



BOB SAUNDERS
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MARKET OVERVIEW & FORECAST

British Columbia's economy continues to strengthen as it cashes in on a growing Asian-Pacific trade partnership, a thriving energy sector, a revitalized high tech sector, and a multi-year construction boom. This vitality is reflected in the activity experienced over the past few years in the commercial real estate market. Low interest rates and real income gains continue to drive residential construction and consumer sector growth. Building permits, for 2005, were up 25.4% over 2004 and represent over \$6.6 billion in construction activity. Vancouver has a number of significant projects on stream as the excitement surrounding the Winter Olympic Games continues. Developments include the Vancouver Convention & Exhibition Centre, Richmond Olympic Skating Oval, Sea to Sky highway upgrades, a RAV line extension (connecting YVR with downtown), the proposed waterfront soccer stadium, and development of the South East False Creek lands and Athlete's Village.

OFFICE MARKET HIGHLIGHTS

The Greater Vancouver office market has improved significantly over the past few years. In 2005, office market activity strengthened further due to increased tenant demand. The overall vacancy rate in the Lower Mainland declined from 13.4% to 9.4% in 2005, with 1.4 million square feet of positive absorption across all classes. In fact, more absorption occurred in the first three quarters of 2005 than in all of 2004.

Declining for eight consecutive quarters, vacancy rates at the end of 2005 were the lowest that Downtown Vancouver has seen since the beginning of 2004. The vacancy rate improved dramatically due to increased demand and a lack of new product. Opportunities for users requiring large blocks of space are limited. The Suburban markets have also seen significant decreases in overall vacancy rates and positive absorption. Most recently, VANOC (The Vancouver Olympic Organizing Committee) leased approximately 249,000 square feet in two buildings acquired by the City of Vancouver for \$24 million.

INDUSTRIAL MARKET HIGHLIGHTS

Greater Vancouver experienced stable industrial market conditions throughout 2005. The overall vacancy rate decreased from 2.1% at the start of the year to 1.9% by year-end. The GVRD saw approximately 3.0 million square feet of positive absorption in 2005 marking the fourth consecutive year of positive absorption and decreasing vacancy rates. Expect lease rates for both new and existing properties to increase as a result of these tight market conditions in 2006.

INVESTMENT MARKET HIGHLIGHTS

As BC's economy remains strong, investors will continue to aggressively search for commercial real estate investment product. Available properties for sale are scarce and continue to push a vendor driven market. The attractiveness of retail and industrial buildings in 2005 pushed sale prices up and drove cap rates to all time lows. Industrial properties have attracted many local and Canadian investors while shopping centre and hotel sales are seeing attention from REITs, pension funds, and international investors. Continued vacancy decreases in the office market should attract more investors to this asset class in 2006.

RETAIL MARKET HIGHLIGHTS

Record employment levels and a strong provincial economy boosted consumer spending, sending retail sales to all time highs in 2005. With a boom in the residential home buying sector, home renovations in BC have also increased. Sales at building and outdoor home supply stores reportedly rose 10% in 2004 to a record \$21 billion nationally. Both retailers and wholesalers in this industry have seen spectacular activity over the past 18 months, and this trend is expected to continue throughout 2006 as the building boom continues leading up to the Olympics.

Leasing activity along Robson Street, Vancouver's staple retail strip, continues to be extremely active. Consequently, lease rates have inflated with new deals and some renewals reported at over \$200 per square foot. Greater Vancouver has seen an influx of large format retail developments either under construction or awaiting permit. Vancouver is continuing to see many developers look to grocery stores as their anchor tenant regardless of whether their development is strictly retail or mixed use in nature.

VANCOUVER MARKET AT A GLANCE

POPULATION

2.2 million

OFFICE INVENTORY

43.1 million sf

OFFICE VACANCY

9.1%

CBD CLASS A VACANCY

6.2 %

INDUSTRIAL INVENTORY

156 million sf

INDUSTRIAL VACANCY

1.9%

