



Intelligent Real Estate Solutions

Q4 2010

THE Office Report

THE EPCOR EFFECT

Creating The Strike Zone

Everything has changed since September 2008. The economy was booming, the oil sands were running at full speed, businesses were expanding and the owners of commercial real estate were enjoying unprecedented financial returns.

Then, on September 15th, 2008 we saw the collapse of a historic American institution: Lehman Brothers. The rest is history.

During the economic boom, EPCOR made the decision to commission a new building on 101st Street, north of 104th Avenue, to consolidate all of its Edmonton offices. In approximately 12 months from now, EPCOR will relocate into their new office space, occupying approximately 290,000 square feet (sf), with the federal government's Department of Justice moving in as

EPCOR's only neighbour thus far, occupying approximately 130,000 sf. The graphic below illustrates the buildings EPCOR and the Department of Justice will vacate in favour of the new development; the first high-rise office tower to be developed in Edmonton since Commerce Place was constructed in 1990. The completion of EPCOR Tower plus the return of the currently occu-

ried office space will result in the addition of approximately 543,000 sf of vacant inventory in the downtown financial market. This migration has created a market dynamic that we are referring to as "The Strike Zone"; a concept illustrated on the following page.

Prior to the economic collapse of 2008, Edmonton's Financial District achieved rental rates as high as \$38 per square foot (psf) in existing buildings such as Bell Tower and Manulife Place, while the new EPCOR Tower commanded rental rates north of \$40 psf.

Today, a lease in class AA towers could have a rental rate starting in the high teens to low \$20's psf. Interestingly, these highly reduced rental rates include generous tenant inducements ranging between \$30 psf and \$60 psf depending on the dynamics around each transaction.

and not when the vacancy is presented to the market next year? Because landlords, particularly those with added exposure in other, more depressed North American markets, are working to mitigate the risk of being plagued with long term, chronic vacancy when the market sees EPCOR and the Department of Justice relocate.

As illustrated in The Strike Zone graphic on the following page, rental rates are likely to decline slowly over the upcoming 18 months while at the same time tenant inducement packages will likely decrease sharply. We project a tenant will achieve financial terms in a lease that are more favourable today compared to what would be achievable in 2012. To that effect, we witnessed an increase in transaction volume over the last quarter of 2010, partly due to a trend of early renewals as tenants look to take advantage of The Strike Zone and landlords strive to stabilize their portfolios.



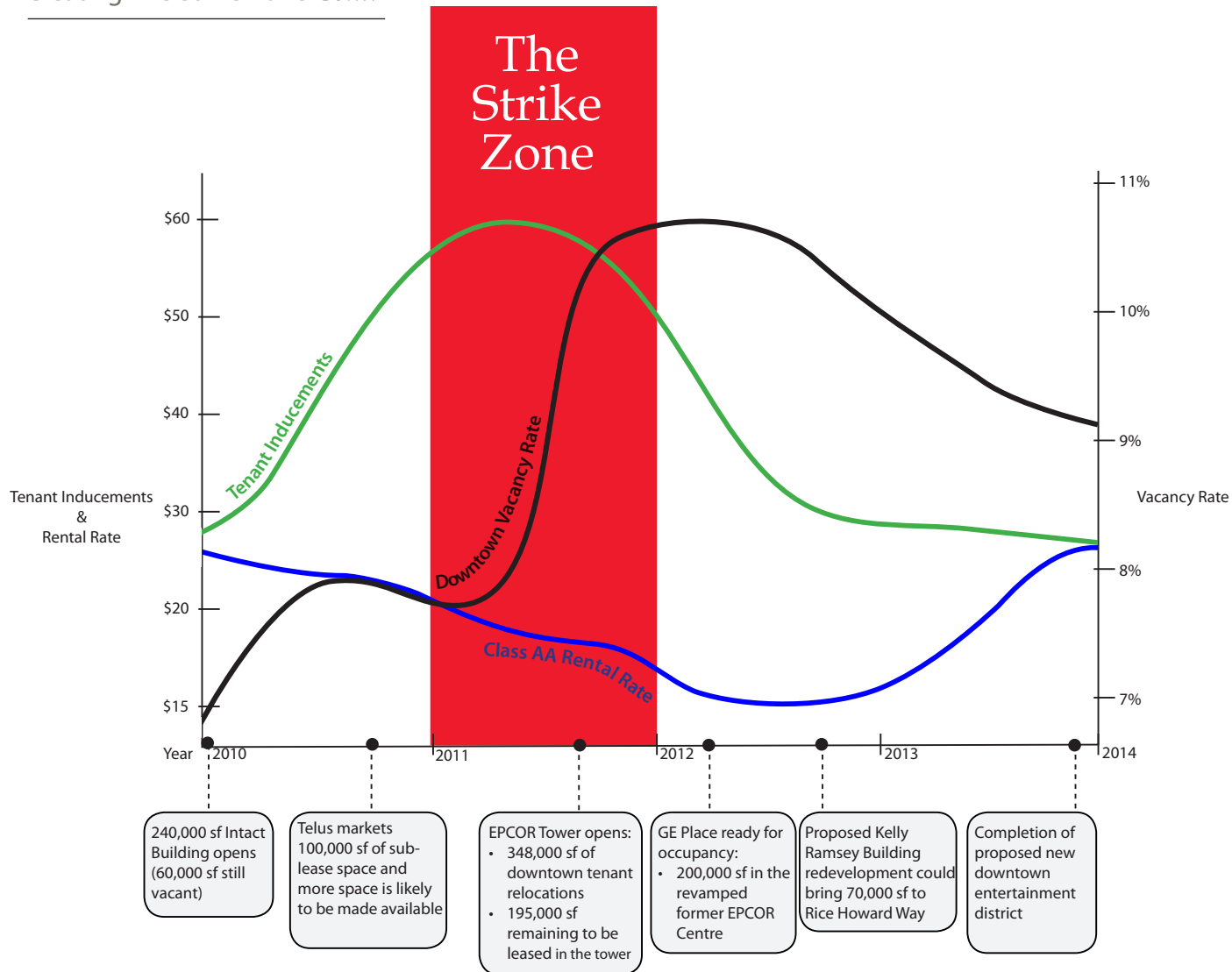
Only 17% of the 420,000 sf leased in the new EPCOR Tower is expansion from the tenants' current occupied office space.

Why are these highly favourable terms being offered to tenants now

Continued inside...

THE EPCOR EFFECT

Creating The Strike Zone *Cont.*



This graph illustrates the favourable market dynamics creating an opportune time for users of office space to secure a new lease or to renew current lease contracts. Graph financials represent 10 year lease terms in class AA buildings in the Financial District.

Did you know?

The downtown Financial & Government District inventory consists of the following breakdown:

- 23% Class AA
- 42% Class A
- 22% Class B
- 13% Class C

Movers & Shakers



The Business Link will occupy 11,800 sf on the main floor of 10158 - 103 Street.



Golder and Associates leased 37,000 sf in the new Westlink Park.



Medical Imaging Consultants commits to 17,000 sf in Tawa Centre.



Bentall Kennedy purchased Canadian Western Bank Place and Enbridge Tower.

DOWNTOWN LRT EXPANSION

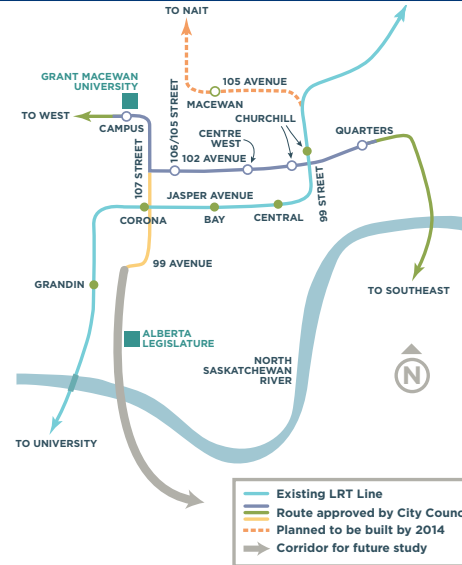
Maximizing Access and Mobility

The recently approved Capital City Downtown Plan was created to transform Edmonton's downtown, making it more vibrant and attractive by increasing density and encouraging mixed use and walking areas. This plan includes the beautification of Edmonton's main downtown arterial, Jasper Avenue.

The downtown section of the city's Light Rail Transit (LRT) expansion, an integral part of the overall Capital City Downtown Plan, was approved by city council at a public hearing on June 21st, 2010. The proposed downtown routes, as illustrated in the following diagram, will offer a surface line along 102nd Avenue to connect the proposed future

westbound extension and an underground/surface line extending west on 105th Avenue and then curving north on 105th Street to connect with NAIT. In order to determine the most advantageous design, five stops are currently under consideration and were presented to the Transportation and Public Works Committee on December 8th, 2010. Follow up planning will be conducted to finalize the design plan in early 2011.

These plans will assist in dramatically changing the landscape of our downtown, serving as a catalyst for increased downtown commercial activity, development and sustainable, public transit efficiencies.



ARTICLE and DIAGRAM SOURCE:
City of Edmonton Website

Further information on
LRT expansion can be found at:
www.edmonton.ca/LRTProjects.

- or -
SCAN ME



Scan this code to find further
information on the LRT expansion.
To download this application please visit
www.scanlife.com

Market News

- Worley Parsons has issued a 75,000 sf Request for Information for downtown Edmonton office premises.
- The Federal Government has issued a 13,000 sf Request for Information for downtown Edmonton office premises.

Feature Listings



GE Place
10065 Jasper Avenue
206,705 sf available



**Manulife Place
(Sublease)**
10180 - 101 Street
12,095 sf available



Plaza 124
10216 - 124 Street
23,074 sf available

THE OFFICE REPORT STATS

AS OF DEC, 2010

Overall City 9.1% ▼-0.4%	Downtown 7.7% ▼-0.2%	Suburban 11.8% ▼-0.7%	YTD Absorption (269,964) sf	Financial 7.5% — 0%
Government 8.3% ▼-0.4%	124th Street 16.3% ▲+1.3%	149th Street 7.0% ▲+0.2%	West End 11.6% ▼-8.1%	Whyte Avenue 6.5% ▼-1.2%
118th/Kingsway 6.0% ▲+2.0%	South Side 11.1% ▲+0.9%	Eastgate 12.5% ▼-1.89%	Sherwood Park 21.3% ▲+3.1%	

THE VACANCY REPORT

Positive absorption, for now...

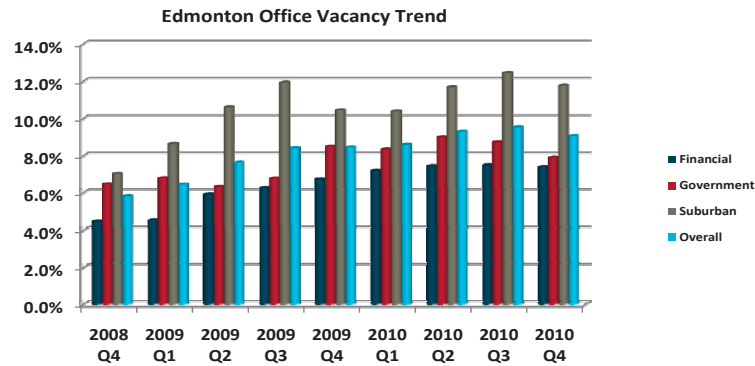
In the fourth quarter of 2010, the overall vacancy rate in Edmonton dropped for the first time in over two years. Leasing velocity continued to increase with the market absorbing 111,000 sf in the last three months as tenants have pursued favorable market conditions. The vacancy rate fell by 0.4 percentage points to 9.1%. Despite this quarter's decrease in vacancy, continued positive ab-

sorption will not be the go forward trend as there is 610,000 sf of office space currently being marketed that will become vacant over the next 12 months. This could increase the overall vacancy rate by 2.3%.

Vacancy dropped by 0.2 percentage points overall to 7.7% in the downtown markets as leasing activity in the Government District increased.

In the suburban markets, vacancy dropped to 11.8%, down 0.7 percentage points from the 12.5% reported at the end of the third quarter.

Average asking rates across the city have continued to decrease as competition remains high between landlords.



District/Class	Inventory (sf)	Direct Lease (sf)	Sublease (sf)	Vacancy Overall	Vacancy Direct	Vacancy Sublease	Absorption YTD (sf)	Average Asking Rates (psf)	Average Occupancy Costs (psf)
Financial									
AA	3,564,149	200,596	35,778	6.6%	5.6%	1.0%	-56,584	\$24.00	\$16.77
A	3,900,246	188,952	104,614	7.5%	4.8%	2.7%	-74,125	\$22.00	\$15.81
B	1,723,577	79,951	27,646	6.2%	4.6%	1.6%	-16,617	\$18.00	\$12.79
C	1,010,955	122,558	-	12.1%	12.1%	0.0%	59,230	\$14.00	\$11.17
Subtotal	10,198,927	592,057	168,038	7.5%	5.8%	1.6%	-88,096		
Government									
A	2,626,848	311,107	50,815	13.8%	11.8%	1.9%	15,913	\$20.00	\$12.25
B	1,662,418	30,412	5,821	2.2%	1.8%	0.4%	9,817	\$17.00	\$12.88
C	1,115,977	49,121	-	4.4%	4.4%	0.0%	-13,088	\$12.00	\$9.47
Subtotal	5,405,243	390,640	56,636	8.3%	7.2%	1.0%	12,642		
Downtown Total	15,604,170	982,697	224,674	7.7%	6.3%	1.4%	-75,454		
Suburban									
118 Avenue/Kingsway	510,249	25,042	5,545	6.0%	4.9%	1.1%	2,442	\$16.00	\$14.15
124 Street	862,574	119,234	21,364	16.3%	13.8%	2.5%	(51,657)	\$16.00	\$14.48
149 Street	967,646	63,988	3,721	7.0%	6.6%	0.4%	(27,856)	\$14.00	\$10.94
Eastgate	997,433	122,715	1,799	12.5%	12.3%	0.2%	(95,760)	\$16.00	\$10.72
Southside	2,891,892	239,414	82,735	11.1%	8.3%	2.9%	50,746	\$18.00	\$11.59
West End	1,051,096	118,601	3,650	11.6%	11.3%	0.3%	(8,403)	\$15.00	\$11.20
Whyte Avenue	480,587	29,551	1,622	6.5%	6.1%	0.3%	(9,047)	\$20.00	\$15.76
Sherwood Park	784,954	136,407	30,888	21.3%	17.4%	3.9%	(54,975)	\$16.00	\$8.80
Suburban Total	8,546,431	854,952	151,324	11.8%	10.0%	1.8%	-194,510		
Overall Total	24,150,601	1,837,649	375,998	9.1%	7.6%	1.5%	-269,964		



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Avison Young is the real estate partner businesses trust for intelligent, integrated solutions. We deliver results that are aligned with your strategic business objectives, supporting real estate initiatives that add value and build competitive advantage for your organization.

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