AVISON YOUNG

REAL ESTATE

FORECAST 2005

TORONTO 2

MONTREAL 5

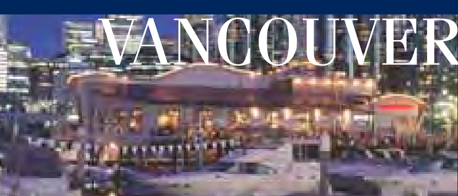
QUEBEC CITY 8

WINNIPEG 10

REGINA 13

CALGARY 16

EDMONTON 19


VANCOUVER 22

All Canadian markets are experiencing strong demand for investment property from local, national, and international investors. Leasing activity meanwhile varies across the country, depending on local economic conditions.

FORECAST 2005

GREATER

TORONTO

AND AREA

Despite an improvement in the latter part of 2004, stubbornly high vacancy rates have been a major issue for landlords in the Greater Toronto Area market. Landlords will have to continue offering incentives to attract tenants while waiting for the improved job creation numbers and red-hot economy to translate into significant demand for space.

Mark P. Fieder, *Managing Director*

INVESTMENT OVERVIEW

The Greater Toronto Area (GTA) investment market was robust in 2004, with large portfolio sales dominating the activity. Buyers were interested in all sectors, while supply of good quality product remained tight. We anticipate that this boiling market will simmer in 2005 with more product becoming available as vendors look to lock in profits.

Office

Despite a soft leasing market with high vacancy rates, the paradox continues with the acquisitive appetite of buyers remaining strong for prime buildings throughout the GTA. Foreign investors have been actively looking to acquire high-profile, trophy properties in the downtown core to add to their portfolios. The top 3 transactions in 2004 to date were all sold to foreign investors.

Capitalization rates have compressed to about the 7.5% - 8.5% range with yields continuing to slide. A small market correction could take place in 2005 if interest rates rise or vendors decide to bring more supply to the market and try to lock in gains at current prices.

Retail

The retail market has had a resurgent year in 2004 as investors embraced this sector and pushed yields down to the 7% - 8.5% range, a significant decrease from a year ago.

The major retail news in 2004 was the opening of the 1.2 million square foot Vaughan Mills Centre, Toronto's first new enclosed regional shopping centre in over 14 years.

With consumer spending on the rise, scarce supply in the other real estate sectors and yields still considered attractive relative to other investment instruments, we anticipate good quality retail product will remain a desirable asset class for both domestic and foreign investors in 2005.

Industrial

The Greater Toronto Area industrial investment market saw unprecedented activity in 2004. Investors and users have been taking advantage of favourable interest rates and supply has become increasingly tight. Some investors are moving further down the chain to source product and are buying land to develop and lease themselves.

There were more than 330 sales of industrial buildings (over $1 million) in 2004, with three sizeable portfolios being sold (Orlando, Pauls, Menkes). Total volume amounted to approximately $1.6 billion, up from $1 billion in 2003.

While 2005 will continue to be a period of heated activity around industrial product, in the longer term this sector will likely be the most sensitive to negative effects on manufacturing and exports due to a stronger Canadian dollar and rising interest rates.

Multi-Residential

Historically low interest rates are converting many renters into purchasers. Despite this, demand for better quality apartment buildings has been strong, though properties have been taking longer on average to sell. Foreign interest has permeated this sector as well, with 2004's biggest deals at Parkway Forest Drive for over $180 million and Fountainhead Road for $111 million being sold to an Israeli group.

5000 Yonge Street

The purchase of 5000 Yonge Street, a 542,000 sq.ft. office building by German investors for over $181 million highlighted a year of strong foreign investment interest in Toronto real estate.

48 Yonge Street

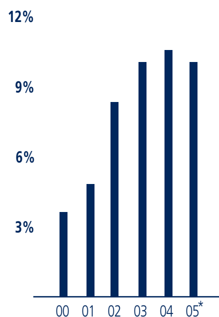
48 Yonge Street, a 110,000 sq.ft. office building was leased and sold by Avison Young.

In 2005, all eyes will be focused on the continued effects of the high Canadian dollar on the manufacturing and distribution sectors of the economy and how this stress will affect demand for industrial space. **Martin Dockrill,** *Managing Director – Mississauga*

20 Toronto Street

Avison Young sold this 155,000 sq.ft. office building located in the historic corridor of Toronto's Financial core.

TORONTO
downtown class 'A' vacancy
*projected



550 Petrolia Road

Avison Young represented an international cosmetics company in leasing approximately 200,000 square feet of Industrial space at 550 Petrolia for their new distribution centre.

Toronto's immigrant population is expected to grow significantly in the next three years, which will provide a substantial pool of renters for landlords. As well, increasing mortgage rates may prohibit many renters from entering the home ownership market. The market correction that was widely expected in 2004 did not happen, and we predict investors will continue to show interest in the multi-residential sector in 2005.

LEASING OVERVIEW

Office Market

The latter part of 2004 showed a decline in vacancy rates in the Greater Toronto Area. However, most of the absorption has been in the suburbs, with Downtown remaining essentially flat. Sublease space has declined, but is still abundantly available. We see the GTA West market as the main driver of activity as tenants look for value and relief from the exorbitant commercial property taxes in the Financial Core and Downtown Fringe sub-markets.

The sustained moderate absorption trend that began in early 2004 bodes well for landlords, but they will continue to grapple with high vacancy rates in 2005, and tenant inducements will still be a necessary stimulus to generate significant activity in the market.

Retail Market

Vaughan Mills Shopping Centre opened up in the fall of 2004, and the 1.2 million square-foot behemoth is already 93% leased. Consumer spending in the GTA leads the nation and many high-end retailers have established or increased their presence in the Toronto market. European retailers such as H&M and Olsen have been increasingly interested in Toronto.

There has been a lot of movement in rents on trendy Bloor West, with nationals moving in and smaller independents moving out. Rents in this district are in the $150 - $180 per-square-foot range.

We expect the retail industry to remain bullish in 2005. A key determinant will be the effect of rising interest rates on the strong housing market, as any negative effect would have repercussions on retailers such as home furnishings, electronics, appliances and home office products.

Industrial Market

At the end of 2004, the GTA estimated year-end vacancy was 5.0% out of a total inventory of approximately 700,000,000 square feet. New supply reached approximately 10 million square feet at the close of 2004 in response to demand for clear heights of at least 28 feet, superior shipping facilities and the overall limited supply of high quality space.

There is a confirmed 5.2 million square feet of new supply for 2005, 65% of which is speculative. As a result, availability will rise over the next six months, as demand though strong, will not match levels of new supply. Rents will generally remain at current levels moving forward. The upward rental pressure, provided by rising land prices and construction costs, will largely be offset by speculative developments with significant vacancy.

MONTREAL

The market continues to diversify with more players entering the market. 2005 will be another healthy yet stable year for Montreal real estate.

Tom Godber, *Managing Partner*

INVESTMENT OVERVIEW

Office

By November of 2004 there were 40 office transactions over $1 million generating a total value of $587 million, up from $460 million transactions in 2003. Capitalization rates for downtown class 'A' and prestige buildings are between 8% and 8.5% and 9.5% for class 'B' buildings. The rates in the suburban markets range between 9% and 10%.

A great number of investment transactions took place this year as a result of low interest rates. This momentum may die down in 2005 if the Bank of Canada continues to raise interest rates. El-Ad purchased Le Nordelec buildings consisting of 1,000,000 square feet of leasable area for $42 million or $42 a square foot. Alexis Nihon REIT acquired four properties in the Borough of St-Laurent for $54.4 million. The portfolio consists of class 'A' and 'B' office, industrial and retail assets totaling 608,000 square feet.

As new diversified groups enter the market in 2005, local owners will be enticed to lock in their gains.

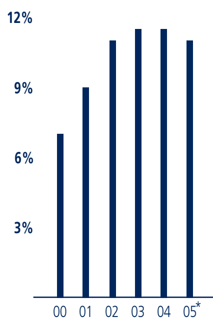
7777 Decarie Boulevard

Avison Young sublet 136,000 square feet of prime office space for Ericsson Canada.

Retail

The retail market was the most active investment market in 2004. By November of 2004 there were 37 transactions generating a total value of $541 million. Last year's retail transactions totaled $233 million. The capitalization rate for regional shopping centres is 7.5% and 10% for both power centres and community shopping centres. One anomaly and a true success story in 2004 was the transaction whereby Bentall Capital LP purchased on behalf of the British Columbia Investment Management Corporation Marché Central, Quebec's largest power centre for more than $300 million at a cap rate below 6%. Old Navy, a division of clothing retailer Gap Inc., entered the Quebec market in 2004 with seven store openings, as did the Brick. 2005 will see continued growth in the retail investment side.

MONTREAL
vacancy
*projected



Industrial

By November of 2004 there were 39 transactions over $1 million generating a total value of $235 million. At the end of 2003, the value of industrial transactions totaled $205 million. With interest rates low and a healthy economy, many corporations are trying to buy rather than lease. As a result there is strong demand from buyers and a shortage of product for sale. Major sale transactions include Alexis-Nihon REIT's acquisition of the GE Grassi industrial portfolio for $35.9 million. The portfolio consists of 749,300 square feet of leasable area. General Motors will get $53 million for 10,350,000 square feet of land in Boisbriand, which was home to Quebec's only car assembly plant for 39 years. The land will be converted into a commercial and residential district with an adjacent industrial park.

In fact, the entire region north of Montreal is poised for re-development. In addition to the former GM land, Mirabel Airport now services 25 cargo carriers; all passenger flights have been transferred to Pierre Elliott Trudeau Airport in Dorval. The area has already been zoned for industrial use.

The increase in the value of the Canadian dollar relative to the American dollar is expected to continue into 2005. This will reduce the exports of some low-margin manufacturers resulting in an increase in vacancies in older, low ceiling-height industrial buildings used for light assembly.

Montreal's commercial real estate market was very strong in 2004. Investment sales were up in every sector relative to last year's numbers. 2005 should see continued growth in all sectors.

LEASING OVERVIEW

Office Market

2004 was the year in which government subsidized rent disappeared.

Since 2000 there has been a flurry of new office buildings added to the market however growth of inventory has finally subsided, largely due to the end of the government subsidies for research and development and e-commerce related activities. The only significant addition has been the completion of Phase 2 of E-Commerce Place with 390,000 square feet. Consequently, the vacancy rate went down from 12.8% to 12.0%. At the same time, the amount of office space available for sublease has decreased substantially from last year, from 1,220,000 square feet, or 1.6% of the vacancy rate, to 600,000 square feet, or 0.9% of the vacancy rate. The Montreal economy was strong in 2004 and all the relocations from older buildings to the new buildings did not translate into negative absorption: the market showed a positive absorption of more than 530,000 square feet in 2004.

More than half of this positive absorption (approx. 285,000 square feet) occurred in the suburbs confirming the fact that the biotech/pharmaceutical and telecom industries are experiencing renewed growth.

Large contiguous blocks of space are available and there is fierce competition among landlords to attract these large tenants. The net effective rates for large transactions has moved from the low teens to the $10 range. For single floor occupants or slightly smaller tenants, rental rates and net effective rates remained relatively stable in 2004.

It is predicted that the Montreal labor market will continue to remain strong until 2007: close to 55% of the positions to be filled will be due to attrition and 45% will be new positions created. Combined with the lack of new construction, this should have a positive impact on the demand for office space. Consequently, in 2005, the vacancy rates should continue their downward trend and rental rates should move up slightly.

Retail Market

Retail sales soared to record highs in 2004. Statistics Canada reported that in August the retail sector posted gains in all but one month in 2004, and saw improvement in five out of eight retail sectors. Some landlords have forced stores in the Greater Montreal area to stay open until nine on weeknights. This will have a positive effect on the economy in terms of job creation.

Looking ahead to 2005, retail sales will continue to perform well. Tenants scheduled to open new locations are Starbucks and Sam's Club who will compete head to head with Costco.

Industrial Market

The Montreal industrial market remains stable. Vacancy rates are currently at 5%; not far off from 4.8% reached at the end of 2003. Montreal's economy is doing well, consequently rental rates have edged up slightly this year. With low interest rates, there is a tendency for tenants to look at buying rather than leasing, but quality buildings for sale are in short supply.

Looking ahead to 2005, several 100,000+ square foot tenants will finalize negotiations in the New Year, which should put downward pressure on vacancy rates.

Vaudreuil-Dorion

Avison Young is the exclusive sales agent for 3.8 million square feet of land in Vaudreuil-Dorion.

Quebec City

It has been a prosperous year for Quebec City's commercial real estate market. Vacancy rates have remained low combined with increased inventory levels. 2005 is sure to be an exciting year as construction continues and more companies move into the Quebec City market. **Claude Pellicelli,** *Managing Partner*

INVESTMENT OVERVIEW

The province of Quebec's capital, Quebec City, is growing. The city has 14.7 million square feet of office space and is adding to it. By 2005, 500,000 square feet of new office space will be added to the market. This year the Quebec City market has undergone a great deal of construction and therefore substantially increased their building inventory. The vacancy rate in the downtown area is currently 3.5% and vacancy in the suburban district is 10%. Quebec City has seen an increase not only in building inventory but also in job creation; between 1997 and 2003 51,000 jobs were created. Quebec City is a new home to a growing number of high tech businesses supported by Quebec City's research centres. Quebec City is known around the world for its expertise in biomedical technologies.

Office

Quebec City's investment market is thriving. As a result of interest rates being so low, many new investors are showing interest in the Quebec City market. New speculative construction projects are performing well and filling up fast. For example, Place de la Cité, a spec project, was 90% occupied only a few months after opening.

Skyline International Development, a Toronto-based company, completed its acquisition of Les Façades de la Gare, a 340,000 square foot office complex in Quebec City. The property is 97% leased, 60% of which is occupied by the provincial government. L'Industrielle Alliance acquired the Standard Life Complex located on Saint-Louis in Sillery for $19.5 million or $89 per square foot. SSQ Financial Group is constructing a 240,000 square foot office building on Laurier Boulevard in Ste-Foy. The building is expected to be completed in 2005, and 85% of the building is already pre-leased.

Retail

In June Marché aux Puces chez Dan Vanier, a flee-market consisting of 34,000 square feet of space, was sold for $2.75 million or $81 per square foot. Cominar will be developing a new project at Promenades Beauport during which time 147,000 square feet of space will be added, increasing the shopping centre's size to 534,000 square feet. 60,000 square feet of this mall is currently leased to Meubles Léon.

Industrial

Le Parc Technologique is adding new buildings in the pharmaceutical and high technology fields. Furthermore, FPI Cominar has completed their building project on St-Jean Baptiste Street. The project consists of three buildings for a total square footage of 100,000.

LEASING OVERVIEW

Office Market

The Quebec City office market is very healthy. Over the past four years one million square feet of new office space has been added to the market. At the same time the vacancy rate has dropped from 16.5% in 2000 to a current rate of 7% in 2004.

The market is tight in areas such as Québec Haute-Ville where the vacancy rate is only 3.5%. In Québec's Basse-Ville the subsidy programs have come to an end, consequently owners will be forced to bring their rents back to competitive levels. The market is strong in the suburban areas of Ste-Foy and Lebourgneuf. Lebourgneuf, home to insurance companies and financial institutions, has a vacancy rate of 7%. Upcoming projects include the construction of a 100,000 square foot building by Complexe de la Capital expected to start next year. Ste-Foy is for the most part an area that caters to the trade industry, 80% of the buildings in this sector are class 'C'. Ste-Foy has a vacancy rate of 7.2%. Absorption is positive in this area, as a result of the arrival of new companies attracted by the location and existing tenant expansions. FPI Cominar is in the midst of completing the construction of three buildings along Autoroute Henri IV. They are expected to be completed in the spring of 2005. Vacancy rates will most likely rise in 2005 as a result of all the new construction.

Retail Market

The Quebec retail market has developed a new power centre at the corner of Duplessis and Wilfred-Hamel, attracting companies, such as Home Depot, Winners and Bureau en Gros. Future Shop has commenced construction of a huge store in Galeries de la Capitale. Leon's has inaugurated a new store at the intersection of Autoroute Henri IV and Charest. Two of their stores have closed and regrouped into one in Galeries de la Capitale.

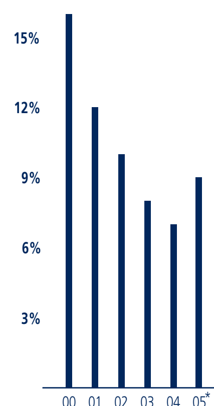
Industrial Market

The industrial market is doing well but there is a lot of space available between 5,000 and 25,000 square feet. Vacancy rates are between 3% and 5% and expected to remain flat in 2005. The Hockey Company is currently building a 240,000 square foot facility, which will become their research and development centre.

65 Ste-Anne Street

The Price Building is located in Old Quebec City.

QUEBEC CITY
vacancy
*projected



Concordia Apartments

Avison Young secured the management and sale of this 252 unit multi-residential complex.

WINNIPEG

The key to Winnipeg's exceptional economic growth during 2003 and 2004 was the city's significant construction activity, which was primarily focused in the Downtown. This, combined with Winnipeg's growing population, diverse economy and solid manufacturing and transportation sectors, gives strong indications that the growth of this thriving city will continue throughout the coming years…

Doug McDonald

Destination Winnipeg Inc./Ken Miner Photography

INVESTMENT OVERVIEW

The Winnipeg Investment Sales market continues to experience strong buyer interest both locally and from outside of the city. Investors are growing increasingly attracted to the city's diverse economy, and the positive impact current mega-capital projects are going to exert over the near and medium term.

Of particular note is the fact that institutional investors and foreign investors are continuing to actively look for property in Winnipeg. Many investors are responding to the high quality of the product, as well as the positive cap rate spread compared with similar real estate in the Toronto, Vancouver, and Calgary markets. This spread, in the range of 200 to 300 basis points, makes leveraged returns particularly rewarding.

Office buildings have been experiencing robust demand when taken to the market, notwithstanding a generally sluggish leasing market. Recent significant transactions have involved Winnipeg's largest Class A tower, CanWest Global Place which sold for $69 million, and Cityplace, a 500,000 square foot Class B mixed-use office/retail complex that was acquired by Israeli investors for close to $50 million.

Product availability remains tight, especially in the multi-family and retail sectors, with relatively few properties trading. Industrial projects - of the scale generally required by institutional investors - are not being brought to market, resulting in relatively low sales activity in this sector. For 2005, we expect similar market conditions to prevail with the possibility of some cap rate compression should interest rates retreat from current levels as some economists are predicting.

Manitoba Hydro

One of three design concepts released by Manitoba Hydro in October, 2004. The 600,000 sq.ft. building will be completed in 2006. (www.hydro.mb.ca)

LEASING OVERVIEW

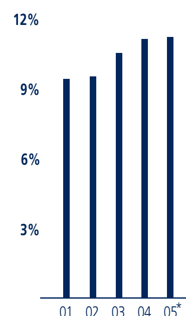
Office Market

Since the last quarter of 2003 the Class A vacancy has increased 3%, which is predominantly the result of a handful of smaller users reducing their space requirements or moving to more economical space. The Class B market is experiencing a more positive trend with a vacancy rate of 7.6%, and in that same time period the Class C vacancy has remained very stable but high at 14.8%, which is largely due to new product being added as the result of the ongoing renovation and expansion of heritage buildings.

The suburban office vacancy rate, currently around 11%, continues to be on par with the overall central business district. However, due to an ongoing and successful focus on downtown revitalization, vacancy levels in the core should fall below suburban levels over the next few years. The high-profile Class A space in the City will continue to face challenges as few large blocks of space are available and no new product is in the planning stages. As a result, the less expensive and more flexible Class B space will continue to be an attractive option for many users. However any short-term decline in Class B vacancy will be counteracted by the current construction of two downtown properties, totaling over 100,000 square feet in size, which will be completed in 2005 and primarily occupied by companies vacating Class B space. The renovation of heritage buildings in the Exchange District into office, retail, and residential properties will continue to be a trend over the next few years, and will keep Class C vacancy levels high in the short term.

Overall, office vacancy levels are expected to remain relatively flat in the short term, but will begin to improve in early 2006. Additional factors that will impact the market are the construction of the 600,000 square foot Manitoba Hydro office tower and redevelopment of 300,000 square feet at the historical Downtown

WINNIPEG vacancy
*projected



Winnipeg is undergoing one of the largest construction booms in its history. Over $254 million in major projects were substantially completed in Winnipeg's core area in 2004, with more than double that amount in the planning stages.

Hudson's Bay Building into office space. These two major market influences in the next two years have the potential for a short-term destabilization in all office classes. However, these are just a few examples of the continuing major revitalization of Downtown Winnipeg, which will provide ongoing long-term benefits to the area. Some other more notable downtown projects include the construction of the new $133 million downtown arena, MTS Centre, which opened in November, 2004; the $18 million renovation and expansion of the downtown library, which will reopen in the Fall of 2005 as the Millennium Library; and the $31.5 million construction of Red River College's new 220,000 square foot downtown Campus completed in September 2004.

MTS Centre

The new $133 million sports and entertainment facility opened on Portage Avenue in the Winnipeg's Downtown on November 16th, 2004. (www.truenorthproject.mb.ca)

Retail Market

Overall retail vacancy is at 4.7% in Winnipeg, and has remained below the five percent mark since 1999. Big box power centres continue to boom in the City with nearly constant new construction in the west, southwest, and east areas of the City.

Big box home accessory retailers, such as Home Depot, RONA, Home Outfitters, and larger format drugstores such as Shoppers Drug Mart and Pharmasave continue to do well and compete for strategically positioned locations. Large grocery chains such as Sobeys, Safeway, and Superstore have been thriving, with all three companies competing fiercely and continuing to invest in the renovation of current locations or the construction of new larger-format stores. Most recently, Superstore opened the largest grocery store in Canada in the Polo Park area of the City at 180,000 square feet. Also thriving in this area is Polo Park Shopping Centre, which is one of the most significant retail influences in Western Canada and is poised for major expansion with the acquisition of the old Winnipeg Arena site. However, the retail boom of the past few years is expected to slow somewhat throughout 2005 and 2006, as big box retailers push the level of market saturation to an all-time high.

Industrial Market

Winnipeg's industrial building inventory is approximately 75 million square feet, of which nearly 70% is owner-occupied. Historically the City has primarily been a manufacturing and distribution centre, with manufacturing taking up 40% of the industrial product and 13% of the Province's GDP. The focus on manufacturing and distribution is substantially due to Winnipeg's central location and excellent transportation corridors, and has resulted in relatively high local demand and vacancy rates that have continued to remain below 5% over the past eight years.

Winnipeg is slowly upgrading to high cube industrial space with 1.5 million square feet added in the last 4 years, which is now approximately 90% leased. Some new, partially pre-leased high cube space is also under construction (112,000 s.f.) in Southern Winnipeg, which is the first new space built in the last 3 years and may be a sign that the market is beginning to improve. However, despite construction in recent years - primarily in the major industrial parks - there has been limited growth overall, which is compounded by the fact that the manufacturing sector will be hardest hit by the ongoing rise of the Canadian dollar. Despite the negative impact the value of the dollar will likely have on short term industrial growth in the City, industrial vacancy rates will continue to remain low as Winnipeg's economy is considered to be diversified and stable enough to weather economic swings better than most large Canadian centres.

Avison Young Commercial Real Estate of Winnipeg is affiliated with

REGINA

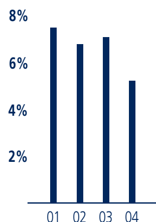
Regina is considered to be one of the most affordable places to live and do business in metropolitan Canada and boasts one of Canada's most stable economies. Saskatchewan will likely not match 2004's 5.8% growth rate in 2005, but solid steady growth is expected in both energy and non-energy sectors.

Dale Griesser, *Managing Partner*

Victoria Tower

Victoria Tower 145,000 sq.ft. office investment property sold in 2004. The seller was represented by Avison Young.

REGINA
vacancy



Rona Home & Garden

New 101,718 sq.ft.. Rona store opened in the Fall, 2004.

INVESTMENT OVERVIEW

Demand is strong for all classes of investment product in Saskatchewan. The demand now exceeds the supply and most properties offered for sale receive multiple offers.

Office

The provincial and federal governments occupy over 50% of the available office space in the CBD and have been the stability of the marketplace. Vacancy rates have been relatively stable for the past 3 years and demand is strong for quality product.

Five office buildings in the CBD were sold in 2004 at cap rates ranging from 10.8% to 13.5% to buyers including local, Canadian and US investors.

Retail

Retail had the strongest demand for product in 2004. Buyers included REIT's, pension fund advisors, and private investors.

Major transactions included: Borealis REIT acquired the 570,000 square foot Cornwall Centre ($70 million) in downtown Regina and the 767,000 square foot Midtown Centre ($129 million) in downtown Saskatoon, Calloway REIT purchased 3939 Rochdale Blvd. ($23 million), a 201,000 square foot Walmart anchored power centre in northwest Regina, First Capital purchased Northgate Mall ($47.6 million), a 365,000 square foot enclosed mall in north Regina, Victoria Gate Equities Inc. purchased Victoria Gate Retail Centre ($9.1 million), a 56,000 square foot new retail development in east Regina and Retrocom REIT purchased the Golden Mile Shopping Centre ($16.5 million), a 214,500 square foot enclosed mall in south Regina.

We predict strong demand for quality investment product throughout 2005, however, expect to see the supply to be very tight. Cap rates will continue to drop due to the shortage of supply.

Industrial

Sales of industrial property were very scarce in 2004 due to virtually no product being offered for sale. Properties that are selling are in the 10% cap range. Demand is very strong, but with only 200,000 square feet of new supply in the past 2 years and vacancy rates at 3.2%, industrial investment product is expected to be in short supply through 2005.

LEASING OVERVIEW

Office

The office leasing market has remained very stable throughout 2004 with modest gains in net effective rates, especially in Class “B” buildings. The current overall vacancy rate in the CBD is 5.34% with Class “A” buildings 4.88%. The office market's relative strength and stability should continue through 2005 and into the first quarter of 2006, when vacancy rates are projected to significantly increase, due to the Government of Canada Building being ready for occupancy. The now vacant 175,000 sq. ft. Galleria Mall/Scotia Tower was purchased by the Federal Government in 2002 and is currently undergoing a $21 million dollar retrofit and will be ready for occupancy by the Government early in 2006. Most of the Government departments for this complex will be relocating from other buildings in the CBD. This facility will provide a single point of access for many government services.

2004 was a banner year for the retail sector in Regina with explosive growth in the southeast and northwest areas of the city. Saskatchewan was Canada's fastest growing retail economy in 2004 and retail sales are poised to top the $10 billion mark for the first time ever.

In addition, Harvard Developments Inc. purchased the 78,000 square foot former Hudson Bay property in downtown Regina in 2004 and is currently developing a plan for its revitalization, which could include redevelopment into office space. This property is expected to substantially lease up during 2005.

Retail

With retail sales in Saskatchewan poised to top the $10 billion mark for the first time ever, explosive retail growth is occurring in Regina. The primary growth in 2004 was focused in the new east retail corridor, with the construction of a new RONA (101,718 sq.ft.), Sears Home Centre (43,000 sq.ft.), Best Buy (33,368 sq.ft.), Winners (54,000 sq.ft.), JYSK (20,000 sq.ft.) and numerous smaller retail freestanding buildings. Northwest Regina also experienced significant new growth with the construction of Mark's Work Warehouse, Tim Hortons, Boston Pizza, Dairy Queen, Taps Brewhouse, Extreme Pita, The Dollar Store and more. Prices of raw land for retail developments continue to be in hot demand with prices increasing with every new sale.

The retail market is expected to continue to be very buoyant throughout 2005 as many new tenants are poised to enter the marketplace or relocate to power centres. Several enclosed malls and older strip malls need to restructure their tenant mix as a result of primary tenants relocating to the power centre areas. Most are re-merchandising by attracting service sector tenancies or national discount retailers.

Industrial

Warehouse spaces have been increasingly difficult to secure in Regina. The 2004 vacancy rate is at 3.2% with only 200,000 sq.ft. of new industrial development in the past two years.

Rates remain constant in the $3.75 to $5.00 per square foot range and have not yet reached the level to support speculative building. The multi-tenant flex space is experiencing very low vacancy with high demand for dock level space. Regina's industrial flex market consists of older buildings with lower ceiling heights than the newer generation "high cube" space prevalent in other metro markets.

Serviced industrial land is available in the $60,000 to $95,000 per acre.

Sears Home Centre

New 43,000 sq.ft.. Sears Home Centre opened December, 2004.

Avison Young Commercial Real Estate of Regina is affiliated with

CALGARY

In a hot sector of the economy, Calgary real estate continues to sizzle… whether office, retail or industrial, both lease and sale, product is tight, prices are rising and global interest continues to be attracted to our market. The strong demand from investors and users combined with potential profit taking from private players will create an extremely active commercial real estate market in 2005.

Tod Hughes, *Managing Partner*

INVESTMENT OVERVIEW

Office

The year 2004 saw a sharp rise in the volume of downtown office investment transactions compared to 2003. Through November we saw nine arms-length investment transactions over $3 million totaling $711 million and nearly 4.4 million square feet. This compares to a 2003 total of five transactions totaling $173 million and 1.1 million square feet.

Four major transactions dominated the downtown market and accounted for over $641 million of the volume. Western Canadian Place sold to GWL for $230 million ($210/sq.ft.), Gulf Canada Square to O&Y REIT for $222 million ($197/sq.ft.), Sun Life sold a 50% interest in Sun Life Plaza to CREIT for $102.5 million ($205/sq.ft.) and Bentall sold Palliser Square, which includes the Calgary Tower, to Kingstreet for $86 million.

The suburban office market was slightly slower than the previous two years with 13 year-to-date sales totaling $113 million and 900,000 square feet. This compares to $165 million and 1.1 million square feet in 2003 and $166 million and 1.5 million square feet in 2002. Price per square foot this year ranged from $58 to $193, similar to previous years.

The majority of the vendors and purchasers in the suburban office market were private entities.

Retail

Excluding the $290 million Southcentre Mall sale by Cambridge to Ivanhoe and Commerz Grundbesitz, the dollar volume of retail sales was dramatically down from the previous year, due mainly to limited supply. A total of 15 arms-length investment transactions over $3 million totaling $150 million and encompassing 1.2 million square feet have taken place through the end of November this year. This compares to $230 million and 1.85 million square feet of product transacting in 2003, similar to the figures for 2002.

Other major transactions include the sale of Eau Claire Market to private Western Canadian buyers for $28 million ($145/sq.ft.), Pacific Place to a local syndicate for $20.65 million ($108/sq.ft.) and the sale of Canyon Meadows Centre to a private west coast buyer for $17 million ($119/sq.ft.).

Private buyers also dominated both the buyer and the seller side of the transactions in the retail sector.

Industrial

Industrial product in Calgary continues to be one of the most sought after asset classes in Canada with investor demand continuing to far outweigh supply, a story that has carried over from 2003.

The Calgary portion of the Paul's Corporation portfolio sale (Calgary and Toronto assets) to Dundee REIT for $69 million, totaling almost 600,000 square feet, accounted for over 45% of the year-to-date dollar volume. Outside of this significant transaction there were only nine industrial arms-length investment sales over $3 million, combined totaling less than value of the Paul's sale at $61 million for 811,000 square feet.

Private entities again made up the majority of the sellers, while private companies and REIT's were the major buyers of this asset class.

Summary

Capitalization rates through 2004 have continued to exceed vendor expectations and shock and amaze those on the purchasing side. This can be attributed to a combination of limited supply in virtually every asset class and massive demand for product. Borrowing costs have been kept down due to low bond yields and lenders appetite to place debt.

While the Bank of Canada rate, and subsequent major banks lending rates, is expected to rise somewhat through 2005, we believe that bond yields will remain low and there will continue to be tight supply in the Calgary marketplace. These two factors will contribute to a continuation of the low yield environment for the foreseeable future.

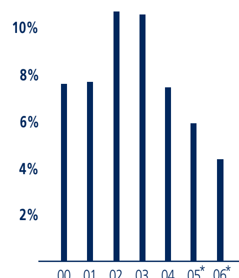
Century Park Place

Avison Young was the agent in the sale by tender process of a major REIT's downtown Calgary office building.

Ruffneck

Avison Young is the exclusive agent for this state of the art 60,000 Sq.ft. office/industrial facility for sale or lease.

CALGARY
downtown vacancy
*projected



LEASING OVERVIEW

Office Market

Calgary's office leasing market has been active throughout 2004 and increasingly so during the latter part of the year. We expect vacancy rates to fall further across all classes during the fourth quarter. Downtown and Suburban vacancy rates sit at 7.8% and 11.6% respectively. The most notable transaction this year has been the announcement of Imperial Oil re-locating from Toronto and securing approximately 200,000 square feet in BP Centre and Fifth Avenue Place which will house their new head office. This significant transaction has induced a sense of urgency into an increasingly tightening market.

Through the third quarter of 2004, we saw a positive absorption of over 700,000 square feet in the downtown market and 250,000 for suburban markets. Rental rates for both the downtown and suburban markets have seen increases. Throughout 2005, we expect these trends to continue and with no new supply being added to the market, we expect vacancy to decline modestly and for there to be continued upward pressure on rental rates.

Retail Market

Calgary's retail market continued its steady growth throughout 2004 thanks in part to strong employment numbers, increasing population and high levels of income which all look to continue well into 2005. As these trends persist and large amounts of new inventory are completed, especially within the periphery, we expect vacancy rates to decline further and put upward pressure on rental rates across all retail categories. Current suburban developments such as Deerfoot Meadows and South Trail Crossing in the South East and Beacon Hill, Genesis and Creekside in the North West are being well received with extremely active pre-leasing encompassing all projects.

With major suburban developments receiving most of the current attention, we expect downtown and beltline streetfront to receive increasing interest into 2005. Future re-development projects such as "The Seventeen" located on the corner of 8th Street and 17th Avenue SW will further enhance 17th Avenue, recently coined the "Red Mile" as a premier retail location within Calgary.

Industrial Market

Our outlook for the industrial market in Calgary for 2005 remains positive. Rental rates appear to have stabilized during the late half of 2004 and we expect modest increases in 2005.

The vast majority of large bay vacancy has been leased during 2004, with Hopewell, WAM, Tonko and Morguard all securing tenants for big bay space that had been available.

2005 will see new development activity taking place, mainly in the East Lake Industrial area in the South East. Tonko, Giffels, WAM and Spacemakers all have sizable land holdings in this area scheduled for 2005 completion.

For 2005, we predict that Tenants will continue to vacate older, less functional real estate in favor of newer, higher cube facilities.

Wi-LAN

Avison Young is the exclusive leasing agent for this outstanding suburban building, offering up to 60,000 Sq.ft. vacancy.

Macleod Co-op

Avison Young is the exclusive leasing agent for this prime Macleod Trail development.

Avison Young Commercial Real Estate of Calgary is affiliated with

After a long difficult period, Edmonton is really strutting its stuff. Our economy is as strong as any in Canada. Our strengths include our strong sense of community and our position as the capital of a debt free Alberta. The future is bright and 2005 will be filled with energy, excitement and opportunity for both Edmontonians and for those who invest in our city.

Todd Throndson, *Managing Partner*

INVESTMENT OVERVIEW

The major theme across real estate investment markets in Canada has been the compression of capitalization rates.

Compression can be caused by improving leasing fundamentals, a rally in the bond market, or fluctuations in equity markets; in 2004 these were not the reasons.

Last year the imbalance of supply and demand caused the change. With REIT's, Pension Funds, Foreign Investors and Private Investors all showing a keen interest in the Edmonton real estate market, the competition for income producing real estate has never been stronger.

Stantec head office

This 190,000 square foot sale and leaseback of the Stantec head office was sold to a German Investment Group by Avison Young.

In the retail and industrial sectors, very strong regional fundamentals, historically low interest rates and lower investor yield assumptions have been the driving force behind lower capitalization rates and higher prices. In the industrial market, most activity has come from pre-purchase or new development sales before completion. Vendors have often taken the easy route of negotiating a pre-sale rather than seeking top dollar through a competitive process. As confidence rises, this trend should become less of a factor.

We expect, however demand for Edmonton's favourite investment class to continue its strong upward trend. Edmonton is Alberta's industrial city.

Purchasers of retail real estate have had to broaden their scope. For most, the market has been too competitive and they simply have been unable to compete for their most desired product type. This trend will certainly continue.

In the office sector, where the underlying leasing market fundamentals continue to get stronger, we believe more investors are looking at the Edmonton office market as an opportunity where higher rental rates and capital gains should be achievable.

With most of the downtown office buildings already in institutional hands, opportunities are more likely to come from re-balancing portfolios and some of the smaller buildings which are still privately held. Turnover is likely to be greater in the suburban market. Foreign investors will be very active in the market and will continue to concentrate on major income producing assets.

Pinnacle Business Park

Pinnacle Business Park is south Edmonton's premier industrial development. Avison Young has been there from day one and is proud to have been part of the lease up of over 400,000 square feet.

In multi-family, strong condo development has not cooled off the investment side as much as expected. Migration to the city, has somewhat countered the move by Tier 1 renters to ownership. Actual vacancy and expenses have both increased, with two effects: deal flow is down 30%, but capitalization rates dropped on deals that have been completed! We expect stabilization of capitalization rates next year and increased deal flow as the market moves into equilibrium.

Overall in 2004, the most active purchasers were private investors and REIT's. For 2005, we expect to see more acquisition activity from pension funds as they adjust their yield expectations in order to compete in today's market.

For the next twelve months, the most pressing question will be quite simple: Where will the vendors come from? In 2005, we expect more of the private owners of commercial real estate in Edmonton to harvest their gains and become vendors. Indeed, with strong leasing fundamentals and an abundance of capital chasing investment grade real estate, it is difficult to imagine a better market for a vendor.

LEASING OVERVIEW

Office Market

Edmonton's office market continued to strengthen throughout 2004. The sub-let market has largely disappeared. In the downtown market only four larger pockets of space remain available. The largest lease deal to date has seen Dell Computers take 83,000 square feet of space in Telus Plaza short term. Capital Health purchased a 300,000 square foot building in the government area and has now occupied half of it. Because of their continued growth they have retained some lease space originally slated for disposition. The sale of the Devonian and Professional buildings for residential conversion has reduced inventory.

For 2005, we expect to see more acquisition activity from pension funds as they adjust their yield expectations in order to compete in today's market

All this activity has put pressure on space; two large government requirements are facing only limited options. The other pressure is on parking; rates are going to spike up. In summary, advantage goes to landlords, vacancy downtown is 8.2%.

In the suburbs the market has stayed strong and the typical tenant has few options. A few pockets of Class A space remain that require a large occupant but this market is in equilibrium with advantage to landlords: overall suburban vacancy is 9.8%.

Across the board, rental rates should rise in 2005.

Retail Market

Rental rates have moved up quite sharply primarily due to continued demand from tenants and the escalation in construction costs. South Edmonton Common is a prominent example in the Edmonton market where rental rates for new construction have escalated to break through the $30 per square foot barrier for CRU Tenants.

Despite the increase in rental rates, vacancy rates continue to decline. In the past 3 years, retail vacancy rates in the Edmonton market have declined by over 300 basis points even though substantial space has been added to the inventory.

An interesting change in the retail market that we are currently experiencing is that big and medium box tenants are modifying their prototypes. The first Canadian small market Home Depot prototype will open next year in Spruce Grove, AB. Staples have recently opened up a smaller store and are anticipating rolling out more in secondary markets. In contrast, Mark's Work Wearhouse is opening stores larger than their typical blueprint.

An evolving trend in the retail market is the emergence of lifestyle centres. The first of its kind in the Edmonton market is planned for construction in Windermere in Southwest Edmonton. The 115 acre site will commence development in 2006.

Overall retail activity seems to be in synch with Edmonton's hot economy and that is the message for 2005.

Industrial Market

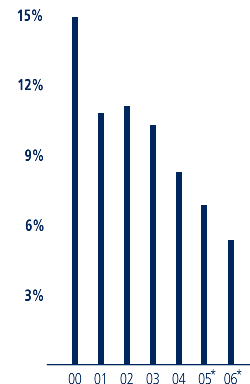
In 2004 we predicated that tenants would have some choice and creativity was going to be a landlord requirement.

This has proved correct but there are now noticeable differences between our northwest (mainly distribution) and southeast (mainly petroleum industry support and manufacturing) sub-markets.

In the southeast vacancy is 3.5% and take up of existing new space is virtually complete. New spec buildings by Summit and WAM/Sun Life are underway and Princeton/GPM is about to start. Land sales are hot, prices are substantially higher and little serviced inventory is available. In the northwest those threatening to bring product on for 2004 did so: HOOPP - 375,000 square feet; Remington - 375,000 square feet; McKenzie - 100,000 square feet; Winfield - 140,000 square feet; WAM - 200,000 square feet. This is a lot of new product for our market and 58% of it remains uncommitted. Vacancy in northwest is 4.5%. By comparison older product remains very well leased with good yields for the most part.

In 2005 we will see take up of new space in the northwest as tenants see opportunity. Rents will stay flat, incentives are likely to increase. Southeast will see a little spec building which is now more difficult due to sharply increased construction costs; and rents will rise because of scarcity.

EDMONTON
downtown vacancy
*projected



Golf Town

The growth and expansion of box and "junior box" retailers such as Golf Town continues in our market. Christy's Corner in Northwest Edmonton is the city's second Golf Town location, and was secured by Avison Young.

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VANCOUVER

A strong provincial economy, an optimistic business community and record consumer spending provide a solid foundation for the real estate market in 2005. In addition, 2010-Olympic-related organizations will begin to secure the space they will need. **John Horton,** *Managing Partner*

INVESTMENT OVERVIEW

2004 was a record year for investment sales transactions in BC. Over $1.2 billion worth of retail, office and industrial assets greater than $5 million had traded at press time. Demand for investment property continues to exceed supply, resulting in upward pressure on prices and in reductions to cap rates.

Active buyers include local private investors, international investors, Pension Funds, REITs, Mutual Funds, and Public Real Estate Companies.

Looking ahead to 2005, we expect demand to remain strong and more investment properties to become available. Some private investors will attempt to sell near what they perceive to be the top of the market. This may lessen upward price pressure on certain types of assets. However, strong demand will remain, especially for higher quality product. For example, some Pension Funds and REITs have recently allocated or acquired large quantities of cash with which to purchase investment properties, which may result in prices for quality assets being bid upward. Our projections suggest that 2005 could produce a third consecutive record year for investment sales.

Office

At press time, $329 million worth of office assets greater than $5 million had sold in BC in 2004. These transactions primarily involved assets on Vancouver's downtown peninsula (CBD, Yaletown & Gastown). Private investors in particular sold and purchased older, smaller B and C class buildings. Pension funds, a mutual fund, and REITs were involved in the higher priced transactions. Capitalization rates for downtown A class buildings dropped below 8% The suburban properties traded fetched cap rates between 8% and 9%.

Greater Vancouver office buildings will remain a coveted asset in 2005. Vacancy rates are rapidly trending downward, particularly downtown, which is improving the net operating incomes and yields - but also increasing demand for office product.

Retail

Retail was the most actively traded asset class both in terms of volume and total transactions. At press time, approximately $800 million worth of retail property over $5 million had sold. Record levels of consumer retail sales has supported aggressive interest in retail property ownership, particularly from institutions. Cap rates for multi-tenant properties were as low as 7.25%, and lower for some single tenant buildings in core retail areas.

Prices for quality, existing shopping centres will continue to rise in 2005, pushed by strong retail sales figures and especially by continued escalation of land and construction costs for new product developments.

Industrial

In 2004, over twenty industrial property transactions (greater than $5 million) occurred with a total value of $173 million at press time. Demand for this asset class greatly exceeded supply and helped to push capitalization rates downward (well below 8% for quality product). Private investors did most of the buying, although a few properties went to pension funds. Users were the other active purchasers, seeking cost and location certainty - or an investment - in Vancouver's shifting industrial marketplace.

1166 West Pender Street

Downtown Vancouver office building sold by Avison Young in 2004.

St. Edward's Crossing

Retail property sold by Avison Young in 2004.

2005 will also bring an election to decide whether the provincial leadership that lowered taxes, balanced the budget, boosted optimism, and encouraged private sector job growth will continue.

Into 2005, the strong demand and low cap rates will continue. It is also worth noting that industrial areas near urban cores are increasingly coming under pressure for redevelopment, further reducing supply. This redevelopment option is raising land values in transitioning areas and providing owners of older buildings with an attractive exit opportunity.

LEASING OVERVIEW

Office Market

In 2004, office leasing activity accelerated, bringing steady absorption throughout the year. The downtown vacancy rate declined over 3 percentage points falling below 10%. By year-end 2005, we expect an 8% vacancy rate.

The economic fundamentals that drive office leasing demand in Greater Vancouver are strong. Although not prominent office users themselves, the forestry, mining, energy and international trade sectors provide a foundation for the Lower Mainland economy that drives demand for office space.

The computer software publishing sector - BC's fastest growing industry – has been noteworthy in its absorption of office space. Software companies have increasingly become downtown peninsula tenants (locating in the financial core, Yaletown and Gastown). Two video game production companies (Electronic Arts and THQ / Relic) now lease AAA space in new office towers.

Olympic-related absorption is also now occurring and will start to become especially prominent in 2005 and 2006 and reach a peak in 2008-2009.

The Village at Park Royal

A new "Lifestyle Centre" in West Vancouver.

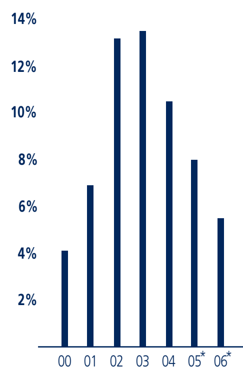
Retail Market

The strong demand for Greater Vancouver retail space continued throughout 2004 resulting in inflating rents and low vacancies. This will continue in 2005. Although many new developments are under construction, high land prices and construction costs will require project owners to obtain higher rents than were required a few years ago. Consequently, to attract tenants who can afford the higher rents, developers have necessarily become more creative in designing and building new retail centres.

The recent opening of the 250,000 square foot Village at Park Royal illustrates the changing retail landscape in Greater Vancouver. The Village is a "Lifestyle centre" with sidewalks along a "main street" lined with individually designed buildings that simulate street front retail. Tenants include fashion retailers, restaurants, coffee houses and some traditional box-type users.

Looking ahead, more "Lifestyle Centres" are under development or being planned in Greater Vancouver as they offer an attractive alternative for both tenants and customers to enclosed malls as well as to the larger format Power Centres.

VANCOUVER
downtown vacancy
*projected



Industrial Market

Vacancy rates declined to 2.1% in 2004 and remain the lowest in North America. Strong demand from a variety of sectors, including expanded world trade through the Port of Vancouver and warehousing retail goods, has put upward pressure on lease rates. The industrial inventory continues to shift eastward in Greater Vancouver into Surrey, Langley, Tri-Cities, and Maple Ridge. It's in these locations that developers are finding the space to build new facilities that meet modern requirements, such as for logistics facilities with higher ceilings and larger numbers of loading bays. By moving east, tenants typically can obtain better quality space for the same price as they were paying in the urban core.

Avison Young Commercial Real Estate is a member of

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