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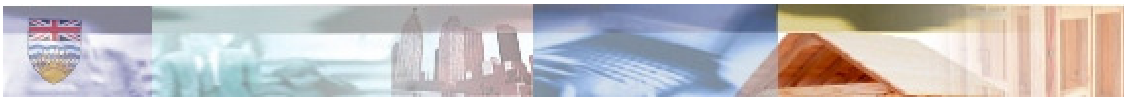

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2007 Vancouver Real Estate Forum

By the **Commercial Real Estate Group** at **Clark Wilson LLP** April 26, 2007

The full house packing the Vancouver Convention Centre at the 2007 Vancouver Real Estate Forum heard from a host of industry experts that the good times - and challenges - would, for the most part, continue in BC thoughout the year. For those who missed it altogether, or had to choose between concurrent sessions, our feature article presents some of the highlights.

Keynote Address: How will the Canadian economy perform over the next year? How much growth can we expect? What is the impact on Canadian real estate?

Speaker:
Warren Jestin, Senior Vice President & Chief Economist, Scotiabank

Warren Jestin focused on the economic tilt from Central to Western Canada, presenting several slides which evidence Alberta and British Columbia leading the Canadian economy by a wide margin, with Ontario, Quebec and the Maritime Provinces lagging behind. He noted that almost every economic indicator is significantly stronger west of the Manitoba-Ontario border than in the Provinces east of such line. He predicted that British Columbia may match Alberta's robust growth in the near term, in part as a result of British Columbia being farther ahead in implementing policies to promote the so-called "green" economy.

Mr. Jestin noted Scotiabank's view that inflation in Canada will remain in the 2% range over the next six to twelve months, with oil and natural gas prices having fallen off their peak levels and deflation occurring in the prices of in many consumer goods (particularly those produced in China and other offshore jurisdictions). As a result, interest rates should remain stable, and even though the US Fed may reduce interest rates to stimulate its slowing economy it is unlikely that the Bank of Canada will follow suit. In any case, interest rates are not expected to inhibit economic growth in North America throughout 2007 and into 2008.

The trend for the Canadian Dollar should be upward or least stable in the next year, as a result of energy and fiscal surpluses and the world's view of Canada being energy and commodity rich. As well, offshore investment in large infrastructure projects will support the currency.

Lastly, Mr. Jestin suggested that environmental awareness on a global basis will lead to ecologically-related industries becoming the fastest growing over the next several years, with British Columbia having an opportunity to be a "big winner".

Perspective on the Rise of Western Canada and Vancouver

Speaker:
Jason Clemens, Director of Fiscal Studies, The Fraser Institute

Jason Clemens followed Mr. Jestin and reaffirmed that British Columbia and Alberta are the two leading economies in Canada, adding that Saskatchewan is also in the top three or four in nearly every positive economic indicator. Although many suggest that the basis for these Province's economic success is their resource-based economies, Mr. Clemens emphasized that their common public policies (despite governments on opposite ends of the political spectrum) have created the right environment for business to capitalize on the wealth in commodities in these Provinces.

The statistics presented supported the notion that lower tax rates, cost-effective government, and free trade between British Columbia and Alberta are significant factors in these Provinces' nation-leading unemployment rates, employment growth and consumer spending. At the same time, Ontario and Quebec are moving in the opposite direction, increasing income and corporate taxes and may experience difficulty in dealing with global changes in the manufacturing sector.

Mr. Clemens predicted ongoing high rates of economic growth in Western Canada. In terms of risks and possible impediments to growth, he pointed to: the impact of the pine beetle infestation on interior forestry; federal policies on energy, the environment and the implementation of the Kyoto Accord; the need for continued strong commodity prices and high growth rates in Asia; and increasing provincial debt in British Columbia. Mr. Clemens also noted that items which could possibly dampen the City of Vancouver's vigorous growth are transportation and infrastructure (and the need to move goods), commercial property taxes, regulatory and planning issues and crime.

Roundtable on Investment & Development Activity in the Vancouver Market

Panel:
John O'Bryan, Managing Director, TD Securities Realty Group *(Moderator)*
Zelick Altman, Managing Director, Canada, LaSalle Investment Management
Avtar Bains, Senior Vice President, Colliers International
Eric Carlson, President & CEO, Anthem Properties Ltd.

Opening the round table discussion on trends in investment markets across Canada, moderator John O'Bryan forecasted that there are "no prospects" for Ontario's economy or real estate market. While the balance of the panel's discussion on current and emerging trends across Canada provided a slightly more optimistic future for Ontario, the most promising and performing markets in 2007 continue to be in Western Canada.

Each of the panel members continues to be bullish in their forecasts for the investment market in British Columbia and Alberta. Recent sales of investment properties in British Columbia and Alberta highlight current trends including increasing investor tolerance of staggering pricing especially for quality location properties, pricing valuations not based on traditional valuations methods, investigating and acquiring of assets and classes outside the investor's normal class of interest and acquiring under non-subject purchase agreements. While foreign investors are playing a significant role in the bidding prices and driving pricing for investment product in British Columbia, according to Avtar Bains, the winning bids for investment product are, for the most part, going to Canadians.

According to Mr. Bains, investors are looking for diversity and balance. Zelick Altman agreed that diversification in real estate investment both geographically and in asset class ins a positive trend. Diversity is evidenced not only in foreign investors looking for investment in Canada but also by Canadian investors looking for investment outside of Canada. A recent rend has seen an increase in Western Canadian investors investing in the markets in Central Canada (largely due to lack of options in Western Canada). Mr. Bains is not surprised to see capital flow from British Columbia and Alberta to Central Canada and attributes this trend to capital rate compression in British Columbia and Alberta.

On the negative side, Eric Carlson observed that the rate at which assets are coming to market for sale is slow. Mr. Bains agrees and forecasts that a lack of deal flow and not enough supply to meet the demand have the potential to put a major dent in the market.

Mr. Carlson observed that, similar to other real estate markets, the development market is experiencing the best of times and the worst of times. The market is seeking much activity and real estate development is in vogue. Construction costs, which have leveled off from the 20% per year increases of the last two years, are still high, land costs are high and developers being forced to accept lower yields. In addition, Mr. Carlson observes an emerging political resistance to development. City planners facing a deluge of applications, loss of rental housing and the affordable housing issue are all being blamed on developers.

The discussion ended on another positive note with the observation that the real estate market in Vancouver continues to become an increasingly global market. According to Avtar Bains, the foreign investment to date is merely the tip of the iceberg and that, on an international basis, Vancouver is still a value market.

What is the New Industrial Market in BC?

Panel:
Tony Akester, Martello Property Services Inc. (***Moderator***)
Lee Blanchard, Vice President, Cushman & Wakefield LePage
Jeff Fleming, Vice President Investments, GWL Realty Advisors
Alan Whitchelo, Senior Vice President, Industrial & Commercial, Concert Properties

Lee Blanchard discussed where the BC industrial market sits today. The distinct lines that were once apparent with respect to industrial land values amongst municipalities are fading away. Industrial real estate values are similar if not on par across a wide range of cities, such as Richmond, Vancouver, South Surrey, and Abbotsford. The industrial market remains strong, due in part to a continuing demand for manufacturing facilities. In addition, institutional investors are snapping up industrial properties, for many reasons. One such factor is the low cost base: institutions are able to acquire large spaces for a relatively low cost per square foot. Another factor is that generally, industrial buildings are "utilitarian" in that, for example, the majority of industrial buildings include office space, manufacturing or distribution space, and truck loading bays, all within the same facility.

The fact that Vancouver is Canada's gateway to the Pacific, as the only major port on the west coast, is another reason why, says Alan Whitchelo, BC's industrial market will continue to be strong; in his words, "we have to be here". The BC industrial real estate market is and will continue to be dictated by location. Another influence, noted by Jeff Fleming, is the role being played by municipalities. According to Fleming, municipalities are dictating trends in the industrial market by pushing for sustainability. Although a lot of industrial development is or is becoming more sustainable than in the past, developers' focus will continue to be on cash returns. The bottom line: municipalities' demands must make economic sense to developers.

Vancouver's Office Market: Now What?

Panel:
Sandy McNair, President, Altus InSite (***Moderator***)
Randy Cameron, Senior Vice President, Western Canada, Dundee REIT
Rob Kavanagh, Senior Director, Asset Management, GWL Realty Advisors Inc.
John K. Megan, Vice President, CB Richard Ellis
Chuck We, Director of Leasing, Oxford Properties Group

In the last two years, Vancouver's Office Market has gone from a tenants' market to a landlords' market. In that time, the vacancy rate for Greater Vancouver has decreased from 12% to 6.4%. The Downtown Core vacancy rate is 2.9% today. Constrained supply has seen rental rates appreciate to rates in the $30s per sq. ft. for upper and mid $40s per sq. ft. for the top floors in Class A office buildings with prime location in the Downtown Core. New construction, if and when it occurs, will support even higher rental rates. According to Rob Kavanagh, the high construction costs and land costs will see average rental rates of $40 per sq. ft. (rental rates of $30 per sq. ft. for lower floors and of $50 per sq. ft. for the top floors) for newly constructed office space in the Downtown Core.

According to Randy Cameron, Vancouver is the first reverse commute city in North America and he predicts that we will see employers moving their operations closer to their employees. John Megan forecasts a split of operations by employers resulting in executives remaining in the Downtown Core and back office operations moving to the suburbs. Chuck We believes that there must be a compelling business reason for employers to move to the suburbs and that a difference of $10 per sq. ft. in the rental rate is not compelling enough.

The first quarter of 2007 saw negative absorption in the Office Market for the first time since the fourth quarter of 2003. The negative absorption was not due to lack of demand but, rather, to a lack of availability. There is a dearth of options available to tenants in the Vancouver Office Market. The panelists agreed that tenants will increase efficiencies, including redesigning space and squeezing more people in existing square footage, in an effort to deal with the lack of space in the Vancouver Office Market.

The panel predicts that the Downtown Office Market will stay extremely tight for the foreseeable future. Rob Kavanagh predicts that the Downtown Office Market will be close to running out of space in the next two years and that new product will not be built until 2013. On the positive side, he noted that the City of Vancouver has realized this and is now protecting commercial sites. In the meantime, Burnaby will continue to function as a release valve for the lack of supply in the Downtown Office Market.

The Outlook for Residential and Non-Residential Land in the Vancouver Market: Is There Still Time to Buy and Sell Real Estate in BC?

Panel:
Gino Nonni, President, WesGroup Income Properties LP (***Moderator***)
John Boer, Senior Vice President, Colliers International
Neil Chrystal, President, Polygon Homes
David Podmore, President & CEO, Concert Properties
John Rider, Vice President, Commercial Division, First Canadian Title

According to John Boer, the industrial real estate market is very active and healthy. A number of statistics were shown indicating how the industrial market has changed in recent years – we are now looking at a 2007 inventory of 163 million square feet, an industrial vacancy rate of 1.2 (down from 4.4 in 1998), and a significant increase in lease rates, with lease rates becoming similar throughout the Lower Mainland. A particular industrial building in Delta that leased at $5.75 per square foot in 2003 was leased for $7.75 in 2007, while a particular building in Vancouver that leased for $6.60 per square foot in 2002 was leased for $7.75 in 2007. Increase in demand has led to large increases in construction from 2003 to 2006, with land prices increasing dramatically over that same period. According to Mr. Boer, the rule of thumb today is that an acre of industrial land, on average, will go for $1 million, with prices in central Vancouver around $3 million per acre.

With a growing demand for industrial land, where is this land going to come from? Mr. Boer indicated that new infrastructure projects in B.C. are a catalyst, allowing for much more interest in the Fraser Valley. Also, there is an active market in old industrial sites that have closed or converted, with the transformation of sites being a significant occurrence.

In looking at the demand for residential land, Neil Chrystal stated that the key demand drivers are interest rates, investment climate, economic growth, immigration, and the desire for a new home. According to Mr. Chrystal, the overall marketplace remains strong – for every 100 homes that Polygon sells they have to replace those homes with 100 more. Despite interest rates going up in the past 18 months, Mr. Chrystal stated that interest rates are still positive for residential development and that the investment climate in our Province remains strong – citing government tax reform, the 2010 Olympics, and major infrastructure projects as spurring economic growth. In Mr. Chrystal's opinion, young people remain bullish about getting into the market, with innovations to financing programs and financial help from parents allowing them to do so.

David Podmore echoed the majority of Mr. Chrystal's comments. Mr. Podmore stated that he bases Concert Properties' business plans on interest rates remaining the same and does not see cap rates changing dramatically. He pointed out that post-2010 will see a reduction in "major construction" which will be a positive on the private side because there will be more trades. Mr. Podmore's short term synopsis was that on the residential side people should be cautious of large land banks; however, there is a good opportunity in the industrial market with Concert Properties continuing to bank industrial land.

John Rider concluded the discussion by stating that there is a positive outlook in the office sector for the Lower Mainland. The Alberta market is booming out of control and there will be a spillover effect to Vancouver. While oil companies have to remain in Alberta, Mr. Rider said that we can look to see software and biotech firms looking to Vancouver if they can't find room in Alberta. Immigration will provide a big influx into the market over the next several years, with 40% to 45% of business immigrants coming to the Lower Mainland looking for office space.

Growing Pains: Challenges and Opportunities in the Multi-Family Markets - Investor, Owner, and Rental Perspectives

Panel:
Cameron Muir, Chief Economist, BC Real Estate Association (***Moderator***)
David Goodman, Goodman Report, Macdonald Commercial Real Estate Services
John Purcell, Senior Vice President, Portfolio Management, Bentall Investment Management LP
Don Smith, Regional Manager Sales, Multi Unit Residential Mortgage, TD Canada Trust
Scott Ullrich, President, Gateway Property Management Ltd.

Moderator Cameron Muir set the stage for the panel by reporting that the residential vacancy rate now stands at 0.7% in the Lower Mainland, the lowest in 15 years. Cap rates in most transactions are below the Bank of Canada's overnight rate of 4.25%. Virtually no new traditional rental units have been built in years and although investors are buying up to 50% of new downtown condominiums, such units are not typically affordable and part of the mainstream of rental stock.

Scott Ullrich examined the three typical types of individual investors buying condominium units and their effect on the apartment building rental market. One investor is looking for a place to retire to eventually and will buy a unit that is both larger and nicer than a pure rental unit. A second investor type will buy looking for appreciation, while a third will want income. The first two types will be quick to lower rents if need be as they are not diversified and "are either 100% full or 100% empty", which creates unwelcome completion for building owners. And the third type of investor, according to Mr Ullrich, "is just like us" and represents direct competition. With resources like Craig's List, individual investors have access to the same tenants as professionally managed buildings.

John Purcell agreed that even Bentall, with its large, exclusively Class A portfolio, competes with individual condominium investors. The small size of rental buildings in the of Lower Mainland market also presents a problem for Bentall - in 2006 there were only five transactions involving buildings having ve 100 units. And while Mr Purcell believes that Vancouver is poised for growth in rental rates, new construction is not yet warranted, and would not be until Vancouver rates move from $2.00 per square foot to $3.00.

David Goodman predicted that rates, while restricted by law to about 4% for existing tenants, will rise by 10% to 15% upon tenant turnovers over the next 18 months. Rates are "in a catch-up mode", having risen only 21% over the last 10 years, while prices per suite have doubled. Mr Goodman expects 2007 prices to rise slightly, with most trades in the 4-5% range of cap rates. He also sees all levels of government launching various incentives to encourage affordable housing, but views the the moratorium on demolition of rental buildings being considered by the City of Vancouver as backfiring and ultimately hurting tenants. Development cost levies, density restrictions, parking policies and GST are all factors which Mr Goodman suggests governments should look at in order to encourage new construction.

How Are Retailers Dealing with Rising Costs?

Panel:
Mark Startup, President & CEO, Retail BC (***Moderator***)
Lenora Gates, Director, Orange National Retail Group (BC) Inc.
Braeden Lord, President, COBS Bread
Neil McAllister, Associate, JJ Barnicke
Bob Tattle, Vice President, Business Development – Retail, Anthem Properties Ltd.

This in depth discussion focused on tenant strategies in a market where rental rates continue to rise with no indication of slowing down. According to Lenora Gates and Bob Tattle, developers continue to face land costs that are rising dramatically, hard construction costs that are up, rising labour costs and development approvals that are taking longer. Tenants are in turn facing labour shortages, high overheads, high costs, and falling margins. Developers and tenants are both being squeezed, with costs ultimately being pushed down to the consumer wherever possible.

Mr. Tattle stated that this tremendous pressure on the cost side means that we will see more consolidation, creativity (new forms of retail development emerging and a lot of changes in how retailers operate and which are successful), retailers working harder and retailers working smarter. Ms. Gates detailed general tenant strategies to combat high costs, some of which included: decreasing the size of shop space; adjusting mark-up on products; utilizing second generation space; investing larger amounts of up front capital; and shifting focus to other markets with less competition and less expensive real estate.

The panel discussion concluded with two real world examples of tenant strategies in action. Neil McAllister outlined Swiss Chalet's original growth goals of adding 40 new restaurants over the next three years with an average area of 5,762 square feet. Mr. McAllister stated that in the midst of rising costs, it was important that Swiss Chalet's expansion plan was flexible – they were now considering developing unique smaller restaurants with an emphasis on take-out and delivery – losing some branding but allowing themselves to get into the local market. Braeden Lord concluded by providing insight into Cobs Bread development strategy in Canada, stating that the expansion of Cobs Bread was focused on: developing a large presence as quickly as possible; finding a niche in the market and differentiating itself; reading trends in the local community and developing new lines quicker than competitors; and working with developers to attract small businesses to sites that in turn would attract consumers to the new developments.

Recreational Property and Other Affects on Secondary Markets in British Columbia

Panel:
Tony Letvinchuk, President, Macdonald Commercial (***Introductions***)
John Murphy, Chairman & CEO, 20/20 Properties
Lorne Borgal, President & COO, 20/20 Properties
Stanley Yasin, President, Saje Enterprises Ltd.

In his overview of the resort development sector, John Murphy noted studies which predict that the ongoing demographic shift in North America will result in the same growth in demand for resort properties over the next few decades as has been experienced in residential housing over the past 50 years. With 41% of North America's population between 42 and 60 years of age, over 4.5 million Americans turning 60 each year and almost $2 trillion in wealth being transferred to this generation as their parents pass on, demand for recreational property will be high, with resort real estate being at the forefront of its cycle.

Stanley Yasin stated that recreational buyers are becoming more educated about products offered in the marketplace, demand strong on-site management and are looking for amenities which not available in their primary residences. He noted that while the typical condominium project may have 10% to 15% common area, a modern resort property will have 30% to 35% common property, with associated amenities, and that developers need to "get it right" in order to ensure marketability of their product. The panel agreed that while resort purchasers are seeking a significant level of amenities and recreational opportunities, these can be provided off-site, using Kelowna's lakefront, nearby skiing, and wineries as examples.

Mr. Murphy noted that in addition to the significant amenities sought by purchasers, municipalities and regional governments typically seek major infrastructure work to be completed by the developer in order to achieve approval of the development, given that many resort properties are outside of serviced areas. Lorne Borgal added that "green" initiatives seem to be more important to regulatory agencies than density, and that most new successful resort developments will need to focus on the use and consumption of water and energy in order to gain government approvals and market acceptance.

The panel agreed that British Columbia is likely the best resort/recreational market in North America and that opportunities abound for development. In terms of current and future risks in the sector, the panel identified construction costs and the fact that recreational properties are discretionary purchases and are vulnerable to national or international economic trends, notwithstanding how strong the local market may be.

Cost is Not a Four Letter Word: Managing Construction Costs in Tomorrow's Market

Panel:
Bill Tucker, Partner, Omicron Consulting Group (***Moderator***)
Steve Matheson, Managing Director BC, Pivotal Projects
Ron McFee, Executive Director, Stuart Olson Construction
Liam Murray, Senior Director, Altus Helyar Cost Consulting Group
Keith Sashaw, President, Vancouver Regional Construction Association

A case study – a mixed-use development, involving residential, commercial, and retail use (each called a "component" of the project) – was used by the panellists to guide the discussion on predicting and controlling construction costs.

During the initial phase of planning a project, developers must attempt to identify the scope of the project, set the budget, and define (realistically) the resources required for the project (including labour). During this stage, developers should consider that a major influence on construction costs in the current BC market continues to be the shortage of skilled labour. Speaking from a trade contractor's perspective, Keith Sashaw observed that in order to secure trade contracts, developers must make their projects as attractive as possible to trade contractors. The reputations of the developer, the developer's architects and general contractor, the location of projects, and the choice to use standard form documents (highly attractive to contractors), are all key factors in a contractor's decision.

During the second phase, a qualified team must be assembled and a project schedule must be compiled. The project schedule should include realistic project timelines and accurate cost planning. Key errors are often made in cost planning due to a lack of a thorough understanding of how certain elements are tied together and the project schedule provides all players in the project with a clear, overall view. This will allow for a realistic assessment of the costs involved. During the final construction phase, developers must implement their action plan while staying informed. Although many responsibilities will be delegated down, developers must keep themselves in touch with all elements of the project in order to keep within the projected time schedule and cost estimates. Skilled trades can assist greatly in informing the developer along the way. The panel foresees that as the shortage of skilled labour is continuing, it is vital for developers to make connections with contractors by treating them fairly, reasonably, and with respect.

Mixed Use: Is it for Everyone?

Panel:
Ian Thomas, Chairman, Thomas Consultants (***Moderator***)
Stephen Knight, President, Sitings Realty Ltd.
Ward McAllister, President & CEO, Ledingham McAllister Properties Ltd.
Mark Thompson, Partner, Musson Cattell Mackey
Richard Weir, Vice President, Bosa Development Corp.

Gordon Harris introduced this discussion by stating that sustainability is the driving force behind the recent push and support for mixed use development. He further commented that mixed use developments not only provide a better use of land by reducing social and economic costs, but can also be extremely rewarding for the stakeholders involved.

Richard Weir, Stephen Knight, Ward McAllister and Mark Thompson each discussed their first hand experiences in dealing with mixed use developments. All four panelists agreed that while mixed use developments are more complex, expensive and time consuming than typical developments, the rewards can far exceed the costs. Coordinating and managing the different uses, financing, and cost were all cited as primary challenges faced in any mixed use development, while receiving a premium for residential units was mentioned as being one of the main benefits.

Also discussed was the essential role that municipalities play in this type of development. It was commented that while some municipalities, such as Burnaby, are extremely supportive, others, especially those that do not have experience in dealing with mixed use developments, can be extremely cautious and take a significant amount of persuasion.

One thing was clear from this discussion; the success of any mixed development hinges on community and municipal support and finding the right balance between the different components of the development.

Looking Back, Looking Forward

Speaker:
Honourable Michael Harcourt, Former Premier of BC and Former Chair to Prime Minister for Committee for Cities and Communities

The theme of the Honourable Michael Harcourt's discussion was sustainability and its inevitable impact at the local and global level. He reiterated on numerous occasions that for the Lower Mainland (Vancouver in particular) to maintain its position as one of the best places to live on earth, there has to be movement from "livability" to "sustainability".

He cited homelessness, the environment, transportation infrastructure and first nations self governance as key issues to be addressed on the path to sustainability and argued that in the future, only those municipalities that are sustainable will be competitive and productive at the global level.

He further commented that the movement towards sustainability will primarily happen at the municipal level. In this regard, he stated that one of the things that must happen is the devolution of taxing authority from the federal government, through the provincial government down to the municipal level. He claimed that this is necessary to enable municipalities to have the required resources to be fully sustainable in 30 years.

Mr. Harcourt finished by showing examples of how past choices have shaped Vancouver into the city that it is today. He concluded that on the path to sustainability, we will again be faced with choices, the decisions of which will determine whether we are able to maintain our position as one of the best places to live on earth.

Closing Session

Panel:
Tony Astles, Executive Vice President, British Columbia, Bentall Capital LP (*Moderator*)
Peter Cohos, President & CEO, Tonko Realty Advisors Ltd.
James Midwinter, Executive VP, Commercial Properties, GWL Realty Advisors Inc.
Jon Love, Managing Partner, KingSett Capital
Gary Whitelaw, President & CEO, Bentall Capital LP

Forum Chairman Tony Astles of led a panel discussion on the critical issues and market trends facing their business plans and the industry in general over the next year and beyond.

In terms of whether the current real estate cycle has reached its peak and, if so, should investors be selling assets, Mr. Whitelaw stated that Bentall Capital does not consider that the cycle is at a "sharp" peak such as that in 1990 to 1992. Although they have sold assets throughout their portfolio, sales decisions are driven as much by a fund's investment horizon as the property itself, and noted the problems inherent in trying to replace a property which has been sold with one which is equal or better from an investment perspective. Mr. Cohos noted that unlike the stock market, one cannot expect to sell a property in one year and re-purchase it in the next year or two for a lesser price, as each property is unique and real estate is relatively illiquid. This leads to long term holding of investment property.

Mr. Love noted that although the general consensus is that cap rates have been driven down by the flow of capital into real estate, in his view the market is and has always been driven by the fundamentals of demand for space, vacancy rates, and rents. Strong economic growth is are the cause of the increasing prices of investment properties, with the flow of capital merely being a result.

Mr. Whitelaw stated that corporate productivity and cost control are becoming important issues throughout the Canadian and U.S. markets, causing the movement of tenants to suburban locations or flex space. He predicted that this trend will start to occur in the Lower Mainland, where it is becoming uneconomical for many tenants to be located downtown.

When questioned on what signs will indicate that the real estate cycle is reaching its peak, Mr. Cohos pointed to land costs becoming out of line (which they may have become at this point). Mr. Midwinter noted that the downturn of the late 1980s and early 1990s was preceded by an oversupply and insufficient demand for office space, and suggested that an oversupply of speculative building would be a first sign of the cycle turning.

Mr. Whitelaw noted that in terms of sustainability and "green" building technology, the impetus is coming almost entirely from the tenant side of the equation. Tenant's demand for green buildings will lead to increased rent and increased values. Mr. Midwinter suggested that all new buildings will be "green" within the next five years, as it will become the norm.

In terms of capitalization rates, the panel generally felt that they cannot move lower, although they agreed that this had been their common consensus for quite some time and it had continued to be proven wrong. Mr. Whitelaw noted that cap rates themselves are misleading, as they do not take into account in capital expenditures, which knock off between 0.50% to 0.75% from the imputed rate. As well, because cap rate have become so low, institutional investors are more frequently looking to foreign investments and other sectors such as infrastructure projects.

The panel agreed that office rents are not going to rise quickly enough in Vancouver to justify development of new office space at this time, particularly given construction cost increases, and noted that even in Calgary where office rent inflation is significant, the increases are not matching the increases in construction costs.

Lastly, in identifying the single most important issue for their business plans, the panel included carbon taxes, the need to ensure implementation of the Kyoto Accord is managed properly, the need to focus on the needs of the customer (tenants), and human resources/labour shortages.

- **More coverage from the Vancouver Sun**