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AVISON YOUNG (CANADA) INC.

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Avison Young Real Estate Alberta Inc.

Edmonton Office Market 2008 Year End Report

Edmonton - The end of 2008 saw the continuation of office tenant economization. With the ever degrading market conditions and continued speculation from business owners, tenants have looked to optimize their space by either right sizing and moving to different locations or offering up unneeded space for sublease. "Most of the major markets in Canada have seen significant amounts of sublease space come on-line; although there isn't much that has hit the market in Edmonton yet, we do expect to see space come back in 2009." – Mark Hartum. Related to this is the current trend of tenant decentralization. With downtown leases rolling over, tenants who once came downtown because of the enhanced value proposition created by higher quality buildings offering attractive rental rates, amenities, proximity to other professionals, etc., are now facing significantly higher rates on renewals. This along with a continued low supply of large contiguous blocks of office space has forced companies to relocate to the suburban markets to take advantage of lower rental rates, higher parking ratios and the possibility of quick possession and fixturing in new buildings.

After a dynamic environment in prior years, rental rates in the Edmonton's downtown office market stabilized by the end of 2008 with class AA and A hitting \$38.00 per square foot (sq. ft.) and \$32.00 per sq. ft. respectively. Class B and C settled at \$22.00 per sq. ft. and \$20.00 per sq. ft. Overall vacancy rates continue to moderately increase due to a combination of tenant decentralization, overall negative absorption rate and the introduction of new inventory. Despite these signs of slow down, the third and fourth quarters stayed active with the completion of several large deals in existing and under construction buildings.

The south side continued to be the most active market in the city posting over 180,000 sq. ft. of positive absorption and continued new development.

“We anticipate that market conditions will cause developers to look for upwards of 60% of pre-leasing and strong covenants from tenants in order to proceed with any new development. “ – Mark Hartum

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