

Metro Vancouver Office Report

Second Quarter 2010

Economic Overview

Despite a drop in commodity prices and some fluctuations in the currency market, the Canadian economy surged in the second quarter of 2010 fueled by stronger consumer spending, construction activity and export demand. While European debt issues continue to hamper other national economies, Canada has posted broad-based gains and looks to remain strong for the remainder of the year.

In British Columbia, a resurgence in forestry, construction and manufacturing sectors has shifted the provincial economy in the right direction. Employment, as a result, is on the mend, and a flurry of hiring activity in April and May exceeded expectations for growth in the second quarter. Looking ahead, stronger than expected growth figures in both British Columbia and Canada at-large may cause a continued rise in interest rates as a cautionary step to curb inflation.

Metro Vancouver Market Summary

The Metro Vancouver office market continued to experience a “core-periphery” effect in regard to space demand: Downtown markets strengthened considerably over the last quarter, fueled by stronger employment prospects and limited options, whereas suburban markets continue to lag in light of mounting vacancies and new product entering the market.

The central core continued to benefit from low vacancies and steady demand with the past several quarters showing a resurgence in downtown leasing activity. The pace at which companies are downsizing has levelled off, showing some signs of a rebounding office market. Peripheral markets, on the other hand, continue to experience low demand and high vacancies, evidenced by the number of quality office buildings on the market. Options for large users in suburban markets are plenty, presenting options for flexible lease terms and better inducement packages for tenants. Looking ahead, vacancies are projected to level off over the

next several quarters as demand catches up with available supply levels.

Downtown Office

Despite some levelling off in demand due to lack of new and expanding tenants, the downtown core remained relatively stable leading into the second quarter of 2010. With limited new supply and existing product options, the downtown core has not seen a substantial drop in lease rates and remains the most resilient market across the region. While central core vacancy sits at 5.6%, (a slight increase from 5.5% last quarter) the overall trend the past several quarters has been toward a positive absorption of both headlease and sublease space.

Notable lease deals:

- Livingston International leased 17,300 sq ft at 1140 West Pender Street (Sun Life Financial Centre)
- Investco Trimark leased 11,000 sf at 884 West Georgia Street
- Acciona leased 15,801 sq ft at 595 Burrard Street (Bentall III)

Suburban Office

Suburban markets continue to exhibit slower market fundamentals in the second quarter of 2010, signalled by oversupply and lagging market velocity carried over from last quarter. No new tenants are

entering the market, and existing tenants are taking a “wait and see” approach to their occupancy decisions. The suburban vacancy rate reached 15% this quarter, representing 2,866,000 sq ft of space and four quarters of straight increases.

Notable lease deals:

- Fraser Health leased 134,000 sq ft at 13450 102 Avenue in Surrey (Central City)
- Syscon Justice leased 15,600 sq ft at 6500 River Road in Richmond
- Aspac Developments leased 15,600 sq ft at 6500 River Road in Richmond

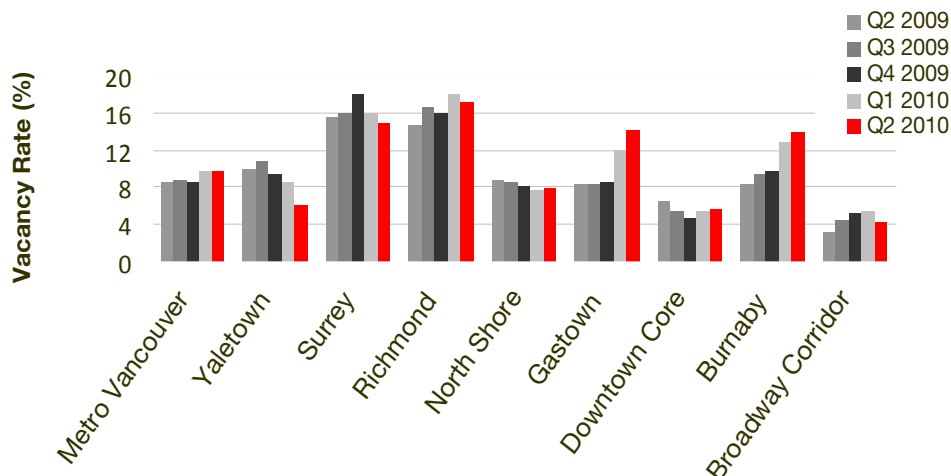
New Office Construction

Ten office buildings are currently under construction in Metro Vancouver, totalling 1,156,000 sq ft. Only 14% (164,831 sq ft) of that space is in the downtown core and is found within four mixed-use projects: Atelier of Robson, Jameson House, The Beasley and The Offices at Hotel Georgia. Projects in the planning stages include GM Place Tower which is planned to break ground in late 2010, as well as Bentall Capital’s project at 475 Thurlow Street which could add over 420,000 sq ft of office and retail space to the market in late 2011.

In terms of suburban/peripheral office development, six new projects are currently

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Historic Municipal Vacancy Rates



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Summary Statistics - Second Quarter 2010

	Total buildings	Total area (sq ft)	Total vacant (sq ft)	Sublet Vacant (sq ft)	Total vacancy (%)	Average asking lease rate (\$/sq ft)	Average taxes and operating costs (\$/sq ft)
Metro Vancouver	667	51,331,716	4,914,854	921,475	9.6	21.3	12.0
Class A	273	29,729,281	2,888,520	596,936	9.7	24.0	12.6
Class B	251	15,179,115	1,324,378	284,648	8.7	20.2	12.0
Class C	153	6,423,320	701,956	39,891	10.9	18.6	10.9
Downtown Core	155	20,405,527	1,141,646	260,838	5.6	26.3	14.9
Class A	50	12,426,036	399,226	150,287	3.2	35.5	18.5
Class B	52	5,297,621	458,682	81,534	8.7	26.2	14.8
Class C	53	2,681,870	283,738	29,017	10.6	19.3	12.3
Broadway Corridor	79	3,975,622	171,335	39,845	4.3	21.1	14.4
Class A	31	2,084,030	91,507	19,847	4.4	23.4	15.1
Class B	29	1,302,817	61,357	19,617	4.7	20.7	15.1
Class C	19	588,775	18,471	681	3.1	17.1	11.6
Surrey	49	2,854,757	420,844	79,954	14.8	19.4	9.3
Class A	24	1,99,187	370,194	6,838	18.5	21.1	9.0
Class B	16	609,198	33,861	1,116	5.6	17.3	9.7
Class C	9	226,372	16,789	0	7.4	14.0	10.2
Richmond	85	5,106,070	866,376	197,778	17.0	15.0	9.0
Class A	48	3,404,155	636,195	171,407	18.7	16.3	9.3
Class B	28	1,287,536	156,643	26,371	12.2	13.9	9.2
Class C	9	414,379	73,538	0	17.1	11.5	7.1
North Shore	51	2,299,557	179,078	57,938	7.8	21.2	10.7
Class A	17	871,021	61,702	9,800	7.1	26.3	11.1
Class B	25	1,064,845	102,930	42,614	9.7	20.1	11.1
Class C	9	363,691	14,446	5,524	4.0	17.5	8.6
Burnaby	124	9,652,264	1,351,629	224,841	14.0	20.2	11.5
Class A	68	6,627,734	1,082,512	192,713	16.3	22.4	12.0
Class B	42	2,434,749	192,413	30,317	7.9	17.7	11.6
Class C	14	589,781	76,704	1,811	13.0	19.7	9.7
Gastown	28	1,335,633	190,317	16,230	14.2	21.0	9.8
Class A	4	143,000	78,862	0	55.1	22.5	9.4
Class B	12	623,800	56,435	16,230	9.0	27.3	11.9
Class C	12	568,833	55,020	0	9.7	17.3	9.0
Yaletown	39	2,160,506	130,848	3,572	6.1	24.8	12.3
Class A	6	594,045	4,069	0	0.7	26.5	14.0
Class B	15	929,254	26,057	3,572	2.7	23.6	11.4
Class C	18	637,207	100,728	0	15.8	25.4	12.7

Notable office lease transactions - Q2 2010*

Property address	Municipality	Tenant	Size (sq ft)
13450 102 Avenue (Central City)	Surrey	Fraser Health Authority	134,000
840 Cambie Street	Vancouver	Microsoft Canada Development Corporation	37,000
1140 West Pender Street (Sun Life Financial Centre)	Vancouver	Livingston International	17,300
595 Burrard Street (Bentall III)	Vancouver	Acciona	15,801
6500 River Road	Richmond	Syscon Justice	15,600

Notable office sale transactions - Q2 2010*

Property address	Municipality	Price	Size (sq ft)	Price/ sq ft	Purchaser(s)
9200 Glenlyon Parkway	Burnaby	\$21,880,000	94,325	\$232	9220 Glenlyon Ltd.
3555 Gilmore Way	Burnaby	\$15,099,000	82,001	\$184	Kingswood Capital
351 Abbott Street	Vancouver	\$11,000,000	9,748	\$1,128	City of Vancouver
1545-1555 West 6th Avenue	Vancouver	\$6,400,000	14,614	\$363	Kenstone West Properties Ltd.
7818 6th Street	Burnaby	\$6,396,000	31,925	\$200	Shiv Investments Inc.
1682 West 7th Avenue	Vancouver	\$6,370,000	21,373	\$298	Kenstone West Properties Ltd.

under construction, totalling 943,500 sq ft. Current projects underway include Broadway Tech Centre (5 and 7) and Metrotower III in Burnaby, as well as Panorama Place H, Dean Business Centre and Benchmark Business Centre in Surrey. Projects being planned or awaiting leasing commitments include Rize Alliance's Containers building at 428 Terminal (Vancouver), Orca West Development's project on the 500 block of West Broadway (Vancouver), Bosa's mixed-use commercial/residential project at the corner of Kingsway and Willingdon Avenue in Burnaby and GWL Realty Advisor's NorthWoods Business Park (2022 Dollarton Highway) in North Vancouver.

Looking Ahead

- A tight downtown market may prove beneficial for other markets as demand picks up for the region at-large. Over the next several quarters, we expect to see improvement to suburban office markets as competitive lease rates and more flexible tenancy options attract new and existing tenants. Additionally, medium to large users

may see opportunity in the quality of space available in Burnaby and Surrey in particular.

- While the Provincial and National economy made broad-based gains this quarter, true recovery for the Metro Vancouver office market will depend on the health of the US economy which in the past has provided a steady influx of investment and corporate activity to the Lower Mainland. To date, employment prospects are still below pre-recession levels, meaning that companies are not prepared to expand into the Canadian marketplace just yet. This, we believe, will be the reality for the medium term.
- Downtown markets remain tight and with little new supply over the next several quarters, it is expected to stay that way. Sublease vacancies have dropped since mid-year 2009 and we do not expect to see a rise in sublet availabilities. In terms of headlease space, there are options available for smaller users, but finding large (25,000 sq ft plus) space downtown will be a challenge.

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Definitions

Absorption: Refers to growth or net change in occupied space over time.

Inducements: A form of monetary enticement given by a landlord to a tenant.

New Supply: New space entering the market through new construction.

Under Construction: Projects that are currently being built but are not yet completed.

Vacancy Rate: The current amount of vacant building area compared to the total amount of existing inventory.

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*Properties over 8,000 sq ft only

**Data sourced from RealNet Canada Inc.
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