

Avison Young Commercial Real Estate Newsletter

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U.S. retailers expand north of 49th parallel

Canada's retail landscape will undergo a transformation over the next three years, with a handful of U.S. retailers looking to establish a major presence north of the 49th parallel. Several names have captured the headlines of late and confirmed their expansion plans. One of these is Walmart competitor Target, which recently acquired the leasehold interests of 220 Zellers stores across Canada. The \$1.8-billion deal gives Target an operational platform in Canada by year-end 2013. J. Crew and Marshalls are also confirmed entrants, while others such as Kohl's and J.C. Penney are considering moves north. In response, those U.S. retailers already operating in Canada, such as Apple and Walmart, have announced their own expansion plans, while landlords are investing millions in mall expansions, renovations and acquisitions.

Why all the interest in Canada? Foremost, a healthy economy that has recouped all of the jobs lost to the recession, and a lower unemployment rate (7.7%). Consumer spending and confidence have been resilient throughout the recovery. According to the Conference Board of Canada, consumer confidence rose 7.1% at the start of 2011 to 88.1 points – the highest level of optimism since the recession ended in late 2009. Moreover, Canadian retail sales, which declined nearly 3% in 2009, bounced back in 2010, jumping nearly 5%. Though sales growth is projected to cool to 3.5% this year, growth is expected to reach 4.5% and 4.4% in 2012 and 2013, respectively.

Other reasons for the strong interest in Canada include: geographic proximity, which allows the use of existing supply-chain networks; Canada has less shopping centre space per capita; a relatively stable exchange rate, which allows for better financial forecasting; a common language; and U.S. brand recognition is high amongst Canadians due to years of cross-border shopping experiences and continuous exposure to advertising. The Canadian market also allows U.S. retailers to test products closer to home without having to go directly to overseas markets with different sensibilities and brand awareness.

U.S. landlords are also venturing north, partnering with their Canadian counterparts. Canada's largest retail landlord, RioCan REIT, has announced a \$1-billion, 50/50 joint venture with U.S. mall operator Tanger Outlet Centers that will see as many as 15 American-style outlet malls open in Canada by year-end 2012.

Investors have also taken an interest. In 2010, retail was the most actively-traded asset class in Canada. In all, more than \$5 billion in retail assets changed hands, accounting for 28% of the total \$18.5 billion that sold last year. Only \$2 billion worth of retail properties sold in 2009.

While it may be too early to see how this anticipated activity transpires, the retailer community and its stakeholders will forever be changed with a little more Americana woven into the Canadian retail fabric.

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Vancouver

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New Gateway boosts industrial land development



BC's new 40-km South Fraser Perimeter Road will connect industrial areas with port facilities south of the Fraser River when operational in 2012-2013.

Canada's Asia-Pacific Gateway and Corridor Initiative will do more than connect West Coast shipping facilities with British Columbia's highways. It will spark industrial/commercial development opportunities along the new four-lane South Fraser Perimeter Road (SFPR), connecting industrial parks with port operations located south of the Fraser River.

According to the BC government, the SFPR will produce commercial/industrial development opportunities with the potential to create 7,000 long-term jobs in Delta and Surrey.

Development opportunities will arise from existing container and bulk terminal operations at Roberts Bank and the development of the Terminal 2 project – a proposed container terminal which would add three more container-ship berths and handle an additional 2 million, 20-foot equivalent units (TEUs) annually by 2020. The existing container facility at Roberts Bank (Global Container Terminals' Deltaport) opened its third berth expansion in January 2010.

To encourage development along the SFPR, in 2009 the City of Surrey created the Bridgeview/South Westminster investment zone, which offers incentives for projects valued at greater than \$5 million. These inducements include: no property taxes for three years, deferred development cost charge payments and the reduction of building permit fees by 50%. Delta municipal council has directed staff to prepare an incentives package for the redevelopment of some of its industrial lands ("zone C") as part of its Saving Our Industrial Lands (SOIL) initiative. Meanwhile, Tsawwassen First Nation's TFN Economic Development Corp. is planning a 335-acre logistics-based industrial park adjacent to Deltaport.

BC's Gateway program includes two other components: the Port Mann/Highway 1 expansion project, which includes a new 10-lane Port Mann Bridge and widening of Highway 1 from Vancouver to Langley; and the North Fraser Perimeter Road, which consists of improvements to existing roads to provide an efficient, continuous route from New Westminister to Maple Ridge, including a new Pitt River Bridge.

The SFPR, also part of the province's Gateway strategy, will extend from Deltaport Way in southwest Delta to 176th Street (Highway 15) in Surrey and provide connections to Highways 1, 91, 99 and the new Golden Ears Bridge, which connects Langley with Pitt Meadows and Maple Ridge.

Anticipated to be operational by 2012-2013, the 80-kilometre-per-hour divided route will feature controlled intersections but will be preloaded to accommodate interchanges when traffic volumes dictate. The SFPR will connect Tilbury and Sunbury in Delta, as well as Bridgeview and Port Kells in Surrey, with the Deltaport container terminal in the west and Fraser Surrey Docks in South Westminister (Surrey). The route will also provide improved linkages to the CN intermodal yard in Surrey and to industrial areas on Annacis Island and the Maple Meadows and Golden Ears business parks.

Case Study

A local private developer purchased an existing three-storey mixed-use office and retail heritage building at 1132 Hamilton Street in Downtown Vancouver's trendy Yaletown district. The building was fully leased and occupied at the time of purchase. No new office supply planned for Yaletown coupled with significant tenant demand for space provided the new landlord with an opportunity to reposition the building to

capitalize on favourable market conditions.

In order to maximize the value of the building and take advantage of current real estate market fundamentals, Avison Young Principal Matt Walker worked with the developer to negotiate lease cancellations with the existing tenancies to obtain vacant possession of the building. Once vacant, the developer commenced

with a complete renovation of the existing three-storey structure, which included the construction of three additional floors of office space.

Avison Young leased all the office space to one 40,000-sf tenant 18 months in advance of completion at rents 85% greater than those in place at the time of the acquisition.



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Calgary

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Retail market poised for exceptional growth



Avison Young is acting on behalf of developer **Hopewell Development** in leasing **Sierra Springs** (Airdrie, Alberta) – a 43-acre power centre comprising more than 400,000 sf of leasable space.

RBC reported retail sales of \$59.72 billion in Alberta for 2010, up 5.7% over 2009. Traditionally, Alberta has one of the highest levels of disposable income in the country and it appears that consumers are back to spending their money, a good sign for the retail industry. Retail spending in Calgary is forecast to balloon by \$7.2 billion to \$28.7 billion annually by 2015, according to the Conference Board of Canada.

When the economy took a downturn in late 2008, a high number of development projects were put on hold. Thanks to strong consumer confidence and the highest retail sales growth in the country, Calgary is expected to grow its inventory of retail space substantially over the next few years. This growth will be spread over

several projects primarily carried over from the 2008-2009 market slowdown. Many developers are simply waiting for population growth and development to ramp up further and, accordingly, support the development of new projects.

Heavily influencing this growth are not only established companies looking to expand market share, but new entrants to the marketplace – both from elsewhere in Canada and from the U.S. In 2010, Lego, Apple, Brooks Brothers, Five Guys Burgers and Fries, and Lowe's opened their first locations in the city. Announcements have already been made about 7 For All Mankind, Buffalo Wild Wings, Nathan's Famous, Joe Fresh and Papa Chocolat opening in 2011. Further out on the radar, Target, Maurices and Cabella's are planning launches into the city within the next five years.

A lack of quality, well-located space, particularly on the west side of the city, held retail vacancy around 2% through 2010 and into 2011. While rents are highly dependent on location and quality, the current retail rate averages for in-line, new construction are approximately \$35 to \$45 per square foot (psf) net and \$35 psf net for existing properties. Well-located, stand-alone space with drive-thru is averaging \$40 to \$50 psf net. With such strong demand for premium space, vacancy is expected to remain low and potentially tighten even further through 2011, even with the addition of new inventory.

Construction on at least nine new retail centres totalling 800,000 square feet (sf) is expected to commence in 2011, increasing local inventory by approximately 3%. Looking towards 2012, there are more than 15 proposed projects within the city comprising more than 9 million square feet (msf). If all of this space is constructed, overall inventory would increase by 35%.

Case Study



Jamieson Place

The merger of Penn West Energy Trust and Canetic Resources Trust in November 2007 left both organizations with substantial long-term office lease obligations. Penn West was preparing to move into the east tower of what is now known as Penn West Plaza, while Canetic had secured 329,000 sf in the yet-to-be-completed Jamieson Place for a 15-year term. Through negotiations, Homburg Canada assumed the obligation in

Jamieson Place in order to secure full leasing in the entire Penn West Plaza complex.

Avison Young leasing veteran Mark St. Pierre was enlisted in December 2009 to help mitigate the sublandlord's substantial financial exposure in Jamieson Place. The space had been left vacant and unimproved and had underlying rental rates substantially above market after the downturn brought

downtown Calgary vacancy to 12%.

St. Pierre pre-negotiated a non-disturbance agreement with the landlord and started marketing the space. His team, in conjunction with Homburg, developed a subleasing program that led to 98% of the space being leased within nine months.



Edmonton

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Big projects set to change the face of downtown



Edmonton's downtown core is set to undergo some major redevelopments in the near future.

Over the past 20 years, development in Edmonton's downtown has progressed slowly with limited new buildings and no new major office towers. The last to be built was Commerce Place in 1990. Looking ahead to the next 20 years, the Alberta capital's central business district will undoubtedly undergo many more changes stemming from projects already under construction and future proposals.

For years, Edmonton has been a city that has pushed outwards; however, the focus has now been brought back to the downtown core where developers look to add vibrancy and life.

The Intact Insurance Building and EPCOR Tower are the city's first certified LEED-Gold office buildings. The Intact Insurance Building is currently open and substantially let while EPCOR Tower is scheduled to open in the first quarter of 2012. It will become Edmonton's tallest

building, reaching 490 feet and surpassing Manulife Place at 479 feet. Located at the corner of 104th Avenue and 101st Street, the tower sits directly across from land designated for the Katz Group's proposed new arena and entertainment district and directly east of the proposed site for the recently announced new \$340 million Royal Alberta Museum. With the majority of downtown office real estate sitting south of 104th Avenue, the EPCOR Tower location reflects plans to expand northward.

The arena and entertainment district is set to encompass more than 10 acres, which currently comprises mostly surface parking lots. The proposed arena would be the focal piece of the 10-acre district, but a new casino, hotels, shopping and office space are also part of the plan. The development will bring a significant number of people to the city core on a daily basis.

Changes to the financial district are not the only new developments occurring downtown. A move to establish more residential options is currently underway in the government district to the west. The first project under construction, Mayfair Village (109th Street and Jasper Avenue), will boost Edmonton's rental market by 708 suites, some of which have been earmarked as affordable housing after the federal government provided a \$14-million grant. Developers have already purchased a significant amount of land surrounding Mayfair Village and the intersection could eventually become one of the most densely-populated areas in the city.

Beyond these new developments, future light-rail transit (LRT) lines, the proposed redevelopment of the Jasper Avenue streetscape, and the closure of Edmonton's City Centre Airport will have a large impact on the city's central neighbourhoods. With all of these plans in motion, Downtown Edmonton is destined to look very different in 20 years.

Case Study

The Government of Alberta, under pressure from local industry, had made the decision to open up additional Crown lands in or near Fort McMurray for commercial development. The Province needed a partner to help market the land and organize the bid-selection process.

Industrial teams, partnered with a local realtor in Fort McMurray to market the land to potential developers. A total of 981 acres were marketed as a single parcel with the intent that the successful bidder would be able to subdivide and sell various-sized parcels to users.

includes efforts to support further planning and development of vibrant communities in Northern Alberta. The final bid process had several interested parties, and the successful tender is expected to deliver this much-needed development to potential buyers within the next 18 months.

Avison Young Principal Terry Kilburn, along with Avison Young's Edmonton investment and

The land sale is part of Responsible Actions, Alberta's 20-year strategic plan for the oilsands, which



Fort McMurray, Alberta

Lethbridge

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Industrial land developers profit from smaller parcels



Industrial condo bays between 3,000 sf and 5,000 sf are proving to be an increasingly popular option for tenants in Lethbridge.

Lethbridge land developers are learning that bigger is not always better when it comes to marketing new industrial developments. Not all companies require large land parcels to meet existing or new-business needs. Consequently, land developers must consider that many companies do not desire five to 10 acres or more when they are seeking new industrial-zoned development opportunities. In fact, many smaller businesses in the industrial areas are looking for parcels as small as a quarter of an acre. These owners may have been leasing and are now examining ownership as an opportunity to invest in themselves and their businesses.

Users seeking to relocate out of the busy industrial core have discovered that smaller parcels and construction costs are high relative to current market lease rates. A prospective owner faces a very expensive proposition when attempting to place a 3,000-sf to 4,000-sf building on a one- to three-acre parcel, considering the small amount of land required for use. As a result, buyers are changing their strategy with respect to owning land and building on it. They are paying more per acre for small

parcels and teaming up with similar businesses to construct industrial condos as a compromise.

Like residential condominiums, industrial condos are jointly-owned properties in which owners retain title to their individual units within a strata corporation framework. The strata corporation is responsible for property management and maintenance. In recent years, industrial condos have become increasingly popular in large centres such as Calgary and other cities, where high land prices are making it difficult for developers to sell properties at market rates and still make a profit.

By marketing industrial condos, these developers have been able to meet user needs, without having to build on spec or prelease a property before selling to investors. The profitable ventures have provided equity for users and helped developers generate profits during difficult economic times.

Now, some Lethbridge developers are also paying attention to the growing trend – and unique needs of the local market. One developer is marketing his land as quarter- and half-acre condos at per-acre prices significantly higher than current rates for larger parcels. Other developers are also focusing on creating attractive and functional condo plans to build and then sell.

The City of Lethbridge, as the main developer of industrial land, is also looking to meet this need and is considering selling more half-acre parcels in its future land developments. In other words, small land parcels are going to continue to play an important role in Lethbridge's future industrial development.



Multi-tenant conversion

Case Study

Avison Young's Lethbridge office was instrumental in converting a single-tenant representation into a multi-layered project.

Tenants A and B were both looking to lease new offices. With a 4,000-sf addition, Owner 1's building could house both tenants. Meanwhile, Investor Z was looking to buy Owner 2's building, but it would only be sold if Owner 2 could purchase another available existing

property. Once Avison Young's Lethbridge-based associate had all of the information regarding the needs of all five clients, he leased Owner 1's building to tenants A and B upon completion of the addition.

Once Owner 1's building was leased, it was purchased by Owner 2, whose property was then purchased by Investor Z. In the end, this was a very rewarding

project for the associate and the clients. After expecting the original mandate to be difficult to fulfill, the associate learned first-hand the importance – and the benefits – of finding the right solution for buyer, seller and tenant alike.



Regina

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Regina's Global Transportation Hub underway



Global Transportation Hub

Southern Saskatchewan's future appears very optimistic with the development of the Global Transportation Hub (GTH), a world-scale development destined to be provincially transformative in terms of job creation, population growth and enhanced private-sector investment. Once complete, the GTH will ensure Saskatchewan becomes a major player in the Asia-Pacific market and Western Canada.

Many predict the economy of Regina and the southern region of the province will grow in relation to the GTH. According to the Fraser Institute, the province's labour market has progressed from eighth to second best-performing in Canada and third in North America, while Saskatchewan's international exports increased 18.5% between September 2009 and September 2010. Several factors are contributing to sustainable growth for at least the next five years, given global demand for food and energy. In terms of food supply, the province is the world's largest producer of peas, lentils, mustard, canola and flax, while leading Canada in cereal grain production and exports.

The province has 47% of the arable land in Canada and does 47% of Canada's trade with India and 58% with Bangladesh. Saskatchewan has, arguably, the most diverse natural resource base in Canada, with 100% of Canada's uranium production and 82% of global reserves, ranking second in Canada for oil, third for gas, and producing 35% of the nation's coal. The province generates 35% of global potash production, has 50% of global deposits, and ranks No. 1 in national production.

Despite being export-driven, Saskatchewan's economy is the second-least reliant on the U.S. next to British Columbia and is experiencing increased trade with the BRIC (Brazil/Russia/India/China) and MENA (Middle East/North Africa) nations.

The GTH officially opened in December 2010 with a 1-msf Loblaw's distribution centre. The facility will serve 164 Loblaw's grocery stores throughout Saskatchewan, Manitoba and Alberta. Construction of phase two is underway and expected to be operational by December 2011. Two more firms have committed to developing facilities at the Hub this year. It is anticipated that five more firms will commit within the next 18 months.

Located west of Regina, the GTH's 2,000 acres of serviced land will support new interchanges and highway connectors. The Ministry of Highways and Infrastructure has partnered with the Government of Canada, the City of Regina, Canadian Pacific (CP) Railway and the Rural Municipality of Sherwood to develop a new intermodal transportation facility and road infrastructure. This project will include relocation of the existing CP yard from downtown Regina to the GTH and increasing CP's rail capacity.

One can expect to hear more about the GTH and Saskatchewan's growth for years to come.

Case Study

An enclosed shopping mall in northwest Regina was struggling with high vacancy, low net income and severe deferred maintenance when it was put up for sale. Residential growth to the northwest and new retail/commercial expansion in the east had exacerbated the mall's challenges in attracting and retaining a vibrant, diversified tenant mix. The mall's vacancy rate had grown to 70% before the owners decided to divest.

Avison Young's Dale Griesser and Joe Trudelle, in collaboration with the seller, took the product to market as an unpriced redevelopment opportunity. Numerous bidders came forward and a competition ensued with ongoing multiple bids.

After a month of negotiations the mall sold at approximately 50% above the expected sale price. The property has since been redesigned, de-malled and

redeveloped. Development of excess land is underway with free-standing pad sites. Occupancy is nearing 100% with a healthy mix of primarily national and regional tenants. The new owners are enjoying a great profit centre.



Regina shopping centre

Winnipeg

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Manitoba economy on solid ground



While 25% of American mortgages went delinquent during the last two years (according to Bloomberg LP as reported in the *Fannie Mae Report*, February 2010), less than 2% of Canada's mortgages were in default.

As the Canadian recession officially ended in the latter part of 2009 and the economy slowly recovered in 2010, Manitoba emerged virtually unscathed. Although there was certainly less demand for Manitoba exports to the U.S., the province maintained a respectable 5.3% unemployment rate while experiencing a jump in housing starts and a population surge. Over the past decade, Winnipeg's population has increased by more than 54,000. Population growth of at least 200,000 is forecast for the next 10 years. More than 27,000 new jobs are anticipated in Winnipeg alone during the next five years.

This growth is fuelling retail sales in Winnipeg, which posted strong sales for 2010. It is no wonder local investment of \$70 million in an IKEA-anchored super-regional commercial destination centre is

underway. Retail vacancy is at its lowest point in decades.

More than 26,000 people are employed in the financial/insurance/real estate business in Winnipeg, contributing more than \$4 billion to the province's economy. All of these factors are generating optimism among investors, with the resale housing market hitting dollar-volume records in 2008-2010. Construction and renovation markets are busy with trades in big demand.

Meanwhile, more than 15,000 immigrants called Manitoba home for the first time in January. This is having a ripple effect on many multi-million-dollar, education-related developments including universities and colleges. International students remain attracted to the province's post-secondary institutions.

With every new development, there are spin-offs in real estate investment and expenditures. For example, the new culinary arts college downtown has witnessed an uptick in area rental rates, developments, leasing and sales of commercial condos. A few years ago, a block of abandoned century-old buildings sat idle. Today, an influx of more than 2,300 new students and staff to the area has ignited new restaurants, night life, apartments and condo conversions, resulting in a safer, vibrant neighbourhood.

Rental-apartment vacancy rates have hovered below 1%, resulting in a constant search for older stock to rehabilitate. Current market and rent controls are allowing landlords to do the minimum to keep tenants. Off-market deals with multiple bids are the norm in the multi-family sales market.

The province's rental tenancy branch is helping to ensure a higher-quality apartment supply is on the market. Several new suburban projects are occupied as soon as the paint is dry, so demand is not showing any signs of weakening.

Manitoba is on solid financial ground – and will be for the foreseeable future.



Case Study

An out-of-province investor wanted to place dollars in Manitoba, but the province had a severe lack of available investment product.

Jamie McPetrie and Murray Bonk of Avison Young's Winnipeg office sourced out a functionally-obsolete, low-ceiling industrial building that suffered from chronic vacancy and lack of parking, yet was fundamentally solid and in a high-profile location that was

transitioning into a new retail corridor. McPetrie and Bonk convinced the buyer to purchase the building and convert it to retail by demolishing the front third of the building. This redevelopment provided an opportunity for the buyer to install a new retail storefront while creating more storefront parking.

The Avison Young team immediately leased out one side of the building at more than

double the previous rate and then sold the building to another retail user for more than double the initial investment. McPetrie and Bonk's creative approach has since resulted in several more projects with this buyer.



Guelph

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Southwestern Ontario market continues to grow



The site selection was completed for **Royal Canin Pet Food's** new manufacturing facility on 110 acres of land in Southwestern Ontario.

In 2010, Avison Young opened a new office in the constantly-expanding Southwestern Ontario marketplace, which has an inventory of more than 100 msf of industrial space and 15 msf of office space. Located west of the Greater Toronto Area (GTA), Guelph is an attractive market for users and investors. Geographically, thanks to a lack of traffic congestion, the city is a prime location with easy access to the Canada-U.S. border and GTA, offering a high quality of life to employees.

After an economic slowdown, the office and industrial markets are showing strong signs of an upswing. The recent market conditions have led to an increase in construction levels for office space throughout the region due to dwindling and obsolete supply not sufficient to handle the existing tenant base. Plans are also underway for new industrial development in the future, as many buildings previously built on a speculative basis have been leased.

With lower vacancy rates and healthy demand from both Canadian

and U.S. companies, this market continues to be a sound investment. The region continues to witness steady deal velocity in certain markets with stable vacancy and availability rates. With the addition of new product from the completion of several new developments and redevelopments, the market has the characteristics of a strong and resilient economy.

Through 2011, sales activity is expected to increase in the industrial and office markets, as well as in the competitive investment sales sector, as investors and landlords look for creative ways to manage the demand for new product.

Site selection varies due to size, operational specifics or geographic location. Many users look beyond the GTA for design-build opportunities. In addition to the diversified labour pool, one of the greatest drivers for companies looking to locate to the area is overall cost. In Southwestern Ontario, land prices start at \$75,000 per acre and remain below \$400,000 per acre, while GTA land prices range from \$450,000 to \$1 million per acre. Development charge costs are also forcing companies to take a serious look at the Southwestern Ontario marketplace where municipalities offer terms that range from \$0 to less than \$13 psf.

Companies such as Tim Hortons and Royal Canin Pet Food have recently built new premises in the area based on detailed site selections. In both of these cases, the locations selected were off-market opportunities. Such transactions represent a growing trend for users and, as a result, continue to expand the Southwestern Ontario market, creating new real estate opportunities and perpetually expanding the area.

Case Study

Tim Hortons had a unique requirement to locate a site for its new state-of-the-art distribution centre. This requirement was of the highest confidentiality and the site-selection process was extremely detailed in its approach.

Ray Robinson of Avison Young's Guelph office was mandated by the company to find a strategic site that fit within the specific parameters. After a lengthy

search and negotiations with municipalities and land owners, a 100-acre, off-market opportunity was selected in Guelph.

Robinson, in conjunction with Tim Hortons, worked with the municipality to extend the existing road and services as well as rezone the land to industrial from agricultural. Once rezoning was complete and construction had commenced on the new 127-foot-

high distribution building, Tim Hortons engaged Robinson to sell 30 acres of excess land. The sale was completed to a large development company that worked with Robinson to establish a new industrial park for Guelph after buying surrounding land sites totalling almost 200 acres.



Tim Hortons distribution building

Mississauga

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Airport Corporate Centre and Meadowvale: A tale of two markets



2185 Derry Road West, a prime Meadowvale head office location, offers tenants 78,212 sf of office space, currently listed by Avison Young.

There was a time when the Airport Corporate Centre (ACC) office market was one of the most prestigious destinations in Mississauga for prominent office tenants; however, more recently, the ACC has struggled while the Meadowvale market has witnessed astounding growth.

Over the last five years, Meadowvale has emerged as the new location for large office tenants. Due to the diversity of high-profile tenants that Meadowvale has attracted, this node fared better than others during the recent economic downturn, while the ACC market suffered.

Previously, the ACC enjoyed popularity because of its proximity to the airport and major highways, but the market became a victim of its own success as traffic congestion and aging inventory became issues.

Meadowvale offers similar access to major routes, but with less congestion. The presence of notable pharmaceutical firms such as GlaxoSmithKline, Valeant (formerly Biovail), Patheon, Takeda and, more recently, Baxter, has given Meadowvale the nickname "Pill Hill." Notwithstanding the name, Meadowvale has attracted a diverse range of tenants, including financial institutions such as the Bank of Montreal Financial Group, which recently moved into its new building at 2465 Argentia Road (225,000 sf) and the Royal Bank of Canada (800,000 sf), the first major tenant in Bentall Kennedy's Meadowvale North Business Park.

The two markets each have an inventory of approximately 5 msf; however, the ACC's vacancy rate rose to 22.1% in the fourth quarter of 2010 from 7.9% in the first quarter of 2006. During the same period, Meadowvale's vacancy rate increased to 9.8% from 3.1%. Similarly, the ACC's availability rate jumped to 23.5% in the fourth quarter of 2010 from 9% in the first quarter of 2006, compared with Meadowvale at 11.1% and 4.5%, respectively.

The level of demand in each market is represented by the amount of construction that has taken place. The ACC has built approximately 460,000 sf of office space in the last five years, compared to 1.7 msf in Meadowvale. More significantly, Meadowvale continues to add new inventory as recent deals by E.I. du Pont Canada Company and Golder Associates have kicked off the construction of two new buildings set for completion in 2012 by Carterra Developments (125,000 sf) and First Gulf (250,000 sf). In contrast, while rumours suggest there is large tenant interest, AeroCentre V (225,000 sf) in ACC, built on spec by HOOPP and completed in 2010, is only 20% occupied by PepsiCo (43,000 sf).

Case Study

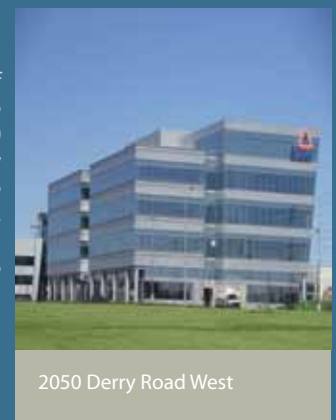
GWL Realty Advisors (GWLRA) hired Avison Young to prelease a two-building office complex at Mississauga Road and Derry Road in Mississauga (Meadowvale). Led by Martin Dockrill, Brett Elofson and Rebekah Dalziel, Avison Young worked with GWLRA's development team to market the property.

To initiate development, each building required a minimum prelease commitment of 70,000

sf. Utilizing a team approach and a marketing campaign that included Web tools and electronic media, Avison Young was quickly able to secure a 70,000-sf lease with Becton Dickinson (represented by Jeff Flemington and Trevor Ellis, now with Avison Young) to commence construction of 2100 Derry Road West (100,000 sf).

Soon after, Avison Young secured a second large tenant, Shaw Engineering (represented by Joe

Almeida and Jonathan Hittner of Avison Young), to commence the construction of a building at 2050 Derry Road West (125,000 sf). Only three years after acquiring the land, in tandem with Avison Young, GWLRA has built two LEED-Gold certified office buildings that are substantially leased.



2050 Derry Road West



Toronto

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Downtown South blurs traditional boundaries of financial core



Toronto's evolving Downtown South

For more than 100 years, the southern boundary of Toronto's business district was defined by the railway lands south of Front Street. Dominated by transportation and industry, this area was off-limits to development. However, as the railroads declined in prominence, the amount of space devoted to these uses fell. The relatively sudden availability of development land close to the financial core has provided Toronto with an excellent opportunity to revitalize an untapped area.

Within the last five years, the Downtown South area has gathered momentum as tower after tower has risen around Union Station. This has become a significant zone for office development, given the lack of affordable sites in the traditional core. Tenants such as Telus, PricewaterhouseCoopers, CI Funds and Kinross Gold would not have looked beyond the core in the past, but have relocated to

new greener buildings south of the tracks, lending the area some of the prestige previously associated only with the core. Downtown South now comprises more than 3.5 msf of office space, with further development on the horizon.

Along with office towers, residential development in the form of highrise condominiums has become another prominent feature south of the core. More than 4,500 condominium units have been built in Downtown South, with 2,000 more under construction, bringing sizeable population growth to the city centre. This represents a large labour pool for downtown businesses and an opportunity for workers to avoid a commute from the suburbs.

This new population has also proven attractive for retailers looking to tap into a new area – and many highrise condo and office projects have created opportunities to establish locations in ground-floor spaces. Suburban-based chains, such as Leon's Furniture and Longo's supermarket, have taken advantage of the chance to establish new urban retail formats. This trend will undoubtedly continue as the downtown-area population increases.

The impact of Downtown South's development on the existing downtown core has been varied, but ultimately will be positive for Toronto. Space vacated by tenants moving to new buildings is gradually being leased, and competition among landlords – created by an excess of vacant space – has motivated many to make improvements, both aesthetic and functional, to their existing stock of buildings in the core.

In the end, landlords will benefit from the increased rental rates that new or improved buildings will command, while tenants will enjoy a greater range of options. With the recent leasing success of these new office developments, the few remaining undeveloped strategic sites are on the radar screens as the Toronto of the future continues to evolve.



11 King Street West

Case Study

11 King Street West was left with more than 70,000 sf of vacancy – a rate of 42.4% – when Telus, the major tenant, moved to the brand-new 25 York Street in Downtown South. At the time the space became available, Canada's economy was in the grip of the downturn and tenants looking for new premises were scarce.

As the leasing representative for the property, Jonathan Pearce of Avison Young's Toronto office

was able to bring in new tenants to lease the space, despite the difficulties posed by the economic climate. Six months after hitting 42.4%, the building's vacancy rate was reduced to a much more manageable 9.6% as a result of the new leasing of 53,000 sf.

Additionally, Pearce achieved renewals with several existing tenants, further stabilizing the asset. The value of the landlord's investment was greatly enhanced

by ensuring that the space was quickly re-occupied, at or above current market rents with attractive face rates, avoiding a costly period of high vacancy.

Ottawa

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Office vacancy in flux, retail remains consistent



New **EDC Building** subleasing large vacancies.

Ottawa's downtown core continues to experience the impact of rising vacancy rates through the first quarter of 2011. While rates were as low as 2.6% in early 2009, recent estimates have placed vacancy in the downtown core at nearly 6%. Class A and class C office space have carried the brunt of the vacancy at 6.5% and 10.6%, respectively, while class B space in the core helps maintain balance at 3.7%. Prudent tenants in the downtown core have been able to take advantage of a more balanced market and have experienced flexibility in rates and terms in what has traditionally been a tighter market.

Larger pockets of vacant office space are standout options for larger private-sector tenants as well as the federal government through Public Works and Government Services Canada (PWGSC). Such spaces include the Sun Life Financial Centre and space for sublease at the new Export Development Canada (EDC) building. The federal government and PWGSC may be exploring options for office space

outside of the downtown core; however, even a few large proposal requests in the core could change the vacancy balance very quickly. A case in point – MERX (the government's procurement bulletin board) recently posted a Request for Information for 200,000 sf of core office space availability for absorption in 2011 and 2012.

Overall, Ottawa's downtown core is demonstrating some softness in vacancy; however, vacancy rates in the city are still relatively low in comparison to its Canadian major-market peers. Downtown Ottawa's stability and positive city-wide trends keep rates from shifting drastically, and landlords still approach the office market in a steady fashion.

The retail sector in Ottawa remains strong in early 2011 with vacancy rates consistently below 3%. All categories of the retail sector are following the positive performance trend, including regional centres, community centres, power centres, neighbourhood malls, and those within central business districts.

Due to low vacancy rates and consistently strong performance, Ottawa is witnessing a number of new and continuing developments, including Lansdowne Park, Walmart Supercentre and Grant Crossing. Through these developments and the leasing up of existing centres, Ottawa is experiencing expansion through a variety of retailers, including American and international retailers such as Lowe's, Michaels, Coach, Urban Outfitters, Lacoste and Michael Kors.

Inspiring Ottawa's growth are a relatively strong local economy, population growth and the stable presence of the Government of Canada. Along with these retail trends are signs of increasing multi-residential development projects and intensification within Ottawa's downtown as larger projects in the high-20 to 30-plus storey range are being proposed, approved or debated. This residential growth within the downtown may be an increasingly important factor in the retail sector's growth in Ottawa's downtown areas.



20 James Street

Case Study

A national non-profit organization in Ottawa had a unique opportunity to create an accessible office facility through government grants. Although a promising opportunity, the requirement had its challenges in that a long-term location needed to be secured within weeks and on a limited budget.

Avison Young agent William Pennell worked with the executive team from the non-profit and

represented the organization. They quickly identified a location well-suited to the organization. The agent was able to leverage market conditions surrounding the selected office space during negotiations, while emphasizing the strong reputation of the non-profit and the potential investment of funds to improve the space. Within weeks, negotiations led to a competitive rental rate and flexible terms that met both the non-profit organization's limited resources

and its specific requirements.

The long-term lease for 5,200 sf in refurbished high-ranch space in Ottawa's centre town area was completed relatively quickly, allowing the non-profit organization to stay focused on its mission, which included the launch of a new training program.



Montreal

2000 McGill College Ave., Suite1950 Montreal, QC H3A 3H3
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Optimism in the downtown air as developers propose office towers



SITQ's 900 de Maisonneuve Ouest

In 1931, the newly-completed Sun Life building – a jewel of Montreal's downtown core – became the largest building, based on square footage, in the British Empire. When it came to big buildings, Montreal had all the bragging rights.

In 1962, CIBC moved to a new location, 1155 René-Lévesque Ouest. Forty-five floors, 187 metres and 555,183 sf later, La Tour CIBC was the tallest building in the entire British Commonwealth.

Not to be outdone, the Royal Bank of Canada (RBC) moved its headquarters the same year. A block away from CIBC's tower, architect I.M. Pei designed RBC's new home: Place Ville Marie (PVM). With a penthouse added for the express purpose, PVM measured exactly one metre higher than La Tour CIBC at completion. For decades, Montreal maintained its bragging rights.

But today, the skyline is stagnant. For more than 15 years, Downtown Montreal has been awaiting new construction. And with tech firms, video-game developers and other key industries experiencing major growth, it won't be long before new towers

break ground. At least four developers – SITQ, Kevric, Canderel and Magil Laurentienne – are itching to proceed with development on sites that they already own.

SITQ represents 900 de Maisonneuve Ouest. Located in the heart of the downtown core, this development would boast 27 floors and 450,000 sf of premium office space.

Kevric is evaluating Altoria, a mixed-use development opportunity in the Quartier International (the city's premier growth area). The project would feature 430,000 sf of office space plus residential condo units.

Steps away from the financial core, Old Montreal and the Peel Basin, Magil Laurentienne's project offers 1.4 msf of gross leasable area spread over two phases. Place University St. Jacques would be well-positioned in the company of many high-profile tenants, including the Caisse de dépôt and Montreal Stock Exchange. Furthermore, the City of Montreal is working on plans to revitalize the Peel Basin, a project that would render this new development even more accessible.

Canderel's project – 1215 Phillips Square – located between the latter two, would offer 900,000 sf with the flexibility to be right-sized to meet major-tenant requirements. Steps away from prime Sainte-Catherine Street retail and the René-Lévesque office corridor, Canderel is offering an unbridled opportunity to occupy a strategic location at the bridge between East and West, while providing tenants with easy access to the Metro and major highways.

Which developer will be the next to contribute to new downtown office development? Only the future will tell.

Case Study

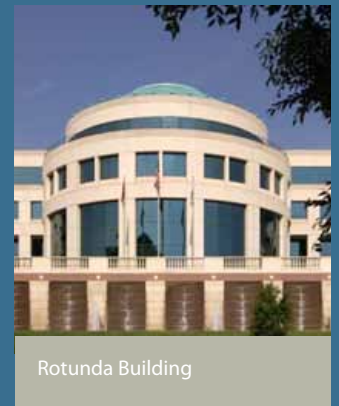
A Montreal-based client held a long-term lease on 92 acres slated to house a 450,000-sf office development in Charlotte, North Carolina. However, the lease terms prevented the landlord and the tenant from changing ground outside the building without each other's permission. Essentially, the tenant had de facto ownership of the land in equal proportion to the landlord. The landlord wanted to add buildings to the land, but the

tenant would not consent until its leasehold position translated into equity.

In a transaction that took more than a year to accomplish, Avison Young's Stephen Leopold sold one clause in the lease. By guiding his client – the tenant – through the sale of the clause, Leopold enabled the landlord to develop multiple office buildings and a hotel. Meanwhile, the tenant continued

to occupy the space, obtained a new lease and deposited an eight-figure settlement cheque in the bank – just for changing one clause.

The moral of the story: a long-term lease can be the equivalent of ownership.



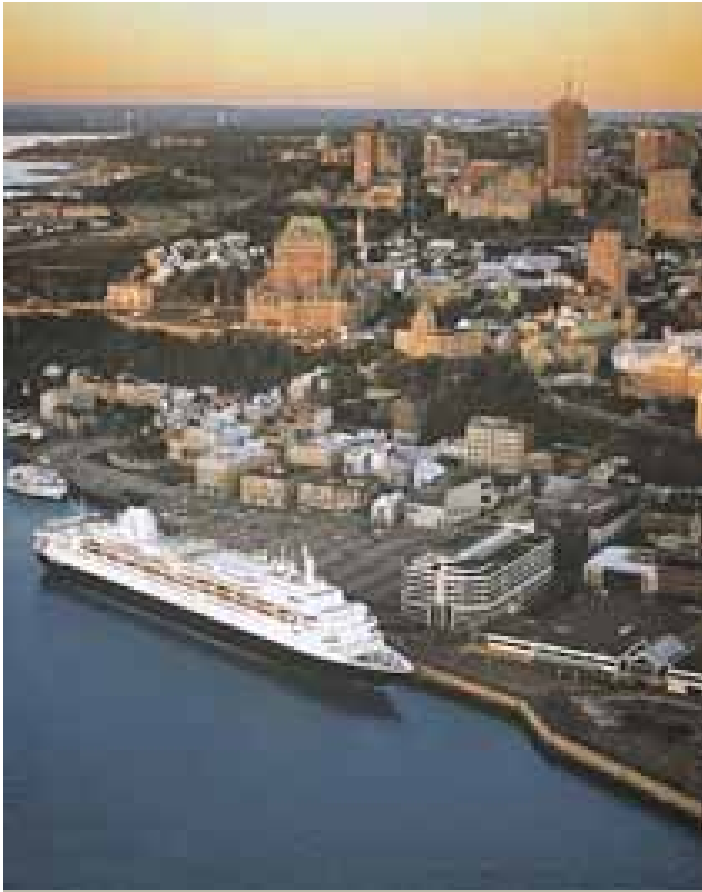
Rotunda Building

Quebec City

1300 Ste-Anne Boulevard Quebec City, QC G1E 3M5
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Real estate market thrives despite economic slowdown



Quebec City is the second most populous city in the province of Quebec

Of all the real estate markets in Canada, the one in Quebec City is probably the best-kept secret. It's a market in full expansion mode. Indeed, from 2009 to 2010, developers added 1.57 msf to the office space inventory, an increase of 9%. During the same period, developers added only 1.53 msf to the Montreal office rental market – which is five times bigger. The Montreal increase represented only 2% of the total inventory. Despite the dramatic growth in office product during a period of economic slowdown, the overall vacancy rate in Quebec City, including the Lévis market, was only 6% in the fourth quarter of 2010.

What factors can explain the dynamic state of this market? Besides the fact that the public sector provides a stable minimum level of employment and that the unemployment rate (approximately 7%) is among the lowest in the country, Quebec City has the highest concentration of insurance-company headquarters in Canada. La Capitale, Industrial Alliance and SSQ provide thousands of jobs to people in the region. The dynamism of Université Laval also has

a strong influence and makes Quebec City attractive in several respects to companies in leading sectors – an example being GlaxoSmithKline, which continues to expand.

The energy of Mayor Régis Labeaume also contributes to the revival that has taken hold of Quebec City. His entrepreneurial past in the mining industry instills a taste for risk and dare in his fellow citizens as well as in property developers. Indeed, the mayor has made it clear that in his city he expects quality projects with leading-edge facilities and avant-garde architecture. LEED-certified projects are virtually a requirement.

In the future, Quebec City's real estate development strategy will revolve on a planning concept known as eco-neighbourhoods, seen in some Scandinavian countries. Eco-neighbourhoods are areas where commercial real estate development is in harmony with residential development, thus reducing travel distances within the city. A first eco-neighbourhood has already emerged in the city and will be followed by two other similar projects. It is clear that a great deal of effort has gone into minimizing urban sprawl.

Recently, the provincial and Quebec City governments jointly announced plans to construct a new arena at a cost of \$400 million. This new state-of-the-art building is expected to be built near the city centre.

For many years, the commercial real estate market in Quebec City was off the radar for many national players. This neglect created a vacuum that local developers and investors occupied by default. Their commitment to the city and boldness have been rewarded in some respects, because some players that were considered local are now well established in the Montreal market, a situation few people could have predicted.



Quebec City skyline



Halifax

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Downtown on the verge of change



Downtown Halifax

For the past decade, suburban Halifax has led the region's growth and development – both from a residential and commercial standpoint. Forests and rock outcroppings have been replaced with thousands of homes for residents and hundreds of thousands of square feet of commercial space for businesses. While this development activity has been interesting to watch, it has also been controversial and partially to blame for a decline in business activity downtown.

Inexpensive land and lower taxes have made commercial properties in the suburbs very attractive for both developers and tenants. Free parking is attractive to tenants, and operating costs are generally lower due to the difference in property tax rates. With more and more people moving to the suburbs, commutes to suburban office properties have become advantageous in some circumstances.

An argument can be made that tax dollars from downtown properties are being used to fund infrastructure in the suburbs. Downtown property owners are crying foul about the low level of municipal services they receive versus the high amount of taxes they pay. The higher tax burden is passed on to their tenants and, as a result, makes the properties more expensive. This inequity needs to be addressed, and it is becoming a topic of conversation – the first step in making conditions more equitable.

The City of Halifax, through the recently adopted Halifax Regional Municipality (HRM) by Design planning document, appears committed to having more people living and working downtown. The increased commuting costs and longer commute times are also helping to get people back downtown – or preventing them from leaving.

Attitudes about urban life also appear to be changing. Living and working downtown is becoming more popular for young and old alike. This trend is expected to continue as new downtown development provides more living, dining and shopping options along with increased services.

A number of new downtown developments are still being contemplated, and it appears inevitable that ground will break soon. Word on whether the federal government will fund the proposed new convention centre is imminent, and Ottawa's support would be an excellent catalyst for the area's renaissance. But without the federal cash, developers will be forced to pursue alternatives to a convention centre. Either way, the proposed new convention centre site will be developed – and Downtown Halifax will undergo exciting changes in the coming years.

Case Study

In spring 2010, Avison Young accepted the retail listing for a newly-renovated building on Barrington Street in Downtown Halifax. Barrington Street represents a once bustling retail corridor now rife with underutilized buildings stuck in limbo as they await redevelopment.

Avison Young leasing specialist Stacy Chesnutt led the marketing efforts for the building. Rather than try to convince current downtown

retailers to relocate to a property better known as a former pawn shop and consignment store, she focused on the natural inclination of retailers to situate near competitors.

Chestnutt courted The Adventure Outfitters (TAO) and convinced the local outdoor gear store to leave the suburbs for a new 3,850-sf home within a block of Mountain Equipment Co-op (MEC) in the heart of Downtown Halifax. The

move resulted in a win-win for both the landlord and tenant.



Barrington Street building

Chicago

Orchard Point 9700 W. Higgins Road, Suite 650 Rosemont, IL 60018
T 847.849.1900 F 847.881.2294



Higher taxes concern business community



Illinois lawmakers raise taxes in an effort to trim budget deficit, but will it negatively impact the state business climate?

In January, the Illinois Legislature passed a tax increase aimed at solving the state's fiscal problems. The increases are expected to raise \$6.8 billion annually and go a long way towards stabilizing the state's underfunded pension plans. The law raises the personal income tax from 3% to 5% and corporate taxes from 4.8% to 7%.

Chicago, the state's largest and most vibrant marketplace, does not have a challenger to its dominance as the business hub of the Midwest, but the business community is concerned that higher corporate taxes will kill Illinois' job-growth prospects by scaring away new companies and forcing existing businesses to relocate outside the state. Despite the critical mass of industry, workforce intelligence and financial infrastructure in place today, the state risks the alienation of companies seeking new business opportunities.

Occupiers are exploring southeast Wisconsin and northwest Indiana as possible destinations for their next facility. Both areas are within a short drive of Chicago and provide lower income and corporate tax rates. This factor will increase the importance of state incentives in the deal-making process. Now, more than ever, it is critical for Illinois economic development agencies to offer competitive incentive packages – and not just to large corporations, but also to small users who drive job growth.

One bright spot is that retailers appear unafraid of the tax rate increases and are leasing up vacant big-box space left over from the Circuit City and Linens 'n Things bankruptcy filings. The hhgregg chain intends to open 15 stores of 25,000 sf or larger in the next few years, while Five Guys Burgers and Fries is launching new locations across the Chicago metro area. As the 2010 census showed, there was a population explosion in the Chicago suburbs during the last 10 years and those residents can support further retail expansion.

How will the tax increases affect the business climate in Chicago? One consequence is that villages, cities and counties will be forced to become more aggressive in offering incentives to new businesses. Landlords will need to be highly aware of the types of incentive packages being offered in order to combat the perception that Illinois is anti-business. It is likely that, in the near term, businesses will stay in Chicago, because the cost of relocating an established business is risky for companies still trying to return to profitability in the city's slowly recovering market. However, the State of Illinois needs to ensure that new taxes are not a hindrance to economic growth in the future.



Unisource building

Case Study

Unisource Worldwide had a long-term lease agreement for a building it no longer used or needed. In addition, Unisource Worldwide had a building purchase option that it could exercise. Meanwhile, Avison Young was retained by an outside investor, DCT Industrial Trust, to discover value-add investment opportunities in the O'Hare submarket.

After Unisource Worldwide decided against purchasing the

building and repositioning it as its own asset, Avison Young brokered the building's sale to DCT. The strategy employed by Todd Heine and Mike Nolan was to utilize the existing lease income stream while upgrading the asset to a class A building, upon which DCT could choose to lease it to a new tenant or sell the improved facility.

Avison Young succeeded in finding DCT a high-quality facility with highway frontage. This achieved

DCT's goal of broadening an O'Hare presence. The seven-year remaining lease term allows DCT time to upgrade the well-located building into a class A asset.



Washington, DC

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Office market indicators improving in landlords' favor



A Washington Metropolitan Area Metrorail System (Metro) underground station.

With vacancy rates improving and tenant demand rising, the Washington, DC metropolitan area office markets are in an enviable position compared to other U.S. office markets. At 12%, vacancy in the 362-msf Washington market remains elevated compared with historical averages; however, the rate belies the fact that several key submarkets are trending toward landlord-favorable conditions and have single-digit vacancy rates.

Development has ground to a near halt and gradual improvement is anticipated in all office-market indicators during the first half of 2011, with a more widespread shift to an owner's environment in 2012. In a region comprising 67 submarkets in two states and the District of Columbia (DC), the close-in submarkets have the advantage.

DC will be among the first to shift to a landlord's market. Current

conditions – 8.2% vacancy overall, few projects under construction, and significant take-up by the federal government and others – have resulted in owners of class A properties pulling back on the generous concession packages of the last 24 months. The class A market segment in the East End comprises 39% (29.5 msf) of the city's total class A inventory, and during 2010, its vacancy rate improved by nearly 350 basis points (bps) to 7%, including sublease space. Moreover, average class A asking rents climbed to \$61 psf from \$56 on a full-service basis over the year.

Similarly, the Central Business District (CBD) submarket's class A vacancy rate dropped more than 300 bps to 11.6% from 14.7% – even as some recently-delivered premier buildings continue to have notable blocks of vacant space. Average asking rents for the CBD class A segment have been flat, hovering in the \$54 psf full-service range.

In Northern Virginia, the 21.7-msf Rosslyn/Ballston Corridor (R/B) saw its vacancy rate drop more than 100 bps to 5.6% at year-end 2010 and is one of the tightest markets in the country. R/B, with its Metrorail-centered inventory, access to the Pentagon and DC, and mature amenity base, is often the first “stop” as tenants move from DC. In February, a major DC-based tenant announced it was expanding by 70,000 sf into R/B while keeping its DC location. With rising rental rates and only 150,000 sf slated to be delivered in 2011, R/B has shifted to a landlord's market.

Since the beginning of 2011, there has been an uptick in tenants touring for space, as occupiers who were sitting on the sidelines have realized that the supply of large blocks of space in sought-after submarkets will dwindle during the next 18 months. Landlords, seeing the shift in market conditions, have started to respond accordingly.

Case Study

The agency leasing assignment at McLean Office Center posed a unique challenge to reposition and re-lease an older, substantially vacant office property. The 77,000-sf building is well-located in the Tysons Corner submarket of Northern Virginia; however, the property had recently lost several long-term tenants to newer properties and was off the radar of both tenants and the brokerage community.

Northern Virginia specialists Dan Gonzalez and Todd McManus led the Avison Young team. After examining market conditions, recent lease comparables and the occupancy levels of nearby buildings, the team determined the building should be marketed as medical space.

After working closely with the owner to determine the necessary build-out and tenant-improvement budgets, the team immediately

undertook a comprehensive rebranding and marketing plan targeting medical users and the brokerage community. The building was brought to nearly full occupancy in a very short time, achieving long-term leases and increased rental rates for the client. Avison Young continues to market the property.



McLean Office Center

Atlanta

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Office sales rebounding in 2011



Downtown Atlanta's skyline

Investment in Atlanta office space is making a comeback and asset-trade volume is expected to accelerate through 2011. After taking a couple of years off, investors are beginning to find transactions in the office market. In January 2011 alone, \$235 million in trades completed, representing more than half of 2010's total dollar volume. After the market peaked in 2006 and 2007, recording sales dollar volume of nearly \$5 billion per year, total volume declined to a low of \$200 million (4% of peak) in 2009 and less than \$400 million in 2010.

Several trades are worth highlighting. In one recent notable

transaction, a publicly-traded REIT purchased 3344 Peachtree, a newly-completed (2009) class A (484,000 sf) tower in Buckhead, for \$167.3 million (\$346 psf) at a cap rate of 6.8%.

The sale of 271 17th Street, a newly-completed (2009) class A (534,000 sf) building in Midtown, for \$75 million (\$140 psf) provided a resolution for a distressed AIG asset. At the time of sale completion, the building was less than 50% leased.

And in another recent transaction, a privately-held REIT acquired 3333 Riverwood Parkway, a 95% leased, 20-year-old class A (105,000 sf) suburban office building. The \$15.3 million (\$146 psf) purchase price was well below new replacement cost.

Lower-quality distressed assets have begun to come to market but are also being transacted off-market. This trend of disposing of distressed assets will likely accelerate through 2011 as banks, special servicers and others move the assets off their balance sheets for many reasons, including improved leasing status, foreclosures and asset write-downs.

The sale of notes, secured by commercial real estate, have increased for distressed lenders disposing of performing loans, in addition to distressed loan sales from many financial institution sources.

Atlanta expects to see improving fundamentals in the office market with projected job growth of approximately 40,000 new jobs in 2011 and an expected job growth in excess of 50,000 in both 2012 and 2013. Even though job growth was flat in 2010, the office market witnessed positive absorption (698,000 sf) in the fourth quarter – the first significantly positive quarter in two years. As assets become available and fundamentals begin to improve, 2011 should be a year of transition with increased velocity on the investment sales side and good opportunities for well-placed office investments.



King's Hawaiian facility

Case Study

Avison Young's Chip Watson and Brent Weitnauer represented King's Hawaiian in all aspects of a 120,000-sf, state-of-the-art baking facility needing to be delivered in just 12 months from site selection.

Watson and Weitnauer co-ordinated the build-to-suit through their unique process of site selection, labor analysis, incentive negotiations, and land acquisition. They also assembled the architect/engineering team for

building and process equipment, provided capital sources, secured and assembled bonds for financing, provided a working construction budget, awarded the final construction contract and provided construction-management oversight.

The project has an anticipated completion date of July 2011 and an estimated value of \$35 million. The negotiated incentive package, initial real estate savings

for land and infrastructure, plus an additional savings from Avison Young's ability to leverage the financial underwriting, are expected to be approximately \$10 million, or 28%, from initial budget before any additional construction savings are calculated.



Houston

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T 713.993.7700 F 713-993-7701



Port's diverse services spur economic development



Port of Houston

Employing more than 785,000 people and generating a statewide economic impact of roughly \$118 billion per year, the Port of Houston is the world's 10th-largest port. It ranks No. 1 in the U.S. (for 14 consecutive years) in foreign waterborne tonnage, first in U.S. imports (19 consecutive years) and second in total tonnage (behind Los Angeles). Comprising a 25-mile-long complex of diversified public and private facilities, the Port consists of the Port of Houston Authority and 150-plus private industrial companies situated along the Houston Ship Channel.

Since its creation in the 19th century, the Port – in both good times and bad – has been a foundation of stability. Through Houston's most

recent recession, the Port remained strong, as witnessed by the fact that container shipments decreased by only 1% from pre-recession highs compared with the 20% to 30% dips experienced along the U.S. Western and Eastern seabords.

The Port of Houston's diversity helped make it the only profitable U.S. port in 2009. This diversity, which includes being a major center for worldwide oil and petrochemical industries, and for aerospace and biomedical research and development (as well as the existing transportation infrastructure platform), continues to be a stabilizing force for the region.

As long as goods continue to be shipped to and from Houston, existing and new companies will continue to operate and support this importing and exporting activity. As a result, port growth will continue to spur demand for commercial real estate in Greater Houston. This growth will eventually lead to positive net absorption, decreased vacancy and increased rental rates.

Two direct examples of recent commercial development due to the ever-growing infrastructure and capabilities of the Port are Walmart's 4-msf, 296-acre import center complex and Home Depot's 755,000-sf distribution center. In addition to single-tenant development, the most recent development cycle (late 2007 to early 2009) yielded more than 7 msf in industrial product – nearly 10% of the total for this particular submarket.

With continued improvements and upgrades to the Port's existing infrastructure, coupled with the upcoming expansion of the Panama Canal (set to be completed in 2014), activity and growth within the Port should continue at a solid pace. As a result, the challenge over the next five to 10 years is not if growth will continue, but rather how the Port works to manage it – both from an operational/business standpoint as well as from an environmental standpoint.

Case Study

With two acquisitions nearing completion, Prime Natural Resources was keen to acquire additional space to accommodate immediate growth needs and, at the same time, dispose of existing current office space that had 20 months remaining on its lease.

Despite the urgent expansion need, Prime remained cognizant of the financial impact associated with both the additional square footage

requirement and the existing lease liability. As a result, below-market, yet class A, office space was required for the operation.

Avison Young secured a full-floor (approximately 25,000 sf), long-term sublease from BMC Software at its ultra-modern office complex at 2103 City West. Avison Young was able to secure free rent on approximately one quarter of the floor for two years, enabling

Prime to accommodate its long-term growth while minimizing the initial rent payments at the new building. In concert, Avison Young successfully negotiated a sublease of Prime's current space, which was ultimately converted into a favorable lease buy-out directly with the building ownership.



2103 City West

Boston

52-R Roland Street, Charlestown, MA 02129
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Strength in scientific innovation creates lab space shortage



The Boston market is a hotbed of laboratory sciences.

Growth and innovation in life science, clean technology and software positioned Greater Boston as an economic leader during 2009-2010. Collaboration between scientific researchers and medical professionals is the engine that drives the innovation. This engine is fueled by a high-octane blend of capital from private equity and government loans and grants. This super-cluster of activity spawns medical advances, conceives new technologies and often morphs into early-stage companies.

Nationally, investment by the venture capital sector in start-up and growth companies rose sharply in 2010. Life-science investments represented six of the top 10 venture capital deals in Boston in the last quarter of 2010. This local economic driver shows no signs of abating in 2011.

VC investment in Massachusetts biotech companies increased to

\$250 million in 2010, a 25% increase over the previous year. This created a proliferation of early-stage life-science companies that have emerged with an appetite for flexible, cost-effective laboratory space in Greater Boston. However, the supply of suitable lab space in Boston and Cambridge has not kept pace with the demand. These two submarkets contain 12.6 msf of lab space and have vacancy of less than 10%.

The 7.25-msf Cambridge class A lab market has 11.4% vacancy, but class A space is expensive at \$50-\$60 psf triple net and often does not subdivide well. The 1.77-msf Cambridge class B market has vacancy of 13.8%; and the 3.6-msf Boston lab market has overall vacancy of 4.3%, with 9.6% in class B product. But despite the higher class B vacancy rates, the space is often rundown and functionally obsolete. This lack of supply leaves few options to meet the demand of emerging life-science companies.

The fundamental challenge here is that lab development is costly and requires specialized expertise. Moreover, the demand is coming from early-stage companies that are often without revenue or the financial strength to justify a \$75 to \$150 psf investment. Most real estate developers are unwilling to make speculative investments in this specialized product.

The commercial life-science facilities sector is only served by a few private developers and the university and hospital network. There is a shortage of well-conceived, well-capitalized lab development projects within the Boston/Cambridge biosphere of influence. In response, a nascent but growing industry of technology incubators has emerged to meet this demand. However, these facilities have been developed by the private/public partnerships geographically outside the urban innovation clusters in places like Worcester, Lynn and Beverly, all 10 to 50 miles from the metropolitan core. Thus, the supply void, to date, remains unfilled.



Incubator space

Case Study

Avison Young is the asset and property manager for 52-56 Roland Street, a 154,000-sf office/R&D complex in Boston's Charlestown neighborhood. The property is located a few miles from Kendall Square in Cambridge, the epicenter of the biotech industry in Greater Boston.

To capitalize on the lab sector's growing trend of supply imbalance, Avison Young is forming an

innovative joint-venture with an existing lab-services tenant to provide shared incubator space and on-site consulting to four entrepreneurial lab research companies. The private and publicly-funded incubator will generate \$25-\$30 NNN rents, as opposed to \$18-\$20 gross office market rents, and lead to a dynamic cluster of growing companies.

Avison Young is also building space

for a lab tenant that is graduating out of incubator space at a nearby university. Fulfilling the needs of a full range of growing biotech, green tech and life tech companies is an innovative approach that will differentiate the asset as a go-to location for this vibrant sector.

AVISON YOUNG HISTORY

Founded in 1978, **Avison Young** is Canada's largest independently-owned commercial real estate services company and the only national, Canadian-owned, principal-managed real estate brokerage firm in the country. Headquartered in Toronto, Ontario and ranked among Canada's leading national commercial real estate organizations, Avison Young is a full-service commercial real estate company comprising more than 700 real estate professionals in 23 offices across Canada and in the U.S. The company provides value-added, client-centric investment sales, leasing, advisory, management, financing and mortgage placement services to owners and occupiers of office, retail, industrial and multi-residential properties.

Formed by the union of **Graeme Young & Associates** of Alberta (1978) and **Avison & Associates** of Ontario (1989) and British Columbia (1994), Avison Young was created in 1996 to provide clients with more comprehensive real estate services at the local, national and international level. Over the next decade, new offices opened in Mississauga (1997), Montreal (2002), Quebec City (2003), Winnipeg and Regina (2004), Halifax (2006) and Ottawa (2007).

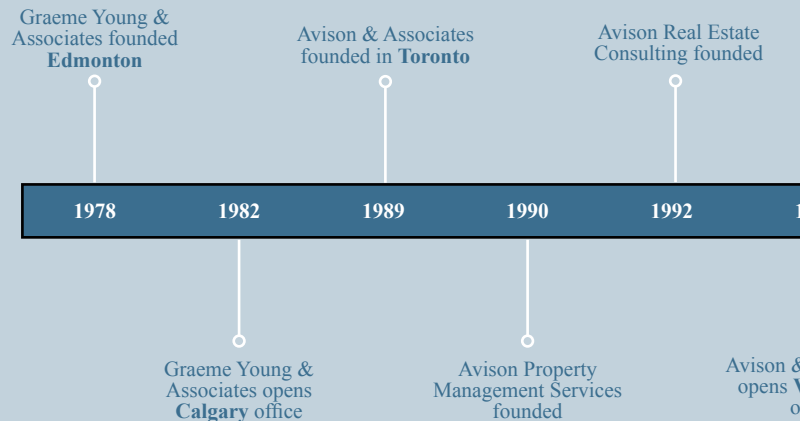
In fall 2008, the shareholders merged the operations to create a single national entity: **Avison Young (Canada) Inc.** As a result, Avison Young became Canada's largest independently-owned commercial real estate services company.

In late 2008, the company acquired Toronto-based **Darton Property Advisors and Managers**, establishing Avison Young as one of the country's largest independently-owned, third-party commercial property management firms.

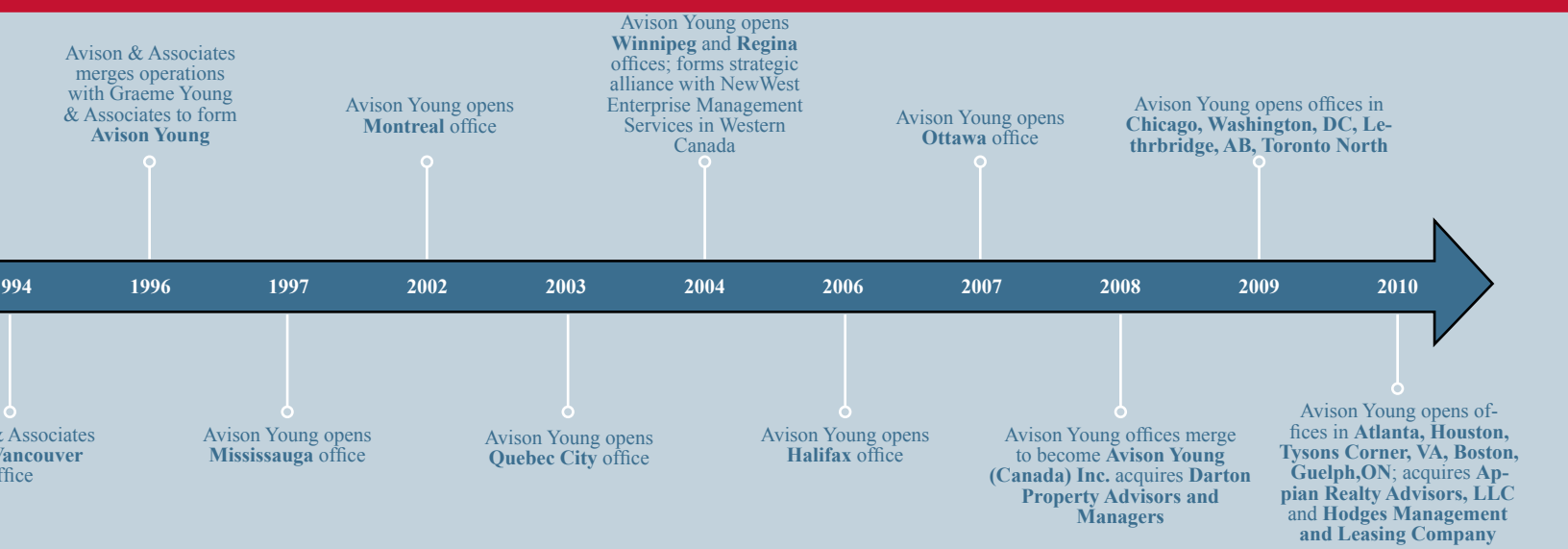
In early 2009, Avison Young opened its first U.S. office in Chicago, followed by new offices in Washington, DC; Lethbridge, AB; and Toronto North (2009); Atlanta, Houston, Tysons Corner, VA, Boston and Guelph, ON (2010).

In 2010, the company also acquired Tysons Corner, VA-based **Appian Realty Advisors, LLC** and Atlanta-based **Hodges Management and Leasing Company**.

Today, Avison Young has offices in **Toronto (2), Vancouver, Calgary, Edmonton, Lethbridge, Regina, Winnipeg, Guelph, Mississauga, Toronto North, Ottawa, Montreal, Quebec City, Halifax, Chicago (2), Washington DC, Tysons Corner, Atlanta (2), Houston and Boston**. The company's advisory personnel, licensed brokers, commercial property managers, financial analysts, research professionals, marketing specialists and property accountants serve clients ranging from leading multinational companies to smaller firms and sole proprietorships.



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