



Metro Vancouver Office Market Report Year End 2008

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Vacancy Rate December 31, 2007: 4.8%
Vacancy Rate December 31, 2008: 5.4%



Economic downturn mutes demand and increases sublease space, but market remains relatively tight and steady

While the global economic downturn muted overall demand, slowed deal velocity and boosted the amount of sublease space on the market in 2008, the Metro Vancouver office leasing market remains relatively tight and steady. Characteristics include low vacancy levels, positive overall absorption, a healthy amount of construction activity in the suburbs, and fairly stable rental rates. Going forward, 2009 will likely continue to see a decline in deal volumes due to the relatively tight space availability and a slowdown in executive decision-making, as many firms opt to stay put while riding out the economic downturn.

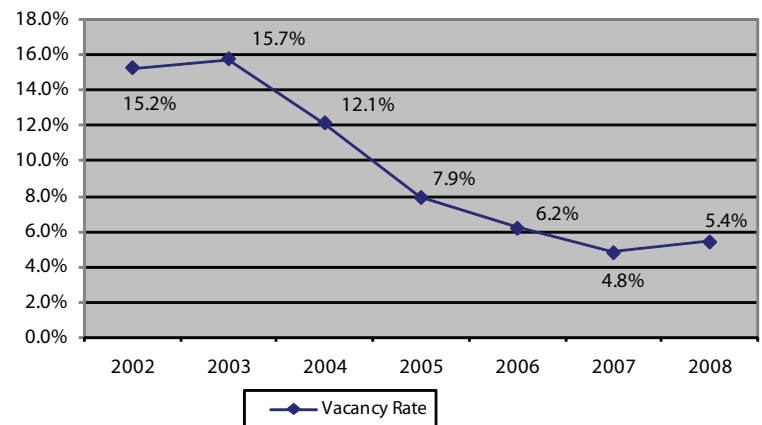
The region's overall vacancy rate nudged up to 5.4% at year-end 2008 from 5.0% at mid-year 2008 and 4.8% at year-end 2007. Primary reasons include a hike in sublease space, corporate downsizing/the consolidation of space to reduce costs, minimal new tenant demand, and the addition of new inventory in the suburbs. The Metro Vancouver market, particularly the Downtown core, witnessed a significant rise in sublease offerings in the latter half of 2008 as businesses repositioned themselves to adapt to

the changed economic environment. As of year-end 2008, 516,627 square feet (sq. ft.) of vacant sublease space (or 1% of total inventory) was available in the region, up 70% from 304,395 at mid-year 2008 and up 52% from 339,871 sq. ft. at year-end 2007.

Deal activity slowed across the board in 2008 due to tenants putting their real estate decisions on hold while awaiting economic clarity. Overall absorption of 118,306 sq. ft. during the last six months of 2008 brought the total net change in occupied office space for 2008 to a modest 467,755 sq. ft., down from the 936,086 sq. ft. recorded at year-end 2007 and the lowest annual absorption since 2003.

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Metro Vancouver - Vacancy Trend



Vacancy Summary (December 31, 2008)

| District | Inventory (sq. ft.) | Head Lease Vacancy (sq. ft.) | Sublease Vacancy (sq. ft.) | Total Vacancy (sq. ft.) | Vacancy Rate (%) | 12 Months Absorption (sq. ft.) |
|-----------------|---------------------|------------------------------|----------------------------|-------------------------|------------------|--------------------------------|
| Downtown | 19,432,022 | 293,109 | 188,472 | 481,581 | 2.5% | 27,538 |
| Yaletown | 2,443,634 | 56,597 | 98,693 | 155,290 | 6.4% | -63,175 |
| Broadway | 5,836,959 | 220,226 | 67,197 | 287,423 | 4.9% | 6,095 |
| Burnaby | 8,460,838 | 476,721 | 73,170 | 549,891 | 6.5% | 182,224 |
| Richmond | 3,476,504 | 451,497 | 82,867 | 534,364 | 15.4% | 158,434 |
| Surrey | 2,432,815 | 159,098 | 0 | 159,098 | 6.5% | 110,968 |
| New Westminster | 1,626,984 | 202,297 | 0 | 202,297 | 12.4% | 69,358 |
| North Shore | 1,425,609 | 73,341 | 6,228 | 79,569 | 5.6% | -23,687 |
| TOTALS | 45,135,365 | 1,932,886 | 516,627 | 2,449,513 | 5.4% | 467,755 |

Vacancy Trends

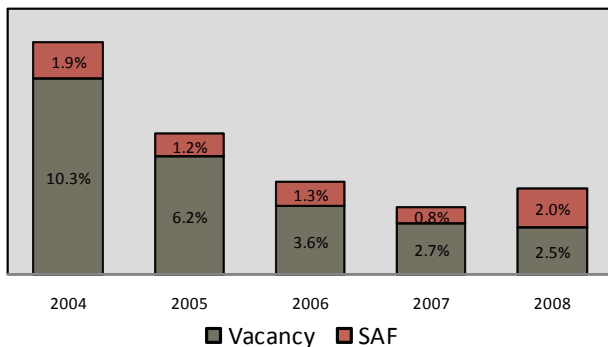
A notable increase in sublease space offset by a few large tenant occupancies in the second half of 2008 held the Downtown core's vacancy at a scant 2.5% at year-end 2008, unchanged from mid-year 2008 and down slightly from the 2.7% posted at year-end 2007. The current vacancy rate, which has been trending downward since hitting 13.5% at year-end 2003, remains the lowest on record since Avison Young began tracking the market in 1994.

Class A buildings remain constricted with only 1.4% unoccupied (virtually unchanged from the 1.3% vacancy posted at mid-year 2008 and year-end 2007). Class AAA premises witnessed a drop in vacancy from approximately 4.0% at mid-year 2008 and year-end 2007 to 1.7% at year-end 2008 due primarily to occupancies in **Bentall V** by **Teck** (92,300 sq. ft.) and **Gowling Lafleur Henderson LLP** (35,200 sq. ft.). Class B space vacancy notched up from 1.8% at year-end 2007 to 2.6% at year-end 2008; while class C product witnessed a one percentage point increase from 5.1% at year-end 2007 to 6.1% at year-end 2008.

The real story in the Downtown market is the significant rise in sublease space, particularly during the latter half of 2008. Of the current 481,581 sq. ft. of vacant (head lease and sublease) space in the Downtown core, 188,472 sq. ft. is attributed to vacant sublease space—which is double the approximately 92,000 sq. ft. of vacant sublease space recorded at mid-year 2008 and at year-end 2007. The current vacant sublease space represents nearly 40% of total vacancy in the Downtown core. This compares to 17% (92,188 sq. ft.) in 2007, 16% (111,875 sq. ft.) in 2006, 15% (182,885 sq. ft.) in 2005, 12% (228,900 sq. ft.) in 2004, and 10% (247,240 sq. ft.) in 2003.

While the current 188,472 sq. ft. of vacant sublease space only accounts for 1% of the Downtown core's 19.4 msf of office inventory, the significant increase in sublease space compared to previous years is representative of the slowdown in the global and domestic economies, tenant perception, and businesses taking cost-cutting measures. The bulk of the current vacant sublease space is fairly evenly divided between class AAA, A, and B buildings. Class C premises comprise most of the current head lease vacancies. For tenants currently looking for large blocks of contiguous space (i.e. 10,000 sq. ft. or larger), there are a limited number of options.

Vacancy with Space Availability Factor (SAF):



Absorption Trends

After witnessing significant negative annual absorption in 2001 and 2002, the Downtown core experienced strong positive annual absorption between 2004 and 2007, resulting in a four-year annual average of 607,253 sq. ft. In 2008, the Downtown submarket witnessed negative absorption in the latter half of the year, with tenants leaving behind 17,537 sq. ft. more space than they took up between June 30 and December 31. As a result, annual absorption added up to a relatively flat 27,538 sq. ft. Most of the absorption occurred in class AAA space in the latter half of 2008 (104,609

sq. ft.), but was countered by negative absorption in all other classes of space over the last six months. This was due to some smaller tenants consolidating or exiting the Downtown market. Occupancies in the latter half of 2008 include **Fluor Canada** moving into 42,033 sq. ft. of **Fasken Martineau's** former 75,000-sq.-foot premises at 1075 West Georgia; and **US Consulate** moving into 21,560 sq. ft. at 1133 Melville.



Electronic Arts is expected to return 85,000 sq. ft. to the market by year-end 2009 when the company relocates its staff from 250 Howe to its Burnaby campus

Notable Lease Deals - Year End 2008

| Tenant | Lease Type | Sq. Ft. |
|-------------------------------|------------|---------|
| St. Paul Insurance | Renewal | 22,000 |
| Department of Justice | Head Lease | 17,000 |
| BC Transmission Corp. | Head Lease | 16,700 |
| Pacific Business Centre | Renewal | 13,486 |
| Peter Kiewit & Sons | Sublease | 13,452 |
| BC Technology Industry Agency | Renewal | 12,500 |
| Global Mining Management | Renewal | 11,045 |
| Burrard Business Centre | Renewal | 11,000 |
| Brookfield Asset Management | Sublease | 10,000 |

Space Availability Factor (SAF)

The actual amount of space available in the Downtown core, albeit still tight, is closer to 4.5% if you take into consideration 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). At 2.0%, or 386,702 sq. ft., the SAF is at its highest level in four years, up from 1.4% (278,284 sq. ft.) at mid-year 2008 and 0.8% (148,699 sq. ft.) at year-end 2007. Given that there is little new construction activity Downtown, most of the SAF space is occupied space that is available for lease or sublease at a future date. This brings total available (occupied and vacant) space to more than 800,000 sq. ft. Downtown.



Intrawest is currently marketing 48,000 sq. ft. for sublease at **Waterfront Centre**

Intrawest, which is committed to floors three to seven in Waterfront Centre (200 Burrard), is marketing 48,000 sq. ft. for sublease as part of its plan to downsize and consolidate into 37,000 sq. ft. (Teck left behind 85,000 sq. ft. in the third quarter of 2008). **Electronic Arts** is also downsizing and currently has one and a half floors of space offered for sublease at 250 Howe Street. The games software developer will return its entire 85,000-sq.-ft. space to the market by year-end 2009 when it relocates its staff to its Burnaby campus.

New Construction

While construction costs are coming down, escalating land values in recent years coupled with today's tight lending environment (against a backdrop of buyouts and bankruptcies) has led to uncertainties about projects in the planning stages. Some developers are awaiting prelease commitments or until market conditions improve before proceeding, while others have halted construction altogether. While no major Downtown office tower is anticipated to come on stream before 2013, a few developers are going ahead as planned.

The largest construction project currently taking place Downtown is at 699 Howe, where construction crews are now pouring slabs for the fifth floor of the underground parkade at **Delta Group's Hotel Georgia** development, adjacent to the landmark hotel. Blueprints call for a 47-storey mixed-use tower including nine floors (70,500 sq. ft.) of office space scheduled for completion in summer 2011.

In fall 2008, **Bentall Capital** received rezoning approval for 745 Thurlow, which will allow for a 400,000-sq.-ft. office and retail building. Construction is anticipated to proceed when market conditions stabilize. Earliest demolition date for the existing structure is 2010 with project completion in 2013. A couple of blocks away, **Amacon** has applied to rezone 1133 Melville, but will also await economic clarity before taking the next step.

Drawings call for a 650,000- to 700,000-sq.-ft. tower comprising 600,000 sq. ft. of offices, 15,000 of retail and a 70,000-sq.-ft. hotel component. Assuming the paper flies and there is enough momentum in the marketplace to support going ahead, earliest completion date would be 2013.

Along with **Aquilini Investment Group/Tripower Development**, which earlier in 2008 put its plans on hold for a 24-storey, 236,000-sq.-ft. mixed-use tower (including 197,000 sq. ft. of office space) at 800 Griffiths Way, **Jameson Development** also halted construction in the latter part of 2008 on its 37-storey speculative mixed-use **Jameson House** (838 West Hastings), which was to include 60,000 sq. ft. of office space over eight floors for mid-2010 occupancy. The project, like other residential developments in North America, fell victim to the global credit crunch.

| Developer | Building | Sq. Ft. | Date |
|------------------------|-------------------------------------|---------|---------------|
| Onni Development Group | 1022 Seymour | 35,000 | Summer 2009 |
| Delta Group | Hotel Georgia development, 699 Howe | 70,500 | Summer 2011 |
| Bentall Capital | 745 Thurlow | 400,000 | Earliest 2013 |
| Amacon | 1133 Melville | 600,000 | Proposed |

Further east, **Onni Development Group** is topping off its new 20-storey, 189,000-sq.-ft. residential-office-retail tower at 1022 Seymour, with the concrete for the roof being poured this month. The mixed-use project will include 35,000 sq. ft. of office space when complete in summer 2009. Across the street, **Townline Ventures** has decided it will not pursue a building permit at this time for a 21-storey mixed-use tower at 999 Seymour due to uncertainty in the market. Sketches had called for 20,000 sq. ft. of offices plus retail space beneath 115 condos. Sod-turning was originally scheduled for summer 2008 for completion by summer 2010.

Other potential far-future office development sites include **Telus'** 25,000-sq.-ft. lot at 775 Richards and **Holborn Group's** 81,000-sq.-ft. **Bay Parkade** plot at 599 West Georgia, although there has been no recent activity.

Market Forecast

In 2009, sublease space will continue to dominate the Downtown market, with most new supply coming in this form. Landlords were able to capitalize on the dearth of prestige space in 2008 as net rents for top-end premises hit a record \$50 per square foot (psf) earlier in 2008. Rents remained relatively stable through 2008 and, given the current economic climate, are anticipated to moderate in 2009. With no shovels poised to break ground on a major office tower any time soon, the Downtown core will remain constricted in the foreseeable future.

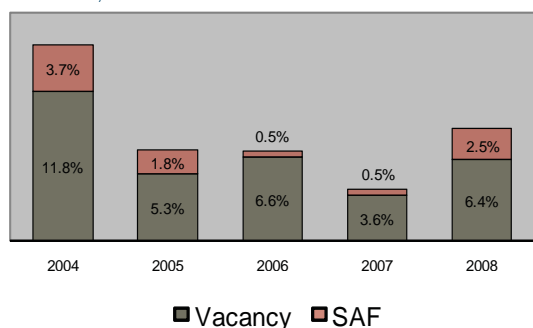
| Class | Total Rentable (sq. ft.) | Head Lease Vacancy (sq. ft.) | Sublease Vacancy (sq. ft.) | Total Vacancy (sq. ft.) | Total Vacancy (%) | 12 Mos. Absorption (sq. ft.) | SAF (sq. ft.) | SAF (%) | Avg. Net Rental Rate (psf) | Gross Occupancy Cost (psf) |
|--------------|--------------------------|------------------------------|----------------------------|-------------------------|-------------------|------------------------------|----------------|-------------|----------------------------|----------------------------|
| AAA | 4,348,094 | 21,477 | 53,345 | 74,822 | 1.7% | 95,640 | 133,757 | 3.1% | \$28-\$40 | \$46-\$61 |
| A | 6,686,228 | 44,730 | 52,070 | 96,800 | 1.4% | 28,080 | 126,593 | 1.9% | \$20-\$38 | \$40-\$58 |
| B | 5,742,784 | 83,777 | 63,018 | 146,795 | 2.6% | -45,871 | 98,567 | 1.7% | \$18-\$28 | \$33-\$43 |
| C | 2,654,916 | 143,125 | 20,039 | 163,164 | 6.1% | -50,311 | 27,785 | 1.0% | \$12-\$20 | \$24-\$35 |
| Total | 19,432,022 | 293,109 | 188,472 | 481,581 | 2.5% | 27,538 | 386,702 | 2.0% | | |

Vacancy Trends

The vacancy rate in the Yaletown submarket of 2.4 msf bumped up to 6.4% at year-end 2008 from 3.9% at mid-year 2008 and 3.8% at year-end 2007. The majority of the current vacant space occurs in class A premises (9.4% vacancy), which is partly attributed to the downsizing of **Pivotal** at 858 Beatty. Class A vacancy will further increase when Pivotal vacates 28,556 sq. ft. on the sixth floor of 858 Beatty Street, which is currently being marketed for sublease. Meanwhile, **United Front Games** has relocated from 855 Homer to 1128 Homer and will be moving and expanding into 1110 Hamilton in spring 2009.

Vacant sublease space in the Yaletown submarket currently totals 98,693 sq. ft., which represents nearly 64% of the submarket's total vacancy compared to only 10% (9,823 sq. ft.) at mid-year 2008 and 1% (1,000 sq. ft.) at year-end 2007. This is also the most amount of vacant sublease space in this market since 2002 and 2003. The space availability factor or SAF (which refers to head lease or sublease space that is being marketed but is not physically vacant,

Vacancy Chart



or new supply that is nearing completion and available for lease) also rose to 2.5% (61,796 sq. ft.) at year-end 2008 from sub 0.5% over the past couple of years.

Absorption Trends

Negative absorption of 60,277 sq. ft. during the last six months of 2008 brought total absorption for 2008 to negative 63,175– the lowest annual absorption in the Yaletown submarket since 2001. (Annual absorption in 2007 was 75,184.) The net change in occupied office space between June 30 and December 31, 2008 also represents the lowest absorption level among all Metro Vancouver submarkets during the same period. Most of the recent negative absorption occurred in class B space, mainly due to the downsizing of **SAP/Business Objects** from 85,000 sq. ft. to approximately 40,000 sq. ft. in the fourth quarter of 2008 at 855 Homer. Meanwhile, **Next Level Games'** occupancy of the entire 24,016 sq. ft. of the new **Raffles on Robson** building (811 Cambie) helped balance space returned to the market.

New Construction

Aurmon Development's 24,016-sq.-ft. **Raffles on Robson** building (811 Cambie) completed in late 2008, **Triple F Investment Corp.'s** 1110 Hamilton phase two (22,000 sq. ft.) will come on stream in the first quarter of 2009, and **Onni Group's** 27,000-sq.-ft. **Onni 1022 Living** will wrap up in August 2009. **Amacon** also plans to break ground at 888 Homer in late summer 2009 on **The Beasley**, a 34-storey, 211,000-sq.-ft. mixed-use residential/office/retail building comprising 16,000 sq. ft. (two floors) of office space. Target delivery date is year-end 2012.



The downsizing of **SAP/Business Objects** in the fourth quarter of 2008 has resulted in 46,000 sq. ft. of sublease space available at 855 Homer

| Developer | Building | Sq. Ft. | Date |
|---------------------------|-------------------------------|---------|---------------|
| Aurmon Development | Raffles on Robson, 811 Cambie | 24,016 | Completed |
| Triple F Investment Corp. | 1110 Hamilton, Phase 2 | 22,000 | Q1 2009 |
| Onni Group of Companies | Onni 1022 Living | 27,000 | August 2009 |
| Amacon | The Beasley 888 Homer | 16,000 | Year-end 2012 |

Market Forecast

Despite the increase in the vacancy rate, the Yaletown submarket remains relatively tight when compared to the double-digit vacancy rates witnessed between 2001 and 2004. However, with quality sublease space entering the market, and economic conditions significantly reducing demand for space, landlords will need to offer tenant improvement packages to compete in 2009 and work harder to draw tenants to their buildings.

Additional negative absorption is anticipated as more sublease and head lease space become available. As a result, the Yaletown submarket's vacancy rate may tick up through 2009 as demand is not anticipated to keep up with supply. Average net rental rates, which climbed to record highs in the mid \$30-psf range in the early part of 2008, may see some downward pressure through 2009.

Overall, there are currently three large blocks available for lease in the Yaletown market: 855 Homer Street (46,151 sq. ft. for sublease, of which 35,151 sq. ft. is currently vacant); 858 Beatty Street (40,782 sq. ft. for sublease, of which 12,226 sq. ft. is currently vacant); and 1128 Homer Street (17,399 sq. ft. for sublease).

Notable Lease Deals - Year End 2008

| Tenant | Lease Type | Sq. Ft. |
|------------------------|------------|---------|
| United Front Games | Sublease | 22,000 |
| Archer Education Group | Head Lease | 8,832 |

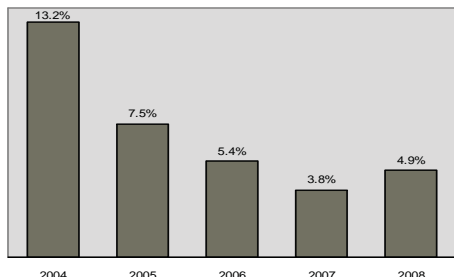
| Class | Total Rentable (sq. ft.) | Head Lease Vacancy (sq. ft.) | Sublease Vacancy (sq. ft.) | Total Vacancy (sq. ft.) | Total Vacancy (%) | 12 Mos. Absorption (sq. ft.) | SAF (sq. ft.) | SAF (%) | Avg. Net Rental Rate (psf) | Gross Occupancy Cost (psf) |
|--------------|--------------------------|------------------------------|----------------------------|-------------------------|-------------------|------------------------------|---------------|-------------|----------------------------|----------------------------|
| A | 315,142 | 0 | 29,625 | 29,625 | 9.4% | -2,685 | 28,556 | 9.1% | \$29-\$32 | \$39-\$44 |
| B | 1,470,974 | 39,238 | 48,014 | 87,252 | 5.9% | -9,355 | 15,811 | 1.1% | \$25-\$28 | \$35-\$40 |
| C | 657,518 | 17,359 | 21,054 | 38,413 | 5.8% | -51,135 | 17,429 | 2.7% | \$21-\$24 | \$31-\$36 |
| Total | 2,443,634 | 56,597 | 98,693 | 155,290 | 6.4% | -63,175 | 61,796 | 2.5% | | |

Vacancy Trends

With 4.9% vacancy, the second lowest in the region after Downtown, the Broadway submarket remains snug, especially when compared to the 12% to 15% vacancy rates experienced between 2001 and 2004. Vacancy dropped from 6.2% at mid-year 2008 but rose from the 3.7% posted at year-end 2007. Some tenants pulled back while others expanded. The largest chunk of vacant space in this submarket can be found at **QLT's**

building (887 Great Northern Way). QLT sold the building in summer 2008 and leased back a portion of the space, leaving 79,318 sq. ft. vacant— about one-quarter of the Broadway market's total 287,423-sq.-ft. vacancy.

Vacancy Chart



Overall, deal velocity moderated in the Broadway submarket through 2008 due to limited supply of available quality space and tenants riding out the economic storm. Total vacant sublease space, currently at 67,197 sq. ft., is more than triple what it was at mid-year 2008 (18,108 sq. ft.) and at year-end 2007 (21,051 sq. ft.).

Absorption Trends

Tenants took up 74,330 sq. ft. more space than they left behind between June 30 and December 31, 2008, which brought the submarket's annual absorption to a positive, albeit relatively flat, 6,095 sq. ft. (This is mainly due to the -68,235 sq. ft. of negative absorption recorded in the first half of 2008.) The submarket has now registered five consecutive years of positive annual absorption, although 2008's level is well below the average annual absorption of 153,000 sq. ft. from 2004 to 2007.

Most of the recent absorption took place in class B space (63,578 sq. ft.), due in part to **AMEC Consultants** and **Genivar Engineering** occupying a combined 17,269 sq. ft. at 1818 Cornwall. **Bell Canada, Internet Marketing Centre** and **Klohn Krippen** also moved into a combined 54,299 sq. ft. at **Broadway Tech Centre's** third building, which completed in spring 2008 and is now fully occupied.

New Construction

PCI Group is tidying up details at its 310,000-sq.-ft. mixed-use **Cross Roads** project at Cambie and Broadway. The 80,000-sq.-ft. office component will be added to the Broadway submarket's inventory in January 2009 when tenant fixturing and occupancy permit details are wrapped up. The space is 100% preleased to **Lululemon**, which had originally planned to relocate its head office from Clark Drive in East Vancouver. However, due to the cautious economic climate, the athletic wear company is now subleasing the space to the **City of Vancouver**, which will expand out of its cramped City Hall premises up the street.

Meanwhile, **Bentall Capital's** Broadway Tech Centre buildings 5 and 7 are currently under the hammer. Renderings call for two 75,000-sq.-ft. buildings to turn over to tenants in early 2010. To-date, **Aker Solutions**

has signed on for 50,000 sq. ft. **Wesgroup** also broke ground in October 2008 on its 64,461-sq.-ft. project at Broadway and Commercial (1669 East Broadway). The office component is inked in at 51,950 sq. ft., of which **Vancouver Coast Health** has preleased a significant portion for its new community health centre. Keys are expected to be handed over by mid to late 2010. **Orca West Developments** is also proposing 120,000 sq. ft. at 538 West Broadway for summer 2011 completion; while **Rize Alliance Properties** is preleasing for phase one (75,000 sq. ft.) at 428 Terminal.

| Developer | Building | Sq. Ft. | Date |
|--------------------------|---------------------------------------|---------|-------------|
| Bentall Capital | Broadway Tech Centre (third building) | 113,295 | Completed |
| PCI Group | Cross Roads | 80,000 | Early 2009 |
| Bentall Capital | Broadway Tech Centre Building 5 | 75,000 | Early 2010 |
| Bentall Capital | Broadway Tech Centre Building 7 | 75,000 | Early 2010 |
| Wesgroup | 1669 East Broadway | 51,950 | Late 2010 |
| Orca West Developments | 538 West Broadway | 120,000 | Summer 2011 |
| Rize Alliance Properties | 428 Terminal (Phase I) | 75,000 | Preleasing |



Wesgroup has broken ground at 1669 East Broadway, which will comprise 51,950 sq. ft. of office space when complete in late 2010

Market Forecast

Rental rates in the Broadway submarket stabilized during 2008 and generally remain at the same levels going into 2009, as vacancy remains low. Assuming the vacancy rate remains status quo, face rates should hold through the second half of 2009, but inducements may increase. Overall, demand remains strong for the area from organizations and companies associated with the health industry and there are currently some full-floor opportunities available, and other potential blocks of space may be available during the first half of 2009. Limited prelease activity in the False Creek Flats area may see some proposed developments delayed or halted.

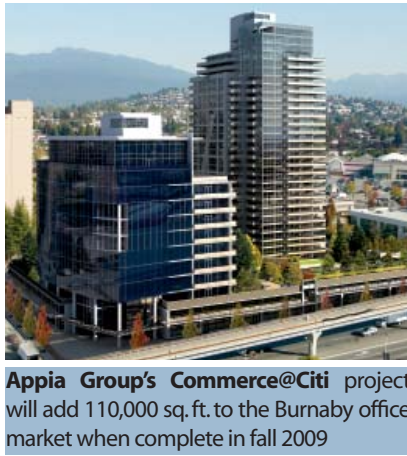
Notable Lease Deals - Year End 2008

| Tenant | Lease Type | Sq. Ft. |
|---------------------------|------------|---------|
| City of Vancouver | Sublease | 80,000 |
| Blanche MacDonald | Renewal | 24,000 |
| Internet Marketing Centre | Head Lease | 12,400 |
| AMEC | Head Lease | 9,000 |

| Class | Total Rentable (sq. ft.) | Head Lease Vacancy (sq. ft.) | Sublease Vacancy (sq. ft.) | Total Vacancy (sq. ft.) | Total Vacancy (%) | 12 Mos. Absorption (sq. ft.) | Avg. Net Rental Rate (psf) | Gross Occupancy Cost (psf) |
|--------------|--------------------------|------------------------------|----------------------------|-------------------------|-------------------|------------------------------|----------------------------|----------------------------|
| A | 3,417,879 | 116,932 | 60,064 | 176,996 | 5.2% | 4,122 | \$23-\$29 | \$40-\$44 |
| B | 1,897,382 | 82,812 | 7,133 | 89,945 | 4.7% | 32,915 | \$19-\$22 | \$32-\$36 |
| C | 521,698 | 20,482 | 0 | 20,482 | 3.9% | -30,942 | \$15-\$18 | \$26-\$29 |
| Total | 5,836,959 | 220,226 | 67,197 | 287,423 | 4.9% | 6,095 | | |

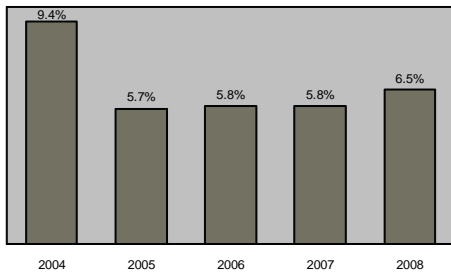
Vacancy Trends

With 8.5 msf of office space, the Burnaby submarket is currently witnessing sizeable vacancies in quality product—a case not seen for quite some time. Vacancy stepped up to 6.5% from 5.4% at mid-year 2008 and 5.8% at year-end 2007, primarily due to the addition of **Lake City Centre Properties' 108,966-sq.-ft. Lake City Centre** (3292 Production Way) and **Canada Lands' 40,800-sq.-ft. 4300 North Fraser Way (Glenlyon Business Park)**, which combined sit 95% vacant. Both buildings, along with a significant 76,764 sq. ft. coming back to the market at 4190 Still Creek Drive, impacted class A vacancy over the past six months.



Appia Group's Commerce@Citi project will add 110,000 sq. ft. to the Burnaby office market when complete in fall 2009

Vacancy Chart



Burnaby's office vacancy has remained in the 4.5% to 6.5% range for the past three years and is down considerably from the double-digit levels of 2001 to 2004. On a square-footage basis, Burnaby currently offers the greatest amount of vacant space in the region at 549,891 sq. ft.

Meanwhile, 26,000 sq. ft. of vacancy at **3185 Willingdon Green**, which was owned and occupied by **7-11 Canada** before it sold the building to **Artis Reit**, partly contributed to pushing Burnaby's class B vacancy rate up to 8.3% from 5.2% at mid-year 2008. (7-11 Canada relocated to 24,000 sq. ft. in **Central City** in Surrey.) **Autism Centre** will backfill approximately 20,000 sq. ft. of the former 7-11 space. The abundance of sublease space available in other class B premises was also a factor in the rise in vacancy. The Burnaby submarket currently offers 73,170 sq. ft. of vacant sublease space, up from 21,000 sq. ft. at year-end 2007.

Absorption Trends

Healthy absorption of 90,233 sq. ft. between June 30 and December 31, 2008 brought the submarket's annual absorption level to 182,224 sq. ft.—the strongest in the region for 2008 and highest annual absorption in Burnaby since 2005. The majority of the absorption occurred in class A space, which amounted to 187,103 sq. ft. in annual absorption for 2008, the highest level of class A absorption since 2004.

New Construction

The construction cranes remain busy in this submarket, with 212,538 sq. ft. of new product completed in 2008 and another 800,000 sq. ft.-plus planned to come on stream before 2012. Projects currently under construction include: **Morguard's** five-storey **Discovery Green** building

(4200 Canada Way), which will add 155,248 sq. ft. to Burnaby's office stock in March 2009; **Appia Group's** 12-storey, 110,000-sq. ft. **Commerce @ Citi** (4445 Lougheed Highway), slated for completion in fall 2009; and **Ivanhoe Cambridge's** 29-storey, 400,000-sq.-ft. **Metrotower III** (4730 Kingsway). Excavation work on the \$170-million project began in September 2008 and is aiming for May 2011 turn-over.

| Developer | Building | Sq. Ft. | Date |
|-----------------------------|-------------------------------------|---------------------|-------------|
| Bosa Construction | Central Park Place II | 62,772 | Completed |
| Lake City Centre Properties | Lake City Centre | 108,966 | Completed |
| Canada Lands | Glenlyon Business Park | 40,800 | Completed |
| Morguard | Discovery Green Bldg. | 155,248 | March 2009 |
| Amacon | New Haven Business Park, Phase 1 | 160,000 flex/office | Spring 2009 |
| Tonko Realty Advisors | Lake City Court II | 34,422 | July 2009 |
| Appia Group | Commerce @ Citi | 110,000 | Fall 2009 |
| Tonko Realty Advisors | Willingdon Business Park Phase IX | 92,509 | Q1 2010 |
| Tonko Realty Advisors | Willingdon Business Park Phase VIII | 92,509 | Q2 2010 |
| Ivanhoe Cambridge | Metrotower III | 400,000 | Q2 2011 |

Foundation walls are also now going up for the parkades at **Tonko Realty Advisors' Willingdon Business Park VIII and IX**. Renderings call for two four-storey, 92,509-sq. ft. buildings at 4350 and 4370 Still Creek Drive for market delivery in the first and second quarters of 2010. Tonko is also wrapping up construction at **Lake City Court II** (8061 Lougheed Highway). The 71,601-sq.-ft. office/industrial project, of which 34,422 sq. ft. may be 100% office, will come on stream in July 2009.

Meanwhile, construction is humming along at **Amacon's New Haven Business Park** (Marine Way and Glenlyon Parkway). Phase one will comprise three buildings totaling 160,000 sq. ft. of flex/office space, which can be converted for 100% office use, when details wrap in spring 2009.

Market Forecast

Overall, the supply side of the Burnaby submarket remains fairly healthy, even with the new and coming additions. The demand side of the equation will play the biggest role in 2009. While lease rates in the Burnaby office market held steady for the first nine months of 2008, some sectors experienced some softening during the last quarter, although there were few lease comparables. Rates are anticipated to moderate in 2009, particularly in the upper class A sector as new product competes with existing inventory as well as with Downtown and suburban sublease markets.

Notable Lease Deals - Year End 2008

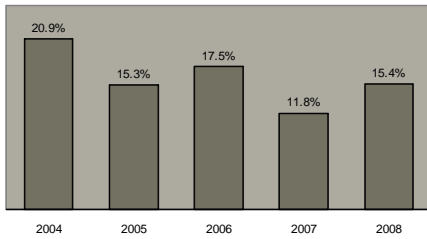
| Tenant | Lease Type | Sq. Ft. |
|----------------|------------|---------|
| HSBC | Head Lease | 150,000 |
| Nokia Inc. | Renewal | 94,325 |
| BC Hydro | Head Lease | 61,833 |
| Active Network | Head Lease | 30,000 |
| RadiSys | Head Lease | 29,081 |
| Canpages | Head Lease | 22,223 |
| Thales | Head Lease | 18,799 |

| Class | Total Rentable (sq. ft.) | Head Lease Vacancy (sq. ft.) | Sublease Vacancy (sq. ft.) | Total Vacancy (sq. ft.) | Total Vacancy (%) | 12 Mos. Absorption (sq. ft.) | Avg. Net Rental Rate (psf) | Gross Occupancy Cost (psf) |
|--------------|--------------------------|------------------------------|----------------------------|-------------------------|-------------------|------------------------------|----------------------------|----------------------------|
| A | 6,208,575 | 324,336 | 35,895 | 360,231 | 5.8% | 187,103 | \$25-\$32 | \$35-\$46 |
| B | 1,621,438 | 99,265 | 35,588 | 134,853 | 8.3% | -8,963 | \$15-\$24 | \$23-\$36 |
| C | 630,825 | 53,120 | 1,687 | 54,807 | 8.7% | 4,084 | \$12-\$15 | \$21-\$28 |
| Total | 8,460,838 | 476,721 | 73,170 | 549,891 | 6.5% | 182,224 | | |

Vacancy Trends

The Richmond submarket posted the region's highest year-end vacancy rate at 15.4%, up from 12.3% at mid-year and 11.5% at the end of 2007.

Vacancy Chart



This is mainly attributed to the completion of **Sun Life's Airport Executive Park 6** (10851 Shellbridge Way), which added 65,000 sq. ft. to the Richmond office stock. The building is currently 100% vacant. Double-digit vacancy rates have been the trend in this submarket since 2002.

Absorption Trends

Absorption during the last six months of 2008 was relatively flat, with tenants leaving behind 50,677 sq. ft. more space than they took up. Despite this recent negative absorption, strong positive absorption in class A product during the first half of 2008 brought total annual absorption to 158,434 sq. ft.— the second strongest absorption level in the region (after Burnaby) and almost identical to 2007's annual absorption of 160,216 sq. ft. The 222,235 sq. ft. of class A annual absorption in 2008 is the highest on record for this submarket.

During the last half of 2008, there was limited tenant activity. Space coming back onto the market cancelled out what little absorption there was. **V-tech** has now vacated 53,245 sq. ft. at 7671 Alderbridge Way, which is available for head lease; **Ritchie Bros.** will be leaving its 25,770 sq. ft. of sublease space at **Commerce Court International** (13911 Wireless Way) when its new building is complete at **Glenlyon Business Park**; **Microsoft** is downsizing and has 55,935 sq. ft. (which it never occupied) available for sublease at **Crestwood Building 2** (13700 International Place); **Hamilton & Spill** is marketing 15,593 sq. ft. for sublease in **Crestwood Building 4** (13551 Commerce Parkway); **CHC Helicopters** will not be renewing its 15,070 sq. ft. at **Richmond Riverfront Business Park** (6300 River Road); and **Nokia**, which will be vacating its premises at **Fraserwood Corporate Centre** (6651 Fraserwood Place) in mid 2009, is currently marketing 71,954 sq. ft. for head lease.

Meanwhile, the former **Eclipsys** space (23,400 sq. ft.) at **Crestwood Building 10** (13711 International Place) is available for lease; as is **EQO's** 7,775-sq.-ft. space at **Richmond Corporate Centre Building 6** (13091 Vanier Place), which EQO never occupied. This alone brings the total vacant and occupied-but-available space coming back to the market to ap-

Notable Lease Deals - Year End 2008

| Tenant | Lease Type | Sq. Ft. |
|-------------|------------|---------|
| Sport BC | Head Lease | 46,078 |
| Eclipsys | Head Lease | 20,351 |
| Rick Hansen | Head Lease | 14,000 |
| Matrikon | Head Lease | 6,150 |
| Hyper Cube | Sublease | 5,190 |

| Class | Total Rentable (sq. ft.) | Head Lease Vacancy (sq. ft.) | Sublease Vacancy (sq. ft.) | Total Vacancy (sq. ft.) | Total Vacancy (%) | 12 Mos. Absorption (sq. ft.) | Avg. Net Rental Rate (psf) | Gross Occupancy Cost (psf) |
|--------------|--------------------------|------------------------------|----------------------------|-------------------------|-------------------|------------------------------|----------------------------|----------------------------|
| A | 2,363,597 | 297,986 | 78,387 | 376,373 | 15.9% | 222,235 | \$14-\$24 | \$24-\$34 |
| B | 912,433 | 87,758 | 4,480 | 92,238 | 10.1% | -7,745 | \$10-\$16 | \$20-\$26 |
| C | 200,474 | 65,753 | 0 | 65,753 | 32.8% | -56,156 | \$10-\$14 | \$17-\$21 |
| Total | 3,476,504 | 451,497 | 82,867 | 534,364 | 15.4% | 158,434 | | |



Sun Life's Airport Executive Park 6 added 65,000 sq. ft. to the Richmond office inventory in the latter half of 2008

proximately 275,000 sq. ft. The 30,000-sq.-ft. space in the **BCIT Aerospace Technology Centre** is also still available.

New Construction

Proposed projects include **YVR's** hotel and office development at the new **Templeton SkyTrain** station. Blueprints call for six 80,000-sq.-ft. office buildings, with building one slated for turn-over in mid to late 2011. Site preparation is nearing completion. Meanwhile, **Kingswood Properties** has plans for a mixed-use development comprising 161,743 sq. ft. of office space adjacent to the new **Bridgeport SkyTrain** station. Currently in the development design stage with the City of Richmond, the project is targeted for Q2 2011 completion.

| Developer | Building | Sq. Ft. | Date |
|----------------------|---|-------------------|-----------|
| PK Projects | Commerce Court Phase 5 | 116,000 | Completed |
| Sun Life | Airport Executive Park Building 6 | 65,000 | Completed |
| Sherwood Investments | Riverside Business Centre, 12033 Riverside Way | 30,000 | Completed |
| YVR | 6 office buildings (plus hotel) at Templeton SkyTrain Station | 80,000 each | Proposed |
| Kingswood Properties | Mixed-use development at Bridgeport SkyTrain Station | 161,743 of office | Proposed |

Market Forecast

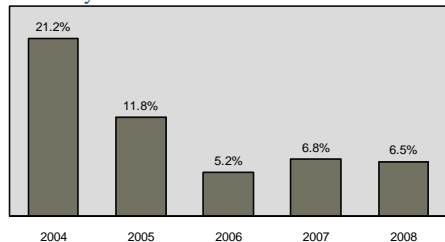
Vacancy will likely increase in 2009 due to a continued pause in leasing demand and additional space coming back to the market as tenants vacate the premises they are currently marketing for sublease. Hence, class A rental rates can only be expected to decrease in 2009. Deals completed in 2008 involving class A premises achieved rents in the high teens to low \$20-psf range. In 2009, rates may slip to the mid and high teens. Rates for class B and C properties may suffer less of a drop as this segment is still attractive to those seeking economical office alternatives. Unlike in Downtown Vancouver, head lease (not sublease) vacancy in Richmond will set market expectations.

The completion of the 19-km Canada Line rapid transit system in late 2009 and proposed office developments surrounding Richmond SkyTrain stations should help increase demand for office space. In the meanwhile, 2010 Olympics activity may create a short-term reprieve for some owners with temporary user groups.

Vacancy Trends

Positive absorption of 81,011 sq. ft. in class A product during the last six months of 2008 pushed Surrey's vacancy rate down to 6.5% from 7.9% at mid-year 2008 and 6.8% at year-end 2007. This is a far cry from the double-digit vacancy rates registered between 2002 and 2005, which peaked at 42.9% in 2002. (This was mainly due to the addition of **Central City**, which brought approximately 800,000 sq. ft. to the market in 2002. The current rentable area of 522,000 sq. ft. is now 90% leased.)

Vacancy Chart



Class A space witnessed a drop in vacancy from 8.2% at mid-year 2008 to 6.0% at year-end 2008 due to **Trans-Link** and **7-11 Canada** occupying a combined 42,225 sq. ft. in Central City (13450

102nd Avenue). In addition to the Central City absorption, **Meyers Norris Penny**, along with several other companies, also took occupancy at **Benchmark Group of Companies' Benchmark Business Centre Phase 1** (5455 152nd Street) during the latter part 2008. There are currently no notable sublease offerings in this submarket. (Note: **104th Centre** at 104th Avenue at 142nd Street is not included in Avison Young statistics. Although the 265,000-sq.-ft. building, originally designed to be a cultural centre, is being marketed to large office users, the property has been sitting vacant since completion.)

Absorption Trends

Surrey posted the region's second highest annual absorption for 2008 (after Richmond), with tenants occupying 110,968 sq. ft. more space than they vacated between January 1 and December 31, 2008. This is an improvement over the negative 37,931 sq. ft. of annual absorption in 2007 but below the annual absorption levels of 2003 to 2006. Class B space witnessed negative absorption of 12,106 sq. ft. during the last six months of 2008, which neutralized the 12,263 sq. ft. of positive absorption experienced in class C space.

New Construction

GE Real Estate and **Dundee Real Estate Asset Management** are awaiting prelease commitments before commencing construction on **Gateway Office Park**, a phased 600,000-sq.-ft. campus-style project at 108th Avenue and Whalley Ring Road adjacent to Gateway Station Tower. Renderings for phase one call for two buildings totaling 200,000 sq. ft., with early 2011 penciled in as project delivery date.

Panorama Park Investments has commenced on-site service work at its Panorama Place project at 5590 152nd Street. Some revisions have been made to its initial sketches. Phase one now calls for 26,500 sq. ft. of retail, phase two will comprise 20,000 sq. ft. of office and 10,000 sq. ft. of retail space, and phase three will include 45,000 sq. ft. of office space. Shovels will be poised to break ground on the first two phases in spring 2009 for completion in summer and fall 2009 respectively; while phase three will begin sod-turning in spring 2010 for completion in fall 2010. Panorama expects building permits to be issued by March 2009.



Rental rates achieved at **Station Tower** in 2008 were the highest on record in the Surrey submarket. Whether that is sustainable remains to be seen.

Meanwhile, Benchmark Group of Companies has put its **Benchmark Business Centre Phase 2** (112,000 sq. ft.) on hold until market conditions improve. Earliest delivery date is 2010. The company is, however, nearing completion of its 55,138-sq.-ft. **RCMP** building at 148th Street and Highway 10, with turn-over scheduled for March 2009.

| Developer | Building | Sq. Ft. | Date |
|---|--|---------|--|
| Benchmark Group of Companies | RCMP Building | 55,138 | March 2009 |
| Panorama Park Investments | Panorama Place, 5590 152nd Street, Phase II (20,000 sq. ft. office plus 10,000 sq. ft. retail) | 20,000 | Fall 2009 |
| Panorama Park Investments | Panorama Place, 5590 152nd Street, Phase III | 45,000 | Fall 2010 |
| GE Real Estate/ Dundee Real Estate Asset Management | Gateway Office Park, 108th Avenue and Whalley Ring Road, Phase 1 | 200,000 | Waiting prelease commitment/ early 2011 |

Market Forecast

Rental rates in Surrey grew in all classes in 2008, with the \$30-psf mark being reached for the first time in the market at **Station Tower**. Tenant improvement allowances also increased marginally. With little new construction coming on to the market in the near future and with overall demand and vacancy remaining low, rents will likely remain flat in 2009, and perhaps dip slightly in certain sub-sectors/buildings. Hence, deal velocity will be relatively slow, with most activity focusing on renewals and deal restructuring. The current main drivers in this submarket are coming from the existing base of core tenants and their need for "elbow room." The government sector on all levels will also be a factor in 2009.

Notable Lease Deals - Year End 2008

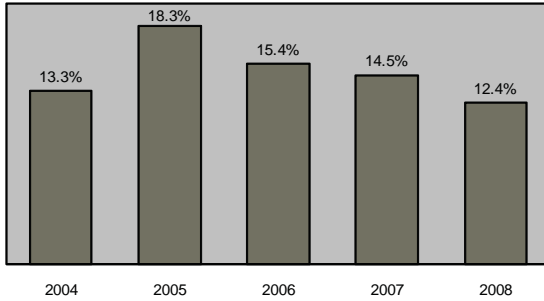
| Tenant | Lease Type | Sq. Ft. |
|-------------|------------|---------|
| 7-11 Canada | Head Lease | 25,013 |
| TransLink | Expansion | 17,212 |

| Class | Total Rentable (sq. ft.) | Head Lease Vacancy (sq. ft.) | Sublease Vacancy (sq. ft.) | Total Vacancy (sq. ft.) | Total Vacancy (%) | 12 Mos. Absorption (sq. ft.) | Avg. Net Rental Rate (psf) | Gross Occupancy Cost (psf) |
|--------------|--------------------------|------------------------------|----------------------------|-------------------------|-------------------|------------------------------|----------------------------|----------------------------|
| A | 1,478,253 | 88,385 | 0 | 88,385 | 6.0% | 131,629 | \$20 - \$30 | \$29 - \$42 |
| B | 796,612 | 58,419 | 0 | 58,419 | 7.3% | -32,924 | \$15 - \$19 | \$24 - \$30 |
| C | 157,950 | 12,294 | 0 | 12,294 | 7.8% | 12,263 | \$9 - \$14 | \$17 - \$23 |
| Total | 2,432,815 | 159,098 | 0 | 159,098 | 6.5% | 110,968 | | |

Vacancy Trends

The New Westminster submarket has posted double-digit year-end vacancy rates since 2000, and 2008 was no different. Year-end 2008 vacancy remained steady, ticking up slightly to 12.4% from 12.1% at mid-year 2008 but down from the 14.5% recorded at year-end 2007. This submarket's vacancy rate has been steadily declining the past three years after posting 18.3% at year-end 2005. The slight increase in vacancy is mainly due to the addition the **UPG Group's** 42,000-sq.-ft. **Westminster South Tower** (505 6th Street)– 35,000 sq. ft. of which has been leased to **BC Safety Authority** for April 2009 occupancy.

Vacancy Chart



UPG Group's 42,000-sq.-ft. addition to **Westminster Centre South** (505 6th Street) was 83 per cent leased upon completion in the third quarter of 2008

Absorption Trends

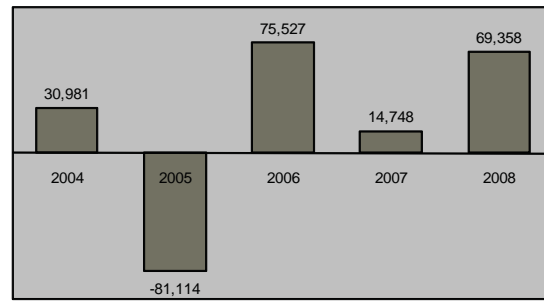
With 202,297 sq. ft. of its 1.6 million sq. ft. currently vacant, New Westminster currently holds the region's second highest office vacancy rate in the region after Richmond. However, the vacancy rate will adjust itself over the next few quarters as several lease deals have recently been completed, although occupancy will not take place until 2009. These include three transactions totaling 49,000 sq. ft. at **Royal City Centre** (610 Sixth Street) for **Parasun/Uniserve**, **TP Systems** and **Royal Bank**. With BC Safety Authority's move in spring 2009, 23,000 sq. ft. will also return to the market.

| Class | Total Rentable (sf) | Head Lease Vacancy (sq. ft.) | Sublease Vacancy (sq. ft.) | Total Vacancy (sq. ft.) | Total Vacancy (%) | 12 Mos. Absorption (sq. ft.) | Avg. Net Rental Rate (psf) | Gross Occupancy Cost (psf) |
|--------------|---------------------|------------------------------|----------------------------|-------------------------|-------------------|------------------------------|----------------------------|----------------------------|
| A | 882,886 | 110,910 | 0 | 110,910 | 12.6% | 62,889 | \$18-\$24 | \$28-\$38 |
| B | 553,385 | 51,957 | 0 | 51,957 | 9.4% | 4,181 | \$14-\$18 | \$22-\$31 |
| C | 190,713 | 39,430 | 0 | 39,430 | 20.7% | 2,288 | \$10-\$14 | \$18-\$27 |
| Total | 1,626,984 | 202,297 | 0 | 202,297 | 12.4% | 69,358 | | |



The New Westminster submarket has now recorded positive annual absorption for the third consecutive year, as tenants took up a healthy 69,358 sq. ft. more space than they left behind between January 1 and December 31, 2008. All building classes during the last six months of 2008 posted positive absorption.

Absorption (Sq. Ft.) Chart



New Construction

| Developer | Building | Sq. Ft. | Date |
|-----------|---|---------|---------|
| UPG Group | Westminster Centre South Office Tower, 505 6th Street | 42,000 | Q3 2008 |

Market Forecast

This submarket will likely see vacancy rise modestly in 2009 and rental rates fall from 2008 levels. Rents were relatively flat in 2008 with the exception of some renewals and the BC Safety Authority deal. Overall, Metro Vancouver's second smallest office market will soften in 2009, mostly as a result of a domino effect from Burnaby. There is currently no vacant sublease space in this submarket, which hasn't been the case since mid-year 2005. However, in the first half of 2009, sublease space will become available in some prominent buildings.

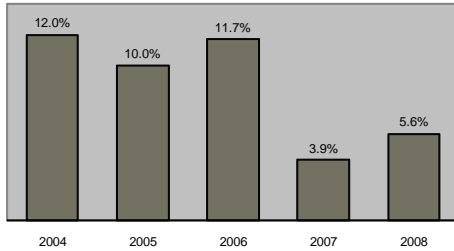
Notable Lease Deals - Year End 2008

| Tenant | Lease Type | Sq. Ft. |
|---------------------|------------|---------|
| BC Safety Authority | Head Lease | 35,000 |
| Parasun / Uniserve | Head Lease | 25,000 |
| TP Systems | Head Lease | 14,000 |
| Royal Bank | Head Lease | 10,000 |
| A.R.E.S. | Head Lease | 8,000 |

Vacancy Trends

With 1.4 msf of rentable office space, the North Shore submarket represents approximately 3% of Metro Vancouver's office stock. The downward vacancy trend that began at the end of 2006 ceased at year-end 2008 when the vacancy rate skipped up to 5.6% from 3.4% at mid-year 2008 and 3.9% at year-end 2007 due to the pause in leasing activity. Of the 79,569 sq.ft. currently vacant in this submarket, half is represented in class C product, which ended the year with 16.9% vacant. Sublease space currently only accounts for 6,228 sq.ft. of the submarket's total vacancy.

Vacancy Chart



Absorption Trends

After posting positive annual absorption of 110,682 in 2007, the North Shore office leasing submarket registered -23,687 sq. ft. of negative absorption at year-end 2008, mainly due to a contraction in occupied office space in class A and C spaces during the last six months of 2008. This is only the second time since 2002 that this submarket has witnessed negative annual absorption.



Harbourside Corporate Centre (850 Harbourside Drive, North Vancouver) will add 40,000 sq. ft. of office space to the North Shore inventory when complete in June 2009

New Construction

While no new major office project has come onto the North Shore market since 2002, a few projects are now under construction. They include **North Shore Corporate Centre** (111 Forester Street, North Vancouver, 30,000 sq. ft.), which is expected to wrap up by February 2009; **Harbourside Corporate Centre** (850 Harbourside Drive, North Vancouver, 40,000 sq. ft.), scheduled to come on stream in June 2009; and 1133 Lonsdale Avenue (North Vancouver, 30,000 sq. ft.), slated for January 2010 completion.

The latter may accommodate a ground-floor retail tenant but is being marketed as office space.

Given the current economic scenario, **GWL Realty Advisors** (on behalf of **bcIMC**) has now decided to wait for prelease commitment before commencing construction on its fifth flex building at **NorthWoods Business Park** (2100 Dollarton Highway). GWL had originally planned to break ground on a speculative basis in early 2009. Working drawings call for a 75,000-sq.-ft. building with the potential to be converted to 100% office use. Buildings 1 to 4 (totaling 230,000 sq.ft.) completed in 2006 and 2007.

Meanwhile, **Concert Properties** has also taken a step back on its proposed **Harbourside Business Park** phase two (801 Harbourside Drive), which was to add 136,000 sq. ft. to the submarket's inventory. In light of the changed economic environment, Concert is adopting a "wait-and-see" attitude like many others in the market.

Earlier in 2008, **Pinnacle International** also completed its mixed-use residential/office/retail project at 100 Esplanade East, which included 58,000 sq. ft. of strata office space.

| Developer | Building | Sq. Ft. | Date |
|--|---|----------------------|---------------------------------|
| Pinnacle International | 100 Esplanade East | 58,000 strata office | Completed |
| Local developer | North Shore Corporate Centre, 111 Forester Street | 30,000 | February 2009 |
| Local developer | Harbourside Corporate Centre, 850 Harbourside Drive | 40,000 | June 2009 |
| V1500 Holdings | 1133 Lonsdale Avenue | 30,000 | January 2010 |
| GWL Realty Advisors (on behalf of bcIMC) | NorthWoods Business Park | 75,000 | Waiting for prelease commitment |

Market Forecast

Although the North Shore submarket's vacancy rate bumped at year-end 2008, the market still remains snug when compared to the double-digit vacancy rates recorded at the end of years 2002 to 2006. In spite of the new supply coming on stream, there are few opportunities for expansion in this small office market. Vacancy may notch up but demand should remain steady due in part to the submarket's proximity to Downtown Vancouver. Rental rates remained fairly flat in 2008 and are anticipated to remain stable through 2009.

Notable Lease Deals - Year End 2008

| Tenant | Lease Type | Sq. Ft. |
|-------------------------------|------------|---------|
| Richard A. Overes C.G.A. Inc. | Head Lease | 1,300 |

| Class | Total Rentable (sq. ft.) | Head Lease Vacancy (sq. ft.) | Sublease Vacancy (sq. ft.) | Total Vacancy (sq. ft.) | Total Vacancy (%) | 12 Mos. Absorption (sq. ft.) | Avg. Net Rental Rate (psf) | Gross Occupancy Cost (psf) |
|--------------|--------------------------|------------------------------|----------------------------|-------------------------|-------------------|------------------------------|----------------------------|----------------------------|
| A | 710,350 | 15,545 | 6,228 | 21,773 | 3.1% | -1,200 | \$20 - \$35 | \$31 - \$46 |
| B | 479,077 | 17,858 | 0 | 17,858 | 3.7% | 934 | \$14 - \$20 | \$24 - \$30 |
| C | 236,182 | 39,938 | 0 | 39,938 | 16.9% | -23,421 | \$12 - \$18 | \$21 - \$26 |
| Total | 1,425,609 | 73,341 | 6,228 | 79,569 | 5.6% | -23,687 | | |

Economic downturn breeds office sublease space

Vacant sublease space in Metro Vancouver up 70% from mid-year 2008

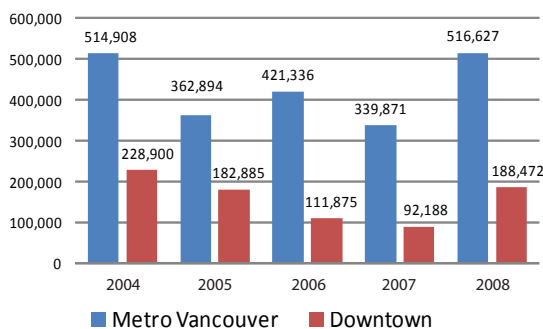
The Metro Vancouver office leasing market witnessed a significant rise in sublease space in the latter half of 2008, particularly in the Downtown core as businesses restructured themselves, shed unneeded space, and tried to generate additional income in response to the changed economic environment.

As of year-end 2008, 516,627 sq. ft. of vacant sublease space was available in the region, up 70% from 304,395 sq. ft. at mid-year 2008 and 52% from 339,871 sq. ft. at year-end 2007. Downtown, total vacant sublease space at year-end 2008 amounted to 188,472 sq. ft.—doubling the amount recorded at mid-year 2008 and at year-end 2007. The current sublease vacancy also represents nearly 40% of total vacancy in the Downtown core compared to 17% (92,188 sq. ft.) in 2007.

When 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) is added to the equation, another 386,702 sq. ft. is piled on to the available space stock. Given that there is little new construction activity Downtown, virtually all of the current SAF space is attributed to occupied space that is available for lease or sublease. This brings total available (occupied and vacant) space to more than 800,000 sq. ft. Downtown.

“The increase in sublease space is representative of corporate downsizing, companies rightsizing and businesses focusing on maintaining their bottom line,” comments **Darrell Hurst**, Principal, **Avison Young (Canada)-Vancouver**. “Many companies are scrutinizing their budgets and putting major decisions on hold while awaiting economic clarity. Tenants are looking for savings in their real estate and some companies have had to reduce staff, and the result is space being brought back to the marketplace.”

Vacant Sublease Space



Commercial real estate leasing transaction volumes across the country are anticipated to decline in 2009 due to a slowdown in executive decision-making as many firms elect to stay put while the economy recovers.

In major markets, the addition of new inventory and a spike in sublease space may cause vacancy levels to rise through 2009, and tenants may see some relief with regard to rental rates.

While there is no one particular sector that is returning the bulk of the space to the market in BC, the financial sector, resource-based industries and engineering companies have been participants in the current sublease movement. **Intrawest**, as an example, is also currently marketing a total of 70,000 sq. ft. for sublease at **Waterfront Centre** and at 999 West Hastings Street as part of its downsizing efforts.

“Unlike the dotcom crash of 2000-2002, whereby the technology industry was specifically hit hard, this is a much broader problem that has affected industries across the board,” says Hurst. He adds, however, that Western Canada/BC have fared better than other markets. “We’re a branch-office

town and infrastructure projects, some of which are related to the 2010 Olympics, have softened the impact of the global credit malaise.”

The tenant response to the increase in sublease space has been lukewarm at best. “There is a definite lack of demand, and that will likely continue for the first one or two quarters of 2009,” confirms Hurst. The hike in sublease space has had little effect on landlords to-date as most landlords have little head lease exposure or vacancy issues. The Downtown core currently affords little room for movement, with only 2.5% vacancy. No major Downtown office tower is anticipated to come on stream before 2013. A problem for landlords will likely arise, however, if and when sub-landlords cannot find sub-tenants.

“If some of these companies (that are subleasing space) go under, thereby converting their sublease to head lease space, then it becomes a landlord’s problem because that space will compete with other sublease opportunities,” explains Hurst. “But right now, it’s not a landlord’s issue.”

In the suburbs, the Richmond submarket posted the largest amount of vacant sublease space available at year-end 2008, at 82,867 sq. ft. (or 2.4% of total Richmond inventory). However, overall, there have been minimal suburban sublease listings offered to the market.

As for the effect the rise in sublease space has had on overall rental rates in the market, there is little evidence to-date that this trend has provided tenants seeking head lease space with more negotiating leverage. (However, the lack of evidence may be due to the lack of bids.) “There has been some softening in rents from landlords and they may increase inducements over time, but in general, they’re trying to hold their rents. There has not been a lot of rental rate erosion,” says **Bill Elliott**, Principal, Avison Young (Canada)-Vancouver.

Any vacant suites that are not built-out or improved will likely stand the biggest test as improvements are still costly to be made. “To reduce costs, tenants will likely gravitate to improved sublease space first and improved head lease space second,” notes Elliott, who says rental rates for sublease space are currently being offered at up to a 50 per cent discount over what the tenants’ contractual rents are, and that could increase over time.

Overall, the region expects to see a continual increase in sublease space through 2009. “By conservative estimates, this trend will likely continue for the next 12 to 18 months,” points out Avison Young downtown leasing specialist, **Brian Pearson**. “A potential benefit is that tenants considering moving Downtown may have more options. Having said that, tenants must be cognizant of the risks associated with a sublease,” he says. “Subleases typically trade at a discount because subtenants generally don’t enjoy the same rights as tenants do, and the sublease is only valid so long as the tenant remains current with its lease commitment.”

Nonetheless, a softening in the Metro Vancouver leasing market is expected to be less severe than in other parts of Canada due to Metro Vancouver’s relatively healthy vacancy levels and the fact that BC’s economy is well supported by major private and public investment spending.

Although the credit turmoil will continue to challenge developers and tenants this year, lending markets are forecast to return to some level of normalcy later in 2009. “Hesitant decision-making is at the root of the deal-volume slowdown, and it is anticipated that once perception returns to meet reality, deal activity will return to higher levels in 2010,” says Hurst. ■

continued from page 1

The Downtown core affords little room for movement, with only 2.5% vacancy. No major Downtown office tower is anticipated to come on stream before 2013. In the suburbs, year-end 2008 vacancy ticked up to 7.7% from 7.2% at mid-year 2008, with Richmond posting the region's highest vacancy rate at 15.4%. Construction machinery remained active in the region in 2008, adding approximately 600,000 sq. ft. to the market, mainly in the Burnaby, Richmond and Broadway submarkets. Developers plan to add another 800,000 sq. ft. of new space in 2009, primarily in Burnaby and on a speculative basis. While some office projects are humming along, economic uncertainties and tumultuous credit markets have halted or delayed other developments. Land prices also began cresting in 2008, due partially to the fact that developers cannot economically build at current high land values. Aided by a slowdown in residential construction, construction costs began easing in the latter part of 2008.

While the current overall vacancy level is still low compared to the double-digit vacancy rates witnessed between 2002 and 2004, vacancy rates may edge up over the next year depending on buyer/tenant perception, sublease activity and the number of bankruptcies. As a result, landlords may need to adjust their net effective rent expectations, and inducements may increase as landlords compete more vigorously for fewer deals. Absorption will likely remain below recent historical averages as companies defer expansion plans in light of softening domestic conditions. ■

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

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

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

Building Inventory and Classification

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

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

Definitions

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

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

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

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

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