Metro Vancouver Office Market Report Mid-Year 2011

Avison Young
Intelligent Real Estate Solutions

partnership.
performance.

Vacancy rate June 30, 2011: 7.6%
Vacancy rate December 31, 2010: 8.4%

ABSORPTION (DEMAND) — VACANCY (SUPPLY) — RENTAL RATES

Metro Vancouver office market performance sets stage for expansion in years to come

Metro Vancouver's office market will face constrained supply in the Downtown core until mid-2014 while suburban markets will experience primarily positive absorption and tightening vacancy as the provincial economy builds on the mostly positive indicators witnessed at the end of 2010.

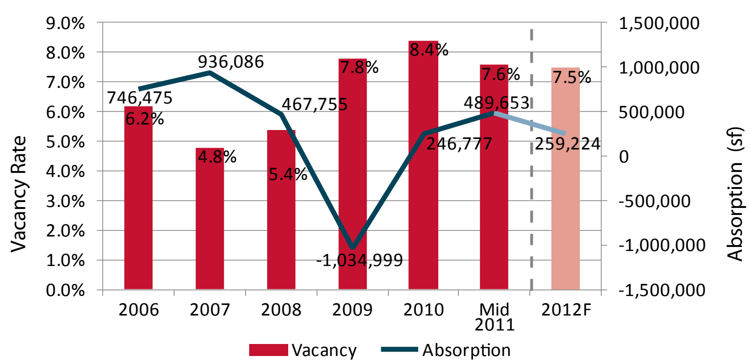
After coming off positive annual absorption of 246,777 square feet (sf) in 2010, Metro Vancouver witnessed healthy positive absorption of 489,653 sf in the first half of 2011 (the highest level of positive absorption in the first half of the year since 2007). Other than Richmond and Broadway, all submarkets enjoyed positive absorption in the first six months of 2011, most notably Burnaby (298,133 sf) and Downtown (166,702 sf).

On closer examination, the overall Metro Vancouver vacancy rate declined to 7.6% at mid-year 2011 from 8.4% at year-end 2010. Downtown vacancy slipped to 5% from 5.2%. If the space availability factor (SAF) is taken into consideration, Downtown's effective availability rate is currently 7.2%, relatively unchanged over the past 12 months. (SAF 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.)

Overall suburban vacancy dipped to 10.1% from 11.2% at year-end 2010. Just two submarkets – Surrey and Broadway – experienced a rise in vacancy during the past six months, but in Surrey's case, the increase occurred from the addition of new inventory in the supply-constrained market. Yaletown registered the region's lowest vacancy rate at 3.9%, while Richmond posted the highest at 23.9%, down slightly from year-end 2010. The largest single drop in vacancy occurred in Burnaby, where the vacancy rate declined to 9.7% from 13.2% six months ago. While both Downtown and Burnaby each recorded in excess of 1 million square feet (msf) of

continued on back cover...

Metro Vancouver - Vacancy and Absorption Trends



12-month projection based on 10-year average absorption.

Metro Vancouver Office Vacancy Summary (Mid-Year 2011)

DISTRICT	INVENTORY (SF)	HEAD LEASE VACANCY (SF)	SUBLEASE VACANCY (SF)	TOTAL VACANCY (SF)	VACANCY RATE (%)	6 MONTHS ABSORPTION (SF)
Downtown	19,587,986	832,223	141,650	973,873	5.0%	166,702
Yaletown	2,346,988	92,229	0	92,229	3.9%	28,434
Broadway	6,101,899	320,001	20,096	340,097	5.6%	-25,792
Burnaby	9,090,129	815,666	64,970	880,636	9.7%	298,133
Richmond	3,371,751	710,783	95,157	805,940	23.9%	-10,188
Surrey	2,520,315	151,458	0	151,458	6.0%	21,849
New Westminster	1,587,319	145,596	6,130	151,726	9.6%	2,255
North Shore	1,786,670	122,786	14,250	137,036	7.7%	8,260
TOTAL	**46,393,057**	**3,190,742**	**342,253**	**3,532,995**	**7.6%**	**489,653**

Downtown

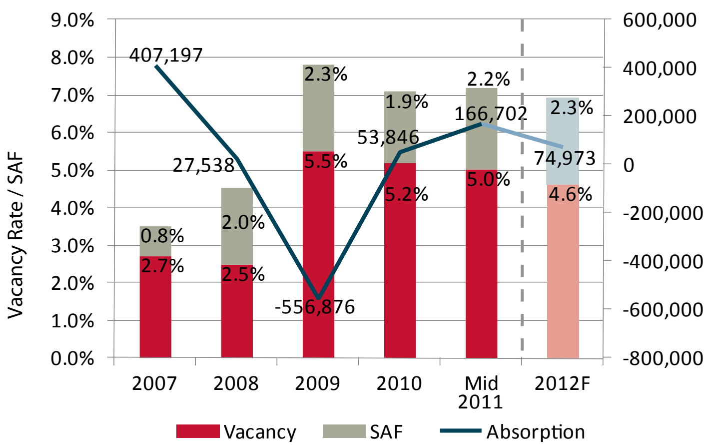
Tightening vacancy pressures office supply

Vacancy Trends

Strong positive absorption of 166,702 sf in the first six months of the year was almost offset by the 131,500 sf of new buildings delivered to the market. As a result, Downtown Vancouver's overall office vacancy rate remained steady at 5% at mid-year 2011, down slightly from 5.1% a year ago. Tightening vacancy rates in class AAA and B premises have been counterbalanced by increases in class A and C office space since year-end 2010. Class AAA vacancy declined to a minuscule 1.3% (from 3.9% at year-end 2010) due to tenants occupying space at the **Waterfront Centre**, **Bentall V** and the **HSBC Canada Building** during the past six months.

Class B vacancy declined to 5.3% at mid-year 2011 from 6.7% six months earlier. Supply constraints in the class A and AAA office markets forced tenants to consider class B premises,. The modest increase in class C vacancy during the past six months – 10% to 10.8% – was largely attributable to vacancies at 1265 Howe Street and 1445 West Georgia Street. The addition of the **Offices at Hotel Georgia** and **Jameson House** as vacant head lease space and the closure of **Propaganda Games** contributed to the rise in class A vacancy in Downtown Vancouver. The majority of the office space in the Hotel Georgia redevelopment has been purchased by the **College of Physicians and Surgeons of British Columbia** for occupancy in fall 2011.

Vacancy with Space Availability Factor (SAF) and Absorption:



12-month projection based on 10-year average absorption and 10-year average SAF.

Modest deal activity in the first half of 2011 resulted in almost 500,000 sf of lease transactions, but no large transactions (greater than 50,000 sf). Mining and engineering firms remain some of the most active companies acquiring downtown office space. Vacant Downtown sublease space declined 22% to 141,650 sf at mid-year 2011 from 182,108 sf at year-end 2010.

The higher end of the Downtown Vancouver office market is expected to remain supply constrained with minimal vacant and available large blocks of space (greater than 25,000 sf) obtainable in the market overall. In this imbalanced market, landlords remain well-positioned to apply upward pressure to rental rates and reduce non-financial lease concessions. Those supply constraints will continue for the foreseeable future as no new office construction is scheduled to come on stream for at least 30 months.

Absorption Trends

Positive absorption of 166,702 sf in the first half of 2011 highlighted the improving outlook for the Downtown office market – a trend that began in the first half of 2010 with 67,974 sf of positive absorption following negative annual absorption of 556,876 sf in 2009. Class AAA and B premises experienced positive absorption of 111,580 sf and 81,755 sf, respectively, in the first half of 2011. More than 21,000 sf of class C space was returned to the market, along with 5,490 sf of class A space. **Hunter Dickinson**, **Haywood Securities**, **Atimi Software** and **AMEC Americas** all occupied new space in the first six months of 2011.

Westbank Projects' mixed-use development, **Telus Garden**, will add 500,000 sf of office space to downtown inventory by mid-2014

Notable Lease Deals – Mid-Year 2011

TENANT	BUILDING	SF
Vision Critical	Granville Square	41,125
Bentall Kennedy (Canada) LLP (renewal)	Bentall IV	36,809
CIBC World Markets (renewal)	Bentall IV	32,000
IBI Group (renewal)	1285 West Pender Street	24,000
AMEC Americas	1133 Melville Street	24,094
Thorsteinssons LLP (renewal)	Bentall III	20,900
Economical Mutual Insurance Co. (renewal)	Royal Centre	19,538
Smart & Biggar/Fetherstonhaugh	Royal Centre	18,414
PW&GSC	1188 West Georgia Street	18,000
Atimi Software (sublease)	Bentall V	17,345
ILSC	540 Seymour Street	16,700
Eminata Group	Commerce Place	16,700
Thompson Creek Metals	HSBC Building	16,305
Lundin Mining Corp. (renewal and relocation)	HSBC Building	16,287
Qtrade (renewal and expansion)	505 Burrard Street	16,283
FortisBC (renewal)	1111 West Georgia Street	14,257
Xerox Canada (renewal)	Royal Centre	13,868
WorleyParsons	Granville Square	12,278
BuildDirect	717 West Pender Street	12,000
Continuing Legal Education Society of BC	1155 West Pender Street	11,618
Sandstorm Metals and Energy	Commerce Place	11,546
Consulate of Japan (renewal)	1177 West Hastings Street	11,371
BGC Engineering (expansion)	1045 Howe Street	10,500
Fluor Canada	1130 West Pender Street	10,100
Allnorth Consultants (renewal and expansion)	1100 Melville Street	10,034
SNC-Lavalin	1100 Melville Street	10,016

Downtown

New developments to kick off construction

Space Availability Factor (SAF)

The space availability factor, or SAF, rose slightly to 2.2% (or 437,837 sf) from 1.9% at year-end 2010. Translation: the actual amount of space currently available (occupied and vacant) in the Downtown core is 7.2% or approximately 1.41 msf.

New Construction

The first half of 2011 saw 131,500 sf of new office space come on stream in the Downtown Vancouver market. **Delta Group's The Offices at Hotel Georgia** at 669 Howe Street added 71,500 sf, while **Jameson House**, developed by **Bosa Properties**, added 60,000 sf of office space at 838 West Hastings Street. Both projects represent the only new significant office product expected to come onto the market until at least 2014.

Oxford Properties received its development permit in April 2011 for a 35-storey, 270,000-sf office/retail project at 1021 West Hastings Street and the new building was officially confirmed July 4. Construction is scheduled to start this fall and finish by summer 2014.

Bentall Kennedy is proposing a 23-storey, 365,000-sf office tower at 745 Thurlow Street. With rezoning complete and development permit issued, demolition of the existing building on the site could start as soon as fall 2011 with shovels breaking ground in early 2012 with completion expected by early 2015.

Westbank Projects' 1-msf **Telus Garden** mixed-use development will include a 22-storey office tower, adding approximately 500,000 sf of new space. Telus is anticipated to occupy 200,000 sf to 220,000 sf . Construction on the office tower is slated to begin in March 2012 and complete by August 2014.

Burrard Gateway, located in the 1200-block of Burrard Street and proposed by **Jim Pattison Developments/Reliance Properties**, contemplates a 13-storey, 100,000-sf boutique office tower, along with a seven-storey commercial and residential podium that would contain another 100,000 sf of larger-floorplate office space. The developer has yet to apply for rezoning.

Developer	Building	SF	Completion
Delta Group	The Offices at Hotel Georgia, 669 Howe Street	71,500 (office)	Q2 2011
Bosa Properties	Jameson House, 838 West Hastings Street	60,000 (office)	Q2 2011
Oxford Properties	1021 West Hastings Street	270,000	Q3 2014
Bentall Kennedy	745 Thurlow Street (office/retail)	365,000 (office)	Planning
Westbank Projects	Telus Garden, 700-block Richards Street (mixed use)	500,000 (office)	Proposed
Jim Pattison Developments/ Reliance Properties	Burrard Gateway, 1200-block Burrard Street (mixed use)	200,000 (office)	Proposed
Aquilini Development and Construction	800 Griffiths Way (mixed use)	236,000 (office)	Proposed

Oxford Properties' new development at 1021 West Hastings will deliver 270,000 sf of office space to the marketplace by mid-2014

Aquilini Development and Construction has applied to the city for the rezoning necessary for a proposed three-tower development located on the **Rogers Arena** site, including a 22-storey, 236,000-sf office building (the West tower).

Market Forecast

Going forward, tightening supply, particularly in class AAA and A premises, will pose challenges for both landlords and tenants in the Downtown Vancouver office market. Landlords could face challenges accommodating expansion needs of long-time tenants with strong covenants. With increasing net rental rates across all building classes (particularly for improved premises) likely to manifest in the next six months, the market's trajectory – shaped by factors such as diminishing supply, increasing net rental rates and few large-block opportunities – is becoming clearer. Given supply constraints, landlords will be well-positioned to increase net rental rates across the board for the foreseeable future. While the relocation of **HSBC** to **Broadway Tech Centre** in the second half of 2012 will provide some relief in the existing Downtown office inventory, tenants in general will be required to make lease decisions quicker and earlier in order to secure space in the Downtown core. Downtown vacancy is anticipated to decline to 4% over the next 12 months. Preleasing activity is expected to ramp up as developers grapple with whether or not to proceed on a speculative basis.

CLASS	TOTAL RENTABLE (SF)	HEAD LEASE VACANCY (SF)	SUBLEASE VACANCY (SF)	TOTAL VACANCY (SF)	TOTAL VACANCY (%)	6 MONTHS ABSORPTION (SF)	SAF (SF)	SAF (%)	AVERAGE NET RENTAL RATE (PSF)	GROSS OCCUPANCY COST (PSF)
AAA	4,348,094	41,953	14,631	56,584	1.3%	111,580	142,590	3.3%	\$32 - \$45	\$50 - \$66
A	6,815,327	279,706	45,079	324,785	4.8%	-5,490	129,081	1.9%	\$26 - \$38	\$44 - \$58
B	5,769,649	240,020	65,642	305,662	5.3%	81,755	124,874	2.2%	\$22 - \$32	\$36 - \$50
C	2,654,916	270,544	16,298	286,842	10.8%	-21,143	41,292	1.6%	\$18 - \$26	\$30 - \$42
Total	**19,587,986**	**832,223**	**141,650**	**973,873**	**5.0%**	**166,702**	**437,837**	**2.2%**	**-**	**-**

Yaletown

Lowest vacancy rate in Metro Vancouver

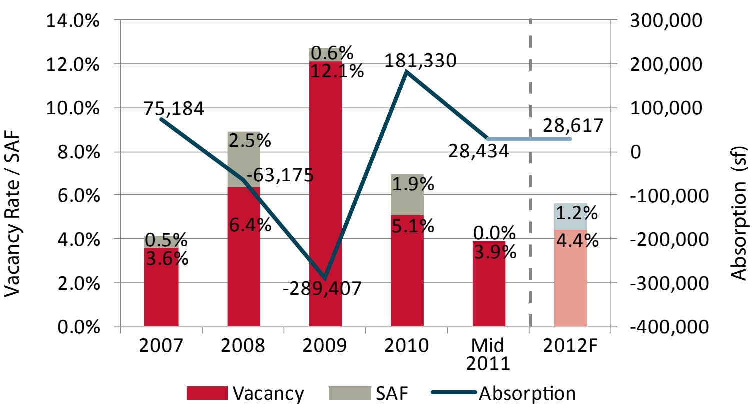
Vacancy Trends

With the lowest office vacancy rate in Metro Vancouver at 3.9%, Yaletown continues to demonstrate the neighbourhood's resiliency and curb appeal to tenants. Eighteen months earlier, the vacancy rate was 12.1%. Vacant class A space is virtually non-existent, with just 1.2% (or 5,006 sf) available in the market compared with 3.2% six months earlier. Boutique travel agency **Mason Horvath** leased 6,400 sf at 1085 Homer Street and smaller transactions at 1110 Hamilton Street and 1250 Homer Street combined to lower class A vacancy to almost nil.

Available class B and C premises in Yaletown are almost as rare, with vacancy rates of 4.8% and 3.8%, respectively, at mid-year 2011. While **Amazon Canada** took up 8,658 sf of class B space (64,074 sf remains vacant), the overall class B vacancy rate is misleading. **Technicolor**, which will leave behind 20,000 sf at 1090 Homer Street, has leased the entire office component at 1132 Hamilton Street. However, the renovated space and addition (adding 27,000 sf to vacancy) are not complete (and therefore not occupied) but contribute to the vacancy rate. Most of the remaining class B vacancy (26,800 sf) is at 990 Homer Street. A number of smaller transactions in class C buildings reduced class C vacancy to 3.8% from 4.5% at year-end 2010. But just one vacancy – the former 11,500-sf office of **Piranha Games** at 948 Homer Street – comprises half of total class C vacancy. The video game studio subsequently occupied 13,000 sf at 88 West Pender Street in the **International Village Mall**.

There is no vacant sublease space currently available in the market. In fact, sublease space in Yaletown is rarely absorbed by the general market as tenants within buildings requiring expansion space generally absorb any available sublease product.

Vacancy with Space Availability Factor (SAF) and Absorption:



12-month projection based on 10-year average absorption and four-year average SAF.
NOTE: Based on average absorption, vacancy is forecasted to rise, but demand will outweigh supply. Therefore, vacancy is actually expected to remain steady or decline.

Absorption Trends

The Yaletown market experienced less than 29,000 sf of absorption during the past six months, of which nearly 60% occurred in class B space. This low level of absorption is not from lack of interest but a shortage of available product in the market. Demand remains high but a dearth of product is forcing tenants to consider other markets. Tenants who do renew are facing increased rental rates and

Recently purchased by **Allied REIT**, the **Chintz** building offers a full floor of quality creative/tech office space

landlords with pending vacancies are delaying marketing the space until the third quarter in expectation of the market tightening even further and rates continuing to rise. Few large blocks of space exist in Yaletown. Currently, the only vacant full-floor opportunities are at 948 Homer Street and 990 Homer Street, but strong tour activity indicates they will lease quickly.

New Construction

Triple F Investment Corp. is scheduled to complete its 23,000-sf addition at 1132 Hamilton Street in the first quarter of 2012, and the construction of 18,000 sf of office space at **Amacon's The Beasley** is scheduled for completion in the third quarter of 2011. There is no further office construction currently contemplated in the neighbourhood.

Technicolor, which will move from 1090 Homer Street, leased all 40,000 sf of office space available at 1132 Hamilton Street. Retail users will occupy the balance of the newly renovated and expanded 50,000-sf building. Two floors (9,000 sf each) of office space remain available for lease in the Beasley.

Market Forecast

Overall net rental rates will likely increase in all property classes. Rates have already reached historic highs for class A product, but have yet to establish a new benchmark. If current economic conditions persist, the only potential event preventing rates from rising would be the very unlikely scenario of a number of large tenancies vacating the market during the next six months. Demand is expected to remain strong for the next six to 12 months, but with virtually no new office construction currently anticipated in Yaletown for at least the next 18 to 24 months, there appears to be little room to accommodate new or expanding tenants in the short- to mid-term.

Developer	Building	SF	Completion
Amacon	The Beasley, 888 Homer Street (mixed use)	18,000 (office)	Q3 2011
Triple F Investment Corp.	1132 Hamilton Street	23,000 (addition)	Q1 2012

Notable Lease Deals – Mid-Year 2011

TENANT	BUILDING	SF
Technicolor	1132 Hamilton Street	39,747
Blast Radius (renewal)	1148 Homer Street	28,874
Avigilon Corp.	858 Beatty Street	28,572
Amazon Canada	1071 Mainland Street	8,658
Mason Horvath	1085 Homer Street	6,400
Knowledgetech Consulting	1238 Homer Street	2,722

CLASS	TOTAL RENTABLE (SF)	HEAD LEASE VACANCY (SF)	SUBLEASE VACANCY (SF)	TOTAL VACANCY (SF)	TOTAL VACANCY (%)	6 MONTHS ABSORPTION (SF)	SAF (SF)	SAF (%)	AVERAGE NET RENTAL RATE (PSF)	GROSS OCCUPANCY COST (PSF)
A	405,388	5,006	0	5,006	1.2%	7,825	0	0%	$29 - $34	$42 - $48
B	1,332,082	64,074	0	64,074	4.8%	16,153	0	0%	$24 - $28	$36 - $41
C	609,518	23,149	0	23,149	3.8%	4,456	9,645	0%	$19 - $23	$29 - $34
Total	**2,346,988**	**92,229**	**0**	**92,229**	**3.9%**	**28,434**	**9,645**	**0%**	-	-

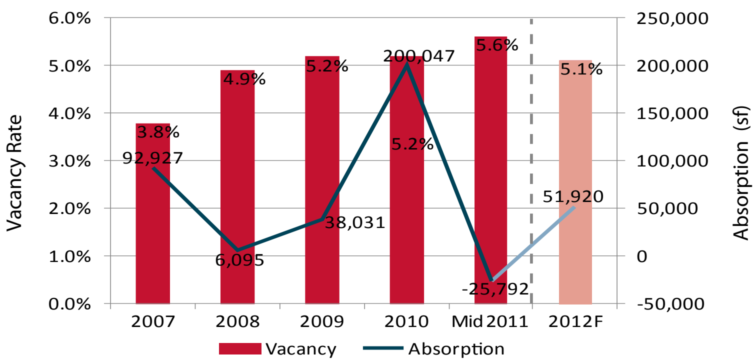
Vancouver - Broadway

Multiple developments in the pipeline

Vacancy Trends

Overall vacancy in the Broadway office market has fluctuated around the 5% range for almost three years (with the exception of 6.5% at mid-year 2009). This trend continued in the first half of 2011 as vacancy notched up to 5.6% at mid-year from 5.2% at year-end 2010. While vacancy increased in class A and C premises, it declined in class B properties. The combination of tenants leaving the market, consolidating or closing pushed the vacancy rate to mid-year 2010 levels (5.6%). Elevated deal velocity for spaces greater than 10,000 sf (primarily renewals) at the beginning of 2011 is anticipated to slow in the second half. Several large-block opportunities (greater than 8,000 sf) remain available.

Vacancy and Absorption Graph



12-month projection based on 10-year average absorption.

Absorption Trends

Negative absorption in the first half of 2011 (-25,792 sf) matches the trend of the last four years, but the market should experience overall positive annual absorption in 2011, as it has without fail since 2004. Positive absorption of class B space was primarily triggered by **Vancity** taking on new space (25,443 sf), and the expansion of **Radical Entertainment** (10,613 sf) at 369 Terminal Avenue. Negative absorption of class A space was the result of a full floor of office space (17,498 sf) at 1618 Station Street becoming available as well as additional vacancies at 1285 West Broadway.

New Construction

Construction of **Bentall Kennedy's Broadway Tech Centre 4** is set for completion in the first quarter of 2012. **Broadway Tech Centre 6**, which would offer 173,000 sf of office space upon completion, is fully permitted and ready to commence construction with a prelease agreement. Bentall Kennedy has also applied to rezone 3030 East Broadway. Blueprints call for 800,000 sf of office space and 70,000 sf of flex space in a phased development of five buildings. **PCI Group's** recently-approved **Marine Gateway on Canada Line** mixed-use project anticipates breaking ground in early 2012. The office tower will comprise 240,000 sf of office premises for occupancy in 2015. **PCRE Group's Renfrew Business Centre phase II** development calls for 149,000 sf of office space with an anticipated 2013 completion. **Rize Alliance Properties' Containers** development had its rezoning application approved for two buildings totalling approximately 220,000 sf of office space. **False Creek Business Park's** 28,000-sf office development awaits a prelease commitment. The **Onni Group of Companies**' 390,000-sf mixed-use development at 1553 to 1577 Main Street will feature 90,000 sf of office space. Occupancy is set for spring 2014. **Orca West Developments**' fully permitted six-storey **Neelu Bachra Centre** will offer 80,000 sf of office space 24 months after a prelease commitment is signed. **BlueSky Properties'** 10-storey, 90,000 sf retail/office building, **Broadway Commercial**, had its rezoning application approved in March.

PCI Group is proposing 240,000 sf of office space at its **Marine Gateway on Canada Line** development

Market Forecast

Rental rates have remained stable for the past six months but are expected to begin trending slightly downwards over the next six to 12 months. Reduced deal velocity and lower positive absorption, likely until the first quarter of 2012, will keep vacancy steady or apply slight downwards pressure on the indicator.

Developer	Building	SF	Completion
Bentall Kennedy	Broadway Tech Centre 4	180,000	Q1 2012
Rize Alliance Properties	Containers (428 Terminal Avenue)	220,000	Awaiting prelease commitment
False Creek Business Park Ltd.	306 to 320 Terminal Avenue	28,000	Awaiting prelease commitment
Orca West Developments	Neelu Bachra Centre (558 West Broadway)	80,000	Awaiting prelease commitment
PCRE Group	Renfrew Business Centre phase II (2665 Renfrew Street)	149,000 (office)	Awaiting prelease commitment
Bentall Kennedy	Broadway Tech Centre 6	173,000	Awaiting prelease commitment
BlueSky Properties	Broadway Commercial, 984 West Broadway	80,000 (office)	Proposed
PCI Group	Marine Gateway on Canada Line (mixed use)	240,000 (office)	Proposed
Onni Group of Companies	Main and Terminal (1553-1577 Main Street) (mixed use)	90,000 (office)	Proposed
Bentall Kennedy	3030 East Broadway (five buildings)	800,000 (office) & 70,000 (flex)	Proposed

Notable Lease Deals – Mid-Year 2011

TENANT	BUILDING	SF
Klohn Crippen (renewal and expansion)	Broadway Tech Centre 2 & 3	42,500
Vancity	369 Terminal Avenue	25,443
Stemcell	1618 Station Street	17,497
Michael Smith Foundation (renewal)	1285 West Broadway	13,458
Klein Lyons	1385 West 8th Avenue	12,547
CWA Engineers	Broadway Tech Centre 1	12,515
Genivar Consultants (renewal)	1985 West Broadway	11,745
Radical Entertainment (expansion)	369 Terminal Avenue	10,613
Hammerberg LLP (renewal and expansion)	1200 West 73rd Street	10,283
Uniserve Communications	333 Terminal Avenue	10,000

CLASS	TOTAL RENTABLE (SF)	HEAD LEASE VACANCY (SF)	SUBLEASE VACANCY (SF)	TOTAL VACANCY (SF)	TOTAL VACANCY (%)	6 MONTHS ABSORPTION (SF)	NET RENTAL RATE (PSF)	GROSS OCCUPANCY COST (PSF)
A	3,703,819	205,875	13,673	219,548	5.9%	-33,456	$24 - $30	$38 - $45
B	1,897,382	74,354	6,423	80,777	4.3%	20,362	$18 - $25	$32 - $39
C	500,698	39,772	0	39,772	7.9%	-12,698	$15 - $19	$27 - $33
Total	**6,101,899**	**320,001**	**20,096**	**340,097**	**5.6%**	**-25,792**	-	-

Submarket rebounds as vacancy dips to single digit

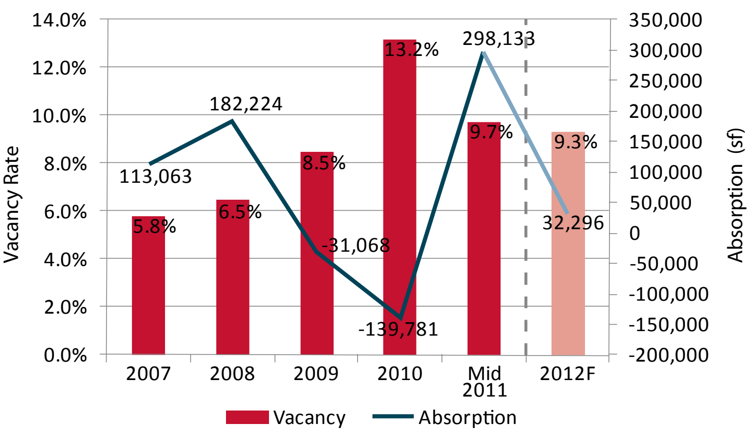
Vacancy Trends

Burnaby has rapidly rebounded from the impact of the economic downturn that pushed the city's office vacancy rate into double digits in 2010. The vacancy rate subsequently dropped to 9.7% at mid-year 2011 from 13.2% six months earlier. Class A vacancy declined from 14.1% to 9.3%, while vacancy in class C buildings increased slightly to 16.9% from 14.2%. With deal activity on the rise, several big-block opportunities have emerged in the market. Additional large vacancies are anticipated in the next 12 months as **Telus** starts to sublease space at 1795 Willingdon and 3777 Kingsway. More sublease space could also emerge in **Bainbridge Business Park**. A modest increase in transaction activity during the first six months of 2011 is a departure from the muted deal and dollar volumes in 2010. With vacancy expected to creep upwards as Telus downsizes in the market, tenants are taking advantage of a range of available office product and competitive rental rates, particularly for sublease space and large-block opportunities.

Absorption Trends

Almost 300,000 sf of positive absorption during the first six months of 2011 marks a distinct shift from the same period last year when Burnaby suffered negative absorption of 138,699 sf. The overwhelming majority (320,010 sf) of that positive absorption came in class A office space, while 16,750 sf of class C premises was returned to the market. **Schneider Electric Canada** occupied 94,000 sf in the former Kodak building, while **AMEC** took 33,000 sf at 4445 Lougheed Highway. **FortisBC** (formerly Terasen) moved into its 53,000-sf offices at **Willingdon Park Phase 9**. Other Willingdon Park tenants, including **Golder Associates**, **Morrison Hershfield**, **Alcatel-Lucent Canada** and **Fortinet Technologies**, all expanded in the first half of 2011.

Vacancy and Absorption Graph



12-month projection based on 10-year average absorption.

New Construction

Ivanhoe Cambridge's long-delayed 400,000-sf **Metrotower III** awaits a prelease commitment before resuming construction on the site, which already has five levels of an underground parkade in place.

Appia Group's mixed-use development near Willingdon Avenue and Lougheed Highway is currently awaiting the outcome of its rezoning application with an anticipated public hearing set for August 2011. The revised proposal calls for 250,000 sf of office space and 130,000 sf of retail premises at 4420 Lougheed Highway. Construction is expected to commence in spring/summer 2012.

Willingdon Park phase 8 offers 91,000 sf of office space for lease

Market Forecast

Rental rates are likely to decrease slightly in the next six to 12 months until sublease space is absorbed and the number of large-block vacancies is reduced. In addition to traditional competitive market pressures, landlords in Burnaby must compete with sublease rates set by Telus and a wide range of big-block product on the market. Deal activity will likely continue to increase. A single-digit vacancy rate is a positive indicator for the Burnaby market, but will likely tick back up as new large blocks of space come to market in the months ahead. However, as the second largest office market in Metro Vancouver (9,090,129 sf), Burnaby requires successive quarters of positive absorption to return the market to pre-recession norms.

Developer	Building	SF	Completion
Ivanhoe Cambridge	Metrotower III	400,000	Awaiting prelease commitment
Appia Group	Willingdon Avenue & Lougheed Highway	250,000 (office)	Proposed

Notable Lease Deals – Mid-Year 2011

TENANT	BUILDING	SF
WorleyParsons	4321 Still Creek Drive	40,000
Teradici (renewal and expansion)	4621 Canada Way	38,419
Golder Associates (expansion)	4321 Still Creek Drive	19,000
Ventana Construction	9500 Glenlyon Parkway	15,000
Vancouver Career College (expansion)	5021 Kingsway	14,377
Pearson Education (renewal)	4585 Canada Way	12,766
Konica Minolta	4321 Still Creek Drive	12,419
PCRM (renewal and expansion)	4601 Canada Way	11,986
Bank of Nova Scotia	4710 Kingsway	10,978
Crelogix	4445 Lougheed Hwy.	8,500
Coastal Range (renewal)	6400 Roberts Street	6,500
Morrison Hershfield (expansion)	4321 Still Creek Drive	5,000

CLASS	TOTAL RENTABLE (SF)	HEAD LEASE VACANCY (SF)	SUBLEASE VACANCY (SF)	TOTAL VACANCY (SF)	TOTAL VACANCY (%)	6 MONTHS ABSORPTION (SF)	NET RENTAL RATE (PSF)	GROSS OCCUPANCY COST (PSF)
A	6,647,604	566,168	51,509	617,677	9.3%	320,010	$19 - $28	$29 - $43
B	1,826,700	145,598	13,461	159,059	8.7%	-5,127	$14 - $18	$24 - $31
C	615,825	103,900	0	103,900	16.9%	-16,750	$10 - $14	$20 - $27
Total	**9,090,129**	**815,666**	**64,970**	**880,636**	**9.7%**	**298,133**	-	-

Activity returning to high-vacancy office market

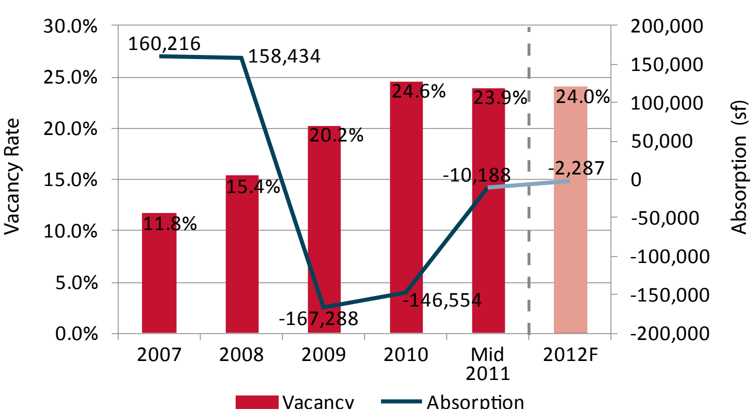
Vacancy Trends

Despite having the highest vacancy rate (23.9%) in Metro Vancouver, the Richmond office market is beginning to show signs of life. With the vacancy rate declining (albeit slightly) for the first time since year-end 2007, interest in Richmond has been rekindled in part due to improved economic conditions and attractive rental rates and terms available in the market. While class A vacancy has been in the 30% range since year-end 2010, vacancy in class B premises witnessed some improvement, dropping to 12.4% in the first half of 2011 from 15.9% six months previous. Vacant sublease space continues its slow downward march from a year ago, with 95,157 sf available at mid-year 2011 compared with 155,374 sf 12 months ago. Current Richmond tenants are awakening to the possibilities within the market as growth and consolidation push tenants into better quality space. More than 130,000 sf was leased in first six months of 2011, an improvement on the almost total absence of activity a year ago. Richmond remains a tenant's market with a significant volume of class A offerings available at very reasonable rates.

Absorption Trends

Positive absorption in class B (32,385 sf) and C (2,502 sf) premises was not enough to mitigate negative absorption of 45,075 sf in class A space. Nonetheless, despite overall negative absorption of 10,188 sf in the first half of 2011, the total marked the least amount of negative absorption over a six-month period since the first half of 2008 (the last time the market enjoyed positive absorption) and a significant improvement when compared with negative annual absorption of 146,554 sf in 2010 and 167,288 sf in 2009. **Airport Executive Park 6** is fully leased by **Apple** and **Fransen Engineering** but will not be occupied until the second half of 2011. The **Industry Training Authority** consolidated its operations in Richmond, and **Stuart Olson Dominion Construction** expanded within its current location on Commerce Parkway. The demolition of office space near the **Richmond Oval** chipped away at the city's overall class A inventory.

Vacancy and Absorption Graph



12-month projection based on 10-year average absorption.

Airport Executive Park 6 is fully leased to two tenants, **Apple** and **Fransen Engineering**, with occupancy slated for fall 2011

Notable Lease Deals – Mid-Year 2011

TENANT	BUILDING	SF
Fransen Engineering	10851 Shellbridge Way	57,000
AeroInfo Systems, a Boeing Company (renewal)	13575 Commerce Parkway	26,816
Stuart Olson (expansion)	13777 Commerce Parkway	14,070
PHH/ARC Environmental (renewal and extension)	13775 Commerce Parkway	12,800
Industry Training Authority (relocation)	8100 Granville Road	11,300
Apple (relocation and expansion)	10851 Shellbridge Way	10,500

New Construction

With new office construction at a standstill and no additional proposals in the pipeline, two significant long-term projects remain poised for activation when market demand warrants it.

An office/retail project offering 300,000 sf of office space proposed by the **Staburn Property Group** and **Ledcor** for No. 6 Road and Steveston Highway still awaits a prelease commitment. The **Vancouver Airport Authority**'s proposed **Sea Island Business Park** at the Templeton SkyTrain station remains under active consideration and is currently being revised in order to provide maximum appeal for prospective tenants should it proceed. The project's most recent configuration envisioned seven buildings, including a 250-room hotel in the business park, and 900,000 sf of office space.

Market Forecast

Class A rental rates have declined during the past year and are expected to remain low in comparison to other suburban markets as landlords actively compete for tenants. Vacancy is expected to decline slightly in the next six to 12 months as an increase in leasing activity boosts deal volume. The first half of 2011 registered more activity than all of 2010 and that trend is anticipated to continue for the rest of the year.

Developer	Building	SF	Completion
Staburn and Ledcor	No. 6 Rd. and Steveston Hwy. (office/retail)	300,000 (office)	Awaiting prelease commitment
YVR	Sea Island Business Park office/hotel at Templeton SkyTrain station	7 buildings 900,000 (office)	Awaiting prelease commitment

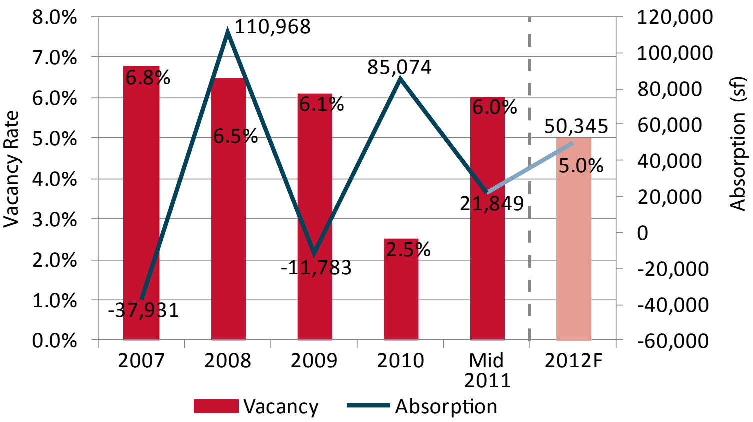
CLASS	TOTAL RENTABLE (SF)	HEAD LEASE VACANCY (SF)	SUBLEASE VACANCY (SF)	TOTAL VACANCY (SF)	TOTAL VACANCY (%)	6 MONTHS ABSORPTION (SF)	NET RENTAL RATE (PSF)	GROSS OCCUPANCY COST (PSF)
A	2,258,844	537,945	95,157	633,102	28.0%	-45,075	$16 - $18	$26.50 - $28.50
B	912,433	113,136	0	113,136	12.4%	32,385	$12 - $14	$21.50 - $23.50
C	200,474	59,702	0	59,702	29.8%	2,502	$9 - $11	$16.50 - $18.50
Total	**3,371,751**	**710,783**	**95,157**	**805,940**	**23.9%**	**-10,188**	-	-

Vacancy Trends

A new addition to Surrey's class A office inventory has temporarily alleviated the exceptionally tight lease market that confronted tenants at the end of 2010. Surrey's vacancy rate stands at 6% at mid-year 2011 – compared with 2.5% six months earlier – after the completion of 112,500 sf of new office construction at phase 2 of **Benchmark Business Centre**. Class A vacancy subsequently rose to 5.9% from 1.5% at year-end 2010. Vacancy almost doubled in class B premises, increasing to 7% from 3.7% during the same period. Meanwhile, class C office vacancy shrunk to 1.3% from 5.9%. Vacant head lease space (151,458 sf) is at its highest point since mid-year 2009, while sublease space is currently non-existent and has remained minimal since year-end 2006. Deal velocity remains minimal as a lack of quality product and available space hampers transaction activity. New significant developments such as the proposed **Gateway Business Park** will alleviate vacancy pressures, over the long term, on the limited amount of quality office product available and coveted by tenants.

(Note: 104th Avenue Centre at 104th Avenue and 142nd Street is not included in Avison Young statistics. The 260,000-sf building, originally designed as a cultural centre and then subsequently marketed to large office users, has been vacant since completion in 2005.)

Vacancy and Absorption Graph



12-month projection based on 10-year average absorption.

Absorption Trends

Positive absorption has remained the story in Surrey. The market absorbed 21,849 sf in the first half of 2011, following up on the 22,937 sf absorbed in the first six months of 2010. The majority of the recent positive absorption occurred in class A premises (41,433 sf). The negative absorption in class B office space (-26,277 sf) was primarily attributed to **Surrey Central Business Park**, as a handful of small tenants vacated premises during the first half of 2011.

New Construction

Phase 2 of **Benchmark Group of Companies'** 112,500-sf Benchmark Business Centre at Highway #10 and 152nd Street came on stream in the first half. The entire third floor (40,000 sf) of the three-storey building was leased by **Solaris Management Consultants**. The **Canada Firearms Centre** took 6,000 sf on the ground floor, while the provincial **Ministry of Social Development** occupied 7,000 sf on the second floor.

Phase 2 of **Benchmark Business Centre** provided much needed relief to class A office inventory in early 2011

Southridge Square broke ground and will offer approximately 26,600 sf of office space when completed in the fourth quarter of 2011. Located at 15844 24th Avenue in South Surrey, the three-storey retail/office project developed by **Southridge Square Holdings** has leased the entire third floor to an oral health care centre.

Panorama Park Investments is seeking an amendment to its development permit in order to commence construction of its three-storey **Panorama Place, phase IV** development at 15270 Highway #10. The new phase will offer 45,000 sf of office space for lease. Construction is scheduled to be complete by mid-2012.

Prelease commitments are necessary for both **GE Capital Real Estate** and **Landview Construction** to launch their respective projects, Gateway Business Park and **Guildford Gateway**.

Market Forecast

With vacancy and rental rates expected to remain steady for the next six to 12 months, increased activity is anticipated in the tight class A office market as tenants jockey for the limited inventory available. Overall, a lack of new significant developments, particularly along the SkyTrain corridor, will continue to hamper deal volume in the Surrey market for some time to come.

Developer	Building	SF	Completion
Benchmark Group of Companies	Benchmark Business Centre, phase 2, 5477 152nd Street	112,500	Q1 2011
Southridge Square Holdings	Southridge Square, 15844 24th Avenue	26,600 (office)	Q4 2011
Panorama Park Investments	Panorama Place, phase IV, 15270 Hwy. #10	45,000	Q3 2012
GE Capital Real Estate	Gateway Business Park, 13459 and 13479 108th Avenue at Gateway Skytrain Station	500,000 (office/ retail)	Awaiting prelease commitment
Landview Construction	Guildford Gateway, 10161 153rd Street	100,000	Awaiting prelease commitment

Notable Lease Deals – Mid-Year 2011

TENANT	BUILDING	SF
Ministry of Social Development	5477 152nd Street	7,000
Canada Firearms Centre	5477 152nd Street	6,000
Douglas College (sublease)	9801 King George Blvd.	5,788
Weyerhaeuser Canada	10277 154th Street	4,166
Nucleus Labs (sublease)	9801 King George Blvd.	2,740

CLASS	TOTAL RENTABLE (SF)	HEAD LEASE VACANCY (SF)	SUBLEASE VACANCY (SF)	TOTAL VACANCY (SF)	TOTAL VACANCY (%)	6 MONTHS ABSORPTION (SF)	NET RENTAL RATE (PSF)	GROSS OCCUPANCY COST (PSF)
A	1,578,753	93,597	0	93,597	5.9%	41,433	$17 - $28	$29 - $40
B	796,612	56,009	0	56,009	7.0%	-26,277	$14 - $17	$22 - $25
C	144,950	1,852	0	1,852	1.3%	6,693	$11 - $13	$19 - $21
Total	**2,520,315**	**151,458**	**0**	**151,458**	**6.0%**	**21,849**	-	-

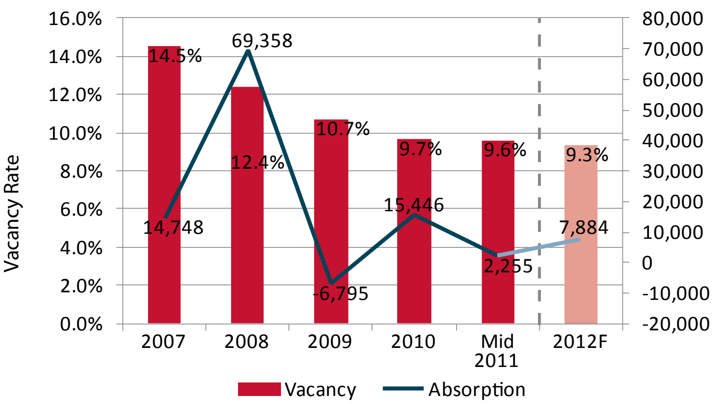
New Westminster

Vacancy rate steady as new developments proceed

Vacancy Trends

New Westminster's office vacancy rate remained virtually unchanged at 9.6% at mid-year 2011 compared with year-end 2010 (9.7%). While the current vacancy rate increased slightly from 12 months earlier when it was 9.2%, vacancy has resided in single-digit territory for a full year now, after being in double digits since 2000 (with the exception of mid-year 2007). While class C vacancy almost doubled to 5.7% from 2.9% six months ago, class A vacancy declined to 7.3% from 8.2%. The largest current vacancy is three full floors totalling more than 30,000 sf in the **Royal Bank Building**. The departure of an anchor office tenant at **Royal City Centre** along with some additional sublease space could contribute as much as 75,000 sf of vacancy by mid-year 2012 if not occupied. Four new mixed-use developments are offering office space, including **Uptown Property Group (UPG)'s Merchant Square** and **Queen's Park West**, **Bentall Kennedy's** mixed-used development adjacent to the Braid Street SkyTrain station, and **Wesgroup's Brewery District**.

Vacancy and Absorption Graph



12-month projection based on 10-year average absorption.

Absorption Trends

During the first six months of 2011, New Westminster experienced positive absorption of 2,255 sf, a marked decrease from the first half of 2010 when tenants took up 22,663 sf more space than they left behind. More than 8,200 sf of class A positive absorption was offset by the return of 5,400 sf of class C office space to the market in the first six months of 2011. **Service Canada**, **PGS Law** and **Fraser Health**, which occupied 19,500 sf in Royal City Centre, moved into their new premises earlier this year.

New Construction

UPG will break ground this summer on a new 12-storey office tower that forms part of the Merchant Square development at 8th and Columbia Streets. The **City of New Westminster** will occupy the first four floors of the tower with the remaining 130,000 sf of office space available for lease. The project is expected to be complete by the end of 2013. UPG's **Queen's Park West** project remains in a holding pattern as UPG awaits a prelease commitment from a retail tenant before commencing construction. A development permit has been issued for the proposed four-storey, 25,000-sf building, which would take 12 months to build once shovels break ground.

Bentall Kennedy is fully engaged with its development project adjacent to the Braid Street SkyTrain station, having received zoning approval for up to two, 200,000-sf office buildings, which could be as high as five stories. The structures, which have been approved by New West's design panel, are in the development permit process. With completion set for 24 months from a prelease commitment, Bentall Kennedy is seeking large office users and is currently negotiating with prospective tenants. The two buildings could be built in phases or simultaneously.

Developer	Building	SF	Completion
Wesgroup Properties	The Brewery District, Building 1, Phase 2, 200 East Columbia Street	230,000 (office/ retail)	Q2 2013
Uptown Property Group	Merchant Square, 8th and Columbia (mixed use)	130,000 (office)	Q4 2013
Uptown Property Group	Queen's Park West, 500 6th Avenue	25,000	Awaiting prelease commitment
Bentall Kennedy	Adjacent to Braid Street SkyTrain station (part of mixed-use development)	Up to 400,000 (office)	Proposed

Phase 1 (building 2) of **Wesgroup's Brewery District** development is expected to come on stream by the third quarter of 2011

Construction continues at Wesgroup Properties' Brewery District development, with phase 1(building 2) scheduled for completion in the third quarter of 2011. Building 2 consists of 50,000 sf of strata office and 48,000 sf of retail for lease. Phase 2 (building 1), which will house the head offices of **TransLink** and the **Transit Police**, is scheduled for completion in the second quarter of 2013. Building 1 consists of 200,000 sf of office space and 30,000 sf of ground floor retail. The remainder of the Brewery District project, which includes additional office/retail space and a residential component, will be built out in the next three to eight years.

Market Forecast

Net rental rates are anticipated to remain steady for the next six to 12 months as the market awaits the impact of the potential arrival of new developments as early as 2012, when landlords and developers will gauge demand and adjust rates accordingly. Deal activity remains minimal, thereby reducing upward pressure on rates as landlords and tenants seek equilibrium while awaiting the largest expansion of the New Westminster office market in the city's history.

Notable Lease Deals – Mid-Year 2011

TENANT	BUILDING	SF
Fraser Health	610 6th Street	19,500
ICBC (renewal)	625 Agnes Street	17,737
PGS Law	625 Agnes Street	3,355

CLASS	TOTAL RENTABLE (SF)	HEAD LEASE VACANCY (SF)	SUBLEASE VACANCY (SF)	TOTAL VACANCY (SF)	TOTAL VACANCY (%)	6 MONTHS ABSORPTION (SF)	NET RENTAL RATE (PSF)	GROSS OCCUPANCY COST (PSF)
A	847,886	55,417	6,130	61,547	7.3%	8,211	$16 - $26	$28 - $38
B	548,720	79,281	0	79,281	14.4%	-549	$12 - $16	$21 - $25
C	190,713	10,898	0	10,898	5.7%	-5,407	$9 - $12	$17 - $20
Total	**1,587,319**	**145,596**	**6,130**	**151,726**	**9.6%**	**2,255**	-	-

North Shore

Vacancy trend reverses

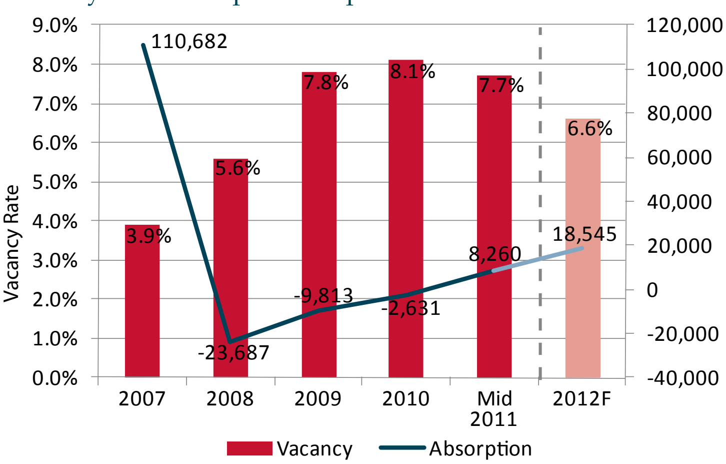
Vacancy Trends

North Shore office vacancy dipped to 7.7% at mid-year 2011 from 8.1% at year-end 2010. This decline marks a reversal in North Shore vacancy trends dating back almost four years, when the vacancy rate stood at 3.9% at year-end 2007 but increased to 8.1% by year-end 2010. The impact of the economic downturn, low cost of ownership and tenants upgrading their premises all contributed to class C office vacancy spiking to 8.7% at mid-year 2011 from 2.1% a year before. Only 14,250 sf of class A space was available for sublease at mid-year 2011 (with none available in classes B and C), marking the lowest total amount of available sublease space since mid-year 2009.

Absorption Trends

With positive absorption of 8,260 sf in the first six months of 2011, the North Shore office market experienced its strongest start in terms of deal velocity since the first half of 2007. More than 19,600 sf of positive absorption of class A office space was offset by the return of 11,873 sf of class C space to the market as tenants in all classes took advantage of low interest rates to purchase strata space, while others took advantage of the softer market and upgraded their space. The lingering impact of the economic downturn also played some role in heightened class C office vacancy.

Vacancy and Absorption Graph



12-month projection based on 10-year average absorption.

Capilano Business Park's below-average vacancy is indicative of the tightening office market on the North Shore

Developer	Building	SF	Completion
Harbourview Projects Corp.	Harbourside Landing, 788 Copping Street	32,000 (office/flex)	Q1 2012
GWL Realty Advisors (on behalf of bcIMC)	NorthWoods Business Park, buildings 5 and 6, Dollarton Highway	80,000 (office/flex)	Q4 2012
Citimark/Darwin Construction	Dollarton Business Park, building C , 197 Forester Street	47,000 (office/flex)	Awaiting prelease commitment
Wesgroup Properties/ North Shore Credit Union	13th + Lonsdale, 1250 Lonsdale Avenue (mixed use)	60,000 (office/retail)	Proposed

New Construction

With no new lease product scheduled for completion in 2011, three North Shore office projects slated for completion in 2012 will likely satiate pent-up demand for leased premises. Preleasing activity will likely lead to the positive absorption of most new project space being delivered to the market in the next 18 months, with little to no impact on the vacancy rate.

Harbourside Landing, developed by **Harbourview Projects**, includes 788 Copping Street, which will feature 32,000 sf of office/flex space in a three-storey building with warehouse/office space on the first and second floors and 10,000 sf of contiguous office space on the third. Target completion date is the first quarter of 2012.

GWL Realty Advisors' NorthWoods Business Park on Dollarton Highway will offer 80,000 sf of flex office, showroom and warehouse space in buildings 5 and 6. With construction anticipated to start this fall, both two-storey buildings are scheduled for completion in the fourth quarter of 2012.

Citimark/Darwin Construction is awaiting a prelease commitment to break ground on building C at **Dollarton Business Park** on Forester Street. The four-storey, 47,000-sf structure would comprise 33,275 sf of office space over three floors, and 13,750 sf of warehouse/showroom space at ground level.

Wesgroup Properties and **North Shore Credit Union** have partnered to propose a new mixed-use development, **13th + Lonsdale**, which would include 60,000 sf of office/retail space. **Concert Properties'** development site at 801 Harbourside Drive remains part of an ongoing rezoning review by the municipality.

Market Forecast

Demand will outpace new construction supply within the North Shore office market as rental rates stabilize – a trend expected to continue through 2011. Over this same period, continued market activity will lead to a further reduction in vacancy. This downward trend in vacancy is an indicator that tenants should act sooner rather than later when it comes to relocation or expansion to take advantage of current market opportunities. Increasing deal volume is reducing vacancy and encouraging a transition to a landlord's market, which will entail fewer space options and reduce the negotiating ability of tenants.

Notable Lease Deals – Mid-Year 2011

TENANT	BUILDING	SF
Vancouver Coastal Health Authority	132 West Esplanade	23,612
WCB (renewal)	224 West Esplanade	20,732
EMCO Corp.	930 West 1st Street	7,407
Neptune Bulk Terminals	340 Brooksbank Avenue	5,150

CLASS	TOTAL RENTABLE (SF)	HEAD LEASE VACANCY (SF)	SUBLEASE VACANCY (SF)	TOTAL VACANCY (SF)	TOTAL VACANCY (%)	6 MONTHS ABSORPTION (SF)	NET RENTAL RATE (PSF)	GROSS OCCUPANCY COST (PSF)
A	1,071,411	58,157	14,250	72,407	6.8%	19,606	\$20 - \$28	\$30 - \$42
B	479,077	44,179	0	44,179	9.2%	527	\$15 - \$20	\$23 - \$32
C	236,182	20,450	0	20,450	8.7%	-11,873	\$12 - \$16	\$18 - \$26
Total	**1,786,670**	**122,786**	**14,250**	**137,036**	**7.7%**	**8,260**	-	-

Suburban office development seeking success at rapid transit nodes

Significant office developments outside Downtown Vancouver will likely concentrate along rapid transit nodes in the coming decades as tenants respond to employees coping with gridlock and high commuting and housing costs.

The shift to transit-oriented commercial development in the suburbs remains arguably in the preliminary stages with just a handful of office or mixed-use projects currently under construction or consideration. But many developers believe the trend will ultimately dictate future site consideration and construction in suburban markets.

According to **Jeff Rank**, vice-president, project development for **Bentall Kennedy**, there are several examples in suburban municipalities that demonstrate the locations of some existing office buildings are no longer ideal now that transit has become as important a consideration for many tenants as it has.

"Look at most markets around the existing SkyTrain network and the buildings that are already there are the ones seeing leasing activity in the market as it recovers," Rank says, although adding that transit access is "not the be all and end all itself."

Developments also need to be situated close to other retail and commercial amenities as well as a population base – considerations that prospective tenants also view as important when deciding where to locate, says Rank.

Tenants are more frequently including transit access as a condition in their request for proposals for development of office space, according to **John Conicella**, vice-president, development strategy and business development, for **Wesgroup Properties**.

If SkyTrain access is not available, Conicella says, other transit options such as express buses on a major arterial route can also be an acceptable option for some tenants.

"There is not a business opportunity [involving] office that comes by now where [the transit requirement] isn't one of those two [options]," comments Conicella. "That's the difference in the last five to six years. It used to be third or fourth on the list; now [transit access] is one or two."

A defined premium for land near SkyTrain stations has yet to be established due to the unique zoning and context specific to each one, according to Conicella. Simply building on a site because it is close to a SkyTrain station is only a "good first step" and "not a guarantee of anything."

Wesgroup remains interested in transit-orientated developments with a "couple on our plate to keep us busy for awhile," he says. "We've learned a lot. They are not easy. They are complicated, messy and expensive, and take a long time to get approvals on.

"That's why I think the demand is going to be greater over the long term because there are not going to be that many people who have the financial resources or expertise to actually develop, even though people want to be on there."

For **Bill Rempel,** vice-president and general manager of **Blackwood Partners**, proximity to rapid transit is an important consideration for large public and private tenants alike and part of the larger shift to more sustainable business practices. Part of that shift involves planning for and locating where future population growth is predicted, according to Rempel.

"Certainly in my life time, the **City of Surrey** will have more people living in it than in the **City of Vancouver**," he says. "We are the fastest growing community in BC. We are the 12th largest city in Canada and we are developing a downtown core. With this development comes demand for office space for people in the future. [Tenants] are saying we want a presence south of the Fraser [River] versus the downtown core."

The development of the area surrounding Metrotown in Burnaby should be seen as an example of what will happen in Surrey, he adds, noting the role SkyTrain played in the Metrotown area's commercial and residential densification.

Office space recently made available at **Central City** in Surrey is fully leased

While the development of suburban business parks will continue to evolve, he believes large floor-plate buildings in the suburbs will stand a greater chance of being viable if located near rapid transit.

According to **Sandy Cruikshank**, executive vice-president of **Tonko Realty Advisors**, there is a greater focus now on office development locations connected with, or very close to, transit nodes because access is high on the list of tenant requirements.

While acknowledging there will continue to be a market for tenants who do not consider transit access critical, Cruikshank concedes the addition of shuttle service to Gilmore SkyTrain station and **Brentwood Mall** from Tonko's **Willingdon Park** development may have been factors in the "significant" leasing activity of the past six months.

According to Cruikshank, developers have so far perceived greater value in sites adjacent to SkyTrain stations and along transit lines close to the Downtown core and/or serviced by other commercial amenities in town centre areas.

For **TransLink's** vice-president of real estate, **Phil Christie**, there is only anecdotal evidence of a shift to suburban office development dictated by rapid transit planning.

"Everyone is saying that employers are looking to locate their office space near rapid transit," says Christie. "I believe that is the case and I have seen it to some extent, but how many square feet of office [space] is proposed in business parks right now as opposed to being proposed on the lines?"

Christie points out that much of the discussion involving development along transit lines has revolved around residential and mixed-use projects. The lion's share of new office space under development regionally is focused in Downtown Vancouver, he adds.

Christie questions how hard suburban municipalities push developers to include office space in transit-oriented projects instead of allowing such developments in industrial parks.

"Everything is pointing towards [development of office space on rapid transit lines] occurring in the next decade, but where is the proof?" Christie wonders, adding that in the long term it is not a matter of *if* such planning occurs but *when*.

"You will see the change. It just makes sense," he says. "You can see it in the next generations coming along. They don't want to drive to work. They don't want the cost and they want [the commute] to be quick and easy." ■

continued from page 1

vacancy in the last half of 2010, this was not the case in the first half of 2011.

With the Downtown office vacancy rate at its lowest point since mid-year 2009, demand for office space has been building over the past 12 months as renewals and expansions accompanied by new space requirements kept vacancy low and placed upward pressure on net rental rates. New supply is on the horizon after two developers, **Westbank** and **Oxford Properties** (and a third, **Bentall Kennedy**, widely anticipated to make an announcement shortly) unveiled construction plans for the development of more than 750,000 sf of new Downtown office space by 2014/15.

Suburban office markets have largely stabilized and trended positively in the first half of 2011 amidst declining vacancy and increased positive absorption. With overall suburban vacancy at its lowest point since year-end 2009, the markets with negative absorption – namely Richmond and Broadway – are in fact relatively stable or even improving when compared to each submarket's performance during the past 18 months. Spillover tenant demand from a very competitive Downtown office leasing market for at least the next 30 months should further bolster demand for office space in suburban markets, already stabilized or rebounding on their own merits.

Vacant sublease space continues to shrink throughout the region. Total sublease vacancy dropped to 342,253 sf in Metro Vancouver from 476,210 sf six months ago and 511,181 sf a year earlier. Vacant sublease space now represents only 9.7% of Metro Vancouver's total vacancy compared with 12.3% six months earlier and 13.4% a year ago. Two years ago, sublease space represented 28% of total vacancy. Sublease space is now at its lowest percentage of total vacancy since year-end 2001. With the exception of Burnaby, sublease space is anticipated to become increasingly rare throughout Metro Vancouver.

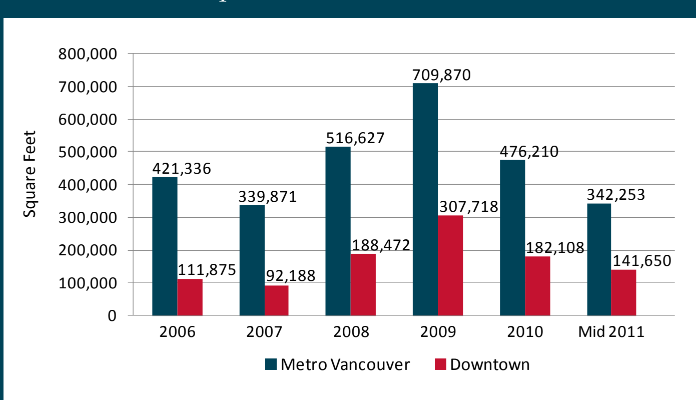
Burnaby, which saw its available sublease space shrink to 64,970 sf from 119,244 sf at mid-year 2010, will see its sublease supply spike in the next six to 12 months when **Telus** offers up to 270,000 sf to the market.

More than 240,000 sf of new product was added to the Metro Vancouver office market during the first half of 2011, almost evenly split between Downtown Vancouver and Surrey. Downtown Vancouver contributed 131,500 sf, marking what is likely to be the last significant new office product coming to market for at least the next 30 months. An additional 40,000 sf is anticipated in Surrey and Yaletown during the second half of 2011.

Developers added more than 500,000 sf of new space in 2010, predominantly in the Burnaby and Broadway submarkets. Approximately 400,000 sf of new office construction is planned for 2012, primarily on the North Shore and in the Broadway submarket.

Upward pressure on rates in Downtown Vancouver and Yaletown is expected to intensify as a lack of new office product provides landlords with the ability to increase rates and reduce financial inducements. Rental rates in other Metro Vancouver submarkets are expected to hold steady or decrease slightly during the next six months. In Richmond, where vacancy issues remain and landlords are eager to attract tenants, rental rates will likely decline through 2011. ■

Vacant Sublease Space



Avison Young

For more information please contact:
Andrew Petrozzi
Research Manager, Metro Vancouver
Direct Line: 604.646.8392
andrew.petrozzi@avisonyoung.com

Sherry Quan
National Director of Communications & Media Relations
Direct Line: 604.647.5098
sherry.quan@avisonyoung.com

Michael Keenan
Senior Vice-President and Managing Director
Direct Line: 604.647.5081
michael.keenan@avisonyoung.com

VANCOUVER
Suite 2100, 1055 West Georgia Street
PO Box 11109 Royal Centre, Vancouver, BC, Canada V6E 3P3
Phone **604.687.7331** Fax 604.687.0031

Avison Young Office Leasing Team

Robin Buntain
604.647.5085
robin.buntain@avisonyoung.com

Justin Omichinski
604.646.8387
justin.omichinski@avisonyoung.com

Lenia Calico
604.647.5071
lenia.calico@avisonyoung.com

Brian Pearson
604.647.5078
brian.pearson@avisonyoung.com

Fergus Cameron
604.647.5099
fergus.cameron@avisonyoung.com

Leeanna Petrik
604.647.5087
leeanna.petrik@avisonyoung.com

Bill Elliott
604.647.5062
bill.elliott@avisonyoung.com

Dan Smith
604.646.8397
dan.smith@avisonyoung.com

Glenn Gardner
604.647.5092
glenn.gardner@avisonyoung.com

Josh Sookero
604.647.5091
josh.sookero@avisonyoung.com

Darrell Hurst
604.647.5069
darrell.hurst@avisonyoung.com

Terry Thies
604.646.8398
terry.thies@avisonyoung.com

Mona Khandan
604.646.5093
mona.khandan@avisonyoung.com

Matt Walker
604.647.5074
matt.walker@avisonyoung.com

James Lewis
604.647.5072
james.lewis@avisonyoung.com

Ian Whitchelo
604.647.5095
ian.whitchelo@avisonyoung.com

Stephanie Loucas
604.646.8384
stephanie.loucas@avisonyoung.com