Metro Vancouver Office Market Report Mid Year 2008

AVISON YOUNG

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Vacancy December 31, 2007: 4.8%
Vacancy forecast December 31, 2008: 4.5%

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

Low vacancy keeps tight urban grip

The Metro Vancouver office leasing market remains tight. Steady demand held the region's overall vacancy rate at a low 5.0% at mid-year 2008, fairly consistent with the 4.8% posted at year-end 2007 and 5.1% at mid-year 2007. The general downward trend began after vacancy levels hit double digits between 2002-2004. The downtown market, virtually fully leased, posted the region's lowest vacancy at 2.5% while Richmond recorded the highest at 12.3%.

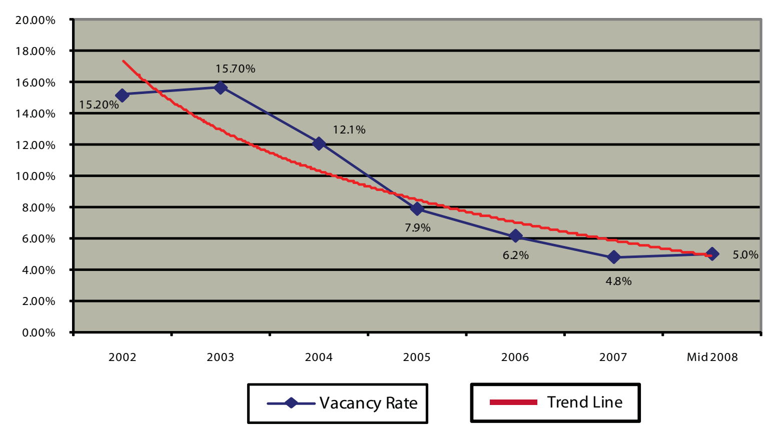
Overall, leasing activity tapered off in the first half of 2008 due to the shortage of available quality space as well as some tenants putting their real estate decisions on hold while they cogitate the impact rising fuel prices and a moderating economy may have on their business.

Due to the lack of available inventory, absorption was modest, with tenants taking up 293,962 square feet (sf) more space than they vacated between January 1 and June 30. Richmond accounted for the bulk of that absorption at 209,111 sf. All submarkets posted positive absorption with the exception of Yaletown, Broadway and Surrey. Sublease space, which typically offers improved space at below market prices, continues to generate activity.

There is some relief in sight for eager tenants as the region will witness a fair bit of new supply— approximately 700,000 sf in 2008 and a similar amount in 2009. The bulk of the new construction completions will occur in the suburbs. Rising land and construction costs continue to challenge developers and temper some companies' interest in moving to the suburbs, as any savings in rent are sometimes negated by the cost of tenant improvements.

Going forward, market conditions point to a continued tight office sector with steady demand, positive absorption, further upward pressure on rental rates, and a pipeline of new product leading up to 2010.

Vacancy Trend: Greater Vancouver



Vacancy Summary (June 30, 2008)

DISTRICT	INVENTORY (sf)	HEAD-LEASE VACANCY (sf)	SUB-LEASE VACANCY (sf)	TOTAL VACANCY (sf)	VACANCY RATE (%)	6 MONTHS ABSORPTION (sf)
Downtown	19,455,534	395,468	92,088	487,556	2.5%	45,075
Yaletown	2,443,634	85,190	9,823	95,013	3.9%	-2,898
Broadway	5,836,959	343,645	18,108	361,753	6.2%	-68,235
Burnaby	8,264,290	321,838	121,738	443,576	5.4%	91,991
Richmond	3,411,910	377,198	41,895	419,093	12.3%	209,111
Surrey	2,320,315	183,096	0	183,096	7.9%	-25,530
New Westminster	1,584,984	171,543	20,431	191,974	12.1%	37,681
North Shore	1,425,609	48,803	312	49,115	3.4%	6,767
TOTALS	**44,743,235**	**1,926,781**	**304,395**	**2,231,176**	**5.0%**	**293,962**

Downtown

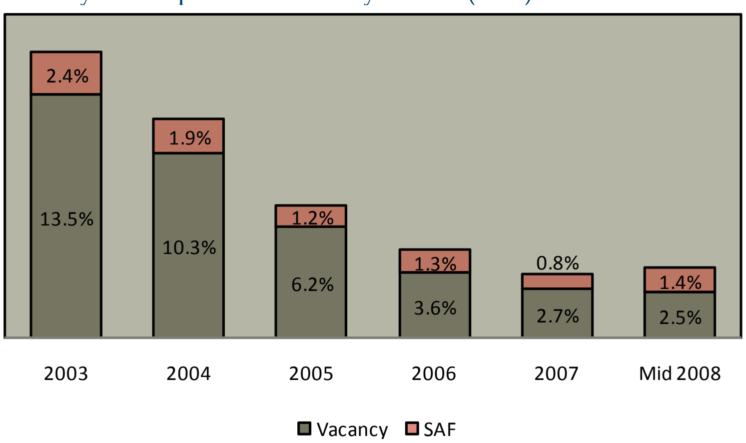
Market constricts further

Vacancy Trends

The acute shortage of new supply downtown trimmed the core's vacancy rate from 2.8% at year-end 2007 to a meagre 2.5% at mid-year— the lowest vacancy on record since Avison Young began tracking the market in 1994. The current low vacancy is a continuation of the general downward march that began in 2003 when vacancy hit 13.5%. With only 487,556 sf of its 19.5 million sf in inventory vacant, the market remains constrained. Class A space is even more constricted with only a scant 1.3% (or 88,338 sf) vacant. Landlords have been able to capitalize on the dearth of prestige space as rents for top-end premises are now hitting a record $50 per square foot (psf) before operating costs and taxes.

Worth noting is that some of the current vacancies are actually leased, and others have been recently occupied. These include Bell Canada's sublease space in Bentall V, of which Gowlings Lafleur Henderson LLC has committed to 35,000 sf for third quarter 2008 occupancy and Macquarie Bank has occupied 17,600 sf; and Fasken Martineuau's former 75,000-sf space at 1075 West Georgia, of which Fluor has committed to 42,000 sf for fall 2008 occupancy and Guild Yule has occupied 20,000 sf. Teck Cominco will also be relocating to Bentall 5 in September 2008, leaving behind 85,000 sf at Waterfront Centre. Intrawest has committed to floors three to eight at Waterfront Centre, and is currently marketing (and receiving activity on) three of those floors for sublease.

Vacancy with Space Availability Factor (SAF):



Overall, deal velocity was modest in the first half of 2008 due to the scarcity of available space, increases in rental rates and construction costs, and the fact that many tenants dealt with expiries in advance of the imminent tightening of the market. The cautious economic climate has also muted demand for now, with some tenants adopting a wait-and-see posture. Most of the recent deals are attributed to renewals or expansions.

Absorption Trends

Net absorption in the first half of 2008 was relatively flat, with tenants taking up only 45,075 sf more space than they left behind. This is well below the 203,022 sf of absorption recorded at mid-year 2007. There is little new demand and no sizeable new tenants entered the market in the first half of the year. Absorption is more the result of incremental growth of existing tenants. Recent notable occupancies include Pricewaterhouse Coopers and Electronic Arts growing into their combined 40,000 sf space at 250 Howe and HSBC expanding into 14,000 sf at 1111 W Georgia.

The new owners of Sun Tower plan to restore the 1912 heritage building— an example of property owners revitalizing older buildings to capitalize on the tight downtown office market

Notable Lease Deals - Mid Year 2008

Tenant	Lease Type	SF
Fluor Canada, Ltd.	Head Lease	42,000
PW&GSC - CCRA	Head Lease	25,000
United States of America	Head Lease	23,800
Great West Life	Renewal	20,333
Meyers Norris Penny	Head Lease	16,800
HSBC	Head Lease	14,257
Elastic Path Software	Head Lease	14,000
Jordan Capital / Baron Group	Head Lease	13,943
Cymax Solutions Inc.	Head Lease	12,500
Aspac	Renewal	12,313
Digital Ocean Marketing	Sublease	12,267
Ledcor	Head Lease	12,267
TBWA Vancouver	Head Lease	12,000
The Eminata Group	Sublease	11,300
Absolute Software	Head Lease	11,000
Adriana Resources Inc.	Head Lease	10,721

Space Availability Factor (SAF) Comment

While some large blocks of sublease space loosened up in the core through 2007 and provided expansion options for some existing and relocating users, market availabilities currently remain limited. The amount of occupied but available space in the market is a modest 278,284 sf, or 1.4% of the total office stock. This is a step up from the slim 0.8% available at year-end 2007, but in line with 2004 to 2007 levels. The most notable occupied but possibly available space by year-end is some portion of the Intrawest premises at Waterfront Centre.

Hotel Georgia Tower (699 Howe) is an example of a mixed-use development that will be a primary source for new downtown office space in the foreseeable future

New Construction Comment

Escalating land values and construction costs continue to challenge the viability of constructing a new office tower. Even with the city encouraging new office construction, the fact remains that Vancouver is traditionally a small-tenant market where the average downtown tenant occupies only 3,000 to 4,000 sf. Moreover, landlords traditionally require a 40% to 60% pre-lease commitment before commencing construction.

Nonetheless, there is commercial space in the pipeline as a few developers continue to build with no pre-lease commitments in place in an attempt to relieve space constraints in the core. Given the municipal approval process and today's construction timelines, no major office buildings are anticipated to complete before 2012.

Projects under construction include Jameson Development's 37-storey speculative mixed-use Jameson House (838 West Hastings), which will comprise 60,000 sf of office space over eight floors when complete in mid-2010. Construction crews are also now busy digging at Delta Group's Hotel Georgia development (699 Howe), which will see the parkade adjacent to the landmark hotel converted into a 47-storey mixed-use tower comprising nine floors (70,500 sf) of office space. Construction is slated for completion in summer 2011.

A few other developers are in the queue to obtain city approvals. Bentall hopes to tidy up the rezoning approval process by year-end 2008 for its 745 Thurlow site, which has already passed the city's design panel stage. Sketches call for a 22-storey, 400,000-sf office tower. Amacon is similarly awaiting rezoning approval to construct its 650,000- to 700,000-sf tower, comprising 600,000 sf of offices, 15,000 sf of retail and a 70,000-sf hotel component at 1133 Melville. The developer is targeting year-end 2011-2012 for completion.

New Construction

Developer	Building	SF	Date
Onni Development Group	1022 Seymour	35,000	Spring 2009
Jameson Development	Jameson House	60,000	Mid 2010
Townline Ventures	999 Seymour	20,000	Summer 2010
TOTAL		**115,00**	

Meanwhile, Aquilini Investment Group/Tripower Development has put plans on hold for its 24-storey tower adjacent to GM Place while waiting for the city to complete its northeast False Creek density study. Blueprints had called for a 236,000-sf mixed-use building including 197,000 sf of office space.

Further east are other examples that the mixed-use development trend is here to stay. Hammers are now swinging on the third level at Onni Development Group's new 20-storey, 189,000-sf residential-office-retail tower at 1022 Seymour, which will incorporate 35,000 sf of office space when complete in spring 2009. Townline Ventures has also now received its development permit to construct a 21-storey tower at 999 Seymour, which will include 20,000 sf of offices plus retail space under 115 condos. Excavation will begin in August 2008 with construction details expected to wrap up by summer 2010. Other potential office development sites include Telus' 25,000 sf lot at 775 Richards and Holborn Group's 81,000 sf Bay Parkade plot at 599 West Georgia.

Market Forecast

The downtown market is expected to witness continued downward pressure on the overall vacancy rate due to the lack of available quality premises. Cost-conscious tenants who don't need to be downtown may look at suburban alternatives, which offer lower gross occupancy costs, campus style office space, and the increasing conveniences of rapid transit accessibility. Notwithstanding the "flight to the suburbs" theory often predicted and discussed, there is currently no discernible pattern or evidence of tenants vacating the downtown market, which has a solid base of companies that still chooses to remain in the core.

However, a lack of quality space alternatives, rising rental rates and improvement costs, and decreasing negotiating leverage may continue to stifle demand for downtown office space. Although upward pressure on net rental rates is muted by limited demand in the marketplace, rates continue to escalate, particularly on renewal leases.

Class	Total Rentable (sf)	Head-lease Vacancy (sf)	Sub-lease Vacancy (sf)	Total Vacancy (sf)	Total Vacancy (%)	6 mos. Absorption (sf)	SAF (sf)	SAF (%)	Avg Net Rental Rate (psf)	Gross Occupancy Cost (psf)
AAA	4,348,094	127,499	51,932	179,431	4.1%	-8,969	81,935	1.9%	$30-$45	$48-$65
A	6,686,228	69,302	19,036	88,338	1.3%	36,542	52,854	0.8%	$20-$38	$40-$58
B	5,742,784	81,741	12,086	93,827	1.6%	7,097	55,754	1.0%	$18-$28	$32-$42
C	2,678,428	116,926	9,034	125,960	4.7%	10,405	87,741	3.3%	$15-$20	$27-$35
Total	**19,455,534**	**395,468**	**92,088**	**487,556**	**2.5%**	**45,075**	**278,284**	**1.4%**		

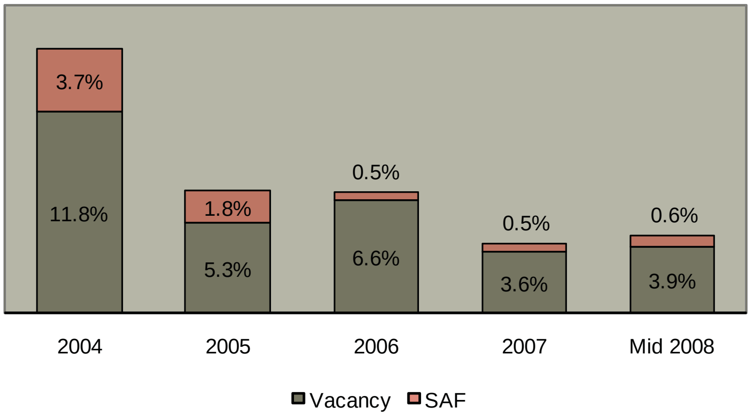
Yaletown

Slim pickings for large blocks of space

Vacancy Trends

The Yaletown market held steady and tight during the first half of 2008 with only 3.9% (or 95,013 sf) of its 2.4 million sf in inventory vacant. The only large block of space currently available is 17,399 sf on the third and fourth floors at 1128 Homer.

Vacancy Chart

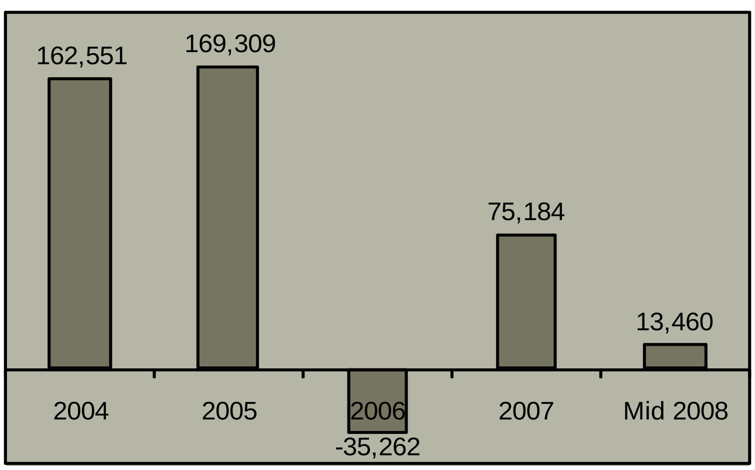


Absorption Trends

Due to the lack of available product, absorption during the first half of 2008 was essentially flat at negative -2,898 sf, compared to the 75,184 sf absorbed in 2007. A tenant looking for more than 3,500 sf would have limited choices. Steady demand continues to bump up rental rates, which are currently at record highs in the mid $30-psf range.

At year-end, Next Level Games will absorb 100% of the new 24,016-sf Raffles on Robson building, now under construction at 811 Cambie. Meanwhile, 1110 Hamilton phase two will see two additional floors totaling 22,000 sf come on stream in late 2008. Electronic Arts has already leased the space for occupancy in early 2009. Other recent notable moves include First National Financial occupying 11,367 at 1090 Homer.

Yaletown Absorption (SF): 2003 - Mid 2008



1128 Homer currently offers the only large block of available space in the Yaletown marketplace

Market Forecast

Overall, the Yaletown marketplace will continue to attract start-up companies, tenants who are unable find suitable premises in the downtown core, and other businesses desiring to work in this fresh urban neighbourhood. The market currently affords little room for movement and any quality office space that becomes available will likely see multiple offers at competitive rates.

With no significant new supply expected to come on stream in the near future, this submarket will likely constrict further in line with the trend taking place in the downtown core market. Similarly, rental rates are anticipated to continue setting record highs.

Notable Lease Deals - Mid Year 2008

Tenant	Lease Type	SF
United Front Games	Sublease	11,534
Allon Therapeutics	Sublease	6,015
Big Fish Games	Head Lease	4,556
Yaletown Financial Management	Head Lease	2,306

Class	Total Rentable (sf)	Head-lease Vacancy (sf)	Sub-lease Vacancy (sf)	Total Vacancy (sf)	Total Vacancy (%)	6 mos. Absorption (sf)	SAF (sf)	SAF (%)	Avg Net Rental Rate (psf)	Gross Occupancy Cost (psf)
A	315,142	25,715	2,500	28,215	1.3%	-1,275	0	0%	$29.00 - $32.00	$39.00 - $44.00
B	1,470,974	30,163	6,015	36,178	2.5%	41,719	8,600	0.6%	$25.00 - $28.00	$35.00 - $40.00
C	657,518	29,312	1,308	30,620	4.7%	-43,342	4,860	0.7%	$21.00 - $24.00	$31.00 - $36.00
Total	**2,443,634**	**85,190**	**9,823**	**95,013**	**3.9%**	**-2,898**	**13,460**	**0.6%**		

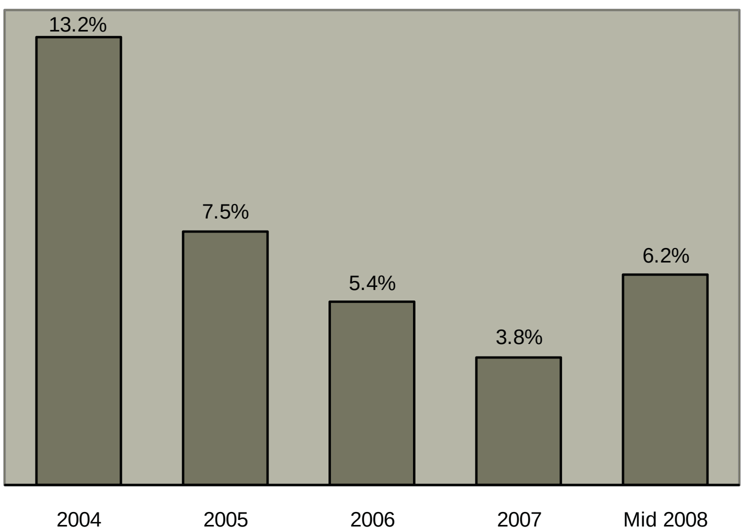
Vacancy Trends

After steadily descending for the past five years, the Broadway Corridor's vacancy rate climbed to 6.2% at mid-year 2008 from 3.8% at year-end 2007. Increased vacancies were partly attributed to QLT downsizing by 78,500 sf at 887 Great Northern Way; and Sport BC vacating 32,000 sf at 1367 West Broadway for 38,900 sf at BCIT Aerospace Technology Campus in Richmond. Most of the former Sport BC space has since been committed to for occupancy later in 2008.

BC Assessment Authority also left 19,000 sf at 1818 Cornwall for 27,985 sf at Bentall's third new building (113,295 sf) at Broadway Tech Centre (2925 Virtual Way), which completed in spring 2008. The building is fully committed and the remaining 54,299 sf of vacant space will be occupied later in 2008. 1818 Cornwall will only be providing short-term space to the market while Bentall performs a building-use analysis.

Meanwhile, construction is underway at Broadway Tech Centre buildings 5 and 7, each of which will deliver 75,000 sf in late 2009/early 2010. Aker Solutions has committed to 50,000 sf. The 80,000 sf office component at PCI Group's 310,000 sf mixed-use CrossRoads development at Cambie and Broadway is also fully preleased, with turn-over to Lululemon Athletica scheduled for year-end 2008.

Vacancy Chart



Absorption Trends

Other recent notable moves include Morneau Sobeco occupying 17,500 sf and Nintendo Canada taking 13,000 sf at Broadway Tech Centre, where Internet Marketing Centre will absorb an additional 12,500 sf later in the summer. Class C space witnessed the loss of 36,000 sf as a result of 2182 East 12th Avenue being demolished for residential development.

While all classes of space in the Broadway market posted negative absorption in the first half of 2008, totaling -68,235 sf, this will not be the trend. The rise in vacancy should also be short-lived as tenants will occupy much of the committed vacant space in late 2008/early 2009. However, with rising costs, deal velocity has generally slowed and many tenants are making do with what they have.

Market Forecast

Overall, despite what the statistics say, the Broadway market remains tight, with vacancy anticipated to see downward movement through 2008. Rental rates have stabilized somewhat, but are still up over last year's rents. Deal velocity should pick up a bit as some tenants take advantage of the few options that have opened up.

Landlords and tenants continue to keep one eye on the redevelopment of False Creek Flats, which could potentially see more than 1 million sf of office space constructed over the next couple of years in this 308 acre industrial area. Among the projects proposed are two buildings totaling 220,000 sf at 428 Terminal Avenue, where phase one is slated for mid-2010 completion. Preleasing is also underway for 156,000 sf at 688 Terminal Avenue, where a mixed-use development is scheduled for 2010 delivery. Renovations at 333 Terminal Avenue will also add 130,000 sf of class A space in late 2009.

Increased vacancy in the Broadway market is partly attributed to QLT downsizing at 887 Great Northern Way

New Construction / Inventory

Developer	Building	SF	Date
Bentall Capital	Broadway Tech Centre Third Building	113,295	Completed
PCI Group	Cross Roads	85,000	Year End 2008
TOTAL		**198,295**	

Notable Lease Deals - Mid Year 2008

Tenant	Lease Type	SF
Art Institute of Vancouver	Head Lease	81,600
Aker Solutions	Head Lease	50,000
MD Management	Head Lease	16,134
City of Vancouver	Head Lease	13,313
GFC Enterprises	Head Lease	11,544
Belkorp Industries Inc.	Renewal	9,987
Zymeworks	Head Lease	7,138

Class	Total Rentable (sf)	Head-lease Vacancy (sf)	Sub-lease Vacancy (sf)	Total Vacancy (sf)	Total Vacancy (%)	6 mos. Absorption (sf)	Avg Net Rental Rate (psf)	Gross Occupancy Cost (psf)
A	3,417,879	183,342	0	183,342	5.4%	-2,224	$24-$28	$40-$44
B	1,897,382	135,640	17,883	153,523	8.1%	-30,663	$19-$23	$32-$36
C	521,698	24,663	225	24,888	4.8%	-35,348	$15-$18	$26-$29
Total	**5,836,959**	**343,645**	**18,108**	**361,753**	**6.2%**	**(68,235)**		

Burnaby

Development pipeline well-established

Vacancy Trends

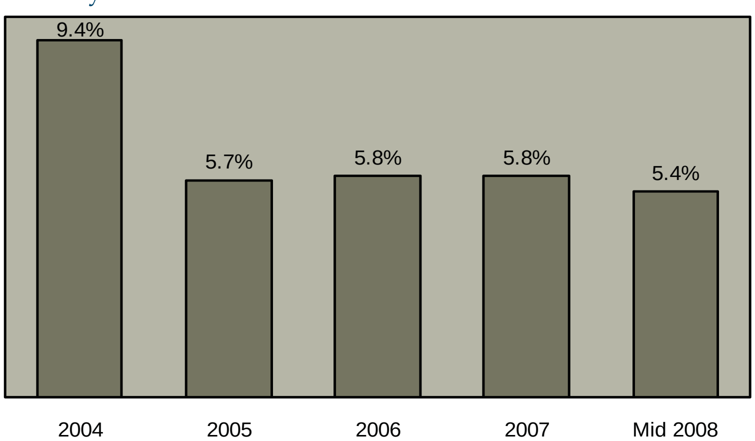
Healthy demand has held Burnaby's vacancy rate fairly low and steady the past three years. As a result of robust leasing activity, vacancy dipped to 5.4% from 5.8% at year-end 2007.

Following five years with minimal construction completions, the construction machinery is now busy in Burnaby. Ivanhoe Cambridge will break ground any day now on its 29 storey, 398,607 sf Metrotower III at 4730 Kingsway. Ivanhoe received fourth reading for rezoning in June 2008 and is currently awaiting building permit approval to commence construction in August 2008. The $168-million project is expected to turn over to tenants in spring 2011.

The shovels are poised to break ground at Ivanhoe Cambridge's 398,607- sf Metrotower III

Other speculative projects are also underway. They include: Lake City Centre Properties' six-storey 3292 Production Way, with 104,000 sf slated for completion in September 2008; Appia Group's 12 storey, 110,000 sf Commerce @ Citi, which will come on stream in mid-2009; and Canada Lands' Glenlyon Business Park, which will add 40,000 sf to the city's inventory in July 2008. Meanwhile, construction has reached the main level at Morguard's recently-acquired five-storey Discovery Green building, which will deliver 155,248 sf of new office space to the market in March 2009. Preleasing is now underway.

Vacancy Chart



With development permit in hand, Tonko Realty Advisors has begun excavation work on Willingdon Business Park VIII and IX. Renderings call for two four-storey, 92,509 sf buildings to come on stream in late 2009.

Amacon has also broken ground on its New Haven Business Park (4350 Marine Way), which has the potential to accommodate up to 450,000 sf in flex industrial /office tenancies over eight buildings on 20 acres. Phase 1, scheduled for completion in spring 2009, will deliver 160,000 sf of flex/office space, which can be converted for 100% office use. Bosa Construction has also just completed its six-floor, 62,772 sf addition at Central Park Place, where existing tenants BC Hydro and BC Housing have expanded into much of the new space.

Other proposed projects include: Discovery Parks' five-storey, 57,861 sf building at 8980 Nelson Way; and SFU's 200,000-sf office-retail project at Burnaby Mountain Sports Campus. Madison and Appia are also planning to build 250,000 to 500,000 sf at Willingdon and Lougheed for 2012 turn-over. CDCL Real Estate is in the process of selling its 19,000-sf vacant lot at 4488 Halifax Street. At stake is a 75,000 sf office building.

Absorption Trends

The net change in occupied office space after the first six months of the year was fairly minimal at 91,991 sf, although almost equivalent to the year-end 2007 absorption of 113,063 sf. Nonetheless, leasing activity is strong in this submarket with a number of deals and requirements currently pending. The submarket is poised for further positive absorption through 2008, with rental rates for class B space closing in on rents for class A premises.

New Construction

Developer	Building	SF	Date
Bosa Construction	Central Park Place II	62,772	Completed
Lake City Centre Properties	Lake City Centre	104,000	Sept. 2008
Canada Lands	Glenlyon Business Park	40,000	July 2008
TOTAL:		**206,772**	

Market Forecast

Overall, vacancy levels may tick up by year-end due to the new inventory. Leading the region in development activity, Burnaby will continue to attract tenants with its central location and multi-modal transportation network.

Notable Lease Deals - Mid Year 2008

Tenant	Lease Type	SF
Teradici	Sublease	18,762
Copper Leaf Technologies	Head Lease	7,822
Pomeroy Engineering	Head Lease	7,000
Hemmera Envirochem Inc	Head Lease	5,500

Class	Total Rentable (sf)	Head-lease Vacancy (sf)	Sub-lease Vacancy (sf)	Total Vacancy (sf)	Total Vacancy (%)	6 mos. Absorption (sf)	Avg Net Rental Rate (psf)	Gross Occupancy Cost (psf)
A	6,058,809	182,482	106,551	289,033	4.8%	108,535	$25-$32	$35-$46
B	1,574,656	67,199	15,187	82,386	5.2%	-3,278	$14-$24	$23-$36
C	630,825	72,157	0	72,157	11.4%	-13,266	$12-$16	$21-$28
Total	**8,264,290**	**321,838**	**121,738**	**443,576**	**5.4%**	**91,991**		

Richmond

Strongest absorption in region

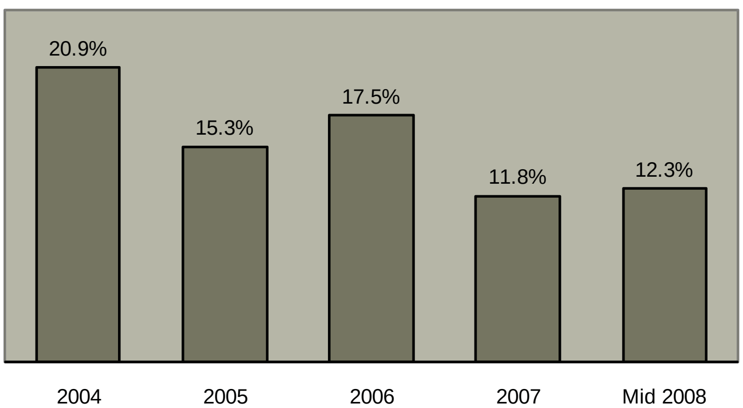
Vacancy Trends

Richmond's vacancy notched up to 12.3% at mid-year from 11.8% at year-end 2007, but dropped from the 16.6% posted the same time last year. Currently the highest in the region, due in part to recent additions to the inventory, the submarket's vacancy rate has generally been in the double digits since 2002. Most of the current vacancy is attributed to class A space, where 355,159 sf is unoccupied. However, the vacancy rate should let up by year-end when some of the premises, which are actually already leased, are occupied.

Two new buildings were added to the inventory in the first half of the year: Sherwood Investments' 30,000 sf Riverside Business Centre (12033 Riverside Way), which is vacant; and PK Projects' new 116,000 sf Commerce Court International Phase 5, which is fully leased.

Sun Life's Airport Executive Park Building 6 will deliver 65,000 sf to the marketplace when it comes on stream later this year; while Vtech will add an additional 50,000 sf to the roster when the telecommunications company vacates 7671 Alderbridge in the third quarter.

Vacancy Chart



New Construction

Developer	Building	SF	Date
PK Projects	Commerce Court Phase V	116,000	Completed
Sherwood Investments	Riverside Business Centre	30,000	Completed
Sun Life	Airport Executive Park Bldg. 6	65,000	Q4 2008
TOTAL:		**211,000**	

Notable Lease Deals - Mid Year 2008

Tenant	Lease Type	SF
Sage Software	Head Lease	96,449
Microsoft	Expansion	56,000
Top Producer	Renewal	50,000
WCB	Expansion	21,500
Eclypsis	Head Lease	20,251
Ritchie Bros.	Head Lease	15,000
Rick Hansen	Head Lease	14,000
Coca Cola	Sublease	13,000
EQO	Head Lease	7,775

Absorption Trends

The Richmond market witnessed the strongest absorption in the region between January 1 and June 30, with tenants occupying 209,111 sf more space than they vacated. This healthy absorption is mainly attributed to Sage Software expanding into 96,449 sf at Commerce Court International Phase 5, where Eclipsys has also committed to 20,251 sf for occupancy in the second half of the year. Crestwood Corporate Centre Building 2 currently accounts for 66,260 sf of class A vacant space, but existing tenant Microsoft is expected to backfill that space in the third quarter.

Sport BC recently traded its Broadway market space for 38,900 sf at the new 90,647- sf BCIT Aerospace Technology Campus, of which Rick Hansen has also secured 14,000 sf for fourth quarter occupancy, leaving only 32,500 sf available in the building. Elsewhere, Ritchie Brothers leased 17,000 sf at Richmond River Front Business Park (5200 Hollybridge) and Coca Cola subleased 13,000 sf.

The mixed–use building at 7671 Alderbridge Way will add 50,000 sf of vacancy when Vtech vacates the building at the end of 2008

Market Forecast

Despite the double digit vacancy rate, the Richmond office market remains reasonably active for moderately-price space, but quieter for the new product being constructed. However, this likely will change once the Canada Line rapid transit service, or awareness thereof, is completed. While market rents have stabilized for existing space, new construction activity and positive net absorption will continue to have an impact on rates through 2008 for new, class A product, now achieving rents in the high teens to $20 psf. Meanwhile, asking rent for newly constructed space is about $24 psf.

Class	Total Rentable (sf)	Head-lease Vacancy (sf)	Sub-lease Vacancy (sf)	Total Vacancy (sf)	Total Vacancy (%)	6 mos. Absorption (sf)	Avg Net Rental Rate (psf)	Gross Occupancy Cost (psf)
A	2,299,003	295,396	39,763	335,159	14.6%	198,955	$14-$24	$24-$34
B	912,433	69,411	2,132	71,543	7.8%	12,950	$10-$16	$20-$26
C	200,474	12,391	0	12,391	6.2%	-2,794	$10-$14	$17-$21
Total	**3,411,910**	**377,198**	**41,895**	**419,093**	**12.3%**	**209,111**		

Vacancy Trends

Negative absorption of -25,530 sf in the first half of 2008 pushed Surrey's vacancy rate, which has been creeping up the past 12 months, to 7.9% at mid-year from 6.8% at year-end 2007. The submarket's office vacancy rate has generally been trending downward though since hitting a staggering 42.9% in 2002.

Vacancy Chart

Of the 183,096 sf currently vacant, 92,249 sf is attributed to Central City, which brought on some 800,000 sf in 2002. (The current rentable area is 522,000 sf as a result of SFU taking over 305,000 sf in 2003.) Take this building out of the equation and Surrey's vacancy rate is actually only 5%.

Benchmark Group of Companies' new 112,000 sf Benchmark Business Centre Phase 1 (5455 152nd Street), which wrapped up in late 2007, is 70% leased; while Benchmark Business Centre Phase 2 (112,000 sf), which commenced construction on a speculative basis earlier in 2008, will come on stream in late 2009.

Meanwhile, sod-turning will begin in fall 2008 at Panorama Park Investments' Panorama Place project at 5590 152nd Street. Renderings call for two office buildings (130,000 sf and 145,000 sf) plus five single-tenant building pads ranging from 5,000 sf to 8,000 sf each. Completion date is spring 2009 for the pads and fall 2009 for the two buildings.

GE Real Estate and Dundee Real Estate Asset Management are still awaiting pre-lease commitments before breaking ground on their ambitious Gateway Office Park, a phased 600,000-sf campus-style project at 108th Avenue and Whalley Ring Road adjacent to Gateway Station Tower. Blueprints for phase one call for two buildings totaling 200,000 sf to complete by mid-2010.

It should be noted that 104th Centre (at 104th Avenue at 142nd Street) has not been included in the statistics. While it is being marketed to large office users, the 265,000-sf building (originally designed to be a cultural centre) has been sitting vacant since completion.

Absorption Trends

All three class categories registered either flat or negative absorption at the end of the first half of 2008. However, with some larger-tenant deals and government requirements for large blocks of space pending, new projects are expected to lease quickly.

GE Real Estate and Dundee Real Estate Asset Management are awaiting pre-lease commitments before commencing construction on the 600,000-sf Gateway Office Park at 108th Avenue and Whalley Ring Road

Market Forecast

Overall, Surrey's vacancy rate should remain low through 2008 with the more sizeable projects driven by larger tenants, government-related users and Crown corporations.

New Construction

Developer	Building	SF	Date
Benchmark Group of Companies	Benchmark Business Centre Phase 2	112,000	Year End 2009
Panorama Park Investments	Panorama Place Bldgs 1 & 2 + Single Tenant Pads	300,000	Fall 2009
TOTAL:		**412,000**	

Notable Lease Deals - Mid Year 2008

Tenant	Lease Type	SF
Golder Associates Ltd.	Head Lease	16,072
Westland Insurance Company	Head Lease	15,000
Meyers Norris Penny	Head Lease	11,000

Class	Total Rentable (sf)	Head-lease Vacancy (sf)	Sub-lease Vacancy (sf)	Total Vacancy (sf)	Total Vacancy (%)	6 mos. Absorption (sf)	Avg Net Rental Rate (psf)	Gross Occupancy Cost (psf)
A	1,365,753	112,226	0	112,226	8.2%	-4,712	$20 - $30	$29 - $42
B	796,612	46,313	0	46,313	5.8%	-20,818	$15 - $19	$24 - $30
C	157,950	24,557	0	24,557	15.5%	0	$9 - $14	$17 - $23
Total	**2,320,315**	**183,096**	**0**	**183,096**	**7.9%**	**-25,530**		

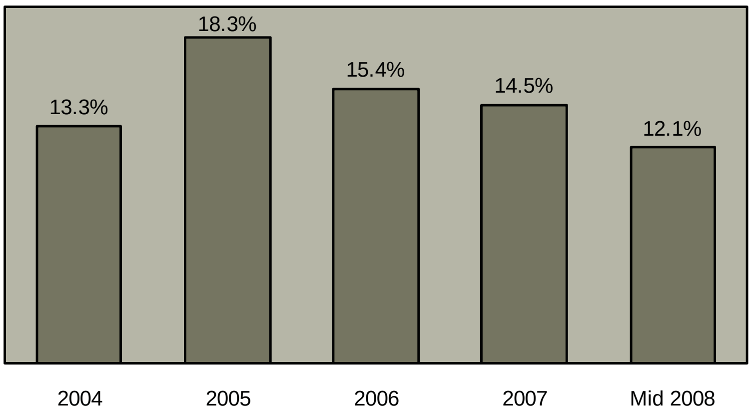
Vacancy down but still in double digits

Vacancy Trends

New Westminster's office vacancy rate, currently the second highest in Metro Vancouver after Richmond, has lingered in the double digits for most of the past decade, and the market continues to rally. Trending downward from the 14.5% posted at year-end 2007 and 15.4% at year-end 2006, the submarket's vacancy rate currently sits at 12.1% with 191,974 sf of its 1.6 million sf of office stock vacant.

Although the market has not witnessed any new construction completions since 2001, UPG Group's speculative 42,000-sf addition to Westminster Centre South Office Tower (505 6th Street) in the city's uptown commercial district is expected to wind up in the third quarter of 2008, thus contributing to vacancy levels. There is currently a significant amount of activity on the building.

Vacancy Chart

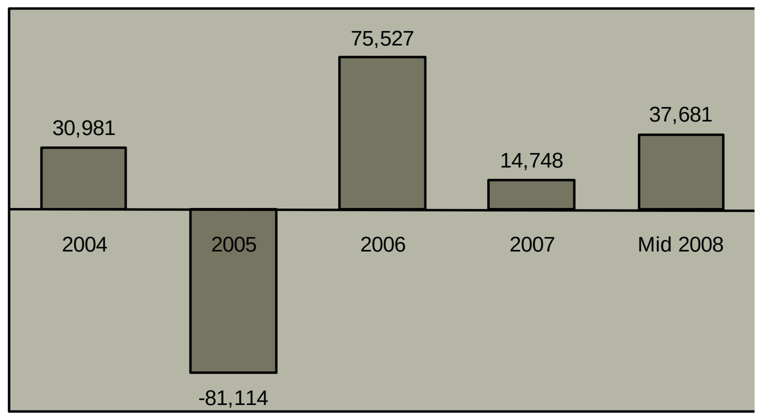


UPG Group's 42,000-sf addition to Westminster Centre South Office Tower (505 6th Street) will come on stream in fall 2008

Absorption Trends

Net absorption in the New Westminster office market has swerved between positive and negative over the past few years. Absorption has been on the plus side since the end of 2006 and amounted to 37,681 sf at mid-year 2008, primarily attributed to class A absorption. A few deals are currently pending.

Absorption (SF) Chart



New Construction

Developer	Building	SF	Date
UPG Group	Westminster Centre South Office Tower	42,000	Q3 2008
TOTAL:		**42,000**	

Market Forecast

Overall, downtown class A and view premises have pretty well reached full occupancy. The market may benefit from constraints in and overflow from the Burnaby market .

Notable Lease Deals - Mid Year 2008

Tenant	Lease Type	SF
A.R.E.S.	Head Lease	2,909

Class	Total Rentable (sf)	Head-lease Vacancy (sf)	Sub-lease Vacancy (sf)	Total Vacancy (sf)	Total Vacancy (%)	6 mos. Absorption (sf)	Avg Net Rental Rate (psf)	Gross Occupancy Cost (psf)
A	840,886	75,746	10,671	86,417	10.3%	45,382	$18-$24	$28-$38
B	553,385	53,929	2,420	56,349	10.2%	-211	$14-$18	$22-$31
C	190,713	41,868	7,340	49,208	25.8%	-7,490	$10-$14	$18-$27
Total	**1,584,984**	**171,543**	**20,431**	**191,974**	**12.1%**	**37,681**		

North Shore — Limited availability

GWL Realty Advisors (on behalf of bcIMC) will break ground on its fifth flex building (75,000 sf) at NorthWoods Business Park in early 2009

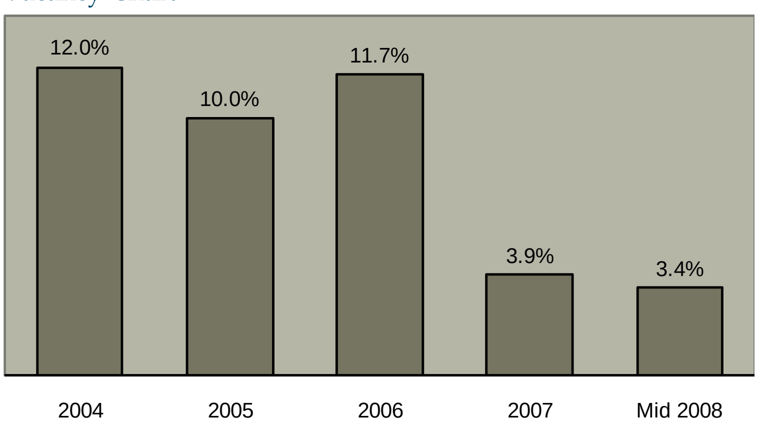
Vacancy Trends

Continuing the downward trend that began at the end of 2006 (when the vacancy rate was 11.7%), the North Shore office vacancy rate currently stands at a sparse 3.4%, the lowest vacancy level of all the submarkets outside of the downtown core. With few opportunities for expansion— only 49,115 sf of its 1.4 million sf in inventory is currently vacant —this small office market remains snug.

While no new office project has come on stream since 2002, Pinnacle International's mixed-use residential/office/retail project at 100 Esplanade East/50 Lonsdale Avenue completed construction in spring 2008, offering approximately 58,000 sf of strata office space for sale. Concert Properties is also proposing to build Harbourside Business Park phase two (801 Harbourside Drive), which would add 136,000 sf to the submarket's office roster.

Meanwhile, GWL Realty Advisors (on behalf of bcIMC) will break ground on its fifth flex building at NorthWoods Business Park (2100 Dollarton Highway) in early 2009. With the potential to convert to 100% office use, the new 75,000-sf building will be constructed on a speculative basis for completion by third quarter 2009. Four other flex buildings totaling 230,000 sf came on stream in 2006 and 2007.

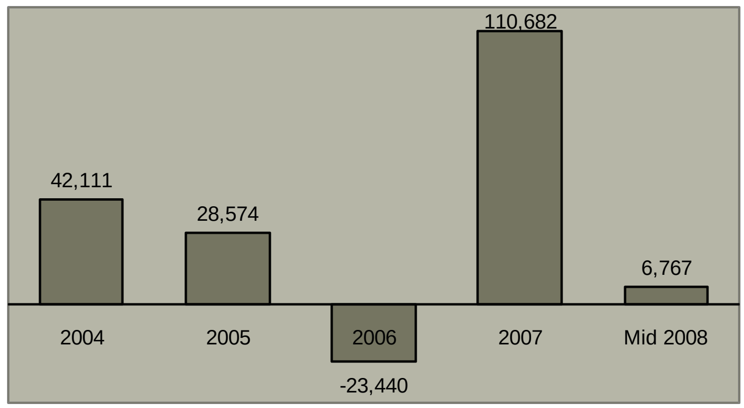
Vacancy Chart



Absorption Trends

In the first half of 2008, absorption checked in at a minimal 6,767 sf— a long way off the 110,682 sf of absorption recorded at year-end 2007. Most of the recent absorption (4,156 sf) occurred in class A space, where vacancy is a mere 2.3%. All building classes witnessed declining vacancies over the past 12 months, most notably in class C space where vacancy dropped from 15.4% at mid-year 2007 to 6% at mid-year 2008.

Absorption (SF) Chart



New Construction

Developer	Building	SF	Date
Pinnacle International	100 Esplanade East	58,000 Strata Office	Completed
TOTAL		**58,000**	

Market Forecast

Representing only 3% of Metro Vancouver's office inventory, the North Shore market will remain tight and stable with steady demand and limited availability.

Notable Lease Deals - Mid Year 2008

Tenant	Lease Type	SF
ALS Canada Ltd.	Head Lease	67,900

Class	Total Rentable (sf)	Headlease Vacancy (sf)	Sublease Vacancy (sf)	Total Vacancy (sf)	Total Vacancy (%)	6 mos. Absorption (sf)	Avg Net Rental Rate (psf)	Gross Occupancy Cost (psf)
A	710,350	16,417	0	16,417	2.3%	4,156	\$20 - \$35	\$31 - \$46
B	479,077	18,274	312	18,586	3.9%	206	\$14 - \$20	\$24 - \$30
C	236,182	14,112	0	14,112	6.0%	2,405	\$12 - \$18	\$21 - \$26
Total	**1,425,609**	**48,803**	**312**	**49,115**	**3.4%**	**6,767**		

Avison Young Goes Carbon Neutral

Avison Young has become a carbon neutral business. A leading national commercial real estate services firm, the company has recently taken steps to ensure it is doing its part in reducing its carbon footprint.

"The purpose of the initiative is to raise awareness amongst staff and the industry of the impact that our business operations has on the climate," explains **Matthew Walker**, a principal with Avison Young. "We wanted to calculate our carbon footprint, reduce our carbon dioxide (CO2) emissions wherever possible, and offset the remainder."

In spring 2008, Avison Young engaged **Offsetters** (formerly known as **Offsetters Climate Neutral Society**), a Vancouver-based offset company, to perform an audit of Avison's operations and determine how much CO2 the company was emitting as a whole. The audit covered electricity and gas usage, air travel, ground transport and paper consumption. Upon completion of the inspection, Avison purchased carbon offsets for those emissions.

"Carbon offsetting" refers to contributions by an individual or organization to a third-party company known as a "carbon offset provider", to fund projects that will remove the equivalent amount of CO2 from the atmosphere that the individual or organization has added to the atmosphere (by driving, flying, or heating an office, for instance). According to Offsetters, the average car emits five tons of carbon per year, which costs approximately $100 per year to offset.

"Avison Young Commercial Real Estate's decision to achieve carbon neutrality sets a powerful example in an industry that has a major impact on our carbon footprint"

-Vancouver NPA Mayoralty Candidate Clr. Peter Ladner

Established in 2005 and endorsed by Environment Canada, Offsetters uses the funds that it receives through carbon credit purchases to enable high-quality CO2 emission-reducing projects that would not otherwise take place. Avison Young's offset purchases will go towards funding renewable energy and energy efficiency projects in BC and around the world.

"Everyone consumes energy and produces CO2 emissions. And while the first choice is to try to reduce those emissions, it is nearly impossible to reduce 100% of the emissions," comments Avison Young principal, **Bill Elliott**. "Flying between offices and driving tenants to various sites are necessary functions in our business, as they are in many. Purchasing carbon offsets is a practical and cost-effective way to reduce those remaining emissions. We encourage other businesses to similarly put money towards clean energy programs."

"It's not the solution, but it's a tool we can use to make a difference," adds Walker. "It's the responsible thing to do. And businesses are continually looking for partners who want to be a part of this new generation of green initiatives."

Vancouver NPA Mayoralty Candidate Clr. **Peter Ladner** comments: "Avison Young Commercial Real Estate's decision to achieve carbon neutrality sets a powerful example in an industry that has a major impact on our carbon footprint. Achieving our City's goal of an 80 per cent reduction in greenhouse gas emissions by 2050 will require every company to similarly re-think the way its activities affect climate change."

In 2007, City Council unanimously passed Ladner's motion for a 33 per cent city-wide reduction in greenhouse gas emissions by 2020 and an 80 per cent reduction by 2050, with carbon neutrality for all new buildings by 2030.

"British Columbia's commercial and residential buildings account for 13% of the total greenhouse gas emissions in the province. We commend a real estate company such as Avison Young for getting ahead of the market and taking meaningful action to address its climate impact," says Offsetters' co-founder and President, **James Tansey**.

He adds: "Our goal as an offset provider is to invest in next-generation energy systems that change the way we build our buildings and neighbourhoods, grow our food, and transport ourselves and our goods. We harness funds from responsible companies such as Avison Young who, after first reducing their direct emissions as much as possible, further reduce their climate impact through purchase of our high-quality carbon offsets."

Offsetters' projects include fuel switching and energy efficiency in commercial greenhouses and ground source heat pump installations. All of Offsetters' projects are independently audited. "Because global warming is a world-wide problem, it does not matter whether the carbon offsetting project reduces emissions in Canada or Africa, as it will have the same positive outcome on the environment," notes Tansey.

Figures by **Environment Canada** reveal BC's greenhouse gas emissions rose 30 per cent from 50.6 million tons in 1990 to 65.9 million tons in 2005. According to the **David Suzuki Foundation**, many people, organizations and events are going carbon neutral, including World Cup Soccer, Super Bowl, airlines, major conferences, entire cities, movie studios, rock bands, schools, churches, major banks, businesses, weddings, and celebrities in their personal lives.

Adds Elliott: "By offsetting the carbon emissions associated with our day-to-day business, we hope to contribute to cleaning up the air we breathe, and show our commitment to being socially responsible. We encourage other companies to consider how they can similarly reduce their carbon impact, as our combined efforts will make a positive change on our shared environment."■

About This Report

Office Market Districts Tracked

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 Commercial Real Estate (BC) 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.

Avison Young
Commercial Real Estate (B.C.) Inc.

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

For more information please contact:
Sherry Quan
Director, Corporate Communications
Direct Line: (604) 647-5098
squan@ay-bc.com

VANCOUVER
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