



# Metro Vancouver

OFFICE | SECOND QUARTER | 2010

## MARKET INDICATORS

	2010 Q1	2010 Q2
VACANCY	↑	↓
NET ABSORPTION	↑	↑
RENTAL RATES	↔	↔

## ECONOMIC UPDATE

Canada's unemployment rate remained stable at 8.1 percent for both April and May 2010 while BC saw unemployment numbers inch upward from 7.3 percent to 7.5 percent for the same months.

The Canadian Dollar continues to hover just below parity with the US Dollar, partly due to speculation that global economic recovery will spur demand for Canada's wealth of raw materials. Canada's rising interest rate, improving employment situation, and growing economy should cement a stable future.

British Columbia recorded a 53.0 percent increase in building permits in May 2010 compared to May 2009, from \$494 million to \$754 million, and an 11.9 percent increase since April 2010. This is in contrast to Canada as a whole whose value of building permits fell 10.8 percent from April to May of this year.

The Bank of Canada raised the overnight rate by a quarter of a percentage point on June 1, 2010 from a record low 0.25 percent. This modest move came with a warning from the bank that it will continue to base Canada's monetary policy on the uneven economic recovery around the rest of the world. Economists predict that the bank will continue to raise interest rates from record lows throughout 2010.

## MARKET OVERVIEW

The Metro Vancouver office market experienced a promising level of activity this quarter, particularly Downtown. Overall vacancy decreased to 7.1 percent, down from 7.6 percent last quarter. Net absorption totalled an impressive 239,474 square feet, a level which has not been seen since the second quarter of 2008. This is an encouraging indication that people are starting to feel more comfortable making business decisions as the recession starts feeling more like a memory than a hindering situation.

Downtown accounted for almost 74.0 percent of total absorption this quarter, with a net absorption of 176,784 square feet. It should be noted that over half of this absorption was due to Sandwell Engineering's large occupancy at 855 Homer Street. Regardless, Downtown was the clear tenant preference this quarter with a 3.8 percent vacancy rate, the lowest it has been in the past year.

Even though absorption in the Suburban market has been steadily increasing since the economic downturn, activity is still very flat. Vacancy did decrease slightly this quarter to 10.0 percent, down from 10.3 percent last quarter, but there is still an overwhelming amount of vacant space. This is especially the case in newer buildings that commenced construction without any pre-leasing commitments.



**NOTABLE LEASE TRANSACTIONS SINCE JANUARY 2010 - DOWNTOWN**

Property Address	Building Name	Submarket	Tenant	Size (SF)	Type
1040 W. Georgia Street	The Grosvenor Building	Downtown	Hunter Dickinson	53,000	Headlease
1045 Howe Street		Downtown	MMM Engineering	42,000	Headlease
840 Cambie Street		Downtown	Microsoft Canada	37,096	Headlease
550 Burrard Street	Bentall V	Downtown	Harris & Company	26,698	Renewal
691 W. Cordova Street		Downtown	Impark	25,471	Renewal
200 Burrard Street	Waterfront Centre	Downtown	Baja Mining Corp.	19,555	Headlease
1140 W. Pender Street	Sun Life Financial Centre	Downtown	Armac Consulting	19,000	Renewal
595 Burrard Street	Bentall III	Downtown	Acciona Infrastructures Canada Inc.	15,801	Headlease
602 W. Hastings Street	The Reliance Building	Downtown	Alexander College	14,887	Headlease
1111 Melville Street		Downtown	Habanero Consulting Group	14,850	Renewal/Partial Surrender
200 Granville Street	Granville Square	Downtown	Seaspan Corp.	12,651	Headlease
1185 W. Georgia Street		Downtown	Pottinger Gaherty Environmental Consultants Ltd.	10,586	Renewal
475 W. Georgia Street	B.C. Turf Building	Downtown	Census Canada	10,150	Headlease
1055 Dunsmuir Street	Bentall IV	Downtown	Meyers Norris Penny	9,812	Sublease

**NOTABLE LEASE TRANSACTIONS SINCE JANUARY 2010 - SUBURBAN**

Property Address	Building Name	Submarket	Tenant	Size (SF)	Type
13450 102 Avenue	Central City	Surrey	Fraser Health Authority	160,000	Headlease
4370 Still Creek Drive	Willingdon Park Phase IX	Burnaby	Terasen Gas Inc.	53,000	Headlease
4445 Lougheed Highway	Commerce@Citi	Burnaby	AMEC	35,000	Headlease
4190 Still Creek Drive	Willingdon Park Phase IV	Burnaby	Fortinet Technologies Inc.	28,000	Expansion
4710 Kingsway	Metrotower I	Burnaby	Census Canada	23,231	Headlease
4710 Kingsway	Metrotower I	Burnaby	BC Hydro	21,094	Headlease
3480 Gilmore Way	Discovery Place	Burnaby	Tantalus Systems Corp.	20,500	Headlease
1256 E. 6th Avenue		Broadway	Nerd Corps Entertainment	18,500	Renewal
6500 River Road	Ritchie Bros Building	Richmond	Syscon Justice Systems	18,200	Headlease
4720 Kingsway	Metrotower II	Burnaby	Regus Business Centres	14,086	Headlease
3480 Gilmore Way	Discovery Place	Burnaby	Service Canada	11,924	Headlease
5811 Cooney Road	Pacific Business Centre	Richmond	Richmond Executive Centre Inc.	11,605	Renewal
4710 Kingsway	Metrotower I	Burnaby	Orbis Client Services	10,616	Expansion/ Lease Extension

**NOTABLE TRANSACTIONS & VACANCIES**

There was a notable volume of new deals this quarter with the majority of large lease transactions in the form of headleases. In a number of cases, including Microsoft Canada and Hunter Dickinson, these new deals were attributed to the fact that tenants were unable to grow in their existing facility. As a result, these companies ventured into signing new deals at locations that could accommodate their expansions.

Downtown experienced the majority of the activity in Metro Vancouver this quarter, resulting in a high level of absorption. The most notable activity occurred on May 1st, when Sandwell Engineering occupied their 94,000 square foot space at 855 Homer Street. The deal had been negotiated in the third quarter of 2009 so that the company would have a large enough space to consolidate all of their offices and be equipped for further expansion.

One of the largest lease transactions in the past five years took place this quarter at Central City in Surrey. Fraser Health Authority finalized a headlease deal for 160,000 square feet which will allow the company to consolidate from their current separate locations. The Suburbs also saw the completion of two large headlease

negotiations in Burnaby, one with AMEC for 35,000 square feet in Commerce@Citi and the other with Census Canada for 23,231 square feet in Metrotower I.

Kasian Architecture Interior Design and Planning Ltd. recently announced it will be designing the new RCMP E-Division Headquarters in Surrey. This new facility will allow the RCMP to consolidate to one central location, vacating space from twenty-five separate locations throughout the Lower Mainland. Building construction is set to begin in July of this year, with a target completion date of December 2012.

**DEMAND AND NEW PRODUCT**

For the past two quarters, the City of Vancouver has experienced a serious decline in development permit applications. The lull is attributed to the current state of the economy as well as to the City's changing regulations in support of green development. Despite the lack of potential new developments, there are still a handful of current developments in the Downtown Core, as well as a promising amount of developments in the surrounding Suburban areas.

Existing Properties												Absorption (SF)	
Class	Bldgs	Total Inventory SF	Direct Vacant SF	Direct Vacancy Rate	Direct Availability Rate	Sublease Vacant SF	Sublease Vacancy Rate	Sublease Availability Rate	Vacancy Rate Q2-10	Vacancy Rate Q1-10	Total Availability Rate	Net Absorption Current	Net Absorption YTD
<b>DOWNTOWN SECTION:</b>													
Downtown Vancouver													
AAA	8	3,293,194	144,114	4.4%	2.2%	8,118	0.2%	1.4%	4.6%	5.1%	3.6%	14,908	4,744
A	27	6,741,054	74,838	1.1%	2.3%	20,067	0.3%	1.2%	1.4%	2.3%	3.5%	57,376	67,236
B	86	9,412,110	323,419	3.4%	4.8%	71,267	0.8%	1.3%	4.2%	4.8%	6.1%	61,618	72,263
C	101	5,019,339	271,783	5.4%	8.0%	21,023	0.4%	0.6%	5.8%	6.7%	8.7%	42,882	56,518
Total	222	24,465,697	814,154	3.3%	4.4%	120,475	0.5%	1.1%	3.8%	4.5%	5.6%	176,784	200,761
<b>SUBURBAN SECTION:</b>													
Broadway Corridor													
AAA	1	158,585	2,655	1.7%	1.7%	0	0.0%	0.0%	1.7%	1.7%	1.7%	0	0
A	34	2,471,841	112,688	4.6%	6.9%	4,241	0.2%	0.6%	4.7%	5.8%	7.6%	25,398	30,679
B	70	3,180,313	107,912	3.4%	4.7%	33,347	1.0%	1.2%	4.4%	4.5%	5.9%	1,870	29,869
C	29	611,902	23,971	3.9%	4.1%	0	0.0%	0.0%	3.9%	4.5%	4.1%	3,314	5,213
Total	134	6,422,641	247,226	3.8%	5.4%	37,588	0.6%	0.8%	4.4%	4.9%	6.3%	30,582	65,761
Burnaby													
AAA	2	613,479	18,248	3.0%	4.8%	0	0.0%	5.4%	3.0%	9.1%	10.2%	37,757	36,545
A	51	5,716,161	658,895	11.5%	11.4%	105,322	1.8%	2.4%	13.4%	12.7%	13.8%	(38,152)	(25,440)
B	60	3,263,377	322,703	9.9%	9.2%	37,601	1.2%	1.0%	11.0%	8.8%	10.2%	(77,525)	(83,627)
C	26	629,522	45,592	7.2%	7.2%	0	0.0%	0.1%	7.2%	7.1%	7.4%	(670)	(1,145)
Total	139	10,222,539	1,045,438	10.2%	10.0%	142,923	1.4%	2.0%	11.6%	10.9%	12.0%	(78,590)	(73,667)
Richmond													
A	27	1,976,717	330,241	16.7%	16.3%	129,861	6.6%	9.4%	23.3%	24.4%	25.7%	21,494	490
B	48	2,257,135	256,832	11.4%	18.9%	10,865	0.5%	0.5%	11.9%	12.1%	19.4%	6,044	2,573
C	14	400,147	66,914	16.7%	17.1%	0	0.0%	0.0%	16.7%	16.8%	17.1%	168	7,978
Total	89	4,633,999	653,987	14.1%	17.6%	140,726	3.0%	4.2%	17.1%	17.7%	21.9%	27,706	11,041
New Westminister													
A	4	203,075	25,022	12.3%	12.3%	0	0.0%	0.5%	12.3%	14.9%	12.8%	5,309	8,033
B	16	651,930	28,404	4.4%	4.6%	12,300	1.9%	5.0%	6.2%	10.3%	9.6%	26,267	25,389
C	21	677,599	75,137	11.1%	11.1%	0	0.0%	0.0%	11.1%	15.3%	11.1%	477	(432)
Total	41	1,532,604	128,563	8.4%	8.5%	12,300	0.8%	2.2%	9.2%	13.1%	10.7%	32,053	32,990
North Shore													
A	16	639,465	17,356	2.7%	5.0%	7,000	1.1%	1.5%	3.8%	3.3%	6.6%	(3,500)	(7,468)
B	29	1,159,198	48,904	4.2%	5.1%	1,689	0.1%	0.1%	4.4%	3.1%	5.3%	(14,594)	(22,528)
C	18	366,727	4,625	1.3%	1.5%	1,200	0.3%	0.3%	1.6%	1.1%	1.9%	(1,746)	2,303
Total	63	2,165,390	70,885	3.3%	4.5%	9,889	0.5%	0.6%	3.7%	2.8%	5.1%	(19,840)	(27,693)
Surrey													
A	12	1,603,511	282,164	17.6%	18.4%	3,919	0.2%	0.2%	17.8%	20.8%	18.7%	47,754	62,256
B	30	1,207,320	33,071	2.7%	2.9%	1,116	0.1%	0.1%	6.7%	2.8%	2.9%	15,582	15,719
C	23	732,293	29,704	4.1%	4.1%	0	0.0%	0.0%	4.1%	5.1%	4.1%	7,443	(764)
Total	65	3,543,124	344,939	9.7%	10.2%	5,035	0.1%	0.1%	9.9%	11.9%	10.3%	70,779	77,211
<b>SUBURBAN TOTAL</b>													
AAA	3	772,064	20,903	2.7%	4.1%	0	0.0%	4.3%	2.7%	7.6%	8.5%	37,757	36,545
A	144	12,610,770	1,426,366	11.3%	11.9%	250,343	2.0%	2.8%	13.3%	13.8%	14.7%	58,303	68,550
B	253	11,719,273	797,826	6.8%	8.5%	96,918	0.8%	1.0%	7.6%	7.3%	9.5%	(42,356)	(32,605)
C	131	3,418,190	245,943	7.2%	7.3%	1,200	0.0%	0.1%	7.2%	8.3%	7.4%	8,986	13,153
Total	531	28,520,297	2,491,038	8.7%	9.7%	348,461	1.2%	1.8%	10.0%	10.3%	11.5%	62,690	85,643
<b>GRAND TOTAL</b>													
AAA	11	4,065,258	165,017	4.1%	2.6%	8,118	0.2%	1.9%	4.3%	5.6%	4.5%	52,665	41,289
A	171	19,351,824	1,501,204	7.8%	8.6%	270,410	1.4%	2.2%	9.2%	9.8%	10.8%	115,679	135,786
B	339	21,131,383	1,121,245	5.3%	6.9%	168,185	0.8%	1.1%	6.1%	6.2%	8.0%	19,262	39,658
C	232	8,437,529	517,726	6.1%	7.7%	22,223	0.3%	0.4%	6.4%	7.4%	8.1%	51,868	69,671
Total	753	52,985,994	3,305,192	6.2%	7.3%	468,936	0.9%	1.5%	7.1%	7.6%	8.8%	239,474	286,404

<b>QUARTERLY COMPARISON AND TOTALS</b>													
Q1-10	752	52,969,994	3,517,714	6.6%	7.4%	529,470	1.0%	1.8%	7.6%	7.6%	9.2%	46,930	
Q4-09	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	
Q3-09	752	52,609,024	2,989,309	5.7%	7.0%	802,036	1.5%	2.1%	7.2%	7.2%	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%	6.4%	8.8%	(389,424)	

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).

The Offices at Hotel Georgia, located at 669 Howe Street, will be available for tenant fixturing this fall. The building will add approximately 71,500 square feet of Class AAA office space to the Downtown inventory, for which there are no pre-leasing agreements in place. At 838 West Hastings Street, Jameson House remains under construction with a target completion date set for the second quarter of 2011. The eight floors of Class A office space total over 64,000 square feet of new supply. Downtown is also about to welcome its first major office building since Bentall V. The Aquilini Group officially announced its plan to start construction on the office tower at Rogers Arena in September of this year. The twenty-two storey building, located at 800 Griffiths Way, will contain at least nineteen storeys of new office space and has already attracted substantial tenant interest.

Of all the suburbs, Burnaby in particular has seen great progress on a number of its developments this quarter. Commerce@Citi is now complete with tenants occupying space as of May 2010. Phases 8 and 9 at Willingdon Park are essentially complete, with 53,000 square feet of Phase 9 recently leased to Terasen Gas. All 92,500 square feet of Phase 8 and approximately 40,000 square feet of Phase 9 still remain available. Broadway Tech Centre saw the completion of Buildings 5 and 7 on April 1, 2010, with Building 5 ready for occupancy immediately and Building 7 available for occupancy this November. Metro Tower III, offering approximately 400,000 square feet of Class AAA office space, is set for completion late 2012. There are currently no pre-leasing commitments in place.

#### RATES AND INDUCEMENTS

Rental rates for Downtown Vancouver have remained fairly stagnant this quarter with the exception of Class A and AAA view space, which rented for \$30 to \$40 per square foot. Mid-rise high quality Downtown space remained stable with rental rates ranging from \$25 to \$28 per square foot. Even though rental rates were fairly stable this quarter, there may be a future threat of higher rates for tenants requiring large spaces in the Downtown Core. Considering there are very few relocation options available to large tenants, landlords may raise rates to take advantage of the scarce availability. Inducements in Downtown Vancouver have not experienced any serious fluctuations, although some tenants have received higher-than-average tenant improvement allowances on unimproved space.

Suburban market rental rates have experienced very little change this quarter, with the exception of Richmond. Lease rates in Richmond are becoming increasingly competitive as it has the highest vacancy rate of any Suburban market. Even though Richmond's vacancy did minimally decrease this quarter, the rental rates have started to slip and this trend may continue into future quarters as competition intensifies. Landlords in the Suburbs have continued to offer generous inducements, especially for deals on space in newer buildings that require an extensive amount of tenant improvement.

#### INFLUENCING FACTORS

There is a significant trend in new suburban developments toward obtaining LEED certification. In Burnaby, Willingdon Park (Phases 8 and 9) and all four new buildings in the Broadway Tech Centre targeted a LEED Gold certification, and Metro Tower III is LEED Platinum pre-certified. Airport Executive Park Building 6, located at 10851 Shellbridge Way, is also targeting LEED Gold certification, which will make it the only LEED certified commercial building in Richmond. The benefits of a LEED certified building apply not only to the environment, but to the companies who occupy the building as well. These benefits include lower operating costs, reduced energy consumption, increased staff productivity and lower employee absenteeism. With all of these benefits, developers in the Suburbs are hoping their LEED certified buildings will entice quality tenants away from Downtown.

New Downtown office developments are not targeting LEED certification on the same scale as developments in the Suburbs. The fact remains that there is currently sufficient demand for Downtown space and developers do not necessarily need LEED certification to attract tenant interest. The City of Vancouver is starting to firmly support LEED certification, with a proposal from February 4th of this year that requires all new construction associated with rezoning to target LEED Silver equivalency. This proposal will be taken back to Council on July 30th to seek a requirement for LEED Gold equivalency, with a target for LEED Gold certification by January 1st 2011.

294 OFFICES IN 61 COUNTRIES ON  
6 CONTINENTS

USA 94

Canada 22

Latin America 17

Asia Pacific 64

EMEA 97

\$1.6 billion in annual revenue

1.1 billion square feet under management

12,749 Professionals

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