



Newsletter

Fall/Winter 2008



partnership.
performance.

Canada braves the financial storm

These are indeed uncertain times for the global economy. Heading into the eye of the storm on Wall Street, businesses and consumers continue to speculate about the rippling effect of the subprime mortgage crisis, which started in the U.S. in mid 2007 and has triggered what has become known as the global credit crunch. The current financial crisis, likely the worst since the Great Depression, continues to take its toll on struggling economies on several continents. Volatility in financial markets, housing market downturns and high commodity prices continue to impact global growth, and have reduced economic growth projections for some major developed markets. Stock prices worldwide have fallen significantly since the market witnessed the recent fall of several U.S. financial giants, with more financial institutions on both sides of the Atlantic continually being added to the list of bank collapses. As the world's central banks try to boost liquidity, global markets hang in the balance.

While the extent and depth of the current financial disruption is undecided, it is clear the Canadian economy will experience some softness over the next couple of quarters due to falling U.S. demand and the rapid appreciation of the Canadian dollar in recent years. However, the impact on Canadian banks has been relatively modest to-date. While Canada is not sheltered from the turmoil affecting U.S. and Europe, Canada's banking system is fundamentally sound and Canadian lending practices are more cautious. Moreover, domestic demand remains relatively sturdy, core inflation is low, and unemployment is holding steady at just over 6%.

Despite surging food and gas prices, rising borrowing costs and a slowing housing market, Canada is expected to hold the economic upper hand relative to the U.S. As TD Bank's chief economist Eric Lascelle points out: "Delinquencies are so much lower, foreclosures are almost non-existent, and the sub-prime mortgage market itself is quite small..." (September 2008).

With headwinds from financial constraints, investment in the Canadian commercial real estate market has generally slowed. However, Canada has always been known for its steady, consistent growth and continues to boast stable leasing activity and low vacancy rates. In the office leasing market, the national average vacancy rate currently sits at a low 4.6%, with a healthy 21 million square feet of new office construction underway in 11 cities across Canada. While the economic situation south of the border remains ambivalent for the near-term, Canadian property is anticipated to generally maintain its rental yields as demand for property continues to outpace supply.

Over the next while, the focus will be on whether collective bailout packages in the U.S. and Europe will stabilize depressed stock markets worldwide and assuage the global credit malaise. While it may take several months to determine whether the internationally-coordinated rescue plan will unfreeze credit markets, and avert a serious recession in the U.S., Canadian commercial real estate markets will need to be patient, flexible and disciplined during this period of correction.

Vancouver	2
Industrial activity moderates but market remains tight	
Calgary	3
Stability continues in office leasing market	
Edmonton	4
Speculation builders rewarded	
Regina	5
Saskatchewan enjoys economic boom	
Winnipeg	6
In-fill development supports economic growth	
Mississauga	7
Speculative office developments moving forward despite uncertainty	
Toronto	8
Bloor Street West to revamp retail experience	
Ottawa	9
No core vacancy relief in sight	
Montreal	10
St. Catherine Street: the changing of the guard	
Quebec City	11
Lebourgneuf: Quebec City's fastest growing market	
Halifax	11
A safe haven during a financial storm	

*Above photo:
Rendering of Hotel Georgia tower (699 Howe Street), now under construction in Vancouver, B.C.*

Industrial activity moderates but market remains tight



Avison Young recently represented Brewers Distributor Ltd. in the 451,047-sq.-ft. build-to-suit expansion and relocation of its Lower Mainland distribution warehouse to Port Coquitlam, B.C.

Despite the challenges faced by some industrial users over the past year, due in part to the slowing overall economy and rapid rise in the Canadian dollar, the Metro Vancouver industrial real estate market has generally remained resilient. Steady demand, low vacancy levels and robust construction activity continue to characterize the region's market. Leasing activity has softened since the beginning of 2008, but the market remains tight.

After nestling under the 2% mark since early 2006, the region's vacancy rate now hovers just above the 2% mark (up slightly from 1.9% at mid-year 2008) and remains among the lowest in North America. The actual amount of space available (including sublease space and new supply that is under construction and available for lease) is estimated to be double the vacancy rate, which is still favourable for landlords.

The marginal increase in overall vacancy is primarily attributed to some tenants adopting a wait-and-see approach to the global economy, fewer tenants expanding, and the recent new construction completions. The impediments to more activity are the shortage of available quality product, the lack of land for industrial development and, in the short term, the stricter lending environment and high construction and labour costs.

Coming on the heels of a record 5 million square feet-plus of new supply added to the industrial inventory in 2007, construction remains active and on pace to meet last year's level. Build-to-suit projects currently outpace speculative ones, with the suburbs witnessing the majority of the new product. Most of the newer space is generally released or absorbed with little vacancy lag, although some leases are now taking longer to complete.

Land is still king. The dwindling supply of industrial-zoned and serviced land continues to drive escalating land values and challenge developers. Remarkably, average land prices have doubled over the past five years to more than \$1 million per acre today, and have reached \$4 million per acre in Vancouver. Land prices may now be cresting, due in part to surging construction costs and the inability by some tenants to continue paying higher rents. Rental rates, which have climbed approximately 35% over the past four years, are now holding steady at just over \$8 per sq. ft. (psf), and nearing \$10 psf for class A product.

On the investment side, buyers continue to outnumber sellers. Capitalization rates, which have been steadily declining since 2004, are holding firm in the 6% to 6.5% range for premium properties in Vancouver. Secondary markets will continue to see a widening of the spread in yields over primary markets. The strata market remains strong, with units now tagged at \$180 to \$230 psf—up 30% over the past two years.

Overall, the chronic shortage of industrial-zoned land and the rippling economic effects of the global credit crunch will continue to challenge both developers and tenants in 2009. Demand is anticipated to level off, vacancy levels may notch up as more product hits the market, and rents are expected to remain stable.

In the short run, the market may witness increased interest for short-term space from tenants hesitant to commit to long-term leases, a rise in sale/leaseback transactions, the reformatting of some older buildings, and (due to escalating energy costs) the opening of smaller distribution centres closer to the markets they serve. Despite these challenging times, the Metro Vancouver industrial real estate market is anticipated to remain amongst the healthiest in North America.



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

Recent Lease Transactions

- Brewers Distributor Ltd. (industrial) – 451,000 sq. ft.
- West Coast Mobile Storage Ltd. (land) – 65,300 sq. ft.
- BC Hydro (office) – 61,800 sq. ft.
- BC Safety Authority (office) – 35,000 sq. ft.
- New Westminster School District (office) – 30,000 sq. ft.
- Vancouver Coastal Health (office) – 28,000 sq. ft.
- Fremantle Trailer Repairs Ltd. (industrial) – 24,500 sq. ft. plus 3.5 acres

Recent Exclusive Lease Listings

- 13450 Gateway Drive, Surrey (office) – up to 600,000 sq. ft.
- 13401 108th Avenue, Surrey (office) – 220,000 sq. ft.
- 505 6th Street (Westminster Centre South Office Tower), New Westminster (office) – 42,000 sq. ft.
- 7885 North Fraser Way, Burnaby (industrial) – 11,300 sq. ft.

Recent Investment Properties Listed

- 23660 Westminster Highway, Richmond (land) – 10.67 acres
- World Meridian Development Site, 13583 104th Avenue & 13550 105th Avenue, Surrey (mixed use residential / commercial) – 3.47 acres
- Metrotower Place III, 5945 Kathleen Avenue, Burnaby (office) – 56,700 sq. ft.

Recent Investment Properties Sold

- QLT Building, 887 Great Northern Way (office/lab) – 163,900 sq. ft.
- 3030 East Broadway (industrial) – 146,000 sq. ft.
- 1128 Homer Street (office) – 43,600 sq. ft.
- 9045 Mary Street, Chilliwack (multi-family) – 33 units



Intelligent
Real Estate Solutions

Stability continues in office leasing market



Rendering of new retail development, Stampede Trail

While the world's financial markets are struggling with massive reductions in value, Calgary is expected to weather the storm better than most. Our market is largely driven by the oil and gas industries, which bodes well due to natural resources being valued above other commodities. This does not mean we won't face challenges, but overall, Calgary is expected to maintain a healthy market.

Developers will complete more than 6 million square feet (sq. ft.) of new office space in Downtown Calgary over the next few years, plus another 4 million sq. ft. throughout the rest of the city. Downtown developments include major projects such as Eighth Avenue Place East (1 million sq. ft.) and "The Bow" (EnCana's new headquarters totaling approximately 2 million sq. ft.). Future suburban projects sparking the most commentary in the market are Quarry Park (1.7 million sq. ft.), Centron Park (425,000 sq. ft.) and WestMount Corporate Campus (755,000 sq. ft.).

Nearly two-thirds of these new projects are already preleased and tenants continue to demand more. To date, no construction has been announced for completion following The Bow (2010); however, Brookfield Properties and Cadillac Fairview have already begun the land-use change and development permit process for 2 million sq. ft. of new downtown office space (Herald Square and Calgary City Centre). This suggests there will be strong future demand for office space.

While vacancy and sublease availability have increased over the past year, there is still insufficient space to accommodate expansion plans for large tenants. At the end of the third quarter of 2008, Downtown vacancy hovered around the 3% mark, still well below the desired balanced market rate of 6% to 8%. If sublease availability is included, vacancy only notches up to 3.6%. Large tenants needing to relocate into 200,000 sq. ft. or more over the next 18 months currently only have a few options in the Downtown market—namely Jamieson Place and Centennial Place, scheduled for completion in early 2010.

The creation of new space and conservative absorption estimates suggest vacancy has the potential to reach 13% by mid 2012, but only if the recent downturn in the U.S. economy has long-term lingering effects north of the border. If this happens, the market would witness the softening of rents and increased inducements for tenants.

Given the fear that the U.S. economy is heading into a long recession and the fact that the price of oil has experienced a 40% drop from its high of \$147 U.S. per barrel in July to \$88 U.S. per barrel today, memories of past downturns for Calgary are being drawn upon for comparison. This level of volatility worries everyone; however, it is believed that the current swings are short-term in nature and won't significantly impact the strength of the market.

As a result, rents are anticipated to remain close to their current levels for at least another year, with modest risk of retreat due to the current financial crisis. Beyond this, there is more potential for rents to soften by mid 2009 or early 2010 due to increases in inventory and any lingering problems from the financial markets.



1200 - 59th Avenue SE by Airstate

Recent Lease Transactions

CCS Inc. (office) – 81,400 sq. ft.
Cooperators General Insurance (office) – 65,300 sq. ft.
Entertainment One (industrial) – 58,800 sq. ft.
Raymond James Ltd. (office) – 54,100 sq. ft.
EBA Engineering (office) – 50,000 sq. ft.
Home Outfitters (retail) – 34,000 sq. ft.
Illuminate Inc. (office) – 23,000 sq. ft.
TransCanada Pipelines (office) – 20,600 sq. ft.
Sport-Check International (office) – 20,400 sq. ft.
Meyers Norris Penny LLP (office) – 19,700 sq. ft.
Visions Electronics (retail) – 14,800 sq. ft.

Recent Exclusive Lease Listings

Palliser South (office) – 202,200 sq. ft.
Stampede Trail (retail) – 180,000 sq. ft.
5350 – 86th Avenue SE (industrial) – 109,300 sq. ft.
1200 – 59th Avenue SE (office) – 108,700sq. ft.
Barron Building (office) – 80,600sq. ft.
150 East Lake Boulevard NE (industrial) – 55,000 sq. ft.
221 – 18th Street SE (office) – 50,600 sq. ft.
7337 Macleod Trail South (retail) – 50,000 sq. ft.

Recent Investment Properties Listed

1108 Office Condos (office) – 193,000 sq. ft.
634 Office Condos (office) – 69,500 sq. ft.
3916 – 70th Avenue SE (industrial) – 64,100 sq. ft.
512-520 Edmonton Trail NE (land) – 0.972 acres
3808 & 3814 Bow Trail SW (Shell surplus site) – 0.76 acres

Recent Investment Properties Sold

Rosenau Transport Facility (industrial) – 168,700 sq. ft.
Airways Business Plaza & Glenmore Commerce Court (office) – 120,800 sq. ft.
Crowfoot West Business Centre (office) – 113,400 sq. ft.
200 – 100th Street NE (land) – 158 acres
11820 – 15th Street NE (land) – 5.11 acres

Speculation builders rewarded

After nearly 20 years of inactivity in the suburban market, several new buildings are now complete and leasing. Currently, there are approximately 30 development projects preleasing in Edmonton's suburban office districts. Not that long ago, the suburban market experienced 17% vacancy rates and struggled to achieve \$5 per square foot (psf) net rental rates. Average absorption over the last 10 years has been approximately 45,500 square feet (sq. ft.) per annum. As such, developers are cognizant of how much inventory a healthy market can absorb and do not want to risk bringing too much space online. Historically, 80,000 sq. ft. of vacant space took almost two years to be absorbed.



Construction of Gateway Village (30,000 sq. ft.) is underway in the South Side District

This cautionary approach can also be attributed to the relatively large delta between rental rates for existing product, ranging from \$14 to \$20 psf, and the \$25 to \$28 psf rates needed to justify new construction. In spite of this, those few brave developers with enough courage to proceed speculatively have been rewarded. Sun Life's Commerce South (two buildings), Bldg Inc.'s The Steppes, and Guild Developments' 51st Avenue Business Centre are leased to high quality tenants.

Clearly, these tenants were willing to pay the premium required to be in new, higher quality, environmentally-friendly buildings. The majority of these deals were completed with rental rates in the \$25 to \$28 psf range, with the respective landlords providing up to \$30 psf in tenant improvement allowance. Other developers are now considering forging ahead and will likely enjoy similar success. However, the playing field is now different. Land and construction costs are higher, landlords want to provide less base building work, underground parking is extremely expensive and the tenant's cost to build out its space has skyrocketed. There is also an increased cost if one considers LEED certification.

Given rising development costs, net rental rates will need to approach \$28 to \$32 psf and include at least a \$30-psf tenant improvement allowance. Tenants can expect build-out costs to be as high as \$80 to \$100 psf, which means an upfront capital expenditure of \$50 to \$70 psf. It also means a monthly charge of \$100 to \$150 per stall for underground parking and increased pressure to charge for surface parking.

Several existing buildings will be on the market shortly offering large blocks of contiguous space. These will likely be absorbed quickly, with room for several more new office buildings. Oil and gas service companies, engineering firms and survey companies are expanding after some moderation in the latter half of 2007 and early 2008, and all three levels of government have an appetite for more space. The foreseeable future looks very positive.

Recent Lease Transactions

EnCana (industrial) – 21,700 sq. ft. plus 28 acres
Petroleum Plaza (office) – 286,300 sq. ft.
ATCO Centre (office) – 285,500 sq. ft.
Millbourne Professional Centre (office) – 65,000 sq. ft.
Highfield Place (office) – 55,500 sq. ft.
EBA Engineering (office, Calgary) – 52,000 sq. ft.
Famous Toy Liquidators (industrial) – 45,000 sq. ft.
Sleep Country Canada (industrial) – 34,000 sq. ft.
A & B Sound Building (office) – 31,000 sq. ft.
World Health Club (retail) – 31,000 sq. ft.
Future Shop (retail) – 20,700 sq. ft.
Pro Hockey Life (retail) – 20,000 sq. ft.
West Chambers Building (office) – 18,000 sq. ft.
Sportchek (retail) – 16,000 sq. ft.
Commerce Place (office) – 11,600 sq. ft.
Scotia Bank (retail) – 5,500 sq. ft.

Recent Exclusive Lease Listings

Pinnacle Centre (industrial) – 110 acres
Southpointe Power Centre (retail) – 33.5 acres
Granville Shopping Centre (retail) – 27 acres
Grande Prairie Power Centre (retail) – 12.89 acres
Beaver House (office) – 83,600 sq. ft.
Gateway Village (retail/office) – 70,000 sq. ft.
Rohit Business Centre (office) – 61,200 sq. ft.
Sommerville Centre (office) – 21,800 sq. ft.
1420 Parsons Road Building (office) – 14,600 sq. ft.
Manhattan Building (office) – 11,400 sq. ft.

Recent Investment Properties Listed

Centre 51 (investment) – 109,700 sq. ft.
Trinity Building (investment) – 73,800 sq. ft.
AMEC Building (investment/office) – 30,000 sq. ft.
Palomar Building (investment) – 18,000 sq. ft.
Nisku Portfolio (investment) – 104.5 acres
Whitcourt Land (multi-family) – 2.38 acres

Recent Investment Properties Sold

Petroleum Plaza (investment) – 286,300 sq. ft.
Flint Energy Building (investment) – 50,000 sq. ft.
R & M Building (investment) – 39,900 sq. ft.
Jasper Block (investment) – 15,000 sq. ft.
Royal & Alex Manors (multi-family) – 24 units

Saskatchewan enjoys economic boom

Regina has a history of lagging behind other cities in capital growth, but recently, the province has seen a turnaround as Saskatchewan continues to attract new business. TD Bank Financial Group has called Saskatchewan “Canada’s commodity superstore” and boasted high hopes for Saskatchewan’s future as a world leader among Organization of Economic Co-operation and Development (OECD) markets.



Victoria Tower, 1855 Victoria Avenue

North Industrial Park and the Ross Industrial Park are the two main industrial sectors in the city. Here, the vacancy rate for existing properties is 2% and rental rates have remained steady at between \$5 to \$7 per square foot (psf) for existing structures and \$10 psf for new construction.

Over the past few years, the amount of industrial space in these areas has been limited and the city has recently announced its plan to annex in 80 to 100 acres of industrial land in Ross Industrial Park. This land is being sold at a premium price, increasing from \$75,000 to \$300,000 per acre over the last 18 months. Rising costs for raw materials and labour are pushing up construction costs; however, these increases have not deterred buyers from purchasing industrial property. Further new development is anticipated in the near future.

The City of Regina has also supported the ongoing need for more industrial space by working with Canadian Pacific Railway to relocate railway lines

from downtown to west of the Regina Airport. Creating this inland port rail facility has attracted significant interest from large companies desiring space for their warehousing operations.

Recently, Loblaw Companies announced plans to open a 500,000-square-foot (sq. ft.) distribution centre within Regina’s new industrial development, with plans to expand to 1 million sq. ft. in the future. This will create an estimated 1,500 jobs by 2017. The decision by Loblaw to build in Regina will help strengthen the Saskatchewan economy and play a key role in attracting other large distribution chains to use Regina as their central distribution or warehouse location.

The demand for goods and services produced by the industrial sector has increased throughout the province. Potash Corporation recently injected \$400 million into a full-scale expansion of its Esterhazy mine in order to meet demand. As more materials are needed for drilling and upgrading, the oil and gas sector will continue to boost Saskatchewan’s industrial market.

Rising development costs are not deterring new enterprise and expansion opportunities. Centrally-located, Regina is accessible to Western and Central Canada as well as the U.S. As larger centres begin to find themselves overcrowded, Saskatchewan is just beginning to find its place in the global market.



The Halmac Building, 1846 Scarth Street

Recent Lease Transactions

- Saskatchewan Property Management (SPM) (office) – 139,500 sq. ft.
- Royal Bank of Canada (office) – 52,800 sq. ft.
- OTV Technologies (retail) – 12,100 sq. ft.
- Catholic Family Services (office) – 5,400 sq. ft.
- Regina Open Door Society (office) – 4,600 sq. ft.
- River City Sports (retail) – 3,500 sq. ft.

Recent Exclusive Lease Listings

- Rochdale Crossing, 5875 Rochdale Boulevard (retail) – 32,700 sq. ft.
- Rochdale Mall, 6823 Rochdale Boulevard (retail) – 9,200 sq. ft.
- 330 Central Ave N, Swift Current (retail) – 8,100 sq. ft.
- 2550 15th Avenue (office) – 5,000 sq. ft.

Recent Investment Properties Listed

- 130 E 12th Avenue (industrial) – 3,200 sq. ft.
- Development Land Regina (land) – 135 acres
- Development Land Regina (land) – 108 acres
- Rochdale Mall, 6823 Rochdale Boulevard (retail) – 52,800 sq. ft.

Recent Investment Properties Sold

- The Halmac Building, 1846 Scarth Street (office) – 25,000 sq. ft.
- 1645 Victoria Avenue (retail) – 18,000 sq. ft.
- 2080 Rae Street (office) – 7,100 sq. ft.
- RM of Sherwood (land) – 4 acres
- 2220 Saskatchewan Drive (land) – 2.8 acres



Intelligent
 Real Estate Solutions

In-fill development supports economic growth

In spite of climbing material and labour costs, there are more construction projects under development in Manitoba than in any other time in its history. Winnipeg is currently one of the country's economic leaders with a predicted census metropolitan area (CMA) growth rate of 3.3% in 2008, and nearly \$5.5 billion in large building projects planned or underway in the city and surrounding area.



View of Winnipeg's skyline from The French Quarter
Courtesy of: Rancho Realty Services

Of particular note are the nearly 30 sizeable multi-family projects, valued at more than \$345 million, currently under construction. This is the most substantial amount of multi-family development activity underway in Winnipeg in decades. Of these projects, nearly 60% are rental properties, which should help ease the low apartment vacancy of 1% to 2% that the city has experienced since 2001.

The strongest evidence of Winnipeg's booming economy is the large number of in-fill projects underway. The vast majority of the development is concentrated in the City Centre, South End and West End. The considerable growth in the Downtown market is largely due to the long-term combined efforts of the Downtown BIZ and development agencies such as The Forks North Portage and CentreVentre.

Recently, with the aid of CentreVenture, a Saskatoon-based developer agreed to purchase one of downtown's most prominent vacant buildings—the 104-year-old, 46,900-square-foot (sq. ft.) Avenue Building on Portage Avenue—for \$600,000. The intention is to convert the derelict property into condominium units, office space and indoor parking. A similar restoration project was recently completed directly across the street at the historic Birks Building. The 107-year-old, 41,000-sq.-ft. property was completely redeveloped as a "green" building, at a cost of about \$6 million, and is now fully leased by Manitoba's Property Registry Department.

Projects such as this have only been possible in the Downtown core and surrounding areas lately due to recent zoning changes to "mixed-use districts." However, quality properties available for refurbishment are now becoming scarce, with more than 70% of current construction activity attributed to new developments. The \$300-million Canadian Museum for Human Rights; the \$258-million Manitoba Hydro Office Tower; \$200-million Convention Centre expansion; and more than \$100 million in mixed-use condominium projects on Waterfront Drive, Assiniboine Avenue and Provencher Boulevard are just a few examples of new core area construction.

Interestingly, educational institutions are proving to have the largest impact on Downtown in-fill development. Another high-profile vacant property and one of Canada's oldest surviving steel skyscrapers, the Union Bank Tower on Main Street, will soon be occupied by Red River College, housing its hospitality and tourism programs. The College also developed a block of vacant heritage properties in the Downtown's Exchange District, creating the College's 220,000-sq.-ft., \$31.5-million Princess Street Campus.

The University of Winnipeg currently has \$70 million in new construction projects underway in the Downtown core, which is helping to transform the face of Portage Avenue. And the city's largest educational institution, The University of Manitoba, will have its South End campus connected to Downtown with the recently announced \$327-million rapid transit corridor, the first phase of which is expected to complete in 2012. Once finalized, this project is expected to have spurred the development of 700 new multi-family units along the transportation link.

Recent Lease Transactions

Great West Life (office) – 43,200 sq.ft.
Super Lite (industrial) – 32,700 sq.ft.
CU Electronic Transaction Services (office) – 28,900 sq.ft.
AJW Warehouse (industrial) – 27,200 sq.ft.
Province of Manitoba (office) – 13,200 sq.ft.
Province of Manitoba (office) – 9,000 sq.ft.
New Directions (office) – 8,300 sq.ft.
ThyssenKrupp Elevator (industrial) – 8,000 sq.ft.
Winnipeg Regional Health Authority (office) – 7,800 sq.ft.
Hope Centre Inc. (office) – 7,200 sq.ft.
PWGSC (office) – 6,500 sq.ft.

Recent Investment Properties Listed

287 Broadway (office) – 55,200 sq. ft.
1610 1st Street, Brandon (land) – 2.16 acres
140 Main Street, Arborg (land) – 2.13 acres
1505 1st Street, Brandon (land) – 1.08 acres
PTH 12 & Loewen, Steinbach (land) – 1.02 acres
74-84 Main Street, Steinbach (land) – 1.0 acre
1270 Archibald Street (land) – 0.91 acre
1737 Rosser & 18th, Brandon (land) – 0.70 acre
2001 Portage Avenue (land) – 0.58 acre
230 Marion Street (land) – 0.53 acre
2051 McPhillips (land) – 0.46 acre
500 Grey Street (land) – 0.42 acre
1040 26th Street (land) – 0.41 acre
174 Provencher Blvd. (land) – 0.37 acre
548 Salter Street (land) – 0.35 acre

Recent Investment Properties Sold

130 Omands Creek (industrial) – 112,600 sq. ft.
111 Lombard (office) – 112,100 sq.ft.
750 Marion Street (industrial) – 63,900 sq. ft.
Pembina Plaza (retail) – 16,700 sq. ft.
200 Tache Avenue (office) – 7,200 sq. ft.
75 Thornhill, Morden (land) – 1.15 acres



The sale of 130 Omands Creek Boulevard was recently brokered by Avison Young, Manitoba

Speculative office developments moving forward despite uncertainty



Mississauga Gateway Centre— the site of HOOPP's new flex office development

The Greater Toronto Area (GTA) West office market (which includes Etobicoke, Mississauga, Brampton, Oakville and Burlington) remained strong through the third quarter of 2008, and is still well-positioned during this time of uncertainty in the Canadian and global economy. Despite the caution and hesitation in the economy and real estate market, there is a handful of speculative office developments scheduled to commence construction in the GTA West.

As of the third quarter of 2008, the GTA West office market has performed above expectations. Currently, the overall vacancy rate sits at 7.6%, with class A space even tighter at 6.2%. This represents a decline of 3.2 percentage points for class A office space since the start of 2008, which can be attributed to strong absorption over the last four quarters. More than 2 million square feet (sq. ft.) has been absorbed since the second quarter of 2007. Although this figure includes buildings that were already 100% leased prior to construction, it is still nearly double that of any previous 12-month period in the GTA West. However, there is change on the horizon as market rental rates are expected to level off and the amount of sublet space may increase within the next few quarters.

Looking forward, it will be interesting to see how scheduled speculative office developments react in the face of the recent economic turmoil. These projects include First Gulf's new 10-storey office building, which has already broken ground at the intersection of Argentia Road and Century Avenue in Meadowvale. The project is expected to come on stream in early 2010 and will add approximately 250,000 sq. ft. of class A inventory to the GTA West market. Panattoni is also scheduled to construct a 100,000-sq.-ft. office building at 6750 Century Avenue on a speculative basis, with completion scheduled for early 2010.

The Hospitals of Ontario Pension Plan (HOOPP) will be proceeding with its new flex space development on a speculative basis at 75 Courtneypark Drive West in the Heartland submarket. Avison Young was recently awarded the exclusive lease listing for this property. This development will bring approximately 70,000 sq. ft. of flex style office space to the market. In addition, HOOPP will also be starting construction in the fourth quarter of 2008 on its other speculative building— AeroCentre V at 5550 Explorer Drive, which will add approximately 227,000 sq. ft. of office space to the Airport Corporate Centre submarket.

Historically, this type of product has done well in the GTA West. However, whether or not these scheduled speculative office developments will continue to go forward in the wake of the current economic crisis is yet to be determined. If they do go ahead, and succeed, business parks such as the Mississauga Gateway Centre could see additional buildings added on the remaining lands.

The success of these developments could also be used as a litmus test for other speculative developments in similarly tight markets, such as Brampton and Oakville, which have vacancy rates of 2.9% and 3.8% respectively for class A office space.

Recent Lease Transactions

Amec (office) – 37,700 sq. ft.
AECL (office) – 26,100 sq. ft.
Newman Hattersley (industrial) – 25,900 sq. ft.
RBC Dominion Securities (office) – 18,600 sq. ft.
City of Brampton (office) – 17,100 sq. ft.
Volvo Canada (office) – 15,400 sq. ft.
St. Jude Medical (office) – 14,500 sq. ft.
Abraxis Bioscience Canada Inc. (office) – 9,900 sq. ft.
Speigel, Nichols & Fox (office) – 7,100 sq. ft.
Benjamin Moore (office) – 6,000 sq. ft.

Recent Exclusive Lease Listings

2050 Derry Road (office prelease) – 158,300 sq. ft.
75 Courtneypark Drive West (office) – 70,000 sq. ft.
231 Shearson Crescent (office) – 60,600 sq. ft.
7025 Langer Drive (office prelease) – 55,800 sq. ft.
2180 Speers Road (industrial) – 30,000 sq. ft.
2070 Hadwen Road (office) – 14,800 sq. ft.
385 Brunel Road (office) – 11,000 sq. ft.

Recent Investment Properties Listed

980 Juliana Drive (industrial) – 76,200 sq. ft.
1555 Enterprise Road (industrial) – 38,100 sq. ft.
25 Fleming Drive (industrial) – 15,000 sq. ft.
891 North Service Road (land) – 8.8 acres

Recent Investment Properties Sold

1525 Dundas Street East (land) – 5.7 acres

Bloor Street West to revamp retail experience

Located on the fringe of Toronto's downtown core, in the tony neighborhood of Yorkville, Bloor Street West is one of the city's most prominent shopping districts and busiest streetscapes. At the centre of this exclusive retail node are numerous prominent, national and international



The new face of retail on Bloor Street
Courtesy: Architects Alliance

retailers such as Tiffany & Co., Prada, Lululemon and Gucci among others. Despite the current economic slowdown in Canada, the retail market along Bloor Street West, which tends to be characterized by high-end merchants, has not been greatly affected. In fact, ongoing real estate developments and renovations illustrate the economic importance and significance of the Bloor Street West area to Toronto.

Demand for retail space along Bloor Street West remains high, with very limited space available for new tenants. Driving the skyrocketing demand for space are the high-end international retail chains wishing to continue their growth strategy. The close proximity to the U.S. market and an affluent multi-ethnic demographic make this area the first choice for most premium retailers. With such a high demand for space, we are witnessing retail rental rates along Bloor Street West in the \$250 to \$300 per square foot-plus (psf) range. With very low vacancy being a prohibitive factor on Bloor Street West, retailers eager for the cache of Yorkville are moving to the periphery intersections such as Avenue Road, Bay and Yonge Streets.

New developments in the Bloor-Yorkville area include the World Flagship Four Seasons Hotel and Residences, slated for completion in 2009. This development will include a 55-storey hotel-residential tower situated on the northeast intersection of Bay Street and Yorkville Avenue and a second 30-storey tower on the south side of Scollard Street with 180 residential units. Included within the Four Seasons project are two prominent retail units (with Avison Young acting as the exclusive retail listing broker). Upon completion, two luxury retailers will have the benefit of access to the residents and visitors of Toronto's premium shopping district along Bloor Street. Avison Young has also been retained as the exclusive retail listing broker for the new Park Hyatt development at Bloor Street West and Avenue Road.

Renovations and restorations along Bloor Street West, between Avenue Road and Church Street, by the Bloor-Yorkville Business Improvement Area (BIA) and the City of Toronto continue to highlight the importance of this shopping district to Toronto's overall retail economy. This two-year \$25 million project, known as the Bloor Street Transformation (BST), aims to improve the area by widening sidewalks and adding greenery. According to the BIA, this project will make Bloor Street West comparable to the world renowned shopping districts of Rodeo Drive in Beverly Hills and New York's Fifth Avenue and cement its status as a premier, upscale shopping, dining and tourist destination in Toronto.

Recent Lease Transactions

Dyadem International Ltd. (office)
- 21,300 sq. ft.

Recent Exclusive Lease Listings

60 Yonge Street (office) – 99,000 sq. ft.
Park-Hyatt (retail) – 1,700 sq. ft.

Recent Investment Properties Listed

Pioneer Square, Chatham (retail) – 12.37 acres
891 North Service Road, Burlington (industrial)
– 8.82 acres
1174 Carp Road (retail) – 4.51 acres
3250 Danforth Avenue (land redevelopment)
– 0.5 acre

Recent Investment Properties Sold

20 Elkcorn Drive (multi-residential) – 223 units

Recent Management Additions

4342 Queen Street, Niagara Falls
– 150,400 sq. ft.
163 Queen Street East – 37,000 sq. ft.

No core vacancy relief in sight



Export Development Corp. (EDC) plans to relocate from 234 Laurier (above) to Canderel Developments' new 450,000-sq.-ft. head office, at the corner of O'Connor and Slater in 2011

The development team of Broccolini Construction and Canderel Developments, along with the Brouse family, was recently named as the successful proponent for a new headquarters for the Export Development Corporation (EDC). The new complex will add approximately 450,000 square feet (sq. ft.) of class A office space to Ottawa's downtown core. Scheduled for delivery in late 2011, the building will be situated on the eastbound leg of the existing transit way and will greatly change the skyline on the east side of Ottawa's downtown core.

Given the central business district's historically low vacancy rate, which currently sits at 2.3%, the announcement of this additional space should be welcome news to the consumers of downtown office space. Factor in Minto's new 180 Kent Street project, which will bring 383,000 sq. ft. of new space to the market, and one would think the addition of 833,000 sq. ft. of new office space over a 30-month period would bring some relief to the low single-digit vacancy rates.

However, Ottawa is a unique office market in Canada. It has an inventory of approximately 45 million sq. ft.

of competitive office space on both sides of the Ottawa River. The Crown, through its agent Public Works and Government Services Canada (PWGSC), leases approximately 20 million sq. ft. of that inventory.

In addition to its leasehold interest in the Ottawa/Gatineau office market, the Government of Canada also owns a significant amount of its own real estate. Certain components of that office stock, either owned or leased, are aging and in need of repair and renovations, as are a significant number of other properties in the downtown core. Recent activity would suggest that the Crown is in the market for additional space and that it is just a matter of time before the region's largest tenant asks for more of 180 Kent Street. Meanwhile, TD Bank and Workplace Safety and Insurance Board (WSIB) have also leased a combined 60,000 sq. ft. at 180 Kent Street.

At the end of the day, the addition of 833,000 sq. ft. of new space to the Ottawa skyline will be good news to service retailers, proponents of public transit and the taxpayers of Ottawa. However, private sector tenants seeking large pockets of good quality office space may be forced to continue looking outside the core. This has been the case for some time now and will probably continue for some time to come. While the private sector may be amenable to off-core properties, the federal government is not, unless the provision of public transportation to those off-core locations is appealing to the region's largest tenant.

Recent Lease Transactions

*Raymond James Ltd. (office) - 10,500 sq. ft.
Raymond James Ltd. (office) - 9,400 sq. ft.*



Avison Young recently completed two 10-year deals (9,400 sq. ft. and 10,500 sq. ft.) at the World Exchange Plaza complex

St. Catherine Street: the changing of the guard



H&M's new flagship store

Remember that little boutique where you bought the leather jacket 15 years ago? It's gone. If you have not visited St. Catherine Street in Montreal since the early 1990s, you would not recognize it. Of the stores that were located in the prime area between Bishop and University, not more than five are still in existence. The locally-owned stores are gone, replaced at first by national retail chains, which in turn are giving way to international chains.

Storefront retail throughout North America has been in decline for

many years. St. Catherine Street is the exception. Rental rates have quadrupled. Vacancies are nonexistent. It is not just any street. Fifteen kilometres long, St. Catherine comprises 1,200 stores, making it the largest concentration of retail outlets in Canada. The street is witness to 3,500 pedestrians per hour, 250,000 office workers at lunchtime, and 100,000 students per day, keeping the street alive at all hours.

Furthermore, eight subway stations, 30 kilometres of underground walkways with 178 entrances, and 2,000 underground stores totalling 36 million square feet (sq. ft.) of floor space are used by 500,000 people on a daily basis. In street front retail, if you don't have a store on St. Catherine Street, you have not made it.

There are two strategies for retail chains entering Quebec: 1) open a flagship store on St. Catherine Street; or 2) open four or five stores in major malls around Montreal, and a flagship store on St. Catherine Street.

At the corner of Peel and St. Catherine, three of the four corner stores have changed in the past year. The newcomers are H&M (Hennes & Mauritz of Sweden) with 20,000 sq. ft.; Guess with 13,000 sq. ft.; and American Eagle, with 17,000 sq. ft. In the last five years, more than 20 flagship stores have opened here, mostly multinationals, such as: Lululemon, Oakley, American Eagle, Esprit, Garage, Guess, Khiels, Geox, GNC, Ecco Shoes, H&M, Apple, Mango, French Connection, Marciano and Adidas.

The shortage of space forces stores to take minimal frontage on the ground floor, and more space on the second and third floors. Ground floor space that leased in the early 1990s for \$50 net per sq. ft. (psf), with the landlord offering \$25 per sq. ft. for leasehold improvements, now leases for \$200 net psf and up, plus \$30 psf for operating costs and taxes. And some of the stores spend \$5 million renovating the space. But as they say in Rolls Royce dealerships, if you have to ask the price, you can't afford it. Some of these stores are not making money, but they are here for image and marketing purposes. All the other banners are here, so they have to be here too.

Whereas the mixture of stores constantly evolves, most of the landlords have been here for 30 or 40 years. They have seen the market go up and down. In this market, they will turn down all but the best. For one vacancy last year, there were four multinational chains trying to outbid each other for the space.



1155 University Street — location of Keops' office

Recent Lease Transactions

H&M (retail) – 20,000 sq. ft.
 Ricoh (office) – 16,600 sq. ft.
 Atomic Energy of Canada (office) – 12,000 sq. ft.
 Keops (office) – 11,200 sq. ft.
 TransCanada Energy (office) – 3,400 sq. ft.
 Axia Consulting (office) – 2,200 sq. ft.
 SecureByKnowledge (office) – 1,000 sq. ft.

Recent Exclusive Lease Listings

1253 McGill College Avenue (office)
 – 16,500 sq. ft.

Recent Investment Properties Listed

5200 Armand-Frappier, St-Hubert (industrial)
 – 75,000 sq. ft.
 2880 Industrial Blvd., Sherbrooke (industrial)
 – 60,000 sq. ft.
 256-260 St-Raymond Blvd., Gatineau (strip plaza)
 – 33,900 sq. ft.
 6275 Grande-Prairie Blvd., St-Léonard (industrial)
 – 20,200 sq. ft.

Quebec City

1300 Ste-Anne Blvd.
Quebec City, QC G1E 3M5
T 418.694.3330 F 418.694.3334

Lebourgneuf: Quebec City's fastest growing market

The Lebourgneuf/Mesnil district, located just north of Quebec City, has seen phenomenal growth over the past five years. This district is Quebec City's development mecca. On Lebourgneuf Boulevard alone, a diverse range of projects, including a retirement home, office buildings and residential condominiums with ground-floor commercial space, are presently under construction. The new office buildings will be comparable to Group Immostar's Place de l'Escarpement Building One and Place de l'Escarpement Building Two. Place de l'Escarpement Building One, also known as the Promutuel Building, is now under construction and will come on stream in June 2009. Promutuel will occupy 90,000 square feet (sq. ft.) of the building's 145,000 sq. ft. of space. The proposed Place de l'Escarpement Building Two will comprise 95,000 sq. ft. upon completion in fall 2009.

Meanwhile, in the first quarter of 2008, Cagim completed construction of Place d'Affaires Lebourgneuf Phase Two, a 110,000-sq.-ft. mixed-use project. In fall 2007, Cagim sold the first phase, a 186,000-sq.-ft. mixed-use building, to BTB REIT. In association with Carterra Management, Cagim recently launched construction of a third project, which will comprise 200,000 sq. ft. of commercial and office space when complete in 2009. Le Groupe de Bertin's office building across from the Mesnil building is also nearing completion, and several promoters are working on similar projects.

This peripheral sector is also witnessing an abundance of activity as new residential construction and retail power centre developments inundate the area, with more planned for the area around Les Galeries de la Capitale. At this pace, land in the area is bound to become scarce, consequently putting upward pressure on the values of the newer buildings.

Recent Exclusive Lease Listings

Samuel Holland Complex (office)
– 34,000 sq. ft.

Recent Investment Properties Listed

4220 d'Orsainville Street
(seniors residence) – 63 units
6700 Pierre Bertrand Boulevard
(office, commercial) – 109,000 sq. ft.
1170 Lebourgneuf Boulevard
(office, commercial) – 104,000 sq. ft.



Place de l'Escarpement Building Two

Halifax

1583 Hollis Street, Suite 302
Halifax, NS B3J 1V4
T 902.442.4050 F 902.442.4051

A safe haven during a financial storm

When it was established, Halifax was an ideal military base. Its harbour, the second largest in the world, was considered safe from both the enemy and mother nature. Nearly 260 years later, Halifax is still a safe place but for different reasons. According to the Conference Board of Canada, Halifax will post the highest economic growth rates east of Manitoba for 2008. The Board cites an expanding manufacturing sector, increasing non-residential construction and solid gains in the services sector as the main drivers. The high-tech sector continues to grow as it takes advantage of the highly-skilled workforce. Of note, Research in Motion (RIM) has officially opened its 160,000-square-foot (sq. ft.), \$230-million facility and will be expanding its operations in Halifax. Retail, financial and insurance services are still performing solidly and the Province continues to promote Halifax around the world to attract additional international companies.



Avison Young recently completed the lease transaction with Dixel Developments for W Suites (1239 Barrington Street)

Real estate development is also thriving. Currently, more than 500,000 sq. ft. of suburban office space have either recently completed construction or are slated to come on stream during the first quarter of 2009. Major retail developments, including Dartmouth Crossing, Russell Lake and Bedford Common, are in various stages of development.

A number of major projects in the downtown core are also expected to move ahead. These include Nova Scotia Power's 100,000-sq.-ft. head office; ECL's 450,000-sq.-ft. International Place office building; new developments by Starfish Properties and Armour Group totaling 230,000 sq. ft. and 80,000 sq. ft. respectively; Centennial Properties' \$70 million hotel, condominium and commercial projects on the waterfront; and United Gulf's \$250-million twin tower development. All in all, Halifax's diverse economy provides a sound backdrop for business and real estate investment.



Avison Young recently leased 1707 Grafton Street to The Wooden Monkey

Recent Lease Transactions

Dixel Developments (retail) – 6,000 sq. ft.
The Wooden Monkey (10 - year restaurant deal)
– 3,000 sq. ft.
Uncommon Kids (retail) – 1,400 sq. ft.



Intelligent
Real Estate Solutions

Across the Country, Around the World

Halifax
Quebec City
Montreal
Ottawa
Toronto
Mississauga
Winnipeg
Regina
Calgary
Edmonton
Vancouver

USA
Mexico
United Kingdom
Continental Europe
Asia-Pacific

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



Intelligent
Real Estate Solutions