Continuing on a trend of decreasing vacancy and positive absorption from earlier in the year, the Metro Vancouver office market posted strong market fundamentals over the fourth quarter of 2011. As was forecast last quarter, market conditions continued to steadily improve, helping both core and peripheral markets witness positive gains.

After reaching peak vacancy at mid-year 2010, the Metro Vancouver office market continued to tighten quarter-over-quarter decreases, with the fourth quarter of 2011 continuing the trend. The regional vacancy rate improved to 8.0%, backed by several large tenancies within the Downtown, Burnaby, and Richmond markets. Leasing activity was relatively balanced across all submarkets this quarter, a phenomenon that was somewhat different in previous quarters where the downtown core often received the majority of leasing activity. The downtown vacancy rate dropped for the seventh consecutive quarter to 3.4% led primarily by gains within the Class A and B markets, while vacancy declined in the Burnaby, Richmond and New Westminster submarkets to 12.9%, 21.4% and 11.9%, respectively. Net absorption in the fourth quarter was strong, with over 294,085 SF of positive absorption overall. The downtown core once again led with 161,919 SF of positive absorption alone. Total absorption for the year stands at 860,383 SF, a marked improvement from 235,004 SF in 2010.

Regional office development continues to be a major focus within the region, as decreasing supplies are quickly tied up on the market support for new supply. With over 190,000 SF of pre-leasing in place during the fourth quarter, Metro Vancouver continues to outpace its competitors. McDermott and Metrotower II, amongst others, are on track to deliver over 200,000 SF of new supply within the next year, which will help to reduce the some 20% gap of supply to demand.

Looking ahead, market activity is expected to taper over the next several months as global economic conditions are being observed cautiously. As was forecast during the third quarter of 2011, some tenants will be hesitant, but limited supply and relatively strong fundamentals will continue to support market activity. Downtown tenants with lease expires over the next 12-24 months are expected to see upward movement in pricing, while greater preference for renewals and early term restructuring is also likely. Accordingly, landlords with long-term exposure will solidify their portfolios over the next year as supply conditions change. While pricing conditions will remain favourable for sublease tenants in the short-term, growing demand should start to narrow the gap for landlords over the long-term.
### Office Market Statistics

#### Submarket

<table>
<thead>
<tr>
<th>Submarket</th>
<th>Building Class</th>
<th>Net Rentable Area (SF)</th>
<th>Vacancy Rate (%)</th>
<th>4Q 2011 Net Absorption (SF)</th>
<th>Completed Construction (SF)</th>
<th>Avg. Asking Lease Rate ($/SF/YR)</th>
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</thead>
<tbody>
<tr>
<td>Downtown</td>
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<td>Burnaby</td>
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<td>New Westminster</td>
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<td>52,764</td>
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<td>$15.02</td>
</tr>
</tbody>
</table>

#### Economic Conditions (Current and Forecasted)

The regional economy grew at a much more moderate pace than expected in the fourth quarter as ongoing economic issues in Europe and the U.S. continue to dampen overall market confidence. While the Vancouver unemployment rate fell to 7.0% in November, job growth in construction and related industries is expected to be affected as federal spending on infrastructure and health care and the residential development market slows. Over the next year, demand for B.C. exports from China should continue to support overall growth in the region. Further regional economic growth will depend upon improved domestic demand and higher consumption in the U.S. and Europe.

#### Top Sale Transactions

<table>
<thead>
<tr>
<th>Market</th>
<th>Address</th>
<th>Price (USD)</th>
<th>Size (SF)</th>
<th>Price ($/SF)</th>
<th>Purchaser</th>
</tr>
</thead>
<tbody>
<tr>
<td>Richmond</td>
<td>8101 Granville Ave</td>
<td>$23,800,000</td>
<td>94,983</td>
<td>$251</td>
<td>Dunbar REIT</td>
</tr>
<tr>
<td>Vancouver</td>
<td>875 Beatty St</td>
<td>$9,400,000</td>
<td>22,781</td>
<td>$413</td>
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<tr>
<td>Burnaby</td>
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<td>0917063 B.C. Ltd. (40% Int.)</td>
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<td>0917063 B.C. Ltd. (60% Int.)</td>
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<td></td>
<td></td>
<td></td>
<td>0917063 B.C. Ltd. (1% Int.)</td>
</tr>
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<td>Surrey</td>
<td>9656 King George Blvd</td>
<td>$3,775,000</td>
<td>21,675</td>
<td>$174</td>
<td>Dallas Properties Ltd.</td>
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<tr>
<td>Vancouver</td>
<td>128 West 8th Ave</td>
<td>$2,550,000</td>
<td>7,162</td>
<td>$356</td>
<td>B.C. Turf Ltd.</td>
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<tr>
<td>Vancouver</td>
<td>1623 West 2nd Ave</td>
<td>$1,600,000</td>
<td>3,190</td>
<td>$517</td>
<td>1623 Holdings Ltd.</td>
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</tbody>
</table>
SURREY, NORTH SHORE & NEW WESTMINSTER

Market conditions remained relatively unchanged over the fourth quarter of 2011 in Surrey with the overall vacancy rate posting a slight 40 bps quarterly increase to 17.8%. The Class A and C vacancy rate both posted quarterly decreases to 21.9% and 2.7%, respectively, while the Class B market posted a 290 bps increase to 15.0%. And for such a market, 7455 122nd Street led to the increase in the Class B vacancy rate, with 25,627 SF becoming available over the fourth quarter. Overall, there was 10,835 SF of negative absorption this quarter, bringing YTD absorption to positive 40,229 SF. Ongoing demand from local office occupiers to purchase instead of lease office property has spurred several developers to build strata office developments in Surrey, with projects such as Grandview Business Centre and Panorama Place seeing strong sales activity. Accordingly, the desire to own space has had a negative impact on the office leasing market, as occupancy levels have declined at the same time new office projects were introduced to the market.

The vacancy rate in the North Shore office market increased 20 bps over the fourth quarter to 6.2% lead primarily by marginal losses within the Class A and C markets. The Class A market posted a 20 bps increase in vacancy to 4.3%, while the Class C market witnessed a 90 bps increase to 10.3%. Countering the increase in the vacancy was the Class B market, which saw a number of deals in the 1,000 SF to 2,000 SF range help move the vacancy rate down 60 bps to 6.4%. Overall, the market posted 4,366 SF of negative absorption over the quarter, which brought YTD absorption slightly into positive territory at 2,001 SF.

The New Westminster office market showed some positive movement of the fourth quarter, with vacancy declining in all asset classes. The overall vacancy rate fell 490 bps to 11.9%, while the Class A and B market had vacancy fall 170 bps and 460 bps to 14.9% and 14.0%, respectively. The Class C market posted the largest quarterly drop in vacancy, 790 bps to 5.2%. The decline in the Class C market was mostly attributed to a major drop in vacancy in Cummerson Centre (737 Cummerson Street), where 28,797 SF was removed from the market. Positive market activity in New Westminster was further complimented by robust construction activity where number of projects such as the Brewery District and Merchant Square continue to be developed.

CAPITAL MARKETS

The domestic mortgage market can be characterized as active but participants are carefully watching trends in foreign markets. Clearly, Canadian real estate fundamentals are the strongest amongst our economic peer group but the uncertainty that surrounds events in Europe adds a cautionary note to both lenders and borrowers.

Notwithstanding the above, the Canadian mortgage market remains very active with an appetite for most product types, with the favoured loan-to-value (LTV) rates in the 55.0% to 60.0% range with debt available up to 75.0%. Despite the extreme volatility in the bond market, spreads have only moved up modestly, hovering around 1.75% to 2.50%, depending on the transaction (property type, LTV, sponsorship, covenants, loan terms, etc.) with some lenders seeking a ceiling. There is an abundance of one to five-year money and selective 10, 20 and 25-year money.

Cap rates continue to hover around 2007 levels, especially for quality assets, as demand for product has outweighed supply. More product is coming to the market but buyer appetite continues to be strong and aggressive bidding is still a feature of the market.

Private money is readily available for most requests: condo, custom home, infill, student housing, self storage, hotel, first and second mortgages, etc. Interest rates from private capital sources will cost in the range of 6.0% to 15.0% depending on the risk profile of the transaction.

Quick Stats

• Bank Prime Rate: 3.00%
• 5-Year Canada Bond: 1.43%
• 10-Year Canada Bond: 2.15%
• 5-Year Commercial Mortgage Rate: 2.22% - 2.77%
• 10-Year Commercial Mortgage Rate: 3.25% - 3.84%
• Canadian Dollar: 5.7961 USD

DOWNTOWN VANCOUVER

Continuing on a seventh consecutive quarter of positive leasing activity, the fourth quarter of 2011 saw the Downtown Vancouver office market reach a three-year high in activity levels. Supported by demand from a variety of sectors including natural resource, legal, engineering and business services sectors, emerging demand was also witnessed from education, government and technology/communication industries. Deal activity across the downtown market was balanced this quarter, with nearly all classes witnessing gains in positive absorption.

Landlords continue to experience favourable market conditions as vacancies decline and rents rise accordingly among limited supply conditions. The overall vacancy posted a 70 basis points (bps) quarterly decline to 3.4%, representing the lowest downtown vacancy since the fourth quarter of 2006 at 3.7%. The Class AAA market posted a minimal 10 bps increase to 1.4%, but due to the extremely limited amount of vacant space on the market (60,011 SF), small fluctuations in vacancy are expected as the market “bottoms-out” and space gets shuffled within the market. The Class A and Class B posted substantial decreases in vacancy at 2.4% and 3.4% respectively, while the Class C market experienced a 40 bps quarterly decline to 6.8%.

Year-to-date (YTD) absorption figures for the downtown office office market at the end of the fourth quarter was 450,273 SF of positive space, most of which was seen among the Class A and Class B sectors this quarter with 1,116 SF and 51,589 SF of positive absorption respectively. The Class A market witnessed a minimal 7,975 SF of negative absorption, but as mentioned previously, is expected under extremely limited supply conditions. Class C space on the other hand, experienced 16,681 SF of positive absorption and has been consistent with the 12,859 SF of average quarterly absorption in this building class. Notable occupancies this quarter include Anglian’s 28,572 sublease expansion at 858 Beatty Street, Rythian & Huns 22,218 SF and Amec’s 12,874 SF occupancy at 401 West Georgia Street, as well as Xstrata’s 9,500 SF sublease at 700 West Pender Street.

The next 24 months will begin a development cycle that the downtown market has not witnessed since 2004. With several buildings confirming pre-leasing commitments and construction start dates, many tenants with lease expiries in 2015 and 2016 are eagerly awaiting the delivery of new supply to the market. Bentall Kennedy, Oxford Properties and TEUS/Weichold are well in their construction plans, while several other groups, including Pattison/Bellevue, Manulife and Credit Suisse/SwissRe are expected to ramp up their development plans as well. Vacancy rates are forecasted to increase moderately depending on the number of projects moving from the proposed to confirmed stage which could total over 1.68 million SF from 2013 to 2016. While overall market conditions are expected to show little volatility over next 12-24 months, the third and fourth quarter of 2012 will see some interesting market activity, as the vacancies and consolidations of a number of tenants in the downtown market, including HSBC (multiple locations), are countered by a number of major occupancies including Vision Critical at 200 Granville Street and Technicolor at 1132 Hamilton Street. While the long term trend remains positive, the latter half of 2012 may accordingly experience short term fluctuations.

Significant Transactions

• 896584 B.C. Ltd purchased 873 Beatty Street (19,780 SF) for $9,400,000
• SKC Local purchased 100,000 SF at 745 Thurlow Street
• TD Bank Group renewed 62,330 SF at 700 West Georgia Street
• Koffman Kalil LLP renewed 13,309 SF at 885 West Georgia Street
• Amec leased 12,784 SF at 401 West Georgia Street
• SKC Local leased 10,343 SF at 1095 West Pender Street
• New Gold Inc. leased 9,714 SF at 555 Burrard Street
BROADWAY CORRIDOR

The vacancy rate for the Broadway Corridor increased to 5.8% over the fourth quarter of 2011, up from 5.7% last quarter. Alarming previous quarters, the fourth quarter of 2011 was defined by stable, albeit not robust, market activity. The Class A/A vacancy rate posted a small 10 bps increase to 4.6%, with the Class A market experiencing a 100 bps rise in vacancy to 5.2%, due in part to a new 12,286 SF vacancy at 2389 Health Sciences Mall. The Class B and C markets posted small decreases in vacancy, down 30 bps and 50 bps to 5.7% and 7.7%, respectively.

The fourth quarter witnessed 4,177 SF of negative absorption, bringing YTD total absorption to negative 7,478 SF. YTD absorption was negative for all but a few quarter classes except the Class B market which posted 15,492 SF of positive absorption at the end of 2011.

Looking ahead, market fundamentals are expected to improve in 2012 following a relatively stagnant period of market activity in 2011. The Broadway corridor only has five availability above 10,000 SF on the market, which should institute it from major market fluctuations and keep demand steady. As well, a number of tenants are expected to occupy space in 2012, including Services Canada (10,430 SF), Lean Sensei (5,500 SF) and Virtualink Properties (5,206 SF). Construction activity is also expected to ramp up as the first phase of Rite Alliance’s Container’s project and Omni’s Central development officially break ground after significant pre-leasing activity.

Significant Transactions
- D + H Group renewed 12,495 SF at 1333 West Broadway
- Genius Inc. renewed 11,475 SF at 1985 West Broadway
- Intel of Canada Ltd. renewed 10,990 SF at 1333 West Broadway
- Lean Sensei leased 5,500 SF at 1385 West 8th Avenue

RICHMOND

The Richmond office market posted marginal improvement in leasing fundamentals over the fourth quarter of 2011, as evidenced by modest decreases in vacancy primarily within top-quality assets. The overall vacancy rate decreased 140 bps from last quarter to 21.4%, marking a three quarter trend in decreasing vacancy after reaching a high of 23.8% during the first quarter of 2011. After posting near-historical highs in vacancy over the last two years, the Class AAA and A markets both had vacancy drop to 16.9% and 22.9% respectively in the fourth quarter of 2011. Guaranteeing the positive growth within the Class AAA and A markets this quarter were leases in the Class B and C markets, which realized several vacancies this quarter bringing the vacancy rate up to 23.6% and 39.5%, respectively. The Class C market in particular witnessed a substantial increase from 25.3% last quarter to 39.5% this quarter after 28,143 SF of new space came available at 3011-3031 Viking Way.

The occupancy of Fraser Engineering at 10851 Shellbridge Way (57,073 SF) and the occupancy of PPH ARC Environmental at 13775 Commerce Parkway (12,804 SF) brought quarterly absorption figures to positive territory at 46,832 SF, with YTD figures at 32,290 SF of positive absorption. While the Class AAA and A posted positive gains with 63,252 SF and 17,824 SF of positive absorption respectively in the fourth quarter, the Class B market moved to slightly negative territory with 2,269 SF of negative absorption and the Class C market posted 22,075 SF of negative absorption this quarter.

Looking ahead, the Richmond office market will continue to be defined by modest improvements in market fundamentals as tenant demand continues to grow within the Class AAA and A market. Despite recent preference for renewals among larger tenants in the market, major incentives will continue to be offered by landlords and may result in some movement in the market.

Significant Transactions
- Sierra Wireless renewed 103,033 SF at 1381/13911 Wireless Way
- Cloverly Solutions Inc. renewed 18,000 SF at 13911 Wireless Way
- Back in Motion renewed 16,950 SF at 6651 Elmbidge Way
- OCE Canada Inc. leased 8,016 SF at 12000 Dell Place
- GUS Secure Solutions (Canada) Ltd. leased 6,354 SF at 5200 Miller Road

BURNABY

Technology, resource and engineering sector growth helped the Burnaby office market witness positive market activity in the fourth quarter of 2011, a trend that began at the end of 2010 after the market had accumulated major losses due to the onset of the recession. While excess supply continues to persist within the Class B and C markets, favourable lease terms and the availability of large block and standalone product on the market have helped inventories decline among top quality buildings in Burnaby. A clear distinction between Class AAA/A and Class B/C space has emerged, with the former attracting the majority of the demand over the past year.

While the vacancy rate at the third quarter of 2011 posted a slight increase to 13.6%, the fourth quarter of 2011 was once more in line with forecasted trends as the submarket vacancy declined to 12.9%. The Class AAA vacancy rate declined for the fourth straight quarter to 10.9%, representing nearly a 50% decline in vacancy from the beginning of the year. The Class A market has also witnessed quarter over quarter declines from the beginning of 2011, down 260 bps from last quarter to stand at 10.9%, but may see a short-term increase with the vacating 92,000 SF vacancy at TELSUS from 3777 Kingsway during the first quarter of 2012. The Class B market suffered a major increase in vacancy over the third quarter of 2011 to 16.1% (due in part to the departure of Trader Corporation at 4624 Lougheed Highway), but managed to post a small 40 bps quarterly decline to 16.5%. The Class C market continues to show the least demand, posting a 160 bps quarterly increase to 24.0%.

Submarket absorption totalled 52,694 SF this quarter, bringing YTD totals to over 307,709 SF. Demand for quality space is evidenced by the fact that YTD absorption for Class AAA and A space was 340,085 SF and 143,368 SF respectively, while Class B and C space continues to register negative declines at the end of 2011 (114,428 SF and 61,316 SF of negative space accordingly). Significant fourth quarter occupancies include Teledesic (18,762 SF) at 4621 Canada Way, IBM (17,640 SF) at 3292 Production Way, and CNA Engineers (12,416 SF) at 2925 Virtual Way.

Significant Transactions
- Bell Canada renewed 54,390 SF at 2980 Virtual Way
- Navigo Communications leased 20,256 SF at 3555 Gilmore Street
- TMA Forest Industry Pension plan leased 16,248 SF at 3777 Kingsway
- CNA Engineers leased 12,416 SF at 2925 Virtual Way
Significant Transactions

- D + H Group renewed 12,495 SF at 1333 West Broadway
- Genive Inc. renewed 11,475 SF at 1985 West Broadway
- Intel of Canada Ltd. renewed 10,990 SF at 1333 West Broadway
- Lean Sensei leased 5,500 SF at 1385 West 8th Avenue
- Motion Telecommunications Ltd. moved to 3233 West 8th Avenue (10,430 SF) at 4621 Canada Way, IBM

RICHMOND

The Richmond office market posted marginal improvement in leasing fundamentals over the fourth quarter of 2011, as evidenced by modest decreases in vacancy primarily within top-quality assets. The overall vacancy rate decreased 140 bps from last quarter to 21.4%, marking a third quarter trend in decreasing vacancy after reaching a high of 23.6% during the first quarter of 2011. After posting near-historical highs in vacancy over the last two years, the Class AAA and A markets both had vacancy drop to 16.0% and 22.4% respectively in the fourth quarter of 2011. Quinteering the positive growth within the Class AAA and A markets this quarter were leases in the Class B and C markets, which realized several vacancies this quarter bringing the vacancy rate up to 23.6% and 39.5%, respectively. The Class C market in particular witnessed a substantial increase from 25.3% last quarter to 39.5% this quarter as 28,143 SF of new space came available at 3011-3031 Vikings Way.

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Looking ahead, the Richmond office market will continue to be defined by modest improvements in market fundamentals as tenant demand continues to grow within the Class AAA and A market. Despite recent preference for renewals among larger tenants in the market, major incentives will continue to be offered by landlords and may result in some movement in the market.

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- Back in Motion renewed 16,950 SF at 6651 Elmbridge Way
- OCE Canada Inc. leased 8,016 SF at 13200 Dell Place
- G4S Secure Solutions (Canada) Ltd. leased 6,354 SF at 5200 Miller Road

BURLINGTON

Technology, resource and engineering sector growth helped the Burlington office market witness positive market activity in the fourth quarter of 2011, a trend that began at the end of 2010 after the market had accumulated major losses due to the onset of the recession. While excess supply continues to persist within the Class B and C markets, favourable lease terms and the availability of large block and standalone product on the market have helped inventories decline among top quality buildings in Burlington. A clear distinction between Class AAA and Class B/C space has emerged, with the former attracting the majority of the demand over the past year.

While the vacancy rate at the third quarter of 2011 posted a slight increase to 13.6%, the fourth quarter of 2011 was more in line with forecasted trends as the submarket vacancy declined to 12.9%. The Class AAA vacancy rate declined for the fourth straight quarter to 10.0%, representing nearly a 50% decline in vacancy from the beginning of the year. The Class A market has also witnessed quarter over quarter declines from the beginning of 2011, down 260 bps from last quarter to stand at 10.0%, but may see a short term increase with the upcoming 92,000 SF vacancy of TEUS from 3777 Kingway during the first quarter of 2012. The Class B market suffered a major increase in vacancy over the third quarter of 2011 to 16.1% (due in part to the departure of Fordor Corporation at 4646 Lougheed Highway), but managed to post a small 40 bps quarterly decline to 16.5%. The Class C market continues to show the least demand, posting a 160 bps quarterly increase to 24.0%.

Submarket absorption totalled 52,694 SF this quarter, bringing YTD totals to over 307,709 SF. Demand for quality space is evidenced by the fact that YTD absorption for Class AAA and A space was 340,085 SF and 143,368 SF respectively, while Class B and C space continues to register negative declines at the end of 2011 (114,428 SF and 61,316 SF of negative space accordingly). Significant fourth quarter occupancies include Tensco (18,762 SF) at 4621 Canada Way, IBM (17,640 SF) at 3292 Production Way, and CMA Engineers (12,416 SF) at 2925 Virtual Way.

Significant Transactions

- Bell Canada renewed 54,390 SF at 2980 Virtual Way
- Navigata Communications leased 20,256 SF at 3555 Gilmore Street
- TMX Forest Industry Pension plan leased 16,248 SF at 3777 Kingway
- CMA Engineers leased 12,416 SF at 2925 Virtual Way

Fourth Quarter 2011
SURREY NORTH SHORE & NEW WESTMINSTER

Market conditions remained relatively unchanged over the fourth quarter of 2011 in Surrey with the overall vacancy rate posting a slight 40 bps quarterly increase to 17.8%. The Class A and C vacancy rate both posted quarterly declines to 21.9% and 2.7%, respectively, while the Class B market posted a 290 bps increase to 15.0%. A new availability of 7455 12th Street led to the increase in the Class B vacancy rate, with 25,627 SF becoming available over the fourth quarter. Overall, there was 10,835 SF of negative absorption this quarter, bringing YTD absorption to positive 40,229 SF. Ongoing demand from local office occupiers to purchase instead of lease office property has spurred several developers to build strata office developments in Surrey, with projects such as Grandview Business Centre and Panorama Place seeing strong sales activity. Accordingly, the desire to own space has had a negative impact on the office leasing market, as occupancy levels have declined at the same time new office projects were introduced to the market.

The vacancy rate in the North Shore office market increased 20 bps over the fourth quarter to 6.2% lead primarily by marginal losses within the Class A and C markets. The Class A market posted a 30 bps rise in vacancy to 4.3%, while the Class C market witnessed a 90 bps increase to 10.3%. Countering the increase in vacancy was the Class B market, which saw a number of deals in the 1,000 SF to 2,000 SF range help move the vacancy rate down 60 bps to 4.6%. Overall, the market posted 4,366 SF of negative absorption over the quarter, which brought YTD absorption slightly into positive territory at 2,201 SF.

The New Westminster office market showed some positive movement of the fourth quarter, with vacancy declining in all asset classes. The overall vacancy rate fell 490 bps to 11.9%, while the Class B and Class C market had vacancy fall 170 bps and 460 bps to 14.9% and 14.0%, respectively. The Class C market posted the largest quarterly drop in vacancy, 790 bps to 5.2%. The decline in the Class C market was mostly attributed to a major drop in vacancy in Carnarvon Centre (737 Carnarvon Street), where 28,797 SF was removed from the market. Positive market activity in New Westminster was further complimented by robust construction activity where number of projects such as the Brewery District and Merchant Square continue to be developed.

CAPITAL MARKETS

The domestic mortgage market can be characterized as active but participants are carefully watching trends in foreign markets. Clearly, Canadian real estate fundamentals are the strongest amongst our economic peer group but the uncertainty that surrounds events in Europe adds a cautionary note to both lenders and borrowers.

Notwithstanding the above, the Canadian mortgage market remains very active with an appetite for most product types, with the favoured loan-to-value (LTV) rates in the 55.0% to 60.0% range with debt available up to 75.0%.

Despite the extreme volatility in the bond market, spreads have only moved up modestly, hovering around 1.75% to 2.50%, depending on the transaction (property type, LTV, sponsorship, covenants, loan terms, etc.) with some lenders seeking a floor. There is an abundance of one to five-year money and selective 10, 20 and 25-year money.

Cap rates continue to hover around 2007 levels, especially for quality assets, as demand for product has outweighed supply. More product is coming to the market but buyer appetite continues to be strong and aggressive bidding is still a feature of the market.

Private money is readily available for most requests: condo, custom home, infill, student housing, self-storage, kind, first and second mortgages, etc. Interest rates from private capital sources will cost in the range of 6.0% to 15.0% depending on the risk profile of the transaction.

Quick Stats
- Bank Prime Rate: 3.00%
- 5-Year Canada Bond: 1.43%
- 10-Year Canada Bond: 2.15%
- 5-Year Commercial Mortgage Rate: 2.22% - 2.77%
- 10-Year Commercial Mortgage Rate: 3.25% - 3.84%
- Canadian Dollar: 5.9761 USD

DOWNTOWN VANCOUVER

Continuing on a seventh consecutive quarter of positive leasing activity, the fourth quarter of 2011 saw the Downtown Vancouver office market reach a three-year high in occupancy levels. Supported by demand from a variety of users including natural resources, legal, engineering and business services sectors, emerging demand was also witnessed from education, government and technology/communications industries. Deal activity across the downtown market was balanced this quarter, with nearly all classes witnessing gains in positive absorption.

Landlords continue to experience favourable market conditions as vacancies decline and rents rise accordingly among limited supply conditions. The overall vacancy posted a 70 basis points (bps) quarterly decline to 3.4%, representing the lowest downtown vacancy since the fourth quarter of 2008 at 3.1%. The Class AAA market posted a minimal 10 bps increase to 1.4%, but due to the extremely limited amount of vacant space on the market (66,011 SF), small fluctuations in vacancy are expected as the market “bottoms-out” and space gets shuffled within the market. The Class A and Class B posted substantial decreases in vacancy at 2.4% and 3.4% respectively, while the Class C market experienced a 40 bps quarterly decline to 6.8%.

Year to date (YTD) absorption figures for the downtown office market at the end of the fourth quarter was 450,273 SF of positive space, most of which was seen among the Class A and Class B sectors this quarter with 102,116 SF and 51,092 SF of positive absorption respectively. The Class AAA market witnessed a minimal 1,975 SF of negative absorption, but as mentioned previously, is expected under extremely limited supply conditions. Class C space on the other hand, experienced 16,681 SF of positive absorption and has been consistent with the 12,857 SF of average quarterly absorption in this building class. Notable occupancies this quarter include Angioli’s 28,572 sublease expansion at 858 Beatty Street, Rytten & Hrus 22,218 SF and Amec’s 12,874 SF occupancy at 401 West Georgia Street, as well as Atrium’s 9,500 SF sublease at 700 West Pender Street.

The next 24 months will begin a development cycle that the downtown market has not witnessed since 2004. With several buildings confirming pre-leasing commitments and construction start dates, many tenants with lease expiries in 2014, 2015 and 2016 are eagerly awaiting the delivery of new supply to the market. Bentall Kennedy, Oxford Properties and Telus/Weebank are well in their construction plans, while several other groups, including Pettit/Beliveau, Manulife and Credit Suisse/Scotiabank are expected to ramp up their development plans as well. Vacancy rates are forecasted to increase moderately depending on the number of projects moving from the proposed to confirmed stage which could total over 1.68 million SF from 2014 to 2016.

While overall market conditions are expected to show little volatility over next 12-24 months, the third and fourth quarter of 2012 will see some interesting market activity, as the vacancies and consolidations of a number of tenants in the downtown market, including HSBC (multiple locations), are countered by a number of major occupancies including Vision Critical at 200 Granville Street and Technical at 1132 Hamilton Street. While the long term trend remains positive, the latter half of 2012 may accordingly experience short term fluctuations.

Significant Transactions
- 896584 B.C. Ltd purchased 873 Beatty Street (19,780 SF) for $9,400,000
- SKG-Lodain pre-leased 100,000 SF at 745 Thurlow Street
- TD Bank Group renewed 62,330 SF at 700 West Georgia Street
- Koffman Kakel LLP renewed 13,309 SF at 885 West Georgia Street
- Amec leased 12,784 SF at 401 West Georgia Street
- SKG-Lodain leased 10,343 SF at 1055 West Pender Street
- New Gold Inc. leased 9,714 SF at 555 Burrard Street
### Office Market Statistics

**Submarket** | **Building Class** | **Net Rentable Area (SF)** | **Vacancy Rate (%)** | **4Q 2011 Net Absorption (SF)** | **Completed Projects** | **Avg. Asking Lease Rate ($/SF/YR)**
---|---|---|---|---|---|---
**Downtown** | Class AAA | 4,349,203 | 4.7 | 7,975 | - | $37.28
| Class A | 5,778,937 | 4.4 | 103,116 | - | $52.65
| Class B | 7,679,520 | 3.4 | 51,092 | - | $62.14
| Class C | 4,123,211 | 6.8 | 16,681 | - | $19.01
| Subtotal | 21,930,879 | 3.4 | 161,914 | - | $25.51
**Broadway Corridor** | Class AAA | 508,294 | 4.6 | -693 | - | $24.23
| Class A | 1,245,175 | 5.2 | -12,944 | - | $22.55
| Class B | 1,645,853 | 5.6 | 4,877 | - | $21.38
| Class C | 850,338 | 7.7 | 3,031 | - | $18.59
| Subtotal | 4,419,660 | 5.8 | -9,977 | - | $21.92
**Burnaby** | Class AAA | 5,410,846 | 10.3 | -2,636 | - | $22.10
| Class A | 2,824,763 | 10.8 | 71,699 | - | $19.12
| Class B | 1,922,001 | 14.5 | -9,003 | - | $15.57
| Class C | 442,474 | 24.0 | -7,331 | - | $12.26
| Subtotal | 7,600,094 | 12.9 | 52,694 | - | $19.04
**Richmond** | Class AAA | 1,501,980 | 14.8 | 63,352 | - | $19.00
| Class A | 1,276,730 | 22.9 | 17,824 | - | $16.76
| Class B | 523,731 | 23.6 | -2,269 | - | $12.19
| Class C | 225,423 | 39.5 | -32,075 | - | $8.63
| Subtotal | 3,529,682 | 21.4 | 66,322 | - | $15.64
**North Shore** | Class A | 743,836 | 4.3 | -5,988 | - | $22.75
| Class B | 750,877 | 6.6 | 6,675 | - | $16.11
| Class C | 301,015 | 10.2 | 2,856 | - | $15.54
| Subtotal | 1,807,728 | 6.2 | -14,464 | - | $17.35
**Surrey** | Class A | 1,540,408 | 21.9 | 733 | - | $22.16
| Class B | 737,730 | 15.0 | -21,479 | - | $14.29
| Class C | 280,403 | 2.7 | 9,917 | - | $10.45
| Subtotal | 2,556,641 | 17.8 | -10,836 | - | $21.23
**New Westminster** | Class A | 210,816 | 14.9 | 5,508 | - | $18.32
| Class B | 589,296 | 14.0 | 27,326 | - | $14.17
| Class C | 275,766 | 5.2 | 21,800 | - | $11.71
| Subtotal | 1,075,908 | 11.9 | 52,744 | - | $15.02
**Market Total** | | 42,750,752 | 8.0 | 294,083 | - | $19.95

### Economic Conditions (Current and Forecasted)

![Economic Conditions Graph]

The regional economy grew at a much more moderate pace than expected in the fourth quarter as ongoing economic issues in Europe and the U.S. continue to dampen overall market confidence. While the Vancouver unemployment rate fell to 7.0% in November, job growth in construction and related industries is expected to be affected as federal spending on infrastructure winds down and the residential development market cools. Over the next year, demand for B.C. exports from China should continue to support overall growth in the region. Further regional economic growth will depend upon improved domestic demand and higher consumption in the U.S. and Europe.

### Top Sale Transactions

<table>
<thead>
<tr>
<th>Market</th>
<th>Address</th>
<th>Price</th>
<th>Size (SF)</th>
<th>Price ($/SF)</th>
<th>Purchaser</th>
</tr>
</thead>
<tbody>
<tr>
<td>Richmond</td>
<td>8100 Granville Avenue</td>
<td>$23,800,000</td>
<td>94,983</td>
<td>$251</td>
<td>Dundie REIT</td>
</tr>
<tr>
<td>Burnaby</td>
<td>4320 North Fraser Way</td>
<td>$8,500,000</td>
<td>41,522</td>
<td>$205</td>
<td>097763 B.C. Ltd. (80% int.)</td>
</tr>
<tr>
<td>Surrey</td>
<td>9656 King George Boulevard</td>
<td>$3,775,000</td>
<td>21,475</td>
<td>$174</td>
<td>Dallas Properties Ltd.</td>
</tr>
<tr>
<td>Vancouver</td>
<td>128 West 8th Avenue</td>
<td>$2,550,000</td>
<td>7,162</td>
<td>$356</td>
<td>B.C. Tarf Ltd.</td>
</tr>
<tr>
<td>Vancouver</td>
<td>1623 West 2nd Avenue</td>
<td>$1,650,000</td>
<td>3,190</td>
<td>$517</td>
<td>1623 Holdings Ltd.</td>
</tr>
</tbody>
</table>
Continuing on a trend of decreasing vacancy and positive absorption from earlier in the year, the Metro Vancouver office market posted strong market fundamentals over the fourth quarter of 2011. As was forecast last quarter, market conditions continued to steadily improve, helping both core and peripheral markets witness positive gains.

After reaching peak vacancy at mid-year 2010, the Metro Vancouver office market continued to withdraw quarter-over-quarter decreases, with the fourth quarter of 2011 continuing the trend. The regional vacancy rate improved to 8.0%, backed by several large tenancies within the Downtown, Burnaby, and Richmond markets. Leasing activity was relatively balanced across all submarkets this quarter, a phenomenon that was somewhat different in previous quarters where the downtown core often received the majority of leasing activity. The downtown vacancy rate dropped for the seventh consecutive quarter to 3.4% led primarily by gains within the Class A and B markets, while vacancy declined in the Burnaby, Richmond and New Westminster submarkets to 12.9%, 21.4% and 11.9%, respectively.

Net absorption in the fourth quarter was strong, with over 294,085 SF of positive absorption overall. The downtown core once again led with 161,911 SF of positive absorption alone. Total absorption for the year stands at 860,383 SF, a marked improvement from 235,004 SF in 2010.

Regional office development continues to be a major focus within the region, as decreasing supplies coupled with the market support for new supply. With over 190,000 SF of pre-leasing in place among McCarthy Trails and SNC-Lavalin, Bentall Kennedy’s 745 Thurlow development is anticipated to break ground in early 2012 with many expecting the building to be an attractive option for larger tenants.

Looking ahead, market activity is expected to taper over the next several months as global economic conditions are being observed cautiously. As was forecast during the third quarter of 2011, some tenants will be hesitant, but limited supply and relatively strong fundamentals will continue to support market activity. Downtown tenancies with lease expiries over the next 12-24 months are expected to see upward movement in pricing, while greater preference for renewals and early term restructuring is also likely. Accordingly, landlords with long-term exposure will solidify their portfolios over the next year as supply conditions change. While pricing conditions will remain favourable for sub-tenants in the short-term, growing demand should start to narrow the gap for landlords over the long-term.

For more information regarding the MarketView, please contact

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Metro Vancouver Submarket Map

Market Area Descriptions

(1) DOWNTOWN VANCOUVER consists of 21.9 million SF (51.4%) of the office market inventory.

(2) THE BROADWAY CORRIDOR consists of 4.2 million SF (10.1%) of the office market inventory.

(3) RICHMOND consists of 7.6 million SF (17.5%) of the office market inventory.

(4) RICHMOND consists of 3.6 million SF (8.7%) of the office market inventory.

(5) NORTH SHORE consists of 1.8 million SF (4.3%) of the office market inventory.

(6) SUMMARY consists of 2.5 million SF (6.0%) of the office market inventory.

(7) NEW WESTMINSTER consists of 1.1 million SF (2.6%) of the office market inventory.

MarketView Metro Vancouver Office

Notable Lease Transactions

<table>
<thead>
<tr>
<th>Size (SF)</th>
<th>Tenant</th>
<th>Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>103,033</td>
<td>Sierra Wireless</td>
<td>13811/13911 Wireless Way, Richmond</td>
</tr>
<tr>
<td>100,000</td>
<td>SNC-Lavalin</td>
<td>745 Thurlow Street, Vancouver</td>
</tr>
<tr>
<td>62,330</td>
<td>TD Bank Group</td>
<td>700 West Georgia Street, Vancouver</td>
</tr>
<tr>
<td>54,390</td>
<td>Bell Canada</td>
<td>2980 Virtual Way, Vancouver</td>
</tr>
<tr>
<td>20,256</td>
<td>Navigata Communications</td>
<td>3555 Gilmore Street, Burnaby</td>
</tr>
<tr>
<td>18,000</td>
<td>Clevest Solutions Inc.</td>
<td>13911 Wireless Way, Richmond</td>
</tr>
</tbody>
</table>

Average Asking Lease Rates

Rents determined by multiple the asking lease rates for each building in its available space, summing the products, then dividing by the sum of the available space with net leases for all buildings in the summary.

Net Leases

Includes all lease types whereby the tenant pays an agreed rent plus net, or all, of the operating expenses for the space, including utilities, insurance and/or maintenance expenses.

Market Coverage

Include all competitive office buildings 10,000 square feet and greater in size.

Net Absorption

The change in occupied square feet from one period to the next.

Net Available Area

The gross building area that is either physically vacant or can be occupied by the building or the tenant.

Vacant Space

Buildings which have been constructed or renovated by the owner for the builder/tenant work.

Available Square Feet

Available Building Area which is either physically vacant or occupied.

Available Area

Available Area divided by the Net Available Area.

Vacant Space Foot

Existing Building Area which is physically vacant or immediately available.

Vacancy Rate

Vacant Building Area divided by the Net Available Area.

Normalization

Due to a reclassification of the market, the base, market and submarket definitions have changed over time.

Vacancy in the downtown submarket declined to a near-record low of 3.4% this quarter.

Suburban vacancy declined to 12.9% in the fourth quarter.

Several highly anticipated office development projects have broken ground in the region, including 1021 West Hastings, Central Container, Phase I, Mattston III and Merchant Square.

For more information regarding the MarketView, please contact

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Metro Vancouver Historical Absorption

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Absorption</th>
<th>Vacancy</th>
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<tbody>
<tr>
<td>2011Q1</td>
<td>12%</td>
<td>9%</td>
</tr>
<tr>
<td>2011Q2</td>
<td>10%</td>
<td>8%</td>
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<tr>
<td>2011Q3</td>
<td>8%</td>
<td>7%</td>
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<tr>
<td>2011Q4</td>
<td>6%</td>
<td>5%</td>
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</table>

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