State of the Economy

Calgary Semi-Annual Economic Review

June 2010

Summary of Economic Indicators

Summary of Economic Indicators - Calgary	
Population July 1, 2009 - CER	1,322,292
Inflation rate Year over year (April) - CMA	1.3%
Employment Growth over year (May) - CER	-1.0%
Employment Insurance beneficiaries Growth over year (March) - CMA	18.4%
Unemployment rate May 2010 - CER	7.7%
Average hourly wage Growth over year (May) - AB	1.7%
Average weekly earnings Growth over year (March) - AB	3.6%
Retail sales Growth over year (Q1 2010) - CMA	-1.4%
Housing starts - CMA Growth over year (YTD May)	154.2%
Building permit values Growth over year (YTD April) - CMA	36.1%
Major Calgary project values Growth over year (May 2010) - City of Calgary	-16.6%
Median Calgary house price (single family) May 2010 - City of Calgary	$420,000
Downtown office vacancy rate Q1 2010 - City of Calgary	14.5%
Suburban office vacancy rate Q1 2010 - City of Calgary	16.3%
Industrial real estate vacancy rate Q1 2010 - City of Calgar y	5.1%

State of the Economy - Introduction

"It was the best of times, it was the worst of times...." so wrote Charles Dickens in the opening of his classic *A Tale of Two Cities*. Perhaps an apt contrast as one reflects on the performance of the Calgary economy since the beginning of 2010, but also since the beginning of the Great Recession.

Calgary has seen the best of times (2000 - 2007) and the worst of times (2008, 2009.....). Over the past decade we have seen nation leading growth and economic performance, and we have now seen nation leading contraction. Almost two completely different cities. Truly the best and worst of times, for the same city.

For 2010, which city will Calgary be? Will it be back to best of times, or further sentencing to the worst of times? All one can be certain about is that there is no certainty, and that volatility is still embedded within the global, national and local economy. Calgary Economic Development has prepared this State of the Economy for the first half of 2010. It is meant to help shed light on the city and region's economic performance since the beginning of January.

Global Context

Calgary's economy appears to be performing as if in tepid times. The first half of 2010 has been tepid, driven only by a strong housing market and decent oil prices. But beyond those key factors, Calgary's economy really has not been performing at a level equivalent to the recovery being seen in Canada overall. This is a result of challenges and uncertainties in some global economic factors.

In October of 2009, Calgary Economic Development forecast that 2010 would be the year of the Charlie Brown economy; that like the pattern on his shirt, there would be volatility resulting in neither a strong positive nor negative performance. And that volatility has shown itself to be true.

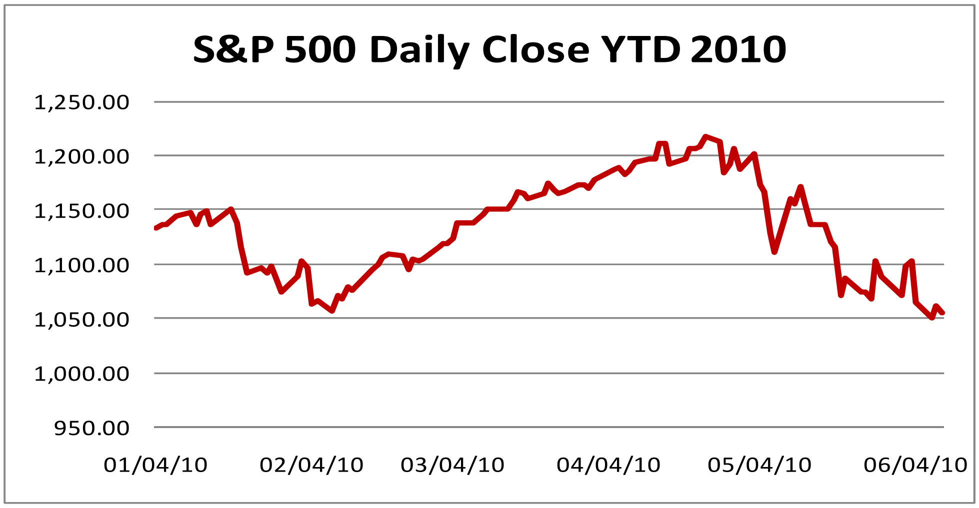
Why have we seen so much volatility? Consider:

- Economic worries in the EU, particularly Greece and now warnings in Hungary with an economy that is, in their own words, in a "very grave situation."
- Tensions in North Korea;
- Uncertainty regarding the U.S. economy and its state of recovery;
- Slowing of the Chinese economy due to softening domestic demand and rising inflation;
- Potential increased regulation and scrutiny in the global financial sector;

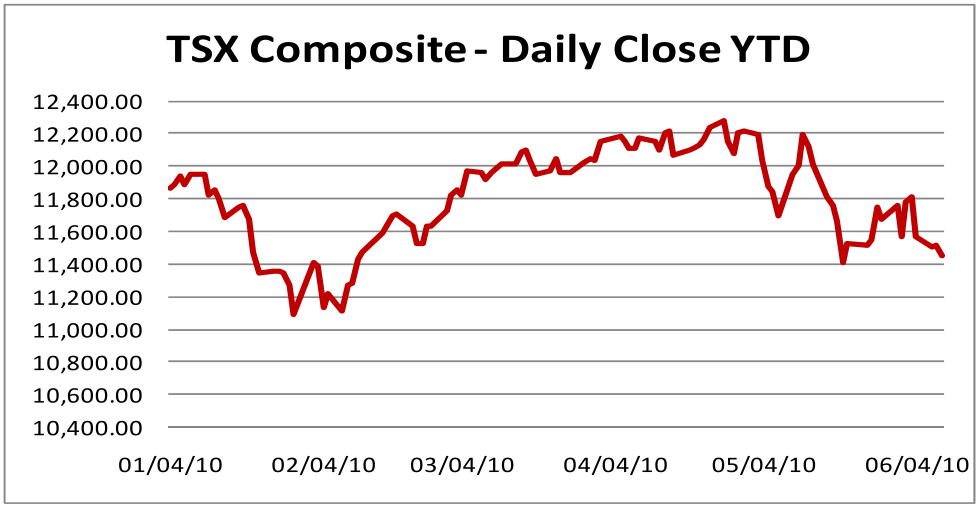
- The oil leak in the Gulf of Mexico.

Combine all of these factors together and it is a recipe for some strong volatility. Specifically, it has played out in terms of:

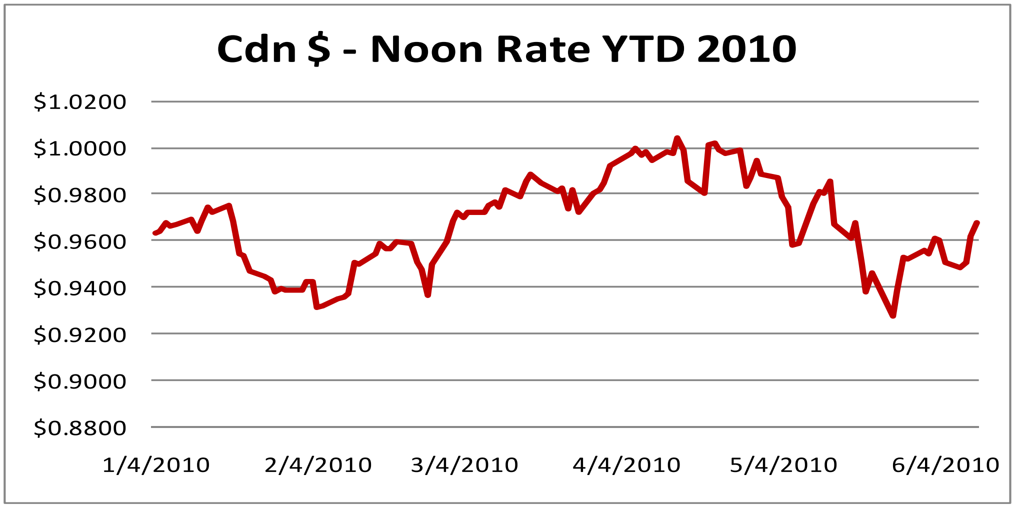
- The S&P 500 ranged from 1,217.28 to 1,050.47 over the span of January 1 to June 9 2010, a swing of 166.81 points or 14.7 per cent of its average value during that period of 1,134.76.



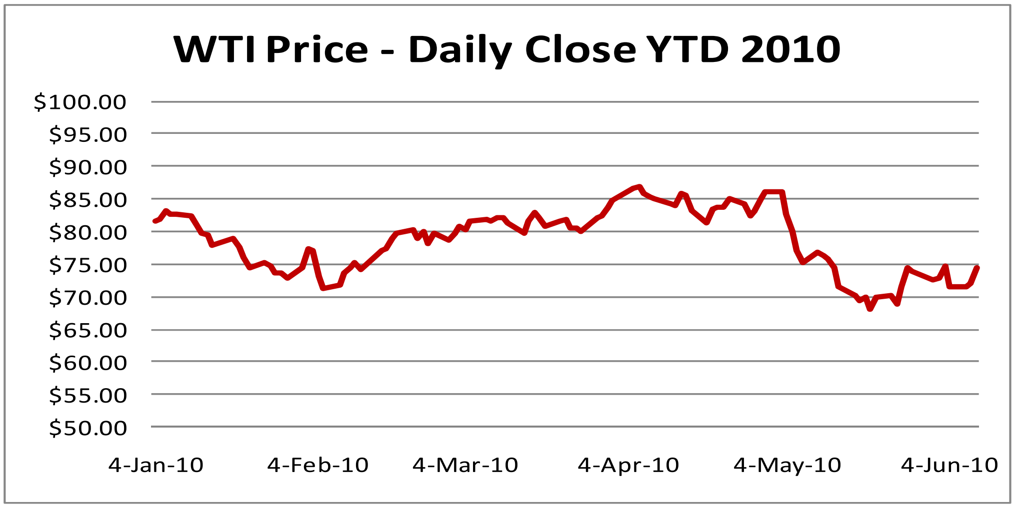
- The TSX Composite Index ranged from 12,280.97 to 11,094.31 over the same time frame, a swing of 1,186.66 points or 10.05 per cent of its average value during that period of 11,807.05.



- The Canadian dollar rose above parity in April, touching $1.0039 but dropped down to a low of $0.9278 when fears in Greece drove investors to the U.S. dollar, representing a $0.076 swing, or 7.86 per cent of its average value of $0.9677 during January 1 to June 10.



- Oil prices have seen some strong volatility during the January 1 to June 9 period, touching a high of U.S.$86.84 for a barrel of WTI and dropping to a low of U.S.$68.01, a swing of U.S.$18.83, or 23.92 per cent of its average value during that time of U.S.$78.72.



- The USD 3-month LIBOR has been on the rise since April as a result of the economic concerns particularly in the EU, and sits at 0.53706 per cent as of June 14, a rise of nearly 15 basis points through May.

And when things like the Canadian dollar and oil price are volatile, it can mean instability in the local Calgary economy, as these two measures are vital to the health and success of the city's largest industry. The impacts are apparent at the economic level, but at the psychological level as well, as businesses and people are less comfortable with spending and investment in an environment of instability.

Interestingly though, the Canadian economy has been performing at a blistering pace posting a 6.1 per cent quarter over quarter first quarter GDP growth rate. In fact, the economy has been performing so strongly that the Bank of Canada upped the overnight rate 25 basis points on June 1 to 0.50 per cent.

Much has been made of the performance of the Canadian "recovery." It has so far appeared to have bucked the trend of other G8 and G20 economies in terms of its performance, inflation and emergence from the Great Recession. However, as Peter Hall, Chief Economist at Export Development Canada, pointed out in his commentary June 3, that successful run may soon be out of steam. Canada's Composite Leading Indicator (CLI) from Statistics Canada has risen for the last 11 consecutive months, but if one looks at what is driving Canada's recovery, it is based on some elements that may not continue to be in place, specifically: low interest rates, which are now on the rise; very heated housing activity, which has slowed as of May; a rising CLI in the U.S, which has now dipped down in April; and, rebuilding of inventory in manufacturing sector, which is likely to slow given recent levels of the ISM indices. Combine these factors with continued global challenges in terms of the EU, slowing Chinese economic activity and increased regulation over the financial sector and Canada's continued economic trajectory may not be as steep as it has been in the first half of 2010.

In addition, Canada's economy is fairly small from a global context, and we are reliant upon exports and commodity prices to generate economic activity. Bucking a global trend can only happen for so long in a small export-dependent economy. Our success long term will depend on the health of larger economies such as the U.S., China and the EU.

We have commented before that it is too soon for the return of the "irrational exuberance" that got the globe into this recession in the first place. We aren't out of the woods yet. The noted investor George Soros proclaimed in early June that "..the collapse of the financial system as we know it is real, and the crisis is far from over. Indeed, we have just entered Act II of the drama."

In fact, while there has been pain, many recoveries have brought about pain in the recovery, as well as the recession, and that is where this one feels different, and therefore worrying. It feels like we got through this too easily. As Michael Kinsley writes in *The Atlantic* on the topic of inflationary fear in the U.S., "...this cure has been one ice-cream sundae after another. It can't be that easy, can it? The puritan in me says that there has to be some pain. That's not to say that there hasn't been plenty of economic pain. But that pain has come from the recession itself, not the cure."

There are likely more things that pose downside risks to slowing the recovery and bringing about further volatility than there are upside risks that will put us onto a sustainable path towards recovery. And it is well documented that despite the performance of the Canadian economy, many economists including those in the Bank of Canada, feel that the current pace of activity is going to slow. What will drive a more sustained and deep recovery in Canada, beyond a more stable global economic condition, is growth in jobs and business investment.

Canadian business investment however has not returned at a rate equivalent to the pace of economic activity. While GDP rose 6.1 per cent annualized in Q1 of 2010, business investment rose only 0.2 per cent. While business investment is often seen as a lagging indicator, the mere fact that the Canadian economy is expanding rapidly yet business investment is still catatonic should point to the reality that Canadian businesses obviously do not feel confident that stability and certainty have returned to the economy in such a way that they would resume spending.

Calgary's Economy

Calgary's economy, as mentioned above, is performing at a tepid pace. Some key countervailing forces seem to be placing Calgary's economic performance in this territory:

	Positive Force	Constraining Force
Energy	Oil prices are sufficiently high enough to drive continued investment and drilling activity. Land sales were very strong in the first half of 2010. The Government of Alberta introduced a revised royalty framework and rate structure that appears to have sufficiently addressed industry concerns that investment and drilling are poised for growth in 2010. Additionally, international interest has returned to the oilpatch in the form of Chinese investment in companies such as Athabasca Oil Sands Corp., Syncrude and Penn West to the tune of over $8 billion. All of this has brought about some marginal return to hiring, investment and outsourcing across oil companies and related oil field service and professional and financial services for the oil sector.	Natural gas prices remain low enough to continue to displace investment to less costly locations, primarily in the U.S. With natural gas in the U.S.$3 - $4 range through the first half of 2010, prices are too low to spur investment in much conventional or unconventional gas activity. And with natural gas prices expected to remain in this territory for a few years, many natural gas weighted or focused firms will continue to face a challenging market.

	Positive Force	Constraining Force
Real Estate	Residential real estate has been performing relatively well up until May when a slow down reared its head. Housing starts, MLS resale activity and house prices have all been rising since the latter half of 2009, with the May single-family median house price up 1 per cent above April and 8 per cent above May 2009, and housing starts up a whopping 154.2 per cent over May 2009.	Commercial real estate markets have been hit hard by the recession and many are still in slow territory. While speculation was that downtown office would reach nearly 20 per cent vacancy by 2012, a small return of demand has resulted in belief that office vacancy will peak at approximately 16 per cent by 2012. Regardless, the commercial side of the real estate market is still in the trough of a major cycle with non-residential building permits down 14.1 per cent year-to-date April compared to same time 2009.

Economic recovery will happen in Calgary when, like elsewhere, companies begin to hire again. Hiring is a means of delivering economic activity, which ultimately drives consumer expenditure. The Calgary market is feeling the effects of a 7.7 per cent unemployment rate, which compared to historical levels is not that high, but compared to only 24 months ago is the manifestation of a tale of two cities. The psychological impact is significant and people respond with reduced investments and spending, reducing a significant component of the overall economic activity that drove Calgary's economy for so many years.

Calgary companies have not returned to hiring mode yet. And that is for two key reasons: first, if they are in the natural gas business, activity is well down and not at levels that can generate activity and therefore employment opportunities; and, second, because many companies preserved value and existence through cost cutting during the Great Recession and have not yet shifted out of that mode. While signs of economic activity may be on the radar for some companies, they are reluctant to hire again - simply because they do not feel it is sustainable and do not want to grow their cost base in an environment of uncertainty. Conversations with those in the HR world confirm that few companies are looking to bring full time staff back on, and instead are looking to secure part-time or contract based staff.

Oil at its current price should be sufficient to drive further investments particularly in the oil sands, but also with new projects, drilling and production. The oil side of the energy sector should prop up some of the challenges being felt in natural gas, but it is unlikely it can pick up all of the slack.

The local manufacturing sector continues to face a challenge of slower global demand and a high Canadian dollar, however some of the labour challenges that sector faced in previous years seem to have eased as there is more availability in the labour market. It still faces a slower market, but increased activity in northern Alberta has brought about renewed activity for products associated with oil field services. Other sectors in Calgary such as transportation and logistics, financial services and business services are all anecdotally busier than a year prior but no one feels that they are back firing on all cylinders quite yet.

In summary, Calgary has weathered, and continues to weather, the recession in a manner that should bring about the necessary changes that were creating an unsustainable set of market dynamics during the overheated years of 2005, 2006 and 2007. In many ways, companies are pushing the "reset" button and getting their business in order. They are taking their time to assess the true recovery. They are being careful and measured. And that is not necessarily a bad thing. But for many, it isn't the right "feel" - the economy still feels slow, they are struggling with unemployment, or are uncomfortable in an environment of restrained spending. It isn't the best of times, it isn't the worst of times. They are new times. Overall, Calgary is performing at a tepid pace, one that will likely be the new norm for a few years to come as the global economy finds its footing again.

The Outlook for 2010

Some banks and think tanks feel that the Calgary and Alberta economies will expand in the 3 + per cent real GDP range for 2010. That just doesn't seem feasible. While the first half of 2010 has shown strong economic performance at the Canadian level, economic activity in Calgary still remains tepid. Additionally, much of that is stimulus driven. So how will the economy perform when stimuli, such as low interest rates and tax incentives, are removed? Likely not as well. The analogy is akin to that of having your car boosted by AMA. Can you say your car is fine while it is still hooked up to the AMA truck? Not with any certainty. For it is only after AMA drives away and the car has to turn over on its own power can you really answer that question. The same thing goes for our economy. And our assessment is that things will slow down.

Additionally, throw your mind back to 2007. That year, Calgary's economy expanded at a rate of 3.7 per cent. 2007 was a very busy year. 2010 doesn't feel like that same kind of year.

So it is unlikely things will turn around at such a rate that Calgary will see strong positive performance for 2010. Based on the volatility being experienced in the global economy and markets, and the continued low natural gas price, Calgary Economic Development holds firm on its 2010 forecast of a Charlie Brown economy, but specifically:

- Employment growth of between 0.7 and 1.0 per cent;
- Unemployment rate of between 7.4 and 7.7 per cent;

- Inflation of between 0.8 and 1.1 per cent;
- Housing starts of between 5,000 and 6,000 units;
- Building permit values of between $2 and $2.25 billion;
- Real GDP growth of between 0.8 and 1.2 per cent.

Consumer Price Index / Inflation

From April 2009 to April 2010, prices paid by Calgarians for goods and services, as measured by the Consumer Price Index (CPI) basket, increased by 1.3 per cent. Over this same period, the shelter component of the CPI (which accounts for roughly one quarter of the consumer's basket of goods and services), decreased by 1.0 per cent, while the price of water, fuel and electricity decreased by 4.2 per cent.

Indicator	April	Dec	April	YTD Change		YOY Change	
Calgary CMA	2010	2009	2009	Number	% (Inflation)	Number	% (Inflation)
CPI (2002=100)	122.4	122.1	120.8	0.3	0.2%	1.6	1.3%

Labour

Average Hourly Wage Rate (Alberta)

The demand for labour in Alberta continues to remain slow. The unemployment rate for Alberta was 7.4 per cent for May 2010, with 7,500 jobs lost in Alberta between May 2009 and May 2010, a decline of 0.4 per cent. The slowing labour market in Alberta has had little impact on the province's average hourly wages however, which decreased by $0.1 from December 2009, and increased by $0.41 or 1.7 per cent from May 2009 to May 2010, to $24.81 an hour.

Employment

Employment activity in Calgary has continued to slow in the second half of 2009 and 2010 to date. Calgary's economy lost 7,700 jobs since December 2009, a decline of 1.0 per cent. Total employment was estimated at 736,800 in May 2010, down 1.0 per cent from 744,000 a year prior. Calgary accounted for 96.0 per cent of the job losses in Alberta, on a year-over-year basis.

Unemployment Rate

Calgary's unemployment rate has increased by 1.1 per cent since this time last year, with an unemployment rate of 7.7 per cent in May 2010 compared to a rate of 6.6 per cent in May 2009. This rate reflects a decrease in labour demand in Calgary, a result of the continued lower natural gas prices, slow global demand and less demand for workers, especially in the energy sector.

Employment by Industry

The goods-producing industries led the way in job creation in Calgary, adding 1,000 jobs since December 2009, a 0.5 per cent increase, while the services-producing sector lost 8,800 jobs, a 1.6 per cent decrease over the same period.

Since May 2009, across both the goods-producing and services-producing sectors, the major drivers in terms of job gains were Health Care and Social Assistance (9,200), Manufacturing (4,700), and Trade (9,600). The sectors with major job losses in the same period were Business, Building and Other Support Services (-6,500), Professional, Scientific and Technical Services (-5,900), and Accommodations and Food Service (-5,300).

Examining the data more closely, one can perhaps decipher some trends which point to the direction of employment on a sector basis:

- Agriculture employment has decreased 30 per cent year-over-year but has seen some turnaround since the beginning of 2010, rising 2.1 per cent;
- Construction employment increased 3.6 per cent year-over-year but decreased 2.9 per cent since the beginning of 2010. This is likely a reflection of a strong slowdown in the non-residential side of the construction and building segment;
- Manufacturing employment has seen good growth in both the year-over-year and year-to-date representing some strength in this segment;
- FIRE, professional, scientific and technical services, and business building and other support services have decreased 3.6, 7.1 and 20.4 per cent respectively year-over-year, but have seen some rebound since the beginning of 2010, showing growth of 5.4, 4 and 9.5 per cent respectively.

Indicator - Calgary Economic Region	May 2010	Dec 2009	May 2009	YTD Change		YOY Change	
				Number	%	Number	%
Average Hourly Wage Rate ($) - Alberta	$24.81	$24.82	$24.40	-$0.01	0.0%	$0.41	1.7%
Employment	736,800	744,500	744,000	-7,700	-1.0%	-7,200	-1.0%
Unemployment Rate (%)	7.7%	7.1%	6.6%	0.6%	-	1.1%	-
Employment by Industry							
TOTAL INDUSTRIES	736,800	744,500	744,000	-7,700	-1.0%	-7,200	-1.0%
Goods-Producing Sector	184,700	183,700	183,300	1,000	0.5%	1,400	0.8%
Agriculture	9,800	9,600	14,100	200	2.1%	-4,300	-30.5%
Forestry, Fishing, Mining and Oil & Gas	49,900	48,900	46,800	1,000	2.0%	3,100	6.6%
Utilities	4,400	7,400	8,900	-3,000	-40.5%	-4,500	-50.6%
Construction	69,800	71,900	67,400	-2,100	-2.9%	2,400	3.6%
Manufacturing	50,900	45,800	46,200	5,100	11.1%	4,700	10.2%
Services-Producing Sector	552,000	560,800	560,700	-8,800	-1.6%	-8,700	-1.6%
Trade	109,200	102,800	99,600	6,400	6.2%	9,600	9.6%
Transportation and Warehousing	39,400	45,700	42,300	-6,300	-13.8%	-2,900	-6.9%
Finance, Insurance, Real Estate and Leasing	48,800	46,300	50,600	2,500	5.4%	-1,800	-3.6%
Professional, Scientific and Technical Services	77,200	74,200	83,100	3,000	4.0%	-5,900	-7.1%
Business, Building and Other Support Services	25,400	23,200	31,900	2,200	9.5%	-6,500	-20.4%
Educational Services	44,300	45,600	47,900	-1,300	-2.9%	-3,600	-7.5%
Health Care and Social Assistance	74,400	77,800	65,200	-3,400	-4.4%	9,200	14.1%
Information, Culture and Recreation	36,600	34,900	37,300	1,700	4.9%	-700	-1.9%
Accommodation and Food Services	36,900	42,100	42,200	-5,200	-12.4%	-5,300	-12.6%
Other Services	34,600	42,600	33,800	-8,000	-18.8%	800	2.4%
Public Administration	25,300	25,500	26,700	-200	-0.8%	-1,400	-5.2%

Retail Trade

Retail Sales

Retail sales in Calgary in the first quarter of 2010 were $20.1 billion, up 1.0 per cent from the fourth quarter of 2009, the first quarter over quarter increase since Q2 2008. Retail sales from Q1 2009 to Q1 2010 have decreased by $277.3 million, a 1.4 per cent drop in retail sales.

Indicator - CMA	Q1 2010	Q4 2009	Q1 2009	YTD Change		YOY Change	
				Number	%	Number	%
Retail Sales ($Millions)	20,137.55	19,938.24	20,414.84	199.3	1.0%	-277.3	-1.4%

Construction

Housing Starts

Year-to-date cumulative total housing starts in Calgary increased by 154.2 per cent from 1,547 in May 2009 to 3,932 in May 2010. This is still well below the 7,240 units seen at this time in 2008. An increase of 138.6 per cent was experienced in single-detached starts for the period May 2009 to May 2010, while starts for all other housing types increased by 203.2 per cent.

Indicator - Calgary CMA (Units)	May 2010	May 2009	YTD Cumulative		YOY Cumulative Change	
			2010	2009		
			Number		Number	%
Housing Starts - Total	862	480	3,932	1,547	2,385	154.2%
Housing Starts - Single-Detached	634	382	2,804	1,175	1,629	138.6%
Housing Starts - All Others	228	98	1,128	372	756	203.2%

Building Permits

Total annual cumulative building permit values as of April 2010 grew by 36.1 per cent, from $942.2 million in 2009 to $1.282 billion this year. YTD cumulative residential building permit values increased by 95.0 per cent year-over-year, while year-to-date non-residential permit values declined by 14.1 per cent. This is a result of slow commercial and institutional segments this year compared to previous years.

Indicator - Calgary Economic Region	April 2010	April 2009	YTD Cumulative		YOY Cumulative Change	
			2010	2009		
			Number		Number	%
Total ($Millions)	351.2	337.7	1,282.0	942.2	339.8	36.1%
Residential ($Millions)	241.3	192.7	844.7	433.1	411.6	95.0%
Non-Residential ($Millions)	109.9	145.0	437.2	509.1	-71.9	-14.1%

Major Projects

The number of major Calgary projects ($5 million or more) has decreased by 18.3 per cent over the past 12 months, while the total value of these projects declined by 16.6 per cent over the same period to $25.2 billion. The project sectors with the highest value in May 2010 were Commercial/Retail ($7.7 billion), Infrastructure ($5.4 billion), and Institutional ($3.8 billion). Leading developments among Calgary's major projects include The Bow office tower, Stonegate Landing retail, office and industrial development, and Alberta Health Service's South Calgary Health Campus.

Indicator	May 2010	Dec 2009	May 2009	YTD Change		YOY Change	
				Number	%	Number	%
Value ($Millions)	25,223.0	28,011.0	30,231.2	-2,788.0	-10.0	-5,008.2	-16.6
Number	196	207	240	-11	-5.3	-44	-18.3

Real Estate

Residential

MLS Sales

Month-end inventories of single family homes increased from 3,861 in May 2009 to 5,649 units in May 2010, an increase of 46.3 per cent. Condominium inventories increased from 1,952 in May 2009, to 2,656 in May 2010, an increase of 36.1 per cent.

Sales of single family homes decreased from 1,584 units in May 2009 to 1,262 in May 2010, a 20.3 per cent decrease in numbers. Sales in the condo market also decreased by 20.7 per cent over the same period, with May 2010 sales of 518 units as compared to 653 units the year before.

Despite some month over month declines, year-to-date cumulative sales of housing units were up for both single family and condominium markets in the first five months of 2010, compared to the same period in 2009, at 8.8 per cent and 19.6 per cent respectively.

The median price in May 2010 of a single family home increased slightly over April 2010 to $420,000, a 7.7 per cent increase in price from May 2009, when the median price was $390,000. The median price for condominiums increased by 9.8 per cent over the year, with the price rising to $279,000 in May 2010 from $255,000 in May 2009.

The year-to-date cumulative median sale price increased for both single family and condominium markets in the first five months of 2010, at 9.2 per cent and 6.7 per cent respectively.

Indicator	May 2010	May 2009	YTD Cumulative		YOY Cumulative Change	
			2010	2009		
			Number		Number	%
Single Family						
Sales	1,262	1,584	5,796	5,328	468	8.8%
Median Sale Price ($)	$420,000	$390,000	$415,000	$380,000	$35,000	9.2%
Condominium						
Sales	518	653	2,676	2,237	439	19.6%
Median Sale Price ($)	$279,900	$255,000	$270,000	$253,000	$17,000	6.7%

Commercial

Downtown Office

The Calgary downtown office market continues to be impacted by the economic slowdown and low natural gas prices, although there are signs of improvement and optimism in the energy sector after a difficult 2009. Downtown vacancy rates have continued to increase as demand for new space is limited, and new space has been added to the inventory. Demand for new space is expected to remain weak through 2010 although leasing activity is increasing with the resurgence of oil sands development and related support services such as engineering services.

The vacancy rate in the downtown market has decreased slightly to 14.5 per cent in the first quarter of 2010, down 1.0 per cent from Q4 2009. Aside from Class C buildings, all other classes of building experienced a decrease in vacancy rates over the last quarter. Vacancy is currently 10.5 per cent for Class AA, 11.7 per cent for Class A, 18.6 per cent for Class B, 20.0 per cent for Class C, and 41.7 per cent for Class D. The higher vacancy rates for Classes C and D have reflected tenants upgrading to better quality or better located buildings in the downtown area.

Average asking lease rates have continued to decrease in the first quarter of 2010 in all classes of building except Class A. The average asking lease rate for downtown office space ranged from $33.78 (Class AA) to $10.90 (Class D), with the average overall rate of $19.00 per square foot. This is a result of low demand and anticipated increased vacancies once The Bow and Eighth Avenue Place are completed. This will put significant continued downward pressure on rental rates. This trend is expected to continue even as the economy recovers in anticipation of rising vacancy in the months ahead.

The downtown office market recorded its second quarter of positive absorption, with 369,625 square feet of net absorption in the first quarter of 2010. This reflects dramatic turnaround from the negative absorption seen for most of 2009. The positive absorption can be attributed to engineering companies taking back sublease space in response to new oil sands projects.

Since the addition of Centennial West and East Towers in the fourth quarter of 2009, no new inventory has been completed in the first quarter of 2010 and inventory remains at 35,702,958 square feet. Currently, there is 2.7 million square feet of class AA space under construction in the downtown market.

Indicator - Calgary	Q1 2010	Q4 2009	Q1 2009
Absorption	369,625	20,120	-575,473
Vacancy Rate	14.5%	15.5%	6.9%

Suburban Office

The Calgary suburban office market has seen some modest demand from the engineering sectors as some major oil sands projects have geared up and engineering companies are taking back some space previously subleased. Calgary's total inventory for the suburban office market stands at 20,076,406 square feet, with 24.7 per cent of the inventory being located in the Beltline.

Vacancy rates have increased dramatically over the year from 9.9 per cent in Q1 2009 to 16.3 per cent in Q1 2010, up 60 basis points from 15.7 per cent seen in the previous quarter. Uncertainty stemming from the increase in downtown vacancy as well a multitude of sublease space available in the suburban market has been a factor in the increased vacancy rates. Close to 702,000 square feet of new suburban office space is still under construction and only moderate levels of pre-leasing have occurred. Vacancy rates are expected to increase slightly in 2010.

Overall suburban average asking lease rates have decreased by $1.10 since the fourth quarter of 2009, and $2.15 since Q1 2009, to the current rate of $18.22. The lower suburban rates are a result of the increased vacancy rates in the downtown office market, as well as decreased demand for office space. Average asking lease rates are highest in the south at $22.56 per square foot, followed by the Beltline at $20.21.

The overall suburban market has experienced another quarter of positive absorption as 68,658 square feet of space was absorbed in Q1 2010. Absorption has been in positive territory for the past four quarters. Two new buildings with188,606 square feet of new space has been added to the inventory in Q1 2010.

Indicator - Calgary	Q1 2010	Q4 2009	Q1 2009
Absorption	68,658	91,329	-253,971
Vacancy Rate	16.3%	15.7%	9.9%

Industrial

Calgary's industrial market has experienced a positive first quarter of 2010. The market has seen a slight decease in vacancies and availability, resulting in a sense of optimism for the market for the rest of 2010.

Vacancy in the industrial market decreased over the past quarter to 5.1 per cent from 5.2 per cent in Q4 2009. Availability also decreased in the first quarter of 2010 to 5.8 per cent from 6.2 per cent in Q4 2009 as a result of increased lease transactions. Over six lease transactions larger than 50,000 square feet took place in Q1 2010.

Average asking lease rates have decreased in all Calgary submarkets. The overall average asking lease rate declined by $0.15 per square foot to $7.35 from the previous quarter. Landlords are offering tenant inducements to keep existing tenants, and offering aggressive asking rates to new clients.

New supply of 110,000 square feet was added to the industrial inventory in the first quarter of 2010, while 525,200 square feet is under construction. The industrial market experienced its second quarter of positive absorption since the economic downturn, with 546,759 square feet of space being absorbed in Q1 2010. With larger pockets of space being leased out and smaller amounts of new supply being added to the market, it is expected that absorption will remain positive.

Indicator - Calgary	Q1 2010	Q4 2009	Q1 2009
Absorption	546,759	1,185,725	278,671
Vacancy Rate	5.1%	5.2%	3.7%

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