

Real Estate  
**Forecast / 2006**



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Intelligent  
Real Estate Solutions

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Avison Young is the real estate partner business trusts for intelligent, integrated solutions. We deliver results that are aligned with your strategic business objectives, supporting real estate initiatives that add value and build competitive advantage for your organization.



We hope you will benefit from the insights on the market which follow.

You will not be surprised to read about the dramatic improvements in the market in Western Canada. You may, however, be shocked to realize that rents in downtown Edmonton increased by over 30% in 2005; that vacancy in downtown Calgary fell by 500 basis points and in downtown Vancouver by 320 basis points.

Gains in other markets have been more modest, but it all adds up to 2005 having been a strong year.

A trend which will be watched carefully by industrial owners is the “speed-leasing” by U.S. industrial developers, discussed in the Toronto section, which could adversely affect rental rates if the practice continues.

On the investment front, the strength of the market is well documented. What is perhaps less obvious is the trend to ownership of Tier II properties by new investors with both the money and desire to improve the asset, something that was perhaps lacking from previous owners. The recycling and upgrading process will continue, and will improve the overall quality of real estate.

We enter 2006 in a very positive mood, of course there are a few potential clouds, but the fundamentals for real estate remain strong.

Graeme Young  
Chairman



# Greater Toronto



The Greater Toronto Area had a strong end to 2005, with its lowest office vacancy rates in three years, and a continually active investment market. Strong economic fundamentals and improving employment numbers bode well for Toronto, and 2006 looks to be a year of growth in leasing activity and infrastructure. The major developers are optimistic about Toronto, and it will be interesting to see if announced plans for “spec” buildings, not seen in this city for many years, will materialize. **Mark P. Fieder, Managing Director**

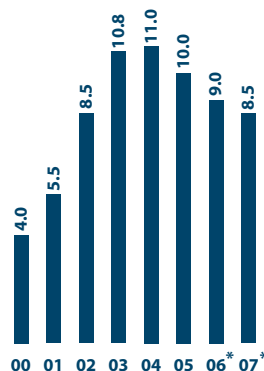
## Leasing Overview

### Office Market

Toronto saw a decrease in vacancy downtown towards the end of 2005, which is expected to continue into 2006. The consensus is that rental rates will begin to climb in the coming year. However, tenants will continue to see discounted rates and incentives in some sub-markets. Having said this, 2006 will see challenges for

### Downtown Toronto Vacancy Rates

*\*projected*



users looking for large contiguous space, as options, especially in the Class A buildings, are few. Menkes Developments, Cadillac Fairview Corporation and Brookfield Properties have all announced plans for new towers downtown. The 905 areas will continue to have positive absorption, and design-builds will become an increasing trend among large users.

### Retail Market

Historically low unemployment numbers, low interest rates and climbing wages are driving consumer confidence, and retail spending will keep up its current pace. Home improvement centres are still booming, and there is lots of room for growth as Toronto is still under-retailed compared with similar sized cities in the US.

European and US retailers are still vying for high-end space along Bloor Street West, with prime space able to command in the range of \$250 per square foot. Many upscale retailers will also want to have a presence on the trendy stretch of Queen Street West where rents are now moving towards \$100 per square foot for the choicest locations.



Right: 662 King St. West, part of a \$56 million Downtown Brick & Beam Office – Portfolio with GLA of over 285,000 square feet sold by Avison Young

Left: First Canadian Place, Toronto – the showpiece in the \$2 billion O&Y Properties portfolio acquired by a consortium led by Brookfield Properties.



## Industrial Market

First year rental rates in 2005 ranged between \$4 per square foot and \$6.95 per square foot. The direction of rental changes in 2006 will depend on the speed with which new speculative space is leased as well as the effects of rising development costs. In 2006, tenants will most likely continue to move their business to modern facilities as development continues, and vacate the older less efficient buildings they are currently in.

Aggressive, entrepreneurial US industrial developers have begun, and in many cases completed the development of large industrial properties - a trend that will likely continue in 2006. With an abundance of money to invest in the industrial real estate market, US developers are embarking on speculative construction with one priority in mind - fully lease the building even if it means taking a loss in the first 5 years of the lease term. Investors are willing to offer lower rental rates than the average in order to immediately fill the space, but eventually realize a profit in the long-term. This trend will most likely see larger spaces offered with rental rates below the 2005 average of \$5.30 per square foot.

## Investment Overview

The market continued its torrid pace with too much capital chasing too little product, although there was an increase in vendors willing to bring their holdings to market to lock in profits. Capitalization rates have been compressed further, with sub-7% yields in many transactions. Local investors came back with a vengeance, far out-purchasing the foreign buyers, a complete turnaround from the previous year. We sense more product will become available in 2006, with yields remaining low.

## Office Market

Local investors returned to the Toronto market in a strong way. The year's largest transaction, the sale of the O&Y portfolio, including First Canadian Place, was purchased by a consortium led by Brookfield Properties. Foreign investors are still looking to deploy their capital in high-profile downtown office buildings.

Capitalization rates have compressed further, falling to the 7% - 7.5% range. We see this asset class continue its attractiveness in 2006, and shortage of product will be evident throughout the market. Pension funds, REITs, foreign and Institutional investors will continue to be active in the market.

## Retail

This sector continues to draw the attention of owners as they try to diversify their real estate holdings. Two major retail transactions this year were the sale of Woodbine Centre for \$109 million at \$161 per square foot and 1 Promenade Circle for \$76 million at \$224 per square foot. We see 2006 bringing the same shortages of Tier 1 centres, and investors will get creative with Tier 2 malls, either redeveloping or adding-on spaces and even some residential potential.

Below: Avison Young represented an international tenant in leasing 161,000 square feet of 28-foot clear industrial space including custom designed office space at 6685 Kennedy Road, Mississauga for their new distribution centre.



Left: 161 Eglinton Avenue East, Toronto – 64,575 square foot midtown office building sold by Avison Young.

Industrial product in the GTA continues to be one of the most sought after asset classes in Canada, specifically among foreign investors establishing long-term commitments, because of its reliability to produce steady returns with low tenant turnover costs. **Martin Dockrill, Managing Director Mississauga**

### Industrial

Major transactions completed in the GTA for 2005 included Menkes selling a 41-property portfolio to GWL for \$381 million, and GPM selling a portfolio of 13 properties to Investors Group for \$86 million.

Tenants have shown growing demands in 2005 for larger buildings, higher ceiling heights, larger bay sizes and increased trailer parking. Developers are building new facilities that meet modern requirements and this drive to build new product has created a significant increase in speculative construction in the GTA, with over 14 million square feet recently added to the market, and a significant amount of space to be completed in mid-2006. As a result, availability will rise during 2006 as construction is completed. Land costs will continue to rise, driven by dwindling supply in the GTA West marketplace. In the longer term, there is real concern over the provincial greenbelt legislation severely restricting future supply.

### Multi-Residential

Over the last three years, this asset class has under-performed compared with the other real estate sectors, as owners grapple with rising realty taxes, utility and hydro costs and decreasing NOIs.

However, this sector is getting more sophisticated as more institutional ownership moves in, and brings with it more attention to areas such as management, common areas, and tenant satisfaction. Growth will be driven by the large immigrant population projected to settle in the Toronto area. Ottawa has announced increased funding for new immigrants, the majority of whom use rental housing in the early years. Overall, we see a healthy coming of age for this asset class.



# Montreal

Moderate economic expansion, employment growth and an increase in consumer spending forecast for 2006 will contribute to maintaining demand among investors for all types of commercial real estate in the Greater Montreal market. **Tom Godber, Managing Partner**

## Leasing Overview

### Office Market

Vacancy rates in Montreal's downtown core have slowly increased from 8.5% in the year 2000, to a current rate of 13.8%. 2005 has witnessed the highest vacancy rates seen in the downtown core thus far in the 21st century. Given these market conditions, tenants clearly had an advantage in 2005. Landlords were forced to offer greater incentives and lower net effective rents in order to secure their larger tenants. Many companies took advantage of this by negotiating early renewals.

In the suburban market vacancy rates remained relatively stable. The South Shore saw the largest improvement in market conditions.

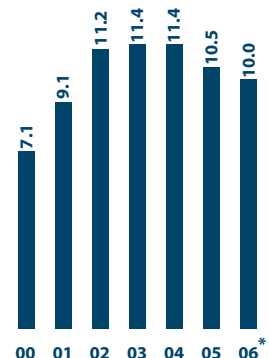
Vacancy rates in Montreal's office market are expected to come down and as a result thereof rental rates are expected to increase. As vacancy rates decrease in the downtown core, landlords will gain more confidence and tenants will not have the full advantage that they had in 2005. Consequently some companies, having lost their competitive advantage in the downtown market, may be enticed to take advantage of the amenities that the suburban market has to offer.

Employment is expected to grow by 1.6% in 2006 and as there are no new office projects planned in Montreal, this increase in employment should have a positive impact on the office market. This should further contribute to the decline in the vacancy rate in 2006.

### Retail Market

In 2005 there were a number of new entrants into Quebec's retail market. Quiznos Sub opened four restaurants in Quebec this year and is expected to open a total of 80 stores by the end of 2006. M&M has plans to open another 40 to 50 stores in Quebec to add to its 59 stores already established. Expansions to some of the largest malls in Quebec were announced this year. In April, Alexis Nihon

**Downtown Montreal Vacancy Rates**  
*\*projected*



Right: Place Bonaventure was sold in 2005 to PSP Investments for \$175 million.



Below: Avison Young is the exclusive sales agent for this 60,000 square foot industrial facility in Dollard-des-Ormeaux.



Left: Avison Young finalized the lease expansion on behalf of Telus for 33,000 square feet at the Sun Life Building



REIT announced plans for further expansion at Centre Laval, adding 68,830 square feet at a cost of \$7 million. In May Bentall Real Estate Services inaugurated Phase V of Marché Central, a \$50 million investment. Carrefour Angrignon is also to be enlarged by 200,000 square feet at a cost of \$30 million, to be completed in 2007.

Cherokee Canada has begun the redevelopment of over 230 acres of land in Boisbriand, which was home to Quebec's only car assembly plant for 39 years. The project to create a mix of both residential and commercial facilities will cost \$700 million and is expected to take between five and seven years to complete. Phase I of the project has already begun with the clean up of the site and installation of the required services.

A new \$300 million dollar project has commenced in Brossard at the intersection of highways 10 and 30. 75% of tenants have already confirmed their presence in the new life-style centre which is expected to open in the spring of 2007.

Low interest rates, the continuation of a strong housing market and gains in personal disposable income should support growth in consumer spending in Montreal and lead to a successful retail leasing market in 2006.

## Industrial Market

Currently more than 2 million square feet of new industrial projects are underway in the Montreal market. The surge in construction is partly due to growing demand from transport companies. The industrial vacancy rate is 6%, compared to 5% at the end of 2004. Slackening growth expectations forecast for the US economy in the latter part of 2006 combined with the rise in the value of the Canadian dollar should result in a soft industrial market in Montreal for 2006, with little change in rental rates.

## Investment Overview

### Office

Fierce competition among investors in a tight market contributed to the escalation of prices for quality product being offered for sale. Continued interest from both local and international investors will support the high prices recently seen in the Montreal office market. Although real estate values are climbing, expectations of interest rate hikes will result in a decrease in the spread between yields on investments and long term bonds. Consequently, the only factor that may negatively affect the investment market in 2006 is the looming possibility of interest rate hikes.

Significant office transactions include the sale of Place Bonaventure, a 1,375,000 square foot office building located downtown, to PSP Investments for \$175 million. The Dominion Square building in downtown Montreal was sold in September to a company owned by the developer David Azrieli for \$78.25 million.

Cap rates for all types of office product have decreased from the beginning of 2005. The cap rates for class 'A' office buildings downtown range from 7.25% to 7.75% and 8.25% to 8.75% for class 'B' downtown office buildings. In the suburban market the cap rates for class 'A' office buildings range from 8.00% to 8.50% and 8.75% to 9.25% for class 'B' buildings.



Above: Avison Young sold 38 acres of land in Vaudreuil-Dorion, located just west of Montreal

## Retail

The retail market in Montreal is healthy. In 2005, Montreal welcomed a number of new retailers into the market and according to Statistics Canada, retail sales in Quebec are expected to grow by 2.5% in 2006. The retail investment market is expected to remain strong in 2006 unless there is a significant increase in interest rates.

Cap rates for all types of retail product have fallen from the beginning of 2005. Community shopping centres have cap rates between 9.00% and 9.50%, neighborhood centres have cap rates between 8.50% and 9.00% and dominant power centres have the lowest cap rates between 6.25% and 6.75%.

## Industrial

Favorable leasing conditions in the industrial market drove up demand for quality industrial product in 2005. The overabundance of investors in search of industrial investments pushed up prices for industrial product and put downward pressure on rates of return.

Significant transactions in 2005 include the sale of 2000 Halpern Street in Saint-Laurent to Alexis Nihon REIT for \$25 million in June. The leaseable area is approximately 527,000 square feet thus the sale price translates to \$47 a square foot. The vendor acquired the property less than a year earlier at a price of \$17 million.

Cap rates for both multi-tenant and single-tenant warehouses have fallen from the beginning of 2005. The cap rates for multi-tenant warehouses range from 8.50% to 9.00% and the cap rates for single tenant warehouses range from 8.00% to 8.50%.

# Quebec City



A tight leasing market in Quebec City has attracted both local and international investors; these conditions are not expected to subside. Consequently, investor demand will remain strong leading to a dynamic real estate market in 2006. **Claude Pellicelli, Managing Partner**

## Leasing Overview

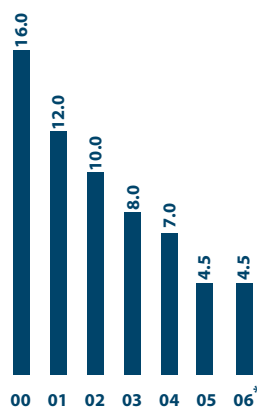
### Office Market

Quebec City has one of the lowest office vacancy rates in Canada. The vacancy rate has plummeted over the past 5 years and is now at an all time low of 4.5%. Conditions are especially tight in the Ste-Foy area where the vacancy rate is as low as 3%. Large areas available for rent were close to non-existent in 2005, giving landlords the upper hand in the Quebec City market this year. Tenants did not have much choice in terms of location, and their negotiation leverage was minimal. The Roland-Giroux building in

Ste-Foy is expected to be completed by the end of the year and will be welcoming new tenants in November. Their arrival will free up a number of large blocks of prime office space.

Tight market conditions and low vacancy rates are expected to continue into 2006, consequently rental rates will edge up slightly. Unemployment in Quebec City is currently at 4.8%, far below the national average of 6.6%. 30,000 jobs are expected to be created in Quebec City between 2006 and 2008 and although 63% of these jobs will be replacing individuals retiring, demand for office space should continue. These market conditions should lead to the continuation of speculative construction projects, at least in the next year.

**Quebec City  
Vacancy Rates**  
*\*projected*



### Retail Market

Quebec City's employment rose in every quarter last year, which led to strong consumer spending in 2005. Quebec City's growth in residential construction stimulated retail sales as homeowners spent money on furnishing their homes and drove up spending on durable goods. Retail properties currently under expansion and construction include a 123,400 square foot expansion of Les Promenades Beauport, representing an investment of \$7.8 million. Once completed the shopping centre will have 454,800 square feet of leaseable area. Also nearing completion is 76,000 square feet of retail space at Carrefour Charlesbourg at a cost of \$9.8 million. There has been a trend towards 'Big Box' megacentres because



Above: Avison Young is the sales agent for this residential-retail complex located at 390 9th Avenue in Quebec City.



Right: Avison Young is the sales agent for a 164,000 square foot retail office complex in Ste-Foy.



of the cheaper rental rates compared to traditional shopping centres. A new 400,000 square foot megacentre, representing an investment of \$45 million is currently under construction in Levis, located on the South Shore of Quebec City, at the intersection of highways 20, 73 and 132. Quebec City currently benefits from approximately \$2 billion dollars in retail sales originating from the South Shore. The mega center is being constructed to capture part of that money by enticing consumers to spend in their hometown rather than crossing the river to Quebec City. WalMart and Canadian Tire have already confirmed their tenancies.

### Industrial Market

There are a number of industrial projects currently underway that are expected to be completed by the end of the year. The Henri-IV project includes the construction of three industrial and mixed-use properties representing a total investment of \$10.8 million. On the South Shore in Levis, D. Bertrand & Fils Inc. have relocated their company into a new 220,000 square foot facility, representing an investment of \$15 million. Quebec City's low business start-up costs will continue to entice researchers in the numerous R&D centres in the area to spin off some of their discoveries and fuel demand for flex and industrial space.

## Investment Overview

### Office

The tight office market in Quebec City has attracted outside investors who are willing to invest in order to take advantage of the current leasing market. The vacancy rate is 4.5%, and consequently choices for tenants are very limited. Leasing conditions are expected to remain tight, thus interest among investors should remain strong well into 2006.

Cap rates for all types of office buildings have fallen from the beginning of 2005. In the downtown market, the cap rates for class 'A' office buildings range from 7.75% to 8.00% and from 8.75% to 9.00% for class 'B' buildings. In the suburban market, the cap rates

for class 'A' buildings range from 8.50% to 8.75% and 9.25% to 9.50% for class 'B' buildings.

Significant deals in 2005 include the sale of 200 chemin Ste-Foy, a 380,000 square foot office building, for \$44 million. The building is entirely leased until 2015 to Société immobilière du Québec, which has occupied the space since the building's construction in 1970.

### Retail

Low rates combined with high prices for similar product in the rest of Canada has attracted investors to the Quebec City market. Retail space with a supermarket or pharmacy as an anchor tenant has been especially popular among investors.

Major transactions include the sale of a portfolio of three power centres, located in Quebec City, Beauport and Laval. The portfolio was sold to RioCan Holdings in February for \$117.7 million. The Canadian Pension Plan Investment Board purchased an 80% stake in Galeries de la Capitale in Quebec City, the leading enclosed shopping centre in the region and Le Carrefour de l'Estrie in Sherbrooke. The two properties were sold for a total of \$820 million. The low cap rate of 6.25% is an indicator of the strong demand for retail property.

Cap rates for all types of retail product have been steadily decreasing since the beginning of 2005. Community shopping centres have a cap rate between 9.50% and 9.75%, neighborhood centres have a cap rate between 9.00% and 9.25% and dominant power centres have the lowest cap rate, ranging between 6.75% and 7.00%.

### Industrial

The Quebec City industrial leasing market is tight. These conditions should continue to attract investors into the Quebec City market. Tight leasing conditions should also lead to speculative building construction in 2006.

# Winnipeg



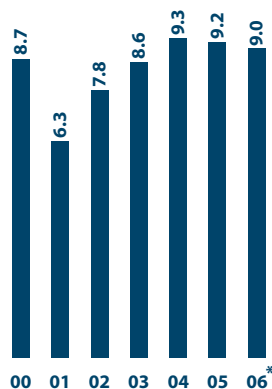
After many years of stable and moderate growth, big things are happening in Winnipeg and Manitoba! Record-level commercial development in the billions of dollars will continue throughout 2006 and beyond, with mega-projects such as the \$5.9 billion dollar, 1380 megawatt Conawapa Generation Station in Northern Manitoba, the new \$560 million terminal at the Winnipeg International Airport, and the \$258 million, 696,000 square foot Manitoba Hydro head office tower taking centre stage. **Doug McGregor, Managing Director**

## Leasing Overview

### Office Market

Although there has been a moderate amount of movement in all classes, the downtown's combined vacancy rate has remained virtually flat since the first quarter of 2004 to late 2005, increasing only 0.1%.

**Downtown Winnipeg  
Vacancy Rates**  
*\*projected*



Class A vacancy has remained flat at 8.7% with net rents stable at \$15 to \$16 per square foot. The only new addition to the 2.4 million square foot Class A total inventory in the short term will be the new - albeit small - 32,000 square feet that will be available for lease in the new 696,000 square foot Manitoba Hydro head office tower when it's completed in late 2007. Vacancy levels are expected to remain stable through 2006 into 2007, hovering around 8%.

The Class B market saw close to a 1% negative absorption and was at 9.5% at the end of 2005. This was an expected vacancy increase, due in part to two Class B users (Credit Union Central and the law firm Pullan Kammerloch Frohlinger) relocating to two newly constructed low-rise downtown properties that were completed in 2005. Negative absorption in this 2.6 million square foot class is expected to continue through 2006 to 2008, as Manitoba Hydro relocates approximately 80,000 square feet of Class B space to its newly constructed headquarters on Portage Avenue. Also around the same time period Great West Life is anticipated to occupy a new third office building on the site of its head office on Osborne



Above: 220 Omands Creek Boulevard is a 'Class A' office/warehouse property, sold by Avison Young in 2005.

Right: Avison Young is the exclusive leasing agent for the Paris Building / International Business Centre in downtown Winnipeg, recently listing this prominent Heritage Building for sale.

Street in the southern edge of downtown. This will result in the amalgamation of approximately 155,000 square feet of primarily Class B space. The quality of Class B accommodations is also being closely matched by some renovated heritage properties in the Central Business District (CBD), often at lower rental rates, resulting in a noticeable migration. Class B net rental rates range from \$10 to \$14 per square foot.

The Class C vacancy levels have been stable at around 15% throughout 2004 and 2005, and remain high largely due to very large blocks of vacant space in a limited number of struggling properties. Class C net rates range from \$6 to \$10 per square foot.

Winnipeg suburban office space totals about 3.3 million square feet, with net rates ranging from \$9 to \$16 per square foot. Suburban vacancy levels remain low compared with the CBD at 7.8%.

Parking in the Core ranges from \$80 to \$150 a month and is nearing capacity in some areas, which is one of the primary reasons for the tenant migration to suburban space.

## Retail Market

Winnipeg continues to see very low vacancy levels for all types of retail. According to Statistics Canada, the Province had the second largest increase in spending in the country between 2000 and 2004, which is contributing to the ongoing retail growth in the City. Many parcels of land in high-density areas that had remained vacant for decades were developed in 2004 and 2005, primarily by free-standing, large format pharmacies, restaurants, financial institutions, electronic stores, and furniture chains.

Few vacancies can be found in any of the three large retail hubs - Polo Park, Regent, and St. Vital / Kenaston-McGillivray. The fastest-growing retail area in the City is the Kenaston-McGillivray Power Centre in the City's southwest, where Calgary-based Hopewell Developments recently broke ground on a new \$50 million development - Kenaston Common.

Although its retail market continues to lag behind other areas of the City, Winnipeg's CBD has experienced impressive growth in recent years. A good illustration of this is Portage Place - Downtown Winnipeg's largest shopping centre - which achieved its lowest vacancy level in more than a decade at just over five per cent in the Fall of 2005. Comparatively, the vacancy at this 500,000 square foot, 120 tenant shopping centre was around the twenty per cent mark in 1999.

Winnipeg's total retail inventory is 17.6 million square feet and growing, with an overall retail vacancy of 4.2%. Net rents for strip centres average \$13.50 per square foot, \$22.50 to \$50.00 per square foot in enclosed malls and \$19.50 per square foot in power centres.

## Industrial Market

Winnipeg's industrial market has not seen vacancy levels below 5% since 1998, which is a trend that is expected to continue throughout 2006 and 2007. Winnipeg's location at the geographic centre of North America and its close proximity to the U.S. border, combined with its relatively low rental rates and excellent transportation links, make it an ideal location for many industrial users. However, some of the properties in the older industrial parks are becoming obsolete, with many buildings having been constructed in the late 1960's and early 1970's. Therefore, the limited new construction that has taken place has been leased up relatively quickly despite considerably higher rental rates, as companies search for more energy efficient, modern structures with higher ceiling heights. Despite this trend, the current situation is not



NewPortCenter, located at 330 Portage Avenue in Winnipeg's Downtown, is exclusively leased by Avison Young.

expected to spur a construction boom due to rising construction costs and short supply of serviced industrial land within city limits. There are approximately 30 industrial areas and parks in Winnipeg with an overall vacancy of 3.6%. Of the City's 75 million square feet of industrial space, 70% is owner-occupied. Net rates for older space average \$4.00 to 4.50 per square foot, with newer high-cube space commanding rates as high as \$7.50 per square foot.

## Investment Overview

Winnipeg has been experiencing strong demand for commercial investment properties, largely due to the fact that the City has historically offered lower volatility and relatively more attractive Capitalization rates and leveraged returns compared with many larger Canadian centres. In particular, major downtown office buildings have been in short supply, and those that have become available in recent years have often sold in relatively short order. Sales activity in all sectors appears to be primarily limited by the supply of product available.

In the last 24 months there was approximately \$217 million in downtown office building sales transactions, with institutional and foreign-based buyers playing a significant role. Key office building transactions in 2005 include the remaining 50% interest in the 500,000 square foot, Class A CanWest Global Place for \$40 million to Asper Tower Inc., Huntingdon REIT's acquisition of the 452,000 square foot downtown office/retail complex Cityplace for \$70 million, and the 150,000 square foot NewPortCenter for \$13 million.

High construction costs have not slowed the City's building boom, as was anticipated. With 65 construction projects up for tender in Winnipeg by mid-November 2005, the industry saw its busiest fall in a decade, and 2005 is expected to be the third consecutive year of record-breaking permit activity in the Province of Manitoba. Mega development projects that were completed in 2004 and 2005 totaled nearly \$400 million, while mega projects still underway as of the end of 2005 were valued at nearly \$4.7 billion, with another \$460 million in the planning stages.

Given Winnipeg's stable economic environment, combined with the availability of mortgage financing and low interest rates, it is anticipated that demand for all types of investment properties will remain strong throughout 2006 as several prominent office properties are slated to be brought to the market. Capitalization rates are also expected to level off in 2006, assuming moderate increases in financing rates.



# Regina

The shortage of investment grade commercial real estate in major Canadian markets has created a very competitive environment in Regina during 2005. With numerous properties sold and others under conditional sale contracts, the REITs are becoming the owners of a majority of the commercial real estate in Regina. **Dale Griesser, Managing Partner**

## Leasing Overview

### Office Market

The office market was very stable during 2005. Vacancy rates were near a record low at 5.3% but are estimated to reach 6.5% in 2006.

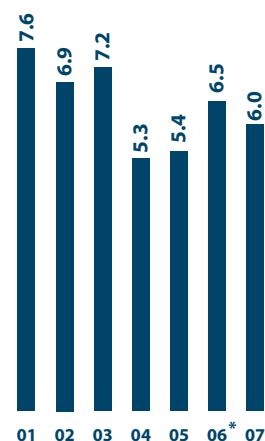
Now that the 200,000 square foot Government of Canada Building is nearing completion, various Government departments will be relocating from other buildings in the CBD. The result of the relocations will be the creation of several pockets of available space throughout 2006 and 2007.

The majority of Class A buildings will continue to have net rental rates of \$18.00 to \$21.00 per square foot, offering inducements of around \$25.00 per square foot on a 5-year term. Class B buildings \$10.00 to \$14.00 per square foot, offering inducements of \$10.00 to \$15.00 per square foot for a 5 year term and Class C buildings asking \$6.00 to \$10.00 per square foot with inducements of \$10.00 to \$20.00 per square foot for a 5-year term.

### Retail Market

Regina's new retail development was very brisk during 2005 with vacancy rates at 5.5%. The retail market is expected to continue to be very buoyant through 2006 as many new tenants are poised to enter the marketplace or relocate to power centres. Several enclosed malls and older strip malls are currently being re-structured providing existing and new tenants with a new look for the future.

**Downtown Regina  
Vacancy Rates**  
*\*projected*





Right: Avison Young is the exclusive sales agent for South Broad Plaza, a 133,923 sq. ft. office building in Regina's downtown core.

Left: Avison Young's newest investment listing, Victoria Tower a 144,165 sq. ft. office building in Regina's downtown core.



Right: Newly developed Canadian Tire store to open early 2006 in Regina's east end.



Southeast and northwest areas of the city continue to be the development hot spots. The southeast has added significant new retail growth including a Canadian Tire, Petsmart, Winners, Home Sense and several restaurants. The northwest has added Home Depot, Conexus Credit Union, TD Bank and others.

Retail sales are expected to perform well throughout 2006 and substantial new development is contemplated

### Industrial Market

The industrial market in Regina consists of mainly older buildings. Large industrial/warehouse space continued to be in short supply during 2005. Vacancy rates in the industrial sector were 4% and are expected to climb to 4.5% in 2006. The long range forecast for the industrial market in 2006 is very stable with very limited construction in existing industrial parks.

A substantial new warehouse development is contemplated at the Regina airport in 2006-2007.

## Investment Overview

Demand for investment real estate is very strong in Saskatchewan. According to a recent Statistic Canada survey of investment intentions, Saskatchewan ranked first with a 12.60% increase in investments for 2005 over 2004.

### Office Market

The REITs were particularly aggressive in 2005. Sales included the purchase of three office buildings, TD Bank Building, Domeview and Parkview Place (178,500 square feet) by Whiterock REIT in June for \$19,225,000, a cap rate in the 8.00% - 8.30% range. Huntingdon REIT purchased Saskatchewan Place office building for \$7,400,000, a cap rate of 9.30%. As of December, 2005, two other office buildings, Chateau Tower (146,621 square feet) and South Broad Plaza (133,923 square feet) are both under conditional sales contracts and Sherwood Place (184,126 square feet) is in the final stage of negotiations and expected to close early in 2006.

### Retail Market

Demand for retail space continued to be very strong in 2005. Buyers included REITs, pension fund advisors and private investors.

Major transactions included: Retrocom REIT acquired the 439,513 square foot Walmart anchored Southland Mall in south Regina from Riocan for \$73,500,000, an 8.35% cap rate. Quance Equities Inc. purchased the RONA Home Centre property from RONA, a 107,608 square foot building built in 2004 for \$11,600,000, an 8.45% cap rate.

Westfield REIT purchased Capital City Centre, a multi-tenant retail centre for \$7,750,000, a cap rate of 9.20% and two unenclosed retail shopping centres, both anchored by the new format Shoppers Drug Mart for \$14,760,000 with an 8.40% and 8.70% cap rate.

Below: Renaissance Retirement Residences, a \$14.5 million re-development in downtown Regina.



Above: Chestemere Industrial Park, a multi-tenant complex located in Ross Industrial Park.

Greystone Managed Investments acquired Victoria Commons, two new retail complexes at a price of \$9,300,000, an 8.20% cap rate. Local investors purchased Victoria East Plaza, a 39,266 square foot retail strip mall for \$4,400,000, an 10.30% cap rate and local investors purchased Gardiner Park Village, a 33,298 square foot strip mall for \$3,650,000, an 11.10% cap rate.

Lakeside Plaza, a 41,181 square foot Sobeys' anchored multi-tenant retail centre has sold at \$7,150,000, an 8.1% cap rate.

We predict strong demand for quality investment product throughout 2006.

### Industrial Market

Industrial sales were brisk and included: Whiterock REIT acquired Chestemere Industrial Park, a 164,092 square foot multi-tenant industrial complex, for \$6,740,000, a 8.9% cap rate. Huntingdon REIT purchased 110 Henderson Drive, a 101,000 square foot one-storey warehouse for \$2,900,000, a 9.6% cap rate. Private investors acquired Victoria Industrial Place, a 109,344 square foot multi-tenant warehouse property for \$4,000,000, a 9.7% cap rate.

Supply of investment grade industrial property is expected to be in short supply throughout 2006.

### Multi-Residential Market

Wintergreen Estates (\$13.5 million) located at 4950 Pasqua Street is one of Regina's premier retirement communities, with innovative services offering private and independent living for seniors. This 97,600 square foot retirement complex contains 107 units and is managed by Diversicare.

The Government of Canada, Province of Saskatchewan and the City of Regina contributed \$2.1 million to a new housing project for seniors in downtown Regina. Renaissance Retirement Residences Ltd. converted the former Derrick building at 1801 McIntyre Street into a 165-unit independent living complex for low to moderate income seniors. This modern and spacious retirement complex, is managed by Chartwell Seniors Housing REIT.

One of the most recent trends taking place in downtown Regina is the conversion of old office buildings into residential units.

# Calgary



In past years we pondered the paradox of a strong investment market with softer leasing fundamentals. Now that the leasing markets are firing on all cylinders and we are facing a space shortage in most asset classes, the only question on the sale side is “how high can prices go?” **Tod Hughes, Managing Partner**

## Leasing Overview

### Office Market

Activity in the office leasing market in Calgary accelerated in 2005 as the energy sector continued to thrive. This resulted in persistent absorption throughout the year and a sharp fall by four percentage points in the vacancy rate to 4.6% in the greater Calgary market. This rate is expected to continue to fall in 2006 as new office developments are not slated to hit the market until 2007, keeping the leasing market tight.

Downtown Calgary especially is feeling the effects of the strong Albertan economy. The vacancy rate fell to 2.8% by November 2005 and is expected to continue to fall to as low as approximately

2-2.5%, until additional space relieves pressure in 2007. With little space on hand and increasing rental rates, businesses without the need to operate downtown are opting to relocate to suburban and beltline regions.

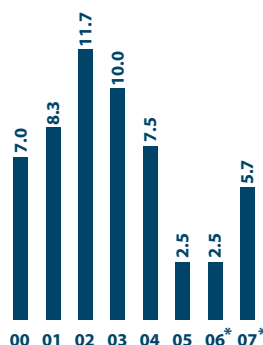
The energy sector will continue to fuel economic growth and high employment rates in Alberta. Lower energy prices, coming off a record year in 2005, will account for a slower pace of export growth of 4% in 2006 (12% in 2005) according to Export Development Canada. Energy, which represents 2/3 of Alberta's exports, will weaken moderately to approximately \$55 US a barrel. It is anticipated however that there will be an increase in the agricultural sector, boosted by the opening of the US border to Canadian cattle.

### Retail Market

The retail sector has been positively affected by economic factors such as increasing population, high average yearly income and low unemployment rates. Strong demand in all sectors continues to push vacancy rates lower for all product type throughout the market. The continuing demand for space and ever increasing construction costs have forced current and future retail developers to adjust rental rates in an upward direction.

**Downtown Calgary  
Vacancy Rates**

*\*projected*



Below: Avison Young is the exclusive agent for this 62,000 sq. ft. Class A office re-development in downtown Calgary.

Right: Avison Young is the exclusive agent for this AAA suburban 150,000 sq. ft. office development.



2006 has numerous projects coming online coinciding with the completion of infrastructure projects such as Stoney Trail in the North and the widening of 52nd Street in the South-East. These much anticipated projects include Trinity's Beacon Hill Phase I and Hopewell's Creekside in the North, additional phases within Deerfoot Meadows in the South-Central, as well as Shepard Regional Centre in the South-East.

We expect to see these trends within the retail market persist into 2006 with increased demand for product as growth continues to remain strong in Calgary.

### Industrial Market

The steady absorption of industrial properties in 2005 indicates a continuing importance of industrial areas to Calgary's ongoing economic growth.

The lack of new speculative developments has caused the vacancy rate to drop to 3.2%, from 3.6% a year prior, and a shortage of available land for development has caused sale prices to escalate. However we expect this to change over the next twelve months as approximately 2 million square feet of new space is expected to hit the market. Notable new developments include WAM's Eastlake Industrial Centre, Hopewell's Distribution Park, as well as Summit REIT & Giffel's Eastlake developments.

With the increase in both population growth and new business growth in the industrial sector there will continue to be a strong demand for industrial space.

## Investment Overview

### Office

2005 has shown a modest decrease in transaction volume in comparison to the first eleven months of 2004. The decrease in sales volume is largely attributable to the tightening of investment-grade product nationwide.

Through November, transactions totaled over \$828 million at nearly 4.6 million square feet. In comparison, 2004 saw over \$1.01 billion in total sales with 6.8 million square feet changing hands through the first eleven months of the year.

### Downtown Core

Eighteen transactions totaled over \$587 million in sales on 3.01 million square feet in downtown Calgary. Two Class A properties, First Canadian Centre and Canterra Tower, represented 57% of total sales, at 1.32 million square feet sold for a combined \$332 million. There were thirteen Class B sales for a total of \$240 million at 1.53 million square feet, and three Class C transactions making up less than 3% of downtown sales. Average sales price per square foot were \$365, \$163 and \$100 for Class A, B and C respectively.

First Canadian Centre sold for \$188 million (\$378/sq. ft.) by Bank of Montreal to GWL Realty Advisors. With a 5.4% capitalization rate (excluding development potential on the site) this sale was indicative of the demand by investors for institutional-grade real estate opportunities in the Calgary market. In June, CPP Investment Board acquired a 50% interest in Canterra Tower from OMERS Realty Corp for \$144 million (\$351/sq. ft.).

### Suburban

1.54 million square feet sold through thirty-one transactions totaling nearly \$240 million in the suburban market. The highest level of sales activity was in Class B in both the number of buildings and square feet sold, at \$115 million and 720,000 total square

Below: Avison Young is the exclusive agent for this 156 unit townhouse complex for sale near a popular retail centre in SW Calgary.

Right: Avison Young is the exclusive agent for Southwood Corner, a 111,000 square foot retail centre for sale.



feet, comprising nearly 50% of all transactions. The average price per square foot was \$205, \$158 and \$102 for Class A, B and C respectively. A notable transaction was the \$62.1 million (\$275/sq. ft.) sale of the Vintage I & II twin office complex, located in the Beltline District, by Homburg L.P. Management Corp. to Credit Suisse Real Estate Fund International.

## Retail

There were 42 retail investment transactions, totaling over \$360 million and 1.64 million square feet. With the exception of the \$290 million Southcentre Mall sale impacting 2004's overall retail figures, sales for 2005 were strong in comparison to last year.

The 302,868 square foot North Hill Shopping Centre sold for \$89.8 million (\$296/sq. ft.) in October was the largest retail transaction year-to-date in November. Calloway REIT purchased South Trail Crossing, a 215,399 square foot power retail centre, from First Professional Management for \$34.6 million (\$161/sq. ft.) in July. Another notable sale was the 50% interest in Coventry Hills Centre, a 130,935 square foot power retail centre, acquired by Grosvenor Canada Ltd. from RoyOp Properties Corp. for \$15.75 million (\$241/sq. ft.).

## Industrial

Investment activity in the industrial sector reached \$171.3 million year-to-date, down from \$206.2 million for the same time period in 2004. However, 2004's sale volume was influenced by a \$69 million sale that accounted for nearly 30% of total sales. Through November 2005 we have seen fifty-two transactions totaling approximately 2.65 million square feet. Purchasers were evenly split between owner/users and investors.

Notable transactions included the recent \$15.5 million (\$61/sq. ft.) sale of a 254,630 square-foot industrial building in the Great Plains Industrial Park by Hopewell Development Corporation to CREIT. Early in 2005, Mancal Properties Inc. acquired a 171,918 square-foot building located in the Westwinds Industrial Park

from Riverway Developments Ltd. for \$18.6 million (\$108/sq. ft.). This office/warehouse building constructed in 2000 sold at a 9.8% capitalization rate.

## Multi-Residential

There was an increase in multi-residential transactions in 2005, with forty-eight sales totaling 1,658 units and \$157 million. The same time period in 2004 experienced sales of 1,391 units for nearly \$145.6 million over thirty-six transactions, representing a 7.8% increase in dollar sales volume from 2004 to 2005.

One of the largest multi-residential transactions that took place in 2005 was Boardwalk REIT Properties Holdings Ltd.'s \$36.5 million sale of Sarcee Trail Place, a 376-townhouse unit complex located in Southwest Calgary.

## Summary

Overall sales volume approached \$1.516 billion through November 2005, with office making up approximately 54.5% of the total dollar sales volume, and retail, industrial and multi-residential at approximately 23.8%, 11.3% and 10.4% respectively. In comparison, 2004 saw in excess of \$1.89 billion.

Strong demand in the investment sector is demonstrated by low capitalization rates and the high price per square-foot in 2005. Calgary's economy continues to benefit from strong population growth, low unemployment rates and a sharing of provincial wealth accumulated through oil and gas royalties in a year that has seen record-high energy prices.

In 2006, we foresee a moderate decline in sale transaction volume largely due to the continued tightening of supply. Conversely, this demand may stimulate profit-taking from investors wishing to exit the market or shed non-core investment assets. A flow of investment capital coupled with supply limitations could place additional downward pressure on capitalization rates for investment real estate.



# Edmonton

How times change - with soaring energy prices Edmonton has blossomed into a dynamic, fast paced environment where entrepreneurialism is thriving. We expect 2006 to set new bench marks for rent in all categories and pricing of real estate to follow suit. **Todd Thronson, Managing Partner**

## Leasing Overview

### Office Market

Edmonton's office market continues to see improvement, with the overall downtown vacancy dropping a full percentage point from the previous year to 7.0%. This low vacancy equates to Edmonton having the third lowest central business district office vacancy in major cities in Canada and rounding out the top five of 75 CBD office markets in North America.

Expansions of existing tenants continue to be the dominating theme with tenants renewing their leases early in order to lock in today's rates and to secure their growth. Downtown, the Provincial Government leads the market in expansion, absorbing over 100,000 square feet of space in 2005. Due to this dwindling supply and the increasing demand for space, we have seen lease rates downtown climb by over \$3 per square foot over the past 12 months. We anticipate this trend of upward momentum on lease rates to continue through 2006, especially with the vacancy forecast to be below 6% by this time next year.

Net rental rates in Edmonton's best buildings should surpass mid-teens by the end of the second quarter. For the first time in nearly 20 years, landlords are positioning themselves for the potential of new supply entering our market in the event rental rates continue their climb and the lack of space limits leasing opportunities for large tenants.

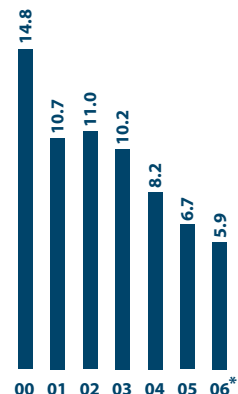
### Retail Market

With help from a strong economy, a red-hot job market, and healthy net migration, Metro Edmonton's population has surpassed 1,000,000 people. Consistent growth continues to stretch the city and the retail landscape to its limits. The demand for new retail is as strong as it has been in recent years, and many retailers are making Edmonton a must on their expansion agenda.

Improvements to Edmonton's transportation systems are being fast-tracked to accommodate the Capital City's boom. The newly opened southwest portion of Anthony Henday Drive (outer ring road) is facilitating flow from west Edmonton to the south, relieving pressure from the over-burdened Whitemud Drive. As a

### Downtown Edmonton Vacancy Rates

*\*projected*



Right: This 160,000 square foot head office for the Alberta Treasury Branch was sold to a local private investor by Avison Young.



Below: Westpoint Corporate Centre is northwest Edmonton's premier industrial development. Avison Young aggressively marketed this property and consequently leased up over 300,000 square feet to MTE Logistix.



result, growth into the west and south is more palatable for those looking to take advantage of the current housing boom. Newer neighborhoods west of Anthony Henday Drive and in the deep south from 23rd Avenue to Ellerslie Road are taking shape, with several new anchored shopping centres being built or planned for in the near future. The Anthony Henday will ultimately link the CMA (consisting of Edmonton, St. Albert and Sherwood Park), which will also benefit Edmonton's many surrounding communities through better linkages.

Downtown Edmonton is also booming, with the condo market continuing to soar. The recent purchase of the Downtown Bay Building on Jasper Avenue by the University of Alberta will not only fill a long-time black hole, but also bring an estimated 1,500 people downtown daily. Retailers have shown more of a commitment to downtown recently, with both Jasper Avenue and 104 Avenue benefitting from this.

Retail vacancy rates, which have been declining over the past three years, experienced a small increase from 4.1% in December 2004 to 5.1% through June 2005. This can be largely attributed to higher vacancy in certain regional malls. Through 2006, we anticipate that vacancy rates will see a small decrease, and rental rates will continue to rise, as more new product comes to market.

## Industrial Market

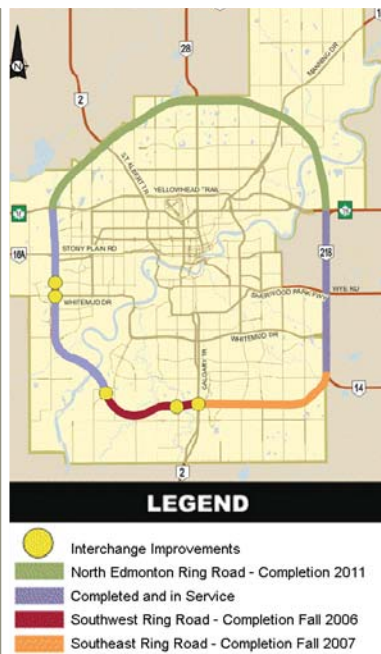
The Edmonton industrial real estate market continues to see a flurry of activity, as the mega projects of Northern Alberta have a significant influence on the Provincial and National economies. New owners/users, developers and investors are now looking to the Edmonton industrial market for land positions and building opportunities for both present and future requirements. In particular, we are experiencing an increased interest from investors/developers who have traditionally focused in larger cities like Toronto and Vancouver. These groups are actively seeking

strategic purchases in our City. Confidence in the Edmonton market has never been greater as land prices are reaching new heights; vacancy rates remain stable around 4%; cap rates continue to compress on investment property; rental rates are climbing to accommodate the increase in land prices and construction costs; over one million square feet of speculative industrial space is planned and under construction; business expansions are occurring across all types of industry; and large national and multi-national manufacturing and distribution firms are considering Edmonton as a strategic new location to set up shop.

There continues to be a focus each year with new construction occurring in either northwest Edmonton or southeast Edmonton. From 2001 through 2004 the focus of the new development had primarily been in the northwest. A shift has occurred and the focus of new construction in the last 12 months has been in the southeast. A total of 1,000,000 square feet of inventory is expected to be added to the Edmonton industrial market in 2005.

Well-located land of all sizes continues to be a hot commodity in the Edmonton market. Developers and owner/users have been forced to consider options that until now were not the "first choice" location. The Anthony Henday (Ring Road) is having a significant impact on the market. Area's north of the Yellowhead Trail like 184 Street across from the CN Intermodal and the corners of 156 Street and 137 Avenue are now the focal points for future development in northwest Edmonton. Similarly in southeast Edmonton, land south of Ellerslie Road and east of 75 Street is becoming the primary choice for new development on the south side.

Rental rates have continued to climb throughout the Edmonton industrial market, but not to the extent expected as most current projects are working off of last year's cost structure for land value and construction budgets. This gives them a slight competitive advantage over other developments with higher imputed costs.



As developers continue to seek out and purchase new parcels of land at higher prices, we can expect the next phase of construction to command rental rates slightly higher than what we have seen today.

## Investment Overview

The economy and real estate market in Edmonton have strong fundamentals; thriving business and population growth, high consumer spending, low vacancy, and rising rents. The numerous mega-projects in our backyard have not only attracted a labor force from across North America, but they have also attracted the attention of investors from around the world.

Demand for income producing real estate in Alberta seems insatiable. The competition has become so fierce that transactions are often being done in price and condition ranges outside of most institutional investors' tolerances. Private investors, for the most part, are the parties with the entrepreneurialism to stretch as far as is required to "win" purchases. Institutions adjust to the new reality, only to find that the goalposts have shifted again in the next deal.

### Office

Rental rate increases for office space were dramatic last year. Tenants are becoming pawns much more than puppets to their landlord counterparts.

Many office buildings changed hands in 2005. What appeared to be very aggressive pricing in the early part of the year, now looks like a steal with the shift in market rents. Continuing increases in rents will make it very difficult to analyze deals on strictly a capitalization rate basis.

Unlike Calgary, it is very difficult to get new office developments off the ground in Edmonton. The lack of sizable tenants is a significant barrier to required pre-leasing thresholds, thus providing greater reason to invest in Edmonton office at this stage in the cycle. Demand will certainly exceed supply in 2006.

### Retail

Activity in retail investments was strong last year primarily in the number of transactions, with a few sizable deals. Pricing for most deals was not as aggressive as we have seen in other parts of the country, which might suggest that in 2006 we will see additional capital growth in retail properties.

### Industrial

Edmonton is an industrial city. The growth in this sector of the market has been unfazed by rapidly climbing construction costs and land prices. Most "new" product does not come to market. Downward pressure on development yields has led to directly negotiated pre-purchase arrangements. The demand for older industrial product never ceases to amaze.

### Multi-Family

In the multi-family market, while vacancy declined slightly in 2005, overall building performance suffered in the face of rising expenses such as taxes, insurance and utilities. However, property values held firm despite this negative pressure, buoyed by high demand. Purchasers bought 40% less product last year than in 2004 due largely to a lack of supply.

We expect 2006 to see improving vacancy and rental rates. Cap rates are likely to stabilize at current levels and property values will increase accordingly.

### Summary

The market is considered by many to be in a frenzied state and to be reaching the peak of an overdue bubble. The strength of our economy suggests to others that if there is a bubble right now it is made of very thick oil with no impending burst on the horizon.

In most sectors of the market in 2006 most growth in value will come from rental increases, as we see little room for further capitalization rate compression.

# Vancouver



A booming economy has stimulated strong leasing activity in all market segments, resulting in low single digit vacancy. Add to the mix, expensive and limited land opportunities, high costs of construction and a very active investment climate which all translates into record lease rates and record real estate pricing. **W. Bill Elliot, Managing Partner**

## Leasing Overview

### Office Market

Vacancy rates have plummeted over the past two years. From over 15% in 2003, the overall Greater Vancouver office vacancy rate has dropped below 8%, with A and AAA class space downtown and in prime suburbs approaching 5% or below. With the economy strong, demand for office space is expected to remain strong for the next 12-24 months, at least. This will further lower vacancy rates, especially downtown where no significant new construction is currently planned other than the expansion of Bentall V (underway). While smaller tenants can still find a variety

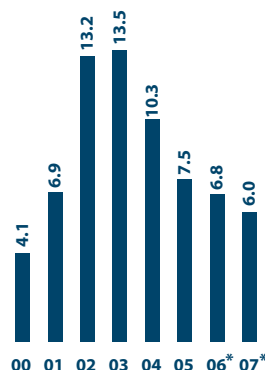
of downtown and suburban options, larger, multi-floor tenants are finding it increasingly challenging to secure contiguous space. Even in the suburbs, options are becoming limited in the existing inventory. However, developers have announced plans for three new suburban office buildings, which will add approximately 300,000 square feet by late 2007. In 2006 landlords will continue to push rental rates upwards and reduce non-financial concessions such as termination and renewal rights.

### Retail Market

Urban, street-front retail continues to be in high demand, especially from national and international brands. H & M, Zara, Abercrombie & Fitch, Williams Sonoma, Pottery Barn, Crate and Barrel and Mango are now interested in the Canadian market and particularly Vancouver. As a result, rental rates have soared in emerging areas like South Granville Street, North Granville Street and 4th Avenue in addition to the established Robson Street.

Demand for suburban retail space has been steady, while rising land and construction costs have pushed up rental rates for new projects. Many food and service tenants now desire drive-thru premises, which are being built in most developments along major thoroughfares. There have also been new proposals to

**Downtown Vancouver  
Vacancy Rates**  
\*projected





Left: Georgia Hotel, Avison Young represented the vendor in this transaction that will result in a \$250 Million hotel renovation and redevelopment adding retail and residential space.

Above: 1420-1440 Derwent Ave, Delta, Avison Young recently sold this 55,000 square foot industrial building.

develop more “Lifestyle Centres,” which have become popular with consumers. These styles also help developers attract the premiere tenants that can pay the higher rents needed to cover escalating construction and land costs. Park Royal Village and Southpointe Exchange are current examples of open air developments with a better quality tenant mix including restaurants, fashion tenants and home supplies.

### Industrial Market

Greater Vancouver continues to have the lowest industrial vacancy rate in North America at 2.1%. Container traffic through Vancouver is expanding, and the region is growing, generating increased requirements, especially for warehouse-distribution or logistics-based facilities. While demand for industrial space is escalating, options – even for new build-to-suit facilities – are decreasing owing to a shortage of zoned land suitable for immediate development. Rental rates are rising steadily because of supply shortages and also owing to the escalating construction costs for new facilities. Tenants are finding that they must act much earlier than in the past if they wish to relocate. Although many suburban municipalities have land reserved for future industrial uses, in most cases there are no plans to allow servicing and development in the next 12 to 24 months.

## Investment Overview

Demand for investment properties remained robust through 2005. At press time, we anticipate at least \$1.2 Billion worth of industrial, office and retail sales valued at over \$5 Million. Although slightly lower than 2004’s \$1.5 Billion in sales, this was only owing to product availability. In 2004 some large portfolios traded either in their entirety or as a partial interest, the equivalent of which did not occur in 2005, for example. Both institutional and private investors were active buyers, although the vast majority of vendors were private.

Capitalization rate movement characterized the 2005 market. Yields steadily declined in 2005, arguably the largest proportional drop in years. Prime office, retail and industrial properties now consistently trade below the 7% level. Moreover, the market saw considerable compression between the cap rate for a premiere investment opportunity and an average one.

In 2006 we anticipate that cap rates will stop declining. Many owners now sense that the market is reaching its peak for this cycle and will therefore market their properties – some with unrealistic pricing expectations. With the long term bond rate and interest rates forecast to rise over the next 18 months, buyers are expected to proceed cautiously. Demand will remain strong at least through the first six months of 2006, but buyers will be increasingly selective and price conscious, especially later in 2006. Assuming more properties do become available, foreign buyers may be more prominent in 2006. Although cap rates are historically low for Vancouver, they remain superior to real estate yields in many other world cities.



Above: Pemberton Building, Downtown Vancouver – Avison Young is marketing this 66,000 square foot downtown, heritage office building for sale.

Right: Centrepointe, Burnaby, Avison Young has been involved in the site acquisition, development and pre-leasing of this 135,000 square foot office and retail building in Burnaby.

## Office

In 2005 approximately \$420 million worth of office product sold, or was expected to do so at press time. Among the notable transactions of 2005, 885 West Georgia Street downtown sold for \$143.5 Million (and a cap rate of approximately 6.25%) while a 50% share of Crestwood Corporate Centre in Richmond sold for \$57 Million and Production Court I & II on Baxter Place in Burnaby traded at \$58 Million with cap rates of approximately 7.25%.

## Retail

Approximately \$520 Million worth of retail property across British Columbia sold in 2005 at press time. The Riverport entertainment complex in Richmond sold for \$85 Million with an estimated 7.7% cap rate, the highest priced retail transaction of 2005. Other notable sales included the new Canadian Tire & Best Buy building at 6th Avenue and Cambie Street in Vancouver for \$44 Million (approximate cap rate of 6.3%) as well as Scottsdale Centre in Delta for \$41 Million at a 7.8% cap rate.

## Industrial

Industrial assets continued to suffer from the largest imbalance between supply and demand. Despite large numbers of eager buyers, only \$200 Million worth of product traded as most owners are reluctant to sell. The highest valued industrial transaction was the sale-leaseback of the Best Buy warehouse for \$35 Million and a 6.8% cap rate. Because of a shortage of developable land in the Lower Mainland, we anticipate only a modest amount of new construction in 2006. This will continue to support strong demand and high prices for industrial assets.

For more information about your location, other locations and your options, please contact Avison Young in your region or visit us at:

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