



Metro Vancouver Office Report

Mid-Year Highlights 2009

Metro Vancouver Market Overview

Over the first half of 2009, the Metro Vancouver office market experienced a consistent increase of available space as demand steadily dwindled in both the downtown core, and suburban markets.

Firms have put expansion plans on hold, downsized, and sublet space due to global economic concerns. As a result, the drop in demand has pushed the overall vacancy rate up from 6.2% to 7.0%, while the total availability rate, (including space for sublease), has surged to 10.1%. Although vacancy has risen, new options have been provided to tenants, shortening the divide between landlord and tenant lease rate expectations.

Year to date, net absorption has been down considerably at more than -670,000 sq ft, predominantly incurred in the Downtown Core. The only regions currently not experiencing year to date negative absorption have been Burnaby and New Westminster.

Regardless of these figures, the Metro Vancouver office market remains one of the tightest in North America, and appears well positioned to weather the remainder of the economic recession. Only limited amounts of new supply have come onto the market, and a surplus in new construction is not anticipated.

Downtown Core

In the Downtown Core, a surge in sublease space continued to push the mid-year vacancy rate up from 3.6% to sit at 3.9%, while the availability rate totaled more than 7.3% as a result of excess sublease space on the market. Transactions have been spread evenly between AAA, A, B and C classes, but the number of transactions has been minimal. Six month net absorption totalled more than -475,000 sq ft as tenants continued to consolidate, downsize, and sublease space.

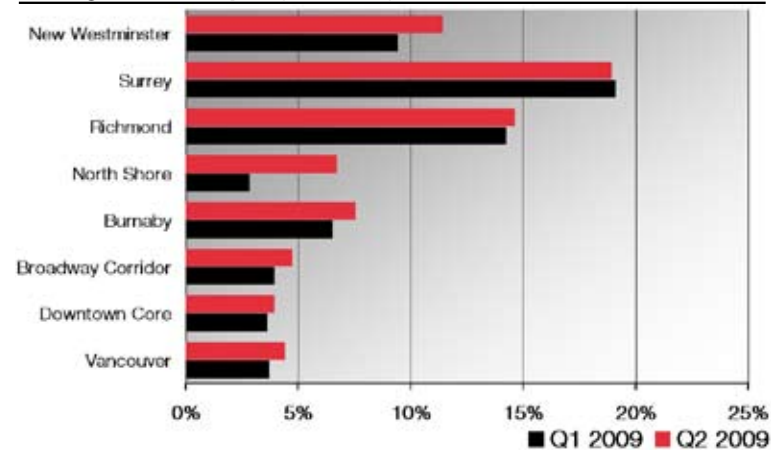
In several of the largest transactions; Public Works & Government Services of Canada renewed 155,221 sq ft at 1138 Melville Street, Citizens Bank also renewed their 61,785 sq ft at 815 West Hastings Street, and Fraser Milner Casgrain LLP took 51,676 sq ft in a new headlease at 250 Howe Street.

With the current state of the global economy, no large-scale office projects are expected to come to the market in the short-term. A number of developments under construction have faced delays, while many projects in planning have been put on hold indefinitely. The Hotel Georgia development at 699 Howe Street is currently under construction, and the office portion (71,500 sq ft) will complete in Q4 2009.

Yaletown

Transactions have begun to pick up in the Yaletown region after beginning the year with sluggish activity. Vacancy has risen from 4.6% in January to sit at 8.4%. The availability rate hit an even higher 12.1%, again due to a vast amount of sublease space on the market. Six month net absorption has now totalled nearly -66,500 sq ft. Rates have come down more than 15% in select cases due to the lack of demand and surplus of space.

Change in municipality vacancy rates



FCV Technologies leased 6,000 sq ft at 1132 Hamilton Street, while Grand & Toy took 3,836 sq ft at 1050 Homer Street, and Donnelly Hospitality Management leased 2,200 sq ft at 1110 Hamilton Street.

Several new developments are coming down the pipe in Yaletown. In August, construction will wrap up at 1022 Seymour Street, bringing 35,000 sq ft of office space to the market. In mid-2010, three floors of office space will be added to 1132 Hamilton Street, totalling 30,000 sq ft. Lastly, the mixed-use Beasley development at 888 Homer Street has now broken ground and, when complete in 2012, will provide 14,000 sq ft of office space.

Broadway Corridor

The Broadway Corridor region continues to be one of the more balanced markets in the Metro Vancouver area. Transaction activity has been limited, and the market has been relatively tight, availability has been mostly for large tenants, with few options for smaller users. Vacancy has risen minimally from 3.9% in January to 4.7% currently, while the availability rate sits at 5.4%. Net absorption for the first half of 2009 was -15,900 sq ft.

The Art Institute took more than 40,000 sq ft for its new location at 2889 East 12 Avenue, while UBC subleased 19,218 sq ft at 6190 Agronomy Road, and London Life signed a renewal for 10,732 sq ft at 1508 West Broadway.

While 80,000 sq ft was brought to the market earlier this year at the Cross Roads development, no other developments are slated for completion until the first quarter of 2010. More than 150,000 sq ft will complete at Broadway Tech Centre's Phases 5 & 7, while an additional 51,956 sq ft will complete at 1669 East Broadway by mid-2010.

Burnaby

The City of Burnaby has experienced a very low volume of transactions in the first half of 2009, driving landlords to offer lower rental rates and increased inducements to prospective tenants. The vacancy rate is currently at 7.5%, up from 6.5% in January, while overall availability comes in at 10.0%. Burnaby's net absorption for the first half of 2009 was 53,120 sq ft, the strongest in all of Metro Vancouver.

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At 4185 Still Creek Avenue, Fortinet subleased 14,000 sq ft, while Intrawest leased 8,250 sq ft at 4445 Lougheed Highway.

New office developments are abundant in Burnaby, and the vacancy rate is expected to rise further as a result. In Q1 2009, Discovery Green at 4200 Canada Way completed, bringing 146,130 sq ft to the market, it was subsequently entirely tenanted by HSBC. In August, Lake City Court II will complete, bringing 34,000 sq ft to the Burnaby Market. Finally, the Commerce@Citi Development at 4445 Lougheed Highway will complete at the beginning of Q4 2009. There are also a handful of developments set for completion throughout 2010.

Surrey

Over the first six months of the year, very few office deals were completed in Surrey. Rates have begun to soften, and landlords are offering further incentives to attract and retain tenants. Vacancy currently sits at a massive 18.9%, down slightly from beginning the year at 19.1%. The exceptionally high vacancy rate can be directed attributed to a handful of large blocks remaining vacant. Absorption over the first half of 2009 was -3,385 sq ft as no notable occupancies took place. Demand has remained flat and the market remains stagnant.

The only notable transaction took place at 13401 108th Avenue, where Translink renewed their 81,362 sq ft lease.

With such minimal market activity, no new supply is forecast to complete in the Surrey office market during 2009. The only notable projects currently under construction in the area are at Panorama Place, located at 5590 152nd Street. Phase II of the project broke ground in early July, and when completed in mid-2010, will provide 20,000 sq ft to the Surrey office market. While Phase III will provide more than 45,000 sq ft when completed in the fourth quarter of 2011.

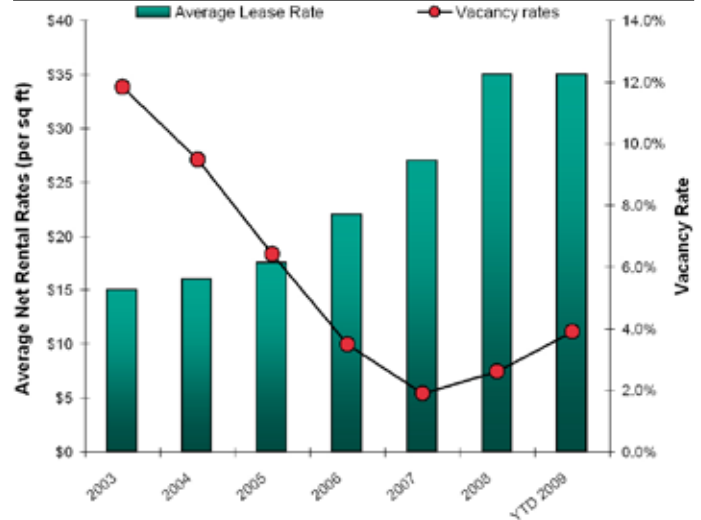
Richmond

Transactions over the first half of 2009 in the Richmond market were few. While lease rates have remained steady, the lack of activity on the horizon should put downward pressure on rates in the coming months. Vacancy is currently at 14.6%, up from 14.2% in January, while overall availability is at 17.3%. Absorption for the first six months of 2009 was -146,445 sq ft, representing the lowest absorption outside of Downtown Vancouver.

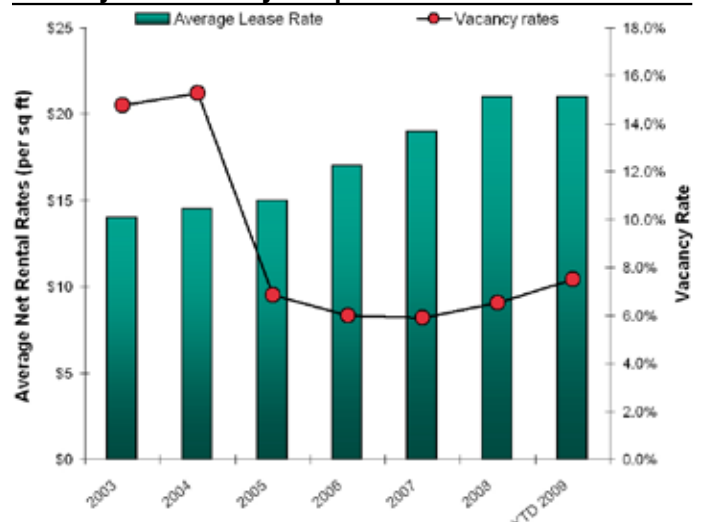
Only small scale transactions have taken place in Richmond; Agility renewed 4,542 sq ft at 13071 Vanier Place, while Conestoga Rovers leased 4,320 sq ft at 3851 Shell Road, and Assetplus Financial Services leased 4,182 sq ft at 3751 Shellbridge Way.

After a colossal amount of office space was added to the market in 2008, 2009 has seen no new additions, nor will any be seen until 2011 at the earliest. A mixed use project at the Bridgeport SkyTrain Station is in the land assembly stage, where developers are planning to bring more than 160,000 sq ft to the market. The Vancouver International Airport's proposed office/hotel development at the Templeton SkyTrain

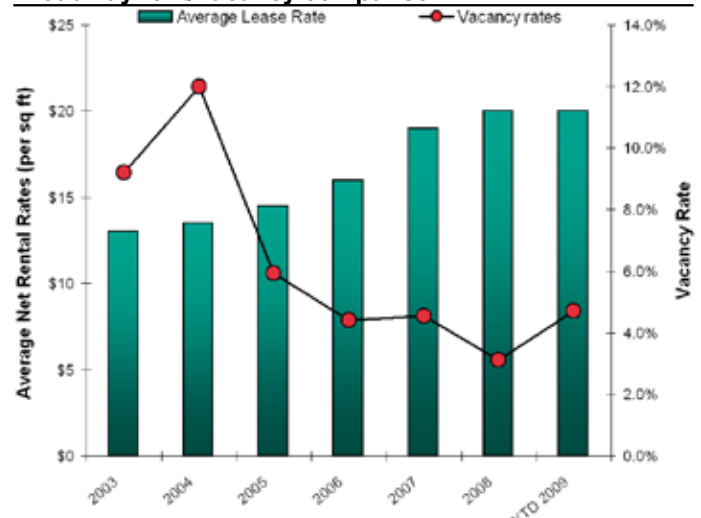
Downtown rent/vacancy comparison



Burnaby rent/vacancy comparison



Broadway rent/vacancy comparison



Notable office sale transactions - Mid-year 2009*

Property address	Municipality	Price	Size (sq ft)	Price/sq ft	Cap rate	Purchaser(s)
Bentall V - 535-550 Burrard Street	Vancouver	\$297,000,000	583,000	\$509	N/A	Deka Canada One Investments Ltd.
Grosvenor Building - 1038-1070 W. Georgia / 1059-1061 Alberni Street	Vancouver	\$84,000,000	203,748	\$412	7.0%	0846869 B.C. Ltd.
Viva Tower - 828 Drake Street / 1311 Howe Street	Vancouver	\$19,592,157	53,594	\$394	5.0%	Mayfair Hotels & Resorts Ltd.
Metrotown Place III - 5945 Kathleen Avenue	Burnaby	\$14,250,000	56,636	\$252	6.7%	Greater Vancouver Water District
New Westminster Medical Building - 609-625 5th Avenue	New Westminster	\$9,500,000	63,658	\$149	N/A	Bosa Group (0853373 B.C. Ltd.)
Northshore Corporate Centre - #301 - 111 Forester Street	North Vancouver	\$5,025,000	12,750	\$394	6.3%	Starmark Properties Corp.

Metro Vancouver office statistics

Q3 2008	Number of buildings	Total office area (sq ft)	Total vacancy (%) mid-year 2009	Total availability (%) mid-year 2009	Average operating costs & taxes/sq ft	Average triple net lease rate/sq ft
Downtown Core	144	20,095,460	3.9%	7.3%	\$14.00	\$35.00
Broadway Corridor	62	3,513,024	4.7%	5.4%	\$11.50	\$20.00
Surrey	26	2,113,735	18.9%	19.0%	\$13.00	\$19.00
Richmond	70	4,454,102	14.6%	17.3%	\$10.00	\$16.00
North Shore	27	1,466,893	6.7%	11.0%	\$12.00	\$19.00
New Westminster	15	767,135	11.4%	18.5%	\$12.00	\$17.00
Burnaby	90	7,730,306	7.5%	10.0%	\$11.00	\$21.00
Gastown	22	1,127,162	4.6%	7.2%	\$9.50	\$20.50
Yaletown	33	1,944,656	8.4%	12.1%	\$12.00	\$21.00
Total Metro Vancouver	526	45,593,625	7.0%	10.0%	\$11.25	\$20.50

Notable office lease deals - Mid-year 2009

Property address	Municipality	Tenant	Size (sq ft)	Lease Type
1138 Melville Street	Vancouver - Downtown	Public Works & Government Services of Canada	155,221	Renewal
13401 108th Avenue	Surrey	Translink	81,362	Renewal
815 Hastings Street West	Vancouver - Downtown	Citizens Bank	61,785	Renewal
250 Howe Street	Vancouver - Downtown	Fraser Milner Casgrain LLP	51,676	Headlease
2889 12th Avenue East	Vancouver - Broadway	Art Institute	40,000	Headlease
401 Georgia Street West	Vancouver - Downtown	HSBC	31,187	Renewal
88 6th Street	New Westminster	BC Land Title & Survey	27,000	Renewal
1055 Hastings Street West	Vancouver - Downtown	Spectra Energy	26,626	Renewal
333 Terminal Avenue	Vancouver - Downtown	Contemporary Security Canada	26,000	Headlease
6190 Agronomy Road	Vancouver - Broadway	University of British Columbia	19,218	Sublease

Station will comprise of six buildings at 80,000 sq ft each. While a mixed used building is also planned at No. 6 Road & Steveston Highway, containing a 300,000 sq ft office component.

North Shore

Over the first half of 2009, lease rates posted a minimal decrease, as landlords continued to compete with sublease space. New office space added to the market, along with a significant amount of tenants downsizing their operations, contributed to the vacancy rate steadily rising from the beginning of the year at 2.8% to a current rate of 6.7%. With excess sublease space on the market, the availability rate is currently 11.0%. Absorption in the market remained steady with -24,230 sq ft over the first six months of the year.

Newalta Corp has leased 14,750 sq ft at 111 Forester Street, Hatfield Consultants Partnership leased 12,875 sq ft at 850 Harbourside Drive,

DTZ Barnicke Vancouver Limited.

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and Global Market Insite leased 5,000 sq ft at 221 West Esplanade. A large amount of new office supply will make its way to the market before 2009 comes to a close. North Shore Corporate Centre, located at 111 Forester Street, 30,000 sq ft was completed early in the year. The Harbourside Corporate Centre at 850 Harbourside Drive, saw 40,000 sq ft come on stream at the end of July. More than 28,000 sq ft will come to the market when 1133 Lonsdale Avenue reaches early completion in October.

Looking Ahead

With recent economic events, many unsure investors and speculators have left the market, leaving only serious buyers. This has resulted in a slowdown of transactions and has left some vendors in tight financial positions. In the future we expect to see more product come onto the market as a result of problems refinancing mortgages at the new higher interest rates.

*Data sourced from RealNet Canada Inc.

