

P R O S P E R I T A S

EUGEN KLEIN REAL ESTATE BROKERAGE & MARKETING SYSTEMS

THIRD QUARTER 2006

FEATURE: CRUNCH TIME

MARKET UPDATE

INTEREST ARTICLE: CLOSE THE VILLAGE!

from the office of

Eugen Klein



Interesting economic indicators were recently released; the Conference Board of

Canada lowered its projection for overall GDP growth in Canada to 2.7% for 2006. According to Statistics Canada, real GDP growth rose 2.5% for the third quarter compared to the same quarter in 2005.

The strong Canadian dollar and the price of oil and gas continue to be major economic influences. Retail sales growth also slowed during the third quarter in 2006.

Declining housing construction is expected in 2006, with average housing prices in Canada rising by 11.4% to \$274,000 during the third quarter. Very high increases were noted in Alberta and BC

Canada's inflation rate was 2.2% in the third quarter of 2006. Nationally our employment growth rose 2.0% during the third quarter. The unemployment rate nationally was 6.4%.

Eugen Klein

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Much has been made of the visionary planning of downtown Vancouver lately. Vancouver is often sighted as one of the "most livable cities in the world". High density living in the condominiums of the downtown core, particularly in Yaletown, Coal Harbour and the Westend has been heralded as a model of the future of urban planning and design. These downtown residential developments ideally allow citizens to live, work and play in the same area. This eases traffic congestion and pollution. Cities around the world are sending their urban planners to Vancouver to study the effects of these developments and to apply them to their own communities.

And sure enough, people in Vancouver want to live downtown. The red-hot Vancouver condo market has fuelled the rapid development of new residential buildings and

Crunch Time

The Nation Wide Office Crunch

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

the conversion of existing office space to residential units. Profits to be made from residential development simply outpace those to made developing office space and developers have responded accordingly. The conversion of this office space has lead to an unforeseen conundrum. People can now live downtown, but fewer and fewer work downtown. This is a trend seen in major centres across the country as office space vacancy hit all time lows.

Vancouver:

Available office space in the downtown core, along the Broadway corridor and in Burnaby has reached all time lows. In the third quarter of 2006 vacancy rates in greater Vancouver dropped for the tenth consecutive quarter to 8.1%. This is the lowest level

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Close the Village!



Chilled Vancouver commuters faced their second day of winter hell today, as an additional ¼ centimetre of the peculiar white stuff fell, bringing the lower mainland to its knees. Scientists suspect that the substance is some form of frozen water particles and experts from Saskatchewan and Alberta are being flown in. With temperatures dipping to the almost but not quite near zero mark, Vancouverites were warned to double insulate their lattes before venturing out. Vancouver police recommended that people stay inside except for emergencies, such as running out of espresso or biscotti to see them through Vancouver's most terrible storm to date.

The local Canadian Tire reported that they had completely sold out of fur-lined sandals. Drivers were cautioned to put their convertible tops up, and several have been shocked to learn that their SUVs actually have four wheel drive, although most have no idea how to use it. Most people are too busy trying to drive with their heads out their side windows, as the snow brush they received last year for Christmas was used in July to beat away the local 'Squeegie Kid'.

"The government has to do something," snarled an angry Heywood Jablowme. "I didn't pay \$540,000 for my one bedroom condo so I could sit around and be treated like someone from Toronto!" Most people report receiving numerous phone calls from friends and family in the rest of the country, yet only hear hysteric laughing on the other end of the phone line.

Starbucks has formed a disaster relief campaign. To make a donation, Starbucks is asking that anyone visit their local Starbucks and order a venti non-fat chai tea latte extra hot, so that it may be delivered to someone in need.

Bill Fowler,
Manager of the Commercial Division
Calgary Real Estate Board ■

Live, Play, ... Commute?

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in over five years. Burnaby, Downtown and the Broadway corridor dropped to 8.3%, 5.7% and 3.8% respectively. This has led to average rent increases of 3.5% over the last quarter. Most notably, AAA class office space in downtown Vancouver has seen rents increase by 27% over the past two years while suburban rent has increased by 16% over the same period. At the time of this publication, there were only 833,000 SF being developed in the GVRD, 800,000 of which is suburban. The stunning natural surroundings of Vancouver are natural barriers to development in the downtown core as land has been snapped up by residential developers and the rising cost of development has outpaced rental rates, making development of office space less profitable despite the massive demand.

Calgary

Calgary has seen vacancy drop to 0.6% in the downtown. This remarkably low vacancy rate is in spite of massive amounts of construction. At the time of this publication there were 2.8 million SF of downtown office space in 8 developments under construction. Six of these eight office buildings are fully pre-leased. Yikes!

Toronto

Toronto has far more head offices than any other city

in Canada. It also has a central downtown and financial district that is well serviced by mass transit. Strong development and the movement of some key tenants, such as IBM which left the downtown for a campus-style facility in Markham, have resulted in a vacancy increase from 9.1% to 9.7% over the past

quarter in the GTA (Greater Toronto Area). Toronto, has seen office space in the financial core drop to 5.9% vacancy. The office crunch in Toronto has been offset by the 5.3 million SF that are currently under construction in the GTA. However, Class 'A' vacancy sits at 4.7% and rents for premium space are on the rise.

AAA class office space in downtown Vancouver has seen rents increase by 27% over the past two years



So what does this mean? In Vancouver it means that more and more companies are looking to the suburbs to locate their headquarters. Attractive lease and tax rates contribute to the appeal, but the fact that there simply is no available space, and little coming onto the market is the major contributor to the migration. This leads to 'reverse commuting' which contributes to traffic congestion and pollution and all of the other lovely problems associated with long commutes for city dwellers. This is the opposite effect of what was desired with the residential build out of the downtown core.

Hopefully the planners visiting our beautiful city from cities around the world take note of this effect. Its difficult to live and work and play in one area if the work is being shipped off to the suburbs. ■

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Ozzie Jurock
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