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**NATIONAL**

Office demand across Canadian central markets remained strong over 2011 driving the overall Class A vacancy rate to a remarkably tight 5.1%. Demand has been the major office story in Canada, as most central area markets experienced a pronounced rebound within two years of the onset of the Great Recession.

Suburban office markets on the other hand were hit hard, particularly because of their closer ties to US markets. Most saw demand plummet as the recession took its toll. The third quarter of 2011, however, marked a turning point for suburban markets, as demand finally began to show some positive signs of sustained momentum.

Because suburban development activity was also held in check, suburban markets in Canada saw vacancy hold at surprisingly low levels, and with recent improvements in momentum, vacancy fell to a tight 9.9% in the third quarter of 2011. The turnaround is considered fragile, however, particularly in light of the challenging global economic climate.

While there are some cracks in the armor as a result of persistent gloomy economic news and the related fall in both business and consumer confidence, they do not run deep across the Canadian landscape. A general slowing of demand over mid-2012 is expected, as the number of deals in progress slows.

Both suburban and central office demand is anticipated to regain momentum in the latter half of 2012, and most Canadian markets will see growth improve in 2013. By the end of 2012, Calgary should

**MARKETS AT A GLANCE**

**OFFICE**

**Central Area**

Inventory:

Q3 2011: **259.1 million sf**

Q4 2012: **262.5 million sf**

Vacancy Rate Outlook:

Q3 2011: **5.8%**

Q4 2012: **5.3%**

**Rental Rate Outlook:**



**Suburban**

Inventory:

Q3 2011: **194.0 million sf**

Q4 2012: **196.8 million sf**

Vacancy Rate Outlook:

Q3 2011: **9.9%**

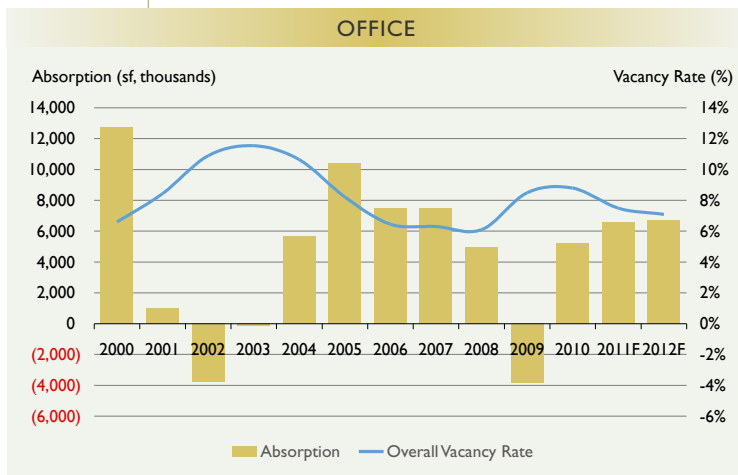
Q4 2012: **9.5%**

**Rental Rate Outlook:**



be the tightest market in the country, with Class A vacancy scraping the bottom of the barrel at 1.2%. Vancouver will be close behind with vacancy falling to a new low of about 1.9%.

Since central markets are extremely tight, with little in the way of new development relief in the short run, these markets will continue to show declining vacancy. While Toronto will see some softening due to space returning to market, downtown Toronto is entering another significant expansionary cycle. Montreal has impressed all observers as its Class A vacancy has dropped significantly. One factor that will contribute to stronger near-term demand is lower interest rates.



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**VANCOUVER**

Demand for Vancouver resources by China and South Korea has increased in recent years, helping to offset weak demand for wood from a struggling US housing sector. Vancouver's central market began to rebound from the impact of the 2008 recession faster than any other Canadian market, with central area vacancy peaking at only 5.5% by the third quarter of 2009 from a low of 2.3% one year earlier. Because Vancouver does not experience the magnitude of demand that markets such as Toronto see and tends to attract smaller tenant sizes, the potential for new development is restricted, which results in a tight market with elevated rental rates.

The central Vancouver market is a branch office market, and key demand drivers include resource companies, software, gaming, engineering, professional services and financial services. Infrastructure investment and a sustained residential housing market boom have supported a stable economy with greater resilience than most other Canadian markets.

Unquestionably, Vancouver's suburban market was hit hard by the recession. Demand and overall absorption remained extremely weak until mid-2011. And although 2011 saw some recovery, it was focused on Class A space, and driven, in part, by a flight to quality at the expense of Class B asset owners. Over the past two quarters, strengthening demand for Class A space has generated positive absorption, at 230,000 square feet per quarter. This may not be robust demand, but like the Toronto market, it is a notable shift in momentum, and is expected to continue. As the flight to quality eases off,

**MARKETS AT A GLANCE**

**OFFICE**

**Central Area**

Inventory:  
Q3 2011: **29.2 million sf**  
Q4 2012: **29.2 million sf**

Vacancy Rate Outlook:  
Q3 2011: **3.7%**  
Q4 2012: **2.8%**

**Rental Rate Outlook:** ▲

**Suburban**

Inventory:  
Q3 2011: **20.9 million sf**  
Q4 2012: **21.3 million sf**

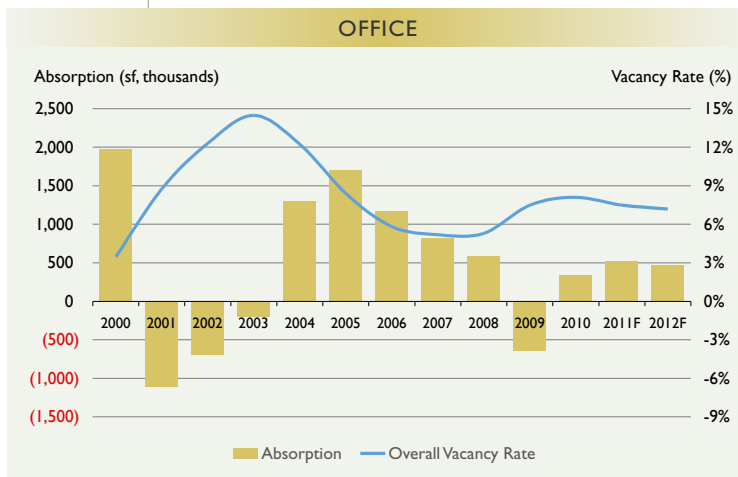
Vacancy Rate Outlook:  
Q3 2011: **13.4%**  
Q4 2012: **13.3%**

**Rental Rate Outlook:** ➤

overall absorption in suburban markets should shift into positive territory in the quarters to come.

Vancouver's office markets are heavily influenced by resource and commodity markets. The recent strengthening in demand across suburban markets is expected to continue well into 2012, and anticipating that the European debt crisis will be reasonably resolved, demand should remain positive – if modest – through 2012, and gain momentum in 2013.

Vancouver's downtown market will see its first new developments in many years. In March 2011, Telus Garden, was announced, a 400,000-square foot, 22-storey office tower to be combined with a 43-storey residential tower, expected to break ground before the end of 2011. A second project announced in late August, is Bentall's 365,000-square foot office development on Thurlow. While these new developments will bring some much needed new office space to downtown Vancouver, and while some upward movement in vacancy will result, this market will continue to see modest absorption in 2012, with demand picking up by 2013 and beyond.



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**EDMONTON**

Strong oil demand and steady prices continue to drive Alberta's economic success. Through 2011, the Canadian economy created 223,000 jobs, 86,000 of which were in Alberta. Investment in the Alberta oil sands has gained tremendous momentum as companies restart projects put on hold several years ago. Current oil sands production is 1.6 million barrels per day and is anticipated to grow to 3.7 million barrels by 2025. It is estimated that by 2035 there will be \$253 billion in capital investments in new projects. In Canada, oil sands-related jobs currently number 75,000 and are expected to reach 900,000 by 2035, with most of them in Alberta.

The Edmonton office market, with 25 million square feet of inventory, had an overall vacancy of 10.4% by the third quarter of 2011. In the central market, which has 15 million square feet, vacancy stood at 7.2%, with direct vacancy at a low 5.6%. Sublease space represents 22.2% of the 1.1 million square feet of vacant space in this market.

In the suburban markets, which have 10 million square feet, vacancy continued to move downwards, decreasing to 15.3%, with direct vacancy at 13.7%. Sublease space represents 10.7% of the 1.5 million square feet of the vacant space.

In the third quarter, the central market absorbed 21,274 square feet and suburban markets absorbed 119,250 square feet. The average gross rental rate was \$30.78 per square foot citywide; \$33.88 in the central market and \$28.63 in the suburban market, representing a slight increase in the central market and a slight decrease in suburban market. This demonstrates growing confidence in the

**MARKETS AT A GLANCE**

**OFFICE**

**Central Area**

Inventory:	
Q3 2011:	<b>15.0 million sf</b>
Q4 2012:	<b>15.6 million sf</b>

Vacancy Rate Outlook:	
Q3 2011:	<b>7.2%</b>
Q4 2012:	<b>9.7%</b>

Rental Rate Outlook: 

**Suburban**

Inventory:	
Q3 2011:	<b>9.8 million sf</b>
Q4 2012:	<b>9.9 million sf</b>

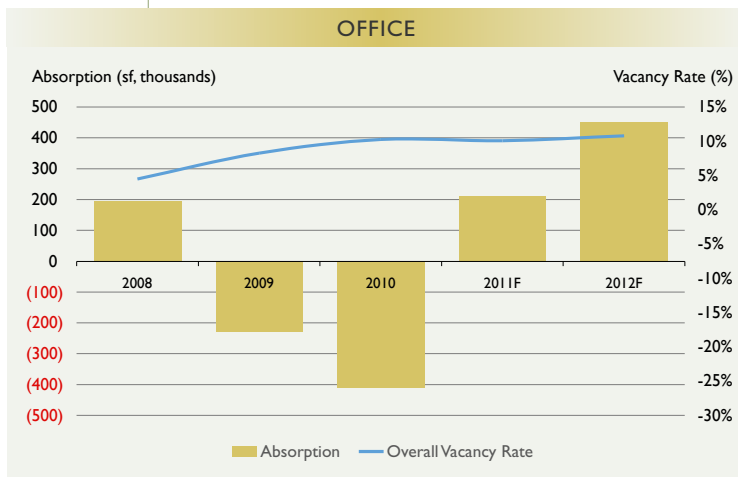
Vacancy Rate Outlook:	
Q3 2011:	<b>15.3%</b>
Q4 2012:	<b>12.5%</b>

Rental Rate Outlook: 

central market as vacancy is absorbed and the continuing struggle suburban landlords are having with large amounts of vacant space.

In 2012, the overall vacancy rate is expected to increase slightly as a result of the market dynamics caused by the recently completed Epcor Tower in the downtown core. At over 600,000 square feet, 195,000 square feet remained vacant by the third quarter of 2011. An additional 300,000 square feet of space was returned to market due to the relocation of Epcor and the Federal Department of Justice into this new tower from several other downtown properties. Regardless, confidence in the Edmonton and Alberta economies is strong, despite continuing global economic uncertainty.

Leasing activity is expected to remain brisk as tenants look to take advantage of attractive rental rates and generous inducement packages offered by landlords.



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**CALGARY**

Calgary's office market is once again in the midst of a boom cycle, and competition for skilled labour is becoming fierce. Five years ago, one-fifth of all office space in Calgary was coming out of the ground. Fast forward to 2011 and the final of these towers, The Bow, is set to bring 1.9-million square feet of space to the market in the second quarter of 2012. What is remarkable is that The Bow is not only 100% leased by Encana and its sister company Cenovus, but all of the significant blocks of space that will be displaced when these two monolithic companies move into The Bow are also leased.

Two years ago, there were expectations that vacancy rates would reach 20% in Calgary. Since then, higher oil prices have reignited demand, driving down the central Class A vacancy rates to an astonishing 4.0% by the third quarter of 2011. The market is now characterized by an extreme shortage of large blocks of space, and this is not expected to change in the foreseeable future.

The summer of 2011 was marked by the growth of junior oil and gas companies that have been trying to lock down future space to accommodate expected growth. Additionally, engineering firms have experienced huge growth surges in the past two years, as significant oil sands projects continue to gain momentum. These firms have been more likely to lease space within both the Beltline and suburban markets, while the oil and gas companies have a strong desire to remain in downtown Calgary.

Because the market has tightened so rapidly, the

**MARKETS AT A GLANCE**

**OFFICE**

**Central Area**

Inventory:

Q3 2011: **42.2 million sf**

Q4 2012: **44.1 million sf**

Vacancy Rate Outlook:

Q3 2011: **6.4%**

Q4 2012: **4.3%**

**Rental Rate Outlook:** ▲

**Suburban**

Inventory:

Q3 2011: **15.7 million sf**

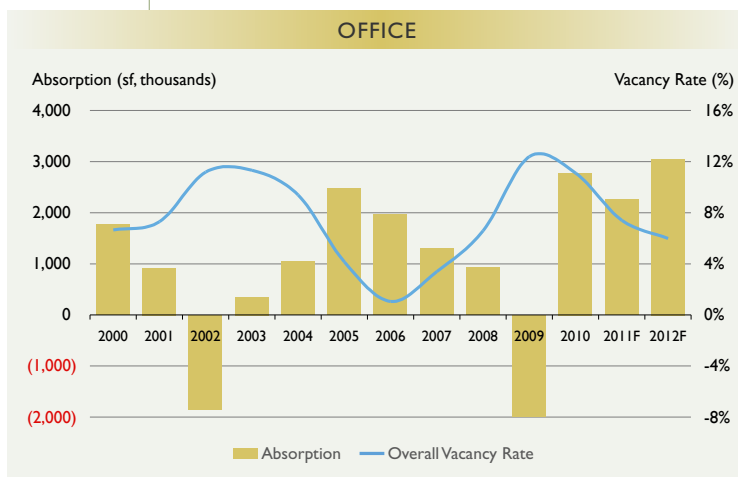
Q4 2012: **16.3 million sf**

Vacancy Rate Outlook:

Q3 2011: **12.1%**

Q4 2012: **10.7%**

**Rental Rate Outlook:** ↻



next development cycle in central Calgary is just getting underway. While no announcements have yet occurred, there are expectations that SITQ will soon begin developing Eighth Avenue Place West, an 800,000-square foot building that would come to market in late 2014 and Oxford is likely to see the 600,000-square foot Eau Clare Tower developed in 2015.

In the near term it is unlikely that lower oil prices will substantially reduce demand in this remarkably dynamic office market. Many of the capital commitments made to further oil sands projects have time horizons in the 10- to 20-year range. Only a substantial and sustained decline in oil prices could notably weaken demand within the Calgary market. Central area demand will continue to be robust and vacancy will continue to tighten within both central and suburban markets. Demand momentum will likely shift to suburban markets as opportunities run out in downtown Calgary.

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**WINNIPEG**

Winnipeg has one of the most balanced, highly diverse and stable urban economies in Canada. Recent studies by Moody's Investor Service and the Conference Board of Canada described Winnipeg as having one of the most diverse city economies in Canada. A wide range of sectors, including aerospace, finance and insurance, transportation, agribusiness, information technology, furniture and apparel, create stability, low unemployment and a cushion against major economic fluctuations.

BMO Capital Markets projects that the province's GDP will grow by 2.0% in 2011. With the recent completion of the \$585-million airport terminal at James Armstrong Richardson International Airport and the \$310-million Canadian Museum for Human Rights scheduled to open in 2013, along with the return of the Winnipeg Jets hockey team, confidence in Winnipeg's future and economy is high. As well, Manitoba's housing market remains strong, its unemployment is the second lowest in the country, and the province has the third highest retail sales growth in Canada.

Winnipeg's office market reflects this optimism, with projects of various sizes either under construction or in the development stages. Currently, there are three major building renovations in progress on Broadway Avenue, with more planned for the Central Business District.

The Class A CBD overall vacancy rate fell to a low 4.7% by Q3 2011, and is expected to remain active. The Class B CBD overall vacancy rate, at 10.1%, is also sliding steadily down due to an increasing number of tenants

**MARKETS AT A GLANCE**

**OFFICE**

**Central Area**

Inventory:

Q3 2011: **10.1 million sf**

Q4 2012: **10.1 million sf**

Vacancy Rate Outlook:

Q3 2011: **7.7%**

Q4 2012: **7.7%**

Rental Rate Outlook:



**Suburban**

Inventory:

Q3 2011: **3.1 million sf**

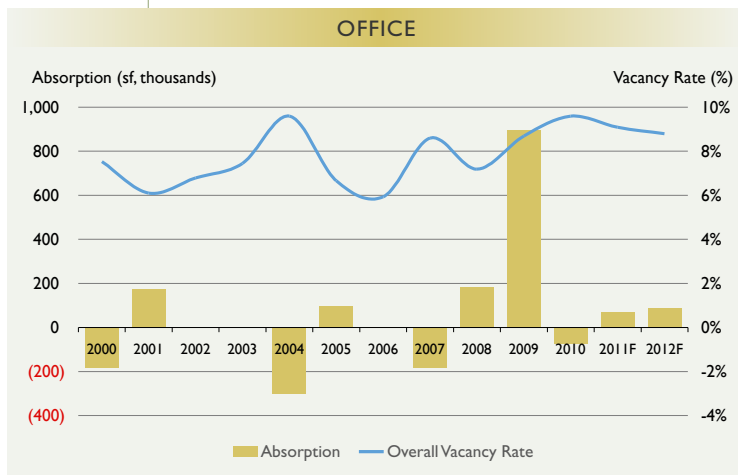
Q4 2012: **3.1 million sf**

Vacancy Rate Outlook:

Q3 2011: **13.8%**

Q4 2012: **12.2%**

Rental Rate Outlook:



upgrading to Class B space from Class C space, which, as a result, has seen some upward momentum.

In September, the province announced that Manitoba Housing and Community Development will move into 71,700 square feet at the Canada Building located at 352 Donald Street in January 2013. Meanwhile, the Class B suburban overall vacancy rate has been trending downward, as tenants take advantage of vacancies at newer developments in the market. The Class C suburban overall vacancy rate at 16.3% remains the market segment with the most vacancy.

As we move into 2012, Winnipeg's office vacancy is expected to increase slightly, with the exception of the Class A market, which will see tightening conditions over the next several quarters. Increased tenant demand is expected from both the provincial and federal governments over the next 12 months, but this will not have an effect on vacancy rates in the near term.



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**LONDON**

London, Ontario, is a city with a proud tradition of enterprise, innovation and creativity. Considered an excellent business location, many strategic initiatives are underway to ensure the city continues to flourish - economically, socially and culturally. In its 2007/2008 rankings, Foreign Direct Investment identified the city as being "Top Ten - Overall" in its "Cities of the Future" awards based on research indicators such as regional economic performance, location costs, quality of life, transport, IT infrastructure, business regulation, tax and human resources. This ranking was earned in a grouping of North American cities with a population between 100,000 and 500,000.

While London continues to battle stubbornly high downtown office vacancy rates, a number of larger corporate relocations by London Life, Digital Extremes, Foster Townsend, McKenzie Lake, DRN and other smaller growths, held the overall vacancy rate as of Q3 2011 to just over 16%.

Some 80% of London's office space is located in the GCA and suburban competition is restricted by limits placed on the market by the municipality. Downtown continues to be the centre for white-collar employers such as London Life, TD Canada Trust, Bell, Citibank, Canada Life and all levels of government.

A double-digit hole in the market has persisted for well over 10 years with only a few quarters sinking below 10% in Class A (9.3% as of Q3 2011). Class B office space, which is more than 22% vacant, is expected to remain stubbornly high. Light absorption, along with little demand momentum, will maintain a tenant's market through 2012, though it will be less favourable than in recent years. Large downtown floor-plate users (over 20,000 square feet) are finding fewer options and landlords increasingly less willing to negotiate.

Further, no significant office construction has occurred since One London Place in 1991 and the Galleria retrofit in 2000. With the exception of 20,000 square feet at 431 Richmond, which opened in 2011, office inventory has remained flat. Class A rents range from \$12 to \$21 per square feet in the Greater Core Area and \$9 to \$11 square feet in the suburbs where availabilities stand at 9%. Operating costs range from \$16.95 down to \$9.00 per square foot.

Former malls such as the Galleria and Westmount placed significant downward rent pressure on large floor-plate

**MARKETS AT A GLANCE**

**OFFICE**

Inventory	
Q3 2011:	<b>3.9 million sf</b>
Q4 2012:	<b>3.9 million sf</b>

Vacancy Rate Outlook:	
Q3 2011:	<b>16.1%</b>
Q4 2012:	<b>16.0%</b>

Rental Rate Outlook: 

transactions when they were retrofitted into Class B/C office space. Galleria, now CitiPlaza, has successfully reinvented itself with over 400,000 square feet of office users, and Westmount has just begun to turnaround. Bell's numerous contractions have left over 100,000 square feet of rare large floor-plate stock in the centre city.

For 2012, office demand in London is expected to remain slow, but there may be a noticeable increase in the cost of large floor-plate transactions (new and renewal), given tightening availabilities in the core area. The city is expected to embark on the construction of a new city hall. Should local leaders elect to re-locate municipal employees out of leasehold premises into the new hall, London may see further erosion of the Class B market.

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**TORONTO**

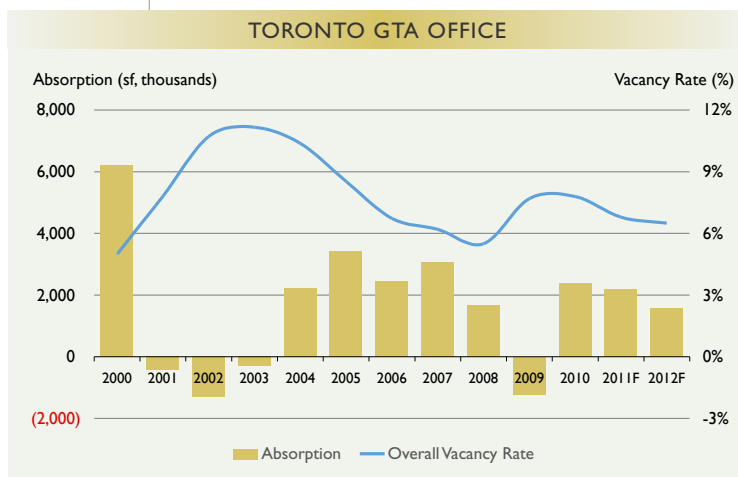
The downtown Toronto office market outperformed all expectations since the onset of the recession in 2008, becoming one of the hottest growth markets in North America. With over 4.5 million square feet of new developments set to open between 2009 and 2011 – when many companies were sidelining real estate decisions, vacancy rates were projected to rise to reach almost 15%. What was not expected was explosive demand across the banking sector.

While the recession initially resulted in a significant amount of space being returned to market in, Canada's healthy banking sector suddenly kicked in and began growing substantially. What followed was

On the heels of the recession, downtown Toronto experienced one of the strongest expansionary periods in 20 years.

one of the strongest three expansionary periods that downtown Toronto has experienced in 20 years. And the banking sector boom soon spread, with sectors as diverse as media & communications, health services, education, professional and financial services, and resources all experiencing growth.

The new LEED developments saw extremely strong



**MARKETS AT A GLANCE**

**OFFICE**

**Central Area**

Inventory:

Q3 2011: **84.0 million sf**

Q4 2012: **84.6 million sf**

Vacancy Rate Outlook:

Q3 2011: **5.1%**

Q4 2012: **5.0%**

**Rental Rate Outlook:**



**Suburban**

Inventory:

Q3 2011: **83.7 million sf**

Q4 2012: **84.6 million sf**

Vacancy Rate Outlook:

Q3 2011: **8.2%**

Q4 2012: **7.9%**

**Rental Rate Outlook:**



demand, as tenants sought both quality and location, along with the opportunity to implement workplace strategies that would attract and retain the young educated workforce that live and work in growing numbers in downtown Toronto.

While central markets are still buoyant, the winds of suburban demand died soon after the 2008 recession struck, and remained flat into 2010. Closer links to US companies and the prevalence of industries more affected by the swings of global growth caused suburban markets like the GTA West to experience the toughest demand years since the early 1980s.

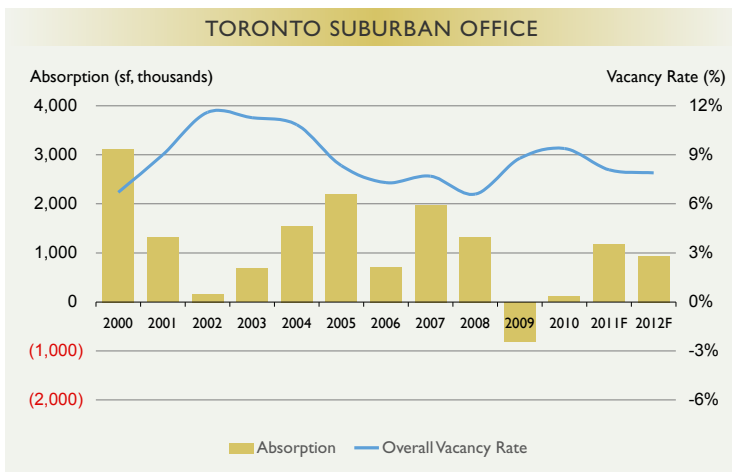
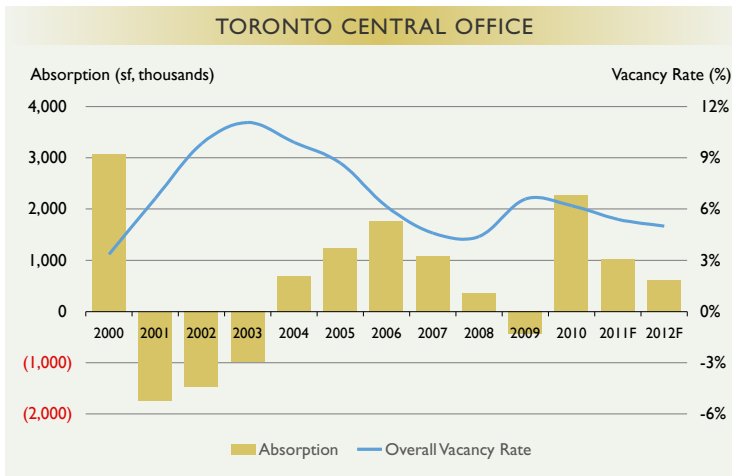
With 2011, however, a revival in demand materialized across suburban markets, particularly in the third quarter when the GTA saw about 550,000 square feet of positive absorption across east, west and north suburban markets. While this represents modest demand relative to past expansionary periods, it marked an important turning point.

While central market demand will ease to moderate levels, it will still remain positive. The changing nature of downtown Toronto, being transformed by

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factors such as the revitalization of Union Station, the massive Waterfront project, and thousands of new condominiums that have given rise to densely populated urban communities, will ensure that the market remains an attractive business location for many years ahead.

Demand within suburban markets is expected to remain positive through the first half of 2012, though it may weaken through the latter half of 2012 before picking up again in 2013 and 2014.



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**OTTAWA**

Thanks to the dominating presence of the federal government, Ottawa's office market tends to be the most stable in the country, and is far less likely to be impacted by broader issues such as global economic turmoil. A lull in government demand for space, combined with some migration and consolidation activity, displaced about 750,000 square feet in downtown Ottawa in the past two years, softening central area vacancy.

Suburban markets experienced soft demand throughout the downturn, driven in part by a weakened technology sector and punctuated by Nortel's exit from Kanata. Class A vacancy rose, but didn't come close to reaching the levels experienced during the tech bust of 2000 when Kanata, alone, saw its rate hit 19%.

The 2.2-million square foot Nortel campus, while not part of survey inventory, was ultimately purchased by the federal government for occupation by the Department of Defense. Surprisingly, this had the impact of tightening suburban markets in 2011, as the five significant tenants who occupied portions of the gigantic campus, now called the Carling Campus, were forced to lease space elsewhere.

Over 2011, three of these tenants, Ericsson, Genband, and Avaya, leased a combined 325,000 square feet of office space within the Kanata region, tightening overall vacancy rates. Additionally, suburban demand strengthened in the third quarter of 2011, providing evidence that a market recovery was finally underway.

As the Department of Defense consolidates into

**MARKETS AT A GLANCE**

**OFFICE**

**Central Area**

Inventory:

Q3 2011: **17.9 million sf**

Q4 2012: **17.9 million sf**

Vacancy Rate Outlook:

Q3 2011: **5.1%**

Q4 2012: **6.8%**

**Rental Rate Outlook:** ↻

**Suburban**

Inventory:

Q3 2011: **19.4 million sf**

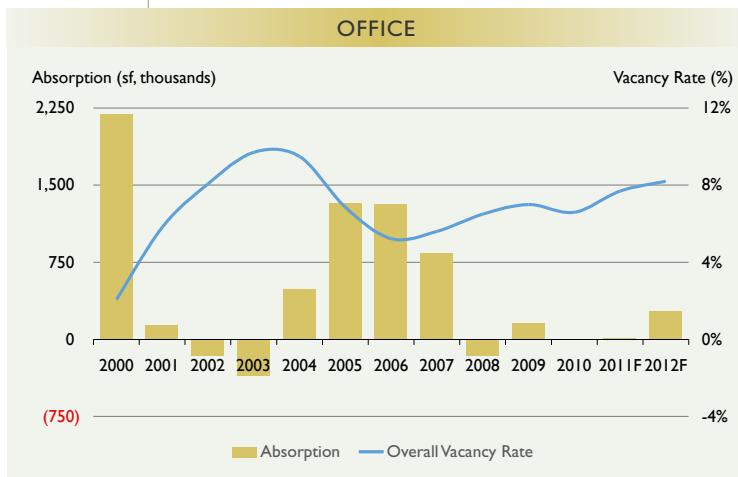
Q4 2012: **19.9 million sf**

Vacancy Rate Outlook:

Q3 2011: **8.7%**

Q4 2012: **9.4%**

**Rental Rate Outlook:** ➡



the Carling Campus, additional space will be displaced within both central and suburban markets, though some of these vacancies will be in buildings owned by the government and are unlikely to be made available to non-government tenancies.

In 2011, the central area saw the addition of the 475,000-square foot EDC building. Export Development Canada has since relocated into this space and about 400,000 square feet is expected to come to market as a result of its relocation. This will soften central area vacancy rates in 2012.

In recent months, the federal government has become more active, leasing a total of about 100,000 square feet during the second and third quarter of 2011. While the government has indicated that future demand will be restricted, it will require a significant amount of space to allow for the necessary upgrading of existing space over the next few years. While central area vacancy may rise in the short run, demand is expected to remain at modest levels. Although rental rates have softened from market highs, they will remain relatively stable, and rise once the government begins to lease space in order to address its aging buildings.

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**MONTREAL**

Montreal experienced weaker central area demand than most Canadian markets following the recession of 2008, but 2011 marked a turning point as absorption shifted notably into positive territory with over 550,000 square feet of positive absorption by the end of the third quarter.

Suburban markets have also showed strong signs of recovery, with almost 440,000 square feet of positive absorption this year-to-date.

While demand in downtown Montreal did not reach the heightened levels achieved in Toronto or Calgary, central-area Class A vacancy dropped to 6.7% from 7.8% year over year.

What was unexpected was the speed at which the Class A space began to tighten. Development rumours also began to circulate in 2011.

Kevric Real Estate Corporation announced Altoria, a \$100-million condominium and office complex, which will see a 10-storey, 230,000-square foot, LEED-certified office building rise in the heart of the international district, near the recently renovated Quebecor building. Additionally, there is likely to be the announcement of a stand-alone office tower that would add 350,000 square feet to the downtown market. This would represent the first privately funded stand-alone office tower to rise in downtown Montreal in over 20 years.

Montreal's business health in the next few years will be influenced by key industry drivers, which include aerospace, electronics, pharmaceuticals, software

**MARKETS AT A GLANCE**

**OFFICE**

**Central Area**

Inventory:

Q3 2011: **48.0 million sf**

Q4 2012: **48.0 million sf**

Vacancy Rate Outlook:

Q3 2011: **6.5%**

Q4 2012: **5.0%**

**Rental Rate Outlook:**



**Suburban**

Inventory:

Q3 2011: **34.6 million sf**

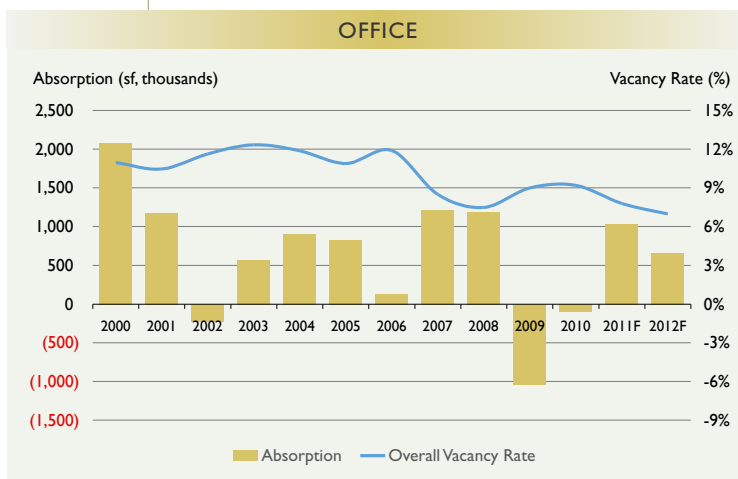
Q4 2012: **34.6 million sf**

Vacancy Rate Outlook:

Q3 2011: **9.8%**

Q4 2012: **9.8%**

**Rental Rate Outlook:**



engineering, and telecommunications. The video gaming industry has also grown significantly since the late 1990s. Every year this industry generates billions of dollars in revenue and keeps thousands employed in the area.

Given the softening in the global economy, and modest GDP growth expectations for the US economy, demand within the Montreal office markets will be modest, but is expected to remain positive through 2012 and 2013, and will gain additional momentum in 2014. Suburban market demand gained traction in the third quarter, and this should continue into 2012. Assuming that the European debt crisis is resolved, demand should remain slow but positive, influenced by the rate of recovery south of the border.

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**SAINT JOHN**

The New Brunswick economy remains sensitive to the conditions and changes in the North American economy as a whole. Real GDP growth is expected to pick up in 2012, however, with 1.8% growth, while employment is also expected to grow by 1.2%. The unemployment rate has been up and down, and while higher in 2011, will return to 2010's level of 9.3% in 2012.

The greater Saint John region is a natural geographic gateway and strategic distribution hub. While little change is expected in the coming year, Saint John's port positions it for large marine or energy-related projects.

Saint John's office occupancy declined slowly through 2011. By the third quarter, the city's office market was 11.8% vacant, and had given back 20,000 square feet. At 2.4 million square feet, the market has a low average rent of \$12.73 per square foot.

The city's office market has always been heavily dependent on companies, Irving and Bell Aliant. The former is the largest tenant and the largest landlord, hence, its capital projects and employment levels have

**MARKETS AT A GLANCE**

**OFFICE**

Inventory	
Q3 2011:	<b>2.4 million sf</b>
Q4 2012:	<b>2.4 million sf</b>

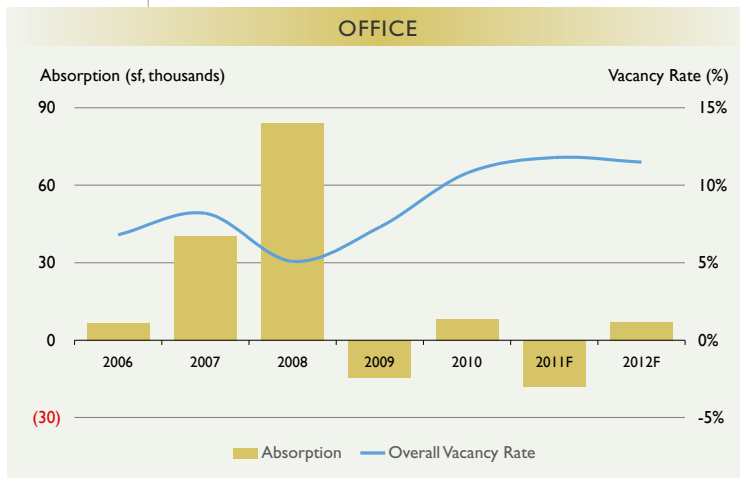
Vacancy Rate Outlook:	
Q3 2011:	<b>11.8%</b>
Q4 2012:	<b>11.5%</b>

Rental Rate Outlook: 

an enormous impact on the office market health. The latter, a descendant of New Brunswick Tel, which was headquartered in Saint John, has dramatically reduced its occupancy over the past five years.

Given Saint John's historic connection to Irving, its port and location, the city also stands in line to benefit from engineering job growth and other economic spinoffs connected with the \$25-billion dollar ship building contract recently won by Irving Shipbuilding in Halifax. Positive impacts will likely start being felt by 2013.

Growth in cruise ship visits, and health care and education are also positives for the market. However, there is no planned construction for 2012, and at this point, only organic growth is seen as a contributor to reduced vacancy and rent improvements.



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**MONCTON**

Moncton is one of those cities that draws attention to itself because it has so many things going for it. Not only is it a stable, well-located city, its office market is in growth mode. Moncton is supported by a diverse set of industries working in a very entrepreneurial business environment.

In a broader sense, the New Brunswick city is a place where people want to live and work. It enjoys consistently lower unemployment than the national average, currently at 6.8%, down from 7.1% in September 2011. Moncton has the largest catchment area in Atlantic Canada with 1.4 million people living within three hours of the city.

The city lies at the geographic centre of the Atlantic provinces, supporting a healthy economy and related office market. Office demand in Moncton has outpaced all other regional markets in recent quarters, with strong absorption and development activity to support this growth. Moncton is a head-office city with corporations like Atlantic Lottery Corporation, Assumption Life Insurance, Blue Cross Insurance, Armour Transportation Systems and more.

Moncton has long been nicknamed the "Hub City" because of its proximity to domestic and US markets, which has made it a gateway railway and transportation centre. In addition to transportation and logistics, other office-demand drivers include education, healthcare, information technology, financial, legal, insurance and retail businesses. The city's location, diversified business, and entrepreneurial flare of the people and businesses

**MARKETS AT A GLANCE**

**OFFICE**

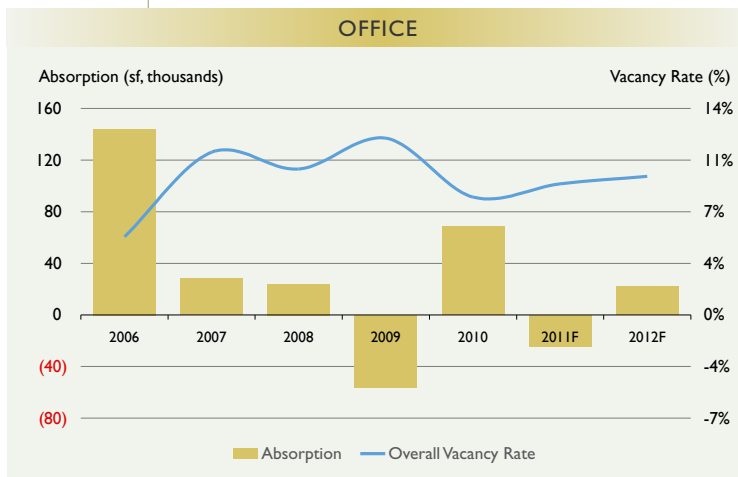
Inventory	
Q3 2011:	<b>2.7 million sf</b>
Q4 2012:	<b>2.7 million sf</b>

Vacancy Rate Outlook:	
Q3 2011:	<b>9.0%</b>
Q4 2012:	<b>9.4%</b>

**Rental Rate Outlook:** 

within the region are all key drivers.

Some of the recent demand has been related to Atlantic Canada's outsourcing of key business services to CGI. As of yet, Atlantic Canada has not returned any of its own space to market. Growing demand for goods and services, which ultimately supports the growth of companies using office space, continues to be fueled by a growing population. The Moncton CMA, including the neighboring city of Dieppe and the town of Riverview as well as Westmorland and Albert Counties, has the fastest growth rate of any urban region east of Toronto.



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**FREDERICTON**

A centre for higher education, Fredericton is home to many universities plus a variety of training colleges and institutes. Named "one of the world's top seven intelligent communities" by the global Intelligent Community Forum, Fredericton is home to more than 70% of the province's knowledge industry, some 60 R&D organizations and Canada's largest per-capita engineering cluster. An established "smart city", Fredericton was Canada's first wireless city, and is also earning international attention for its sustainability initiatives.

As well, the provincial capital city continues to attract economic development to its extensive business park network known as RUNWAY.

Fredericton's 1.9-million-square-foot office market, concentrated mainly in the downtown core, is home to three levels of government and the professional services that support them. Overall office vacancy stood at a low 5.4% as of Q3 2011. The city experienced the bulk of the province's positive absorption, thanks to 45,000 square feet of new inventory that came to market in the third

**MARKETS AT A GLANCE**

**OFFICE**

Inventory

Q3 2011: **1.9 million sf**  
Q4 2012: **2.0 million sf**

Vacancy Rate Outlook:

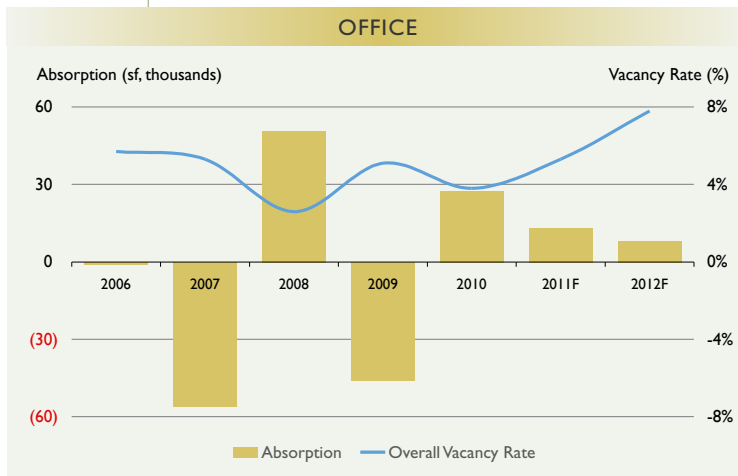
Q3 2011: **5.4%**  
Q4 2012: **7.8%**

**Rental Rate Outlook:** 

quarter in the city's Knowledge Park. Fredericton has the highest net-asking rents in the province, averaging \$13.98 per square foot.

This tight supply scenario makes moves and expansions by existing tenants of any size very difficult. Absorption was generally flat in 2011, and has been for several years due to a lack of new market entrants into this city of 50,000 people.

The office market gained ground in 2011 and the pace is expected to remain relatively brisk through 2013. The addition of new Knowledge Park builds and the Conference Centre will create options for tenants, and suppress rents in existing buildings and/or create a class dichotomy in rents, accompanied by a flight to quality. This will erode occupancy in older buildings and cause rent degradation.



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**HALIFAX**

Halifax's economic strength is supported by the Port of Halifax and the presence of the Department of National Defense. Tourism, government administration and offshore gas extraction companies also contribute to the local economy. There are seven degree-granting institutions in the Halifax area and the city boasts a vibrant technology sector, which while modest in scope, is one of the most dynamic in the country. Other key sectors leading office demand include the federal government, finance services, aerospace, defense, oceans and life sciences.

Office demand was weak across the Halifax area in 2011 with overall vacancy holding relatively flat. This created a somewhat anxious office-leasing environment where asset managers were fighting to hold on to their tenants. Three years ago a significant-sized availability in the 20,000-square foot range was a rare commodity, whereas now there are far more availabilities that could suit such a tenant. A number of new mixed-use developments have been completed within suburban markets, which have been well received.

But slow growth is about to become a thing of the past for this beautiful east-coast city. The big news is that Halifax's Irving Shipbuilding recently landed the much-coveted \$25-billion dollar contract to build new combat ships for the Canadian navy over the next 20 years. Once it gears up, this massive project will be a game changer for Halifax and the entire province. Expected to create some 11,000 jobs and bring a wide

**MARKETS AT A GLANCE**

**OFFICE**

**Central Area**

Inventory:	
Q3 2011:	<b>4.4 million sf</b>
Q4 2012:	<b>4.5 million sf</b>

Vacancy Rate Outlook:	
Q3 2011:	<b>8.3%</b>
Q4 2012:	<b>7.9%</b>

**Rental Rate Outlook:** ↗

**Suburban**

Inventory:	
Q3 2011:	<b>5.3 million sf</b>
Q4 2012:	<b>5.3 million sf</b>

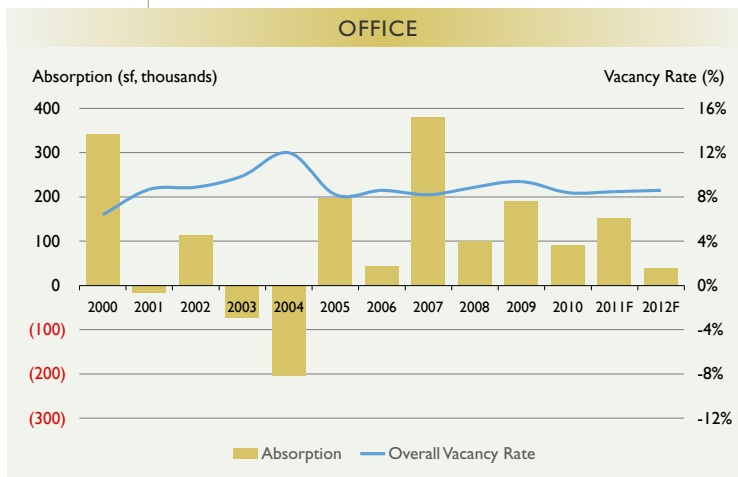
Vacancy Rate Outlook:	
Q3 2011:	<b>9.0%</b>
Q4 2012:	<b>9.1%</b>

**Rental Rate Outlook:** ↗

range of spin-off economic benefits, the shipyards contract will be a boon to the region's industrial markets, but also to the office markets.

The bolstered confidence factor created by winning this contract alone could see office demand increase in the 5,000-square feet per quarter range next year, which could easily ramp up to 20,000 square feet per quarter by 2013. Almost all existing office sectors, along with many new ones, will benefit from the long-term contract, though the full weight of increased business activity will take some years to ramp up.

Office markets should see demand pick up slowly over 2012 and though Halifax is not immune to the impact of the European financial crisis or a potential softening in US demand for Canadian goods and services, the shipbuilding contract is of such significance in size and scope that it will certainly protect the city and area from external economic shocks in future and will inevitably act as an incredible catalyst for office market growth.



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**ST. JOHN'S**

Newfoundland and Labrador is set to lead the Atlantic provinces in growth in the coming year thanks to increasing levels of investment in natural resources and related boosts in income that the Royal Bank of Canada, for one, predicts will result in many years of solid economic performance. St. John's, the province's vibrant capital, is already experiencing the benefits.

Demand for office space in St. John's is being generated by offshore oil projects and the revenue flow from existing projects. The massive new Hebron project underway will drive future growth across Newfoundland and Labrador for years to come. Where fishing was once the mainstay of the economy, now engineering and project-based development have taken over, increasing average earnings and consumer spending in the province.

While natural swings in offshore oil production would typically result in uneven GDP growth, with the Hibernia South Extension and the Hebron project in full swing, long-term economic stability is assured. The Hibernia South Extension development began pumping oil midway through 2011 and adds about 223 million barrels of new reserves to one of Canada's most significant offshore projects. Hebron is the province's fourth offshore oil development after Hibernia, Terra Nova, and White Rose. Estimated recoverable reserves are in the 400-million- to 700-million barrel range. First oil is expected by 2017.

Expected to create some 3,500 jobs in the next five years, Hebron is driving tremendous office demand. Also underway is the lower Churchill project, a massive hydro

**MARKETS AT A GLANCE**

**OFFICE**

**Central Area**

Inventory:

Q3 2011: **1.3 million sf**

Q4 2012: **1.3 million sf**

Vacancy Rate Outlook:

Q3 2011: **1.8%**

Q4 2012: **1.9%**

**Rental Rate Outlook:** ▲

**Suburban**

Inventory:

Q3 2011: **1.6 million sf**

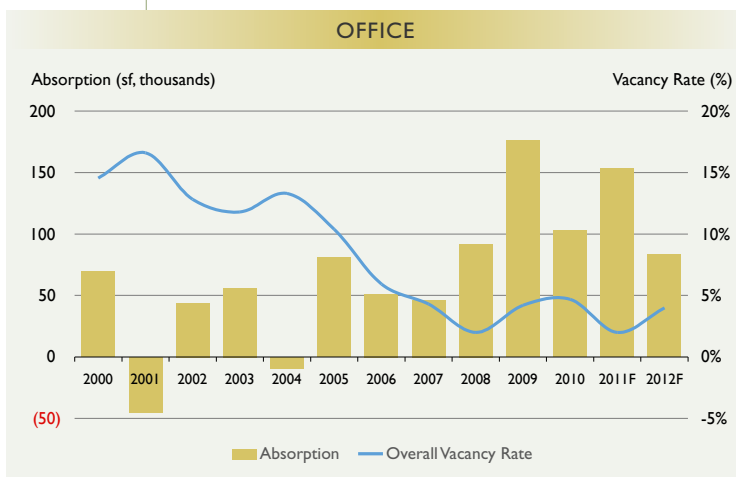
Q4 2012: **1.8 million sf**

Vacancy Rate Outlook:

Q3 2011: **5.0%**

Q4 2012: **5.5%**

**Rental Rate Outlook:** ▲



electric development, and Vale Inco is building a major refining plant in Long Harbour, about an hour's drive from St. Johns.

In this active economy, few were surprised at the announcement that downtown St. John's will see its first office development in over 25 years. Being developed by East Port Properties Ltd., "351" is the first seawater heated and cooled building in Newfoundland and Labrador. A Canada Green Building Council LEED® registered building, it has been designed to achieve Gold level certification. To be completed in 2013, the six-storey, 165,000-square-foot office tower includes prime retail space and a 446-car parkade.

It is likely that the new downtown development will see strong interest. Many companies have been located in the same buildings for years, and there is a growing desire to realize the efficiency advantages offered by modern space and efficient new office buildings.

The suburban market will see the completion of a 46,000-square foot building in the fourth quarter of 2012. Given its strong economy, St. John's will remain well insulated from global economic turmoil and office demand is expected to remain relatively strong.