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Media Release

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· Click here to view Avison Young's Year-End 2010 Metro Vancouver Office Market Report:
http://www.avisonyoung.com/library/pdf/Van_Research/OMR_YE_2010_LR.pdf

Avison Young releases Year-End 2010 Metro Vancouver Office Market Report: Positive annual absorption a reversal of 2009; Downtown remains tight as developers race to build next office tower

Vancouver, BC – Building on the mostly positive indicators witnessed at mid-year 2010, Metro Vancouver's office market continues to demonstrate strength in the form of positive absorption and a stabilizing vacancy rate, which bodes well for 2011.

These are some of the key trends noted in **Avison Young's *Year-End 2010 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 46.2 million square feet (msf) in office space.

The region witnessed positive annual absorption in 2010. The net change in occupied office space between January 1 and December 31, 2010 was 246,777 sf – a sharp contrast to the negative annual absorption of 1.03 msf in 2009. Five of the eight submarkets experienced positive annual absorption in 2010, compared with seven submarkets posting negative annual absorption in 2009. The Broadway submarket led the way in 2010 with 200,047 sf in positive absorption followed by Yaletown. Surrey, Downtown Vancouver and New Westminster also enjoyed positive annual absorption in 2010.

The overall Metro Vancouver vacancy rate held steady through 2010, ending the year at 8.4% (relatively unchanged from 8.3% six months earlier but up from 7.8% a year ago). Three submarkets (Surrey, Yaletown and Broadway) saw their vacancy rates decline in the last half of 2010.

According to Avison Young Downtown office leasing advisor **Brian Pearson**, demand for Downtown office premises was moderate in 2010 and largely attributable to incremental expansions within the existing tenant base.

"Supply constraints likely stifled leasing activity and continue to challenge Downtown landlords and tenants," he says. "Relatively low vacancy of 5.2% and increasing net rental rates are heightening expectations that one or more developers will break ground on Downtown Vancouver's first new office tower since the completion of **Bentall 5** (phase 2) in 2007."

The Downtown office market remains tight with only 5.2% vacant at year-end 2010, down from 5.5% at year-end 2009. Class AAA and A premises remain constricted with only 3.9% and 2.8% unoccupied, respectively. If the space availability factor (SAF) is taken into consideration, Downtown's effective availability rate is 7.1%, a decrease from 7.8% at year-end 2009. (*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 and, to a greater extent, Richmond are still working through the inventory that came online in recent times. Burnaby's office vacancy rate held steady at 13.2% through 2010 but Richmond vacancy climbed to 24.6% – currently the highest vacancy rate in Metro Vancouver – from 20.2% at year-end 2009. The overall suburban vacancy rate is 11.2%.

"The suburbs should witness mostly positive indicators in 2011, although Burnaby and Richmond will continue to deal with higher vacancies," comments Avison Young Principal **Bill Elliott**. "Demand is expected to increase during the next 12 to 18 months, creating an environment where landlords will gradually gain more leverage as the supply of quality inventory diminishes in markets with low vacancy."

Sublease vacancy continues to dry up throughout the region for the most part. As of year-end 2010, 476,210 sf of vacant sublease space existed, down from 709,870 at year-end 2009. Vacant sublease space now represents only 12.4% of Metro Vancouver's total vacancy. Improved confidence and heightened demand reduced sublease vacancies significantly in 2010 as tenants occupied existing surplus space or pulled listings in anticipation of future growth.

Developers added more than 500,000 sf of new inventory to the Metro Vancouver office market in 2010, more than half of which was in Burnaby. In 2011, developers are poised to deliver another 400,000 sf in Metro Vancouver.

New Downtown office towers proposed

Positive Downtown annual absorption of 53,846 sf (albeit minimal) marks a significant improvement over the negative annual absorption of 556,876 sf in 2009. Many tenants moved up market during the last 12 months.

An additional 71,500 sf is coming on the market in the first quarter of 2011 with the finishing touches being applied at **Delta Group's The Offices at Hotel Georgia** development (669 Howe Street). Meanwhile, **Jameson House** (838 West Hastings Street), developed by **Bosa Properties,** will offer 60,000 sf of office space in the second quarter of 2011.

"Large blocks of available contiguous space greater than 25,000 sf are virtually non-existent," notes Pearson. "Leasing activity exceeded 900,000 sf in the second half of 2010. However, 13 of the 16 notable transactions we recorded were renewals, which likely reflects the supply constraints prevailing in the Downtown office market. Looking forward, current leasing momentum suggests the market will tighten even further in 2011."

With just 131,500 sf planned to come on stream Downtown in 2011 and no new office tower expected to complete construction until the end of 2014 at the earliest, the competition to build Downtown Vancouver's next office tower is gathering steam.

Bentall Kennedy is proposing 365,000 sf of office space coupled with a 33,000 sf retail component for its 23-storey development at 745 Thurlow Street. With its rezoning complete and development permit in hand, Bentall Kennedy expects crane-swinging to start in early 2012 for completion in late 2014 or early 2015. **Oxford Properties** continues working with the city on the design of its proposed office tower in the 1000-block of West Hastings Street, which could offer an estimated 260,000 sf of office space over 36 storeys. Oxford's second potential Downtown project is the redevelopment of the office/parkade complex at 1133 Melville. The company acquired the property in summer 2010 as a long-term development site.

Aquilini Development and Construction is in the final stages of approval for its development permit that would bring to market a 22-storey, mixed-use building at 800 Griffiths Way, adjacent to **Rogers Arena**. Development plans call for 223,000 sf of office premises along with 63,000 sf of retail space. Announced this past fall by **Jim Pattison Developments/Reliance Properties**, the **Burrard Gateway** project in the 1200-block of Burrard Street would offer 205,000 sf of office space in a range of configurations, including a 13-storey, 100,000-sf boutique office building fronting on Burrard Street. A seven-storey residential and commercial podium fronting Hornby Street would also include up to 100,000 sf of large-floorplate office space.

Several other developers are also positioning themselves to obtain approvals from the city to construct additional office towers.

"With modest upward pressure on net rental rates in the last half of 2010, the Downtown market is expected to continue experiencing rental rate increases in 2011 as vacancy rates decline," says Pearson.

"We expect the Downtown vacancy rate to drop below 5% in the next 12 months and preleasing activity to intensify as developers compete to initiate one or more new office developments," says Elliott. While a Downtown vacancy rate of 8% to 10% is considered balanced, which allows landlords to maintain rental rates and provides sufficient alternatives for tenants, the current imbalanced market creates challenges for both.

Elliott continues: "While limited alternatives for tenants may allow landlords to push harder on lease rates, it also creates problems for landlords who are unable to accommodate expanding tenants or new entrants to the market. For tenants, rising Downtown lease rates and an inability to expand could see suburban options receive greater consideration."

Overall, demand for Metro Vancouver office space is expected to increase in the core in 2011 while some suburban markets continue to deal with higher vacancy rates, he says.

Founded in 1978, ***Avison Young*** *is Canada's largest independently-owned commercial real estate services company and the only national, Canadian-owned, principal-managed real estate brokerage firm in the country. Headquartered in Toronto, Ontario and ranked among Canada's leading national commercial real estate organizations, Avison Young is a full-service commercial real estate company comprising more than 700 real estate professionals in 23 offices across Canada and in the U.S. The 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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