

EDMONTON ALBERTA



EPCOR Tower officially opened its doors on Sept. 27, 2011 becoming the first highrise office tower built in Edmonton in over 20 years.

CANADIAN MARKET OVERVIEW

The Canadian economy is once again outperforming many of its' peers. While this is an enviable position, the question remains, will Canada be able to navigate the global economic headwinds and sidestep either a noticeable slowdown or recession?

Commercial real estate has weathered the recent storm and is well positioned for any softening of the economy. Office markets have largely digested the new inventory that was delivered in the past 24 months and are moving to healthy levels of occupancy. One area that appears somewhat exposed if the global economy were to enter a protracted downturn is the Industrial property class, which in many markets is tied closely to import and export activity. There are mixed signals on both import and export levels activity. Exports have recently reported gains, however the slowing U.S. economy points to a pullback from our largest customer. The most recent jobs report from the U.S. has further demonstrated the fragility of that economy and will likely hurt U.S. consumer confidence and hence retail activity. Imports are also in positive territory in the most recent releases, but some caution is warranted as the Canadian Consumer Confidence Index has retreated slightly in July, which may point to a future softening of retail sales and, of greater concern, housing activity. Retail activity is a driver of warehouse and distribution facility demand in many markets, pointing to a pullback in demand for that property type if retail spending is reduced. On a positive note, Canadian businesses appear bullish on future prospects and have started to make capital investments in machinery and equipment, boosting imports in those areas. The outlook appears to call for slow and steady performance in the near term, with a return to moderate growth as external economic variables are resolved.

EPCOR TOWER OFFICIALLY OPENS ITS DOORS AND OVERALL INCREASE IN ACTIVITY

On September 27, 2011 EPCOR Tower officially opened its doors becoming the first high rise office tower to adorn the Edmonton skyline in 22 years. The 625,000 square foot state of the art building boasts both a LEED Gold designation as well as a 'AAA' class rating making it Edmonton's premier office tower. Tenants such as EPCOR and Federal Justice are slated to move into the building over the next few months. EPCOR Tower's inventory was added to the market last quarter and the market has almost fully accounted for this new addition in terms of rate and vacancy adjustments.

After a very positive second quarter, the market has statistically flattened in quarter three. Overall vacancy rates have risen slightly from 11.07% in quarter two to 11.26% and we experienced 29,677 square feet of negative absorption. Although the outlook appears to be less positive than last quarter, the increases in vacancy are immaterial and there is a significant amount of activity underway that is not yet recognized, which is likely to ensure that positive absorption will resume in quarter four. There is a great deal of activity in the market that has not been accounted for yet, and will begin to show up in the following quarters. Of note, the Sherwood Park market demonstrated positive growth this quarter, with both a decreasing vacancy rate and a significant amount of positive absorption. As the bulk of this activity is heavy oil related, this can be seen as a positive predictor of future growth for the economy.

MARKET INDICATORS

	Q3 2011	Q2 2011
VACANCY	▲	▼
NET ABSORPTION	▼	▲
CONSTRUCTION	◀▶	▼
RENTAL RATES	◀▶	◀▶



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Research information

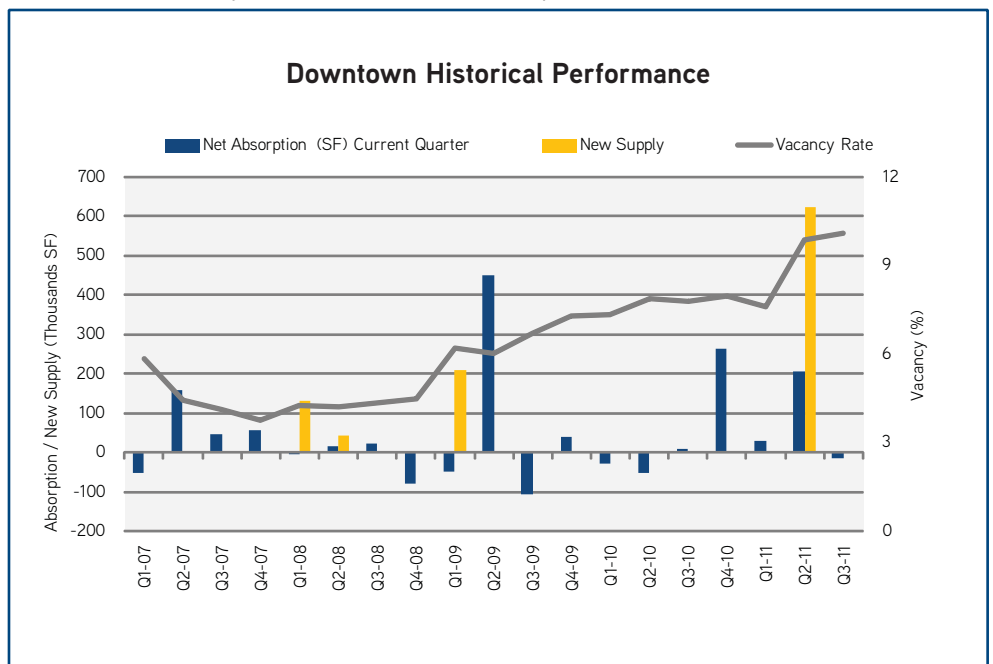
Downtown

Edmonton's core has seen some sale activity in recent history which has also had some impact on leasing strategies, especially in the Financial District. Previously the downtown office market was strongly influenced by landlords such as Oxford, Brookfield and Slate. Oxford has put two of their four buildings, Bell Tower and Oxford Tower, on the market for sale, Brookfield's portfolio was purchased by Bentall Kennedy in quarter four of 2010 and this quarter Slate's portfolio was sold to Dundee. This turnover, to an extent, has shifted the leasing strategies in the short run, perhaps accounting for the lower level of activity downtown. It may be that the vendors in these transactions were aggressively leasing in anticipation of the future sales. This stable quarter saw a very marginal increase in the overall downtown vacancy rate from 9.89% in quarter two to 10.10% at present. There was negative absorption of 14,749 square feet this quarter. Only time will tell to the full extent how this change in ownership will impact the market.

The Downtown market is composed of two districts, the Financial and Government. The Financial district consists of 48 buildings, which make up the 11,823,897 square feet of inventory, whereas the Government district consists of 42 building and 5,823,775 square feet of inventory. The Financial district's largest contributor to the negative absorption this quarter was Class B, with 21,609 square feet of negative absorption. This can be attributed to the large amounts of space that came available in the CN Tower, the Empire Building and the Royal Bank Building. The positive absorption in both the A and C classes helped to balance out the absorption for the district. The Financial District's Class A absorption this quarter did not take into account the 92,164 square feet of sublease space that was taken off of the market in Telus House due to the completion of the ATB deal. This absorption will not be factored into our reporting until six months prior to

ATB's move in 2014. This delayed recognition contributes to a more negative outlook on the current state of the market. The financial district's vacancy rate jumped slightly from 11.36% last quarter to 11.56% this quarter.

The Government district was a slightly larger contributor to the overall negative absorption in the downtown market this quarter, adding 13,254 square feet of negative absorption. Class C saw the most significant amount, with 39,986 square feet of negative absorption, the majority of which can be attributed to the Norquest College sublease space coming available in Capital Centre. Classes A and B witnessed significant amounts of positive absorption due to large pockets of space being leased in the Devonian Building (27,557 square feet), the Associated Engineering Building (18,600 square feet) and Harley Court (12,096 square feet). The Government district's overall vacancy rate increased marginally to 7.27% from 7.04% in quarter two.



Suburban

Like the Downtown market, the Suburban market was also relatively flat this quarter. The overall vacancy rate increased to 13.48% this quarter from 13.31% last quarter. This market also witnessed absorption change direction from 138,745 square feet of positive absorption in quarter two to negative 14,883 square feet this quarter. Rates remained stable from last quarter and tenants are continuing to slowly migrate from lower to higher quality buildings in the suburban market as leases come due.

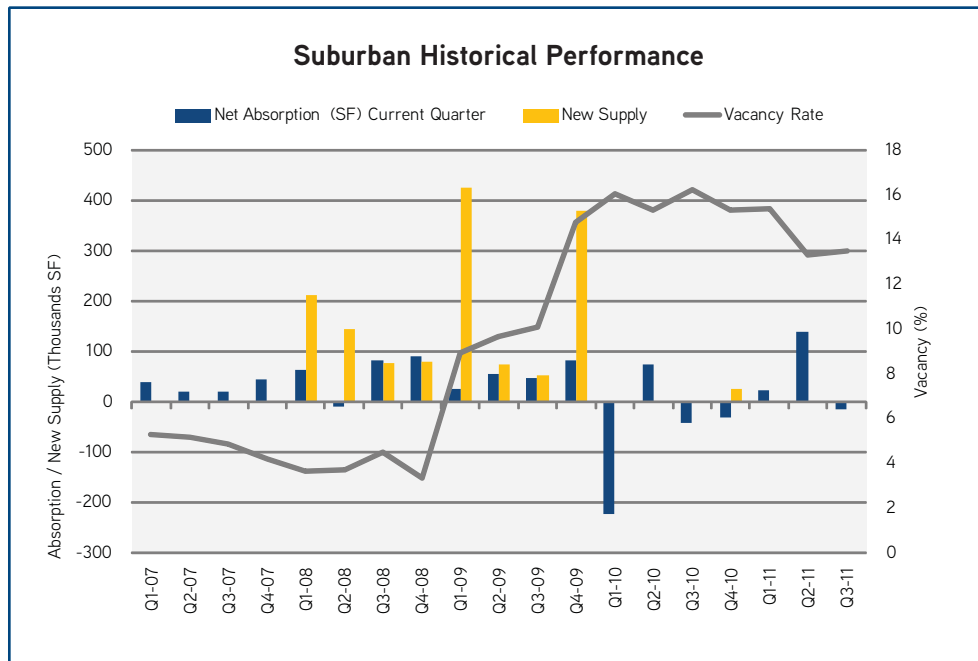
The Southside, Eastgate and Whyte Avenue districts had the biggest changes in vacancy of all the Suburban districts this quarter. The Southside district experienced 27,008 square feet of negative absorption from the former Stats Canada space that came available in Argyll Centre. The Stats Canada space combined with other smaller pockets of space coming available led to a third quarter vacancy rate of 14.95%, which is up from 14.93% in quarter two. The Eastgate district's vacancy rate went from 14.01% last quarter to 15.26% this quarter. There was negative absorption of 12,734 square feet, which can be mostly attributed to the 7,730 square feet of sublease space that came available in the Edmonton Sun Building and 4,000 square feet of space in the Former ARC Building. The Whyte Avenue district saw the largest

Sherwood Park

increase in vacancy, moving from 7.22% last quarter to 10.72% this quarter. This can be mostly attributed to the 14,313 square feet of additional space that came available in College Plaza this quarter.

The West End, 124th Street, 149th Street and 118th Avenue districts all experienced decreased vacancy rates and small amounts of positive absorption this quarter. The West End district experienced a mere 1,375 square feet of positive absorption dropping the vacancy rate from 13.02% to 12.92%. The 124th Street district saw the vacancy rate drop from 22.19% to 20.79% due to many small pockets of space being absorbed. In the 124th Street district, the decrease in the vacancy rate can be attributed to the 16,657 square feet of space being leased in the West Chambers building and the 7,218 square feet of sublease space in Plaza 124 that was taken off the market. This was slightly offset by the full floor of space that came available in Groat Estates I resulting in 11,018 square feet of positive absorption for 124th Street. The 149th Street district saw vacancy drop from 8.68% to 8.60% totalling 771 square feet of positive absorption. In the 118th Avenue district the only change was a 5,545 square foot pocket of sublease space that was taken off the market, dropping the vacancy rate from 7.72% to 7.00%.

The Sherwood Park market had the biggest drop in vacancy and the most significant amount of positive absorption this quarter. This is a very positive sign for the overall market, as this district witnessed oil/gas and construction related companies such as Flint continue to expand. Sherwood Park's close proximity to Fort Saskatchewan and good access to Northern Alberta is a major factor in why tenants are choosing to expand here as opposed to other suburban locations in Edmonton. The vacancy rate dropped from 16.01% in quarter two to 13.78% in quarter three. This amounts to 27,532 square feet of positive absorption, which is a result of large pockets of space being leased in both Broadmoor Place 4 & 8. The Sherwood Park district story is very positive for this quarter and a strong predictor of positive things to come.



LEASE ACTIVITY - 3 rd QUARTER 2011 NOTABLE LEASE TRANSACTIONS					
PROPERTY ADDRESS	BUILDING NAME	SUBMARKET	TENANT	SIZE (SF)	TYPE
1259 - 91 Street	Steppes Building	Southside	Sprague-Rosser	10,561	Sublease
149 Street & 123 Avenue	Parkwest Business Centre	149 Street	Universal Surveys	11,030	Renewal
9808 - 12 Avenue	Gateway Business Park	Southside	Clean Harbors	15,280	Sublease
10830 Jasper Avenue	Intact Building	Downtown - Government A	Intact	20,308	Expansion
11150 Jasper Avenue	Devonian Building	Downtown - Government A	United Nurses	27,557	New
10045 - 111 Street	Harley Court	Downtown - Government B	Worley Parsons	79,907	Renewal & Expansion



Existing Properties								Vacancy		Absorption		New Supply		Avg Rent	High Rent
Class	Bldgs	Total Inventory (SF)	Direct Vacant (SF)	Direct Vacancy Rate	Sublease Vacant (SF)	Sub-lease Vacancy Rate	Total Vacant (SF)	Current Vacancy Rate Q3-'11	Prior Vacancy Rate Q2-'11	Net Absorption (SF) Q3-'11	Net Absorption (SF) Y.T.D.	Net New Supply Q3-'11	Under Const. (SF) Q3-'11	Avg Asking Rental Rates	Top Rates & New Product
DOWNTOWN MARKET															
DOWNTOWN FINANCIAL															
Class A	26	8,879,006	721,162	8.12%	150,843	1.70%	872,005	9.82%	9.87%	4,106	349,658	-	-	\$20-\$22	\$40
Class B	15	2,129,133	327,775	15.39%	21,223	1.00%	348,998	16.39%	14.43%	-21,609	-199,041	-	-	\$15-\$19	\$20
Class C	7	275,758	83,793	30.39%	-	0.00%	83,793	30.39%	36.18%	15,963	31,488	-	-	\$10-\$12	\$15
Total	48	11,283,897	1,132,730	10.04%	172,066	2.70%	1,304,796	11.56%	11.36%	-1,540	182,105	-	-		
GOVERNMENT															
Class A	9	1,743,466	174,865	10.03%	-	0.00%	174,865	10.03%	10.91%	15,356	92,969	-	355,206	\$19-\$21	\$30
Class B	26	3,758,973	164,252	4.37%	22,879	0.61%	187,131	4.98%	5.28%	11,376	-44,873	-	-	\$17-\$20	\$21
Class C	7	321,336	24,100	7.50%	37,379	11.63%	61,479	19.13%	6.69%	-39,986	-40,240	-	-	\$10-\$14	\$18
Total	42	5,823,775	363,217	6.24%	60,258	1.03%	423,475	7.27%	7.04%	-13,254	7,856	-	355,206		
TOTAL DOWNTOWN															
Class A	35	10,622,472	896,027	8.44%	150,843	1.42%	1,046,870	9.86%	10.04%	19,462	422,627	-	355,206		
Class B	41	5,888,106	492,027	8.36%	44,102	0.75%	536,129	9.11%	8.56%	-10,233	-243,914	-	-		
Class C	14	597,094	107,893	18.07%	37,379	6.26%	145,272	24.33%	20.31%	-24,023	-8,752	-	-		
Total	90	17,107,672	1,495,947	8.74%	232,324	1.36%	1,728,271	10.10%	9.89%	-14,794	189,961	-	355,206		
SUBURBAN MARKET															
118th Avenue	14	778,072	54,502	7.00%	-	0.00%	54,502	7.00%	7.72%	5,545	-12,704	-	-	\$12-\$14	\$15
124th Street	15	785,676	146,031	18.59%	17,295	2.20%	163,326	20.79%	22.19%	11,018	-13,260	-	-	\$13-\$15	\$16
149th Street	22	1,049,126	81,226	7.74%	9,028	0.86%	90,254	8.60%	8.68%	771	1,774	-	-	\$14-\$16	\$16
Eastgate	10	1,019,377	147,779	14.50%	7,730	0.76%	155,509	15.26%	14.01%	-12,734	-6,399	-	-	\$14-\$18	\$18
Southside	61	3,358,373	460,573	13.71%	41,663	1.24%	502,236	14.95%	14.93%	-959	165,025	-	-	\$16-\$20	\$20
Whyte Avenue	9	568,761	59,382	10.44%	1,572	0.28%	60,954	10.72%	7.22%	-19,899	-25,398	-	-	\$18-\$20	\$23
West End	26	1,381,083	177,203	12.83%	1,282	0.09%	178,485	12.92%	13.02%	1,375	58,348	-	158,884	\$14-\$16	\$24-\$28
Total	157	8,940,468	1,126,696	12.60%	78,570	0.88%	1,205,266	13.48%	13.31%	-14,883	167,386	-	158,884		
MARKET TOTALS - DOWNTOWN & SUBURBAN															
Downtown & Suburban	247	26,048,140	2,622,643	10.07%	310,894	1.19%	2,933,537	11.26%	11.07%	-29,677	357,347	-	514,090		
SHERWOOD PARK															
Sherwood Park	29	1,231,966	157,119	12.75%	12,588	1.02%	169,707	13.78%	16.01%	27,532	47,975	-	-	\$14-\$16	\$22

Quarter	Bldgs	Total Inventory (SF)	Direct Vacant (SF)	Direct Vacancy Rate	Sublease Vacant (SF)	Sublease Vacancy Rate	Total Vacant (SF)	Current Vacancy Rate	Prior Vacancy Rate	Net Absorption (SF)	Net Absorption Y.T.D. (SF)
EDMONTON PROPER QUARTERLY COMPARISON AND TOTALS											
Q3-11	247	26,048,140	2,622,643	10.07%	310,894	1.19%	2,933,537	11.26%	11.07%	-29,667	357,347
Q2-11	247	26,021,205	2,564,769	9.86%	315,018	1.21%	2,879,787	11.07%	10.22%	345,754	387,024
Q1-11	246	25,396,205	2,251,110	8.86%	343,740	1.35%	2,594,850	10.22%	10.65%	42,328	42,328
Q4-10	244	24,898,328	2,297,150	9.23%	353,571	1.42%	2,650,721	10.65%	10.74%	-21,197	-171,829
Q3-10	242	24,692,432	2,294,934	9.29%	358,169	1.45%	2,653,105	10.74%	10.51%	-30,275	-150,630
Q2-10	241	24,661,062	2,300,993	9.33%	290,465	1.18%	2,591,460	10.51%	10.54%	6,850	-120,355
Q1-10	241	24,646,062	2,259,595	9.17%	338,713	1.37%	2,598,310	10.54%	9.97%	-127,205	-127,205
Q4-09	243	24,766,415	2,100,901	8.48%	368,814	1.49%	2,469,716	9.97%	7.86%	121,741	747,650
Q3-09	229	24,066,202	1,684,306	7.00%	206,937	0.86%	1,891,244	7.86%	7.27%	-60,989	625,909
Q2-09	228	23,979,234	1,596,027	6.66%	147,259	0.61%	1,743,287	7.27%	7.16%	506,863	686,898

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