Significant Construction Activity will Change Vancouver's Skyline

After ten years of limited office construction, Downtown Vancouver is in the midst of a significant development cycle. The previous decade witnessed the addition of two office towers and two mixed-use projects with office components that contributed 1.15 million square feet to the Downtown market. In comparison, three office buildings accounting for almost 1.1 million square feet of space, as well as an additional 115,000 square feet in a mixed-use tower, are already under construction in Downtown Vancouver and another 280,000 square feet will be added upon completion of Cadillac Fairview's redevelopment of 725 Granville Street in the heart of the Downtown Core. There are eight more proposed developments in the pipeline that could potentially contribute over 2.3 million additional square feet to the market by 2017-2018. Downtown Class A space is currently 1.5% vacant and vacancy has been decreasing for six consecutive quarters, so it is understandable why developers appear to be planning new construction with a sense of urgency. The timeline of most proposed projects will be contingent on securing lead tenants and the expectations of developers regarding future market conditions.

Status of Proposed Developments Creates Several Possibilities

What if all currently proposed buildings are built within the next five years? The result would be an estimated 3.75 million square feet of new supply - and a 28% increase to the current Downtown Class A inventory. Since this amount of construction activity is unprecedented it is nearly impossible to accurately predict the impact that such a significant increase would have, but it's highly unlikely that all or most of the additional supply would be absorbed. Absorption is difficult to predict because so many dynamic factors must be considered, including pent-up tenant demand, relocations to and from the suburbs, expansions and contractions of tenants' space needs, changes in workplace strategy, effects of transportation strategies and changes in demand resulting from growth patterns of foreign economies. Taking into consideration historical absorption rates and a best guess regarding the influence of the aforementioned economic factors, if all of the proposed buildings are completed by the end of 2017 we project that Downtown Class A vacancy could increase to as high as 18%.

However, it is unlikely that all thirteen proposed buildings will come to market in this time frame, so what if only the five confirmed developments are completed in the next five years? The 1,470,000 square feet of confirmed office space represents an 11% increase on comparable existing Downtown supply. Based on the size and nature of the various pre-leasing commitments to date and the pent-up demand that has characterized the Downtown Class A market in recent years, the majority of the new buildings and backfill space created by pre-leases will likely be occupied in a timely manner. Vacancy should trend upwards from an estimated 1% in Q2 2014 immediately prior to the completion of the first confirmed building. A rise in vacancy to 2% in Q4 2014 is projected before a five-year high of 4.2% would be reached in Q4 2015, followed by a decline to 2.4% in 2016 and 1.2% by Q4 2017 due to the lack of confirmed buildings scheduled for completion during the last two years of this development cycle.

Jones Lang LaSalle

Real value in a changing world

Prepared by Jones Lang LaSalle Research:

Scott MacDonald
Research Associate

21st Floor, 400 Burrard Street
Vancouver, BC, V6C 3A6
Tel: +1 604 998 6001
Fax: +1 604 998 6018

www.joneslanglasalle.ca

Jones Lang LaSalle (NYSE:JLL) is a financial and professional services firm specializing in real estate. The firm offers integrated services delivered by expert teams worldwide to clients seeking increased value by owning, occupying or investing in real estate. With 2011 global revenue of $3.6 billion, Jones Lang LaSalle serves clients in 70 countries from more than 1,000 locations worldwide, including 200 corporate offices. The firm is an industry leader in property and corporate facility management services, with a portfolio of approximately 2.1 billion square feet worldwide. LaSalle Investment Management, the company's investment management business, is one of the world's largest and most diverse in real estate with $47.7 billion of assets under management.

Look Forward VANCOUVER

21 percent ?

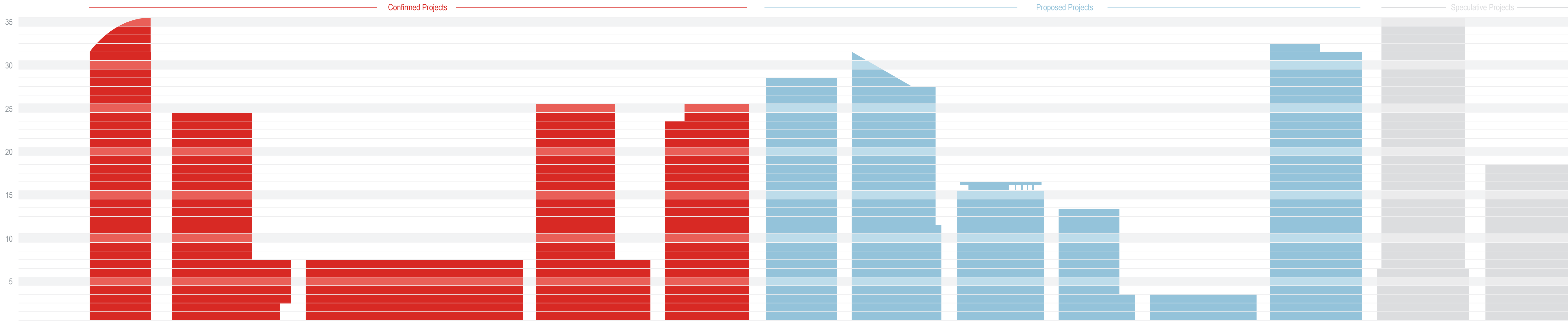
New buildings in various phases of the development process are projected to result in a 21% increase of Class A Downtown inventory over the next five years.

Jones Lang LaSalle

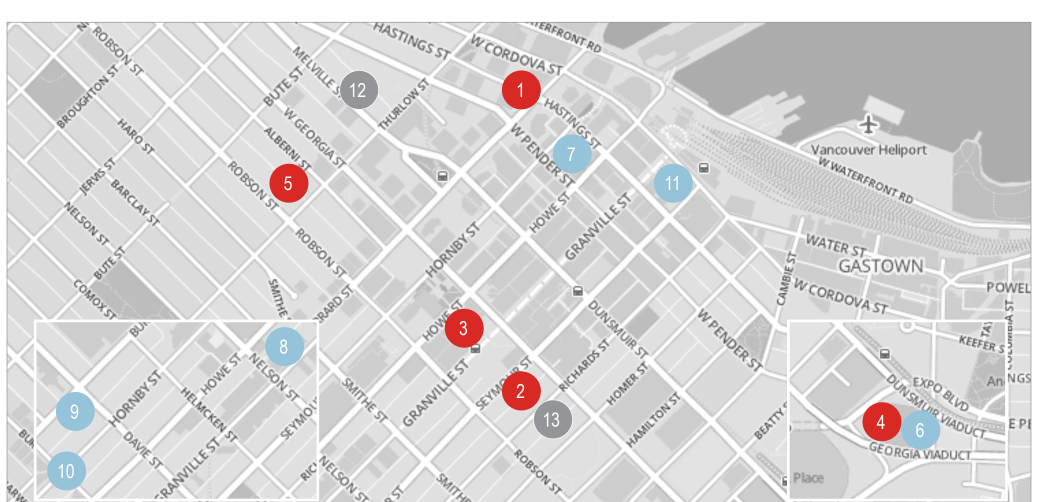
Real value in a changing world

Downtown Vancouver's Confirmed and Proposed Developments

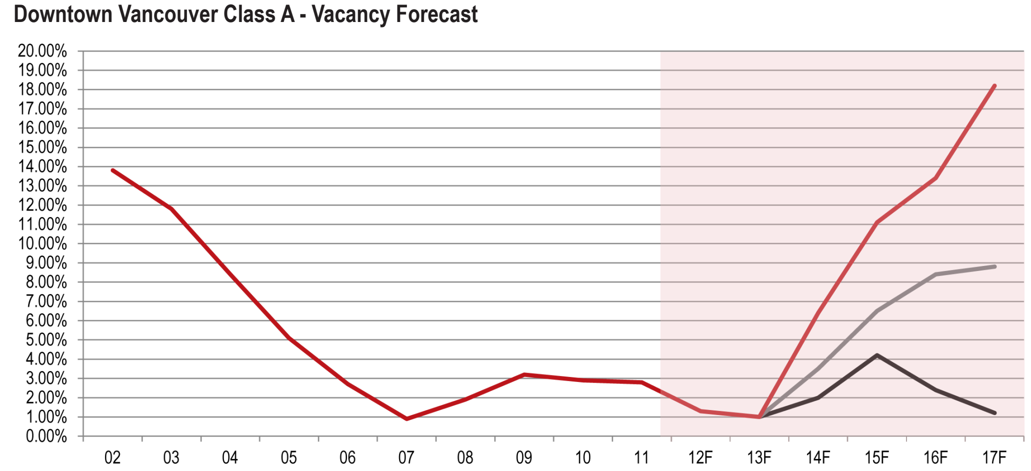
An analysis of new supply trends in the Downtown Class A office market



	1 MNP Tower 1021 West Hastings	2 Telus Garden 520 West Georgia	3 725 Granville 725 Granville	4 800 Griffiths Way West 800 Griffiths Way	5 745 Thurlow 745 Thurlow	6 800 Griffiths Way East 800 Griffiths Way	7 The Exchange 475 Howe	8 960-982 Howe 960-982 Howe	9 Burrard Gateway Tower B 1290 Burrard	10 Burrard Gateway Office Podium Hornby & Drake	11 320 Granville 320 Granville	12 1133 Melville 1133 Melville	13 400 West Georgia 400 West Georgia
Office Area	265,000 s.f.	445,000 s.f.	280,000 s.f.	115,000 s.f.	365,000 s.f.	70,000 s.f.	360,000 s.f.	250,000 s.f.	130,000 s.f.	99,000 s.f.	340,000 s.f.	N/A	N/A
Typical Floor Plan	8,000 s.f.	20,000 s.f.	70,000 s.f.	11,000 s.f.	18,500 s.f.	8,000 s.f.	13,800 s.f.	18,700 s.f.	11,000 s.f.	33,000 s.f.	11,000 s.f.	N/A	N/A
Floors	35	22	7	25	25	28	30	15	13	4	32	N/A	N/A
Building Class	AAA/LEED Gold	AAA/LEED Platinum	A/LEED Gold	A/LEED Gold	AAA/LEED Gold	A/LEED Gold	AAA/LEED Platinum	A/LEED Gold	A/LEED Gold	A/LEED Gold	AAA/LEED Gold	AAA/TBD	AAA/TBD
Anchor Tenant	MNP (82,000 s.f.)	Telus (+/- 200,000 s.f.) Bull Housser (67,000 s.f.)	Nordstrom (Retail) (230,000 s.f.)	Aquilini Group (60,000 s.f.)	SNC Lavalin (101,500 s.f.) McCarthy Tetrault (82,000 s.f.)	TBD	TBD	TBD	TBD	TBD	TBD	N/A	N/A
Available Space	159,000 s.f.	178,000 s.f.	280,000 s.f.	55,000 s.f.	181,500 s.f.	70,000 s.f.	360,000 s.f.	250,000 s.f.	130,000 s.f.	99,000 s.f.	340,000 s.f.	N/A	N/A
Estimated Gross Rent	$60.00	$60.00	$50.00	$55.00	$60.00	$55.00	$60.00	$52.50	$55.00	$55.00	$60.00	N/A	N/A
Landlord	Oxford Properties	Telus/Westbank	Cadillac Fairview	Aquilini Development	Bentall Kennedy/bcIMC	Aquilini Development	Credit Suisse/SwissReal	Manulife	Reliance Properties Jim Pattison Real Estate Group	Reliance Properties Jim Pattison Real Estate Group	Carrera Management Corporation	N/A	N/A
Estimated Delivery Date	Q3 2014	Q3 2014	Q1 2015	Q1 2015	Q2 2015	Q2 2015	Q3 2015	Q3 2015	Q1 2016	Q1 2016	2017	2018	2018



Downtown Vancouver Class A - Vacancy Forecast



Expected Scenario

Based on what we know today Jones Lang LaSalle predicts that, in addition to the confirmed buildings, several of the proposed buildings will proceed and a total of 2,720,000 square feet of Class A space will be added to Downtown inventory before the end of 2017. The most significant single year increase in vacant space is expected in 2015 because of the amount of confirmed space coming to market on the heels of significant additions the year prior; according to our expected development timeline, vacancy is expected to double from 3.1% in 2014 to 6.2% in 2015, followed by a rise to 8.1% in 2016 and a high of 8.5% by the end of 2017. The expected Downtown Class A vacancy trend is based on projected absorption of approximately 1,450,000 square feet between 2014-2017.

While this is significantly higher than today's vacancy rate, around 8% vacancy is generally considered to be a balanced market. At that time landlords will have lost much of the leverage they have in today's leasing environment, and overall market conditions will become neutral but fall short of shifting strongly to the tenants' favour.

Base case:	5 buildings - 1,470,000 s.f., Completed 2014-2017
Medium case:	11 buildings - +/- 2,720,000 s.f., Completed 2014-2017
High case:	13 buildings - +/- 3,750,000 s.f., Completed 2014-2017