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Edmonton Office Market Report

1st Quarter 2010

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Direct vacancy falls, sublease inventory grows

The Edmonton office market has continued to demonstrate relatively strong and stable characteristics through the first quarter of 2010. The overall vacancy rate remained steady at 8.7%, showing only a small increase of 0.4 percentage points from the fourth quarter of 2009, and indicative of the overall health of the Edmonton economy when compared to other major centres across North America. Despite the consistency of the vacancy rate, the ratio between space that was available via head lease versus sublease continued to shift, as more sublease space was released to the marketplace.

The direct vacancy rate dropped from 7.5% to 7.2%, a small drop of 0.3 percentage points which is approximately 70,000 square feet (sf). This demonstrates businesses are continuing to make real estate decisions to fulfill their forthcoming needs. The sublease market witnessed a rise in its vacancy rate from 1.1% at the end of the fourth quarter in 2009 to 1.5%. The additional sublease inventory points to a continuing trend of companies looking to protect their bottom line costs by being more efficient in the amount of space they use.

Asking rental rates across the city continued to decline in the first quarter after falling through most of 2009, however at a more moderate rate. Downtown class AA buildings are asking an average of \$27 per square foot (psf), while class A buildings list at an average of \$23 psf. Despite the current vacancy rate stabilizing, it is anticipated that the declining of rental rates will slow through the remainder of 2010. In an attempt to maintain rental rates near their current levels, landlords are increasing inducements available to tenants in order to incent a relocation. Landlords are also motivated to maintain higher rental rates to maintain greater value in their real estate as a result of the majority of landlords re-investing in their properties with modernizations to building systems and common area upgrades.

Downtown Vacancy

7.6%

Suburban Vacancy

10.7%

Rental Rates

Absorption

(99,308)

Vacancy Rate and Market Numbers by City Sector - 2010 Q1

Sector (class)	Inventory (sf)	Overall Vacancy	Headlease Vacancy	Sublease Vacancy	Absorption (sf)	Average Asking Rates (psf)	Average Occupancy Costs (psf)
Downtown - AA	3,564,149	5.1%	4.5%	0.6%	(2,575)	\$27.28	\$16.18
Downtown - A	6,527,094	9.6%	7.5%	2.1%	(31,438)	\$23.35	\$14.28
Downtown - B	3,145,579	4.9%	3.8%	1.1%	(15,623)	\$19.28	\$11.75
Downtown - C	2,126,932	9.7%	9.3%	0.3%	12,561	\$18.65	\$10.66
Suburban - A	3,437,702	10.6%	8.2%	2.4%	7,046	\$20.44	\$12.03
Suburban - B	3,805,846	10.9%	9.8%	1.1%	(100,408)	\$16.30	\$10.01
Suburban - C	1,067,543	10.0%	8.0%	2.0%	31,129	\$12.42	\$9.52
Total	23,674,845	8.7%	7.2%	1.5%	(99,308)		

Downtown



Canadian Western Bank Place is a class A building located in the financial district.

Financial District 7.2%

Vacancy increased in the financial district during the first quarter, with a number of notable sublease listings featured in the market as medium to larger sized organizations continued to re-evaluate their space requirements for 2010. Vacancy for class AA space continued to remain low at 5.1%; however, class A space saw a notable increase in the vacancy rate up to 6.5%; nearly double the 3.8% reported at the end of 2009. Class B space also reported an elevated vacancy level, up to 7.6%. A large portion of the vacant space in the financial district is located in class C buildings, such as the Confederation Building (10355 Jasper Avenue) and the Former TD Bank Building (10004 Jasper Avenue). Both buildings are for the most part vacant and present interesting redevelopment opportunities for larger tenants looking for a chance to either consolidate space or move their business within the downtown core at a discount rate.

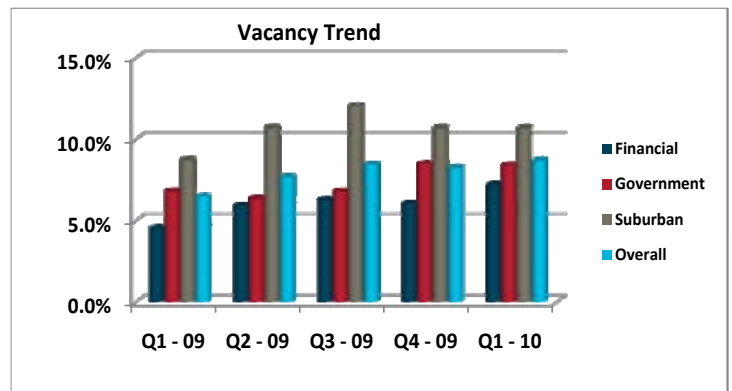
Asking lease rates in the financial district declined significantly in the first quarter. The decrease in asking rates however is expected to begin to stabilize in the financial district for the remainder of 2010.

Government District 8.4%

The government district continues to remain resilient despite the addition of a new office building adding more inventory to a market where the competition for tenants was already strong. The Intact Building (10830 Jasper Avenue) was re-introduced to the market in the new year and added 223,000 sf of class A space to the west side of downtown. With most of the class B and C buildings being leased by the provincial government, vacancy for those classes remains low at 2.4% and 3.3% respectively. At 14.3% vacancy, with the Intact building accounting for nearly 20% of the vacancy, class A buildings offer a high number of good opportunities for businesses that are looking to establish a downtown presence.

Asking lease rates for class A space in the government district continue to be on par with similar space in the financial district at an average of \$23 psf. Class B and class C space lease rates remain similar to the financial district as well at \$19 and \$18 psf respectively.

Moving forward, it is expected that lease rates in the downtown market will begin to stabilize and will remain fairly steady as landlords will continue to offer creative incentive packages to attract tenants to their buildings in 2010. Lower construction and renovation costs will allow for the redevelopment of older properties which will also offer interesting opportunities for businesses to move into upgraded space.



Sector (class)	Inventory (sf)	Overall Vacancy (sf)	Headlease Vacancy (sf)	Sublease Vacancy (sf)	Total Vacancy	Quarterly Absorption (sf)	Average Asking Rates (psf)	Average Occupancy Costs (psf)
Financial - AA	3,564,149	182,365	160,135	22,230	5.1%	(2,575)	\$27.28	\$16.18
Financial - A	3,900,246	253,119	155,701	97,418	6.5%	(33,678)	\$23.29	\$15.86
Financial - B	1,483,161	112,990	85,344	27,646	7.6%	(22,010)	\$18.96	\$11.19
Financial - C	1,010,955	168,491	162,064	6,427	16.7%	13,297	\$18.86	\$10.43
Government - A	2,626,848	375,595	335,563	40,032	14.3%	2,240	\$23.38	\$12.34
Government - B	1,662,418	39,663	33,283	6,380	2.4%	6,387	\$19.65	\$12.38
Government - C	1,115,977	36,769	36,769	0	3.3%	(736)	\$18.17	\$11.48
Total	15,363,754	1,168,992	968,859	200,133	7.6%	(37,075)		

Suburban

Suburban Office District 10.7%

The vacancy rate for Edmonton's suburban office market remained steady at 10.7% as tenants continued to look for value outside of the downtown area while the market witnessed new office space being completed in both the southside and Sherwood Park districts. The incentive of lower lease rates, free parking, and diverse options have continued to be the driving factors in attracting tenants to the suburbs.

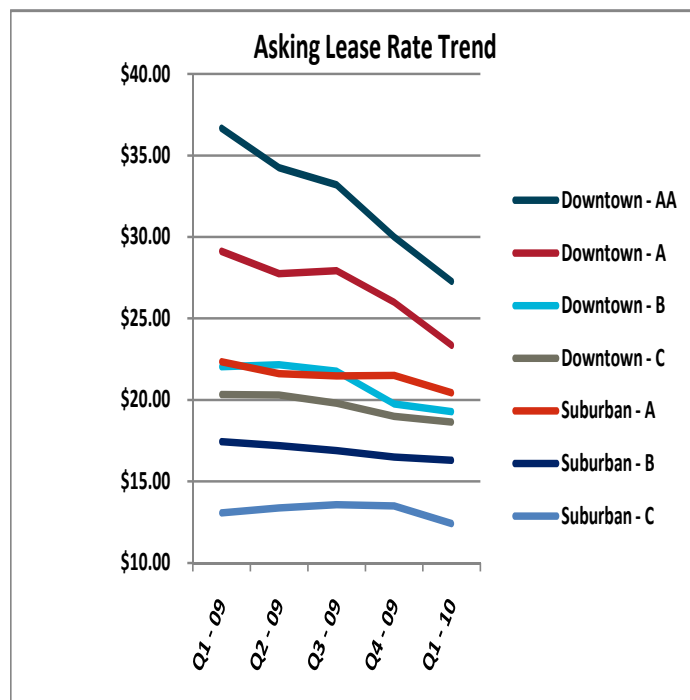
The suburban office market is firmly divided between districts that have maintained vacancy rates in the low to mid single digits compared to districts that now have vacancy rates in the low to mid teens. The 118 Avenue/Kingsway, 149 Street, Eastgate, and Whyte Avenue districts all continue to display a healthy demand for office product. Competition among new and existing buildings for tenants in the southside and Sherwood Park districts is the primary factor contributing to higher vacancy rate in those areas. Vacancy rates in both districts have decreased over the past three months; however it is anticipated that it will still take some time before the market can absorb all of the new space that has been built over the past year. In the west end, an influx of sublease space has been the driving force behind a higher vacancy rate. The 124 Street district is experiencing most of its vacancy in class B and C buildings where tenants that had occupied smaller spaces between 1,000 sf and 3,000 sf are moving to other areas in the city.

Asking lease rates for class A office space across all districts remained steady through the first quarter with only slight variances being reported from the end of 2009 despite tight competition for tenants. As with landlords in the downtown office market, suburban landlords are using a variety of incentives to attract tenants to their properties rather than decreasing asking rents. This points to a healthy and competitive market place with stabilizing fundamentals although landlords of newly constructed buildings are slowly approaching their pro forma limits.



Intuit Building at 7008 Roper Road in the southside district.

Development in the suburban market continues to progress with most of the growth occurring in the southside and Sherwood Park districts. In the last six months of 2009, 77,000 sf of new office space was added to the market between the two districts.



Sector (class)	Inventory (sf)	Overall Vacancy (sf)	Headlease Vacancy (sf)	Sublease Vacancy (sf)	Total Vacancy	Quarterly Absorption (sf)	Average Asking Rates Class A (psf)	Average Occupancy Costs Class A (psf)
118 Avenue/Kingsway	510,249	25,252	25,252	0	4.9%	7,777	\$20.25	\$14.16
124 Street	862,574	112,386	85,482	26,904	13.0%	(23,445)	\$20.67	\$14.48
149 Street	967,646	55,680	51,059	4,621	5.8%	(15,827)	\$15.00	\$9.75
Eastgate	997,433	29,235	29,235	0	2.9%	(481)	\$18.50	\$9.40
Southside	2,738,434	359,457	290,098	69,359	13.1%	27,498	\$21.06	\$11.81
West End	1,051,096	154,314	125,521	28,793	14.7%	(40,466)	\$17.00	\$10.78
Whyte Avenue	480,587	36,590	34,968	1,622	7.6%	(14,464)	\$26.50	\$15.66
Sherwood Park	703,072	115,145	102,557	12,588	16.4%	(2,825)	\$20.33	\$7.50
Total	8,311,091	888,059	744,172	143,887	10.7%	(62,233)		

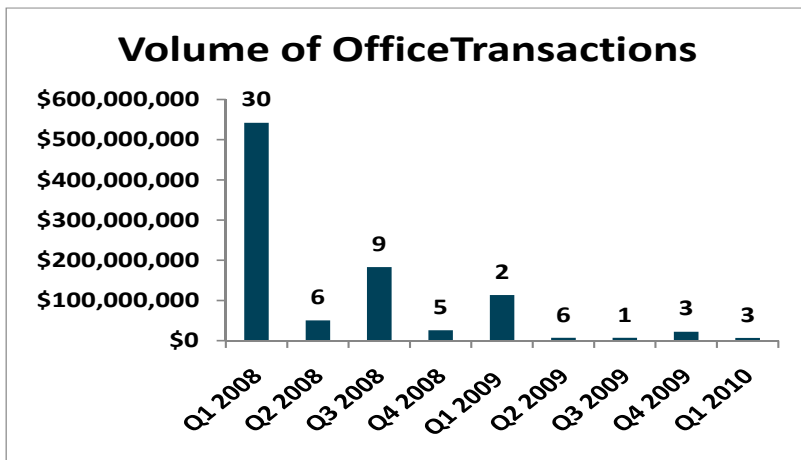
Edmonton Office Investment Market

A limited amount of product has hampered the ability of deals to be completed in the Edmonton office investment market at the beginning of 2010 with only three transactions taking place for a total of \$7.1 million. The limited movement has only served to confirm that the trend that has taken hold in the previous three quarters of holding onto properties until the market recovers completely will continue well into 2010.

Despite the reluctance of owners to put properties on the market, there are still a few significant properties that are currently on the market. Such properties include the former ING building (10130 103 Street) in the financial district is a class A office building that was built in 1981 with just over 258,000 sf of leasable space. In the suburban market, the Triton Building (8525 Davies Road) has 30,000 sf of office space that would suit one or two larger tenants looking for space in the south side district with a preference to own its premises.

Of the properties that did sell, the most notable was the Kelly Ramsey Building (10040 101A Avenue), located in the centre of the financial district. The building experienced a fire in 2009 and suffered damage which prior to the sale had not been repaired. The building is significant to the Edmonton downtown in both a historical and cultural sense as the building was built almost a century ago and was home to several restaurants offering foreign cuisine. Since the purchase, cleanup of the building has already started and redevelopment of the property is scheduled to commence shortly with the new landlord committed to keeping the building shell in its original integrity. The final sale price was \$4,037,500.

In the short term, the difference in expectations between buyers and sellers, combined with the reluctance to sell of owners, is expected to keep activity at a low level. As the market continues to strengthen, vendors will continue to demonstrate patience until the gap between buyers and sellers expectations contracts.



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