7%** Total preleased

Downtown Calgary

2016, The Year of the Bottom?

Status quo for downtown Calgary in Q4 2016

As 2016 draws to a close, the downward trend continued for Calgary's office market. Over the last year, vacancy has increased quarter over quarter, with Q4 no exception. Vacancy increased 80 basis points to 21.1 percent while the availability rate reached a new high of 25.1 percent, an increase of 160 basis points from Q3 (vacancy is office space that can be occupied immediately, while availability is space that can be occupied within the next 6 months). Now, one in every four floors sits vacant in downtown Calgary, with most industry pundits estimating total vacancy to be upwards of 30 percent due to "ghost space" that has not been placed onto the market. Net rental rates declined 11.4 percent through 2016 with the average net rental rates declining to $16.70 per square foot across the market. New subleases added by Cenovus Energy Inc., Canadian Natural Resources Limited and Keywest Projects Ltd. propelled another quarter of negative net absorption despite a recent uptick in leasing activity. Downtown Calgary has now seen ten consecutive quarters of negative net absorption and market sentiment from tenants and landlords is that the market has now reached bottom, or, at the very least any new addition to current market supply is simply "piling on" the already high vacant office space that exists.

More of the bottom to come in 2017

Market sentiment has bottomed with no expected rebound to occur for quite some time. The current level of high vacancy coupled with an estimated 1 million square feet of "ghost space", space that is unoccupied but not being marketed, plus new inventory will delay any movement in vacancy. This effect will further prevent bottoming net rental rates from climbing upward any time soon. The result will be a sustained tenant-favourable market. On the flip side, it's not all bad news of high vacancy and low rental rates for landlords. Recently the market has been active across both downtown and suburban markets, due to a "flight to quality" by tenants.

M&A activity on the watch for 2017

Although the energy industry is forecasted to stabilize in 2017, the downtown Calgary office market remains unpredictable. The potential always exists for a large downtown tenant to add several hundred thousand square feet to the market at any given time, whether through M&A activity or other means. Only time will tell when the market conditions truly begin to change course.

Total availability rate increases

25.1%

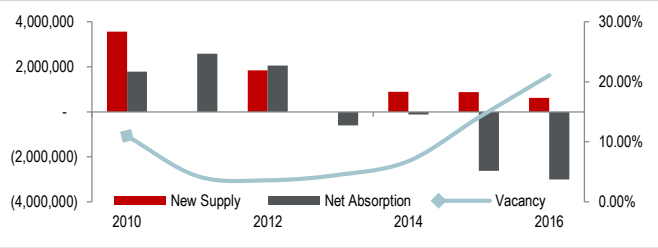
Availability rate Q4 2016

Source: JLL Research

Average Class AA/A & Class B asking gross rents

Source: JLL Research

New Supply, Absorption and Vacancy



42,261,629 Total inventory (s.f.)	**-891,328** Q4 2016 net absorption (s.f.)	**$19.36** Average Class A asking net rent	**2,361,753** Total under construction (s.f.)
21.1% Total vacancy	**-3,080,311** YTD net absorption (s.f.)	**-11.4%** 12-month overall net rent growth	**66.1%** Total preleased (excl. option space)

Metro Vancouver

Strong tenant activity continues to fuel absorption

Steady demand for sublease and headlease space in Downtown Vancouver
Downtown Vancouver had a strong finish to 2016, as vacancy continued to fall, ending the year at 8.3 percent. The only two buildings to be delivered in 2016 were completed in the fourth quarter, with the TELUS Podium and 510 Seymour both ready for tenant fixturing. Once previously spoken for, 510 Seymour Street and 89 West Georgia now have multiple floors back available for lease. Downtown absorption in the fourth quarter was 83,219 square feet, and substantial sublease activity was a contributing factor in the dropping vacancy rate. Lululemon took occupancy of 23,000 square feet at 855 Homer Street, Lumerical Computational Solutions secured a 10,000 square foot sublease at 1095 West Pender and ONEPLUS International Corp secured a 10,000 square foot sublease at 1055 West Georgia Street.

Other activity includes Sophos securing three floors (46,000 square feet) in 777 Dunsmuir, relocating from 580 Granville Street and Trez Capital securing the majority of the final remaining floor in 745 Thurlow Street.

Many sizeable deals occur in the Vancouver Periphery area
The Vancouver Periphery region experienced substantial leasing activity in the fourth quarter, however delayed occupancy and two new deliveries to the market has caused a temporary increase in the vacancy rate from 11.1 percent to 12.1 percent. Columbia College will expand by 19,000 square feet into 333 Terminal Avenue and the Pacific News Group will be relocating from 200 Granville Street to Broadway Tech Centre in Q2 2017. BC Safety Authority is Renfrew Centre's first tenant, and will be occupying floors six and seven (52,000 square feet) in the second quarter of 2017.

Strong performances among all suburbs in fourth quarter
The suburban market experienced strong tenant growth during the fourth quarter, with the overall vacancy rate falling 320 basis points to 12.3 percent. The largest drop in vacancy occurred in the Tri-Cities market, as a result of occupancy in the new Suter Brook Village. Notable deals include PCL Construction expanding by 11,000 square feet at Crestwood Corporate Centre in Richmond, Peter Kiewit expanding by 9,200 square feet at Willingdon Park, Phase 8 and Travelers Insurance expanding by 15,000 square feet at 4180 Lougheed Highway.

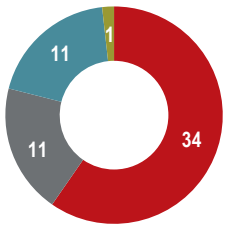
Downtown Core Class A/AAA vacancy rate

9.0%

Sublease activity pushes down vacancy rate from 9.6%

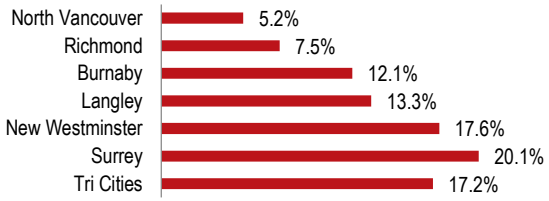
Source: JLL Research

Sublease availabilities by square footage in Downtown Core



Source: JLL Research

Suburban office vacancy



Source: JLL Research

56,706,356 Total inventory (s.f.)	**255,854** Q4 2016 net absorption (s.f.)	**$25.25** Average asking net rent	**1,710,229** Total under construction (s.f.)
10.5% Total vacancy	**1,255,956** 2016 net absorption (s.f.)	**3.6%** 12-month rent growth	**42.3%** Total preleased

Canadian office market statistics
Key office markets

Market	Inventory (s.f.)	Quarterly total net absorption (s.f., including subleases)	YTD total net absorption (s.f., including subleases)	YTD total net absorption (% of inventory)	Total vacancy (%)	Average gross marketed rent ($ PSF)*	Under construction (s.f.)
Quebec City	**19,075,423**	**-36,309**	**-99,002**	**-0.5%**	**8.6%**	**$22.44**	**-**
Downtown 'A'	2,336,212	25,445	27,046	1.2%	7.9%	$26.90	-
Ottawa-Gatineau	**43,532,305**	**-144,948**	**-291,716**	**-0.7%**	**10.9%**	**$31.97**	**480,778**
Downtown 'A'	9,734,718	-2,971	-24,496	-0.3%	7.0%	$47.75	65,000
Calgary	**68,384,205**	**-1,262,324**	**-4,004,131**	**-5.9%**	**20.9%**	**$33.33**	**2,841,883**
Downtown 'A'	31,134,0681	-91,018	-1,990,891	-6.4%	18.6%	$41.19	2,361,753
Edmonton	**25,129,854**	**37,365**	**-391,379**	**-1.6%**	**15.2%**	**$35.87**	**802,306**
Downtown 'A'	12,238,382	87,381	-237,512	-1.9%	18.2%	$40.85	578,000
Vancouver	**56,612,667**	**255,854**	**1,255,956**	**2.2%**	**10.5%**	**$40.50**	**1,710,229**
Downtown 'A'	15,198,924	78,722	418,913	2.8%	8.8%	$56.07	510,597
Toronto	**179,336,499**	**1,249,173**	**2,660,623**	**1.5%**	**9.9%**	**$33.49**	**3,560,520**
Downtown 'A'	49,000,489	489,828	779,673	1.6%	8.2%	$56.16	2,386,639
Winnipeg	**11,424,820**	**54,786**	**173,188**	**1.5%**	**8.8%**	**$24.99**	**381,709**
Downtown 'A'	3,692,147	13,725	54,046	1.5%	5.4%	$31.49	350,134
Montreal	**96,856,268**	**637,324**	**550,937**	**0.6%**	**12.9%**	**$29.42**	**1,534,048**
Downtown 'A'	24,593,773	257,551	246,927	1.0%	6.7%	$44.32	1,102,200
Halifax	**10,972,652**	**-16,153**	**213,720**	**1.9%**	**14.5%**	**$27.22**	**374,000**
Downtown 'A'	1,654,856	-2,716	-1,552	-0.1%	18.8%	$35.17	255,000

**Weighted Average*
Source: JLL Research, Altus InSite

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