

P R O S P E R I T A S

EUGEN KLEIN REAL ESTATE BROKERAGE & MARKETING SYSTEMS

FIRST QUARTER 2006

FEATURE: FE FI FO FUM

MARKET UPDATE

INTEREST ARTICLE: 10 WONDERS OF CHINA

from the office of

Eugen Klein



The upcoming year, 2006, will prove to be another exciting year in our real estate market as

construction forges ahead with the Whistler 2010 Olympics on the doorstep. The investment market continues to be strong. As in the past couple years, we expect very little investment product to surface for sale, but new retail and residential construction continues to go up all around us.

I hope you enjoy the updated look of our commercial real estate newsletter, Prosperitas. Again, we would like to thank you for your business in 2005 and hope to serve you again soon.

As always we welcome you to give us a call at anytime.

Eugen Klein

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China and India have become lands of opportunity as investment markets for real property interest. The unknowns in the future political and social conditions warrant some caution. Upon closer inspection it is clear that Canadian investors need to be more aware of these markets as there is no denying some of the staggering numbers: population, emerging retail demand, labour costs and government initiatives.

Foreign investment into China in 2005 was a staggering 60 billion dollars, this represents 65% of their economy. The political climate has seen the Chinese government mandate a quadrupling of the GDP by 2010. With the large developing cities on the rise in Eastern China we are witnessing the largest migration of people in the world's history; 300 million people are moving from the rural to urban centres. It is amazing to believe that 800 million people within China's population live on less than one dollar per day.

Fe Fi Fo Fum

China and India

The Awakening Giants: A Market Overview

By Eugen Klein, B.Comm(UREC), CRES, ARM®, RI, FRI
Commercial & Investment Real Estate Specialist

Growth in retail demand is at 10% per year over the last 15 years and that is accelerating. There is a overwhelming demand for services; many young adults in China are experiencing 3 or 4 times the earning power of their parents. This is resulting in a climate of extremely confident and risk taking young entrepreneurs. The scale, speed and risk levels are simply unknown to Western thinking.

China's lands, under communist government, remains only as a lease interest: 30, 40, 50 and 70 years. Each city competes

for new developments with land and tax incentives. Currently in North America we are seeing the investment markets over the last quarter of 2005 experience some of the lowest capitalization rates since the early 1990's. What is more interesting is to note how the upward trend of demand for prime office space in some of these Eastern Cities are affecting the way traditional brokerage has occurred.

(continued on page 4)

COMMERCIAL ■ INDUSTRIAL ■ INVESTMENT ■ PROJECT MARKETING ■ BUSINESS BROKERAGE

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10 Wonders of New China

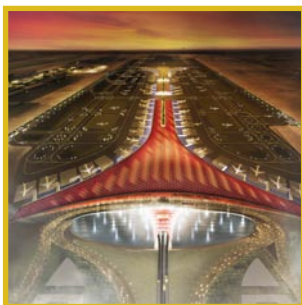
Adapted from BusinessWeek.com, article by Reena Jana



The Commune, Beijing

First phase completed 2002, expansion scheduled for completion in 2010

Even if the Commune didn't sit beside that wonder of the ancient world, the Great Wall of China, it would still qualify as a wonder. The complex includes houses by 12 of Asia's leading architects. It was conceived by married real-estate developers Zhang Xin and Pan Shiyi, who gave each architect a \$1 million budget. Shigeru Ban, the Japanese architect most famous for the paper houses he designed for refugees of the Kobe earthquake, designed the Furniture House, featuring the laminated plywood typically used for modular furniture, and China's Yung Ho Chang created the Split House, which takes the idea of a boxy dwelling, slices it in half, and spreads it out like a fan.



Beijing International Airport, Beijing

Foster & Partners. Under construction, to be completed in late 2007

According to the U.S. Embassy to China, the country will be building 108 new airports between 2004 and 2009 -- including what will be the world's largest: the Beijing International Airport, designed by Foster & Partners. Set to open at the end of 2007, in time for the Beijing Olympics in 2008, the airport terminal will cover more than 1 million square meters, giving it a bigger footprint than the Pentagon. It's designed to handle 43 million passengers a year initially and 55 million by 2015, figures that will probably push the new facility into the ranks of the top 10 busiest airports, going by the 2004 numbers from the Airports Council International. Given the scale and traffic, Foster & Partners focused on the traveler's experience, making sure that walking distances are short, for instance.

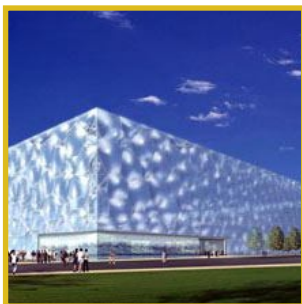


Shanghai World Financial Center, Shanghai

Kohn Pedersen Fox Architects. Under construction, completion scheduled for 2008

Rising in the Lujiazui financial district in Pudong, the Shanghai World Financial Center is a tower among towers. The elegant 101-story skyscraper will be (for a moment, at least) the world's tallest when completed in early 2008.

One of the biggest challenges of building tall is creating a structure that can withstand high winds. The architects devised an innovation solution to alleviate wind pressure by adding a rectangular cut-out at the building's apex. Not only does the open area help reduce the building's sway but it also will be home to the world's highest outdoor observation deck -- a 100th-floor vista that will take vertigo to new heights.



National Swimming Center, Beijing

PTW and Ove Arup. Under construction, completion scheduled for 2008

The striking exterior of the National Swimming Center, being constructed for the 2008 Olympic Games and nicknamed, the "Water Cube," is made from panels of a lightweight form of Teflon that transforms the building into an energy-efficient greenhouse-like environment. Solar energy will also be used to heat the swimming pools, which are designed to reuse double-filtered, backwashed pool water that's usually dumped as waste. Excess rainwater will also be collected and stored in subterranean tanks and used to fill the pools. The complex engineering system of curvy steel frames that form the structure of the bubble-like skin are based on research into the structural properties of soap bubbles by two physicists at Dublin's Trinity College. The unique structure is designed to help the building withstand nearly any seismic disruptions.



Central Chinese Television CCTV, Beijing

OMA/Ole Scheeren and Rem Koolhaas. Under construction, scheduled for completion in 2008

The design of the new Central Chinese Television (CCTV) headquarters defies the popular conception of a skyscraper -- and it broke Beijing's building codes and required approval by a special review panel. The standard systems for engineering gravity and lateral loads in buildings didn't apply to the CCTV building, which is formed by two leaning towers, each bent 90 degrees at the top and bottom to form a continuous loop. The engineer's solution is to create a structural "tube" of diagonal supports. The irregular pattern of this "diagrid" system reflects the distribution of forces across the tube's surface. Designed by Rem Koolhaas and Ole Scheeren and engineered by Ove Arup, the new CCTV tower rethinks what a skyscraper can be.

... more Wonders of New China



Linked Hybrid, Beijing

Steven Holl Architects; Li Hu, lead architect. Groundbreaking on December 28, 2005, scheduled for completion in 2008

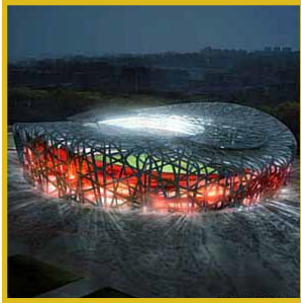
Linked Hybrid, which will house 2,500 people in 700 apartments covering 1.6 million square feet, is a model for large-scale sustainable residential architecture. The site will feature one of the world's largest geothermal cooling and heating systems, which will stabilize the temperature within the complex of eight buildings, all linked at the 20th floor by a "ring" of service establishments, like cafés and dry cleaners. A set of dual pipes pumps water from 100 meters below ground, circulating the liquid between the buildings' concrete floors.



Dongtan Eco City, Dongtan

Masterplan by Arup, for the Shanghai Industrial Investment Corp. In planning stages, first phase to be completed in 2010

Developed by the Shanghai Industrial investment Corp., Dongtan Eco City, roughly the size of Manhattan, will be the world's first fully sustainable cosmopolitan when completed in 2040. Like Manhattan, it's situated on an island -- the third-largest in China. Located on the Yangtze River, Dongtan is within close proximity of the bustle of Shanghai. By the time the Shanghai Expo trade fair opens in 2010, the city's first phase should be completed, and 50,000 residents will call Dongtan home-sweet-sustainable-home. The goals to be accomplished in the next five years: systems for water purification, waste management, and renewable energy. An infrastructure of roads will connect the former agricultural land with Shanghai.



Olympic Stadium, Beijing

Herzog & de Meuron. Under construction, to be completed in 2008

Sports stadiums have long followed the enduring design of one of the original wonders of the world, Rome's Coliseum. Herzog & de Meuron's National Stadium in Beijing is an attempt to rethink the classic sports-arena layout for more ecologically correct times. The Swiss architects (of Tate Modern fame) wanted to provide natural ventilation for the 91,000-seat structure -- perhaps the largest "eco-friendly" sports stadium designed to date. To solve these design problems, they looked to nature for inspiration. The stadium's outer grid resembles a bird's nest constructed of delicately placed branches and twigs. Each discrete space within the facility, from restrooms to restaurants, is constructed as an independent unit within the outer lattice -- making it possible to encase the entire complex with an open grid that allows for natural air circulation. The architects also incorporated a layer of translucent membrane to fill any gaps in the lacy exterior.



Donghai Bridge, Shanghai/Yangshan Island

China Zhongtie Major Bridge Engineering Group, Shanghai # 2 Engineering Co., Shanghai Urban Construction Group. Officially opened in December, 2005

A key phase in the development of the world's largest deep-sea port was completed when China's first cross-sea bridge -- the 20-mile, six-lane Donghai Bridge -- was officially opened in December, 2005. Stretching across the East China Sea, the graceful cable-stay structure connects Shanghai to Yangshan Island, set to become China's first free-trade port (and the world's largest container port) upon its completion in 2010.



National Grand Theater, Beijing

Paul Andreu and ADP. Under construction, to be completed in 2008

Located near Tiananmen Square, the 490,485-square-foot glass-and-titanium National Grand Theater, scheduled to open in 2008, seems to float above a man-made lake. Intended to stand out amid the Chinese capital's bustling streets and ancient buildings, the structure has garnered criticism among Beijing's citizens for clashing with classic landmarks like the Monument to the People's Heroes (dedicated to revolutionary martyrs), the vast home of the National People's Congress, or Tiananmen Gate itself (the Gate of Heavenly Peace). Beijing's daring National Grand Theater is as much a spectacle as the productions that will be staged inside in the 2,416-seat opera house, the 2,017-seat concert hall, and the 1,040-seat theater. At night, the semi-transparent skin will give passers-by a glimpse at the performance inside one of three auditoriums, a feature that highlights the building's public nature. ■

Negotiating Your Rate

The Giants Awaken

(continued from page 1)



As a mortgage consultant, the first question I am always asked is "what is the rate?"

Unlike residential mortgages, there are no set rates for commercial mortgage loans. Every deal is assessed on its own merits and the loan pricing, terms and conditions (or covenants) are established commensurate with the perceived degree of risk in the mind of the lender. The lender considers such factors as the property's cash flow generating ability, lease terms of tenants, location, age, physical condition, environmental risks, future marketability, and the owner (guarantor's) individual financial strength, to score a "risk rating" for the particular loan application. Different lenders have their own risk rating systems but the theory is the same; higher perceived risk is compensated by charging higher interest rates, and vice versa. Lenders will also address risk by structuring various loan covenants such as ongoing obligations to meet certain financial ratios and submit financial information during the term of the loan.

In conclusion, commercial mortgage loan applications will be assessed on the property's income potential and its subsequent ability to service the debt. The degree of perceived risk associated with the loan will determine its pricing and any covenants to mitigate such risk.

Han Kang, MBA - Principal
ADM Capital Consulting ■

Specific examples include a completely empty 200,000 sq. ft. office space being sold at a 8.5% capitalization rate based only on a pro forma statement. The staggering fact is that after the transaction and lease up of the building, the actual capitalization rate was 11%. In countries such as China where environmental and building codes are not nearly as enforced as in Canada or the United States, you see construction prior to 1999 being riddled with problems: low ceiling heights, cheaper materials, poor workmanship – these investments should be avoided. To give you some idea of the numbers in 1996 there was a 55% vacancy rate for office space within the top five cities along the Eastern and Southern China, today in 2006 there is a 5% vacancy. In these Chinese markets, good office lease space will fall within \$35 / sq. ft.. There are 6,000 industrial parks in these major centres in China with more to come. It is the massive saving in labour that is the defining attraction to this part of the world, most other countries, saving India, cannot compete with labour rates that are 10 fold less than in North America. So what are the investment strategies in this part of the world? There will be boom and busts in such a volatile and seemingly unpredictable market. Investors should consider looking at the short term gains in some of the secondary markets around the major cities to the East or position themselves for the long haul.

China will remain very strong for manufacturing with its low cost of labour. The

Chinese can move product faster and cheaper anywhere in the world. There is absolutely no upward pressure on labour in China now or any time in the foreseeable future. India is not growing nearly as fast as China in the real estate market. This has been a function of government: rent controls, development restrictions, slow change, and holds

"In 1996 there was a 55% vacancy rate ... In 2006 there is a 5% vacancy in these Chinese markets"

on foreign investment. Walmart for example has been trying to penetrate the Indian market and the government's hold on retail has not allowed the world's largest retailer to move into a seemingly bustling market for goods and services that Walmart can provide. India has approximately the same population as China but with much less land mass. In Mumbai, major projects would take 9 -10 years for the building permit and approximately 4 years to build. India is staged to become the 3rd largest economy by 2020. IT is growing at 28% to be a 60 billion dollar industry by 2020. The drawback on its growth is that the population of India is growing faster than its economic growth which translates into the bulk of its inhabitants having less real buying power. India does have freehold property rights but it is similar to

the United States with the need for title insurance and no Torrens system. Without labour regulations telemarketing firms have no maximum density of employees. 100,000 sq. foot floor plates for buildings which may contain 3 to 5 floors are common. 80% of office demand is from IT. 25 million sq. ft. of office was absorbed in 6 major cities in 2004 and 2005.



So what does this mean to Vancouver? Why is real estate in demand in our city? On the world stage people still seek clean air, education and stable political environment and globally our prices are relatively cheaper compared to similar cities like Stockholm or Sydney.

The question remains, as these two countries become industrial and technology powers within the global market: are we as Canadians prepared to accommodate our markets for Chinese companies wanting to setup shop in Canada?

Sources:
· James W. Horne MBA, President of Asia Pacific, Colliers International Vancouver
· www.indiabudget.nic.in ■

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