



Strategic Office Conversions

- 7 active or recently completed office conversions
- 4 office to residential conversions in construction
- 2 office to residential conversions in design
- 1 office to self storage conversions completed

Office Conversions to Residential

Can They be Viable?

- Yes, but not easily
- Conversions only work in unique situations
- Need to be creative and entrepreneurial
- Innovative design solutions
- Creative approval strategies
- Cost focus

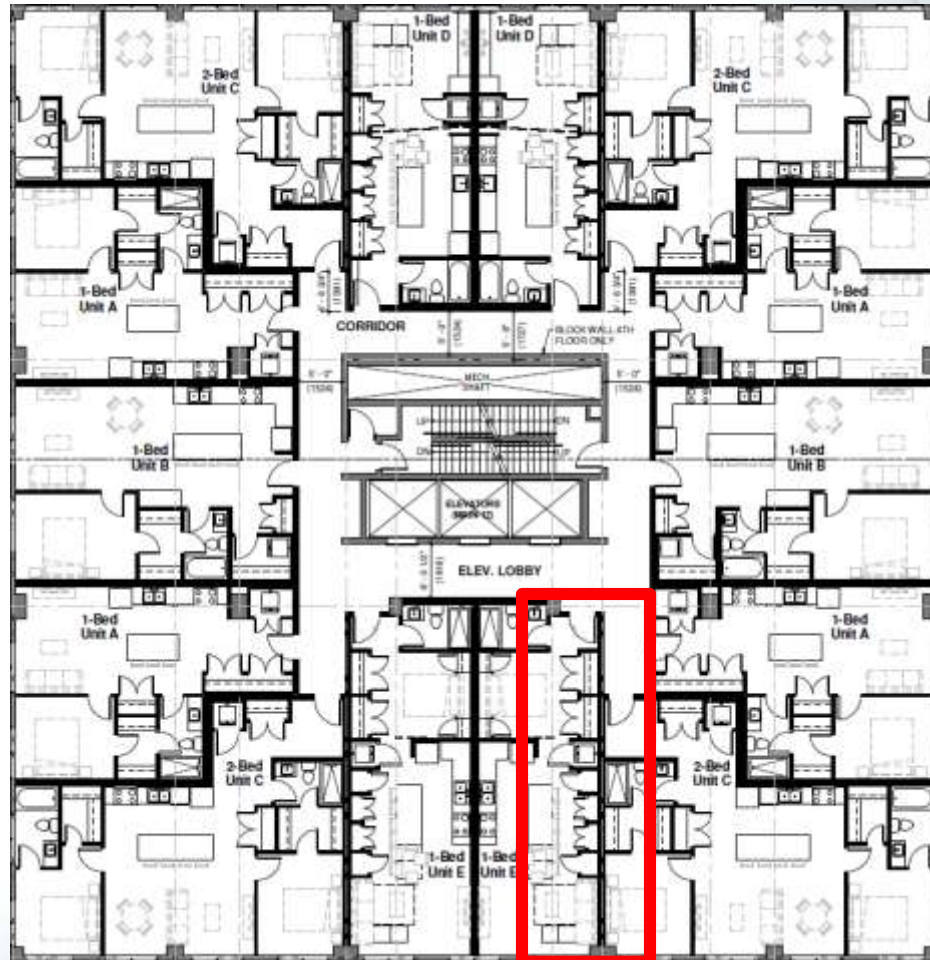
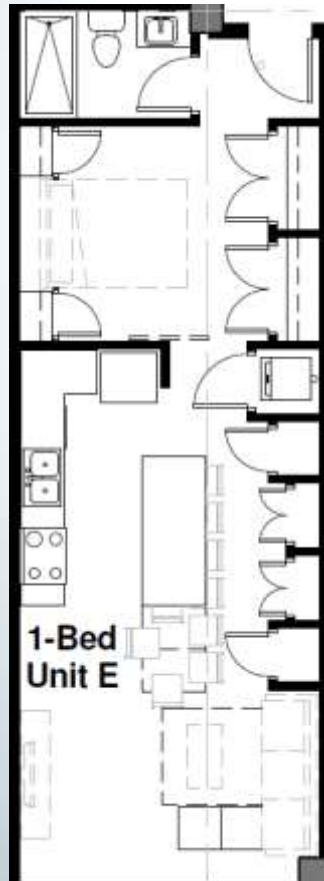
Typical Building Challenges

- Office parking not adequate for residential
- Energy performance issues with the glazing and building skin
- Hazardous materials abatement
- Miscellaneous code issues
- Post-tension structures
- Tenant relocations or terminations (win - Harley Court to CN Tower)

Design Issues

- Office buildings are not designed for residential uses
- Much larger floor plates
- Long depths for corner units
- We have 44 ft depths in some conversions – ideal is 30 ft
- Rental units need to be small- 450- 900 sf
- Creating a residential experience (aesthetic)

Design Issues – Continued



Economics for A – Class Conversions

- Conversions from office to residential costs 85% of a new building (above ground costs only)
- Building structure and parking are the only elements for reuse
- Significant demolition and environmental remediation required
- Due to costs, A-class conversions are only feasible in areas with high condo values or rents
 - e.g. San Francisco

Return Analysis of Alternatives

- Retain as existing office
- Mothballing until market recovery
- Conversion to another use
- Conversion and expansion
- Conversion to residential land

Cube

Leasing Challenges

- Capital required to upgrade building to modern office standards
- Uneconomical lease renewals for AHS and Thyssen Krupp

Return Options Analysis

- Best Option Residential Conversion



Cube Challenges

- Suite exhaust through glazing
- Relocation of main floor tenants
- Failing glazing system-
 - Replacement of individual glazing units creates changes in glazing colors
 - No cost-effective balcony solution



Cube Solutions

- New colored metal panels solve the building exhaust and the glazing unit's color variation issues
- 2nd floor plan issue solved by filling in corner - \$200K
- Bonus - additional parking adding parking revenue



Barron

Challenges

- No parking
- Heritage restrictions - eliminated 50% of balconies
- Poorly located core and elevator replacement
- Asbestos



Draft Barron Lobby Concept

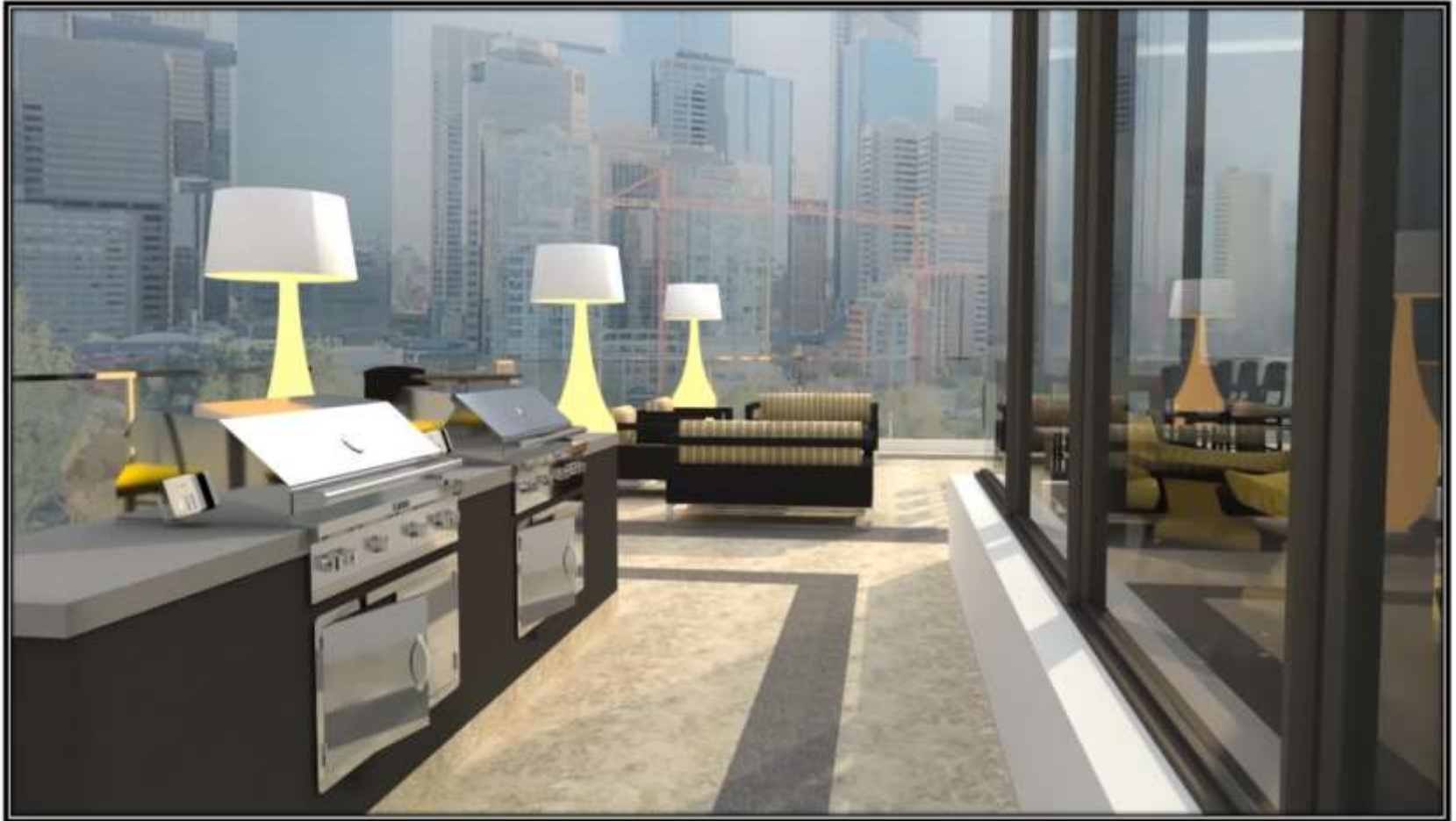


Barron – Solutions

- Convert basement into a parkade
- Relocating core and installing new elevators - \$2.0+ M
- New roof top amenities
- Adjacent restaurant space with roof-top patio



Barron – Draft Roof Top Amenities Deck



Capital Conversion with New Building

Challenges

- 0.2 underground stalls per unit
- Depth of floor plate
- Unattractive building aesthetic
- National energy code compliance



Capital Solutions

- Build 3 level parkade on adjacent land and connect to office conversion
- Staining concrete on existing building helps the building aesthetic
- Separate BP for the existing building avoids new energy code
- Amenity and storage space located on main floor manages main floor depths
- Result: Leasable small bay retail

Capital New Elevation



Viability Conversion Strategies

- Select buildings with low market values
- Vacant or near vacant buildings
- Close to grocery stores and good transit (LRT)
- 15,000 sf plate or less
- Retain the building skin with minor enhancements
- Engage a creative design and development team
- Self-perform construction, coring, demolition, scanning

City Approvals

- An approval authority willing to work through the challenges
- The Enterprise District eliminates many conversion approval issues
- Cube BP in 30 days
- Barron Land Use and DP in 90 days

Impact on Downtown

- Reduces office vacancy
- Adds residential downtown
- Creates night time and weekend vibrancy
- Potential new companies and talent will see Calgary as more appealing with a vibrant downtown
- Adds clientele to restaurants and retail on evenings and weekend

Strategic's Conversion's Impact on Inventory

Building	NRA	Sub-Market
Barron Building	121,274	Mid West-End Office
Undisclosed Building	85,418	West-End Office
Cube	61,412	Beltline Office
Store & Go	62,483	Beltline Office
Undisclosed Building	139,756	Beltline Office
Total	470,343	

Office Conversion Effects on Vacancy Based on Q2 2018 Stats

	Mid West Office	West End Office
	Barron Building	Undisclosed
Inventory SF	9,469,980	1,293,911
Vacancy SF	3,007,357	398,647
Vacancy %	32%	31%
Adjusted Inventory SF	9,348,706	1,208,493
Adjusted Vacancy SF	2,886,083	313,229
Adjusted Vacancy %	31%	26%
Reduction	1%	5%

Office Conversion Effects on Vacancy Q2 2018

	Beltline Office	Beltline Office	Beltline Office	Beltline Office
	Cube	Store & Go	Undisclosed	Total
Inventory SF	5,983,572	5,983,572	5,983,572	5,983,572
Vacancy SF	1,495,893	1,495,893	1,495,893	1,495,893
Vacancy %	25%	25%	25%	25%
Adjusted Inventory SF	5,922,160	5,921,089	5,843,816	5,719,921
Adjusted Vacancy SF	1,434,481	1,433,410	1,356,137	1,232,242
Adjusted Vacancy %	24%	24%	23%	22%
Variance	1%	1%	2%	3%

Office Conversion Effects on Inventory

CITY	NRA (sf)
Calgary	470,343
Edmonton	289,629
Alberta	759,972