

# Market Outlook 2011

## Victoria Region

Victoria, British Columbia has five primary economic drivers that include the provincial seat of government, the University of Victoria, high technology, tourism, and the Department of National Defence, which operates Canada's largest naval base on the Pacific coast. Since the fall of 2008 when the financial crisis swept across North America and the rest of the world, two of the major economic drivers, government revenue and tourism, have been negatively impacted.

**The office market** has seen a further increase in vacancy rates across all asset classes and areas. A notable impact on the downtown office market has been the downsizing of provincial government office because of budget restrictions and some consolidation of government departments into new Class A space. With limited new supply and stable private sector activity, the over-all office vacancy rate is expected to remain under 5% (4.7% for downtown Class A space) with lease rates under some downward pressure but over-all unchanged from 2010.

**The industrial market** continues to be a challenge for buyers and tenants with extremely low vacancy rate (under 2%), steady absorption and limited new supply. The land values have remained unchanged and there has been some deflation in construction costs which contribute to more stable industrial rent. Due to lack of additional capacity in existing industrial areas, growing businesses continue to look for expansion options outside Victoria.

**The retail market** in the downtown core continues to show weakness due to a weakened tourism sector. However, the 8% vacancy rate is expected to hold steady. Regional and community retail centres in Greater Victoria have maintained a healthy 2-3% vacancy rate with lease rates remaining stable.

Morguard Investments, a Canadian Pension Fund, completed Phase I of their ambitious Uptown development on the site of a pre-existing suburban mall called Town & Country. The new mall is anchored by a Wal-mart Superstore with a complementary mix of big and mid-box retail stores. The significant office component of some 200,000 sq.ft. Class A space remains largely vacant and a difficult sell in this office market.

**Investment market** in Greater Victoria continues to be limited due to lack of product. The over-supply of qualified purchasers chasing the limited number of investment-grade properties that come to market has kept cap rates down. Cap rates on prime commercial properties have stabilized at 6% to 7% with multi-family apartments unchanged at around 5% (up from 4.25% pre-recession).

## Victoria At-A-Glance

Rates are provided in  X  SF   SM per   Month  X  Year

Currency Used:   \$US or Country's Currency   CDN\$

<i>Definitions of terms are provided for your easy reference (Pages 5-6)</i>				
Classification	Low Rental Rates	High Rental Rates	Vacancy Rate	Investment Yield
<b>Downtown Office — Submit as Full Service Rates</b>				
New Construction (AAA)	CDN35.00	CDN40.00	4.7%	7.0%
Class A (Prime)	CDN29.00	CDN35.00	3.5%	7.0%
Class B (Secondary)	CDN25.00	CDN29.00	6.1%	7.0%
<b>Suburban Office — Submit as Full Service Rates</b>				
New Construction (AAA)	CDN38.00	CDN42.00	1.3%	7.0%
Class A (Prime)	CDN32.00	CDN36.00	6.5%	7.0%
Class B (Secondary)	CDN26.00	CDN30.00	3.2%	7.0%
<b>Industrial Space — Submit as Net (Triple Net) Rates</b>				
Bulk Warehouse	CDN10.00	CDN12.00	1.5%	7.0%
Manufacturing	CDN12.00	CDN14.00	1.5%	7.0%
High Tech/R&D	CDN12.00	CDN18.00	1.5%	7.0%
<b>Retail Space — Submit as Full Service Rates</b>				
Downtown (High Street Shops)	CDN38.00	CDN90.00	8.0%	7.0%
Neighbourhood Service Centres (Retail Units in Parks)	CDN26.00	CDN32.00	5.0%	7.0%
Community Power Centres (Big Box)	CDN24.00	CDN28.00	2.0%	7.0%
Regional Malls	CDN50.00	CDN70.00	3.0%	7.0%
Solus Food Stores ( <i>European Region Only</i> )				

## **Development Land (Provided per X Acre Hectare)**

Classification	Low (per acre)	High (per acre)
Office in CBD ( <i>Per Buildable <u> X </u> SF/<u> </u> SM</i> )	CDN1,500,000	CDN2,000,000
Land In Office Parks	CDN 600,000	CDN1,000,000
Land In Industrial Parks	CDN 500,000	CDN 750,000
Office/Industrial Land—Non Park	CDN 600,000	CDN 900,000
Retail/Commercial Land	CDN1,000,000	CDN1,500,000
Residential	CDN 400,000	CDN1,000,000

**Source: NAI Commercial (Victoria) Inc.**