



Metro Vancouver

OFFICE | FOURTH QUARTER | 2009

MARKET INDICATORS

	2009 Q3	2009 Q4
VACANCY	↑	↔
NET ABSORPTION	↑	↑
RENTAL RATES	↓	↔

ECONOMIC UPDATE

BC's unemployment rate rose to 8.4 percent in the final quarter of 2009, remaining slightly below Canada's average of 8.5 percent. Along with Ontario and Prince Edward Island, BC shared the largest change in employment as it rose from 2008's year-end rate of 4.7 percent.

British Columbia enters 2010 amid widespread economic recovery and cautious optimism. Such optimism will be evident in the tremendous amount of activity surrounding February's Olympics, which are expected to spur much-needed economic activity.

An extremely positive sign is the outlook for export-based industries, such as forest products which are expected to recover amid the recovery in the US housing sector. Other commodities such as precious metals and natural gas will also provide a boost to exports.

In the fourth quarter of 2009, Canada's non-residential construction totaled just over \$10.2 billion dollars with BC comprising over 11 percent of the total. Both the commercial and industrial sectors decreased in the final quarter, however, due to more investment in educational and health care buildings, the institutional component increased for the eighth consecutive quarter.

MARKET OVERVIEW

The Metro Vancouver office market experienced a high level of change throughout 2009. The fourth quarter ended with a vacancy rate of 7.2 percent, a significant increase from the 2008 year-end vacancy rate of 4.6 percent. Overall absorption for the year amounted to over 850,000 square feet of negative absorption. Over the last twenty years, there has been positive absorption on an annual basis, with the exception of 2001, when there was a total of 667,377 square feet of negative absorption for the year. Nearly all of the negative absorption occurred in the first half of the year, when large companies such as SAP, Telus and Electronic Arts consolidated their offices. In addition, there were several large tenants who left the Metro Vancouver market altogether, including eBay and Nexon Publishing.

From an investment perspective, the Vancouver office market defied the forces impacting other property classes and other Canadian markets in 2009 by finishing the year with a record volume of sales. There were several sale transactions over the \$10 million mark, including the sale of 777 West Broadway, which sold for \$26 million as well as 900 Howe Street which sold at a 6.7 percent capitalization rate amounting to \$29,550,000. In addition, The Grosvenor Building at 1040 West Georgia Street was sold to Kingswood Capital for a total of \$84 million, equating to \$412 per square foot. The unsolicited acquisition of Bentall V by Deka Immobilien for a total of \$297 million served as the catalyst for several other unsolicited transactions throughout the remainder of the year. Barring another transaction of this scale, one can expect transaction volumes to normalize in 2010. The market continues to be typified by supply constraints and tightly-held portfolios.

METRO VANCOUVER OFFICE MARKET
New Supply, Absorption & Vacancy Rates



NOTABLE TRANSACTIONS & VACANCIES

Although the Downtown Core posted negative absorption for the quarter, there was a significant amount of activity, especially in the sublease market. Cobalt Engineering subleased a portion of the Canwest space at 200 Granville Street and Sony took the former United Front Games space at 1128 Homer Street. In addition, SNC Lavalin took sublease space at both 1100 Melville Street as well as 1075 West Georgia Street, accounting for a combined total of nearly 25,000 square feet.

At 200 Burrard Street, floors 4 thru 7, formerly offered for sublease by Intrawest, became available for headlease in addition to the already vacant eighth floor. Mackenzie Financial has since leased the fourth floor, and Haywood Securities the seventh and eighth floors.

There was a substantial amount of activity in Burnaby this quarter as large tenants such as Best Buy Canada and Coastal Contacts renewed their existing leases and expanded into additional space. For large tenants looking to relocate, Burnaby continues to be an excellent

option with more than 10 existing buildings offering contiguous (and multiple) opportunities of 20,000 square feet or more.

In the fourth quarter, the City of Richmond purchased the former Motorola building located at 11411 No. 5 Road from Dayhu Investments Ltd. for \$20 million. The building is currently occupied by Public Works and Government Services Canada for an Olympic-related security use and will be vacant in the fourth quarter of 2010. There is speculation that the City of Richmond will most likely use the building to house the Richmond RCMP in the future.

It was announced that after VANOC vacates their premises in the second quarter, the City of Vancouver Police Department will be occupying their space at 3585 Graveley Street, a building sold to the City of Vancouver in the summer of 2005. They will continue to remain in their Cambie Street location but will be leaving their current premises at 312 Main Street.

FOURTH QUARTER 2009 NOTABLE LEASE TRANSACTIONS - DOWNTOWN

Property Address	Building Name	Submarket	Tenant	Size - Sq. Ft.	Type
200 Burrard Street	Waterfront Centre	Downtown	Haywood Securities Inc.	34,897	Headlease
885 Dunsmuir Street		Downtown	Insurance Corporation of British Columbia	33,000	Headlease
999 Canada Place	World Trade Centre	Downtown	Accommodation and Real Estate Services	25,953	Renewal
200 Burrard Street	Waterfront Centre	Downtown	Mackenzie Financial Corp.	21,562	Headlease
220 Cambie Street	The Leckie Building	Downtown	Global Relay Communications Inc.	19,073	Headlease
200 Granville Street	Granville Square	Downtown	Cobalt Engineering	18,302	Sublease
1128 Homer Street		Downtown	Sony	17,399	Sublease
1140 W. Pender Street	Sun Life Financial Centre	Downtown	Livingston International	17,300	Renewal
1075 W. Georgia Street		Downtown	SNC Lavalin	13,471	Sublease
1140 W. Pender Street	Sun Life Financial Centre	Downtown	Leede Financial	12,500	Renewal
700 W. Georgia Street	TD Tower	Downtown	Quinlan Abrioux	11,197	Headlease
333 Seymour Street	Grant Thornton Place	Downtown	FCV Technologies	10,787	Sublease
1100 Melville Street	Sun Life Building	Downtown	SNC Lavalin	10,016	Sublease

FOURTH QUARTER 2009 NOTABLE LEASE TRANSACTIONS - SUBURBAN

Property Address	Building Name	Submarket	Tenant	Size - Sq. Ft.	Type
8800 Glenlyon Parkway	The Future Shop Building	Burnaby	Best Buy Canada Ltd.	121,414	Renewal/Expansion
2985 Virtual Way	Broadway Tech Centre	Burnaby	Coastal Contacts Inc.	45,777	Renewal/Expansion
6400 Roberts Street	Sperling Plaza I	Burnaby	The Active Network Inc.	30,664	Extension
1620 W. 8th Avenue		Broadway	Digital Domain Productions Inc.	19,372	Sublease
369 Terminal Avenue	Van Tech Centre II	Broadway	BC Housing	14,516	Sublease
13911 Wireless Way		Richmond	Clevest Solutions	13,758	Sublease
13571 Commerce Parkway	Crestwood Corporate Centre 5	Richmond	Insurance Corporation of British Columbia	11,009	Headlease
221 W. Esplanade	BC Rail Centre	North Shore	Globalive Communications Corp.	11,005	Headlease
3292 Production Way	Lake City Centre	Burnaby	Lake City Business Centre	9,535	Headlease
610 Sixth Street	Royal City Centre	New Westminster	KCC Knowledge Computing Canada Ltd.	8,705	Headlease
267 W. Esplanade	West Quay Centre	North Shore	STP Publications Limited Partnership	8,532	Renewal

Class	Bldgs	Total Inventory Sq. Ft.	Existing Properties									Absorption (sq. ft.)	
			Direct Vacant Sq. Ft.	Direct Vacancy Rate	Direct Availability Rate	Sublease Vacant Sq. Ft.	Sublease Vacancy Rate	Sublease Availability Rate	Vacancy Rate Q4-09	Vacancy Rate Q3-09	Total Availability Rate	Net Absorption Current	Net Absorption YTD
DOWNTOWN SECTION:													
Downtown Vancouver													
AAA	8	3,293,194	132,116	4.0%	2.1%	24,860	0.8%	2.3%	4.8%	5.0%	4.4%	7,402	(84,887)
A	27	6,741,054	125,923	1.9%	3.1%	36,218	0.5%	1.0%	2.4%	2.6%	4.0%	16,303	(92,405)
B	86	9,412,110	272,588	2.9%	4.5%	194,361	2.1%	2.2%	5.0%	4.7%	6.7%	(10,639)	(265,297)
C	100	5,003,339	322,246	6.4%	7.8%	27,078	0.5%	2.0%	7.0%	6.1%	9.8%	(43,758)	(122,965)
Total	221	24,449,697	852,873	3.5%	4.5%	282,517	1.2%	1.8%	4.6%	4.5%	6.3%	(30,692)	(565,554)
SUBURBAN SECTION:													
Broadway Corridor													
AAA	1	158,585	2,655	1.7%	1.7%	0	0.0%	0.0%	1.7%	1.7%	1.7%	0	(2,655)
A	33	2,391,841	118,602	5.0%	5.3%	29,006	1.2%	1.6%	6.2%	6.1%	6.8%	(1,656)	(25,827)
B	70	3,180,313	118,465	3.7%	6.0%	52,663	1.7%	0.9%	5.4%	5.4%	6.9%	1,377	(20,766)
C	30	626,841	29,184	4.7%	4.7%	0	0.0%	0.0%	4.7%	4.3%	4.7%	(1,703)	(2,598)
Total	134	6,357,580	268,906	4.2%	5.5%	81,669	1.3%	1.0%	5.5%	5.5%	6.5%	(1,982)	(51,846)
Burnaby													
AAA	2	613,479	26,361	4.3%	12.0%	28,432	4.6%	6.9%	8.9%	9.5%	18.8%	3,292	(54,793)
A	48	5,422,143	398,960	7.4%	8.2%	64,124	1.2%	2.8%	8.5%	9.3%	11.1%	42,639	167,399
B	59	3,187,894	246,178	7.7%	7.5%	17,316	0.5%	1.0%	8.3%	8.0%	8.5%	(7,214)	(139,145)
C	26	629,522	44,447	7.1%	7.7%	0	0.0%	0.0%	7.1%	7.5%	7.7%	5,212	(10,477)
Total	135	9,853,038	715,946	7.3%	8.2%	109,872	1.1%	2.3%	8.4%	8.8%	10.5%	43,929	(37,016)
Richmond													
A	27	1,976,717	356,746	18.0%	18.5%	103,846	5.3%	6.1%	23.3%	22.6%	24.6%	(13,622)	(151,036)
B	48	2,257,135	258,387	11.4%	14.9%	11,883	0.5%	0.8%	12.0%	11.7%	15.7%	(6,645)	(119,365)
C	14	400,147	73,642	18.4%	18.4%	1,250	0.3%	0.3%	18.7%	16.6%	18.7%	(8,311)	(5,801)
Total	89	4,633,999	688,775	14.9%	16.7%	116,979	2.5%	3.0%	17.4%	16.8%	19.8%	(28,578)	(276,202)
New Westminister													
A	4	203,075	33,055	16.3%	16.3%	0	0.0%	0.0%	16.3%	17.2%	16.3%	1,827	(1,282)
B	16	651,930	29,304	4.5%	4.7%	36,789	5.6%	6.3%	10.1%	7.9%	11.1%	(14,300)	(22,548)
C	21	677,599	102,470	15.1%	11.0%	0	0.0%	0.0%	15.1%	12.3%	11.0%	3,265	(1,186)
Total	41	1,532,604	164,829	10.8%	9.0%	36,789	2.4%	2.7%	13.2%	11.1%	11.7%	(9,208)	(25,016)
North Shore													
A	16	639,465	16,888	2.6%	3.5%	0	0.0%	0.0%	2.6%	8.6%	3.5%	38,380	69,245
B	29	1,159,198	26,195	2.3%	4.8%	1,870	0.2%	0.2%	2.4%	2.8%	4.9%	4,375	74
C	18	366,727	8,128	2.2%	2.4%	0	0.0%	0.0%	2.2%	3.2%	2.4%	3,548	(2,850)
Total	63	2,165,390	51,211	2.4%	4.0%	1,870	0.1%	0.1%	2.5%	4.6%	4.1%	46,303	66,469
Surrey													
A	12	1,603,511	348,339	21.7%	18.7%	0	0.0%	0.0%	21.7%	22.7%	18.7%	15,532	27,365
B	30	1,207,320	49,906	2.4%	4.3%	0	0.1%	0.0%	2.5%	4.6%	4.3%	906	66,469
C	23	732,293	28,423	3.9%	3.9%	517	0.1%	0.1%	4.0%	2.9%	4.0%	(7,644)	(4,799)
Total	65	3,543,124	426,668	12.0%	10.7%	517	0.0%	0.0%	12.1%	12.3%	10.8%	8,794	89,035
SUBURBAN TOTAL													
AAA	3	772,064	29,016	3.8%	9.9%	28,432	3.7%	5.4%	7.4%	7.9%	15.3%	3,292	(57,448)
A	140	12,236,752	1,272,590	10.4%	10.6%	196,976	1.6%	2.6%	12.0%	12.7%	13.1%	83,100	85,864
B	252	11,643,790	728,435	6.3%	7.8%	120,521	1.0%	1.0%	7.3%	7.1%	8.8%	(21,501)	(294,909)
C	132	3,433,129	286,294	8.3%	7.7%	1,767	0.1%	0.1%	8.4%	7.5%	7.7%	(5,633)	(27,711)
Total	527	28,085,735	2,316,335	8.2%	9.0%	347,696	1.2%	1.7%	9.5%	9.6%	10.7%	59,258	(294,204)
GRAND TOTAL													
AAA	11	4,065,258	161,132	4.0%	3.6%	53,292	1.3%	2.9%	5.3%	5.5%	6.5%	10,694	(142,335)
A	167	18,977,806	1,398,513	7.4%	7.9%	233,194	1.2%	2.0%	8.6%	9.1%	9.9%	99,403	(6,541)
B	338	21,055,900	1,001,023	4.8%	6.3%	314,882	1.5%	1.5%	6.2%	6.0%	7.9%	(32,140)	(560,206)
C	232	8,436,468	608,540	7.2%	7.8%	28,845	0.3%	1.2%	7.6%	6.7%	9.0%	(49,391)	(150,676)
Total	748	52,535,432	3,169,208	6.0%	6.9%	630,213	1.2%	1.8%	7.2%	7.2%	8.7%	28,566	(859,758)
QUARTERLY COMPARISON AND TOTALS													
Q3-09	752	52,609,024	2,989,309	5.7%	7.0%	802,036	1.5%	2.1%	7.2%	6.4%	9.1%	(80,460)	
Q2-09	755	52,389,178	2,591,647	4.9%	6.2%	785,393	1.5%	2.6%	6.4%	5.7%	8.8%	(389,424)	
Q1-09	755	52,369,178	2,201,169	4.2%	5.5%	764,447	1.5%	2.7%	5.7%	5.7%	8.2%	(418,440)	
Q4-08	751	52,193,332	2,058,686	3.9%		339,708	0.7%		4.6%	4.6%		(304,138)	

*The availability rate refers to the space on the market that is marketed as available. The vacancy rate refers to the physically vacant space within the inventory (irrespective of whether it is available).

DEMAND AND NEW PRODUCT

Despite the large blocks of space available in Burnaby, several new developments are still going ahead with no pre-leasing commitments, most notably Metrotower III, 400,000 square feet of new office space set to be delivered in the second quarter of 2011. In the second quarter of 2010, Willingdon Park Phases 8 and 9 will be complete, a total of 185,000 square feet of premium office space. There has been heightened interest from several tenants but no lease commitments to date.

Broadway Tech Centre Building 5 and Building 7 will be ready for occupancy next quarter, a total of 150,000 square feet. Building 5 is 80 percent pre-leased, while Building 7 is fully leased to BC Lottery Corporation, set to occupy the entire building upon completion later this year. Commerce@citi, located at 4445 Lougheed Highway, will be ready for occupancy in the first quarter of 2010. Several full floor opportunities are still available and nearly 20 percent of the building is pre-leased.

On the North Shore, 2009 saw the completion of three new office buildings totaling just over 100,000 square feet. Despite the slower market activity in the first half of the year, over 65,000 square feet of this new space was absorbed. Notable lease transactions on the North Shore included Hatfield Consultants, Insurance Corporation of British Columbia, BA Blacktop, Newalta, and Globalive, all absorbing additional space. The trend towards strata titled commercial space also remained very strong on the North Shore through 2009, with pre-sales occurring at a good pace on new projects. It is expected that we may see as many as 4 or 5 new strata projects (a mix of office, light industrial, and retail) coming out of the ground throughout 2010, bringing a total of 150,000 to 200,000 square feet of new supply to the area.

RATES AND INDUCEMENTS

Downtown lease rates continue to remain stable with the high quality space still attaining net lease rates in the mid-thirty dollar range. Although nearly half of the available space in the Downtown Core is being marketed on a sublease basis, the effect on landlords have been minimal with their already low vacancy levels. Class AAA space has a vacancy rate of 4.8 percent, however, nearly half of the vacant space this quarter is already committed to and will be occupied during 2010.

Suburban lease rates have continued to steadily rise further lessening the gap between first class Suburban office space and premier office space in the Downtown core. The suburban market's 9.5 percent vacancy rate is not as high as it seems in actuality, as the high vacancy number accounts for several new developments that have never been occupied. For both the Downtown core and suburban locations, landlords continue to offer generous tenant inducements, particularly in the form of free rent.

INFLUENCING FACTORS

As the Olympic Games near, many businesses are preparing themselves for some interruptions, though most companies are saying "business as usual." Although there may be a slight rise in unemployment and a general post-Olympic depression, it is not expected that there will be lasting effects on the provincial or national economy.

This is an exciting time to be in Vancouver and the general mood amongst commercial real estate investors is cautious optimism. Transaction activity has increased considerably since the first half of 2009, and some indicators at year-end point to increasing values after a period of stabilization in 2009. While all components of the market have been affected, from consumers and retailers, to buyers and sellers, to lenders and borrowers, the market appears to have reached a period of stability.

267 OFFICES IN 57 COUNTRIES ON
6 CONTINENTS

USA 95
Canada 17
Latin America 17
Asia Pacific 53
EMEA 85

\$63.5 billion in annual transaction volume
672.9 million square feet under management
10,171 Professionals

CONTACT INFORMATION

OFFICE TEAM:

Ray Ahrens	Jason Mah
Kayvon Besharat	Derek May
Matthew Carlson	Gavin Reynolds
Robert Chasmar	Colin Scarlett
Marco DiPaolo	Norm Taylor
John Freyvogel	Jason Teahen
Dan Jordan	Terry Thies
Jeff Kincaid-Smith	David Thistle
Brian MacKenzie	

Ron Bagan
Managing Director
ron.bagan@colliers.com

Shawna Rogowski
Director of Research
Vancouver Brokerage
shawna.rogowski@colliers.com

200 Granville Street, 19th Floor
Vancouver, BC V6C 2R6
Tel: 604-681-4111
Fax: 604-661-0849

This report and other research materials may be found on our website at www.colliers.com. Questions related to information herein should be directed to the Research Department at the number indicated above. This document has been prepared by Colliers International for advertising and general information only. Colliers International makes no guarantees, representations or warranties of any kind, express or implied, regarding the information including, but not limited to, warranties of content, accuracy and reliability. Any interested party should undertake their own inquiries as to the accuracy of the information. Colliers International excludes unequivocally all inferred or implied terms, conditions and warranties arising out of this document and excludes all liability for loss and damages arising therefrom. Colliers International is a worldwide affiliation of independently owned and operated companies.

© Colliers Macaulay Nicolls Inc., Vancouver, 2010. Any reproduction in whole or in parts is strictly prohibited without the written authorization of Colliers Macaulay Nicolls Inc., Vancouver.

100-128sr