Market Outlook 2009

Victoria Region

Victoria, British Columbia has four primary economic drivers that include the provincial seat of government, the University of Victoria, tourism, and the Department of National Defence, which operates Canada's largest naval base on the Pacific coast. Tourism in Victoria has been seen fewer U.S. visitations due to the stronger Canadian dollar and concerns over pending U.S. government passport requirements for re-entry into the U.S. However, both the University of Victoria and the naval base continue to see stable employment growth and new investment. Victoria's economy also continues to benefit from a vibrant and growing high tech sector as well as in-migration from other parts of Canada and from the U.S.

An over-all healthy economy, a balanced provincial budget, and continued low interest rates have helped sustain a residential housing market that has slowed but not seen significantly lower sale prices from the highs achieved earlier in the year. The median house price in the Capital Regional District (CRD) has fallen from approximately $515,000 in August 2007 to $512,000 in August 2008. An increase in listings suggests more downward pressure on housing prices through the end of this year and into 2009.

According to a 2006 census, there are over 164,000 households in the CRD with an average of 2.2 persons per household. Over 72% of residents have some post-secondary education. The area has an excellent transportation system with over 100 daily ferry crossings to and from the mainland, one of the highest concentrations of float planes in the world, and an international airport. The region is also serviced with advanced fibre optics and has over half a dozen Telco companies servicing residential and business communication needs.

The industrial market continues to be challenging for buyers and tenants with very low vacancy rates (under 1%), strong absorption and limited new supply. Increased land values and inflation in construction costs have exceeded the growth in economic rent making the economics of new construction difficult. The increased land values and lack of additional capacity in existing industrial areas have combined to make growing businesses look outside Victoria for expansion options.

The office market has seen continued net absorption of space over the last 12 months resulting in a slight decline in vacancy rates. A notable impact on the office market has been from companies that won outsourcing contracts with the provincial government that have needed to establish offices in Victoria. With an over-all office vacancy rate of approx. 5% (under 1% for downtown Class A space) lease rates are expected to continue to edge upwards this coming year making new construction more viable.

The retail market in the downtown core has been struggling due to continued weakness in tourism visitations, particularly from the US, and has an over-all vacancy rate of 8%. However, the arrival of Mountain Equipment Coop at Government and Johnson in 2006 has invigorated leasing and lease rates along lower Johnson Street and strengthened the adjacent China town and old town areas. Regional and community retail centres in greater Victoria have maintained a healthy 2-3% vacancy rate with lease rates remaining stable.

Investment sales in greater Victoria continue to see lower cap rates due to an over-supply of qualified purchasers chasing the limited number of investment-grade properties that come to market. Prime properties will sell at cap rates as low as 5% with most in the 6% to 7.5% range.

Victoria At-A-Glance

Rates are provided in _X__SF ___ SM per ___ Month _X__ Year

Currency Used: _____ $US or Country's Currency __CDN$______

Definitions of terms are provided for your easy reference (Pages 5-6) **Classification**	**Low Rental Rates**	**High Rental Rates**	**Vacancy Rate**	**Investment Yield**
Downtown Office — Submit as Full Service Rates				
New Construction (AAA)	CDN42.00	CDN48.00	N/A	7.5%
Class A (Prime)	CDN36.00	CDN40.00	1.8%	7.5%
Class B (Secondary)	CDN30.00	CDN34.00	5.0%	8.0%
Suburban Office — Submit as Full Service Rates				
New Construction (AAA)	CDN38.00	CDN42.00	N/A	7.5%
Class A (Prime)	CDN32.00	CDN36.00	7.0%	7.5%
Class B (Secondary)	CDN26.00	CDN30.00	10.0%	8.0%
Industrial Space — Submit as Net (Triple Net) Rates				
Bulk Warehouse	CDN10.00	CDN12.00	1.0%	7.0%
Manufacturing	CDN12.00	CDN14.00	1.0%	7.0%
High Tech/R&D	CDN12.00	CDN18.00	1.0%	7.0%
Retail Space — Submit as Full Service Rates				
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 *(European Region Only)*				

Development Land (Provided per _X__ Acre ___ Hectare)

Classification	**Low (per acre)**	**High (per acre)**
Office in CBD *(Per Buildable _X_SF/__SM)*	CDN 1,500,000	CDN 2,000,000
Land In Office Parks	CDN 600,000	CDN 1,000,000
Land In Industrial Parks	CDN 500,000	CDN 750,000
Office/Industrial Land—Non Park	CDN 600,000	CDN 900,000
Retail/Commercial Land	CDN 1,000,000	CDN 1,500,000

Residential	CDN 400,000	CDN 1,000,000

<u>Source: NAI Commercial (Victoria) Inc.</u>