Edmonton Office Market Report

Year End 2008

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Edmonton Office Overview

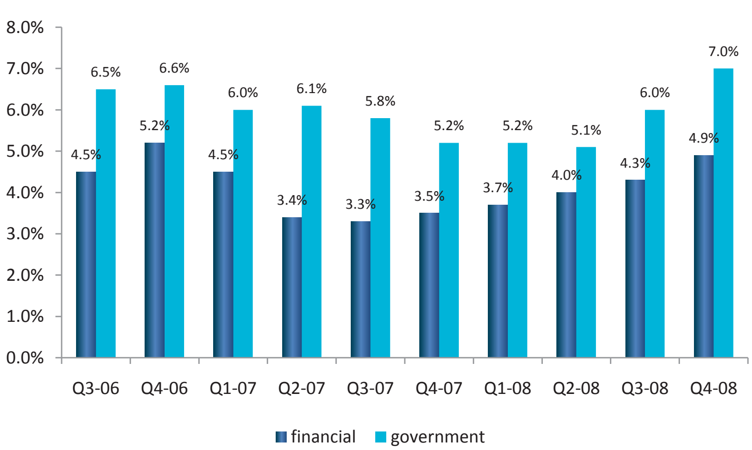
Vacancy 6.5%

In recognition of our client's evolving business needs, Avison Young is committed to providing the most up-to-date market information to better understand and serve those needs. In a marketplace as dynamic as Edmonton, it is critical to remain as informed as possible and we are pleased to provide you with our year end office market report.

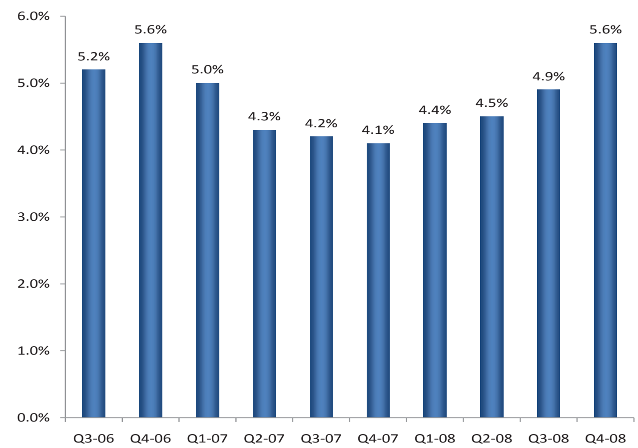
A total of 319,177 square feet (sq. ft.) was added to the overall office market inventory in the second half of 2008. This is attributed to new developments and converted properties coming online during the third and fourth quarters. This additional inventory is accounted for through 209,012 sq. ft. of new development in the South Side District, 30,195 sq. ft. in the West End District, 60,000 sq. ft. in Sherwood Park and another 19,970 sq. ft. in the Government District due to a building being re-measured in accordance with BOMA 1996. Significant developments which resulted in these inventory increases will be noted later in the report under each specific market summary.

There is a visible trend of decentralization emerging in the Edmonton office market. With downtown leases rolling over, tenants that once came downtown because of higher quality buildings offering attractive rental rates, more amenities and proximity to other professionals which created an enhanced value proposition, are now facing significantly higher rental rates on renewals. Tenants may relocate to the suburban markets to take advantage of lower rental rates as well as better parking ratios than their existing downtown facilities. An example of this is GE Fanuc moving from Oxford Tower downtown to the Market at Magrath, a new south side development.

Edmonton Downtown Vacancy Rate By District



Edmonton Overall Downtown Vacancy



This trend is further magnified due to a continued low supply of large contiguous blocks of office space (>20,000 sq. ft.) in the downtown financial and government sectors. As a result, many companies are often forced to consider new development locations in the suburban market; especially if they require quick possession as several suburban buildings built on a speculative basis are available for immediate fixturing and occupancy. This will also cause an increase in the amount of sublease space being offered to market as tenants look to maximize the utility of their space.

With the anticipated additions to the downtown inventory over the next few years, such as the 10830 Jasper Avenue Building (formerly the Professional Building) and EPCOR Tower, this shortage of large contiguous blocks will receive some relief. However, with relatively high construction costs and subsequent leasing costs for such projects, we anticipate the cost discrepancy to continue to drive companies, that do not need to be in the core, to consider suburban alternatives.

Downtown Office Market

Vacancy 5.6%

The buildings tracked in the downtown office district and used as the foundation of this section are divided into two distinct districts. The largest district, comprising of almost half of the total office space in Edmonton, is the Financial District. The Financial District's inventory is classified into four categories ranging from AA to C class which are based on their offered amenities, construction/renovation date, location, etc. Making up the remainder of the downtown office market is the Government District which is divided into classes A through C.

Vacancy rates increased from 4.5% mid-year to 5.6% at year end due to the emerging trend of decentralization resulting in negative net year-to-date absorption of 68,305 sq. ft.

Downtown Financial District

Vacancy 4.9%

In the third quarter, the Financial District posted positive absorption numbers, showing gains in the A and C building classes. The fourth quarter experienced negative absorption of 61,488 sq. ft. and the overall inventory of the Financial District stayed constant from mid-year at 9,377,496 sq. ft. After only 8,403 sq. ft. of positive net absorption throughout the third quarter and negative absorption in the fourth, 423,658 sq. ft. of head lease space and 38,913 sq. ft. of sublease space remains on the market at year end.

AA class buildings saw an increase in vacancy from 3.0% at the beginning of the second quarter to 4.6% in the third quarter and finishing the year at 5.0%. Class A building vacancy dropped significantly from 2.8% down to 2.0% in the third quarter but increased to 2.3% in December. These changes in Edmonton's higher quality building classes can be largely attributed to such deals as Great West Life securing 35,000 sq. ft. of space in the newly constructed Cecil Place, an A class development that is also home to the new Sobeys Urban Fresh on the main floor, and their impending 27,000 sq. ft. departure from Bell Tower. In the B classification there was a negative absorption of 10,266 sq. ft., moving vacancy up to 4.7% in the third quarter and a further 9,224 sq. ft. of negative absorption in the fourth quarter, bringing year end vacancy to 5.3%. C class buildings experienced positive absorption of 41,642 sq. ft. decreasing third quarter vacancy to 20.7%. Over the remainder of the year, the C class buildings experienced 25,902 sq. ft. of negative absorption, thus increasing vacancy to 26.7%. Significant transaction volume within the C class downtown Financial District occurred in the Revillon Building, where Weir Bowen LLP leased approximately 15,000 sq. ft., vacating Bell Tower, and the Federal Government leased 17,000 sq. ft. in Beaver House (10158-103 Street). This will kick start the revitalization of Beaver House and create a unique and exciting leasing opportunity in a downtown Edmonton landmark.

At year end Justice Canada issued two Requests for Proposal (RFP) for a total of 110,000 sq. ft. of contiguous office space in the financial core. Qualico Developments was the successful bidder and their new development, EPCOR Tower, will house both requirements. After a dynamic environment in prior years, Edmonton's office market rental rates have stabilized over the last three quarters. As overall vacancy continues to moderately increase we have seen asking rates within AA and A class buildings leveling off in the second half of 2008 to $38.00 and $32.00 per sq. ft. respectively. B Class buildings are averaging $22.00 per sq. ft. C class buildings witnessed a boost in asking rates, reaching up to $20.00 per sq. ft. at the end of 2008.

Downtown Government District

Vacancy 7.0%

Vacancy in the Government District increased 0.9% in the third quarter and further increased to 7.0% by the end of December. This can be attributed to both an increased inventory of 19,970 sq. ft., a negative absorption of 36,672 sq. ft. in the third quarter and a further 47,220 sq. ft. of negative absorption in the fourth which is due to tenants such as Capital Region Housing Board vacating 20,000 sq. ft. in the 105th Street Building after purchasing Fun Sun Place on 112th Street. Government B class was the only classification to

Q4 2008 Downtown Office Survey Summary									Q4 2007
District	Inventory (Sq.Ft.)	Direct Lease (Sq.Ft.)	Sublease (Sq.Ft.)	Vacancy Direct (%)	Vacancy Sublease (%)	Vacancy Overall (%)	Quarterly Absorption (Sq.Ft.)		Vacancy Overall (%)
Financial									
AA	3,562,060	154,674	24,308	4.3%	0.7%	5.0%	(13,821)		4.3%
A	3,899,807	80,427	8,605	2.1%	0.2%	2.3%	(12,541)		1.7%
B	1,482,611	73,129	6,000	4.9%	0.4%	5.3%	(9,224)		1.9%
C	433,018	115,428	-	26.7%	0.0%	26.7%	(25,902)		20.9%
Subtotal	9,377,496	423,658	38,913	4.5%	0.4%	4.9%	(61,488)		3.5%
Government									
A	2,403,848	257,163	3,048	10.7%	0.1%	10.8%	(51,263)		8.4%
B	1,525,230	30,207	643	2.0%	0.0%	2.0%	7,606		2.6%
C	766,321	34,275	3,563	4.5%	0.5%	4.9%	(3,563)		0.4%
Subtotal	4,695,399	321,645	7,254	6.9%	0.2%	7.0%	(47,220)		5.2%
Total Downtown	14,072,895	745,303	46,167	5.3%	0.3%	5.6%	(108,708)		4.1%

achieve a positive absorption in the fourth quarter with 7,606 sq. ft. of space being leased.

The majority of the 321,645 sq. ft. available in the Government District can be found in the Devonian Building which has been re-measured in accordance with BOMA 1996 to be 178,833 sq. ft. and remains vacant. With relatively few transactions in the second half of 2008, this market has also experienced a stabilization of rental rates. There were a few high profile, large scale transactions namely ATCO's 285,000 sq. ft. renewal in ATCO Centre and AIMCo.'s lease of 60,000 sq. ft., their subsequent 20,000 sq. ft. expansion and ING Insurance deal for 60,000 sq. ft. in the 10830 Jasper Avenue Building.

Suburban District

Vacancy 8.1%

The suburban office market has been extremely active for the last several years, the third and fourth quarters of 2008 were no exception. It experienced the addition of 113,227 sq. ft. of A class inventory in the South Side District which includes Phase II 1420 Parsons Road Building and The Market at Magrath, resulting in a total inventory of 7,904,015 sq. ft. The total absorption for the suburban market in the third quarter was an impressive 262,766 sq. ft. followed by 82,603 sq. ft. of negative absorption in the fourth quarter ending the year at 197,754 sq. ft. of total absorption. This led to a vacancy rate of 8.1% at year end.

The 149th Street District experienced a high year-to-date net absorption level of 54,468 sq. ft. This absorption drove the vacancy down in the third quarter, resulting in a tight market of 5.0% vacancy at year end. Following close behind is the 118th Avenue/ Kingsway District which accounted for 22,389 sq. ft. of overall positive absorption in the third quarter and experienced negative absorption of 15,996 sq. ft. in the fourth quarter, decreasing vacancy from 9.2% at mid-year finishing at 7.1%. The Whyte Avenue District experienced an increase in vacancy with 12,530 sq. ft. coming onto the market, resulting in a 2.6% vacancy rate at the end of December.

The main story in the Edmonton office market continues to be the South Side District. Despite positive net absorption of 184,296 sq. ft. for 2008, the vacancy rose to 9.9% due to a continued high level of development activity. Despite various

Net Rental Rates by District and Class (per sq.ft.)

Downtown	AA	A	B	C
Financial	$34-$38	$28-$32	$18-$25	$15-$20
Government	$32-$35	$20-$25	$18-$22	$14-$18
Suburban	**New**	**A**	**B**	**C**
South Side	$25-$29	$20-$23	$16-$20	$12-$16
Eastgate	$25-$29	$20-$22	$16-$18	$12-$14
Whyte Avenue	N/A	$28-$34	$20-$22	$12-$16
West End	$25-$29	$22-$24	$18-$22	$12-$14
149 Street	$25-$29	$22-$24	$18-$22	$12-$14
124 Street	N/A	$18-$22	$16-$18	$12-$14
118 Avenue/ Kingsway	N/A	$18-$22	$16-$18	$12-$14

requirements still in the marketplace and numerous developments under consideration, we anticipate that market conditions will cause developers to look for upwards of 60% of pre-leasing and strong covenants from tenants in order to move forward with any new development. Tenants will continue to look at new opportunities with cautious optimism as financing for developers continues to be a major factor in determining whether or not a development will proceed.

The Sherwood Park market also continues to expand with several developments underway. We have recently added the 60,000 sq. ft. building at 2134 Premier Way to our inventory.

Economic Overview

Canada saw a continued slowdown in growth through the third and fourth quarters of 2008, with the Bank of Canada decreasing their original real Gross Domestic Product (GDP) growth forecast from 1.8% to 0.6% in their October 2008 report. After moderate GDP growth of 1.3% in the third quarter, the Canadian economy looks to have contracted by 1.6% over the final three months of the year. The Consumer Price Index (CPI) also rose in the third quarter bringing inflation to 3.5% in response to higher crude and commodity prices. In the fourth quarter after a sharp depreciation of the Canadian dollar, weakened commodity prices and an oversupply driven oil price drop, inflation decreased to a healthy 2.0% as of November. To combat the global downturn and ease Canada's fall into recession in the fourth quarter, the Central Bank followed suit with other nations worldwide by making several cuts to its key interest rate which now sits at 1.0%. Commodity prices

Q4 2008 Suburban Office Survey Summary								Q4 2007
District	Inventory (Sq.Ft.)	Direct Lease (Sq.Ft.)	Sublease (Sq.Ft.)	Vacancy Direct (Sq.Ft.)	Vacancy Sublease (Sq.Ft.)	Vacancy Overall (Sq.Ft.)	Absorption Quarterly (Sq.Ft.)	Vacancy Overall (Sq.Ft.)
118 Avenue/ Kingsway	512,878	40,847	-	7.1%	0.00%	7.1%	(15,996)	13.8%
124 Street	861,574	60,748	7,945	7.1%	0.90%	8.0%	(14,012)	4.0%
149 Street	925,868	45,866	-	5.0%	0.00%	5.0%	(10,260)	10.6%
Eastgate	927,193	36,896	-	4.0%	0.00%	4.0%	(16,784)	4.2%
South Side	2,344,192	204,700	27,482	8.7%	1.20%	9.9%	(5,437)	6.8%
West End	1,030,725	22,830	26,893	2.2%	2.60%	4.8%	(8,224)	5.2%
Whyte Avenue	480,587	12,530	-	2.6%	0.00%	2.6%	(12,530)	0.2%
Sherwood Park	761,180	153,917	-	20.2%	0.00%	20.2%	640	NA
Total Suburban	7,904,015	578,334	62,320	7.3%	0.8%	8.1%	(82,603)	5.3%

have fallen dramatically since September as financial conditions worsened and the global purchasing power diminished, directly impacting the manufacturing and commodity sectors. This has most significantly impacted Alberta, where commodity exports represent such a heavy piece of provincial income.

Despite these changes nationally, Alberta continued to perform and has a projected annual real GDP growth rate of 0.6% for 2008. Edmonton and Calgary are experiencing expected GDP increases of 3.1% and 3.2% respectively. The Alberta energy sector is showing considerable signs of slowdown due to decreasing oil prices in recent weeks and subsequent announcements of the delay or cancelled construction of several oil extraction and processing facilities. This, combined with the continued softening of the commodity sector and significantly lower oil prices than forecasted, has Alberta's economy set to decrease by roughly 1.8% in 2009.

Non-energy sectors also slowed over the third quarter and have continued to do so throughout the fourth quarter. Most notable are the housing, multi-family and condominium markets where existing inventory sales and new starts have dropped significantly. In Alberta this appears to be a market correction after several consecutive record years from 2005 to July 2007 where total sales amounts nearly tripled in volume. Consumer retail sales growth is set to drop by at least 2.0% in the upcoming year.

The third quarter also saw a continued decrease in net interprovincial migration which now sits at 1.8%, slightly lower than the 10 year average of 2.1%. This comes as a response to the Alberta economic slowdown and lower costs of living in other areas of the country such as Saskatchewan where new energy projects have triggered a similar boom to that of Alberta, greatly increasing the job markets and housing demands. However, this is not a sign of stagnating population growth in Alberta which is evident from a 2.4% growth in the third quarter and ending the year up an estimated 2.1%. With the housing market correcting itself as noted above, housing prices are now deflating as more product hits the market and should result in increasing migration levels in the upcoming year.

Despite various signs of global economic slowdown, Alberta remains one of the best places in North America to find employment as year-to-date employment growth in Alberta remains the strongest in Canada at a rate of 2.9%. Edmonton's healthy work environment is clearly demonstrated by a decrease in the unemployment rate from 3.7% in October to 3.4% in November, while nationally unemployment increased 0.1% to 6.6%. A decreasing unemployment rate and above average GDP growth in the third quarter of 2008 created a continued demand for office space, especially as many companies are still dealing with facility requirements to accommodate rapid growth over the last several years.

The fourth quarter also saw the continued trend of closing call centres in the capital region, as GE Money announced it was closing its doors at the end of February 2009 and vacating their 100,000 sq. ft. location on St. Albert Trail and 131 Avenue. This call centre follows behind the Convergys and Dell call centre closures in 2008, clearly illustrating it is difficult to support this industry in a healthy economic climate.

As of October 1st, 2008 Alberta is poised to benefit from 1,218 planned major projects totalling $286.5 billion. Of those projects, 141 are related to commercial, retail and residential developments totalling $17 billion with approximately 50% of the 141 projects situated in the Calgary/Edmonton corridor. 64% of the total investment projects are energy sector related. While some projects have inevitably been delayed due to the decrease in oil and natural gas prices, it is undeniable that Alberta will still benefit from the enormous amount of regional investment projects still moving forward.

Notable Edmonton Lease Deals Q3 and Q4 2008

Tenant	Area Leased (Sq.Ft)	Building
AIMCo.	80,000	108th Street Professional Building
Solicitor General	65,000	Millbourne Professional Centre
Alberta Pension Association	60,000	Greenboro Building
ING Insurance	60,000	10830 Jasper Avenue Building
ClaimsPro	41,000	Jayman Building
Bennet Jones	40,000	Telus House
Great West Life	35,000	Cecil Place
GE Fanuc	30,000	The Market at Magrath
Enbridge Pipelines	27,000	Syneco Building
Weir Bowen LLP	15,000	Revillon Building

Annual Economic Growth Rate (GDP)

	2005	2006	2007	2008 Forecast
Canada	2.9%	2.8%	2.7%	0.7%
Alberta	4.6%	6.6%	3.3%	0.6%
Calgary	5.7%	6.9%	4.2% *	3.2%
Edmonton	3.7%	5.9%	5.5% *	3.8%

Source: Conference Board of Canada,Statistics Canada, EEDC
** Forecast*

Economic Indicators

Working Age Population (000's)

	2007	2008 (Aug.)
Canada	26,943	26,974
Alberta	2,729	2,787
Calgary	976	941
Edmonton	861	879

Labour Force (000's)

	2007	2008
Canada	18,189	18,212
Alberta	2,021	2,078
Calgary	700	745.3
Edmonton	614	650.8

Employment Rate (Annual % Change)

	2007	2008 (Est.)
Canada	2.2%	1.6%
Alberta	4.3%	2.7%
Calgary	1.4%	4.9%
Edmonton	6.5%	3.6%

Unemployment Rate

	2007	2008 (Est.)
Canada	5.9%	6.6%
Alberta	3.2%	4.1%
Calgary	2.9%	3.7%
Edmonton	3.9%	3.6%

Source: Statistics Canada

Featured Avison Young Listings

Beaver House
10158 103 Street
61,572 square feet available
Downtown Financial

First Edmonton Place
10665 Jasper Avenue
13,113 square feet available
Downtown Government

HSBC Building
10055 106 Street
1,965 square feet available
Downtown Government

Emerald Hills
Emerald Hills Drive & Clover Road
56,000 square feet available
Suburban Sherwood Park

Phase II 1420 Parsons Road
1420 Parsons Road
14,060 square feet available
Suburban South Side

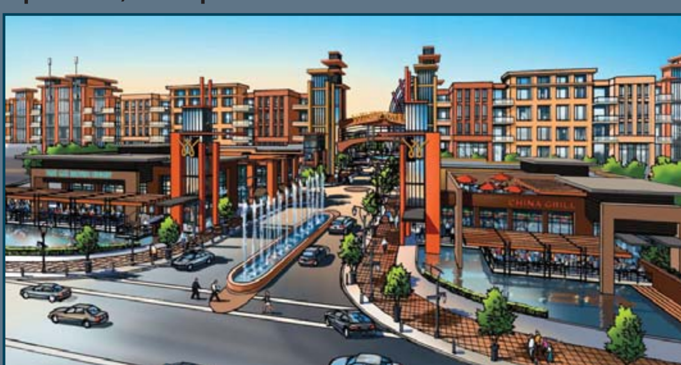
Gateway Village II
Calgary Trail & 29 Avenue
26,018 square feet available
Suburban South Side

Millbourne Professional Centre
Mill Woods Road & 38 Avenue
7,000 square feet available
Suburban South Side

Summerside Centre
1020 Parsons Road
17,352 square feet available
Suburban South Side

Currents of Windermere

Anthony Henday & Terwillegar Drive
Up to 205,500 square feet available



The Currents of Windermere is a master planned urban village set amongst a total of over 650 acres of commercial and residential development in the southwest corner of Edmonton with primary access directly off the new Anthony Henday ring road. This project will provide an abundance of amenities including large retail shopping centres, medical and professional services and planned community events to serve the growing area population and office tenants' needs. The urban village environment will house four office buildings providing over 200,000 square feet of leasable space within one of the most distinctive developments in Western Canada.

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