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British Columbia Real Estate Investment Review

Mid Year 2008



Intelligent
Real Estate Solutions

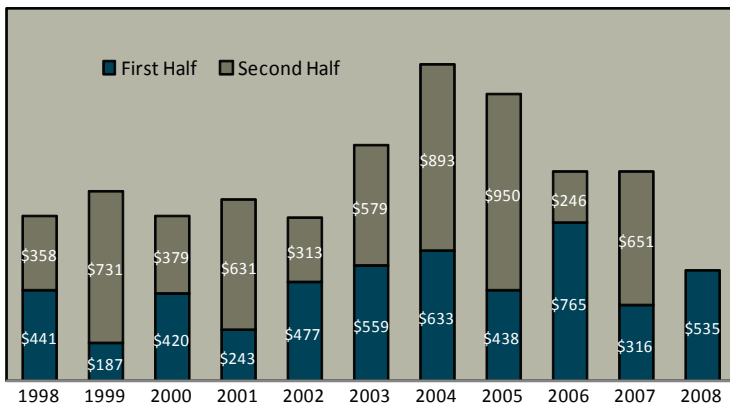
First Half 2008

Total value (sales > \$5 million):	\$535 Million
Total number of transactions:	38
Most active buyers:	Private
Most active sellers:	Private
Most active asset class:	Industrial

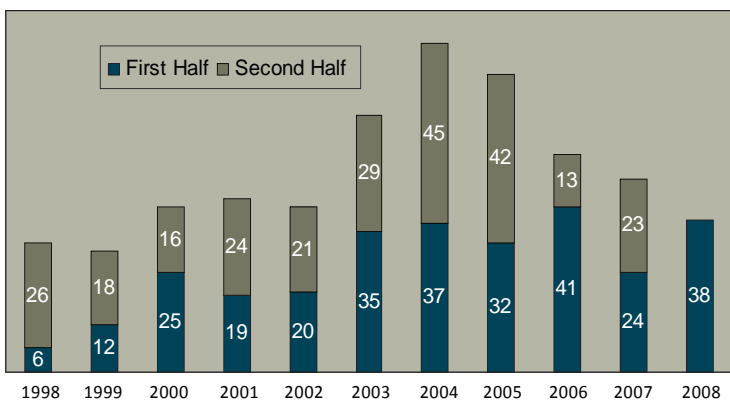
Healthy demand continues to drive investment market

British Columbia's commercial real estate investment market continues to show stability, with significant capital seeking a limited number of properties. Despite the economic woes south of the border and the volatility in global financial markets, the BC economy continues to trend above the national average and demonstrate resilience, with solid economic fundamentals continuing to drive demand.

BC Investment Sales by Dollar Volume (\$ Millions)
(Properties >\$5 Million)



BC Investment Sales by No. Of Transactions
(Properties >\$5 Million)

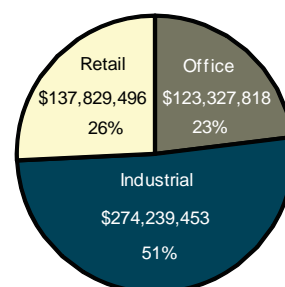


During the first half of 2008, the total value of office, industrial and retail investment transactions amounted to \$535 million— up from \$316 million in the first half of 2007 and on pace to meet the \$967 million recorded in all of 2007. (Avison Young tracks investment sales in BC greater than \$5 million.) Total number of trades also increased from 24 in the first half of 2007 to 38 during the first half of 2008. Average sale price was \$14.1 million, down from the average transaction size of \$20.6 million in 2007.

Industrial properties were the most prominent assets traded between January 1 and June 30, largely influenced by the disposal of Versacold Canada Corp.'s portfolio to Kingsett Capital, which accounted for six trades totaling \$103 million. Overall, private investors were at the forefront on both the buying and selling sides.

Buyers continue to outnumber sellers, and the current impediments to more activity are the lack of prime product available for sale; onerous financing terms; and, for non-prime property, a gap between vendor and buyer expectations. Many owners continue to be reluctant to sell investments, which currently outperform other options. Due in part to the rolling credit crisis and economic downturn in the U.S., buyer urgency has left the market. However, there continues to be multiple offers for first-class product.

Sales by Property Type
First Half 2008



Overall Activity

The BC investment market appears to be returning to more realistic transactional levels following the high volume of deals experienced between 2003 and 2005. The challenges facing the market currently are a lack of listings/offers and market pricing expectations on the part of vendors.

Overall, prices for well-located prime properties have not retrenched in value over the past six months. With interest rates remaining steady, capitalization rates for prime assets are anticipated to hold firm. However, the number of deals in secondary and tertiary markets has tapered across the board of product types, and capitalization rates have increased.

There have also been a lack of bids on more complicated properties. Buildings with vacancy/tenant covenant issues (particularly in the BC interior and on Vancouver Island) as well as development sites in poor locations are witnessing a decline in value. This is the result of a change in yield expectations from buyers, who are more closely scrutinizing properties' investment attributes.

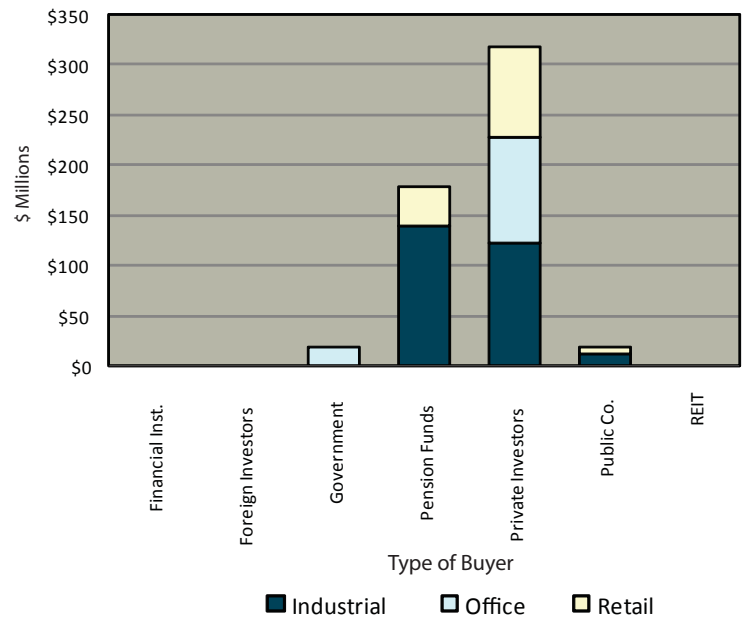
With lending practices, including debt coverage and loan-to-value ratios, more conservative than in previous years, investors requiring high leverage are sidelined for now. Nonetheless, interest rates remain at historic lows and there have still been a reasonable number of trades with buyers flush with equity.

The tremendous increase in land values and construction costs continues to challenge new construction agendas, and this has forced attention on and increased demand for existing properties. More product is anticipated to become available over the next 12 months,

mostly on a "quietly-marketed" basis with vendors unofficially offering their property to the market or buyers making unsolicited offers.

When all is said and done, commercial real estate returns have typically exhibited lower volatility than other investment options, such as stocks and bonds. Driven by macro financial influences, which take longer to affect investors, real estate cycles are often less volatile and returns are typically more predictable.

First Half 2008: Buyer Purchases by Asset Type

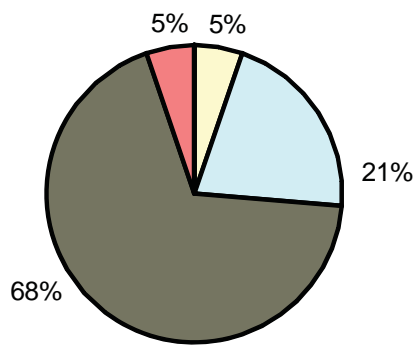


Avison Young recently represented Brewers Distributor Ltd. in the 451,047-sf build-to-suit expansion and relocation of its Lower Mainland distribution warehouse to Port Coquitlam, BC. Construction will begin in September 2008 on what will be one of Metro Vancouver's largest buildings.

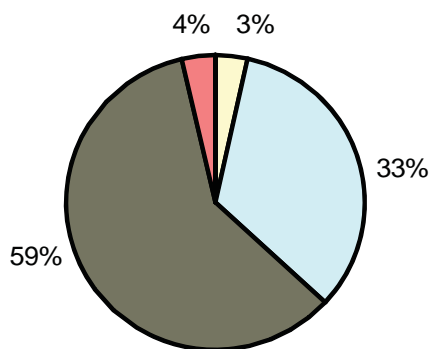
Buyer Profile

As in 2007, private investors persisted to dominate the buyer side during the first six months of 2008, purchasing \$319 million worth of investment properties— up from \$199 million during the first half of 2007. This buying group accounted for 68% (26 of 38) of the trades and 59% of the dollar volume to-date in 2008.

First Half 2008: Number of Transactions by Type of Buyer



First Half 2008: Value of Purchases by Type of Buyer



There continues to be interest from large pension funds, which have the cash and the staying power; while REIT acquisitions have slowed due to lack of appetite from the capital markets to provide equity, and positive accretion issues. Institutional investors, including pension funds, were responsible for 21% (8 of 38) of the transactions and 33% (\$179 million) of the dollar volume during the first half of 2008. Kingsett Capital's purchase of Versacold Canada Corp.'s portfolio of six properties in Abbotsford, Delta and Richmond accounted for six of the transactions totaling \$103 million. There was also interest from government and public companies. The credit crunch has not taken foreign investors out of the market, but there were few to begin with and those who are present continue to participate.

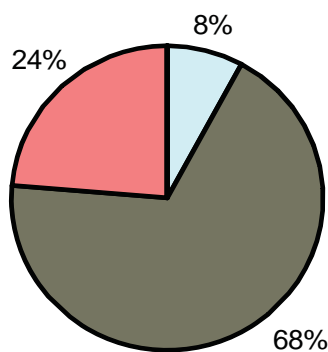
A slower economy outside of BC has not necessarily slowed investors' buying habits. Buyers are generally confident in BC's economy, willing to invest and have access to capital. They do, however, expect a better yield as a matter of course because that is what the rest of North America is experiencing. Until the gap between what buyers are willing to pay and what sellers are willing to accept shrinks, activity volume will continue to be affected. The big challenge for some buyers will be availability of debt. However, while the sources for financing have decreased and financing terms in the short run are more onerous and favour the lender, there are still significant levels of equity seeking deals.

Seller Profile

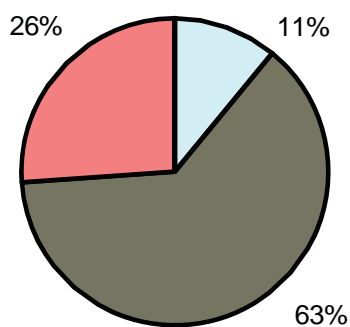
Private investors were also the largest class of vendors during the first six months of 2008, selling \$337 million worth of property— up from \$204 million during the first half of 2007. This seller group represented 68% (26 of 38) of the transactions and 63% of the dollar volume.

The next most active group was public companies, which accounted for 24% (9 of 38) of the deals and 26% (\$140 million) of the volume. (Again, Versacold Canada Corp.'s portfolio sale accounted for a portion of this.) Institutional investors were the next largest group of sellers, representing 8% (3 of 38) of the transactions and 11% (\$96 million) of the dollar volume. Industrial properties were the most popular property type traded.

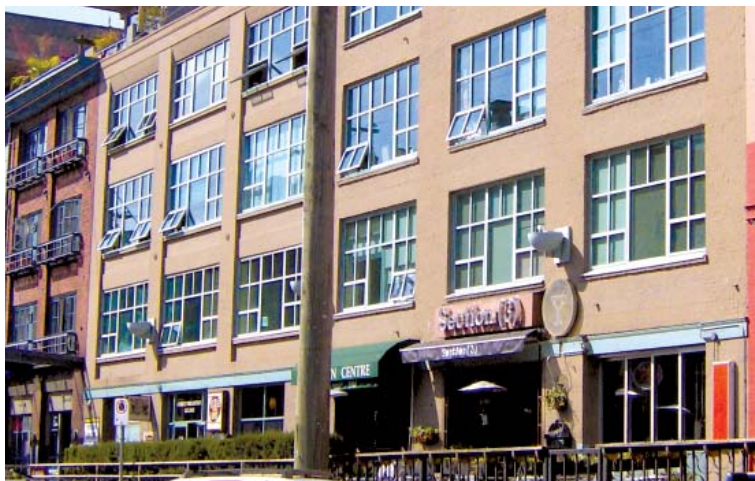
First Half 2008: Number of Transactions by Type of Seller



First Half 2008: Value of Sales by Type of Seller



While BC's investment market has not been disturbed nearly as significantly as in other markets, it has not been completely immune to the national economic slowdown, as evidenced by lower activity levels. As real estate pricing and activity levels typically trail the overall economy by months and sometimes years, vendors are not currently motivated to meet buyers' expectations, which have changed for other than prime real estate. It may take several quarters for sellers' expectations to adjust.



A private investor acquired Yaletown Centre (1040 Hamilton Street) from Bonnis Properties for \$22.4 million in May 2008

During the first half of 2008, the number of office property trades was spotty due to the scarce supply of quality office investment stock. Owners have been reluctant to sell due to a lack of re-investment options, and a belief that office rents have more room to grow than do retail and industrial rents. Compared to the retail and industrial property markets, office investment transactions during the first six months registered the least activity, representing 24% (9 of 38) of the transactions and 23% (\$123 million) of the dollar volume. Although this is down from the \$158 million traded in the first half of 2007, the current activity level is on pace to meet or exceed the \$267 million traded last year due to a weak second half in 2007.

Most of the recorded trades represented properties in Vancouver, including a couple in Yaletown and the eastern edge of downtown. There have been no sales in the financial core thus far in 2008. Buyers were generally represented by private investors and the government, whereas the selling side was made up of private and institutional investors, and public companies.

While institutional players typically chase trophy properties, many class A buyers are pursuing suburban buildings. In the wake of the U.S. sub-prime and credit crisis, and banks and mortgage companies becoming more cautious with their borrowing criteria, the investment game has become more challenging for private buyers without significant equity available.

Nonetheless, for buyers, escalating rents and low vacancies have created favorable market dynamics. The Metro Vancouver office leasing market remains tight. Steady demand held the region's overall vacancy rate at a low 5.0% at mid-year 2008. Downtown, the acute shortage of new supply trimmed the core's vacancy rate to a meager 2.5% at mid-year—the lowest vacancy since 1981.

Class A space is even more constricted with only a scant 1.3% (or 88,338 sf) vacant. Landlords have been able to capitalize on the dearth of prestige space as rents for top-end premises are now hitting a record \$50 per square foot (psf) net. In the suburbs, where vacancy currently sits at 7.2%, rental rates have also been rising, although not to the same degree as in the downtown core.

Land and construction costs have pushed the average replacement cost to more than \$500 psf. Trading has lagged due to the lack of investment product available. Capitalization rates are holding steady in the 5.0% to 6.0% range, although this is difficult to measure given the low transaction volume. Office yields in the core remain in the 5.0% range.

With no new major downtown office projects anticipated to come on stream before 2012, it's an opportune time to own office buildings. While the suburbs will witness a fair bit of new supply over the next two years (approximately 700,000 sf in 2008 and at least that amount in 2009), rising land and construction costs will continue to challenge the economic viability of constructing major new projects. (Land and construction costs are anticipated to level out over the next year.)

Many owner-users continue to desire to own their own premises, and there are a few empty buildings available for sale. Downtown strata office space will also become available, including 60,000 sf at Jameson Development's Jameson House in 2010, and 70,500 sf at Delta Group's Hotel Georgia development in 2011. While the demand for strata space is strong, the price of admission remains high at \$750 psf for shell space only, not including tenant improvements.

Although the U.S. credit crunch has impacted some investors' minds nationally, the region's low vacancy levels and positive rent growth continue to draw interest. There are dispositions proceeding for the latter half of 2008, but unless sellers' expectations meet those of buyers, some of these potential transactions may not complete.

Property	Municipality	Price	Vendor Type	Buyer Type	Date
13130 76th Avenue	Surrey	\$13,425,000	Institutional	Government	January 08
1 Alexander Street	Vancouver	\$10,000,000	Private	Private	March 08
1212 Douglas Street	Victoria	\$9,000,000	Private	Private	March 08
Hollyburn Medical - 520 West 17th Street	West Vancouver	\$21,000,000	Private	Private	March 08
Sun Tower - 100 West Pender Street	Vancouver	\$15,470,000	Private	Private	March 08
1128 Homer Street	Vancouver	\$16,600,000	Private	Private	May 08
4400 Still Creek	Burnaby	\$10,400,000	Public	Private	May 08
Buswell Building - 6411 Buswell Street	Richmond	\$5,050,000	Private	Government	May 08
Yaletown Centre - 1040 Hamilton Street	Vancouver	\$22,382,818	Private	Private	May 08
TOTAL		\$123,327,818			

Retail

Hindered by a deficit of quality product for sale, the retail investment market remains relatively quiet. Between January 1 and June 30, retail investment trades accounted for 29% (11 of 38) of the deals and 26% (\$138 million) of the total volume— slightly below the activity levels of the previous six-month period but on track to meet 2007's year-end performance. Part of the slowdown is also attributed to some investors playing the wait-and-see game while the global market sorts itself out.

While there are many buyers for premium retail centres, there is less appetite for lesser-located, more complicated properties. The market has also witnessed a lack of enclosed mall sales. Most of the deals in the past year have involved grocery-anchored/neighbourhood strips, and smaller regional centres in the BC Interior and on Vancouver Island.

Capitalization rates in Metro Vancouver have generally remained stable in the 6.0% to 6.5% range for quality food-anchored and big box centres and in the 6.5% to 7.5% range for quality enclosed malls. It's another story elsewhere in BC where capitalization rates are starting to rise. Many vendors have been seeking the same capitalization rates as in Metro Vancouver, but they're not there to be had. In the BC interior and on Vancouver Island, most product currently being offered is priced above what buyers are willing to pay. Many shopping centres have not sold because owners want last year's price.

Overall, retail properties continue to benefit from relatively healthy consumer spending. Population growth and new residential developments have fueled the Metro Vancouver retail market over the past year. Leasing activity remains steady, while the shortage of available space and high land and construction costs continue to put upward pressure on lease rates. Top-quality space on Robson Street is now achieving rents as high as \$230 psf.

According to a June 2008 report by Credit Union Central of BC (CUCBC), even though BC's multi-year run of robust growth in retail sales is anticipated to taper in 2008, due in part to a sharp decline in U.S. GDP growth, BC retail sales are expected to grow 3% in 2008 and 5% in 2009, following a 6.9% gain in 2007.



Artis REIT purchased King Edward Centre (15 and 25 King Edward Street, Coquitlam, BC) from Nicola Crosby Real Estate Asset Management Ltd. for \$16.7 million at the end of 2007

CUCBC forecasts the streak of six straight years of above average job growth in BC will continue through 2009. Led by a growing and aging population, investment in infrastructure, rising labour income and elevated commodity prices, employment is forecast to rise 2.5% in 2008 and 2% in 2009, following a gain of 3.2% in 2007. According to CUCBC, BC's economy is still growing, particularly in the non-lumber based regions, as is net migration to the province.

Land shortages, rising land values and construction costs continue to keep new retail supply tight. With some tenants resisting the higher rents needed for developers to justify building a new shopping centre, higher density mixed-use developments are increasingly favoured. By blending retail with other uses, such as residential, office and/or hotel space, many developers view mixed-use projects as a safer investment option as they are generally more cost effective, less dicey for lenders, and more in tune with emerging customer demands. Several developers are also currently assembling large sites for retail development in the suburbs.

While the real estate market appears to be in a transitional period, the lending community is still paying attention to quality projects with quality borrowers, and private investment activity should remain strong. Although private investors still face the challenges created by tighter lending policies, this group may target less expensive properties. There is still a tremendous appetite for prime retail assets and significant capital is available.

Property	Municipality	Price	Vendor Type	Buyer Type	Date
Aldergrove Mall - 310 272nd Street	Aldergrove	\$6,005,000	Private	Private	February 08
Chrysler - 5491 Parkwood Way	Richmond	\$7,500,000	Public	Public	February 08
1144 Robson Street	Vancouver	\$10,417,017	Private	Private	February 08
1112 Robson Street	Vancouver	\$8,907,479	Private	Private	March 08
Toys R Us - 10232 East Whalley Ring Road	Surrey	\$13,600,000	Private	Private	March 08
Kings Cross - 7488 King George Highway	Surrey	\$39,600,000	Institutional	Pension	April 08
L'Aria- 550 Robson Street	Vancouver	\$20,000,000	Private	Private	April 08
2548 Gladys Avenue	Abbotsford	\$5,900,000	Private	Private	April 08
801 Marine Drive	North Vancouver	\$14,900,000	Private	Private	April 08
8231 & 8291 Ackroyd Road	Richmond	\$5,600,000	Private	Private	April 08
Richport Plaza - 8131 Westminster Highway	Richmond	\$5,400,000	Private	Private	April 08
TOTAL		\$137,829,496			



The 146,000-sf multi-tenanted property at 3030 East Broadway sold in the mid \$30-million range in June 2008. Avison Young represented the vendor.

The industrial investment market remains active, with demand continuing to significantly exceed supply due to the lack of available product. During the first half of 2008, industrial investment trades accounted for 47% (18 of 38) of the transactions and 51% (\$274 million) of the volume. This already exceeds the \$168 million worth of industrial properties traded in all of 2007 and the \$214 million in 2006. Industrial real estate continues to be a best-performing class on a long-term basis, and highly sought after by investors desiring the stable income yields generally achieved in this category.

Healthy demand, robust construction activity, and rising rental rates continue to characterize the region's industrial market. The vacancy rate, currently at a slim 1.9%, has nestled under the 2% mark since early 2006 due to the lack of supply of rental property and strong demand from users experiencing growth in their business. Average rental rates have risen more than 30% over the past three years and are now nearing the \$10 psf net mark for new and class A product. Resistance from tenants has been modest, but reluctance to continue paying higher rents is anticipated as 2009 approaches.

A buoyant economy has fueled the industrial market in recent years. The dwindling supply of industrial-zoned and serviced land has continued to drive escalating land values. This demand-supply imbalance has pushed up average land prices a remarkable 75% over the past four years to more than \$1 million per acre in most markets, and as much as \$4 million per acre in urban Vancouver city locations. Land prices may now be cresting, due in part to surging development costs and the reluctance of some tenants to keep paying ever higher rents. Developers are finding it increasingly difficult to financially justify building new product for lease, and some have resorted to offering buildings on a sale basis only.

Solid well-located, well-tenanted properties sell quickly, with numerous buyers vying for the opportunity. Capitalization rates, which have been steadily declining since 2004, are holding firm in the 6.0% to 6.5% range for premium properties in Vancouver and 7.0% to 8.0% range for secondary properties or those in smaller non-core markets. Capitalization rates are not expected to change as sellers continue to be out-represented by buyers.

Secondary markets will continue to see a widening of the spread in yields over primary markets. For example, today a warehouse in Kamloops, BC will trade in the 7.5% to 8.5% range, while that same building in Burnaby will trade for 6.0% to 6.75%. In recent years, that gap would have been only 100 basis points instead of the 150 to 200 basis points experienced now. Prior to this bull market (pre-2000) the gap was 200 to 300 basis points, and over time this spread is expected to return.

The average value of an industrial building has risen dramatically over the past two years. Property is selling at rates never seen before, at well over \$100 psf. There are current offerings at \$150 to \$170 psf for well-situated, single-tenant buildings. The strata market remains strong, with units now priced at \$180 to \$230 psf. This is up 30% over the past two years, and 100% over the past seven years. Prices should hold firm in the current low interest rate environment.

For most prime properties, there continues to be multiple bids. And for secondary or tertiary properties, interest remains strong, just not at the same frenetic level as in recent years. Due to the lack of choices, many tenants who would prefer to own their own building have been forced to continue leasing. Many sales transactions continue to be unsolicited, particularly by buyers who want to purchase in a specific location. Users are still out-bidding investors, and vacant buildings are often perceived as having better value than tenanted ones.

Worth watching is how the recent rise in transportation costs, as a result of escalating energy costs, may force some national logistics companies to start to rethink their current operations. In a business where unit cost is paramount to survival, companies may consider opening smaller distribution centres closer to the markets they serve. It makes little sense to ship Asian product landing in Vancouver, to a distribution centre in Alberta, and then back to the retailer in BC.

Despite the challenges faced by some industrial users caused by the rising Canadian dollar over the past year, the industrial real estate market has remained resilient. According to Royal Bank of Canada's (RBC) July 2008 provincial economic outlook, BC's economy continues to grow above the national average, although further weakness in its exports is expected to restrain growth to 2.2% in 2008 and 2.9% in 2009.

Overall, there is still excess capital available. Through 2008, the industrial investment market is anticipated to show continued strength with a widening in yields for less desirable properties. A lack of supply will continue to compress activity statistics. Demand of industrial space may also level off over the next 18 months during the general economic slowdown.

Property	Municipality	Price	Vendor Type	Buyer Type	Date
5200 Hollybridge Way	Richmond	\$38,000,000	Private	Private	January 08
27474 Goucester Way	Langley	\$5,600,000	Institutional	Private	January 08
11511 & 11611 No. 5 Road	Richmond	\$12,000,000	Private	Public	January 08
1658 Foster's Way	Delta	\$7,645,000	Private	Private	January 08
5899 Production Way	Langley	\$6,025,000	Private	Private	February 08
31785 Marshall Road	Abbotsford	\$27,103,125	Public	Institutional	February 08
836 Cliveden Avenue	Delta	\$19,247,745	Public	Institutional	February 08
3231 - 3371 No. 6 Road	Richmond	\$19,393,500	Public	Institutional	February 08
34494 McClary Avenue	Abbotsford	\$13,264,589	Public	Institutional	February 08
3210 McCallum Road	Abbotsford	\$5,957,016	Public	Institutional	February 08
1188 Derwent Way	Delta	\$18,328,478	Public	Institutional	February 08
17472 - 17474 56th Avenue	Surrey	\$10,160,000	Private	Private	February 08
3600 Viking Way	Richmond	\$8,000,000	Private	Private	March 08
13799 Commerce Parkway	Richmond	\$17,750,000	Private	Private	April 08
6500 River Road	Richmond	\$18,500,000	Public	Private	April 08
2520 Davies Avenue	Port Coquitlam	\$5,700,000	Private	Private	April 08
5821 - 5837 Production Way	Langley	\$5,565,000	Private	Private	April 08
3030 East Broadway	Vancouver	mid \$30-million range	Private	Institutional	June 08
TOTAL		\$274,239,453			

Market Summary

On the whole, while investors are not entirely immune from the capital markets issues south of the border, buyers continue to look favorably at BC's real estate market. The largest barriers to sale activity are the lack of available product; the bid-ask gap between buyers and sellers for secondary or tertiary product; and higher borrowing costs.

Nonetheless, there continues to be plenty of equity targeting real estate, as investors have historically been drawn to its relatively stable and predictable returns. All property sectors share positive prospects, and investment sales in all categories are still commanding high prices.

Amid an economic backdrop of falling U.S. and international stocks, escalating energy prices, a slowing economy, and the downturn in the U.S. housing and credit markets, BC continues to be partly sheltered from the meltdown that has occurred in the U.S.

According to Credit Union Central of BC (CUCBC), BC has seen a boom in non-residential building construction over the past three years, driven by strong growth in consumer spending, office employment growth, real GDP, accommodation revenues, and government investment in 2010 Olympic venues and transportation infrastructure. CUCBC forecasts another strong year of non-residential construction in 2008.

Real GDP Forecast

	2007	2008	2009
NFLD.	9.1	0.2	1.3
P.E.I.	2.0	1.2	1.6
N.S.	1.6	2.0	2.4
N.B.	1.6	2.0	2.5
QUE.	2.4	1.0	2.3
ONT.	2.1	0.7	2.2
MAN.	3.3	2.7	2.7
SASK.	2.8	3.7	3.8
ALTA.	3.3	3.1	3.0
B.C.	3.1	2.2	2.9
CANADA	2.7	1.4	2.5

Source: Statistics Canada, RBC Economics Research

Historically, when financial markets become riskier, commercial real estate investment is often an attractive option compared to stocks and bonds, especially for the long-term. This will continue to put upward pressure on value for all classes of investment commercial real estate in BC. Demand is expected to remain strong in the coming years. ■

Predictions

- Continued strong demand from a number of buyers, dominated by the private and institutional groups
- Continued paucity of quality product available for sale
- Cautious optimism as investors wait for the gap between vendor and purchaser expectations to narrow
- Increases in construction costs will further notch up lease rates
- Higher rental rates will offer opportunities to investors to acquire properties leased at below market rents
- Rising energy costs may affect logistic companies' strategies
- Debt will be difficult to obtain in the short run, but will become more easily available as lenders cannot sit on sidelines forever
- Private buyers may struggle to secure debt
- Capitalization rates will adjust upwards
- Land prices will level off
- Healthy demand and disciplined new supply will maintain interest in BC commercial real estate in the foreseeable future

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