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Media Release

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· Click here to view Avison Young's Year-End 2011 Metro Vancouver Office Market Report:
http://www.avisonyoung.com/sites/default/files/market-intelligence/OMR_MY_2011web_1.pdf

Downtown demand driving Metro Vancouver office market amid select suburban soft spots

Avison Young releases Year-End 2011 Metro Vancouver Office Market Report

Vancouver, BC – Positive absorption, tightening vacancy and a lack of new Downtown office product kicked off Vancouver's next development cycle in 2011 while select suburban markets – despite some signs of improvement – continued to demonstrate lingering weakness amid ongoing global economic concerns.

These are some of the key trends noted in **Avison Young's *Year-End 2011 Metro Vancouver Office Market Report***, released today. The semi-annual survey covers vacancy, absorption and new construction trends in the Downtown, Yaletown, Broadway, Burnaby, Richmond, Surrey, New Westminster and North Shore submarkets, which total 46.4 million square feet (msf) of office space.

The region witnessed positive annual absorption in 2011. The net change in occupied office space between January 1 and December 31, 2011 was 532,275 sf – an improvement on the positive annual absorption of 246,777 sf that occurred during 2010. Five of the eight submarkets experienced positive annual absorption in 2011, a similar result to 2010. The Downtown submarket led the way in 2011 with 373,425 sf of positive absorption followed by Burnaby (212,072 sf). Yaletown, Broadway and Richmond also enjoyed positive absorption during the year.

The overall Metro Vancouver vacancy rate declined in 2011, dropping to 7.4% from 8.4% at year-end 2010. Five submarkets (Downtown, Yaletown, Broadway, Burnaby and Richmond) saw vacancy rates decline in 2011, while vacancy on the North Shore held steady on a year-over-year basis.

"This year marks the start of something remarkable in the Metro Vancouver office market," comments **Michael Keenan**, Senior Vice-President and Managing Director of Avison Young's Vancouver office.

"With three significant projects starting construction Downtown and at least four others in the planning stages – along with new projects going forward in the Broadway, Burnaby, New Westminster and

North Shore submarkets – Metro Vancouver's office market is embarking on one of the most substantial expansions the region has witnessed in decades."

According to Avison Young Downtown office leasing advisor **Glenn Gardner**, vacancy in the Downtown core continues to tighten in all property classes with vacancy in the single digits at year-end 2011 as deal volume picked up during the second half of 2011.

"The majority of reported notable deals during the last half of the year were renewals," he says. "This is likely a reflection of the supply constraints prevailing in the market. With class AAA vacancy virtually nonexistent and class A premises at 3.3%, there are very few options for tenants considering relocation or expansion in the Downtown core. Even class B vacancy is less than 5%. New construction will unlock currently unrealized demand and provide for a more balanced market."

The overall Downtown office market remains tight with only 3.9% vacant at year-end 2011, a steep decline from 5.2% at year-end 2010. Vacancy in class AAA premises contracted from 3.9% at year-end 2010 to only 1% unoccupied. If the space availability factor (SAF) is taken into consideration, Downtown's effective availability rate is currently 6.5%, down from 7.1% at year-end 2010. (*SAF refers to head lease or sublease space that is being marketed but is not physically vacant, or new supply that is nearing completion and available for lease*.)

Burnaby continued to witness positive gains in 2011 with vacancy levels continuing to decline year over year from 13.2% at year-end 2010 to 10.6% at the close of 2011. Strong positive annual absorption of more than 212,000 sf demonstrated the resilience in the submarket as it rebounds despite ongoing global economic turmoil. Posting positive annual absorption for the first time since 2007, Richmond saw its vacancy rate dip to 23.3% from 24.6% at year-end 2010. While Richmond still has the highest vacancy rate in Metro Vancouver, declining vacancy and positive annual absorption in 2011 could mark a reversal of fortune for the long-suffering submarket. The overall suburban vacancy rate in Metro Vancouver increased slightly to 10.6%.

"A stabilized economic outlook and improving business climate has stimulated demand as demonstrated by the positive absorption experienced in most suburban markets," adds Avison Young Principal **Bill Elliott**. "Not only has the Richmond submarket swung to positive annual absorption for the first time since 2007, but Burnaby witnessed the lease-up of almost 415,000 sf of class A office space."

He continues: "With limited options in the Downtown core and the improved prospects of many suburban-based businesses, the resurgence in demand for office space in Metro Vancouver's large inner suburbs bodes well for the overall market and has triggered a new development cycle in its own right. Ivanhoe Cambridge is pursuing construction of Metrotower III in Burnaby and there appears to be impetus behind getting Sea Island Business Park in Richmond off the ground. Both of these projects had been biding their time and are now seeing 2012 as the year to move forward."

Sublease vacancy continues to decline throughout the majority of the region. As of year-end 2011, 299,773 sf of vacant sublease space remained, down from 476,210 sf at year-end 2010. Vacant sublease space now represents only 8.7% of Metro Vancouver's total vacancy. A lack of new supply and increased demand have pushed sublease vacancy to its lowest point since Avison Young began tracking the region in 1997.

Less than 150,000 sf of new product was added in 2011 to the Metro Vancouver office inventory. **Jameson House** and the **Offices at Hotel Georgia** provided 131,500 sf in the Downtown core, while **The Beasley** provided 18,000 sf in Yaletown. Additional projects in Surrey and Yaletown originally anticipated to complete in 2011 were subsequently pushed to 2012. There is no new product anticipated for Downtown until mid-2014 at the earliest.

Three new Downtown office towers to break ground in 2012:

Positive Downtown absorption of 373,425 sf in 2011 marks a significant improvement over the positive annual absorption of 53,846 sf just 12 months earlier. Many tenants chose to renew in light of the lack of new supply coming on stream in Downtown Vancouver in the next 30 months.

Bentall Kennedy, Westbank Projects and **Oxford Properties** have announced three significant office tower developments (745 Thurlow, **Telus Garden** and 1021 West Hastings, respectively) that will offer more than 1.1 msf of office space when completed. Oxford and Westbank have indicated that their respective projects would come on stream by mid-to-late 2014, while Bentall Kennedy has indicated its development would finish by the fall of 2015.

Gardner notes: “With these new prelease opportunities available, tenants have more options when it comes to relocating or expanding in the Downtown core. There is a palpable sense of enthusiasm around the positive indicators emerging in the Downtown core; and these new buildings, along with those that are being proposed, add much needed new product and further build the anticipation.”

Other proposed office developments include **Jim Pattison Developments/Reliance Properties’ Burrard Gateway,** and **Aquilini Development and Construction**’s proposed office tower adjacent to Rogers Arena. **Manulife Financial** and **Credit Suisse AG** have also emerged in recent months with proposals for additional office tower developments in the Downtown core.

The impact of these new developments on the Downtown vacancy rate is explored in greater detail in the report, which contains a forecast model examining three potential absorption scenarios out to 2015 and highlights the potential impact new and proposed construction would have in each scenario.

Keenan adds: “This exercise in forecast modelling comes at a time when the Vancouver skyline is about to undergo a radical transformation and the Downtown core prepares for the largest expansion of office space in decades. By gaining an understanding now of how these new buildings will potentially impact Downtown market fundamentals by 2015, we are better able to inform tenants and landlords and, ultimately, provide a road map to illustrate possible courses of action.”

Founded in 1978, Avison Young is Canada's largest independently-owned commercial real estate services company. Headquartered in Toronto, Ontario, Avison Young is also the largest Canadian-owned, principal-managed commercial real estate brokerage firm in North America. Comprising more than 800 real estate professionals in 26 offices across Canada and the U.S., the full-service commercial real estate company provides value-added, client-centric investment sales, leasing, advisory, management, financing and mortgage placement services to owners and occupiers of office, retail, industrial and multi-residential properties.

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