Metro Vancouver Office Report

First Quarter 2011

www.dtzvancouver.com

Metro Vancouver Office Report
First Quarter 2011

Economic Overview

With employment rates staying steady at 7.5% and GDP holding at 3.1%, Canada's economy saw another stable quarter of continued recovery. While many are optimistic, Investors and prospecting tenants alike are approaching the market cautiously.

Certain events and indicators, such as reverberations from the European Credit crisis, and the expected increase of the overnight target rate to 2% have kept the investment market under control.

A strong canadian dollar and low interest rates have helped keep up the market's momentum, but larger, riskier projects are still having a hard time gaining support.

Metro Vancouver Market Summary

Vancouver, much like the rest of Canada, experienced a stable quarter with signs of steady growth. Forestry and Mining lead the charge with a strong quarter, but like everything else, has a few years before completely recovering. B.C.'s employment growth is expected to be among the strongest going into 2011.

With Olympic activity cooling off, and a steadying economy, vacancy rates have held steady, only decreasing slightly from 8.5% to 8.2%. Similarly, lease rates and operating costs have stayed steady as well. This is the 4th consecutive quarter of dropping vacancies, largely due to high absorption (over 200,000 square feet) downtown and in certain areas in the suburbs that are in high demand.

While the downtown market did account for a large amount of the lease activity this quarter, Burnaby saw the most activity with nearly 80,000 square feet of absorption.

Despite renewed interest in development, this quarter saw almost no new supply. As a result vacancy rates have continued to drop. While this has not had an immediate impact on lease rates and operating costs, there is a growing trend of tenants downgrading from A class space to high quality B Class space.

Downtown Office

The Downtown core experienced a substantial decline in vacancy, dropping 70 basis points from 4.8% to 4.1%. With no new supply coming to the market, there has been an increasing trend of tenants in A and AAA class buildings to downgrade to high quality B-class spaces as their rent has appreciated substantially. Despite this move, there is still heavy interest in A-class office space Downtown, and most vacancies are immediately occupied.

With many new projects on the horizon, including the Telus Tower, 745 Thurlow Street, and 1021 West Hastings Street, high end office space built over next 5 years will initially cause a spike in vacancy for A class space. Shortly after we expect this to cause tenants of B and C class buildings to upgrade, ultimately increasing the vacancies for these lower classed buildings

On the investment side, Bentall Kennedy purchased 100% interest in 1090 West Pender Street for $19.5 million in exchange for West Pender Property Group's $40 million purchase of 50% interest in 1050 West Pender St. We expect to see more exchanges like this happening as the vacancy and new supply stay at their current rates.

Notable Lease Deals

- Blast Radius leased 28,874 square feet at 1148 Homer Street
- Avigilon Corp leased 28,572 square feet at the Pivotal building
- VanCity Savings Credit Union leased 26,427 square feet at 369 Terminal Avenue

Suburban Office

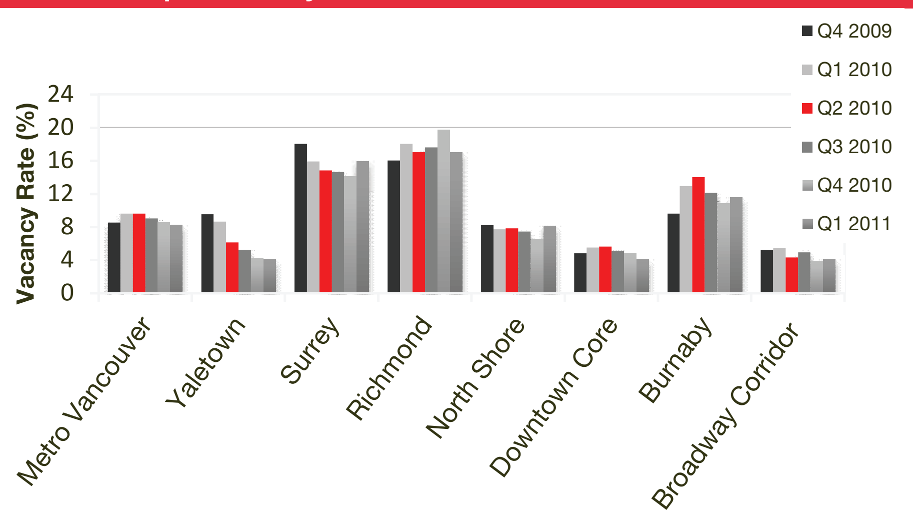
Like the rest of Vancouver, the suburbs continued the drop in vacancy from 13.5% last quarter to 13.1% this quarter. This is the 3rd consecutive quarter that has seen a drop vacancy rates.

We expect vacancy rates to hold steady, only decreasing marginally, except in Burnaby which will soon be seeing over 250,000 sq ft coming back to the market towards the end of 2011 and into 2012 from Telus' reorganization alone.

Strata office still in high demand, and drove much of the sale activity this quarter. While the majority of sales were smaller strata purchases, one of the most notable transactions Is Lululemon Atheletica's purchase of 1818 Cornwall Avenue for $65 million.

(Continued on Page 4)

Historic Municipal Vacancy Rates



Metro Vancouver Office Report
First Quarter 2011

Summary Statistics - First Quarter 2011

	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	**677**	**51,649,016**	**4,233,217**	**723,776**	**8.2**	**20.0**	**12.3**
Class A	271	29,959,581	2,506,897	475,065	8.4	22.2	13.0
Class B	248	15,032,270	1,088,940	225,503	7.2	19.2	12.2
Class C	158	6,657,165	637,380	23,208	9.6	17.6	11.1
Downtown Core	**153**	**20,294,244**	**824,140**	**205,717**	**4.1**	**23.8**	**15.2**
Class A	49	12,345,175	276,553	109,431	2.2	29.7	18.6
Class B	54	5,437,424	313,457	86,998	5.8	24.1	15.0
Class C	50	2,511,645	234,130	3,395	9.3	18.0	12.4
Broadway Corridor	**79**	**4,091,508**	**168,024**	**36,859**	**4.1**	**21.6**	**14.1**
Class A	31	2,147,433	104,286	32,094	4.9	23.9	15.0
Class B	29	1309,317	48,023	2,603	3.7	21.3	14.0
Class C	19	634,758	15,715	2,162	2.5	17.3	12.2
Surrey	**42**	**2,722,343**	**433,532**	**3,919**	**15.9**	**18.3**	**9.8**
Class A	21	2,054,159	403,069	3,919	19.6	20.3	9.4
Class B	13	463,946	28,009	0	6.0	15.3	10.5
Class C	8	204,238	2,454	0	1.2	13.8	10.5
Richmond	**83**	**4,998,429**	**848,002**	**155,470**	**17.0**	**14.5**	**8.5**
Class A	49	3,489,687	671,187	129,099	19.2	16.0	8.7
Class B	23	1,033,363	74,526	26,371	7.2	13.5	9.0
Class C	11	475,379	102,289	0	21.5	10.2	6.7
North Shore	**51**	**2,322,538**	**199,263**	**49,287**	**8.1**	**18.7**	**11.0**
Class A	16	868,978	67,352	7,000	7.8	21.1	11.5
Class B	26	1,089,869	106,714	36,940	9.8	17.9	11.8
Class C	9	363,691	14,197	5,347	3.9	16.7	8.0
Burnaby	**124**	**9,569,218**	**1,106,230**	**169,233**	**11.6**	**18.4**	**11.8**
Class A	68	6,604,634	835,780	152,448	12.7	20.5	12.0
Class B	42	2,374,803	234,708	14,974	9.9	16.9	11.6
Class C	14	589,781	35,742	1,811	6.1	17.0	11.3
Yaletown	**39**	**2,154,802**	**88,562**	**0**	**4.1**	**23.1**	**12.5**
Class A	6	602,285	5,742	0	1.0	28.5	15.0
Class B	15	924,254	7572	0	0.8	23.2	11.9
Class C	18	628,263	75,248	0	12.0	21.7	12.3

Metro Vancouver Office Report

Fourth Quarter 2010

Notable office lease transactions - Q1 2011*

Property address	Municipality	Tenant	Size (sq ft)
4321 Still Creek Drive	Burnaby	Worley Parsons	51,000
Willingdon Business Park - Phase V	Burnaby	Blue Castle Games	37,000
1148 Homer Street	Vancouver	Blast Radius	28,874
Pivotal Building	Vancouver	Avilgilon Corp	28,572
4199 Lougheed Highway	Burnaby	FWG Acquisition Ltd.	28,000

Notable office sale transactions - Q1 2011*

Property address	Municipality	Price	Size (sq ft)	Price/ sq ft	Purchaser(s)
1818 Cornwall Avenue	Vancouver	$65,000,000	138,600	$469	Lululemon Athletica
1050 West Pender Street	Vancouver	$40,000,000	220,129	$363	West Pender Property Group
Ocean Pointe	Surrey	$22,670,000	80,000	$283	Djavad Mowafaghian Foundation
Ten Ninety West Pender	Vancouver	$19,500,000	77,416	$252	Bentall Capital

Notable Lease Deals

- Worley Parsons Leased 51,000 square feet at 4321 Still Creek Drive in Burnaby
- Blue Castle Games leased 37,000 square feet of space at the Willingdon Business Park – Phase V in Burnaby
- FWG Acquisition Ltd. Leased 28,000 square feet of space at 4199 Lougheed Highway in Burnaby

New Office Construction

Once again, Vancouver saw almost no new supply this quarter. In Surrey, the Benchmark Business Centre II was completed adding 112,500 square feet to the market. In Vancouver, the Broadway Tech Centre 7 was completed, brining 75,000 square feet to the market.

While there are many projects in the works in the Downtown Area, none are due to come on the market until mid-2011. Both the Hotel Georgia and the Jameson House are near completion and will be coming to the market in the second quarter. This seems like it will only be the beginning as the battle to start Vancouver's new office development is gearing up. If the projects being proposed currently go to plan, there is over 1 million square feet of new office space expected to be in the pipeline for the next 3 to 4 years. This is a remarkable recovery, and could be the largest increase in inventory since 2003-2004.

Looking Ahead

- If the currently proposed projects downtown proceed, there will be a large amount of brand new AAA class office space available. The short term increase in vacancy should lower rates, and this will temporarily reverse the current trend, and cause tenants of B and C class space to upgrade. In the long term this will increase vacancies in B and C class space downtown, and in nearby areas.
- With a strong dollar, stable consumer confidence and increasing development, expect to see continued strong market activity user-occupied sales, particularly with high value strata properties.

DTZ Barnicke Commercial Team

Neil McAllister

Tom Bakker

James Bayley

Tony Capolongo

Conor Finucane

Howard Malchy

Jason Marriott

Don Mussenden

Steve Schweigert

Rand Thomson

Chris Walters

Stephen Webber

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.

For more information please contact:
James Fraser, Director of Research
james.fraser@dtzvancouver.com
(604) 630 3405

*Properties over 8,000 sq ft only

DTZ Barnicke Vancouver Limited
800 - 475 West Georgia Street, Vancouver, B.C. V6B 4M9
Tel: (604) 684 7117 Fax: (604) 684 1017

If you would like to receive this report via email, please contact us.

**Data sourced from RealNet Canada Inc. www.realnet.ca