Metro Vancouver Office Market Report Mid-Year 2009

AVISON YOUNG

partnership.
performance.

Vacancy rate December 31, 2008: 5.4%
Vacancy rate June 30, 2009: 7.4%

ABSORPTION (DEMAND)	VACANCY (SUPPLY)	RENTAL RATES
↓	↑	↓

Spike in sublease space bumps up vacancy levels

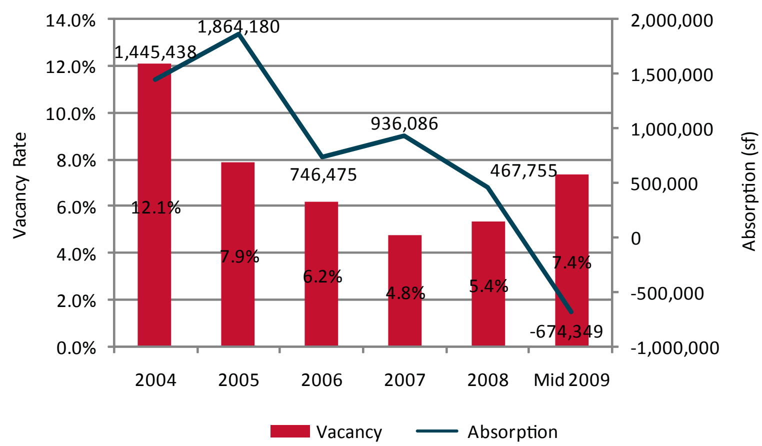
The economic downturn continued to stifle demand for office space in Metro Vancouver during the first half of 2009, with vacant sublease space rising in all eight submarkets. This helped drive up the region's overall vacancy rate to 7.4% from 5.4% at year-end 2008 and 5.0% at mid-year 2008. Deal velocity was minimal during the first six months of 2009 as firms continued to downsize, consolidate, delay expansion plans, and cut costs by subleasing some of their excess office space. This pause in leasing demand and crisis of confidence, which began in the latter half of 2008 when the global credit crunch intensified, pushed up vacancy levels in nearly every submarket during the first half of 2009 (New Westminster was the exception). The downtown core's vacancy rate doubled from 2.5% at year-end 2008 to 5.0% at mid-year 2009 (6.5% if you include the space availability factor) while the overall suburban vacancy rate notched up to 9.1% from 7.7% at year-end 2008.

Vacant sublease space totaled 948,872 square feet (sf) at mid-year 2009—up 84% from 516,627 sf at year-end 2008 and triple the 304,395 sf recorded at mid-year 2008. The current amount of vacant sublease space also represents 28% of the region's total vacancy of 3.4 million sf (msf), which is the highest percentage of sublease vacancy in more than a decade. (This compares to 21% at year-end 2008 and 14% at mid-year 2008.) The downtown core, with 460,158 sf in vacant sublease premises, accounts for half of the region's current vacant sublease inventory. While the sublease market has grown, most of the opportunities are smaller pockets, which underscores the fact that the economic slowdown has affected industries across the board and not any one particular sector. Tenants seeking larger blocks of space still have limited choices.

After experiencing positive absorption levels of 467,755 sf at year-end 2008 and 293,962 sf at mid-year 2008, the region witnessed a net outflow of -674,349 sf between January 1 and June 30, 2009. This is a far cry from the five-year annual absorption average of 1.1 msf. Most of the current negative absorption occurred in the downtown core, where

continued on back cover...

Metro Vancouver - Vacancy and Absorption Trends



Vacancy Summary (Mid-Year 2009)

District	Inventory (sf)	Head Lease Vacancy (sf)	Sublease Vacancy (sf)	Total Vacancy (sf)	Vacancy Rate (%)	6 Months Absorption (sf)
Downtown	19,432,022	509,199	460,158	969,357	5.0%	-487,776
Yaletown	2,513,634	146,390	101,449	247,839	9.9%	-68,607
Broadway	5,916,959	275,214	108,369	383,583	6.5%	-16,160
Burnaby	8,606,968	548,548	94,416	642,964	7.5%	53,057
Richmond	3,476,504	565,298	116,751	682,049	19.6%	-147,685
Surrey	2,432,815	154,952	7,554	162,506	6.7%	-3,408
New Westminster	1,626,984	136,022	46,349	182,371	11.2%	19,926
North Shore	1,747,870	103,922	13,826	117,748	6.7%	-23,696
TOTALS	**45,753,756**	**2,439,545**	**948,872**	**3,388,417**	**7.4%**	**-674,349**

Downtown

Negative absorption in all classes

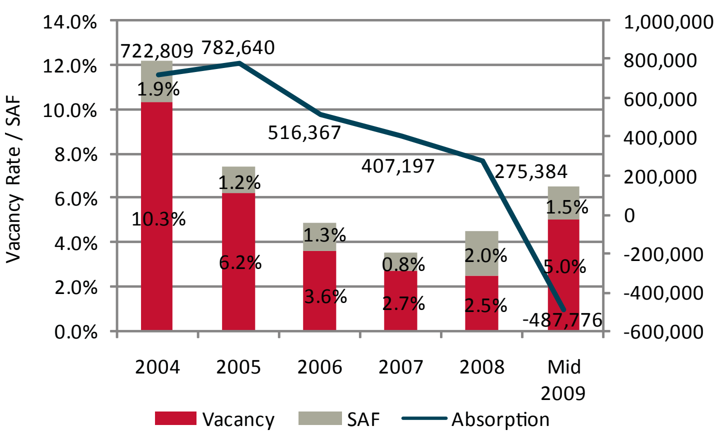
Vacancy Trends

Significant negative absorption of -487,775 doubled the downtown core's vacancy rate from 2.5% at year-end 2008 to 5.0% at mid-year 2009. (The downtown market's vacancy rate had been trending downward since hitting a decade-high of 13.5% in 2003 before reaching a scant 2.5% in 2007-2008.) The primary cause of the current vacancy hike is the notable increase in sublease space in all building classes. During the first half of 2009, tenants continued to cut costs by shedding surplus space and, in some cases, departing the market altogether in light of global economic events. Deal activity has been minimal. The rise in vacancy statistically represents a move toward a more balanced market; however, in reality, a tenant's market is in existence due to the dearth of tenant demand, as evidenced by the absorption figures.

The current 460,158 sf of vacant sublease space downtown is more than double the 188,472 sf recorded at year-end 2008, which at that time was already double the 92,000 sf of vacant sublease space posted at mid-year 2008 and at year-end 2007. Vacant sublease space currently accounts for nearly half (47%) of the downtown core's total vacancy of 969,357 sf. This compares to 40% (188,472 sf) in 2008, 17% (92,188 sq. ft.) in 2007, 16% (111,875 sq. ft.) in 2006, 15% (182,885 sq. ft.) in 2005, 12% (228,900 sq. ft.) in 2004, and 10% (247,240 sq. ft.) in 2003.

While vacant sublease space only accounts for 2.4% of the downtown core's 19.4 msf in inventory (versus 1% at year-end 2008), the escalation in sublease offerings represents the ongoing restructuring of companies. The decline in leasing demand is taking place across the board as vacant sublease space is fairly evenly distributed amongst class AAA, A and B buildings. Class B and C premises are witnessing the majority of the head lease vacancies.

Vacancy with Space Availability Factor (SAF) and Absorption:



Despite the increase in vacancy rate, the only large (> 25,000 sf) block of vacant and available contiguous space downtown is at **Waterfront Centre** (200 Burrard), which currently offers 78,211 sf for sublease and 17,449 sf for head lease. This is the result of the continued downsizing of **Intrawest**. Virtually all of its Waterfront Centre space is now vacant and available. Meanwhile, **Electronic Arts**' 85,000-sf lease at 250 Howe Street, where the games software developer is currently marketing 6,778 sf for sublease, terminates at year-end 2009 and the company is expected to relocate to its existing Burnaby campus. **Fraser Milner Casgrain** has leased 52,000 sf at 250 Howe, which the law firm will absorb in January 2011.

Absorption Trends

Downsizing and departures from the downtown core resulted in tenants vacating -487,775 sf more space than they occupied between January 1 and June 30, 2009. (This is roughly equivalent to the size of a new office tower.) After posting strong positive annual absorption levels of 400,000 sf to 700,000 sf between 2004 and 2007, absorption dropped to a mere 27,538 at year-end 2008. The current negative absorption also represents the weakest absorption amongst all submarkets as of mid-year 2009. The downtown core has not experienced negative mid-year absorption since 2002. All classes of space posted negative absorption at mid-year 2009, although the bulk of it occurred in class B buildings (203,681 sf) due to numerous smaller pockets returning to the market. Worth noting is the fact that there is little evidence to-date that **2010 Olympics**-related users will have a significant impact on the downtown office market.

Deka Immobilien Investment GmbH's acquisition of **Bentall V** from **SITQ** (a real estate subsidiary of the Quebec pension fund **Caisse de depot et placement du Quebec**) in May 2009 for $300 million underlines investor confidence in Vancouver office market

Notable Lease Deals - Mid-Year 2009

Tenant	Building	Sf
PW&GSC (renewal)	1138 Melville Street	155,221
Citizens Bank (renewal)	815 West Hastings	61,785
Fraser Milner Casgrain LLP	250 Howe Street	51,676
HSBC (renewal)	401 West Georgia Street	31,187
Heenan Blaikie LLP	1055 West Hastings Street	31,000
Spectra Energy (renewal)	1055 West Georgia Street	26,626
Roper Greyell (renewal)	666 Burrard Street	17,105
Custom House Currency Ltd. (sublease)	250 Howe Street	13,555
Capstone Mining Corp. (sublease)	999 West Hastings Street	10,745
Silver Standard Resources (sublease)	999 West Hastings Street	10,745

Public Works and Government Services Canada's 155,221-sf renewal at **1138 Melville** represents the largest lease transaction to-date in 2009. **Oxford Properties** also sold its remaining ownership interest in the building to **Quebec Hydro.**

Space Availability Factor (SAF)

The space availability factor or SAF (which refers to head lease or sublease space that is being marketed but is not physically vacant, or new supply that is nearing completion and available for lease) dipped from a four-year high of 2.0% at year-end 2008 to 1.5% (292,514 sf) at mid-year 2009. This brings the actual amount of space available in the downtown core to 6.5% and total available (occupied and vacant) space to more than 1.25 msf. The decrease in SAF, particularly in class AAA and A premises, suggests formerly occupied but available space became physically vacant during the first half of 2009.

New Construction

No major office project is expected to come to market until at least 2013. Despite lower construction costs, the unexpected turn of events in the global economy over the past year have delayed or shelved many projects that were in the planning phase or early stages of construction. Currently, the majority of the construction rattle downtown is attributed to **Delta Group's** 47-storey mixed-use **Hotel Georgia** development (699 Howe), where construction crews have now brought the project to grade level. Updated renderings call for nine floors of office space totaling 71,500 sf, with condos above. The office component is expected to complete by fall 2010. The balance of the tower is penciled in for 2012 completion.

Construction may also resume at **Jameson House** (838 West Hastings Street). In the latter part of 2008, **Jameson Development** halted construction on the 37-storey mixed–use building when the project, like many other residential developments in North America, fell victim to the global credit crunch. In June 2009, the developers won court approval to restructure and resume construction. Original blueprints call for 60,000 sf of office space over eight floors. Estimated delivery date is 2011.

Meanwhile, **Bentall Capital** is going through the development permit process for its proposed 400,000-sf office/retail building at 745 Thurlow. Ground-breaking is not expected to proceed until there is enough momentum in the marketplace to support a new office tower. And at 1133 Melville, **Amacon** has put its plans for an office tower on hold until market conditions improve. Drawings had called for a 650,000- to 700,000-sf tower comprising 600,000 sf of office space plus a hotel and retail component.

Developer	Building	Sf	Completion
Delta Group	Hotel Georgia development, 699 Howe	71,500	fall 2010 for office component
Jameson Development	Jameson House, 838 West Hastings	60,000	2011
Bentall Capital	745 Thurlow	400,000	Planning
Amacon	1133 Melville	office/hotel tower	Proposed

Market Forecast

Overall, sublease opportunities will temporarily lead the market and, thus, apply downward pressure on rental rates. Rents are off from the highs set 12 to 18 months ago, although benchmark prices are difficult to determine given the lack of leases actually completing. Worth noting is that there are no notable large-sized tenant defaults to-date despite the global credit turmoil of the past year. Moreover, despite the increase in overall vacancy, institutional owners (primarily of class AAA and A buildings) are relatively well-positioned with vacancy rates at or below prevailing market rates.

Looking ahead, with much of the tenant downsizing likely now completed, no significant change in market fundamentals is anticipated for the balance of the year, unless new tenants enter the market or existing tenants further contract or exit the market. No significant "flight to the suburbs" by downtown tenants is anticipated as there is a solid base of companies that still chooses to remain in the core. Hesitation on the part of major developers to launch construction of a new office tower will keep vacancy rates from skyrocketing.

Class	Total Rentable (sf)	Head Lease Vacancy (sf)	Sublease Vacancy (sf)	Total Vacancy (sf)	Total Vacancy (%)	6 Mos. Absorption (sf)	SAF (sf)	SAF (%)	Avg. Net Rental Rate (psf)	Gross Occupancy Cost (psf)
AAA	4,348,094	42,714	154,372	197,086	4.5%	-122,264	43,780	1.0%	$36	$56
A	6,686,228	105,776	122,845	228,621	3.4%	-131,821	92,235	1.4%	$32	$50
B	5,742,784	210,512	139,964	350,476	6.1%	-203,681	117,343	2.0%	$26	$41
C	2,654,916	150,197	42,977	193,174	7.3%	-30,010	39,156	1.5%	$18	$31
Total	**19,432,022**	**509,199**	**460,158**	**969,357**	**5.0%**	**-487,776**	**292,514**	**1.5%**	**.**	**-**

Yaletown

Continued negative absorption

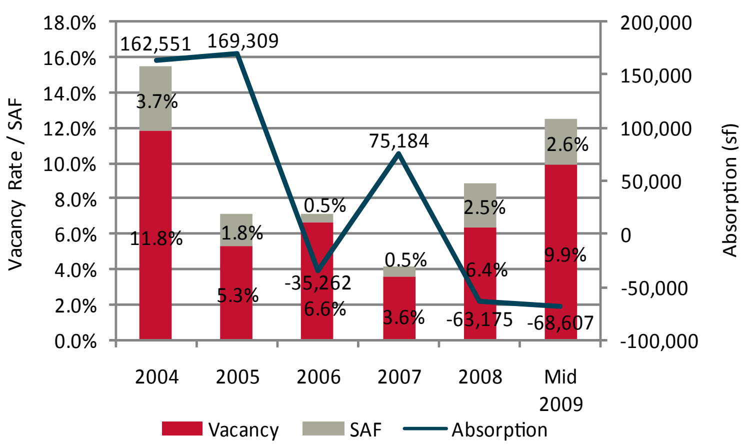
Vacancy Trends

After residing in the 3% to 4% range between 2007-2008, Yaletown's vacancy rate rose from 3.9% at mid-year 2008 to 6.4% at year-end 2008 to 9.9% at mid-year 2009. The current 247,839 sf of vacant space represents the highest vacancy in this submarket since 2004. If the space availability factor (SAF) is taken into account, another 2.6% (or 64,712 sf) is added to the available space stock. Vacant sublease space totaled 101,449 at mid-year 2009, similar to that reported at year-end 2008 but up significantly from the mere 9,823 sf registered at mid-year 2008.

Most of Yaletown's current vacancy occurs in class B head lease (86,607 sf) and class B sublease space (71,824 sf). Contributing factors include the 46,151 sf of vacant sublease space at 855 Homer, resulting from the downsizing of **SAP/Business Objects** in 2008; and the 37,096 sf of vacant head lease space at 840 Cambie, which **Nexon** previously marketed for sublease before the space reverted back to the landlord.

In the class A category, large blocks of sublease space are available at 858 Beatty Street from **Pivotal** (12,226 sf) and at 1128 Homer from **United Front Games** (17,399 sf), which expanded into the two new floors added to 1110 Hamilton in June 2009. Meanwhile, 27,057 sf of head lease space at 990 Homer Street remains vacant as the building undergoes renovations. In the class C sector, 23,416 sf also remains empty at 856 Homer.

Vacancy with Space Availability Factor (SAF) and Absorption:



Absorption Trends

In a market that has historically witnessed positive absorption, tenants vacated -68,607 sf more space than they took up between January 1 and June 30, 2009. This is already at par with the -63,175 sf of annual absorption recorded for all of 2008. The positive absorption of 21,125 sf experienced in class A space in the first half of 2009 was nullified by the negative absorption that took place in class B (-71,379 sf) and class C buildings (-18,353 sf).

New Construction

In the first half of 2009, **Triple F Investment Corp.** added 22,000 sf at 1110 Hamilton, now occupied by United Front Games on a sublease from **Electronic Arts. Onni Development Group** will also wrap up construction by August 2009 at its 20-storey, 189,000-sf residential/office/retail tower at **1022 Seymour**, which will comprise 35,000 sf of office space. The construction machinery will start up again when **Amacon** breaks ground at **The Beasley** (888 Homer) in summer 2009. Sketches for the 33-storey, 211,000-sf residential/office/retail tower call for 14,000 sf of office space with turn-over planned for summer 2012. Looking ahead, Triple F Investment also plans to add 30,000 sf over three floors at 1132 Hamilton Street, with construction starting mid-year 2010.

Triple F Investment plans to add three floors totaling 30,000 sf at **1132 Hamilton Street**

Developer	Building	Sf	Completion
Triple F Investment Corp.	1110 Hamilton, Phase 2	22,000	Completed (2009)
Onni Development Group	1022 Seymour	35,000	Summer 2009
Triple F Investment Corp.	1132 Hamilton Street	30,000	TBD
Amacon	The Beasley, 888 Homer	14,000	Mid 2012

Market Forecast

While the Yaletown submarket was stagnant entering 2009, tour and deal activity have picked up since April 2009. Lease rates have come off slightly by approximately $2 to $4 per square foot (psf) depending on the quality of the office space on an as-is-basis. However, landlords providing further incentives have maintained face rates. This is in contrast to previous years when landlords were generally not offering cash incentives or landlord's work. Rents are not anticipated to decline much further, although incentives to quality tenants will likely continue. Vacancy may further increase if space is not backfilled when SAP/Business Objects eventually vacates its remaining 48,000 sf at 855 Homer to consolidate at its existing offices at 910 Mainland.

Notable Lease Deals - Mid-Year 2009

Tenant	Building	Sf
FCV Technologies	1132 Hamilton Street	6,000
Grand & Toy	1050 Homer Street	3,836
Donnelly Hospitality Management	1110 Hamilton Street	2,200

Class	Total Rentable (sf)	Head Lease Vacancy (sf)	Sublease Vacancy (sf)	Total Vacancy (sf)	Total Vacancy (%)	6 Mos. Absorption (sf)	SAF (sf)	SAF (%)	Avg. Net Rental Rate (psf)	Gross Occupancy Cost (psf)
A	385,142	2,817	29,625	32,442	8.4%	21,125	4,785	1.2%	$28 - $32	$38 - $44
B	1,470,974	86,807	71,824	158,631	10.8%	-71,379	58,926	4.0%	$23 - $27	$33 - $39
C	657,518	56,766	0	56,766	8.6%	-18,353	1,001	0.2%	$19 - $22	$29 - $34
Total	**2,513,634**	**146,390**	**101,449**	**247,839**	**9.9%**	**-68,607**	**64,712**	**2.6%**		

Vancouver - Broadway

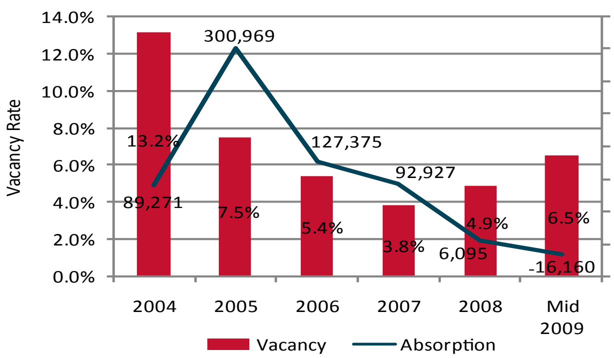
Limited activity but market more balanced

Vacancy Trends

Sublease vacancies totaled 108,369 sf at mid-year 2009, up from 67,197 at year-end 2008 and 18,108 at mid-year 2008. This helped bump up the Broadway submarket's vacancy rate to 6.5% at mid-year 2009 from 4.9% at year-end 2008 and 6.2% at mid-year 2008. The current amount of sublease space represents the highest level of sublease vacancy in this submarket since mid-year 2002. While class A sublease space declined over the past six months from 60,064 sf to 41,840 sf, class B sublease space increased significantly from 7,133 sf to 59,208 sf. This is primarily attributed to smaller suites coming back to the market.

Other contributing factors to the overall 383,583 sf in vacancy include the 73,508 sf that remain vacant at 887 Great Northern Way, resulting from **QLT** selling the property in 2008 and only leasing back a portion of the building. In addition, activity from outside the Broadway submarket has been virtually non-existent in 2009. Nonetheless, although deal activity has been extremely low to-date in 2009, activity is slowly picking up.

Vacancy and Absorption Graph



Absorption Trends

Negative absorption of -67,860 sf in class B space offset the 72,432 sf of positive absorption experienced in class A space during the first six months of 2009. Add to the mix -20,732 sf of negative absorption in class C buildings and the result is a relatively flat net change in occupied office space of -16,160 sf. Most of the class A absorption is attributed to the **City of Vancouver's** engineering department taking possession of its 80,000 sf at **Cross Roads** (Cambie and Broadway) where tenant fixturing is nearing completion. Class B negative absorption is primarily the result of 26,030 sf of sublease space returned to the market at **Van Tech Centre II** (369 Terminal Avenue) due to two tenants downsizing; and 19,372 sf of sublease space at 1620 West 8th Avenue, also the result of downsizing.

New Construction

PCI Group's 80,000-sf Cross Roads was the only new building added to the inventory during the first half of 2009. In 2010, developers will add 201,956 sf to the supply stock. The roof is now being poured at **Bentall Capital's Broadway Tech Centre Building 5** while glazing work is being done on **Building 7.** The 75,000-sf buildings will complete in early 2010. Most recently, **STX Canada Marine** committed to 8,000 sf in Building 5. *(Note: post Q2 2009 stats, **BC Lottery Corp**. has committed to 79,000 sf of office space in Building 7.)* Meanwhile, **Wesgroup's** office/retail Broadway and Commercial project (1669 East Broadway) is now built up to the first floor. The 58,108-sf building will comprise 51,956 sf of office space, of which **Vancouver Coast Health** will occupy 36,740 sf. Keys will be handed over in mid-year 2010. Developers seeking a lead tenant before commencing construction include **False Creek Business Park** for its 25,000-sf build-to-suit at 306-320 Terminal Avenue, and **Rize Alliance Properties** for its 220,000-sf building at 428 Terminal Avenue. **Orca West Developments** is also in the planning stages for a 120,000-sf building at 538 West Broadway.

Developer	Building	Sf	Completion
PCI Group	Cross Roads	80,000	Completed (early 2009)
Bentall Capital	Broadway Tech Centre 5	75,000	Early 2010
Bentall Capital	Broadway Tech Centre 7	75,000	Early 2010
Wesgroup	1669 East Broadway	51,956	Mid 2010
Rize Alliance Properties	428 Terminal Avenue	220,000	Preleasing
False Creek Business Park Ltd.	306 to 320 Terminal Ave.	25,000	Preleasing
Orca West Developments	538 West Broadway	120,000	Preleasing

False Creek Business Park Ltd. is awaiting prelease commitment before breaking ground on its 25,000-sf build-to-suit at **306-320 Terminal Avenue**

Market Forecast

After steadily declining from the double-digit vacancy rates experienced between 2001-2004 to reach a low of 3.7% in 2007, the Broadway submarket's vacancy rate is anticipated to increase slightly again by year-end. The City of Vancouver may also bring additional sublease premises to the market at Cross Roads. Nonetheless, following five years of positive annual absorption, this submarket of 5.9 msf remains relatively tight, with only sprinkled pockets of space available for larger tenants. No new announcements regarding future speculative projects are anticipated. Lease rates appear to have stabilized but are down slightly from the highs of 2008. Inducements have returned though and are increasing to maintain face rents.

Notable Lease Deals - Mid-Year 2009

Tenant	Building	Sf
Art Institute	2889 E. 12th Avenue	40,000
London Life (renewal)	1508 West Broadway	10,732
Intel (renewal)	1333 West Broadway	10,000
Smoking Gun	1706 West 1st Avenue	9,014
STX Canada Marine	Broadway Tech Centre 5	8,000

Class	Total Rentable (sf)	Head Lease Vacancy (sf)	Sublease Vacancy (sf)	Total Vacancy (sf)	Total Vacancy (%)	6 Mos. Absorption (sf)	Avg. Net Rental Rate (psf)	Gross Occupancy Cost (psf)
A	3,497,879	142,724	41,840	184,564	5.3%	72,432	$23 - $29	$40 - $44
B	1,897,382	98,597	59,208	157,805	8.3%	-67,860	$19 - $22	$32 - $36
C	521,698	33,893	7,321	41,214	7.9%	-20,732	$15 - $18	$26 - $29
Total	**5,916,959**	**275,214**	**108,369**	**383,583**	**6.5%**	**-16,160**	-	-

Burnaby

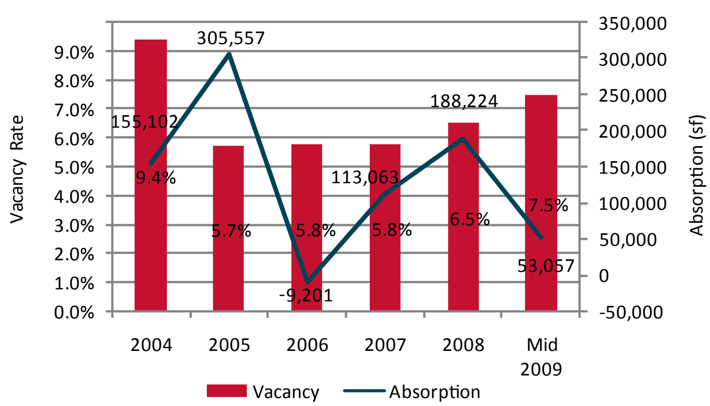
Most construction activity in region

Vacancy Trends

Intrawest has signed up for 8,250 sf at **Appia Group's** 110,000-sf **Commerce@Citi,** which will wrap up construction in fall 2009

After downtown, Burnaby currently matches Richmond in offering the most amount of vacant space on a square footage basis at 642,964 which, in the Burnaby submarket of 8.6 msf, represents a 7.5 % vacancy. This is up from 6.5% at year-end 2008 and 5.4% at mid-year 2008. Most of Burnaby's current vacancy is attributed to 548,548 sf of head lease space, the highest level of vacant head lease space in this submarket since mid-year 2005. The majority of the vacancy occurs in class A space (391,120 sf). This is partly attributed to tenants downsizing and/or leaving the market, and projects such as **Lake City Centre** and **Glenlyon Business Park** that still sit 89% and 100% empty since completing in 2008. Large blocks of space also continue to exist at 4190 Still Creek Drive (76,764 sf vacant) and **Canada Way Business Park** (49,064 sf vacant). **Ebay** will also be departing the market in fall 2009, leaving behind 127,000 sf of primarily head lease space at 4321 Still Creek Drive. Sublease space in Burnaby totaled 94,416 sf at mid-year 2009, up from 73,170 sf at year-end 2008 and down slightly from 121,738 sf at mid-year 2008.

Vacancy and Absorption Graph



Absorption Trends

While mid-year 2009 absorption was positive at 54,057 sf, it was too minimal to bring the submarket's vacancy rate down. Nonetheless, Burnaby's absorption was the strongest amongst the submarkets during the first half of 2009, and represents one of only two submarkets that recorded positive absorption at mid-year 2009 (the other was New Westminster). Although deal activity has been almost non-existent in this submarket in 2009, several large mandates are in the marketplace and there is plenty of quality space available to tenants. Accordingly, landlords are becoming more aggressive for quality covenants.

New Construction

The Burnaby submarket is currently witnessing the most new office construction activity in Metro Vancouver. In spring 2009, **Morguard** introduced its five-storey, 146,130-sf **Discovery Green Building** (4200 Canada Way) to the market. Tenant fixturing is now taking place for **HSBC,** which will occupy the entire space. Meanwhile, in August 2009, **Tonko Realty Advisors** will complete construction of its 71,135-sf **Lake City Court II,** 34,000 sf of which will be designated office space. The only tenant to-date is **Calea Inc.** which has signed up for 8,200 sf of office/warehouse space. Hammers are also pounding at **Appia Group's** 110,000-sf **Commerce@Citi** (4445 Lougheed Highway), which will come on stream in fall 2009. **Intrawest** has leased 8,250 sf while Appia Group will take 7,000 sf.

Developer	Building	Sf	Completion
Morguard	Discovery Green Bldg., 4200 Canada Way	146,130	Completed (2009)
Tonko Realty Advisors	Lake City Court II	34,000	August 2009
Appia Group	Commerce@Citi, 4445 Lougheed Highway	110,000	Fall 2009
Tonko Realty Advisors	Willingdon Business Park Phase 9, 4370 Still Creek Drive	92,509	Q1 2010
Tonko Realty Advisors	Willingdon Business Park Phase 8, 4350 Still Creek Drive	92,509	Q2 2010
Ivanhoe Cambridge	Metrotower III	400,000	Q3 2011
Bosa Properties	Northeast corner of Kingsway and Willingdon		Proposed

The construction engines also continue to run at Tonko Realty Advisors' **Willingdon Business Park**. Built on a speculative basis, phase 9 (4370 Still Creek Drive) is 75% finished with three of four floors now complete; while phase 8 (4350 Still Creek Drive) is built up to the parkade level. Each phase will add 92,509 sf to the marketplace in the first and second quarters of 2010 respectively.

Meanwhile, some 200 concrete trucks recently completed pouring the core at **Ivanhoe Cambridge's** proposed 400,000-sf **Metrotower III**, which is targeting the third quarter of 2011 for completion. **Bosa Properties** is also looking at developing the northeast corner of Kingsway and Willingdon.

Market Forecast

Like in all other submarkets, there have been too few deals to establish benchmark prices. However, it appears landlords are marketing vacancies at lower rental rates and with stronger inducements for incoming tenancies than they were half a year ago. This trend is expected to continue for the balance of the year, with landlords working harder to accommodate tenants' requirements. Vacancy is expected to notch up by year-end due to the new supply and space returning to the market.

Notable Lease Deals - Mid-Year 2009

Tenant	Building	Sf
Fortinet (sublease)	4185 Still Creek	14,000
Intrawest Corporation	4445 Lougheed Highway	8,250

Class	Total Rentable (sf)	Head Lease Vacancy (sf)	Sublease Vacancy (sf)	Total Vacancy (sf)	Total Vacancy (%)	6 Mos. Absorption (sf)	Avg. Net Rental Rate (psf)	Gross Occupancy Cost (psf)
A	6,354,705	391,120	67,957	459,077	7.2%	47,284	$21-$32	$31-$47
B	1,621,438	94,345	24,818	119,163	7.3%	15,690	$14-$17	$24-$30
C	630,825	63,083	1,641	64,724	10.3%	-9,917	$12-$14	$21-$27
Total	**8,606,968**	**548,548**	**94,416**	**642,964**	**7.5%**	**53,057**		

Richmond

Highest vacancy rate in region

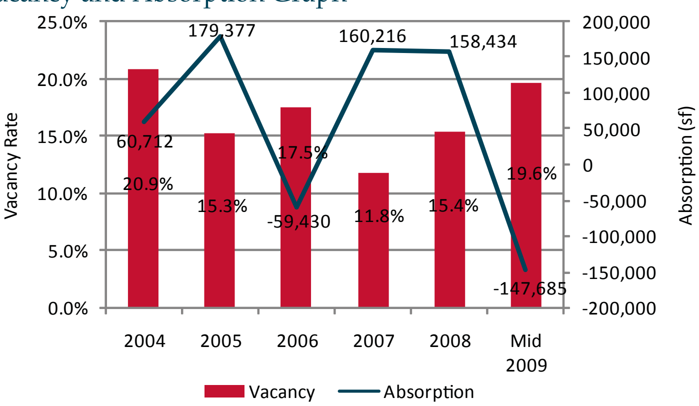
Vacancy Trends

Negative absorption of -147,685 sf pushed up Richmond's vacancy rate four percentage points over the past six months to reach 19.6% at mid-year 2009, up from 15.4% at year-end 2008 and 12.3% a year ago. The current vacancy represents Metro Vancouver's highest vacancy rate as of mid-year 2009. Most of Richmond's vacancy occurs in class A space, resulting from corporate downsizing and the fact that **Airport Executive Park #6** and **Riverside Business Centre**, both of which completed in 2008, remain empty.

On a square footage basis, the current 682,049 sf of vacant premises represents the submarket's largest amount of vacant space in more than a decade, with the exception of 2003 when vacancy hit 23.6% (738,578 sf). Only three deals were negotiated during the first half of 2009, two of which were renewals. Of the 536,818 sf of vacant class A space, 425,638 sf is attributed to head lease vacancies.

Sublease space totaled 116,751 sf at mid-year 2009– the highest level of sublease vacancy in the Richmond submarket since 2004, and currently the largest amount of vacant sublease space in Metro Vancouver outside the downtown core. This is up from 82,867 sf at year-end 2008 and nearly triple the 41,895 sf recorded at mid-year 2008.

Vacancy and Absorption Graph



Absorption Trends

Richmond's net change in occupied office space of -147,685 during the first half of 2009 is a turnabout from the 209,111 sf of positive absorption experienced during the first half of 2008. With the exception of year-end 2006, the Richmond submarket has recorded positive mid-year and positive annual absorption since 2004. The current negative absorption represents the weakest absorption amongst the suburban office markets.

Contributing factors include: **Hewlett Packard** downsizing at 13571 Commerce Parkway (11,530 sf); **Hamilton Spill Furniture Group** closing up shop at 13551 Commerce Parkway (15,611 sf); **Great Canadian Casinos** downsizing and subleasing 19,500 sf at 13775 Commerce Parkway; **Nokia** moving out of 6651 Fraserwood Place (and consolidating at 9200 Glenlyon Parkway in Burnaby), creating 72,000 sf of vacancy; **Sport BC** subleasing 4,188 sf at 3820 Cessna Drive; and **Lehigh Cement** and **Premier Diagnostics** exiting the submarket, leaving 16,972 sf available for sublease at 3600 Lysander Way. Class A space was most significantly impacted, evidenced by the -160,445 sf of negative absorption recorded at mid-year 2009. **Ritchie Bros. Auctioneers** will also be leaving approximately 80,000 sf in Richmond and other locations to take 164,580 sf in its new head office at 9400 Glenlyon Parkway in Burnaby later in 2009.

The downsizing of **Nokia** and its departure from the Richmond submarket has created 72,000 sf of vacancy at **6651 Fraserwood Place**

Notable Lease Deals - Mid-Year 2009

Tenant	Building	Sf
Assetplus Financial Services	3751 Shellbridge	4,182
Agility (renewal)	13071 Vanier Place	4,542
Conestoga Rovers (renewal/relocation)	3851 Shell Road	4,320

New Construction

After bringing on 211,000 sf of new office space in 2008, no new construction cranes are punctuating the Richmond skyline for any major office projects. Developers will not add to the Richmond roster of 3.5 msf in 2009, and no new product is planned for completion in 2010. Three ambitious developments are proposed for 2011-2012. They include **YVR**'s hotel/office development at the new **Templeton SkyTrain Station**, which will comprise six buildings at 80,000 sf a piece; and **Kingswood Properties'** mixed-use development at the new **Bridgeport SkyTrain Station**. which is in the land assembly stage. The latter calls for a 161,743-sf office component. A joint venture development between **Staburn** and **Ledcor** for a mixed-use building at No. 6 Road and Steveston Highway is also in the design stage. Preliminary drawings reveal a 500,000-sf mixed-use office/retail complex, of which 300,000 sf would be designated office space..

Developer	Building	Sf	Completion
Staburn and Ledcor	Winners Circle, No. 6 Rd and Steveston Hwy	300,000 sf of office	Proposed, mid 2012
YVR	Hotel/office development at Templeton SkyTrain Station	80,000 sf each	Proposed
Kingswood Properties	Mixed-use development at Bridgeport SkyTrain Station	161,743 sf of office	Proposed

Market Forecast

Lease rates have remained stagnant in 2009, and with little activity anticipated for the balance of the year, downward pressure on rents is expected. Vacancy rates will likely remain at current high levels, which would provide tenants with some leverage and thus create a tenant's market. As a result, landlords will have to stretch to renew and attract strong covenant tenants.

Class	Total Rentable (sf)	Head Lease Vacancy (sf)	Sublease Vacancy (sf)	Total Vacancy (sf)	Total Vacancy (%)	6 Mos. Absorption (sf)	Avg. Net Rental Rate (psf)	Gross Occupancy Cost (psf)
A	2,363,597	425,638	111,180	536,818	22.7%	-160,445	$14 - $24	$27 - $35
B	912,433	73,538	5,571	79,109	8.7%	13,129	$10 - $16	$20 - $26
C	200,474	66,122	0	66,122	33.0%	-369	$10 - $14	$17 - $21
Total	**3,476,504**	**565,298**	**116,751**	**682,049**	**19.6%**	**-147,685**		

Surrey

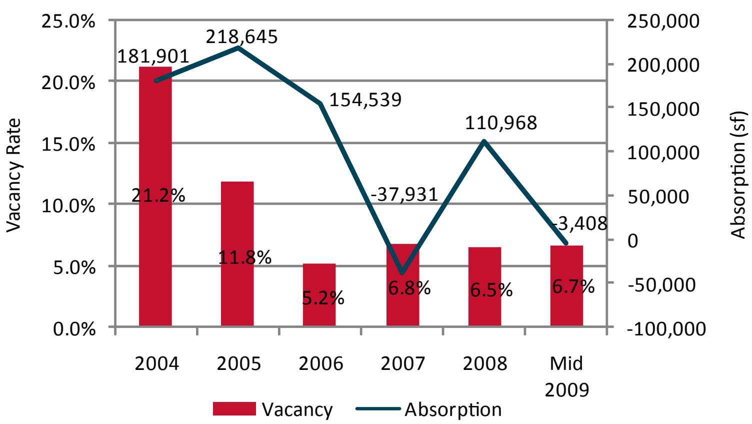
No new tenant demand

Vacancy Trends

With relatively flat absorption of -3,408 sf experienced between January 1 and June 30, 2009, the Surrey submarket witnessed little movement in its vacancy rate, which rose only slightly from 6.5% at year-end 2008 to 6.7% at mid-year 2009. Primary causes for the uptick include smaller tenancies vacating the market or closing their businesses, and **Central City** hosting 49,953 sf of head lease space. Vacancy in this submarket has remained in the single digits since 2006.

With only 7,554 sf in sublease vacancies— the lowest in the region —sublease space continues to be a non-issue in Surrey. (The submarket posted zero sublease space at year-end 2008 and at mid-year 2008.) As is the case in all submarkets, there is no new tenant demand. Surrey landlords are primarily focusing on renewals and maintaining existing tenants. Deal velocity was minimal in the first half of 2009, with only a handful of smaller deals negotiated in class B and C buildings. The largest deal over the past six months was **Translink's** 81,362-sf renewal at **Station Tower** (13401 108th Avenue). (Note: 104th Avenue Centre at 104th Avenue and 142nd Street is not included in Avison Young statistics. The 260,000-sf building, originally designed to be a cultural centre and then marketed to large office users, has been sitting vacant since completion in 2005. A conditional deal is now in place for the entire building.)

Vacancy and Absorption Graph



Absorption Trends

The -3,408 sf of absorption recorded at mid-year 2009 is an improvement over the -25,530 sf recorded at mid-year 2008, but a far cry from the 150,000 to 200,000-sf-plus absorbed in years 2003 to 2006. Class A space witnessed most of the negative absorption during the first half of 2009, with tenants leaving behind 4,045 sf more space than they took up. No significant new occupancies have occurred to-date in 2009. Overall, as the existing base of core tenancies has not changed over the past six months, demand has remained flat. Hence, minimal annual absorption is expected for 2009.

New Construction

GE Real Estate and **Dundee Real Estate Asset Management** continue to await prelease commitment before turning the sod at **Gateway Office Park Phase I** (108th Avenue and Whalley Ring Road). Blueprints for the first phase of the ambitious 600,000-sf campus-style development call for 200,000 sf over two buildings with a target completion date of early 2012. Meanwhile, the shovels are poised to break ground in July 2009 at **Panorama Park Investments' Panorama Place Phase II** (5590 152nd Street), a 30,000-sf mixed-use development comprising 20,000 sf of office space. The project is slated for early 2010 completion. The developer has also penciled in fall 2011 as the project delivery date for its **Panorama Place Phase III**, which will incorporate a 45,000-sf office component.

Translink's renewal for 81,362 sf at **Station Tower** represented Surrey's largest lease transaction in the first half of 2009

Benchmark Group of Companies' Benchmark Business Centre Phase 2 is still on hold pending market conditions. Working drawings call for 112,000 sf of office space. Developers did not add new product to the Surrey inventory in 2008 and no projects are scheduled for completion in 2009.

Developer	Building	Sf	Completion
Panorama Park Investments	Panorama Place, 5590 152nd Street, Phase II	20,000	early 2010
Panorama Park Investments	Panorama Place, 5590 152nd Street, Phase III	45,000	fall 2011
GE Real Estate/ Dundee Real Estate Asset Management	Gateway Office Park, 108th Avenue and Whalley Ring Road, Phase 1	200,000	Waiting prelease commitment/ early 2012
Benchmark Group of Companies	Benchmark Business Centre, Phase 2	112,000	Proposed

Market Forecast

As deals have become harder to come by, rents are expected to remain flat or soften over the next six months as landlords strive to retain tenancies and work more aggressively to obtain deals. Translink's renewal at Station Tower, which represents the transportation authority's commitment to serving Metro Vancouver's expanding transit needs from Canada's fastest growing municipality (Surrey), will bode well for the submarket in the long run. Vacancy is expected to hold in the 7% to 9% range over the next year unless a deal is secured in the submarket's only large block of space at Central City.

Notable Lease Deals - Mid-Year 2009

Tenant	Building	Sf
Translink (renewal)	13401 108th Avenue	81,362

Class	Total Rentable (sf)	Head Lease Vacancy (sf)	Sublease Vacancy (sf)	Total Vacancy (sf)	Total Vacancy (%)	6 Mos. Absorption (sf)	Avg. Net Rental Rate (psf)	Gross Occupancy Cost (psf)
A	1,478,253	89,843	2,587	92,430	6.3%	-4,045	$20	$28
B	796,612	54,525	3,996	58,521	7.3%	-102	$14	$20
C	157,950	10,584	971	11,555	7.3%	739	$9	$14
Total	**2,432,815**	**154,952**	**7,554**	**162,506**	**6.7%**	**-3,408**	**-**	**-**

New Westminster

Only submarket with vacancy decline

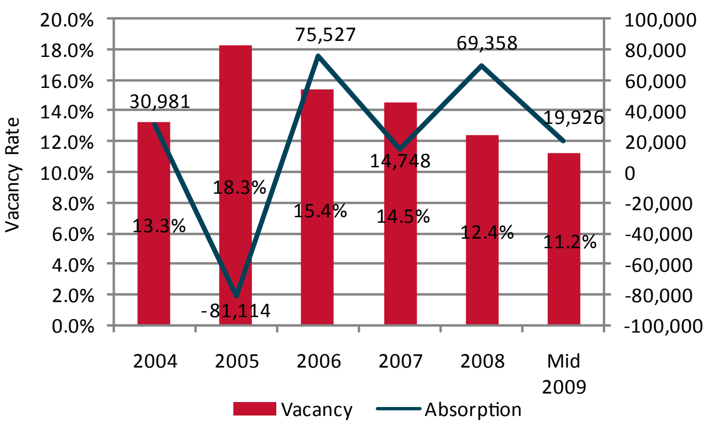
Vacancy Trends

With a vacancy rate of 11.2%, down from 12.4% at year-end 2008 and 12.1% at mid-year 2008, New Westminster is the only submarket that witnessed a drop in its office vacancy rate over the past six months. The main reason for the recent dip is **BC Safety** and **TP Systems** occupying their respective spaces at **Westminster Centre South** (505 6th Street) and **Royal City Centre** (610 6th Street).

With the exception of mid-year 2007, this submarket has experienced double-digit vacancy rates since year-end 2000, peaking at 18.3% at year-end 2005 but generally trending downward since then. New Westminster's current vacancy rate represents the region's highest vacancy level after Richmond. Of the 182,371 sf currently vacant in New Westminster, sublease space accounts for 46,349 sf— the highest amount of sublease space in this submarket in more than a decade. (The next largest amount occurred in mid 2008 when 20,431 sf was returned to the market.) The main contributors to the current sublease market are **Port Metro Vancouver,** which is subleasing 16,000 sf at 625 Agnes; and BC Safety, which is subleasing 22,000 sf at 88 6th Street.

While deal velocity started out slowly at the beginning of 2009 (the two notable transactions referenced above were negotiated in 2008), activity is picking up. Worth noting is that outside of the Port's sublease space, premier space is still a rarity in this submarket of 1.6 msf.

Vacancy and Absorption Graph



Absorption Trends

New Westminster is one of only two submarkets that posted positive absorption at mid-year 2009 (the other is Burnaby). Overall absorption in New Westminster has remained positive for the past three years— a trend that is continuing to-date in 2009. Between January 1 and June 30, 2009, tenants took up 19,926 sf more space than they left behind. This

UPG Group's Westminster Centre South represents Metro Vancouver's first LEED Gold, class A, multi-tenant office building. UPG Group's 42,000-sf addition completed in fall 2008.

was primarily due to the occupancies noted above, as well as occupancy in the **Buy & Sell** building at 350 Columbia Street (27,735 sf). Class B was the only category of space that registered negative absorption (-30,925 sf) at mid-year 2009. Although there are only a few large blocks of quality office space available in the marketplace, significant activity is anticipated to take place on them, which will likely translate into positive absorption over the next 12 months.

New Construction

No new projects have come on stream since **UPG Group** completed its 42,000-sf addition to Westminster Centre South in fall 2008, which gave Metro Vancouver its first LEED Gold, class A, multi-tenant office building. No office projects are planned for the foreseeable future in this submarket.

Market Forecast

Overall, rental rates have generally stagnated and may be experiencing some downward pressure due to the current economic environment. However, landlords of class A buildings are maintaining proforma rents for head lease deals. Absorption is expected to stay positive through the balance of 2009 with deals negotiated at new market rents. Vacancy may edge up slightly by year-end 2009 due to Uniserve bringing some space to the sublease market.

Notable Lease Deals - Mid-Year 2009

Tenant	Building	Sf
BC Land Title & Survey (renewal)	88 6th Street	27,000

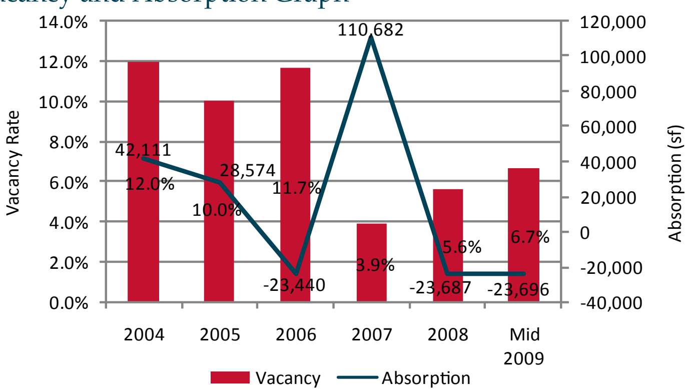
Class	Total Rentable (sf)	Head Lease Vacancy (sf)	Sublease Vacancy (sf)	Total Vacancy (sf)	Total Vacancy (%)	6 Mos. Absorption (sf)	Avg. Net Rental Rate (psf)	Gross Occupancy Cost (psf)
A	882,886	64,013	24,044	88,057	10.0%	22,853	$18	$24
B	553,385	60,577	22,305	82,882	15.0%	-30,925	$14	$18
C	190,713	11,432	0	11,432	6.0%	27,998	$10	$14
Total	**1,626,984**	**136,022**	**46,349**	**182,371**	**11.2%**	**19,926**	**-**	**-**

Vacancy Trends

Companies downsizing coupled with new inventory nudged up the North Shore submarket's vacancy rate to 6.7% at mid-year 2009 from 5.6% at year-end 2008 and 3.4% at mid-year 2008. Approximately half of the current 117,748 sf of vacant premises occurs in class A space. Contributing factors include the addition of **North Shore Corporate Centre** (111 Forester Street, 30,000 sf), half of which has been leased to **Newalta Corp.**; and tenants downsizing and subleasing space at 221 West Esplanade, which brought nearly 11,000 sf back to the market. In the class B category, both head lease and sublease vacancies exist at 267 West Esplanade.

While the current vacancy is an improvement over the double-digit vacancy levels experienced between 2002-2006, deal velocity has generally been flat in 2009 as companies continue to put off making decisions regarding their real estate. Furthermore, the current 13,826 sf of vacant sublease space is more than double the 6,228 sf recorded at year-end 2008, although not as significant as the 15,000 to 50,000 sf of sublease space posted between 2004-2006. The current uptick in sublease offerings has resulted in a slight reduction in head lease rates.

Vacancy and Absorption Graph



Absorption Trends

After posting positive absorption between mid-year 2007 and mid-year 2008, the North shore submarket checked in its second consecutive six-month period of negative absorption at mid-year 2009 at -23,696 sf, relatively unchanged from year-end 2008. Both class A and B categories witnessed negative absorption due to new supply and companies cutting costs. Class C premises experienced relatively flat absorption of 741 sf between January 1 and June 30, 2009.

Tenants downsizing and subleasing space at **221 West Esplanade** have returned nearly 11,000 sf to the market

New Construction

While few office projects completed construction between 2002 and spring 2008, when **Pinnacle International** brought 58,000 sf of strata office space to the market at 100 Esplanade, developers will add 98,000 sf to the office reservoir in 2009. North Shore Corporate Centre wrapped up in the first half of 2009, and **Harbourside Corporate Centre** (850 Harbourside Drive) will come on stream in July 2009 with an additional 40,000 sf. **Hatfield Consultants** has already signed up for 10,000 sf in the latter. In addition, **V1500 Holdings**' 28,000-sf 1133 Lonsdale Avenue is 70% complete, with work now being done on the interior. Originally slated for January 2010 completion, the building will now open in October 2009.

Proposed projects include **GWL Realty Advisors'** fifth flex building at **NorthWoods Business Park** (2100 Dollarton Highway) on behalf of **bcIMC**. With a development permit now in hand, GWL is in pre-leasing mode and says it may once again look at building on a speculative basis in 2010. The 75,000-sf building would have the potential to be converted to 100% office use. **Concert Properties**' proposed **Harbourside Business Park Phase 2** (801 Harbourside Drive) is on hold and the developer says it may consider a larger master plan down the line. Original renderings called for a three- to four-storey, 36,000-sf campus-style office.

Developer	Building	Sf	Completion
Local developer	North Shore Corporate Centre, 111 Forester Street	30,000	Completed (2009)
Local developer	Harbourside Corporate Centre, 850 Harbourside Drive	40,000	July 2009
V1500 Holdings	1133 Lonsdale Avenue	28,000	October 2009
GWL Realty Advisors (on behalf of bcIMC)	NorthWoods Business Park	75,000	Waiting for prelease commitment

Market Forecast

Overall, rental rates trended downward over the past six months as landlords competed with sublease space. Over the next six months, vacancy levels in this submarket of 1.7 msf should hold fairly steady as the sublease space is absorbed. Simultaneously, Class A space will have to compete with the new buildings coming to market.

Notable Lease Deals - Mid-Year 2009

Tenant	Building	Sf
Newalta Corp.	North Shore Corporate Centre	14,750
Hatfield Consultants	Harbourside Corporate Centre	10,000
Global Market Insite	221 West Esplanade	5,000

Class	Total Rentable (sf)	Head Lease Vacancy (sf)	Sublease Vacancy (sf)	Total Vacancy (sf)	Total Vacancy (%)	6 Mos. Absorption (sf)	Avg. Net Rental Rate (psf)	Gross Occupancy Cost (psf)
A	1,032,611	56,266	6,228	62,494	6.1%	-6,748	$20.00	$31.00
B	479,077	34,336	1,211	35,547	7.4%	-17,689	$16.00	$26.50
C	236,182	13,320	6,387	19,707	8.3%	741	$13.00	$21.00
Total	**1,747,870**	**103,922**	**13,826**	**117,748**	**6.7%**	**-23,696**	**-**	**-**

Demand for office space to remain subdued over next 12 to 18 months

Still-tight market bodes well for rebound, as tenants take advantage of new availabilities and aggressive spot market pricing

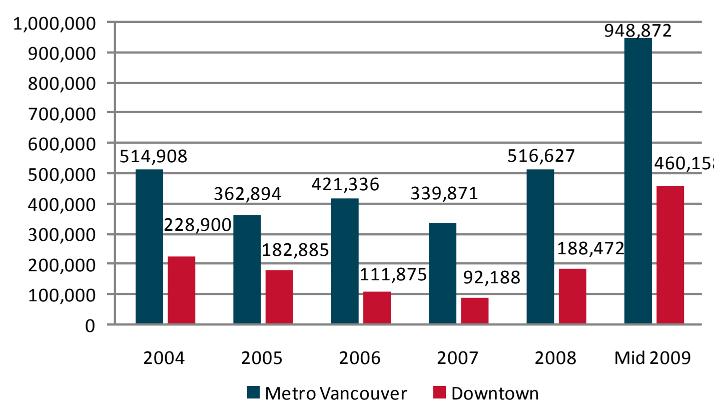
The global economic downturn and crisis of confidence in the past year have resulted in an increase in sublease space, a spike in vacancy rates, a decline in deal velocity, and virtually no new tenant demand in the Metro Vancouver office leasing market. As companies continue to cut costs, one may wonder what the complexion of the local office market will look like 12 to 18 months from now, and where the future demand for office space will come from.

Given the link between economic growth and companies' expansion plans, one can peruse economic forecasts for some answers. Most economists are forecasting a sub-par recovery in 2010, both in Canada and globally, after a steep downturn in 2009. "While 2010 will be better than 2009, the shock delivered to businesses and consumers by the financial crisis will have lingering effects that are likely to dampen recovery for a few quarters at least," comments **Jock Finlayson,** Executive VP, **Business Council of BC.**

In an interview with **Avison Young**, Finlayson says he anticipates a return to growth in the vicinity of 2% in 2010, following back-to-back years of declining real GDP in 2008 and 2009. "I expect further downsizing/restructuring in forestry, which will create more vacant office space in the region. Many companies in many sectors are still in a contracting mode and will be slow to hire (and take on space) once the economy hits bottom later this year," he says.

However, Finlayson points out that as credit markets continue to improve, some small and medium-sized companies in the technology, alternative energy, mining and transportation/logistics sectors "may dust off expansion plans that were quickly shelved as the economy crashed in 2008-'09. In addition, some companies in the broad financial services sector may also experience a return to growth as business conditions normalize." A rebound in global prices for minerals and metals will also be good news for the hundreds of companies (most quite small) that make up the mining cluster centered in Vancouver, he says.

Vacant Sublease Space



Chuck We, director of leasing for **Oxford Properties,** is similarly optimistic. Despite witnessing its vacancy rate rise from 5.4% at year-end 2008 to 7.4% at mid-year 2009, Metro Vancouver's office leasing market remains relatively tight. "[Downtown], we'd need another 7%-9% (or 1.5 million sq. ft.) of increased availability to see a major, material setback," We says. "Today the demand is coming from tenants who previously had limited options in the market and are taking advantage of current flexibility to lock down better spaces on better terms. Law firms are an excellent example of this trend. These groups tend to jump into the market at the bottom, evidenced after the tech meltdown in 2002-2004."

Cadillac Fairview's director of leasing, **Jocelyne Legal**, concurs: "We anticipate deal activity over the next 12 to 18/24 months will largely be attributable to companies relocating as opportunities arise and the result will be very little change in net new absorption."

Lou Ficocelli, director of office leasing, Cadillac Fairview, adds: "Over the next 12 to 24 months, we will see the sublease availability decrease as that space is either absorbed at discounted rents or those tenants simply leave the market. Overall, we expect the total availability downtown will go to about 8%, and the composition will likely shift from the 50/50 split of sublease to head lease so that we end up with less sublease space and more head lease space. This will provide a floor from which rates can begin to climb again."

Zoning changes recently approved by the **City of Vancouver** will aid in the future growth of the downtown office market. According to the City senior planner **Kevin McNaney**, the Central Business District (CBD) was recently rezoned to allow for an increase in non-residential density and residential has been removed as a permitted use in the CBD (which is consistent with 2004 Interim Policies). "The removal of residential will reduce the upward pressure on land values caused by residential land speculation, making commercial development more viable," he says, adding that minimum commercial space requirements in all new developments have been approved for some areas adjacent to the CBD and in Yaletown.

We adds that medium to long term growth will still be seen from logistics and shipping companies "desiring proximity to the major Canadian port of entry into North America, as well as gaming and technology industries that are best able to take advantage of Vancouver's global lifestyle to attract the best and brightest talent."

There's at least one good reason to be cautious about the office space outlook though. Some experts see the Loonie returning to parity with the American dollar. "If this happens, it will have a depressing effect on a range of trade-exposed industries in the Lower Mainland— manufacturing, forestry, film production, tourism, and parts of the large business and technical services sectors," says Finlayson. The high and rising cost of doing business in the CBD may also continue to drive some cost-conscious businesses to suburban markets. "This trend will persist, even when the economy recovers," he says.

We agrees and says he expects to see a continuing spread in the office market as a lack of large contiguous blocks downtown forces larger requirements out of the core. "The Canada Line will also change the complexion of the region as more developers are encouraged to add density to the first major north-south corridor in the region." He adds though that looking forward 12 to 18 months may provide a deceptive viewpoint. "This window will see an overbuilding of Burnaby and Richmond in the eye of an economic recovery (not to mention the potential of a slight Olympic hangover). We don't have any new construction downtown and absorption over the next 12 to 48 months will help to level out the market."

Rolf Neufeld, BMO's Regional Market Leader, BC Real Estate Finance, told Avison Young that while businesses will likely continue to "cut, combine and contract at least for the balance of 2009 and well into 2010, Metro Vancouver never has a huge oversupply of space. And with low interest rates, we aren't struggling as much compared to other markets. Companies here can hold on longer," he says. ■

continued from page 1

tenants left behind -487,776 more space than they took up during the first six months of 2009. All submarkets registered negative absorption at mid-year 2009, except for Burnaby and New Westminster.

Overall, while not completely immune from the current economic tailspin, the Metro Vancouver office leasing market continues to rank among the tightest in North America with new speculative construction in check and no major downtown office tower expected to come on stream before 2013. Although vacancy levels have risen, the increased availability of space is providing tenants with more options. This has put downward pressure on rental rates. Competing with attractively-priced sublease opportunities, some landlords are now more aggressive in securing quality tenants and maintain existing ones.

After bringing on a respectable 600,000 sf of new product in 2008 (mostly in the suburbs), developers are anticipated to deliver approximately 500,000 sf of new office space to the region in 2009, with a similar amount slated for 2010. Burnaby is currently witnessing the majority of the new development activity. Vacancy levels are expected to tick up by year-end 2009 as companies continue to restructure. Ongoing infrastructure projects, some of which are related to the **2010 Olympics**, coupled with the fact that Metro Vancouver is not a head office town, will continue to soften the impact of the global economic recession. ■

Avison Young separates suburban office market districts using the municipal boundaries.

The Avison Young Office Market Report is based on information from the company's databases, Space4lease.com, as well as discussions with developers, owners, tenants and our clients. We thank everyone who contributed.

The information contained herein was obtained from sources which we deem reliable. While thought to be correct, it is not guaranteed by Avison Young.

Building Inventory and Classification

Inventory: Avison Young tracks head lease and sublease inventory and vacancy in non-government buildings over three storeys in height with at least 20,000 square feet of space.

Classification: Avison Young classifies buildings as either "A", "B", or "C" based on the building's location, age, quality and tenant profile. For the Downtown office market, we also use the "AAA" classification for profile buildings.

Definitions

Absorption: Absorption is the net change in occupied space over a given period of time. New space is not considered absorbed until it is physically occupied.

Vacancy: Office space that is physically unoccupied at the time of the survey, regardless of its contractual leasing state.

Net Effective Rates (NER): Net effective rates are calculated by taking the annual rental rates per square foot payable by a tenant and deducting all tenant inducements such as free rent periods, lease takeover costs, improvement packages, etc. using discounted cash flow analysis.

Space Availability Factor (SAF): Space that is either not physically vacant (such as unused space resulting from a corporate downsizing) or not yet finished (such as a new office tower) but is actively being marketed and therefore competes with other vacant space for tenants. Sometimes referred to as "Ghost Vacancy" when combined with vacancy rates, SAF usually provides a more accurate representation of the total space available in the marketplace.

Avison Young

VANCOUVER
#2100 - 1055 West Georgia Street
PO Box 11109, Royal Centre
Vancouver BC V6E 3P3
TELEPHONE: (604) 687-7331
FAX: (604) 687-0031
www.avisonyoung.com

For more information please contact:

Sherry Quan
Director, Corporate Communications (B.C.)
Direct Line: (604) 647-5098
squan@ay-bc.com

AVISON YOUNG
Intelligent
Real Estate Solutions

VANCOUVER
CALGARY
EDMONTON
REGINA
WINNIPEG
TORONTO
MISSISSAUGA
OTTAWA
MONTREAL
QUEBEC CITY
HALIFAX
CHICAGO