



# Metro Vancouver Office Market Report Year-End 2009

**AVISON  
YOUNG**

partnership.  
performance.

Vacancy rate June 30, 2009: 7.4%  
Vacancy rate December 31, 2009: 7.8%



## Despite a challenging 2009, Metro Vancouver market shows underlying strength

The Metro Vancouver office leasing market witnessed a marked slowdown in leasing activity and a rise in sublease space in 2009 as companies delayed expansion plans and downsized to reduce occupancy costs in light of the global economic downturn. As a result, vacancy rates climbed, rental rates softened, and landlords, particularly in the suburbs, offered larger inducement packages to attract and retain tenants.

Following a steep downturn in the first half of 2009, overall economic conditions started to improve towards the end of the year. Fewer vacant subleases were delivered to the market, deal velocity picked up in the downtown core, some office projects that had been stalled recommenced, and corporate tenants were again examining properties. Institutional owners, primarily of class AAA and A buildings downtown, continued to be relatively well-positioned with vacancy rates at or below expectations.

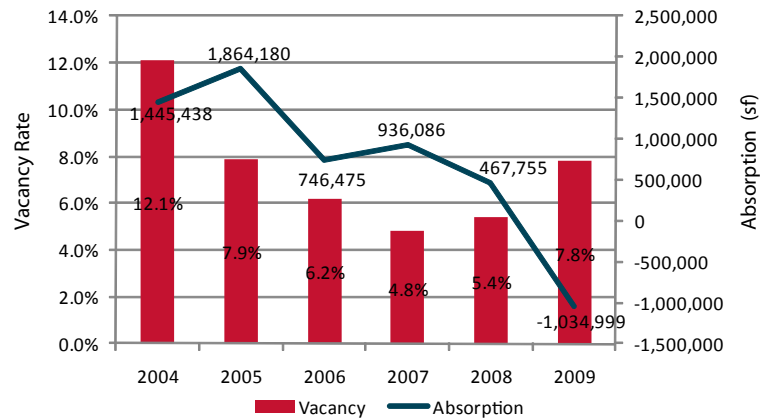
Suburban office markets still face many challenges, and the wait-and-see approach prevalent throughout 2009 may continue until after the 2010 Olympics when many leases roll over. Overall, the market continues to rank among the tightest in North America with new speculative construction in check and no major downtown office tower expected to come on stream

before 2014. While hesitant decision-making muted overall demand in 2009, Metro Vancouver's fundamentally-strong market continues to display stability, and renewed demand will be a function of core economic recovery and growth.

Turning to the statistics, vacancy rates continued to creep up in the latter half of 2009 but at a slower pace than in the first half. Metro Vancouver's overall vacancy stepped up to 7.8% at year-end 2009 from 7.4% at mid-year 2009 and 5.4% at year-end 2008. Downtown's vacancy rate ticked up to 5.5% (7.8% if you include the space availability factor) from 5.0% at mid-year 2009 and 2.5% at year-end 2008. Suburban vacancy remained relatively unchanged at 9.2% from 9.1% at mid-year 2009, but is up from the 7.7% recorded at year-end 2008.

continued on back cover...

### Metro Vancouver - Vacancy and Absorption Trends



### Vacancy Summary (Year-End 2009)

District	Inventory (sf)	Head Lease Vacancy (sf)	Sublease Vacancy (sf)	Total Vacancy (sf)	Vacancy Rate (%)	12 Months Absorption (sf)
Downtown	19,458,887	757,604	307,718	1,065,322	5.5%	-556,876
Yaletown	2,326,742	146,112	135,635	281,747	12.1%	-289,407
Broadway	5,895,959	239,245	69,147	308,392	5.2%	38,031
Burnaby	8,607,690	686,793	41,018	727,811	8.5%	-31,068
Richmond	3,476,504	576,626	125,026	701,652	20.2%	-167,288
Surrey	2,407,815	145,364	517	145,881	6.1%	-11,783
New Westminster	1,587,319	153,532	15,895	169,427	10.7%	-6,795
North Shore	1,786,670	127,751	14,914	142,665	8.0%	-9,813
<b>TOTALS</b>	<b>45,547,586</b>	<b>2,833,027</b>	<b>709,870</b>	<b>3,542,897</b>	<b>7.8%</b>	<b>-1,034,999</b>

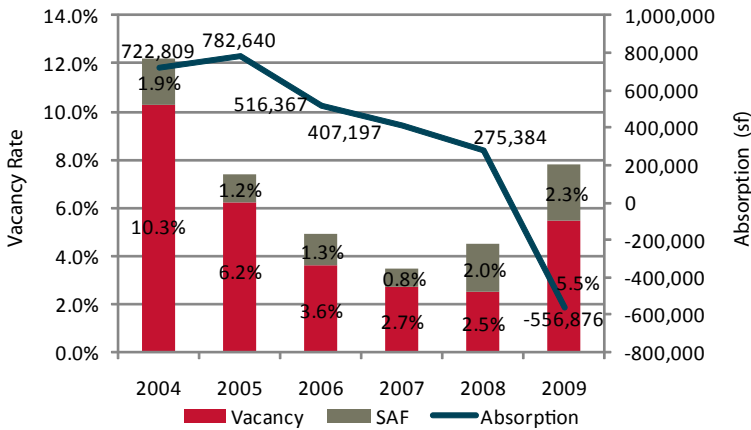
## Vacancy Trends

The downtown office market appears to be emerging from the increasing vacancy and availability rates associated with the recession. Negative absorption in the second half of 2009 ticked up the downtown office market's overall vacancy rate a modest half a percentage point to 5.5% (or 1.07 msf) at year-end 2009 from 5.0% at mid-year 2009 and 2.5% at year-end 2008. (The vacancy rate had been marching downward since reaching a decade-high of 13.5% in 2003 before posting a slim 2.5% in 2007-2008.)

The recent rise is due to small broad-based increases and decreases across the buildings, with three of the four classes of space witnessing negative absorption in the second half of 2009. **PricewaterhouseCoopers Place** (250 Howe Street) contributed the most notable block of vacant space when **Electronic Arts** vacated 72,000 sf during the second half of 2009 to relocate to its existing Burnaby campus. (**Fraser Milner Casgrain LLP** has already leased 52,000 sf of the PWC space but will not take occupancy until January 2011.)

Between year-end 2008 and year-end 2009, physically vacant head lease space rose by 158% to 757,604 sf from 293,109 sf while physically vacant sublease space increased by 63% to 307,718 sf from 188,472 sf. However, in the second half of 2009, vacant sublease space fell by one-third to 307,718 sf at year-end 2009 from 460,158 sf at mid-year 2009, which was at that time more than double the 188,472 sf posted at year-end 2008 and more than four times the 92,088 sf vacant at mid-year 2008. The recent decrease is due to fewer vacant sublease opportunities emerging and existing sublease space being occupied or taken off the market due to companies reclaiming the former surplus space. The current amount of vacant sublease space also represents 29% of total downtown vacancy versus 47% at mid-year 2009 and 40% at year-end 2008.

## Vacancy with Space Availability Factor (SAF) and Absorption:



Overall, deal velocity increased significantly in the second half of 2009 over the first half, with approximately 20 deals completed involving spaces 10,000 sf or larger. There are few vacant and available large blocks of space greater than 25,000 sf in the downtown core. Major landlords currently have few significant vacancy issues in their portfolios, with vacancy rates at or below prevailing market rates.

New vacancies may emerge as some tenants relocate within the market. For example, leasing of 35,000 sf and 21,000 sf at **Waterfront Centre** (200 Burrard) by **Haywood Securities Inc.** and **Mackenzie Financial**, respectively, will create equivalent vacancies in 400 Burrard and three other downtown locations at mid-year and shift vacancy from the class AAA to class A category. Similarly, Fraser Milner Casgrain LLP will create vacancy



**Delta Group's** mixed-use **Hotel Georgia** development (669 Howe Street) is now built up to the twelfth floor. The 71,500-sf office component is slated for completion in fall 2010.

in the class A sector (**Grosvenor Building**) when it moves into 52,000 sf at 250 Howe (class AAA) in January 2011. **Sandwell Engineering** will also be vacating the downtown submarket (885 Dunsmuir) for the Yaletown submarket (855 Homer) in 2010. Approximately half of the leasing transactions recorded in the second half of 2009 were lease renewals with little or no net leasing.

## Notable Lease Deals Year-End 2009

Tenant	Building	Sf
Powerex Corp. (renewal)	Park Place	40,000
Haywood Securities	Waterfront Centre	35,000
Sierra Systems Group (renewal)	1177 West Hastings Street	33,105
Ledcor	Guinness Tower	24,500
Mackenzie Financial	Waterfront Centre	21,562
airG	1133 Melville Street	20,000
Family Insurance Solutions (renewal)	1177 West Hastings Street	18,090
Cobalt Engineering	Granville Square	18,000
Hostway Corp. (renewal)	Bentall V	17,483
BHP Billiton World Exploration (renewal)	Bentall IV	16,686
Dundee Securities (renewal)	Bentall IV	14,000
Thompson Reuters (renewal)	Guinness Tower	12,274
CDC Software	Guinness Tower	12,267
The Bank of Nova Scotia (renewal)	815 West Hastings Street	11,907
Quinlan Hbrioux	TD Tower	11,200
McCullough O'Connor Irwin LLP	Oceanic Plaza	10,915
Thomas Cook Canada	Grant Thornton Place	10,822
FCV Technologies (sublease)	Grant Thornton Place	10,787
Calkins & Burke (renewal)	1500 West Georgia Street	10,000
Pulse Energy (sublease)	Arts & Crafts Building	10,000



**GWL Realty Advisors'** sale of **900 Howe** to a private buyer in December 2009 represented the only sale of a class A building downtown in the fourth quarter of 2009. The 103,000-sf building is 100% leased.

**Absorption Trends**

The downtown core witnessed negative 69,100 sf in absorption in the second half of 2009, primarily due to Electronic Arts' departure. Combine that with the significant net change in occupied office space of negative 487,776 in the first half of 2009 and annual absorption totals negative 556,876 sf. This represents more than half of Metro Vancouver's negative 1.03 msf in annual absorption for 2009 and is a far cry from the strong positive annual absorption levels of 400,000 to 700,000 sf recorded between 2004 and 2007. The last time the downtown market posted negative annual absorption was 2003. For 2009 as a whole, all classes of downtown space saw a net outflow of space. There were no notable occupancies in the downtown core in the second half of 2009.

**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) nudged up to 2.3% (455,342 sf) at year-end 2009 from 1.5% at mid-year 2009 and 2.0% at year-end 2008. This increase brings the actual amount of space available (occupied and vacant) in the downtown core to 7.8% or 1.52 msf.

**New Construction**

While no new office projects completed construction in the downtown core in 2009, cranes continue to swing at **Delta Group's** mixed-use **Hotel Georgia** development (669 Howe Street), which is now built up to the twelfth floor. The project will comprise 71,500 sf of office space over nine floors in the lower portion of the 48-storey mixed-use development. The office component is slated for completion in fall 2010.

A few blocks over, **Bosa Properties** has resumed construction on **Jameson House** (838 West Hastings), where construction crews have now reached the 14th floor of the 37-storey mixed-use development. Eight floors totalling 60,000 sf have been designated for office space, of which 50% has already been sold to **Washington Marine Group**. Delivery date is spring 2011.

Meanwhile, **Bentall Capital** is awaiting development permit approval for its 745 Thurlow site. Renderings call for a 400,000-sf office building including two to three floors of retail. The developer says the earliest construction start date for the project is January 2012.

Developer	Building	Sf	Completion
Delta Group	Hotel Georgia Development, 669 Howe	71,500 (office component)	Fall 2010 for office component
Bosa Properties	Jameson House, 838 West Hastings	60,000 (office component)	Spring 2011
Bentall Capital	745 Thurlow	400,000 (office/retail)	Planning

**Market Forecast**

A dichotomy exists in the downtown market, with upward pressure on rates for smaller, premium, improved spaces (i.e. small block class AAA and A spaces in highrises) and flat or downward pressure on rates for unimproved, larger-block premises (full floors or more). This will persist until the unimproved larger blocks are absorbed.

Overall, current trends suggest landlords are fairly well-positioned to push rates up provided sustained demand returns. If that happens, the market is positioned to tighten quickly. Going forward, vacancy and availability are expected to shift down market from class AAA to A and B categories and therefore demand will have to follow. Modest positive absorption through 2010 is anticipated, resulting in a decrease in the vacancy rate by year-end. Time will tell if traditional downtown tenants decide to shift some portion or all of their tenancies to suburban locations to take advantage of divergent market fundamentals, gross occupancy and parking-cost savings, and reduced commute times.

Class	Total Rentable (sf)	Head Lease Vacancy (sf)	Sublease Vacancy (sf)	Total Vacancy (sf)	Total Vacancy (%)	12 Months Absorption (sf)	SAF (sf)	SAF (%)	Avg. Net Rental Rate (psf)	Gross Occupancy Cost (psf)
AAA	4,348,094	136,420	113,707	250,127	5.8%	-175,305	54,902	1.3%	\$32	\$52
A	6,686,228	134,841	97,945	232,786	3.5%	-135,986	113,449	1.7%	\$28	\$46
B	5,769,649	289,744	64,426	354,170	6.1%	-180,510	139,921	2.4%	\$22	\$38
C	2,654,916	196,599	31,640	228,239	8.6%	-65,075	147,070	5.5%	\$16	\$30
<b>Total</b>	<b>19,458,887</b>	<b>757,604</b>	<b>307,718</b>	<b>1,065,322</b>	<b>5.5%</b>	<b>-556,876</b>	<b>455,342</b>	<b>2.3%</b>	.	-

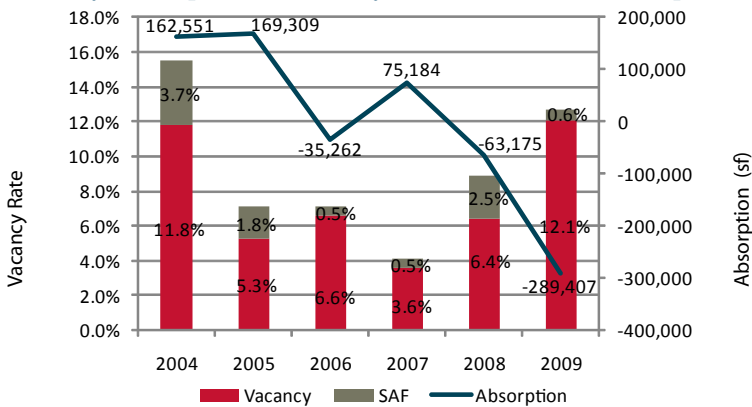
## Vacancy Trends

After posting low vacancy levels in the 3% to 4% range between 2007 and early 2008, Yaletown's office vacancy rate bumped up to 12.1% at year-end 2009 from 9.9% at mid-year 2009 and 6.4% at year-end 2008. Not since 2004 has the submarket's vacancy rate been in the double digits. The space availability factor (SAF) tacks on an additional 0.6% (or 13,054 sf) of available space. Overall vacancy is fairly evenly distributed between head lease and sublease space, for a total of 281,747 sf of empty premises. Worth noting is that 116,920 sf of the 135,635 sf of sublease space will be absorbed in the first quarter of 2010.

Class A vacancy (8.2%), most of which is sublease space, remained relatively unchanged over the past year. However, as **Vision Critical** expands into its remaining 5,413 sf (of 9,184 sf) at 858 Beatty and **Image Works Animation** moves into 17,399 sf of sublease space at 1128 Homer, class A vacancy should decline to 2.3% by the end of the first quarter of 2010.

In class B premises, **Providence Health Care** took back the 10,080 sf of sublease space it had on the market while an additional 47,957 sf became available at 855 Homer when **Business Objects** vacated the premises. As a result, class B vacancy rose to 15.4% at year-end 2009 from 10.8% at mid-year 2009 and 5.9% at year-end 2008. Although the building is vacant, the entire 94,108 sf will be absorbed in the first quarter of 2010 when **Sandwell Engineering** moves in. Class C vacancy dipped slightly to 7.4% at year-end 2009 from mid-year but is up from 5.8% at year-end 2008. There were no sublease vacancies in class C buildings in 2009.

## Vacancy with Space Availability Factor (SAF) and Absorption:



## Absorption Trends

Negative absorption of 172,800 sf in the second half of 2009 brought Yaletown's 2009 annual absorption to negative 289,407 sf, the lowest annual absorption level on record for this submarket. If all else remains unchanged and the 116,920 sf of sublease space is absorbed, the overall vacancy rate will drop five percentage points to 7.1% at mid-year 2010.

## New Construction

While the first half of 2009 witnessed the completion of **Triple F Investment Corp.'s** 22,000-sf addition to 1110 Hamilton Phase 2, the second half saw 35,000 sf of office space come on stream at **Onni Development Group's** 20-storey, 189,000-sf office/residential/retail development at 1022 Seymour.

Class	Total Rentable (sf)	Head Lease Vacancy (sf)	Sublease Vacancy (sf)	Total Vacancy (sf)	Total Vacancy (%)	12 Months Absorption (sf)	SAF (sf)	SAF (%)	Avg. Net Rental Rate (psf)	Gross Occupancy Cost (psf)
A	385,142	5,755	25,854	31,609	8.2%	21,958	0	0.0%	\$28-\$32	\$38-\$44
B	1,332,082	95,267	109,781	205,048	15.4%	-256,688	11,628	0.9%	\$23-\$27	\$33-\$39
C	609,518	45,090	0	45,090	7.4%	-54,677	1,426	0.2%	\$19-\$22	\$29-\$34
<b>Total</b>	<b>2,326,742</b>	<b>146,112</b>	<b>135,635</b>	<b>281,747</b>	<b>12.1%</b>	<b>-289,407</b>	<b>13,054</b>	<b>0.6%</b>		

The office segment has been leased to an Olympics user on a short-term basis and a government tenant will occupy 24,428 sf starting April 2010.

Meanwhile, **Atelier on Robson** (825 Robson) is under the hammer. Developed by **Magellen Developments (20/20) Inc.**, the 212,000-sf office/residential building will comprise 20,246 sf of office space when complete in spring 2010. **Amacon** is also pouring the foundation for the **The Beasley** (888 Homer). The 33-storey, 211,000-sf office/residential/retail development will include 14,000 sf of office space. Projected delivery date has been moved up to the third quarter of 2011. Going forward, the shovels will be poised to break ground in February 2010 for Triple F Investment Corp.'s 30,000-sf addition to 1132 Hamilton, with turnover slated for fall 2011.



**Magellen Developments (20/20) Inc.'s Atelier on Robson** will comprise 20,246 sf of office space when it completes in spring 2010.

## Market Forecast

As the large blocks of space are absorbed, overall vacancy should decrease. The market will bring on 27,000 sf of vacancy in March though when Triple F Investment commences its renovation at 1132 Hamilton. Once 1128 Homer and 855 Homer are occupied, only 840 Cambie and 856 Homer will offer large blocks of contiguous space of 10,000 sf or greater.

While landlords will be able to hold on to their previous highest achieved rates, record rental rates will not be achieved in 2010. Tenants will still be able to negotiate better improvement allowances.

Developer	Building	Sf	Completion
Triple F Investment Corp.	1110 Hamilton, Phase 2	22,000 (addition)	May 2009
Onni Development Group	1022 Seymour (office/residential/retail)	35,000 (office component)	Q3 2009
Magellen Developments (20/20) Inc.	Atelier on Robson, 825 Robson Street (office/residential)	20,246 (office component)	Spring 2010
Triple F Investment Corp.	1132 Hamilton Street	30,000 (addition)	Fall 2011
Amacon	The Beasley, 888 Homer (office/residential/retail)	14,000 (office component)	Q3 2011

## Notable Lease Deals Year-End 2009

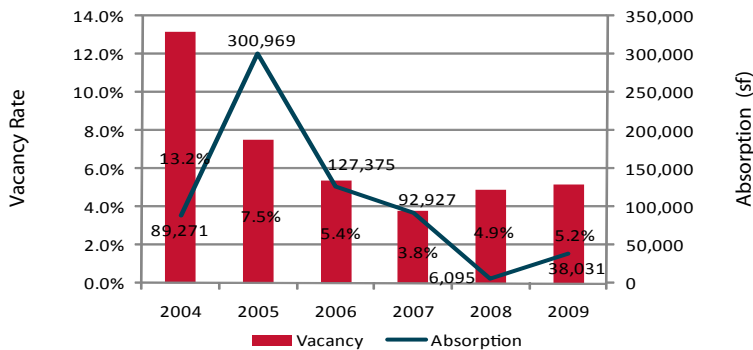
Tenant	Building	Sf
Sandwell Engineering	855 Homer Street	94,108
Imageworks Animation (sublease)	1128 Homer Street	17,399
Camp Fiorante Matthews	856 Homer Street	9,304
Vision Critical (sublease)	858 Beatty Street	9,184

## Vacancy Trends

The Broadway office submarket remains relatively healthy, closing 2009 with the lowest year-end vacancy rate in the region at 5.2%. Total head lease vacancy dipped while total sublease vacancy (69,147 sf) returned to year-end 2008 levels after climbing to 108,369 sf at mid-year 2009.

Deal activity picked up during the latter half of 2009 and included the addition of one large tenant from downtown (**1-800-Got-Junk?**) and two new to the Metro Vancouver market (**Contemporary Security Canada** and **Digital Domain**), all of which contributed to the submarket's positive absorption. Quality sublease space was also leased up and the submarket witnessed an increase in activity from tenants outside the Broadway submarket. With limited large-block opportunities, the submarket remains tight.

## Vacancy and Absorption Graph



## Absorption Trends

Broadway was the only submarket to witness positive annual absorption in 2009. With tenants taking up 54,191 sf more space than they vacated between July 1 and December 31, absorption in the second half of 2009 returned to the positive. This brought annual absorption for 2009 to 38,031 sf. Most of the positive absorption in the second half of 2009 occurred in class B buildings (55,458 sf), but for 2009 as a whole, it was only the class A category that registered positive annual absorption (84,344 sf).

In addition to **1-800-Got-Junk?** occupying 17,000 sf at 887 Great Northern Way and **Contemporary Security Canada** taking 26,000 sf for an Olympics short-term use at 333 Terminal, occupancies in the second half of 2009 included **Digital Domain** subleasing 20,000 sf at 1620 West 8th, and **Patient Language Services** subleasing 5,300 sf at 210 West Broadway.

## New Construction

While **PCI Group's** 80,000-sf **Crossroads** was the only building that came on stream in 2009 in the Broadway submarket, nearly 210,000 sf will complete construction in 2010. **Bentall Capital's** 79,000-sf **Broadway Tech Centre 7**, which is 100% preleased to **BC Lottery Corp.**, will wrap up details in the first quarter of 2010, and **Broadway Tech Centre 5** will bring on an additional 79,000 sf in the second quarter. The latter still has 15,000 sf available for lease, which Bentall says may be geared towards a fitness facility.

Meanwhile, **Wesgroup's** 64,641-sf office/retail **Broadway and Commercial Coastal Health** has preleased 36,740 sf of the 51,956-sf office portion. Com-

Developer	Building	Sf	Completion
PCI Group	Crossroads	80,000	January 2009
Bentall Capital	Broadway Tech Centre 7	79,000	Q1 2010
Bentall Capital	Broadway Tech Centre 5	79,000	Q2 2010
Wesgroup	1669 East Broadway	51,956	Q3 2010
Rize Alliance Properties	428 Terminal Avenue	220,000	Preleasing
False Creek Business Park Ltd.	306 to 320 Terminal Avenue	25,000	Preleasing
Orca West Developments	538 West Broadway	120,000	Preleasing
Bentall Capital	Broadway Tech Centre 4	173,000	Q1 2012



**Bentall Capital's** 79,000-sf **Broadway Tech Centre 7**, which will come on stream in the first quarter of 2010, will be home to **BC Lottery Corp.**

pletion date is third quarter of 2010. Ground also broke in November 2009 for Bentall's newest building, **Broadway Tech Centre 4**, which is 100% preleased to **HSBC Bank Canada**. The new four-storey, 173,000-sf building will be added to the inventory in the first quarter of 2012. Various other proposed developments are in the preleasing stage. They include **Rize Alliance Properties'** 428 Terminal Avenue (220,000 sf), **False Creek Business Park's** 306 to 320 Terminal Avenue (25,000 sf), and **Orca West Developments'** 538 West Broadway (120,000 sf).

## Market Forecast

Going forward, deal activity and rental rates are expected to remain stable over the next six months, although landlords may need to increase inducements to maintain rental rates. Vacancy, which may step up at mid-year due to the timing gap between when projects complete construction and when tenants take occupancy, is forecasted to dip by year-end. Fewer renewals are anticipated in 2010 but renewal activity should pick up towards the end of the year and early 2011, as tenants avoided the Olympics year when they last renewed.

## Notable Lease Deals Year-End 2009

Tenant	Building	Sf
Contemporary Security Canada	333 Terminal Avenue	26,000
Digital Domain (sublease)	1620 West 8th Avenue	20,000
1-800-Got-Junk?	887 Great Northern Way	17,000
BC Housing	369 Terminal Avenue	14,000
Coastal Contacts (renewal)	2985 Virtual Way	13,777
SLR Consulting (renewal)	1620 West 8th Avenue	12,914
Kiwi Collections	1650 West 1st Avenue	9,500

Class	Total Rentable (sf)	Head Lease Vacancy (sf)	Sublease Vacancy (sf)	Total Vacancy (sf)	Total Vacancy (%)	12 Months Absorption (sf)	Avg. Net Rental Rate (psf)	Gross Occupancy Cost (psf)
A	3,497,879	146,591	26,061	172,652	4.9%	84,344	\$24 - \$28	\$40 - \$44
B	1,897,382	65,594	36,753	102,347	5.4%	-12,402	\$19 - \$23	\$32 - \$36
C	500,698	27,060	6,333	33,393	6.7%	-33,911	\$15 - \$18	\$26 - \$29
<b>Total</b>	<b>5,895,959</b>	<b>239,245</b>	<b>69,147</b>	<b>308,392</b>	<b>5.2%</b>	<b>38,031</b>	-	-

## Vacancy Trends

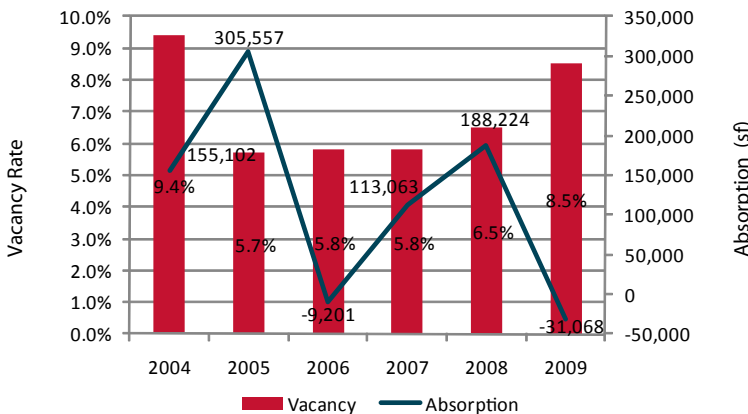
Burnaby's office vacancy rate increased a full percentage point to 8.5% at year-end 2009 from 7.5% at mid-year 2009, which was up a full percentage point from the 6.5% posted at year-end 2008. The recent rise is due in part to a large tenant, **eBay**, departing the market and leaving 127,000 sf of primarily class A head lease space behind at 4321 Still Creek Drive. **Lake City Centre** (94,000 sf vacant), **Glenlyon Business Park** (41,522 sf vacant), 4190 Still Creek Drive (67,720 sf vacant), and **Canada Way Business Park** (70,000 sf vacant) also continue to offer large blocks of space.



**Appia Group's Commerce@Citi** (4445 Lougheed Highway) will add 110,000 sf to the inventory in the first quarter of 2010

With 727,811 sf vacant, Burnaby currently offers the most amount of vacant office space outside the downtown core. While deal activity picked up in the second half of 2009 over the first half, activity was still minimal due to the lack of new or expanding tenants in the marketplace. Sublease space is minimal with only 41,018 sf vacant, down from 94,416 sf at mid-year 2009 and 73,170 sf at year-end 2008.

## Vacancy and Absorption Graph



## Absorption Trends

All three classes of space witnessed a net loss of occupied office space between July 1 and December 31, 2009, resulting in negative 84,125 sf in absorption. Despite the 53,057 sf of positive absorption posted in the first half of 2009, annual absorption for 2009 came to negative 31,068 sf. This compares to the positive absorption levels of 182,224 and 113,063 sf in 2008 and 2007, respectively. The last time the Burnaby office market recorded negative annual absorption was 2006. However, several large deals have been completed, including for **AECOM** and **Fortinet**, and as tenants take occupancy in 2010, some of the current vacant space will be removed from the statistics.

Class	Total Rentable (sf)	Head Lease Vacancy (sf)	Sublease Vacancy (sf)	Total Vacancy (sf)	Total Vacancy (%)	12 Months Absorption (sf)	Avg. Net Rental Rate (psf)	Gross Occupancy Cost (psf)
A	6,355,427	490,959	23,377	514,336	8.1%	-7,253	\$19-\$28	\$29-\$43
B	1,621,438	123,686	17,641	141,327	8.7%	-6,474	\$14-\$18	\$24-\$31
C	630,825	72,148	0	72,148	11.4%	-17,341	\$12-\$14	\$21-\$27
<b>Total</b>	<b>8,607,690</b>	<b>686,793</b>	<b>41,018</b>	<b>727,811</b>	<b>8.5%</b>	<b>-31,068</b>		

## New Construction

Two projects completed construction in 2009: **Morguard's** 146,130-sf **Discovery Green Building**, which is leased to **HSBC**; and **Tonko Realty Advisors'** 71,135-sf **Lake City Court II**, of which 34,000 sf is office space. One small tenant occupies 8,200 sf of the building's office/warehouse space. Elsewhere, the construction machinery remains busy. **Appia Group's Commerce@Citi** will add 110,000 sf to the submarket's office inventory in the first quarter of 2010. About 20% of the space has been preleased to **Intrawest** and smaller tenants. In the second quarter, **Tonko Realty Advisors' Willingdon Business Park Phases 8 and 9** will come to market. Built on a speculative basis, phase 8 is 70% complete while phase 9 is undergoing interior work. No tenants are confirmed for either building. At **Metrotower III**, **Ivanhoe Cambridge's** construction crews are approaching the lobby level. Completion of the 400,000-sf tower has now been pushed back to May 2012. **Bosa Properties** is also considering a mixed-use development for its site at Kingsway and Willingdon.

Developer	Building	Sf	Completion
Morguard	Discovery Green Bldg., 4200 Canada Way	146,130	Spring 2009
Tonko Realty Advisors	Lake City Court II	34,000 (office component)	August 2009
Appia Group	Commerce@Citi, 4445 Lougheed Highway	110,000	Q1 2010
Tonko Realty Advisors	Willingdon Business Park Phase 9, 4370 Still Creek Drive	92,509	Q2 2010
Tonko Realty Advisors	Willingdon Business Park Phase 8, 4350 Still Creek Drive	92,509	Q2 2010
Ivanhoe Cambridge	Metrotower III	400,000	May 2012
Bosa Properties	Northeast corner of Kingsway and Willingdon	mixed-use	Proposed

## Market Forecast

Vacancy will rise when the three newly constructed buildings are added to the inventory in 2010. 3700 Gilmore Way will also contribute to vacancy when **Kodak** moves out in the second quarter of 2010 and consolidates in one of its other locations. These four buildings alone will add approximately 387,000 sf to the vacancy column. Over the past year, net effective rental rates have been off significantly for class A space due to a 15% to 20% decline in net rental rates and an increase in tenant inducements. Class B inventory only witnessed rental rate decreases of 5% to 15% due to limited available space. In 2010, rents are expected to experience further downward pressure due to low deal velocity and the new supply. Class A rents are forecast to continue dropping for tenants with good covenants, with tenant inducements also increasing.

## Notable Lease Deals Year-End 2009

Tenant	Building	Sf
AECOM	3292 Production Way	37,500
ALS Environmental	8081 Lougheed Highway	35,000
Fortinet Technologies (Canada)	4190 Still Creek Drive	33,000
Digital Payment Technologies (sublease)	4260 Still Creek Drive	13,000
Alexander College Corp.	4680 Kingsway	10,000
North Road Office Services	3292 Production Way	9,000

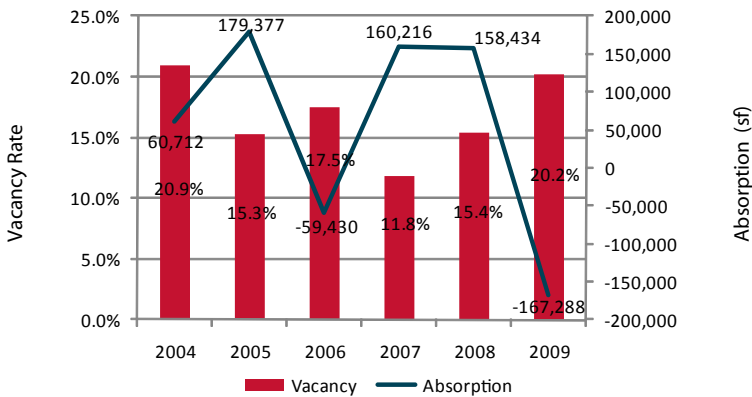
## Vacancy Trends

Richmond's office vacancy topped 20% at year-end 2009, notching up to 20.2% from 19.6% at mid-year 2009 and 15.4% at year-end 2008. The current vacancy rate, which is the highest among the eight submarkets, has been steadily climbing since year-end 2005 when vacancy was 11.8%. The current 701,652 sf of vacant offices represents the largest amount of vacant space in Richmond since 2003. While Richmond's vacancy rate has hunkered in the double digits since 2002, the last time vacancy reached 20% was in 2004.

As was the case in the first half of the 2009, class A and C premises currently reveal the highest vacancy rates at 23.5% and 32.3%, respectively. On a square-footage basis, most of the vacant space occurs in class A head lease space (435,670 sf). Reasons for the overall increase are very low levels of leasing activity, corporate downsizing, and tenants moving out of the submarket. Most notably, **Ritchie Bros.** left behind 46,800 sf at 6500 River Road in Richmond and other locations and moved into its new 164,580-sf head office at 9400 Glenlyon Parkway in Burnaby in the latter half of 2009.

Vacant sublease space, at its highest level since 2004, held fairly steady at 125,026 sf from mid-year but is up from 82,867 sf at year-end 2008. Overall, the submarket remains a tenant's market with an abundance of options and limited interest from tenants in other areas in Metro Vancouver.

## Vacancy and Absorption Graph



## Absorption Trends

While there was some renewal activity in the second half of 2009, there was no inbound activity. Hence, absorption was negative 19,603. Add that to the negative 147,685 sf posted at mid-year 2009 and annual absorption totals negative 167,288. This is in contrast to the approximately 160,000 sf of positive annual absorption experienced in 2007 and 2008. Most of the recent negative absorption occurred in the first half of 2009 in class A space when tenants left behind 160,445 sf more space than they took up due to numerous companies shedding space or departing the submarket. In the

## Notable Lease Deals Year-End 2009

Tenant	Building	Sf
Clevest Solutions ( sublease)	13911 Wireless Way	13,758
Shelly Morris Business Services (renewal)	10691 Shellbridge Way	11,980
ICBC	13575 Commerce Parkway	11,009
Dillon Consulting	3820 Cessna Drive	10,359

Class	Total Rentable (sf)	Head Lease Vacancy (sf)	Sublease Vacancy (sf)	Total Vacancy (sf)	Total Vacancy (%)	12 Months Absorption (sf)	Avg. Net Rental Rate (psf)	Gross Occupancy Cost (psf)
A	2,363,597	435,670	119,158	554,828	23.5%	-178,455	\$14-\$24	\$27-\$35
B	912,433	76,241	5,868	82,109	9.0%	10,129	\$10-\$16	\$20-\$26
C	200,474	64,715	0	64,715	32.3%	1,038	\$10-\$14	\$17-\$21
<b>Total</b>	<b>3,476,504</b>	<b>576,626</b>	<b>125,026</b>	<b>701,652</b>	<b>20.2%</b>	<b>-167,288</b>		



**Crestwood Corporate Centre** currently offers 24,000 sf for lease. Richmond's vacancy rate is currently the highest in the region at 20.2%.

second half of 2009, **Great Canadian Casinos** gave up additional space at 13775 Commerce Parkway and **Adesa Auction** left 5200 Hollybridge. **BC Lottery Corp.** will also be leaving 67,000 sf at **Airport Executive Park 8** in fall 2010 for **Broadway Tech Centre 7**. While other larger users will be moving out of Richmond in 2010, **ICBC** will be moving in, absorbing 11,000 sf in March 2010. **Clevest** also moved into Ritchie Bros.' 13,500-sf sublease space in the **Sierra Wireless** building, while **Dillon Consulting** will be moving out of 10691 Shellbridge Way and into **BCIT Aerospace Technology Centre** in February 2010.

## New Construction

Following the addition of 211,000 sf to the submarket's inventory in 2008, Richmond witnessed no construction completions in 2009, and no major office developments are slated to come on stream in 2010 or 2011. Three major developments are in the early planning stages though. They include **Staburn** and **Ledcor's** 500,000-sf office/retail project at No.6 Road and Steveston Highway, of which 300,000 sf is sketched in as office space. Meanwhile, **YVR** has redesigned its proposed **Sea Island Business Park** office/hotel development at the **Templeton SkyTrain Station**. Blueprints now call for five buildings of 100,000 to 200,000 sf apiece and potentially, a hotel. Earliest completion date for the first building is 2012. **Kingswood Properties** is also working with the city's zoning department for a proposed office/retail development at the **Bridgeport SkyTrain Station**. Kingswood says 161,743 sf has been penciled in for office space.

Developer	Building	Sf	Completion
Staburn and Ledcor	No. 6 Rd and Steveston Hwy (office/retail)	300,000 (office component)	Proposed
YVR	Sea Island Business Park office/hotel development at Templeton SkyTrain Station	5 buildings (100,000 to 200,000 sf each)	Proposed (2012 for first building)
Kingswood Properties	Office/retail development at Bridgeport SkyTrain Station	161,743 (office component)	Proposed

## Market Forecast

Richmond's office vacancy rate is expected to climb further in 2010 with landlords offering leasing incentives. Leasing activity will likely remain limited with many options for tenants. Net effective rents are forecast to decrease to stimulate interest and to secure renewals. Overall, it remains a challenging time for landlords.

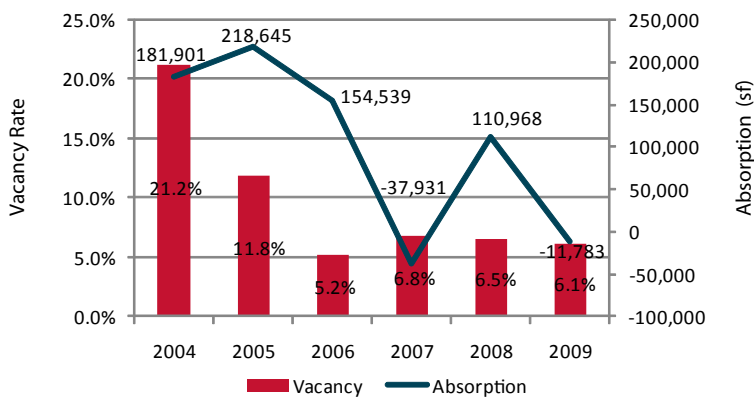
### Vacancy Trends

Surrey's office market remained fairly steady and tight over the past 12 months, with its vacancy rate dipping to 6.1% at year-end 2009 from 6.7% at mid-year 2009 and 6.5% at year-end 2008. The current drop is due to the uptake of smaller vacancies. Class C premises registered the highest vacancy at 9.4%. Total head lease vacancy declined from mid-year 2009 while most of the 7,554 sf of vacant sublease space recorded at mid-year was absorbed by the end of the year, which is more in line with the zero sublease space vacancy recorded in 2008.

While there are a few large tenants in the market looking for future opportunities, deal velocity in the Surrey submarket has been limited due to the lack of available quality space. The largest deal in 2009 was **TransLink's** 81,362-sf renewal at **Station Tower** (13401 108th Avenue). The development of the new **City of Surrey Civic Centre**, which will include a new city hall, additional space for Simon Fraser University, a major civic plaza, a performing arts centre, new library and hotel/office building, is expected to spur activity in 2010.

(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 vacant since completion in 2005.)

### Vacancy and Absorption Graph



### Absorption Trends

Positive absorption of 16,625 sf in the second half of 2009 helped balance out the negative 28,408 sf in absorption recorded in the first half of 2009, bringing annual absorption for 2009 to negative 11,783 sf. This is in contrast to the 110,968 sf absorbed in 2008 and the 150,000 to 200,000-sf-plus of positive absorption recorded between 2003 and 2006. While all three classes of space recorded negative absorption in the first half of 2009, only class C premises witnessed slight negative absorption (-2,079 sf) in the second half of 2009. No noteworthy occupancies occurred in the Surrey submarket in 2009.

### New Construction

It's quiet on the construction front in Surrey. No new supply came on the market in 2008 and 2009, and few construction cranes are expected to be swinging in 2010. The 20,000-sf office component of **Panorama Park Investments' Panorama Place Phase II** (15230 Highway #10), which broke ground in July 2009, is now being sold on a strata basis due to changing

market conditions. Half of the space has already been pre-sold. The developer says it may commence construction on **Panorama Place Phase III** (15240 Highway #10), a 45,000-sf office building, early in the second quarter for completion by year-end 2010.

Meanwhile, **GE Real Estate** is awaiting prelease commitment before turning sod at **Gateway Office Park Phase 1** (108th Avenue and Whalley Ring Road). Artist renderings call for 200,000 sf in phase one of the 600,000-sf campus-style development. Earliest completion date is 2012. **Benchmark Group of Companies'** proposed 112,000-sf **Benchmark Business Centre Phase 2** is still on hold until market conditions improve.



**Simon Fraser University** will expand by 16,000 sf at **Central City** (13450 102nd Avenue) in 2010 when the university trades two floors for 50,000 sf on the podium level

Developer	Building	Sf	Completion
Panorama Park Investments	Panorama Place, 15240 Highway, Phase III	45,000	Q4 2010
GE Real Estate	Gateway Office Park, 108th Avenue and Whalley Ring Road, Phase 1	200,000	Awaiting prelease commitment/ 2012
Benchmark Group of Companies	Benchmark Business Centre, Phase 2	112,000	Proposed

### Market Forecast

Overall, the Surrey submarket can expect continued low demand and minimal deal activity over the next six months due to the lack of available space, particularly in class A premises. Hence, the overall vacancy rate is forecast to dip slightly through 2010. Rental rates in the Surrey office submarket have remained flat over the past six months, and net effective rents are expected to decrease through 2010. **JP Morgan** also recently made the decision to close its local call centre at Central City, affecting more than 700 jobs. As a result, 140,000 sf will come back to the market at the beginning of 2011. However, the space is not commodity space typically under consideration by tenants in the marketplace.

Notable Lease Deals Year-End 2009		
Tenant	Building	Sf
McQuarrie Hunter	13450 102nd Avenue	12,000
BC Commissioners	13401 108th Avenue	2,813

Class	Total Rentable (sf)	Head Lease Vacancy (sf)	Sublease Vacancy (sf)	Total Vacancy (sf)	Total Vacancy (%)	12 Months Absorption (sf)	Avg. Net Rental Rate (psf)	Gross Occupancy Cost (psf)
A	1,466,253	84,365	0	84,365	5.8%	-7,980	\$20	\$30
B	796,612	47,365	517	47,882	6.0%	10,537	\$14	\$22
C	144,950	13,634	0	13,634	9.4%	-14,340	\$9	\$17
<b>Total</b>	<b>2,407,815</b>	<b>145,364</b>	<b>517</b>	<b>145,881</b>	<b>6.1%</b>	<b>-11,783</b>	-	-

## Vacancy Trends

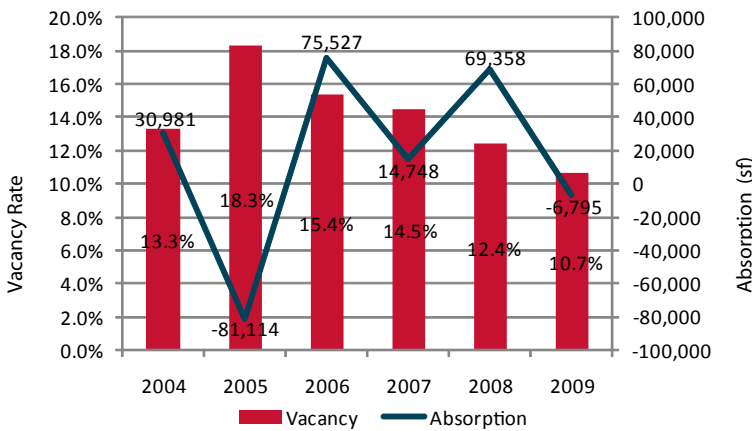
New Westminster's office vacancy rate dipped to 10.7% at year-end 2009 from 11.2% at mid-year 2009 and 12.4% at year-end 2008. The submarket's year-end vacancy rate has been trending downward since peaking at 18.3% in 2005.

While total head lease space increased to 153,532 sf at year-end 2009 from 136,022 sf at mid-year, vacant sublease space fell to 15,895 sf at year-end 2009 from 46,349 sf at mid-year 2009 (which was a decade-high for sublease space in this submarket). **ICA Home Décor** contributed to this drop by taking up half of **Port Metro Vancouver's** 16,000-sf sublease space at 625 Agnes. **BC Safety's** 22,000-sf sublease space at 88 6th Street was also converted to head lease space in the second half of 2009 and remains vacant.

Most of the submarket's vacancy occurs in the class B head lease space, which accounts for 90,349 sf of the submarket's total 169,427 sf in vacant space, due to a combination of smaller premises sitting empty. Overall, deal velocity remains low to flat in this office submarket of 1.6 msf.

(Note: the dip in vacancy is also due to two smaller buildings removed from inventory.)

## Vacancy and Absorption Graph



## Absorption Trends

Following 19,926 sf of positive absorption in the first half of 2009, absorption in the New Westminster submarket dropped into the negative in the second half, with tenants leaving behind 26,721 sf more than they took up between July 1 and December 31, 2009. This brought the submarket's annual absorption to negative 6,795 sf. Most of the negative absorption in 2009 occurred in class B space. The last time the submarket recorded negative annual absorption was 2005.

## New Construction

Office construction machinery remains idle in New Westminster. The submarket did not bring on any new supply in 2009 and no new developments are on the horizon. The city's last new office project was **UPG Group's** 42,000-sf addition to **Westminster Centre South** (505 West 5th Street), which **BC Safety** moved into earlier in 2009.



**UPG Group's** award-winning **Westminster Centre South** continues to set a benchmark for quality in New Westminster.

## Market Forecast

No major changes are anticipated in the New Westminster submarket over the next six months. One or two large blocks of space may receive interest, but deal activity is generally expected to remain limited. Vacancy is forecast to decline marginally through 2010, with sublease space opportunities remaining attractive.

Rental rates have remained flat to declining over the past six months and are not expected to fluctuate much over the next six months.

Notable Lease Deals Year-End 2009		
Tenant	Building	Sf
*Candraft Detailing	889 Carnarvon Street	15,166
KCC Canada	610 6th Street	9,614
ICA Home Décor	625 Agnes Street	7,754

\*sale for owner occupier

Class	Total Rentable (sf)	Head Lease Vacancy (sf)	Sublease Vacancy (sf)	Total Vacancy (sf)	Total Vacancy (%)	12 Months Absorption (sf)	Avg. Net Rental Rate (psf)	Gross Occupancy Cost (psf)
A	847,886	52,380	8,555	60,935	7.2%	14,975	\$18	\$30
B	548,720	90,349	0	90,349	16.5%	-43,057	\$14	\$26
C	190,713	10,803	7,340	18,143	9.5%	21,287	\$10	\$19
<b>Total</b>	<b>1,587,319</b>	<b>153,532</b>	<b>15,895</b>	<b>169,427</b>	<b>10.7%</b>	<b>-6,795</b>	-	-

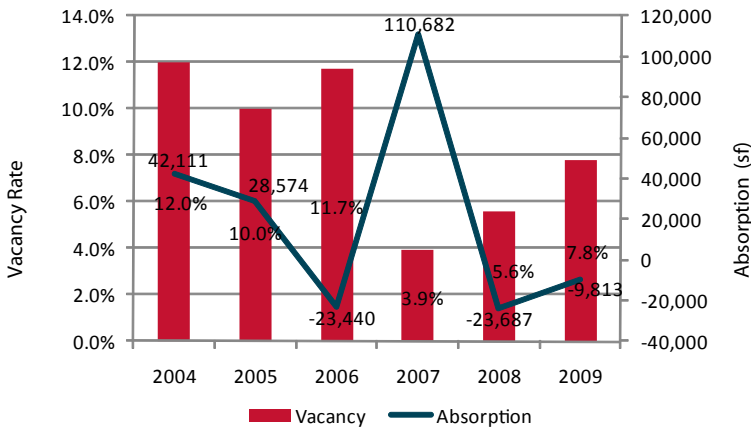
## Vacancy Trends

While absorption was positive during the second half of 2009, new supply bumped up the North Shore's office vacancy rate to 8.0% at year-end 2009 from 6.7% at mid-year-2009 and 5.6% at year-end 2008. The submarket's vacancy rate has remained in the single digits since 2007 after posting double digits between 2002 and 2006.

Most of the submarket's current 142,665 sf in vacancy occurs in head lease space, which accounts for 127,751 sf — up from 103,922 sf at mid-year 2009 and 53,851 at year-end 2008. Class A and B buildings assume the bulk of the head lease vacancies. Sublease space remains relatively unchanged from mid-year 2009 with 14,914 sf currently vacant – double that at year-end 2008 and at the low end of the range when compared to the 15,000 to 50,000 sf in vacant sublease space recorded between 2002 and 2006.

Overall, deal velocity has been slow and, hence, asking lease rates have decreased over the past year for new product as a result of changed market conditions and the lack of motivated tenants. Landlords are offering incentives for tenants to renew and are reducing lease rates by as much as 20%.

## Vacancy and Absorption Graph



**The Westmar Building** (233 West 1st Street) in North Vancouver sold for \$9.05 million in September 2009. The buyer, a local investor, plans on stratifying the building and selling the units individually.

Class	Total Rentable (sf)	Head Lease Vacancy (sf)	Sublease Vacancy (sf)	Total Vacancy (sf)	Total Vacancy (%)	12 Months Absorption (sf)	Avg. Net Rental Rate (psf)	Gross Occupancy Cost (psf)
A	1,071,411	68,828	13,044	81,872	7.6%	12,674	\$23.25	\$10.89
B	479,077	53,084	820	53,904	11.3%	-36,046	\$18.84	\$11.87
C	236,182	5,839	1,050	6,889	2.9%	13,559	\$18.00	\$9.60
<b>Total</b>	<b>1,786,670</b>	<b>127,751</b>	<b>14,914</b>	<b>142,665</b>	<b>8.0%</b>	<b>-9,813</b>	-	-

## Absorption Trends

After two consecutive six-month periods of negative absorption, the North Shore submarket posted positive absorption during the second half of 2009, with tenants occupying 13,883 sf more space than they vacated between July 1 and December 31, 2009. However, the negative 23,696 sf of absorption registered during the first half of 2009 brought 2009's annual absorption to negative 9,813 sf. Most of the negative absorption occurred in class B space.

## New Construction

The North Shore submarket witnessed the completion of the **North Shore Corporate Centre** (111 Forester Street, 30,000 sf) in the first half of 2009, followed by **Harbourside Corporate Centre** (850 Harbourside Drive, 40,000 sf) and **V1500 Holdings'** 1133 Lonsdale Avenue (28,000 sf) in the latter half of the year. No new projects are scheduled to come on stream in 2010.

Looking ahead, **GWL Realty Advisors** (on behalf of **bclMC**) is in preleasing mode at **NorthWoods Business Park** (2100 Dollarton Highway), which now calls for 80,000 sf over two buildings versus one 75,000-sf building. GWL says it likely won't proceed until prelease commitments are in place. The new buildings would add to GWL's four flex buildings already in the park. Meanwhile, **Concert Properties'** **Harbourside Business Park Phase 2** (801 Harbourside Drive) has undergone a complete design revision. The park will now become part of a larger master mixed-use community plan, which Concert says it has presented to the city.

Developer	Building	Sf	Completion
Local developer	North Shore Corporate Centre, 111 Forester Street	30,000	February 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 bclMC)	NorthWoods Business Park, 2202 Dollarton Highway	80,000 sf over 2 buildings	Preleasing
Concert Properties	Harbourside Business Park Phase 2, 801 Harbourside Drive	Part of master mixed-use community plan	Proposed

## Market Forecast

The North Shore office submarket is forecast to remain stagnant over the next six months. Rental rates are expected to stay low and hover around the same prices for all classes as vacancy continues to creep up. More strata sales are also anticipated as more product becomes available (e.g. 233 West 1st Street and 145 West 15th Street).

## Notable Lease Deals Year-End 2009

Tenant	Building	Sf
Pro Arte	1225 East Keith Road	15,888
BA Blacktop	North Shore Corporate Centre	14,000
Confidential	850 Harbourside	6,000

## New FSR rules designed to boost downtown office development

Office developers and brokers are welcoming new City of Vancouver rules that allow for slightly taller towers downtown. But developers and brokers also say more changes are needed from city hall to spur new office development in the core.

"This is one [change] and we should accept it for the spirit it's given in, but it's only one part," says **Andrew Grant**, president of **PCI Group**. "Office development needs help."

A new city by-law allows office developers to increase floor space ratio (FSR) by another two times in certain downtown pockets. The density increases are designed to help maintain office jobs and meet future demand for an additional 30,000 positions by 2031.

In the past, the city has been reluctant to relax height restrictions, says Grant. The new FSR rules show a willingness on the part of city planners to permit taller buildings in the core. "That's really one of the few ways to unlock extra density. Otherwise our sites are small. Unless you give more height, the fact that you're giving more FSR won't matter."

The new rules, which are part of city council's revamped zoning policy, apply to office towers greater than 50,000 square feet (sf). City planners determined there was a 5.8-million-sf deficit in office space when compared to future employment demand. Now, larger buildings may be built up to view ceilings – maximum allowable heights that do not obstruct scenic views.

"For the owners who happen to have land downtown, it makes their land more valuable instantly," notes Avison Young principal **Fergus Cameron**. "Over time, that will make them more willing to build commercial, and not push to build residential, which is good for the city."

When residential prices are much more attractive than office prices, it makes sense for the city to provide bonus density, he says. "If you can build more, your land is just worth more – unless you were hoping to build residential. It's a windfall for anybody who was going to build commercial anyways."

Cameron says the FSR increases will curtail residential development in downtown Vancouver, where many older office buildings were converted to condos before the city imposed a moratorium on such projects in some parts of the central business district (CBD).

"During the recent economic crisis, land has been the poorest cousin of all, and land hasn't been trading," says Cameron. "Even though there's extra density there, no one can use it because it's not economical to build an office building – of any size. The cost of construction or the cost of land doesn't work with the kind of rental rates you can achieve."

"The new FSR policy will encourage people to build office. It'll just stop the residential development, basically, in the downtown area. Even though the conversion moratorium was in effect, one way or another, developers just kept coming out with residential."

Senior City of Vancouver planner **Kevin McNaney** says the planning department sought the FSR increases because it did not want to impede office development. "We increased what we call the base densities across the CBD areas, which are Area A, B, C1 and F," explains McNaney. "All of these areas went up two FSR, so Area A went from nine to 11 FSR, Area B went from seven to nine, Area C1 went from five to seven and Area F went from five to seven for non-residential use."

The city does not allow residential zoning in areas A and B; however, it did allow residential development in C1 and F previously. In 2001, city council banned residential development in areas C1 and F because it was starting to receive a lot of applications for housing projects within those boundaries. The latest changes implement the policy developed in 2001.

"It creates additional office capacity in the downtown," says McNaney. "Obviously, the market has to act on it. Just because we create capacity doesn't mean the economics will lead to a new building every time." He says commercial developers need land to be available in the future because commercial development operates on a seven-year cycle. "The message is that the city of Vancouver will continue to have a vibrant downtown. We'll continue to have mixed-use downtown. There will be residential."

The new policy brings clarity to the city's long-term office need, ensuring that there is enough job space in the downtown in the wake of major transportation investment, he adds.

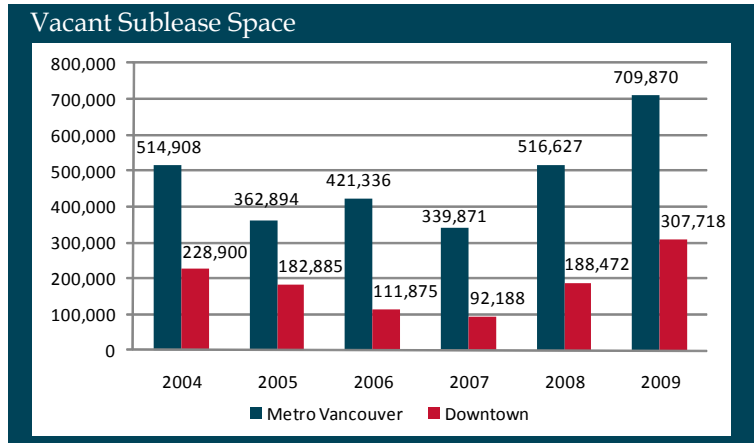
However, Grant remains skeptical. While the FSR increases provide extra density, they do not necessarily make a project viable, he says. "The FSR catches people's attention. But if you look at land as a cost component of the development, it's one piece – and it's not necessarily, in a big development, the largest piece."

**Tony Astles**, executive vice-president of real estate services for **Bentall**, supports the FSR increases. But, he says, rezoning flexibility and responsiveness will drive commercial development activity downtown – not necessarily the FSR policy.

"The concept is to select certain regions of the downtown core where commercial development is most desirable and allow an additional two times FSR on each site," states Astles. "But most of these sites are already fully developed for the long term and, structurally, they can't handle additional area on top or, from a site perspective, do not have enough land area to add space. So 90 per cent – maybe higher than that – of this stuff won't get used for 30 or more years, but it is a starting place as a policy."

He adds that the city can also consider rezoning to allow for more than an additional two times FSR on certain projects. "To really make gains in commercial space, the city needs to allow the few undeveloped sites to maximize their economic space potential," says Astles, calling for developers and the city to partner to create new opportunities. "The city also needs to respond more urgently to office development proposals."

"Commercial development downtown can take three to five years to complete," Astles adds. "If the process of approval and permitting is slow, these positive development windows can be lost for full business cycles. The compounded effect of this is that millions of square feet of development can be thwarted over a 10- to 15-year period." ■



continued from page 1

Meanwhile, vacant sublease space fell by 25% to 709,870 square feet (sf) at year-end 2009 from 948,872 sf at mid-year 2009, but is still up 37% from 516,627 sf at year-end 2008. Although the current amount of vacant sublease space on the market is still the highest level since 2003, the recent drop is the result of fewer vacant subleases being delivered to the market, absorption of existing sublease opportunities, and termination of sublease listings as tenants take back the excess space.

Suggesting improved business confidence, the current vacant sublease offerings also represent only 20% of Metro Vancouver's total vacancy of 3.5 million sf (msf). This compares to 28% at mid-year 2009 (which was at that time the highest percentage of sublease vacancy in more than a decade), 21% at year-end 2008 and 14% at mid-year 2008. Most of the current vacant sublease space exists downtown (307,718 sf).

While overall absorption of negative 287,650 sf in the second half of 2009 was an improvement over the first half of 2009, it brought annual absorption in 2009 to negative 1.03 msf — the lowest annual net change in occupied office space since 2001. This is a sharp contrast to the positive annual absorption levels of 467,755 sf in 2008 and 936,086 sf in 2007. The last time the region registered negative annual absorption was 2003. The downtown core accounted for the brunt of the region's negative annual absorption in 2009, with tenants leaving behind 556,876 sf more space than they took up between January 1 and December 31. Most of the net outflow took place in the first half of 2009. All submarkets posted negative annual absorption except for Broadway.

On the construction front, while developers delivered 600,000 sf of new supply in 2008 (mostly in the suburbs), construction slowed in 2009 with just over 400,000 sf added to the region's inventory. New construction completions are expected to meet 2008's level again in 2010. Burnaby continues to lead the region in sod-turning activity.

Metro Vancouver's overall office vacancy rate is forecast to nudge up in 2010, encroaching 8%. The downtown market should remain relatively strong while landlords in suburban submarkets, particularly Burnaby and Richmond, will face oversupply challenges and increased competition for tenants. ■

## Building Inventory, Classification and Definitions

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.

**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.

**Absorption:** 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](http://www.avisonyoung.com)

For more information please contact:

## Sherry Quan

National Director of Communications & Media Relations  
Direct Line: (604) 647-5098  
[squan@ay-bc.com](mailto:squan@ay-bc.com)

TORONTO  
VANCOUVER  
CALGARY  
EDMONTON  
LETHBRIDGE  
REGINA  
WINNIPEG  
MISSISSAUGA  
NORTH TORONTO  
OTTAWA  
MONTREAL  
QUEBEC CITY  
HALIFAX  
CHICAGO  
WASHINGTON, DC  
ATLANTA

**AVISON  
YOUNG**

Intelligent  
Real Estate Solutions

E. & O.E.: The information contained herein was obtained from sources which we deem reliable and, while thought to be correct, is not guaranteed by Avison Young Commercial Real Estate (B.C.) Inc.