

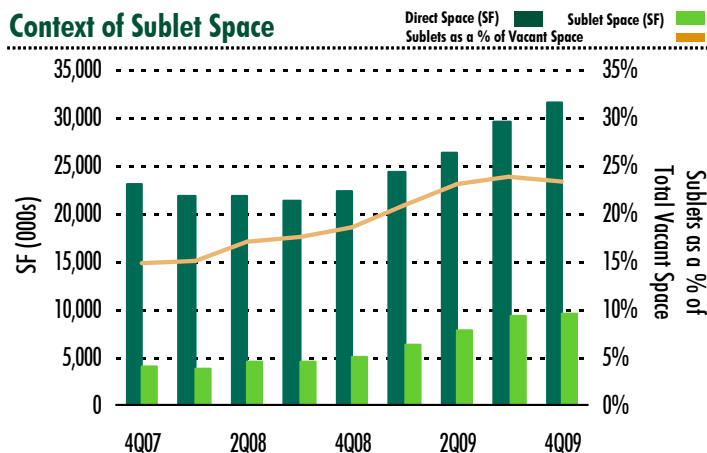
Canadian Office MarketView

NET RENTS DOWN ON LOW DEMAND AND INCREASING VACANCY

By **Roelof van Dijk**
National Senior Research Analyst

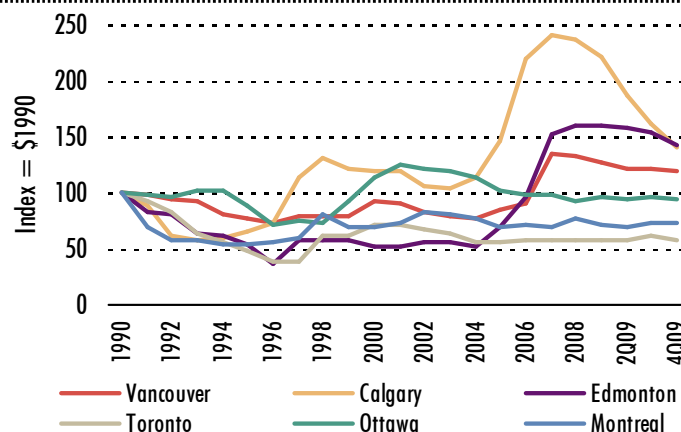
SUMMARY The 10.7 million SF of new supply delivered in 2009 was greeted with limited demand and 13.6 million SF of additional vacant space year-over-year. As a result, national year-end net absorption was negative for the first time since 2003.

Throughout 2009, the prevailing story was the fragile economic recovery. The fragility of the recovery is more important now as all levels of government around the world are deciding on how to unravel, cut-back and end their stimulus programs. If they start too soon or too fast, they risk causing a double-dip recession, whereas if they wait too long they risk igniting inflation and needlessly increasing their deficits. Although the unemployment rate has seemingly stabilized at 8.5%, overall national employment remains down by approximately 344,000 jobs from its peak in October of 2008. The majority of these job losses have occurred in the manufacturing, transportation and warehousing, construction and natural resources sectors. Office use employment, including finance, insurance and real estate (FIRE), professional scientific and technical services and health care and social assistance sectors, is up year-over-year (y/y). This bodes well for the office market, which had 10.7 million SF of new supply delivered in 2009, the largest amount of new supply since 1991. Furthermore, the world-class Canadian financial sector is being called on to become the new cornerstone of Ontario's battered economy.



Looking back, 2009 was all about sublet space. At year-end 2008, the overall national vacancy rate was 6.7% and sublet space as a percentage of total vacant space was 18.6%. At year-end 2009, the national vacancy rate was 9.9%, with 41.0 million SF vacant, equivalent to Vancouver's entire office market. There was 9.5 million SF of sublet space, the equivalent of Winnipeg's office market, which represented 23.2% of total vacant space. The actual square footage of sublet space continues to increase, however, at a slower pace. But it is overshadowed by the amount of direct space coming to the market. As a result, sublet space as a percentage of total vacant space decreased by 50 basis points (bps) in the fourth quarter to 23.2%.

Downtown Class A Office Rental Index (\$1990)



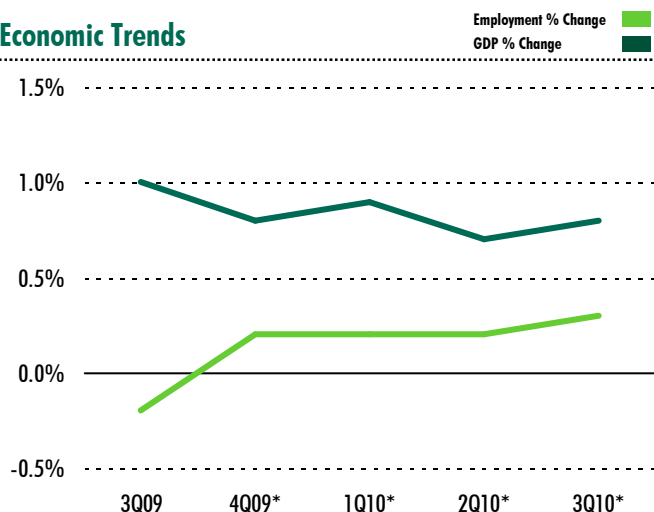
National overall net absorption, at 696,456 SF in the fourth quarter, has been positive for two consecutive quarters. Year-end net absorption is negative 2.8 million SF, negative for the first time since 2003. The turnaround in the second half of 2009 was primarily due to the fact that 80.0% of the 8.2 million SF of new supply delivered in the second half was pre-leased; however, these new builds are not yet 80.0% occupied. As tenants move in and vacate their previous locations, there will be negative absorption and increasing vacancy in the coming quarters.

Although the national average net rent increased in the third quarter as a result of a large amount of direct vacant space in the new builds, it decreased in the fourth quarter. Net rents are expected to continue decreasing as vacancy rates increase further and landlords compete for tenants.

MARKET STATISTICS

Market	Submarket Area	Inventory SF (000s)	Vacancy Rate (%)	YTD Net Absorption SF (000s)	Under Construction	Class A Net Rental Rate (\$ psf/YR)
Vancouver	Downtown	21,798.6	5.8%	-565.7	127.1	\$32.08
	Suburban	19,213.5	12.8%	-203.1	1,022.5	\$20.06
	Total	41,012.1	9.1%	-768.8	1,149.6	\$22.00
Calgary	Downtown	35,703.0	15.5%	-1,236.8	2,740.0	\$27.82
	Suburban	20,071.0	15.7%	258.8	890.5	\$22.29
	Total	55,774.0	15.6%	-978.0	3,630.5	\$24.85
Edmonton	Downtown	14,149.6	7.9%	-151.1	872.0	\$24.39
	Suburban	8,174.8	12.3%	-191.7	110.0	\$21.92
	Total	22,324.4	9.5%	-342.8	982.0	\$23.79
Winnipeg	Downtown	7,158.8	8.0%	-146.6	0.0	\$15.44
	Suburban	2,293.6	8.5%	-94.5	0.0	N/A
	Total	9,452.4	8.1%	-241.1	0.0	\$15.44
London	Downtown	4,388.7	15.1%	3.3	0.0	\$13.36
	Suburban	1,044.3	7.9%	-7.5	0.0	N/A
	Total	5,433.0	13.7%	-4.2	0.0	\$13.36
Waterloo Region	Downtown	4,495.3	6.3%	4.3	320.9	\$12.48
	Suburban	9,013.0	6.5%	188.7	97.0	\$12.64
	Total	13,508.4	6.4%	193.0	417.9	\$12.61
Toronto	Downtown	77,993.9	7.3%	1,144.8	1,488.0	\$25.68
	Suburban	68,454.3	11.7%	-1,013.0	996.0	\$15.84
	Total	146,448.1	9.4%	131.8	2,494.0	\$20.23
Ottawa	Downtown	20,469.7	3.6%	79.7	535.0	\$24.77
	Suburban	25,337.0	7.4%	-42.1	0.0	\$13.41
	Total	45,806.7	5.7%	37.6	535.0	\$16.98
Montreal	Downtown	42,350.5	8.7%	-1,188.0	250.0	\$20.88
	Suburban	23,227.8	12.9%	170.5	197.0	\$13.72
	Total	65,578.3	10.2%	-1,017.5	447.0	\$17.92
Halifax	Downtown	4,472.8	7.0%	-119.0	110.0	\$18.64
	Suburban	5,964.9	12.6%	260.3	0.0	\$16.13
	Total	10,437.7	10.2%	141.2	110.0	\$16.66
National	Downtown	232,980.9	8.5%	-2,175.1	6,453.0	\$24.26
	Suburban	182,794.3	11.5%	-673.7	3,313.1	\$17.20
	Total	415,775.2	9.9%	-2,848.8	9,766.1	\$20.45

Economic Trends



Source: Conference Board of Canada

* Forecasted

ECONOMIC TRENDS

After officially emerging from the recession in the third quarter with 1.0% Gross Domestic Product (GDP) growth, October and November GDP grew 0.2% and 0.4% respectively. The national unemployment rate at year-end 2009 was 8.5%, a drastic increase from 5.9% in March of 2008. The unemployment rate has seemingly stabilized, if only for the time being, as it has been at 8.5% for two consecutive months following a 10 bps decrease in October. Although the Conference Board of Canada is expecting the economy to grow by 2.1% in 2010, there are many challenges ahead, such as the removal of government stimulus programs and the high Canadian dollar, which could stifle manufacturing output and the economic recovery.

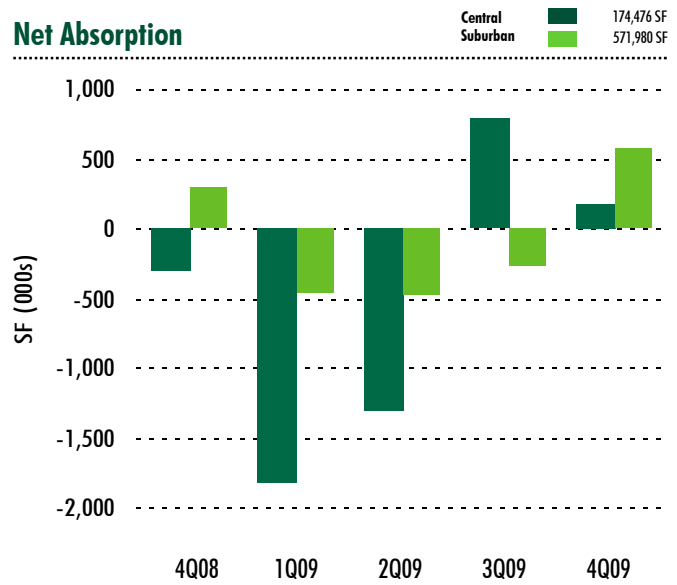
NET ABSORPTION

National net absorption was positive for the second consecutive quarter, at 696,456 SF. This was not enough to result in positive year-end absorption, as total absorption for 2009 was negative 2.8 million SF, negative for the first time since 2003. Unlike in the third quarter, the majority of markets experienced positive absorption. Toronto had the highest net absorption this quarter, at 692,884 SF, bringing year-end net absorption to positive 131,756 SF. This positive absorption is due to the 3.8 million SF of new supply in the downtown market, which was over 75.0% pre-leased. This space was counted as not available even though many tenants are still in the process of moving and therefore still occupy their old space. As a result, the arrival of vacant space and negative absorption has been delayed. Montreal, Calgary and Vancouver, with 1.1 million SF, 978,022 SF and 768,803 SF of negative net absorption for the year, respectively, contributed the lions share of the national negative absorption.

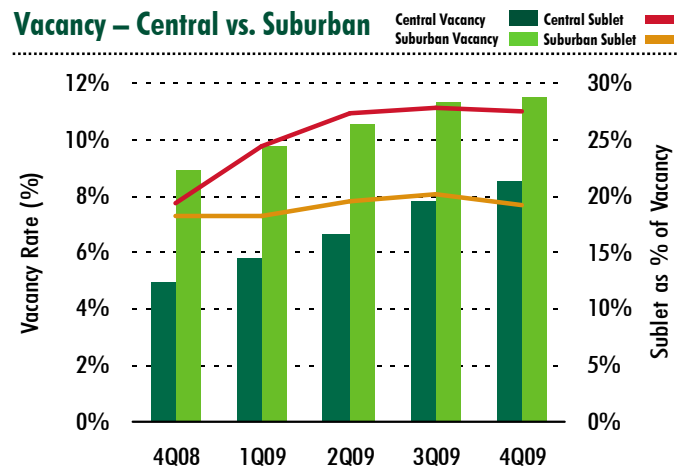
VACANCY RATE

At year-end, the national overall vacancy rate was just shy of double digits at 9.9%, up 50 bps from the third quarter of 2009 and up a cumulative 360 bps from the third quarter of 2008. Downtown vacancy continues to increase the fastest, up another 70 bps in the fourth quarter to 8.5%, and up 360 bps (y/y). The suburban markets by comparison are up only 20 bps in the fourth quarter to 11.5%, and up 260 bps (y/y). The significant vacancy increase downtown has been driven by the increase in sublet space, particularly in the western markets, and by the vacant space in the large amount of new supply delivered in Toronto and Calgary. The Calgary market has been hit particularly hard, with overall vacancy up from 4.7% in the third quarter of 2008, the lowest in the country, to 15.6% in the fourth quarter of 2009, the highest in the country. This meteoric rise is primarily due to the influx of sublet space, which represented over 50.0% of all vacant space for the majority of the year, but has since dropped to 47.0% at year-end.

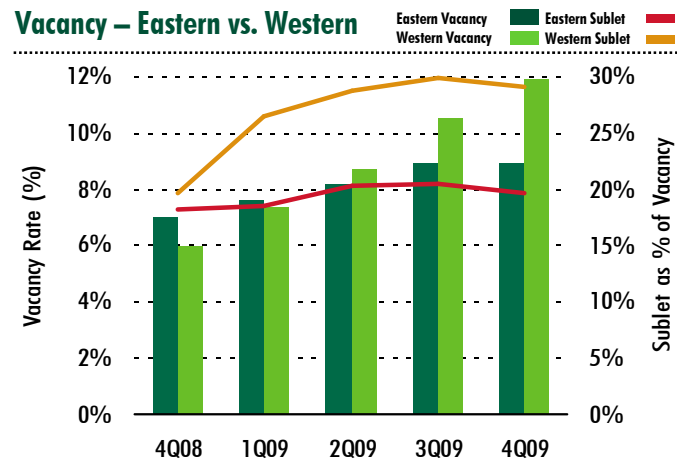
Net Absorption



Vacancy – Central vs. Suburban



Vacancy – Eastern vs. Western



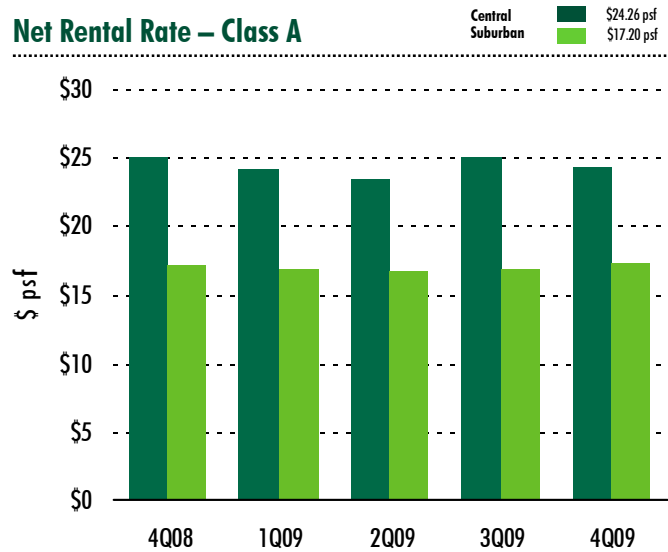
NET RENTAL RATES

The national overall net asking rent for Class A space is up 0.3% (y/y), however, the net effective rent (NER) for the same is down 18.4% (y/y). In the fourth quarter, Class A overall net asking rents increased by \$0.03 psf to \$20.45 psf. This increase resulted from a \$0.36 psf increase in suburban rents in the fourth quarter. The downtown markets did not fare as well. After increasing by \$1.63 psf in the third quarter, downtown Class A net rents fell by \$0.78 psf in the fourth quarter to \$24.26 psf. The blip in downtown Class A rents in the third quarter was mainly the result of the vacant space delivered in the new builds in Toronto that demanded higher rents. Although there was additional new supply in the fourth quarter, the amount of vacant space in these new builds was not of the same magnitude as in the third quarter. As a result, the average rental rate was not skewed up as much. Class A rental rates should continue their slide in the coming quarters as landlords continue to compete with each other and sublet space. Once again, downtown Calgary experienced the largest Class A net rent decrease this quarter, dropping \$4.14 psf to \$27.82 psf, below the \$30.00 psf for the first time since the fourth quarter of 2005. Calgary's rents will keep falling due to the continued influx of direct and sublet space.

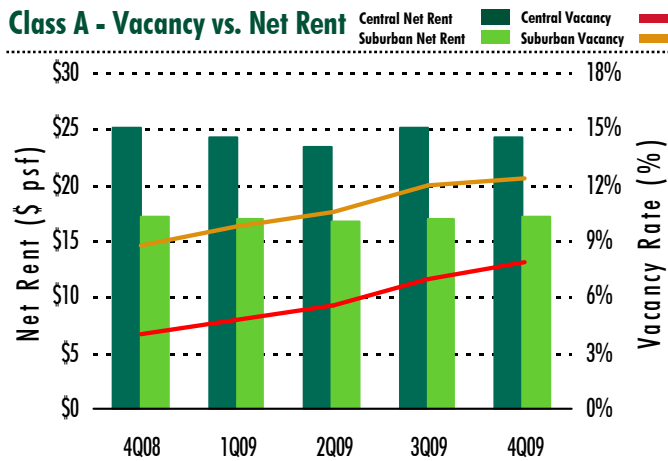
CONSTRUCTION COMPLETIONS

Another 3.1 million SF of new office space was completed nationally in the fourth quarter of 2009, for a total of 10.7 million SF in 2009, the highest amount of new supply since 1991. Calgary and Toronto received the majority of this new supply, with 4.5 million SF and 4.1 million SF respectively. Although both markets will pay for this building binge with rising vacancy and falling rents, the Calgary market is also suffering from a lack of demand due to the slumping energy sector. Of the 4.5 million SF delivered in Calgary in 2009, the most since 1983, 2.6 million SF or 7.8% of the existing stock was delivered downtown. Of the 4.1 million SF delivered in Toronto in 2009, the most since since 1992, 3.1 million SF or 4.0% of the existing stock was delivered in the Central market.

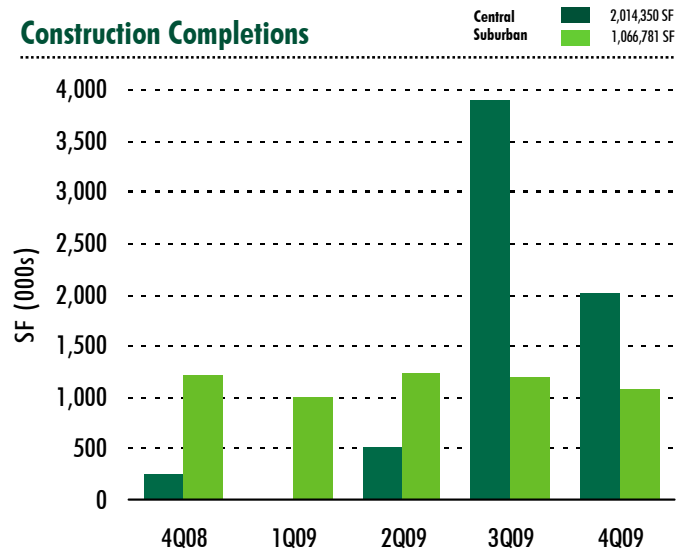
Net Rental Rate – Class A



Class A - Vacancy vs. Net Rent



Construction Completions



TOP CANADIAN OFFICE LEASE TRANSACTIONS

Size (SF)	Tenant	Address
280,000	BP Canada Energy Company *	BP Centre, Calgary, AB
139,000	Macleod Dixon LLP	Canterra Tower, Calgary, AB
115,872	Hydro Quebec	800 de Maisonneuve Boulevard East, Montreal, QC
109,000	Public Works and Government Services Canada (PWGSC)	110 O'Conner Street, Ottawa, ON
87,000	Murphy Oil Company Ltd.	Centennial Place East, Calgary, AB
77,000	Ontario Lottery and Gaming Corporation (OLG)	3300 Highway 7 West, Vaughan, ON
75,138	Royal Bank of Canada *	4010 Tupper Street, Montreal QC
68,000	Public Works and Government Services Canada (PWGSC)	180 Kent Street, Ottawa, ON
66,779	S.P. Richards Company *	1325 Clarke Street, Brampton, ON
63,500	Enbridge Inc.	10130 – 103 Street, Edmonton, AB

* Renewal

** Expansion to existing pre-lease

FOR MORE INFORMATION PLEASE CONTACT:

Roelof van Dijk
 National Senior Research Analyst
 CB Richard Ellis | CBRE Research
 T: 416.847.3241 F: 416.362.8085
 roelof.vandijk@cbre.com

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