

MARKETBEAT

VANCOUVER OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

4Q09

ECONOMY

2009 proved troublesome for Canada's economy as the effects of the recession resonated across the country. In particular, Western Canada suffered from contractions in external demand and low commodity prices for natural gas, oil, and lumber. As a result of these pressured indicators, Real GDP in British Columbia is believed to have contracted by 2.2% for 2009. Despite struggling through previous quarters, the fourth quarter showed signs of economic relief and optimism for the approaching quarters. This was evident in recovering commodity prices and in the moderate rebound in U.S. construction activity, which will help stabilize the B.C. economy. Each of these trends is predicted to persist through 2010 and will largely account for the anticipated rebound of Real GDP to 3.1% growth over the course of the year. This positive trend in Real GDP is expected to continue through 2011, with a growth forecast of 4.2%. For Vancouver, a more immediate upturn is expected with the approach of the Olympics. Despite all major construction projects and infrastructure improvements having been completed, the effects of increased retail sales, an influx of tourism dollars, and the temporary workforce, as well as international and domestic exposure, are sure to enhance the local economy.

OVERVIEW

The fourth quarter of 2009 posted the first positive absorption and declining vacancy rates of the year, signaling improvement in this historically stable market. In the Central Business District, absorption increased significantly, posting 204,000 square feet (sf) during the fourth quarter—this is a considerable improvement from the 615,000 sf of space given back to the market through the first three quarters of the year. The CBD also experienced a decrease in vacancy from 5.5% in the third quarter to 4.8% in the fourth. With no new office building supply in the CBD and business contraction leveling off, vacancy rates are expected to remain stable and tight going forward, in keeping with historical patterns.

The office market outside of the CBD showed signs of improvement as well, highlighted by a slight decrease in vacancy and positive absorption. The vacancy rate improved to 11.7% in the fourth quarter, down from 11.9% in the previous quarter. Absorption was over 75,000 sf compared to the 207,000 sf of negative absorption in the third quarter. That said, with nearly a million square feet of new supply under construction, vacancy rates will likely rise outside of the CBD in the coming quarters.

The fourth quarter was also highlighted by two major transactions in excess of \$20 million. These deals signal a gradual return to the 'open for business' mentality that was in place prior to the recession. Four buildings currently under construction in two parks within the Burnaby submarket will add 330,000 sf of space, of which nearly half is released. Each of these projects is slated for completion in mid-2010.

OUTLOOK

Vancouver's office market has been hit hard by the recession. That said, the fourth quarter showed improvement and points to a leveling off of the market. Occupancy increased in both the CBD and Non-CBD during this quarter, but the suburban areas will see nearly 1 msf of new space coming to market in the next few years, so vacancy outside of the CBD is expected to remain on an upward trend. The CBD remained relatively stable in leasing activity and vacancy rates, and saw only subtle changes in rental levels during the fourth quarter. No new supply will be coming to the market in the CBD in the next few years.

BEAT ON THE STREET

"With no new construction downtown and a stabilized and low vacancy rate, choices for large tenants are diminished, with rents remaining higher than Vancouver's other submarkets"

– Jeff Rank, Managing Director

BC ECONOMIC INDICATORS

	2008	2009	2010F
GDP Growth	1.6%	-2.2%	3.1%
CPI Growth	1.8%	0.0%	1.9%
Unemployment	3.4%	7.5%	7.6%
Employment Growth	4.3%	-2.4%	1.4%

Source: BMO Capital Markets

MARKET FORECAST

VACANCY – improved from 5.5% in Q3 to 4.8% in Q4 in the CBD, and from 11.9% to 11.7% in the suburbs



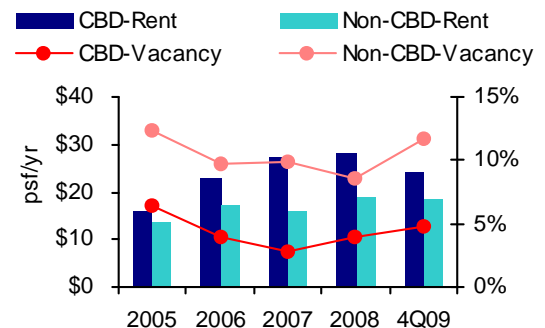
ABSORPTION – more than 643,000 square feet of negative absorption was posted in 2009



DEVELOPMENT – Over 900,000 sf of new space is expected to put pressure on vacancy and NERs



OVERALL RENT VS. VACANCY



MARKET/SUBMARKET STATISTICS

Market/Submarket	Inventory	No. of Bldgs.	Overall Vacancy Rate	Direct Vacancy Rate	YTD Leasing Activity	Under Construction	Q4 Construction Completions	Q4 Overall Absorption	YTD Overall Absorption
Downtown Vancouver	23,822,187	184	4.9%	3.3%			0	162,042	(478,455)
Broadway Corridor	5,444,458	93	4.1%	2.8%			0	42,430	67,780
Central	29,266,645	277	4.8%	3.2%	1,662,488	85,000	0	204,472	(410,675)
Burnaby	9,233,042	109	9.3%	8.0%			148,513	41,800	(91,620)
Richmond	4,143,963	74	17.9%	15.0%			0	13,289	(226,605)
North Shore	1,523,825	34	7.0%	7.0%			30,000	24,867	54,228
New Westminster	1,292,871	28	11.8%	10.0%			0	(9,644)	14,143
Surrey	3,134,638	42	12.6%	12.6%			0	5,012	17,164
Suburbs	19,328,339	287	11.7%	10.3%	1,028,560	440,000	178,513	75,324	(232,690)
VANCOUVER TOTAL	48,594,984	564	7.5%	6.0%	2,691,048	525,000	178,513	279,796	(643,365)

MARKET HIGHLIGHTS

SIGNIFICANT 4Q09 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
1550 Alberni	Vancouver	ACL Services Ltd.	62,403	C
Lake City Centre	Burnaby	Aecom	35,828	A
Park Place	Vancouver	BC Power Exchange Corporation	34,800	AAA
Guinness Tower	Vancouver	Ledcor Properties Inc	24,500	A
Crestwood Corporate Centre (5)	Richmond	Open Solutions Development Corp	23,897	A
1620 West 8th	Vancouver	Digital Domain	19,372	C

SIGNIFICANT 4Q09 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
900 Howe Street	Vancouver	0864697 B.C. Ltd.	103,400	\$29,550,000
11411 No. 5 Road	Richmond	City of Richmond	107,768	\$20,000,000
Lumberman's Building	Vancouver	Lumberman's Building Corp.	30,402	\$8,700,000
1925 McCallum Road	Abbotsford	0866530 B.C. Ltd.	24,785	\$8,600,000

SIGNIFICANT 4Q09 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
Discovery Green Building	Burnaby	HSBC	155,248	9/1/2009
1133 Lonsdale Avenue	North Vancouver	Speculative	30,000	10/17/2009

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
Metrotower III	Burnaby	Speculative	398,000	5/1/2012
Willingdon Park Buildings 8	Burnaby	Speculative	90,000	7/1/2010
Willingdon Park Buildings 9	Burnaby	Speculative	90,000	5/1/2010
Commerce @ Citi	Burnaby	Speculative	110,000	3/1/2010
Broadway Tech Centre Building 5	Burnaby	BCLC	75,000	5/1/2010
Broadway Tech Centre Building 7	Burnaby	Aker Solutions	75,000	5/1/2010
Jameson House	Vancouver	Strata	60,000	5/1/2011



For industry-leading intelligence to support your real estate and business decisions, go to Cushman & Wakefield's Knowledge Center at www.cushmanwakefield.com/knowledge

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