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VICTORIA

MARKET OVERVIEW & FORECAST

2005 proved to be another solid year for the Victoria economy. After recording a 6.1% growth rate in 2004, the economy expanded by a respectable 2.6% in 2005. Population and employment growth remain strong, which translates into a healthy increase in personal income, further supporting domestic demand in 2006 and an anticipated GDP expansion of 2.2%.

Victoria's real estate market continues to outperform expectations. From fractional residential ownership in the Humboldt Valley, to view lots at Bear Mountain, real estate demand remains strong with most new residential projects pre-selling at record levels. Building sites (commercial, industrial and residential) are in high demand, prices are rising, and development land is in short supply. Buyer interest is coming from all parts of Canada, the US and Europe. Commercial vacancies are low, interest rates remain favourable, and the real estate market is expected to remain strong for the foreseeable future.

OFFICE MARKET HIGHLIGHTS

The Victoria office market has returned to historically low vacancy levels, with overall vacancy at 6.5% and predicted to drop below 5.0% in 2006. Class A space leads the way, with vacancy below 3.0%, providing limited options for tenants in the most prestigious buildings in town. Given the limited new supply anticipated in this category, the market is expected to remain very tight in 2006.

The office market has had to absorb substantial government downsizing in recent years. However, the bulk of the downsizing is complete and has been, and will continue to be, offset by private sector demand. With low vacancy, continued strong demand and a lack of significant new supply to the market, expect to see upward pressure on rental rates in 2006 which may in turn drive new construction opportunities.

INDUSTRIAL MARKET HIGHLIGHTS

The industrial vacancy rate dropped significantly to less than 1.0% at the end of 2005. Steady demand, positive absorption, and limited new supply have fuelled the decline in industrial space to an unhealthy level. In fact, only 54,000 square feet of new supply was added to the inventory, while 185,000 square feet was absorbed. This lack of new supply will certainly affect the regional industrial market with suburban build-to-suit projects dominating. Tenants searching for new space have limited options. As a result of tight market conditions, expect to see lease rates and building values increase.

INVESTMENT MARKET HIGHLIGHTS

Demand for quality investment product continues to exceed supply in Victoria. Local private investors are very active in the market as are Vancouver based investors whose impact has grown substantially over the past few years. Industrial and development properties have been very active but are also rare investment opportunities. Limited supply and increased national and international attention, on the part of investors, will likely keep downward pressure on cap rates for quality investment product throughout 2006.

RETAIL MARKET HIGHLIGHTS

Victoria's downtown street front vacancy rate decreased approximately 1.0% in 2005 to 5.0% (excluding the former Hudson's Bay building awaiting redevelopment). The opening of the Save on Foods Memorial Arena, the impending arrival of Mountain Equipment Co-op in the Vogue building on Government Street, and the opening of British Importers in the Harris Green neighbourhood, has brought new activity and excitement to the surrounding areas.

In the suburbs, pent-up demand for new retail space is encouraging development of new stores for The Brick, Rona, Winners and HomeSense at Canwest in Langford; the Thrifty Foods anchored Tuscan Village on McKenzie and Shelbourne; the \$100 million redevelopment of the Wal-Mart anchored Town & Country Shopping Centre; and the opening of Home Depot at University Heights Centre.

HOSPITALITY MARKET HIGHLIGHTS

2005 was another record year for tourism in Greater Victoria. According to Grant Thornton, hotel occupancies were up almost 1.0% from 2004 and average room rates were approximately \$3.00 per room higher. Airport traffic increased, as did passenger loads on BC Ferries. The Victoria International Airport departure area renovation is now in its second phase and should be completed in 2006. Overall tourism spending was well over \$1.0 billion in 2005 and all signs point to a continued bright future for Victoria's tourism industry.

VICTORIA MARKET AT A GLANCE

POPULATION
335,000

OFFICE INVENTORY
7.7 million sf

OFFICE VACANCY
6.5%

CBD CLASS A VACANCY
2.8%

INDUSTRIAL INVENTORY
7.2 million sf

INDUSTRIAL VACANCY
0.4%

