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Media Release

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· **Click here to view Avison Young's Mid-Year 2011 Canada, U.S. Office Market Report:**
http://www.avisonyoung.com/library/pdf/National/AY_Mid_11_Canada_US_Office_Mkt_Report_Aug4_11_Final.pdf

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Avison Young releases Mid-Year 2011 Canada, U.S. Office Market Report: Decreasing vacancy and rising rental rates evident in many markets as business confidence grows; Canada continues to lead U.S. in recovery

Toronto, ON — Office leasing fundamentals in Canadian and U.S. markets are proceeding along their respective trajectories of recovery, with progress in Canada outpacing that of the United States. Driven by employment growth, Canadian markets have seen vacancy rates decrease, while rates in the U.S. have stalled, relative to one year ago.

These are some of the key trends noted in **Avison Young's Mid-Year 2011 Canada, U.S. Office Market Report**, released today. The annual report covers the office markets in 17 regions: **Vancouver, Calgary**, **Edmonton**, **Lethbridge, Regina**, **Winnipeg**, **Mississauga, Toronto**, **Ottawa**, **Montreal**, **Quebec City, Halifax, Chicago**, **Washington DC**, **Atlanta**, **Houston** and **Boston**.

"With corporate decision-making picking up speed as business confidence grows, we are beginning to see decreasing vacancy and rising rental rates in many markets," comments **Mark E. Rose**, chair and CEO of Avison Young.

"However, two years into what has been an uneven economic recovery, a wide gulf remains between Canadian and U.S. office leasing fundamentals. Canada continues to lead the U.S. in this recovery, having weathered the storm of the recession more robustly. Employment, a leading indicator, has propelled Canada's office markets forward, while in the U.S., employment gains have largely been lagging and inconsistent," he says.

Rose continues: “There are serious issues and risks facing the U.S. economy. As of June 2011, the Federal Reserve of the United States has pulled back on quantitative easing; employment growth and GDP are anemic or trending negatively; and the politically-embarrassing debate over the U.S. debt ceiling has potentially undermined the economic recovery.”

“Velocity in the real estate marketplace has built some momentum. However, we are very concerned about the adverse impact of the above and the potential for confusion, a lack of confidence or negative sentiment to widen the bid-ask spread once again and cause occupiers to postpone decisions. The risks are real, but the outcome is not certain. The U.S. economy might continue to improve, but we are quite concerned about the fourth quarter of 2011. We also continue to watch Europe closely as any further deterioration in the sovereign credit markets and European financial system could once again disrupt North American decision-making,” says Rose.

Across the 17 Canadian and U.S. markets that Avison Young tracks, office vacancy declined 20 basis points (bps) since mid-year 2010, to finish the first half of 2011 at 13.1%. In contrast, office vacancy collectively climbed 80 bps between mid-year 2009 and mid-year 2010.

“While the U.S. continues to lag, Canada has made significant strides in both business confidence and the labour market, which are integral drivers of recovery in office leasing market fundamentals,” points out **Bill Argeropoulos**, Vice-President and Director of Research (Canada) for Avison Young. “As a result, the 13.1% figure for vacancy rates across Avison Young’s North American markets masks the fact that Canada is outperforming the U.S. by a wide margin.”

Canada's unemployment rate was last reported in June 2011 at 7.4%, down from 7.9% in June 2010. Over the past 12 months, employment has grown by 238,000 (+1.4%). By comparison, the U.S. unemployment rate sits 180 bps higher at 9.2% – a six-month high.

According to the report, Canada’s office vacancy rate reached 7.8% at the midway point of 2011, down from 9.9% at mid-year 2010 and 8.4% at mid-year 2009.

Market-wide vacancy rates are firmly in single-digit territory in 11 of the 12 Canadian markets surveyed. Six of the 12 markets display overall vacancy rates below the national average (7.8%) and include, from West to East: **Vancouver** (7.6%), **Regina** (1.9%), **Winnipeg** (6.9%), **Ottawa** (5.9%), **Quebec City** (4.4%) and **Halifax** (6.3%).

Similar to last year, **Regina** (1.9%, -100 bps) and **Mississauga** (13.1%, -10 bps) anchored the low and high ends of the range, respectively. Vacancy rates fell furthest in Eastern Canada, led by a 280-bps drop in **Toronto** (8.4%) and **Montreal** (8.5%, -260 bps). In Western Canada, vacancy rates fell the most in **Calgary** (8.1%, -260 bps) and **Regina** (1.9%, -100 bps). On the other hand, two markets experienced a rise in vacancy – the most notable being **Winnipeg** (6.9%, +200 bps), while **Lethbridge** saw a marginal increase of 50 bps to 9.7%.

Argeropoulos notes: “The recovery in the marketplace is particularly evident across Canada’s downtown business districts, which traditionally act as a bellwether for the overall health of the market. A closer look at the results reveals a national downtown office vacancy rate of 6.2% at mid-year 2011 – down 200 bps from one year ago. In **Calgary** and **Edmonton**, the energy sector is the main force behind much of the growth, while the financial and professional services sectors have had a similar effect in the **Toronto** market.”

Regina (2%, -100 bps) and **Mississauga** (13.4%, -140 bps) retained their respective positions as the markets with the lowest and highest downtown vacancy rates. The most notable swings in vacancy were observed in **Toronto** (5.9%, -440 bps), **Calgary** (7.4%, -260 bps), **Winnipeg** (6.4%, +180 bps) and **Montreal** (6.8%, -160 bps). Marginal changes were noted in **Vancouver** (5%, -10 bps), **Lethbridge** (9.3%, +10 bps), **Quebec City** (5.7%, -20 bps), and **Halifax** (6%, -20 bps). Finally, **Ottawa**, the nation's capital, experienced an 80 bps rise to 4.2%, while **Edmonton** saw an 80 bps fall to 7.2%.

Falling vacancy rates have pushed rents higher in most markets. On a net basis, downtown class A asking rents are highest in **Vancouver** at $32 per square foot (psf) – up $2 psf, and lowest in **Quebec City** ($14 psf, +$4 psf). The national downtown average settled at $23 psf net, up from $21 psf one year ago. On a gross basis, downtown class A office space climbed $3 psf over the past year to $43 psf, while **Vancouver** ($51 psf, +$3 psf) and **Ottawa** ($50 psf, unchanged) traded positions as the most expensive market.

Canada's suburban markets kept pace with downtown markets as the national suburban vacancy rate tumbled 230 bps over the past 12 months to reach 9.8% at the end of June 2011. There are now six suburban markets with vacancy rates in the single digits, up from five one year prior. Three are in the west and include: **Calgary** (9.2%, -350 bps), **Regina** (0.7%, -130 bps) and **Winnipeg** (8.5%, +260 bps). Those in the east include: **Ottawa** (7.5%, -380 bps), **Quebec City** (3.4%, -210 bps) and **Halifax** (6.6%, -300 bps).

Despite a general improvement in vacancy, the average national suburban class A asking net rate remained unchanged at $17 psf. Consequently, the gap between downtown and suburban class A asking net rates widened from $4 psf to $6 psf over the past year. **Lethbridge** joined **Regina** to anchor the high end of the range at $25 psf, while **Quebec City** ($13 psf) retained its place at the low end of the range.

On a gross basis, suburban class A office space is averaging $30 psf, up from $29 psf one year ago. At $39 psf, **Regina** is the most expensive suburban office market in the country – $5 psf higher than the next closest market, **Calgary**. The least expensive is **Quebec City** at $25 psf.

On the development front, the report goes on to note that there are more than 8 million square feet (msf) of office space under construction in Canada, equating to nearly 2% of the existing office inventory. Just over 70% of the office space under construction is already preleased. Two-thirds of the space is under construction in Canada's downtown markets, with 81% preleased. Western Canada accounted for 65% of the nation's downtown development pipeline. Of the 2.8 msf under construction across Canada's suburbs, 1.5 msf or 54% is preleased. In this category, Eastern Canada was the most active, capturing 67% of the construction activity.

"Most markets have announced or are about to announce major office developments, kick-starting the next wave of development in Canada. This is quite remarkable, especially for markets such as Calgary and Toronto, which had the most office space under development and the greatest risk heading into the recession," adds Argeropoulos. "The successful lease-up of that space and subsequent discussions for further development currently underway are true testaments to the overall health not only of these markets, but the office leasing market in general."

U.S.

The 10-billion-sf U.S. office market registered an overall vacancy rate of 12.6% at mid-year 2011, down slightly from 13.6% at mid-year 2010. "With a few exceptions, U.S. office markets have changed little over the last year and remain oversupplied, especially when compared to Canadian markets," states **Earl Webb**, Avison Young's President, U.S. Operations. "A handful of the major metropolitan markets have improved over the year but the key to widespread improvement is job growth."

Looking at the five major markets that Avison Young tracks, vacancy rates remain in the double digits, with overall vacancy being 15.3% as of mid-year 2011. Gross class A asking rental rates averaged $37 for central business district (CBD) markets and $26 in the suburbs, with the highest averages being in Washington, DC.

Webb continues: "On a local level, we have anecdotal evidence of increased tenant tours and velocity as tenants take advantage of the oversupply to trade up. Locations with class A space are garnering the most attention."

Boston posted an overall vacancy rate of 20.5% at mid-year (16.5% in the 56-msf downtown market and 23% in the 94-msf suburban market) following two quarters of positive net absorption led by the Back Bay submarket.

Chicago's vacancy rate improved to 15.8% – down 120 bps over the past year – due to leasing activity from several significant occupiers and growing deal volume. Chicago's downtown market led the improvement and its mid-year vacancy rate was a 140-bps drop from one year prior (14.5%).

Metropolitan **Washington** is currently the healthiest Avison Young office market, with an overall vacancy rate of 11.8% (-70 bps compared to mid-year 2010). The region's downtown market was the only market to report vacancy in the single digits (8.1%, -190 bps) at mid-year. Metropolitan Washington is also the only Avison Young market with a significant volume of office development, including speculative development in the Rosslyn-Ballston Corridor in Arlington, Va. Currently, a total of 5.6 msf is under construction, of which 43% is preleased.

In **Atlanta**, the suburban and downtown markets both registered vacancy rates of 19.6% at mid-year, with suburban vacancy climbing slightly from mid-year 2010 (+70 bps). Atlanta is experiencing a steady flow of leasing in its class A segment and concessions have started to abate; however, class A average asking rents remain at last year's levels. Rents will remain flat until vacancy rates fall.

Houston witnessed an uptick in leasing activity over the past year and finished the second quarter of 2011 at 14.1%, slightly higher than at mid-year 2010. Despite the relative flatness in vacancy, net absorption is positive 2.5 msf year-to-date with 44% occurring in the CBD. Houston has limited new construction underway today; however, several buildings are planned and the market is poised to begin another development cycle.

"While some individual U.S. markets have seen their leasing fundamentals improve over the past year, the trends have been inconsistent market-to-market and that is likely to continue through 2011," says Webb.

Please turn to p. 5 for regional contact info…

Editors/Reporters:

Please turn to the following pages of the report for mid-year 2011 market highlights of the local office leasing markets. For further info/comment, please contact the Avison Young Principals/brokers listed below. Thank you.

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*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 750 real estate professionals in 24 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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