Northeast False Creek Commercial Development Analysis

Prepared for

The City of Vancouver

CITY OF VANCOUVER

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COLLIERS INTERNATIONAL

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1. NOTICE

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2. EXECUTIVE SUMMARY

This study was prepared for the City of Vancouver as part of the Northeast False Creek (NEFC) High Level Review. The purpose of the study is to research the market demand for commercial land uses (Hotel, Office, and Retail) in this important part of the Downtown peninsula. Furthermore, using several case studies, input from a Focus Group comprised of a variety of real estate professionals, and information gained through our research, the report recommends the scale, timing, and locations in the NEFC that could be appropriate for commercial uses.

Case studies of the Docklands in Melbourne, Australia; SOMA and Mission Bay in San Francisco; and the East Village in San Diego were chosen for their similarities to NEFC. The case studies, viewed in isolation, show the potential for developing high density mixed use projects incorporating residential, office, retail, and other cultural and institutional uses adjacent to professional sporting venues and waterfronts situated outside of the Central Business District (CBD).

NEFC is a 70-acre area in the southeast corner of Vancouver's Downtown Peninsula, and is bounded by Beatty Street to the Northwest, Nelson Street and the Cambie Bridge to the Southwest, False Creek to the Southeast and the Dunsmuir Viaduct to the Northeast. NEFC represents the largest undeveloped area within the Downtown Peninsula and links the Downtown core, Yaletown, Chinatown, and the waterfront at False Creek.

Currently, NEFC lands are owned by four parties, each of which has expressed interest in developing on their sites. Residential development would provide the highest returns, however City policy envisions NEFC as an area that includes significant employment-generating uses.

A comprehensive mixed-use plan for NEFC could provide synergies between commercial and other land uses in the neighbourhood. Offices, a major casino development, and the cultural and events facilities create local demand for hotels and restaurants. All of these uses would generate business for retailers, restaurants and other services, which in turn are important components of residential neighbourhoods.

The demand projections shown below differ primarily in the amount of residential development assumed for NEFC, and the impact that would have on demand for retail and service commercial floor area. The population growth projections for areas outside of the NEFC, yet within the commercial trade area, are consistent in all cases. The three scenarios for projecting retail and service commercial demand that were provided for this study include: no residential uses in the NEFC; 1,000,000 square feet of residential, which is estimated to accommodate 2,083 people; and 2,000,000 square feet of residential, which is estimated to accommodate 4,165 residents. The population numbers for NEFC were provided by the City, and the consultants have assumed a simple 15-year straight-line projection to reach those totals.

2.1. Retail and Service Commercial

With no residential development in NEFC, the maximum retail and service commercial floor area in NEFC is estimated to be 255,000 square feet in 2023, comprised of a combination of neighbourhood convenience retail; destination retail; personal, financial and other services; and eating and drinking establishments. These businesses would serve the surrounding residential areas as well as employees and visitors to the area. The addition of 1 million square feet of residential space (2,083 residents) would result in greater demand for convenience retail and services, bringing the total demand to 287,100 square feet. If 2 million square feet of residential were built in NEFC the 4,165 people living there, combined with the demand from other sources, would support 330,700 square feet of retail and service commercial floor area.

2.2. Hotel

The Focus Group included several hotel developers and consultants who suggested that NEFC could accommodate 450 hotel rooms in three hotels, and that a key driver of demand could be a major casino development. Our research shows that Downtown Vancouver should be able to easily absorb 450 rooms over the next 15 years. Ideally these hotels would span a range of price points to spread the synergies across other demand generators such as offices and sporting venues. Using an average room size of 400 square feet, 450 rooms would equate to 180,000 square feet.

2.3. Office

Downtown's office market is currently experiencing very low vacancy rates and rising lease rates per square foot. Despite a highly cyclical absorption pattern over the last 30 years, there is a consistent short, medium, and long term trend in demand for over 300,000 square feet of office space annually. NEFC could attract some of this demand if the space and lease rates were appropriate. Projected demand in NEFC is for almost 71,000 square feet annually, or 1.06 million square feet over 15 years.

NEFC Commercial Demand (square feet)			
	15-year Demand		
Retail and Service Commercial	222,700	287,100	330,700
Office	1,061,400		
Hotel	180,000		

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Finally, this study did not include a detailed assessment of development economics. However, Section 8.4 in the Conclusions includes commentary on this subject, based largely on input received from the Focus Group.

3. CONTEXT

The NEFC study area is situated in the southeast corner of Vancouver's Downtown Peninsula, and is bounded by Beatty Street to the Northwest, Nelson Street and the Cambie Bridge to the Southwest, False Creek to the Southeast and the Dunsmuir Viaduct to the Northeast. NEFC represents the largest undeveloped area within the Downtown Peninsula and is comprised of 6 separate areas. The following aerial photo is overlain with the NEFC site map, which defines the proposed development blocks.

3.1. Policy Context

As an area with significant development potential near the Central Business District (CBD), the City views NEFC as an area that could address future land demand to support employment growth. Land owners have, in the recent past, proposed residential development on most of the development parcels in the area which could be seen as conflicting with the City's stated policy of maintaining employment space and ensuring the development of uses that are compatible with the entertainment, sports, and cultural facilities that are located in the immediate area. The following excerpts are taken from the City of Vancouver's existing planning policies and are intended to guide future development in NEFC.

3.1.1. False Creek North Official Development Plan

The False Creek North Official Development Plan (ODP) was first adopted in 1990, and sets out development guidelines with respect to building heights, view corridors and total square footage of development in False Creek North, of which the North East False Creek area to which this report applies, is a major component. The "Organizing Principles" of the ODP state that the neighbourhood shall:

- Integrate with the City
- Build on the Setting
- Maintain the Sense of a Substantial Water Basin
- Use Streets as an Organizing Device
- Create Lively Places Having Strong Imageability
- Create Neighbourhoods
- Plan For All Age Groups with a Particular Emphasis on Children

Office
The ODP states that office uses in False Creek North be located in areas which meet the following criteria:

- enhance the success, liveability, and attractiveness of the central business district – access to waterfronts, views, and ease of face-to-face contacts;
- have good transit access;
- be a desirable office area;
- not be a threat to areas with a major stock of heritage buildings;
- not be an area with significant housing or with a high desirability for future housing; and
- not be an area where support services would be displaced without alternate locations.

The Cambie Bridgehead area (Parcel 5B) is identified as the best location to accomplish these goals, specifically related to office uses.

Retail
Area 4 has seen at-grade commercial development on Davie Street (Urban Fare, Starbucks, etc.), on Pacific Boulevard (BC Liquor Store, HSBC, etc.), and on Marinaside Crescent (restaurants including Provence).

The ODP provides for the following remaining land use mix development allowances:

Area	Permitted Land Uses	ODP Max sf
5b	Commercial	81,667
6b	Commercial & casino	598,931
6c	Commercial	797,081
7a	Commercial & Arena	224,000
Total		**1,701,679**

Both stadium sites are anticipated to accommodate infill redevelopment. The BC Place site of 6.56 hectares, 2.93 hectares of which is exterior area, could accommodate a significant component of the anticipated commercial development and/ or a comprehensive mix of uses. The 1.7 million square feet described in the table above does not include the BC Place site.

3.1.2. 2005 – False Creek north Land Use Policy for Special Events, Festivals & Entertainment Functions

Reaffirms City Council's desire for land uses that support the special event, festival and entertainment functions of Northeast False Creek.

3.1.3. 2007 – Metro Core Jobs and Economy Land Use Plan "Issues & Directions Report"

States that the projected demand for commercial space in the Metro Core Area will be more than can be provided under current zoning.

Identifies policy directions to increase the capacity for job space in the Metro Core, including Northeast False Creek.

Preliminary analysis indicates a target of 1.8 million square feet of additional commercial development will be required in the NEFC area in order to accommodate the projected demand for employment space.

3.1.4. 2007 – Northeast False Creek High Level Review Terms of Reference

Confirms City Council's desire to replace the Plaza of Nations outdoor performance space with an equal or better facility.

Reaffirms the role of the area in providing significant job space.

4. CASE STUDY REVIEW

The following provides a selected list of examples of urban waterfront redevelopment projects incorporating major activity generators that include sporting venues, public waterfronts, and a mix of uses.

The three selected case studies are in various stages of development, however they already provide indications that they are appropriate examples of successful urban renewal involving stadiums situated in close proximity to commercial, residential and retail uses. These indicators range from an analysis of overall market success, including the economic return on private and public investment; overall unit sales and market rents of commercial and retail spaces; a review of industry professionals' and urban planners' opinions and articles providing insights into the success or failure/ positive and negative attributes of the various case studies; as well as Colliers' analysis of the various tangible and intangible attributes associated with each area.

It should be recognized that each of these selected case studies is larger in scope and area than the NEFC Neighbourhood Plan area. Each respective redevelopment area has a project horizon over 20 years including millions of square feet of commercial office and retail space as well as thousands of residential units. As such, the associated phasing and amenity requirements, and market risks are likely to be different in the Vancouver context. Having said this, the case studies all share very similar characteristics indicating that there are clear similarities in leading to the success of these types of projects. The selected case studies are summarized in brief below:

CASE STUDY - REVIEW SUMMARY[1]							
City	Area (Ac)	Daily Pop.	Residential[2]	Office	Retail	Hotel	Completion
NEFC, Vancouver	*69*	*TBD*					
Docklands, Melbourne	495	115,000	6,400,000	8,400,000	1,900,000	860,000	2020
Mission Bay/ Rincon Point, San Francisco[3]	415	120,000 +	7,040,000	6,200,000	750,000	200,000	2012
Ballpark District – East Village, San Diego	82	30,000 +	6,640,000	1,300,000		470,000	N/A

The following chart summarizes the commercial floor area projections in each of the case studies. Each study area has over 8,000 residential dwelling units planned, but the commercial components differ considerably. In San Diego's Ballpark District– the most analogous case study area to NEFC in terms of overall size – the total commercial floor area is expected to be 1.77 million square feet, comprised of an estimated 470,000 square feet of hotel space and 1.3 million square feet of combined office and retail area.

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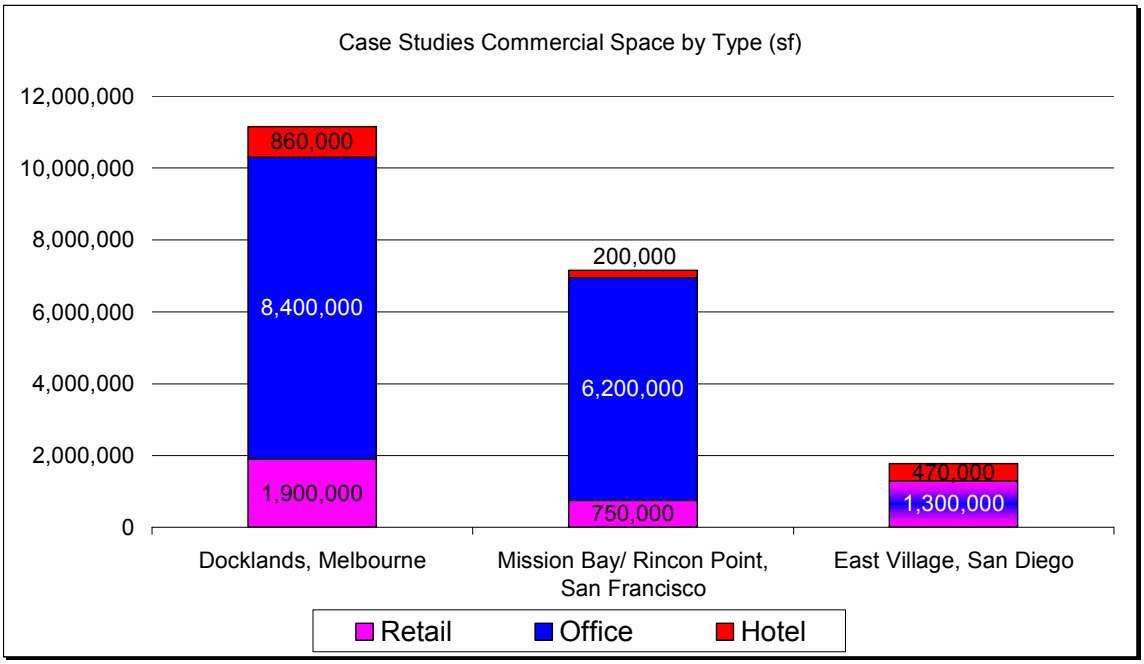
[1] *The data included in this table provides a summary of major land uses upon project completion at the time of writing and does not anticipate or provide an indication and any potential changes to the master plan for the respective case studies.*

[2] *In some cases, residential area has been calculated as 800 sf per unit*

[3] *Mission Bay also includes a significant dedication of park and public open space of approximately 43-acres in addition to a 43-acre (2.6 million square foot) University of California, San Francisco Life Sciences Research Campus and Teaching Hospital. The UCSF Campus acted as the catalyst for the redevelopment of the Mission Bay project area, as will be discussed further below.*



The case studies have been selected for inclusion in Colliers' NEFC Commercial Study as they all share similar characteristics. All selected case studies are examples of urban renewal of brownfield or underutilized lands incorporating a mix of land uses; major activity generators or catalysts for development, such as a stadium; redevelopment of derelict waterfront for public use as a high quality amenity; and a mix of transportation and housing choices near an existing downtown.

4.1. SUMMARY OF FINDINGS

Several conclusions can be made based on Colliers' analysis of the case studies. While certain variables such as overall scope and project completion timelines vary between the case studies, they all share similar characteristics, which have been summarized below:

- A high quality waterfront offering public access has been developed in each example, providing a gathering place for pedestrians and civic interaction. Previous to development, each waterfront area was privately controlled to limit public access and historically utilized for commercial port purposes that fell into decline and disrepair with the shift towards containerization in the 1960's and 1970's;

- A mix of land uses adds to the vibrancy of public spaces, including a high quality pedestrian oriented streetscape;

- A mix of transportation options is available both within the project areas as well as providing linkages to the greater region. These include:

    - Limiting the automobile as the primary transportation choice. Further, each example actively discourages automobile use as the primary transportation choice either through slowing traffic speeds or moving automobiles underground (San Diego provides an example where the freeway has been encapsulated with park space above);

- Increasing incentives for pedestrian use of the street network;
- Increasing incentives for bicycle movement throughout the project areas and the greater region; and,
- A mix of transit options is typically provided and ranges from bus, LRT, streetcars to a regional rail network.

- It does not appear that residential development is an incompatible use in close proximity to stadiums. In all cases, residential development is occurring immediately adjacent to or across the street from stadiums;

- Every case study illustrates significant retail development situated within close proximity to stadiums. In addition to being situated within close proximity to major activity generators, retail development is also situated in close proximity to civic gathering places and nodes along major roads or the waterfront;

- A mix of high density housing forms has been provided, including town homes, city homes, lofts, condominiums and rental apartments. The two American case studies also provide examples where between 25% and 30% of the gross housing stock is set aside for low to medium income households. In the case of San Diego, this figure equates to approximately 14,000 residential units upon completion in 2030; within the East Village district, the total housing stock is approximately 9,100 units, 835 of which are reserved for lower income households.

- Commercial office building forms range from mixed-use buildings with the commercial component forming the podium below a residential point tower to single use commercial buildings with large floor plates ranging from 20,000 square feet to approximately 60,000 square feet[4].

- All three case studies have historic and existing competition from suburban markets for both office users and residents. Suburban locations typically offer lower amenities in comparison to the case studies. However, they are attractive to commercial users because of lower overall rental rates allowing for lower operating costs and larger commercial space as well as lower housing costs. The only example where there is a clear competitive advantage, and economic return, of office development is Melbourne where rents are typically 50% higher than suburban rates and comparable to the CBD without tenant inducements included leading to higher Net Effective Rates (NER);

- All of the case studies offer high quality architecture, streetscapes, public/ civic facilities, infrastructure and overall urban environment;

- There has been significant investment in public and private marina berths. In the Melbourne example four marinas have been developed to date, three of which are private requiring 1 public berth for every 6 private berths;

- Several different activity generators have been incorporated into the redevelopment areas. In addition to the stadium developments, conference facilities, theme park/

[4] *The larger floor plates are typically associated with high tech or life sciences type uses as exemplified in the San Francisco example. However they have also been utilized in the Docklands example for major financial institutions such as ING, NAB & ANZ.*

leisure activities or major educational institutions have been included in redevelopment plans.

- Building heights and density have not been formally limited in the same context as Vancouver. However, overall densities are clearly defined in the area development plans with certain areas in each case study designated for high residential or commercial densities and associated building heights, while other areas are primarily limited to low to mid rise building forms. San Diego provides a good example of the variability in building heights in the various sub-neighbourhoods comprising the downtown redevelopment plan. Overall densities in these sub-neighbourhoods have been impacted by heritage considerations, geotechnical and geological (i.e. Fault line) considerations and proximity to services. In the East Village precinct, building heights and densities are typically higher than the average, especially when compared to the gas lamp (historic) district. Of note are the point towers situated immediately adjacent to PETCO Park comprising a mix of residential and hotel uses.

4.2. DOCKLANDS, MELBOURNE AUSTRALIA

Melbourne Docklands is a major waterfront development situated in the heart of Melbourne adjacent to the CBD. The approximately 495-acre site includes seven kilometres of waterfront and is managed by the State Government's urban development agency, VicUrban, in partnership with multiple public sector agencies and private sector developers.

Upon completion in 2020, the redeveloped docklands will be a mixed-use neighbourhood accommodating 17,000 residents, 40,000 workers and an anticipated 55,000 daily visitors. Currently, there are approximately 6,000 residents and 10,000 jobs in the Docklands. The redevelopment of the Docklands is Australia's largest urban renewal project.

4.2.1. CONTEXT

The development horizon for the thirteen separate phases of development at the Docklands is an additional 10 to 15 years depending on market conditions with approximately a third of the area already completed. Upon completion in 2020, the Docklands will double the size of Melbourne's CBD.

It is anticipated that upon completion, approximately AUS $12 billion will be invested in the area facilitated by a P3 governance model managed by VicUrban. Under this model, the public sector is primarily responsible for the provision of infrastructure, such as roads, bridges, etc., while the private sectors bids on development lands for the construction of office, residential and retail mixed-use developments.

4.2.2. SCALE OF DEVELOPMENT

As of early 2008, approximately 3,200 residential units have been completed or are under construction; four million square feet of commercial office space has been completed or is under construction; and, 145 Commercial Retail Units (CRU's) have been occupied with an additional 290 CRU's under construction. Major tenants have been attracted to the Docklands area due to its close proximity to the Southern Cross Rail Station and integration with the CBD. Major office tenants include: AXA Asia Pacific, National Australia Bank (NAB), Medibank Private, National Foods, ING Real Estate, Telstra, ANZ and Bendigo Bank.

Large commercial tenants as well as new residents have been attracted to the development due to the high quality of the waterfront amenity and central location. There has been a significant

amount of investment in several new marinas offering approximately 800 public and private berths as well as the retention and rehabilitation of heritage listed wharfs. In addition, significant public sector investment has been put into transportation, including the extension of five City Tram lines; four different bike routes; 5,000 public parking stalls (28,000 total stalls); water taxis and ferries and dedicated pedestrian access to the CBD via the Bourke Street pedestrian bridge.

4.2.3. ACTIVITY GENERATORS

Central to the entire redevelopment plan for Docklands is the 54,000 seat Telstra Stadium[5], originally built in 2000. The Stadium is primarily utilized for AFL games, international cricket matches, rugby and other sporting and entertainment events. The Stadium was part of the AUS $700 million Southeast Stadium Precinct project area.

Approximately 1.7 million square feet of commercial office space is situated immediately adjacent to the Telstra Stadium within the Digital Harbour precinct. These two areas have been developed with the intent to create separate neighbourhood characters that are fully integrated with one another. A predominately retail area situated immediately south of the Telstra Stadium, the Central Pier area is comprised of two refurbished industrial warehouses offering a mix of retail uses from shopping to restaurants with easy access from the Stadium.

In addition to the Telstra Dome, another activity generator for the Docklands is the 120 metre tall Southern Star Observation Wheel (SSOW) – a replica of the London Eye. The SSOW is situated on

[5] *The Telstra Dome is the only football stadium in the Southern Hemisphere with a fully retractable roof.*

the southwestern portion of the project area and is integrated with the Harbour Town shopping complex, a two-level open-air pedestrian mall with approximately 200 retail stores.

The commercial components of the Docklands have been fully integrated throughout the various development precincts and phasing. Typically, retail is accommodated within the ground floor and podium component of an individual building. Office space, in the Digital Harbour Precinct in particular, is comprised of large floor plates to accommodate a variety of high tech and digital media users. However, in other development precincts the office component is accommodated in the tower podium within a residential mixed-use development.

4.2.4. COMMENTARY

Market research indicates that the area is still gaining a 'critical mass' of retail users and residents. While the Telstra Stadium is a significant activity generator, the Docklands as a whole is still not considered a destination within Melbourne. Nor is it considered fully integrated with the City and CBD in particular.

Industry professionals have indicated that young urban professionals have predominantly acquired individual units within the various development projects but that speculative investors have acquired a significant component of units, resulting in 'dark towers' at night. Although only a third complete, the Docklands is a highly gentrified area, with approximately half of residents possessing a tertiary qualification and above average households incomes. Overall, the residential component is considered highly successful with both market rents and median unit pricing well above the average for the City and Metropolitan Region as a whole. Commercial office rents are equally impressive, and are only marginally lower than those commanded in the CBD. However, due to the lack of inducement requirements in attracting tenants, the NER is actually higher than the CBD.

While generally commercially successful, the development has met with some reluctance in the local market to shift to condominium uses. The commercial office component is considered much more successful with rents consistent with the CBD and major users attracted by the high quality amenities, good transportation access and emphasis on sustainability in certain building designs. However, the retail component has consistently struggled with rents being heavily incentivized matching low prime retail districts within the CBD and characterized with a substantial number of business failures.

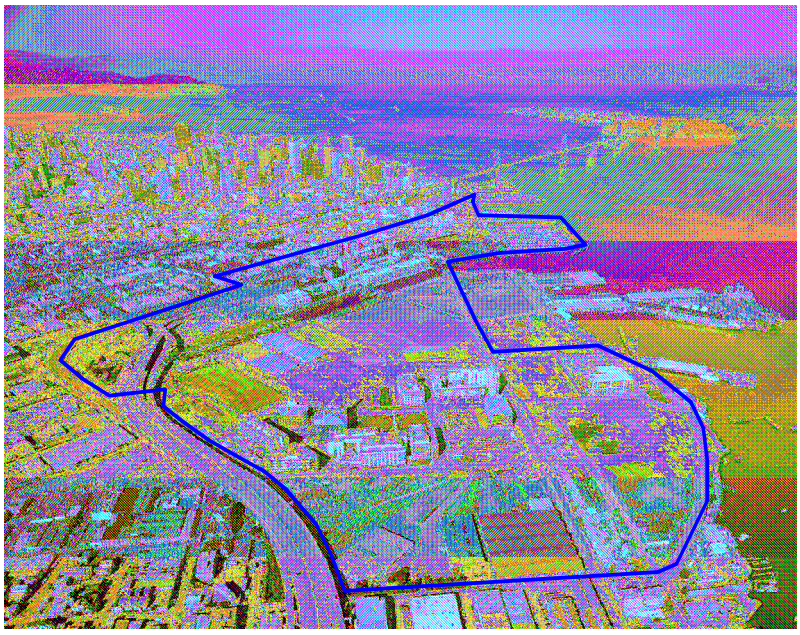
4.3. SOMA & MISSION BAY, SAN FRANCISCO USA

The Rincon Point/ South Beach (part of the South of Market Area, SOMA) and Mission Bay Neighbourhoods encompass approximately 415-acres of San Francisco's Northeastern waterfront lands. Historically these areas were utilized as industrial ports and related support facilities. However, with the emergence of containerization in the 1960's and 1970's these areas fell into decline.

4.3.1. CONTEXT

While redevelopment in the SOMA neighbourhood has been substantially completed, it is anticipated that Mission Bay will be fully built out by 2012 at the latest (representing a 10 to 15 year development horizon). Upon completion, these neighbourhoods will accommodate approximately 6.2 million square feet of commercial space; approximately 750,000 square feet of retail; a 500-room hotel; 8,800 residential units, approximately one quarter of which are provided for low to middle income households; approximately 60 acres of parks and open space and a new

43-acre university research campus for the University of California, San Francisco (including 2.6 million square feet of building area).



The SOMA neighbourhood was designated as a project redevelopment area in 1977 and has been actively redeveloped from 1981 to the late 1990's, while redevelopment in Mission Bay commenced in 1998 and is anticipated for completion by 2012. These neighbourhoods were identified for redevelopment due to their proximity to the CBD and their strategic location on the waterfront. The redevelopment was largely funded by a combination of Community Development Block Grants, tax-exempt bonds and property tax incremental financing. In addition to the various public funding mechanisms, the redevelopment plan also provides for height and density bonusing provisions allowing for up to 15% over the otherwise maximum allowable height and density specified in the redevelopment plan.

While there were originally a number of different landowners in the SOMA neighbourhood, lands situated within the Mission Bay redevelopment area were predominantly owned by the Catellus Development Group (a previously owned subsidiary of the Santa Fe Railroad Company). The redevelopment area is managed by a quasi-public private partnership. Catellus, the major landowner within the Mission Bay area, is anticipated to invest in approximately $200 million worth of public infrastructure, subdivision and planning work and individual development site prep work.

4.3.2. ACTIVITY GENERATORS

Situated along China Basin at the intersection of both neighbourhoods and adjacent to a 700 berth public marina and waterfront promenade, AT&T Park is a 41,000-seat stadium for the San Francisco Giants. Although not originally included in the redevelopment plan, the stadium was accommodated on Port owned land in 1997. Since the stadium opened in 2000, eight mixed-use developments have been completed immediately adjacent to the site, containing approximately 1,600 residential units, approximately 65,000 square feet of office space and approximately 130,000

square feet of retail space. In total, there are 13 separate developments containing over 2,000 residential units situated within 250 metres of the Stadium.

Selected projects adjacent to AT&T Park under construction or recently completed include:

- The Beacon, a 1.3 million square feet mixed-use project developed by Catellus including 595 rental units; some affordable housing units; 45,000 square feet of office; 83,000 square feet of commercial retail anchored by a Safeway and Borders.
- The Glassworks project completed by Catellus comprises approximately 34 condominium units; 24,000 square feet of office and 10,000 square feet of retail; and,
- The Rich Sorro commons situated immediately southwest of Glassworks on King Street encompasses 100 units of affordable housing, a childcare centre and approximately 10,000 square feet of retail.

Since 2006, approximately 3,400 residential units have been constructed or are nearing completion with an additional 1,650 residential units in the planning approvals process in the Mission Bay neighbourhood. Nearly 2.5 million square feet of commercial and life sciences office/ research space and seven buildings within the UCSF campus have also been developed. It is anticipated that an additional 2,000 residential units and 2 million square feet of commercial space will be developed over the next four years.

Based on conversations with industry professionals, it is clear that the UCSF campus acts as an anchor for the high concentration of tech and life sciences companies relocating to the area, while AT&T park provides an activity generator for retail situated to the north of the China Basin. The area is mainly attracting young urban professionals and research students attending UCSF, who come to the area due to the high quality built form, public access to the waterfront and services and mix of uses.

4.3.3. COMMENTARY

Market rents in the neighbourhood are generally consistent with those sought in the CBD. However, the top A class office space is approximately half of what the equivalent would lease for in the Financial District. This is more likely the result of the users attracted to the area and the larger floor plates on some of the commercial developments. Speculative investment activity has been a considerable component of the residential market, however given the proximity to the UCSF campus; there is no shortage of renters.

While the current volatility in the financial markets has had an impact on lease rates and terms, residential home prices and consumer sentiment, the absorption rates in the Mission Bay neighbourhood continue to remain comparatively strong. It was speculated that this results from the advantage of being situated in close proximity to UCSF, which various high technology companies are able to benefit from.

At the time of writing, approximately half of the projected gross buildable area associated with the Life Sciences component of the UCSF has been completed. The Mission Bay neighbourhood is expected to accommodate approximately 31,000 permanent jobs upon completion, the majority of which will be in the life sciences research sector.

In reviewing the San Francisco model of waterfront land renewal, it is clear that a comprehensive partnership model utilizing a cooperative framework between the public and private sectors as well as various community interests has been critical in achieving the final development plans. Public sector facilitation of private sector development was achieved through tax incentives, relaxations and comparatively minor investments in infrastructure.

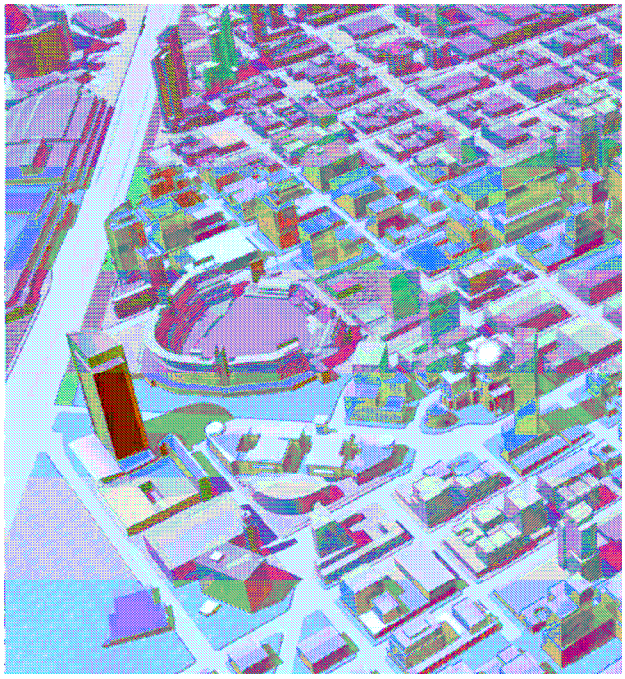
Public access to the waterfront, a mix of uses, public transit and a significant component of the neighbourhood devoted to open space and public park were a critical underpinning of private investment. Market rents and consumer demand for residential product have achieved consistent values to the CBD in addition to being more resilient to the current economic downturn impacting the greater San Francisco market. While AT&T Park is situated in the geographic centre of the area, it was not initially contemplated in the redevelopment plan.

4.4. EAST VILLAGE, SAN DIEGO

4.4.1. CONTEXT

Redevelopment of San Diego's downtown has been facilitated by the Centre City Development Corporation (CCDC). Since its founding in 1975, more than $4 billion has been invested in downtown redevelopment, including key milestone projects in the area's renewal, such as Horton Plaza retail/entertainment complex; the restoration of the 16.5 block historic Gaslamp Quarter; 5.9 million square feet of Class A office space; opening and expansion of the San Diego Convention Center; more than 4,800 new hotel rooms; and PETCO Park, the new home of the San Diego Padres.

The East Village Precinct is situated in close proximity to the popular historic gas lamp district and encompasses the San Diego Padres baseball stadium – PETCO Park. The Ballpark District is at the south end of the East Village. In 1998, PETCO Park was approved for development spurring significant developer interest in an area that had been viewed as one of the most dangerous and dilapidated within the City.



Since opening in 2004, PETCO Park has induced approximately US $4.3 Billion in residential, commercial, and public sector development. Approximately 8,313 residential units, 1,177 hotel rooms, and approximately 1.3 million square feet of commercial has either been constructed or is in the construction and planning process. The Ballpark District is already a vibrant mixed-use and mixed-income neighbourhood hosting over 3 million visitors annually.

4.4.2. SCALE OF DEVELOPMENT

The Ballpark District comprises approximately 82-acres over 60 blocks with a daily population of approximately 30,000 people (not including pedestrian activity generated by PETCO Park or the San Diego Convention Centre). As a result of the development of PETCO Park, redevelopment in the East Village neighbourhood has increased significantly, including nearly 7,000 parking spaces; 1,000,000 square feet of completed office/ retail space; 2,400 hotel rooms; and 2,430 residential units.

Other significant projects in close proximity to PETCO Park include East Village Square, a 500,000 square foot retail, entertainment and office development north of the ballpark; Campus at the Park, space for technology and office buildings on Park Boulevard; and the Park to Bay Link, a tree-lined promenade linking Balboa Park and San Diego Bay along Twelfth Avenue.

Ballpark Village is a development planned for a 7-acre triangular site across Park Boulevard from PETCO Park. The $1.4 billion development is expected to have 1,600 residential units and 517,000 square feet of commercial (retail and office) uses.

4.4.3. ACTIVITY GENERATORS

The Downtown Community Plan provides for a mix of land-uses including various lifestyle amenities (PETCO Park); approximately 50 acres of new parks and plazas (130 acres upon completion); revitalization of the western waterfront; improved transit corridors and connections to Balboa Park (encapsulating the freeway) and the waterfront.

While the downtown area has historically functioned as the civic and regional government centre, urban decline and suburban competition led to a significant decline in the 1960's and 1970's. However, in concert with the redevelopment of the entire downtown precinct, which now functions once again as a major activity generator, the San Diego Convention Centre, numerous marinas and improved connectivity to Balboa Park all function in attracting people into the downtown area, the Ballpark District, and the East Village.

4.4.4. COMMENTARY

PETCO Park has acted as a significant facilitator of private sector development and investment. There are several major mixed-use developments situated immediately adjacent to the ballpark, including the OMNI Hotel. A 512-room hotel located between PETCO Park and the San Diego Convention Centre, OMNI Hotel is a premium hotel offering 'baseball packages' and a direct skywalk to PETCO Park. Other major developments include Cosmopolitan Square, a mixed use residential and office tower; Diamond Terrace and Diamond View Tower, two mixed use developments comprising office, residential and retail; as well as Icon and Park Terrace, both towers are primarily comprised of residential with some retail components.

5. HOTEL

5.1. Hotel Market Overview

The hospitality and leisure industry has faced some significant obstacles to start off the new millennium. A weakened global economy, the events of 9/11, the War in Iraq, and SARS crisis, all contributed to reduced travel to and within North America in the 2001-2003 period. Since then however, both the national and provincial economies have bounced back on the strength of high commodity prices, which has spurred growth, specifically in the Alberta and BC regions.

Locally, the choice of Vancouver to host the 2010 Winter Olympics has significantly improved the optimism level for British Columbia and the Lower Mainland's economy, probably to a level disproportionate to the actual event. The increased focus on the region and the significant infrastructure enhancements proposed for this event will greatly benefit the tourism industry.

Domestic and international overnight visits to Greater Vancouver declined by 1.2% in 2001, 0.3% in 2002 and 4.3% in 2003, to an estimated 7.9 million overnight visitors. This dramatic slide reversed itself in 2004 and 2005 with an increase of 7% and 1.0% to 8.5 and 8.6 million overnight visitors respectively. Occupancy and average room rates for the Greater Vancouver area in 2005 were 69% at $121; 72% and $128 for 2006; 73% and $133 for 2007, and a projection of 73% and $139 for 2008[6]. Downtown Vancouver's room rates and occupancy are slightly better, and are also showing a positive three-year trend. In 2005 occupancy was 72% with average room rates of $147; 2006 had 75% occupancy at $152; and 2007 had 75.5% occupancy with an average room rate of $160. So far, through April 2008 occupancy rates are up almost 2% over the same period in 2007 and room rates are up almost $8.

A common Hotel industry metric suggests that in order to be viable, a hotel's average room rate must be 1/1000th of its construction cost. A room which costs $400,000 must achieve an average annual room rate of $400. Hotel developers have not been immune to the effects of rising construction costs in recent years. Hotel rooms vary widely in their construction costs depending on their brand, amenities, the quality of fixtures and so on. Hotel developments can range from under $200,000 per room to build to $750,000[7] per room for 5-star luxury accommodation.

5.2. Supply

According to data from Tourism Vancouver and PKF Consulting, The City of Vancouver had a total hotel/motel room inventory in 2007 of 14,031 rooms in 94 properties. Of these, 12,242 or 87% of rooms were in 72 properties in the Downtown area.

The table below shows that Downtown Vancouver has over half of the hotel room supply in Greater Vancouver, with Richmond's 4,515 rooms in 25 properties representing the second-largest market and highlighting the importance of the airport as a source of accommodation demand.

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[6] *PKF Consulting, 2008*

[7] *Quote attributed to Gillespie, Ian, For developer, a boulevard of golden dreams, Globe and Mail, February 10, 2007.*

HOTEL/MOTEL ROOMS IN METRO VANCOUVER 2007		
Area	Number of Rooms	Number of Properties
Vancouver Downtown	12,242	72
Vancouver Other	1,789	22
Total Vancouver	14,031	94
Richmond/Airport	4,515	25
Surrey/Langley	2,449	40
Burnaby/New Westminster	1,183	18
Coquitlam/Port Coquitlam/Port Moody/Maple Ridge/Pitt Meadows	797	13
North/West Vancouver	666	9
White Rock/Tsawwassen/Delta/Ladner	337	10
Total Other Metro Vancouver	9,947	115
TOTAL IN METRO VANCOUVER	23,978	209

PKF, tourism BC, Tourism Vancouver

The common metric used by hotel consultants and developers is that hotels in this market require between 60% and 70% average annual occupancy levels in order to break even. Typically, as the 70% occupancy point is reached, new product is brought on-line. With Vancouver's occupancy levels topping 70% since 2006, and forecast to maintain this level through the Olympics and for several years after, new hotel developments are currently being planned or constructed in Downtown Vancouver. The following table shows hotel supply additions that are under construction in Downtown Vancouver. Six of the seven projects below include a residential component as part of the project.

Hotel Name (location)	Number of Rooms	Residential	Expected Completion
Fairmont Pacific Rim (W. Cordova)	415	Yes	2009
Coast Hotels (1100 blk W. Hastings)	220	No	2009
Shangri-La (Thurlow & Georgia)	120	Yes	2009
Ritz Carleton (Georgia & Bute)	120	Yes	2011**
Hilton (Beatty and Robson)	108	Yes*	2010**
Loden (Melville & Jervis)	75	Yes	2008
L'Hermitage en Ville	70	Yes	2008

*rental residential
** estimated

The planned supply additions shown above represent 1,128 hotel rooms that will bring the Downtown hotel inventory to 13,370.

5.3. Demand

Hotels do not generate their own demand. Rather, they are a business that benefits from other demand-generators such as:

- transportation hubs (airports, highways, train stations);
- business and commercial centres (downtown CBD, business office parks);
- group travel destinations (conference, convention, events and exhibitions space);
- recreation (sports and activities, casinos, museums and cultural activities);
- health facilities (hospitals, medical specialists)

These demand generators produce the need for overnight accommodation, which can be grouped into three principal categories: tourism/leisure, commercial/government, and meetings/groups. Each hotel in the downtown will have a different ratio of which customer groups they serve, but in the eastern Downtown, and likely any hotel in NEFC, a typical ratio is:

- Tourism/leisure: 50%
- Meetings & Groups: 35%
- Commercial & Government: 15%

Each of these market segments represents a large enough proportion of the local hotel industry's demand that if one were to be affected by a downturn in economic conditions, the industry could slide below the 70% occupancy level.

Input from the Focus Group suggested that the NEFC area could support three new hotels at a variety of price points. It was suggested that these hotels could be 150 rooms each, for a total of 450 new rooms in the neighbourhood. The Focus Group said that hotel demand will be strong for the near term to 2010, and beyond. They suggest that there could be a 20% increase in demand leading up to 2010, and a further 20% increase thereafter.

The following table shows 2008 hotel industry data for Downtown Vancouver, including the current supply of 12,242 hotel rooms and the 73% occupancy rate. The number of hotel nights of accommodation is calculated at almost 3.3 million. By 2013 the hotel rooms under construction will have been completed, and (barring any other construction or losses of rooms) there will be 13,370 rooms. If demand increases by 20% between 2008 and 2013 the number of room nights will increase to over 3.9 million and occupancy rates will increase to 80%. After 2013, if demand increases at 10% every 5 years and occupancy is to remain at or above 70%, by 2023 there will be demand for an additional 5,167 hotel rooms in the Downtown.

Hotel Room Occupancy Rates, 2008 to 2018				
	2008	2013	2018	2023
Hotel Rooms	12,242	13,370	*16,852*	*18,537*
Room Nights	*3,261,881*	3,914,257	4,305,683	4,736,251
Occupancy	73%	*80%*	70%	70%

The following table shows the projected room demand after 2013 if, over the entire life of the projection, demand increases by a more conservative 1% per year. Although the Olympics are, and will continue to have a strong impact on hotel demand in the city, uncertainty about the US economy, the rising price of oil, and the strong Canadian Dollar could temper hotel demand growth. At 1% annual demand growth, by 2013 the 13,370 existing and under construction rooms will experience 70% occupancy. If that 70% occupancy is to be maintained through 2023, the 1% annual demand growth will warrant the construction of 1,452 new rooms in the Downtown.

Hotel Room Occupancy Rates, 2008 to 2018				
	2008	2013	2018	2023
Hotel Rooms	12,242	13,370	*14,102*	*14,822*
Room Nights	3,261,881	3,428,270	3,603,146	3,786,942
Occupancy	73%	70%	70%	70%

These are not intended to be projections, as variables such as the growth rate of demand and the potential for unknown additional supply are critical to the analysis and are largely unknown even a short time into the future. However, the tables show that with even a modest 1% annual growth rate in accommodation demand in the Downtown, an additional 1,452 new rooms could be added to the supply after the current hotel projects are completed, and still maintain a strong Downtown occupancy rate of 70%. If demand grows more rapidly as predicted by the Focus Group, as many as 5,167 new rooms could be absorbed into the downtown supply while maintaining 70% occupancy. In either case, 450 rooms in NEFC would be easily absorbed into the supply.

However, it is important to note that hotels can operate very differently from one to another. For example, occupancy rates, average room rates, target market, level of service, operations costs, construction costs, and amenities offered on-site can be vastly different from one hotel to another, and will affect viability in NEFC.

5.4. Hotel Location Factors

As with most types of business, there is a wide range of classes and types of hotels, each with their own particular location requirements depending on which market they intend to serve. Hotels need to be located proximate to the demand-generators of their target market.

BC Place, General Motors Place, the Edgewater Casino, and other recreation and cultural facilities within NEFC could all support hotels situated in close proximity. Much of the demand generated by venues such as BC Place and GM Place is commercial business in the form of workers and support staff involved in concerts, trade shows and other non-sporting events. The financial district downtown offices and Convention Centre are not convenient enough to NEFC to be significant demand generators for hotels in NEFC. As such, hotels here would only experience overflow demand rather than core demand generated from those facilities. Likewise, the hospital and medical services that create strong hotel demand in the Broadway corridor would do little for future hotels located in NEFC.

In addition to these broad location considerations, there are micro location factors that can help identify particular sites that would be appropriate for hotel locations. In the NEFC neighbourhood hotel locations should be adjacent to or in very close proximity to GM Place and BC Place, the casino, and any concentrations of offices located here. Micro location considerations include:

- Accessibility of the site by car and tour buses is very important;
- Visibility is important to most businesses, and hotels are no exception;
- Corner sites are preferred;
- Perceptions of safety created by neighbouring sites should be considered; and,
- Public transportation linkages to the airport.
- Fun environment with nearby restaurants, shopping, and other amenities.

The following map shows the areas that should be considered for potential hotel locations. The areas offer:

- Good road connectivity from Pacific Boulevard;
- Proximity to sporting, events, and cultural venues;
- Proximity to potential office locations – particularly the 5b site identified by the Focus Group as a potential office location with large floorplates that could attract government uses.
- Opportunities for water views;
- Connectivity to a casino at its current location. If the casino relocates within NEFC, a hotel should be part of the development.

5.5. Summary

The Focus Groups suggested that there could be potential to add up to 450 hotel rooms to NEFC. Our analysis shows that there are already 1,128 hotel rooms planned or under construction in the Downtown area, some of which will potentially attract BC Place and GM Place business, but with the expected increases in demand, Downtown occupancy levels should remain at or above 70%.

We feel that 450 hotel rooms could be added to the NEFC neighbourhood, and should be constructed in a phased approach, adding one 150-room hotel at a time to limit the instantaneous effects on the entire market. A range of hotel price points should be planned for.

Hotels serve different markets based on their price points. Different demand generators in NEFC will create demand for a variety of hotel brands. The following list of observations could help with identifying niche hotel opportunities in NEFC.

- Luxury hotel brand Omni is located next to PETCO Park in San Diego, and is connected via a pedestrian skybridge. A hotel serving the long-distance tourist, commercial, groups, or convention markets would benefit from a major hotel flag and reservation system.
- Government office space in NEFC could provide support for a hotel such as Sheraton, Delta, Courtyard by Marriott, Hilton Garden Inn, Hampton Inn, Westin, Hyatt, or similar.
- A Casino in NEFC would generate demand for a hotel such as Sandman, Days Inn, Holiday Inn, for example. Typically, hotel demand generated by casinos is more domestic and intra-provincial, and would not rely as heavily on the benefits of a flagged hotel's central reservation system. The River Rock Hotel in Richmond has experienced strong demand and room rates, and is adding 192 rooms to the existing 222 rooms at the site.

  The Focus Group convened for this study specifically emphasized the potential role of a redeveloped casino in NEFC generating demand for hotel and other ancillary businesses. Whereas the Edgewater Casino in its current format attracts a primarily local clientele, a major casino redevelopment could attract visitors from outside of the region who would need overnight accommodation. In this case, a hotel serving a redeveloped casino should be planned to open at the same time as the casino opens. Furthermore, the hotel demand from a redeveloped casino may be in addition to demand from other NEFC demand drivers and could warrant a faster phasing of hotel development in this neighbourhood.

6. OFFICE MARKET[8]

6.1. Office Market Overview

Downtown Vancouver has always, and continues to be the most important office market in the region, attracting office tenants and accompanying business services and ancillary commercial uses that would not choose to locate anywhere else in the Lower Mainland.

The Metro Vancouver office market remained tight in Q1 2008 as the vacancy rate continues to drop. The overall vacancy rate for the Metro Vancouver region is 4.2%, down from 4.7% in Q4 2007.

Throughout 2007, nearly 500,000 square feet of new supply was added to the Metro Vancouver office inventory. Although much more space is needed to meet the high demand in this tight market, the space added was positive compared with 2005 and 2006, both years seeing office supply removed from the inventory. Only 130,000 square feet of additional supply came on-line since Q4 2007, but almost 234,000 square feet has been absorbed.

Metro Vancouver Inventory – Q1 2008

Class	Inventory	Vacancy	Absorption (Q1 '08)	Vacancy Rate
AAA	4,065,258	112,515	20,395	2.8%
A	18,064,034	912,265	172,704	5.1%
B	21,059,288	708,220	40,422	3.4%
C	8,644,244	469,463	394	5.4%
Total	**51,832,824**	**2,202,463**	**233,915**	**4.2%**

Colliers

In recent years, the regional office market has been shifting from Downtown Vancouver to the suburbs in response to a change in the type of office uses. In 1982 the suburban market accounted for 25% of the regional office space. By 2002 this market had captured 40% of the inventory of office space. This figure is expected to continue to increase in the future. The suburban office market typically consists of low density, large floor plates, four-storey office business park developments. It should be observed that despite this suburban shift Downtown Vancouver has been able to retain a larger share of the downtown office demand than many other cities' downtowns due in part to amenities and better transit linkages.

6.2. Supply

For the first time in over 25 years, the Downtown Vancouver vacancy rate hit a near-record low, at 2.0% in the first quarter of 2008. The last time the vacancy rate reached this level was mid-year 1981 at 1.8%, when net rates for prime space in the Downtown Core were an average of $19.00 per square foot. Unlike 1981, no significant new supply is being added to the Downtown Core in the near future, whereas from 1981 to 1984, over 3 million square feet of new office space was added, causing the vacancy rate to rise, as the space remained mostly unoccupied due to the economic downturn.

As the vacancy rate drops, net rental rates continue to rise correspondingly, however Class AAA space in Downtown Vancouver is still averaging between $25 and $35 per square foot. According

[8] *Not including live-work*

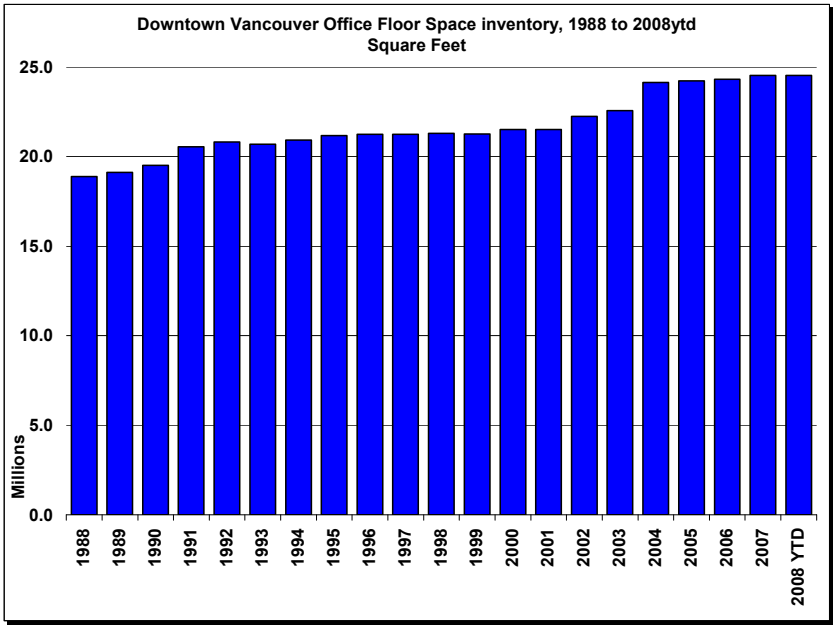
to the Focus Group, recent leases signed for $50 per square foot are extremely rare and only apply to a select few office spaces that are, essentially, the very best offices in the City. As operating costs and net rental rates are substantially lower in the Suburbs, companies are continuing to consider the Suburbs as potential locations for part or all of their operations.

Currently there is 500,528 square feet of space available in Vancouver's downtown market, with 108,966 square feet available in AAA Class buildings. Upcoming supply for 2008 includes Raffles on Robson and 1110 Hamilton, which will contribute a combined 46,000 square feet of space to the downtown market. Moving forward, the only supply additions of note are the Hotel Georgia project with 80,000 square feet of offices; Jameson House office component on Hastings Street, which will add 60,000 square feet to the City's inventory in 2010, and a collection of smaller projects which will add approximately 40,000 square feet over the next year. One large office development rezoning application totalling approximately 400,000 square feet at Thurlow and Alberni is currently on file at the City.

Downtown Vancouver Inventory – Q1 2008

Class	Inventory	Vacancy	Absorption (Q1 '08)	Vacancy Rate
AAA	3,293,194	108,966	9785	3.3%
A	6,741,054	63,430	16,381	0.9%
B	9,447,582	69,784	14,727	0.7%
C	5,053,289	258,348	10,512	5.1%
Total	**24,535,119**	**500,528**	**51,405**	**2.0%**

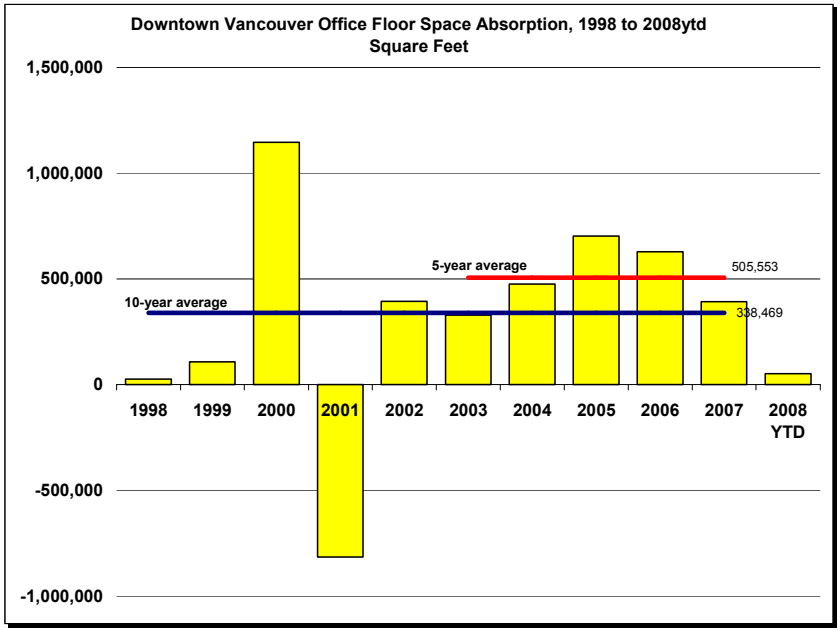
The following chart illustrates Colliers International's data on the inventory of office space in Downtown Vancouver from 1988 to 2008. The chart shows that after reaching the 20 million square feet mark in 1991, the Downtown went through a decade of little office development – with a net increase of less than 1 million square feet during that period. In 1992 vacancy rates reached 15.6% in the downtown, and average Class A rental rates were correspondingly low, bottoming out at $6.07 psf in 1993. The early 1990's were followed by steady absorptions and little additional inventory through to 2000, when the tech boom peaked with absorptions in that year of over 1.1 million square feet and vacancy rate of 2.3%. Rates in 2000 reached an average of $21 according to Colliers data. This tight market naturally resulted in increased construction of office space in an effort to respond to the conditions and, as the chart illustrates, supply jumped to over 22.5 million square feet in 2004.



6.3. Demand

Colliers data shown on the following chart indicates that the absorption of office space in the Downtown area of Vancouver can vary widely from one year to the next. In the decade from 1998 to 2007 the average office space absorption in the Downtown was over 338,000 square feet. This includes the tech boom in 2000 when over 1.1 million square feet was absorbed as well as the ensuing tech meltdown which saw negative absorption in the downtown (-815,000 square feet) for the first time since 1992.

The 5-year annual average rate of absorption in the Downtown from 2003 to 2007 was over 505,000 square feet, which included some of the best economic conditions the region has seen. The recent trend from 2005 to 2007 has been a decline in absorption of office space in the Downtown, from over 700,000 square feet in 2005 to over 392,000 square feet in 2007. The low vacancy rates and increasing lease rates suggest this is a result of low supply rather than an actual decline in demand.



According to the Metro Core Jobs and Economy research, the Metro Core area of Vancouver will experience demand for new commercial and industrial space to accommodate growth in jobs created by population growth. Industrial sectors that will see the strongest growth are Professional and Commercial Services and Health, Education and Government – both of which create demand for office space in the Metro Core and Downtown areas. According to the Metro Core research, under existing zoning, the demand for downtown commercial space will surpass what can be delivered on available sites by 5.8 million square feet by 2031.

Another forecasting technique is to use the historic absorption trend and to assume that that trend will more or less continue into the future. On a year-by-year basis this is a poor way to predict demand, however over the longer term it can represent a reasonable basis from which to discuss land demand in an area.

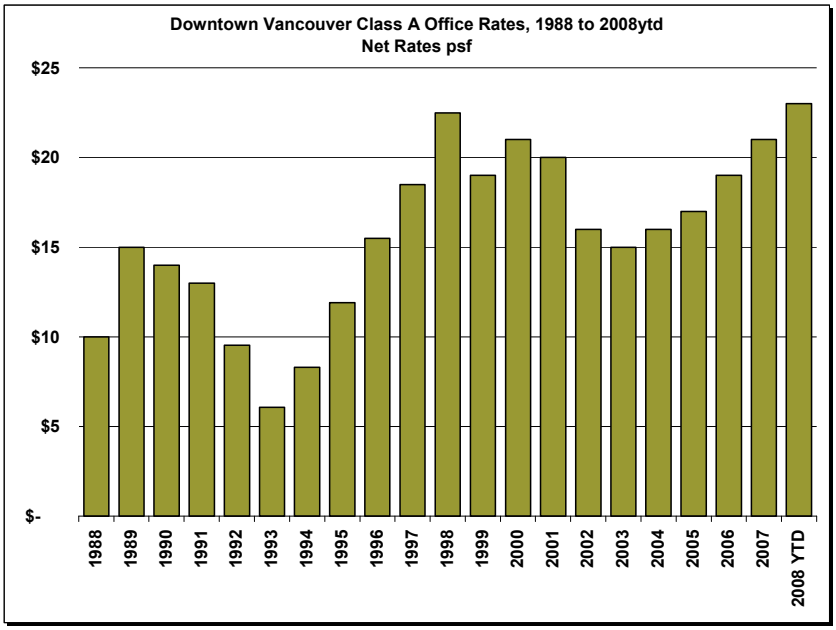
From 2002 to 2007 the least amount of office space absorbed in Downtown Vancouver on an annual basis was in 2003 when 329,000 square feet was absorbed. The average annual total absorption over the last five years has been 505,000 square feet, and over the last decade the average has been 338,000 square feet. Despite these absorption levels, the recent memory of the tech meltdown in 2001 and the soft office markets in the early 1980's and early 1990's infuses a more conservative approach into a forecast of this land use. For the purposes of this report, we estimate that the sustainable long-term demand for office space in Downtown Vancouver is 10% less than the 10-year average, or approximately 305,000 square feet per year. This also allows for increasingly efficient use of office space necessitated by higher occupancy costs. Over the 23 years from 2008 to 2031 there would be total demand for an additional **7 million** square feet of office space.

The planned or proposed office construction in the Downtown (including the Bentall project at Thurlow and Alberni, which is still in the planning stages) would represent less than 2 years of office demand Downtown.

6.3.1. Rent Projection

Rental rates for office space are established by the supply of and demand for space. Office rates in Downtown Vancouver have been steadily increasing since 2003. In the last three years there

has been absorption of over 1.7 million square feet, while only 291,000 square feet of new supply was added. In that time the vacancy rate dropped from 7.7% to 2.0%. Correspondingly, the competition for that space and the confidence on the part of those who own or are subleasing space has resulted in higher rates. So far, the office tenants coming into Downtown Vancouver have been able to cover the higher costs, which are now topping $23 psf for Class A space. A number of Class AAA leases in Vancouver recently achieved $50 psf for premium new space, however the average for AAA space in the CBD remains at around $25 to $35 psf.



The office development industry is not confident in the limitless potential for businesses to support increasing rates in the city. In all likelihood, regardless of the challenges posed to potential tenants by low vacancy rates, we are at a point where top rates will not continue to increase. The $50 level for AAA space is believed to be a hard ceiling over which very few businesses in Vancouver would be willing or able to extend themselves, and while the rates for B and A space could still increase due to low vacancy rates, many companies will consider their options and the importance of their location. A 2005 survey by Ipsos Reid showed that of office-based businesses in the Metro Core only 57% indicated that a location near Downtown Vancouver was "important" or "essential". For the remaining 43% of existing businesses, and certainly a similar or larger proportion of new market entrants will look for cheaper alternatives when faced with increasing lease rates downtown.

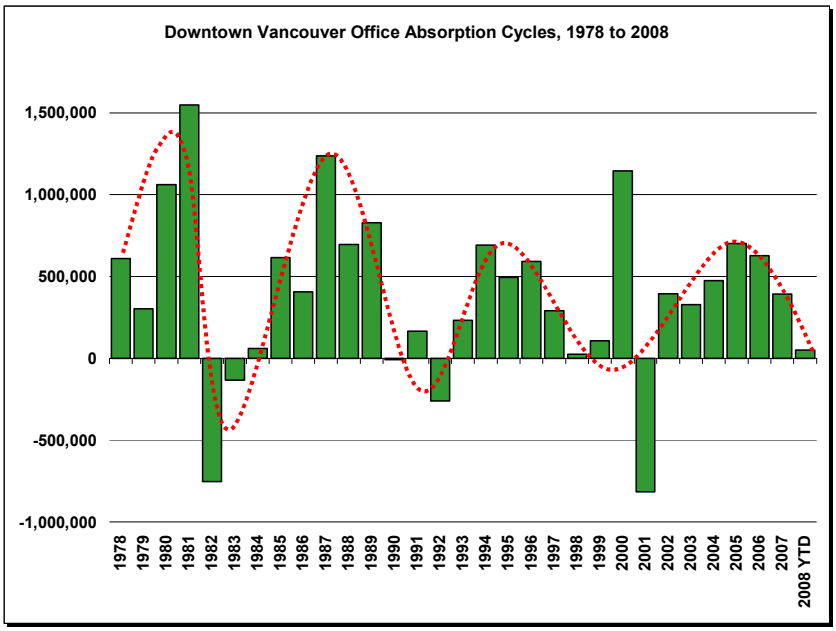
Despite the close proximity and the fact that NEFC is on the Downtown Peninsula, the office market will not consider this area to be part of the CBD. Vancouver's highest office rent district is actually a relatively small area of the CBD, with a steep declining rate gradient moving outwards. Rates for equivalent space can decrease by 30% in a distance of two or three blocks away from the prime CBD area. This means that the rates achievable in NEFC will not likely achieve CBD rates.

Competitive areas to office space in NEFC, if it were built today, would be areas such as Broadway Tech Centre, parts of Burnaby such as Canada Way & Gilmore, and potentially new product in the False Creek Flats. Rates in those areas have been increasing recently and Class A space in Broadway Tech Centre is currently listing in the high $20's per square foot. As the NEFC area develops with active uses and the public realm is enhanced, rates will increase compared to what would be achievable today. However, even with these improvements, it would be unlikely

for average office lease rates in NEFC to achieve the same rates as in the CBD. Vancouver's highest lease rates are only supported by tenants who need the CBD location, and there is not a significant critical mass of these tenants to extend the high-rent office district beyond the very confined CBD core.

6.4. Phasing

Office development in Downtown Vancouver is very cyclical, with developers responding to dropping vacancy and increasing lease rates by adding new supply as outlined previously. The chart below showing Colliers data on office space absorption from 1978 to 2008 indicates that the absorption of that space has typically occurred in 5 to 6-year cycles, followed by low or negative absorption for three years. Based on the historical cycles, Downtown Vancouver could be entering a three-year period of lower absorptions, which could end in 2011-2012 when new supply is added. If new supply were added in a more incremental fashion, these cycles could be less dramatic.



The chart shows that despite a long-term trend of over 330,000 square feet of office space absorbed each year in the downtown, absorption occurs in 5-year cycles averaging 500,000 to 600,000 square feet per year.

According to the Focus Group, there are certain business types including high technology and government agencies that could consider locating in office space in the fringe of the Downtown core. Examples of these tenancies in Vancouver include the Pivotal Building (occupied primarily by Federal Government offices and Pivotal, a software company), and Business Objects in Yaletown. There is currently up to 450,000 square feet of Federal Government offices throughout Downtown Vancouver that could be consolidated to a single facility. Additionally, there is estimated to be between 150,000 and 200,000 square feet of high technology tenants actively looking for office space in the core area.

The following table shows the proportion of office space occupied in the Downtown area by major industry. Information from the Focus Group, and interviews with industry professionals shows that there are certain industrial sectors that require office space in the CBD. There may be

exceptions in every category, but for the most part, Information Technology, Consulting, Schools, Communications and Motion Picture, Public Administration, Tourism, and Health industry office space users could consider NEFC office locations. These sectors represent 36% of current Downtown office space. A small proportion of legal services space and new business services could also locate in NEFC if these other industries were there as business anchors.

Based on the absorption trend shown in Section 6.3, and the estimate that the Downtown market will continue to absorb 305,000 square feet per year going forward, and assuming that future demand will generally reflect current occupancy by industry, there could be demand for as much as 70,600 square feet of office space per year from tenants that could be inclined to locate in NEFC. Over a 15-year timeframe this would aggregate to 1.06 million square feet in potential office demand in NEFC.

Distribution of Downtown Office Space by Sector, 2006

Industry Sector	% of Office Space	Annual Additional Space Requirement based on 305,000 sf pa	Share of New Space Potentially Located in NEFC?	Potential to NEFC	15-year Total
Finance and Investment	18%	54,900	0%	-	-
Legal Services	12%	36,600	10%	3,660	54,900
Information Technology	9%	27,450	75%	20,588	308,813
Consulting Professionals	9%	27,450	25%	6,863	102,938
Schools	7%	21,350	50%	10,675	160,125
Oil, Gas, Mining, and Forestry	7%	21,350	0%	-	-
Communications and Motion Pictures	6%	18,300	75%	13,725	205,875
Transportation and Utilities	5%	15,250	0%	-	-
Real Estate Developers and Construction	5%	15,250	0%	-	-
Business Services	4%	12,200	25%	3,050	45,750
Insurance	4%	12,200	0%	-	-
Wholesale/Retail Trade	3%	9,150	0%	-	-
Public Administration	3%	9,150	75%	6,863	102,938
Tourism	1%	3,050	75%	2,288	34,313
Health	1%	3,050	100%	3,050	45,750
* Column totals may not sum due to rounding				**70,760**	**1,061,400**

The Focus Group has suggested that the types of office users listed in the table above which are considered potential industries for NEFC office space are, for the most part, not the types of businesses that pay high rents or occupy Class AAA office space.

6.5. Office Location Factors

The location factors for office users in Greater Vancouver depends entirely on the needs of the business:

- Who are the customers?
- What are the input and output logistical requirements such as parking, loading, proximity to the airport, etc?
- Are there location expectations from key staff (close to home, close to transit)?
- Are there complementary or competitive businesses that need to be considered when picking a location?
- What can the business afford in rent?

These are just a small sample of the issues that can determine a single business' ideal location. In Greater Vancouver, the best location for the majority of office-based businesses is in the Downtown Core. Further, the best location within the Downtown Core is the CBD, as demonstrated by the rental rates achievable in the CBD relative to similar product elsewhere. Notwithstanding the limitations of current density allowances, view cone height limitations, and heritage issues, the CBD should be the single focus for high-density office development on the Downtown Peninsula.

There does not appear to be a significant value premium for waterfront office space due to the proximity to water, but office views are important and good views command a premium on the lease rate. Offices with views can garner a premium over equivalent space without a view. However, the value premium of location within the CBD is much more important. Therefore, sites in the NEFC that could be more appropriate for office uses are:

- Those in vehicle-accessible locations with potential for on-site parking
- Proximity to Skytrain is an advantage
- Locations closer to the CBD or other business uses/ amenities

The following map uses information from the Focus Group and research conducted for this assignment to identify NEFC areas that could potentially accommodate office uses.

6.6. Concluding Remarks

Initially, if office development is to occur in NEFC it will likely be a niche product that will be either built to suit a particular user, or on spec in small increments. It is conceivable that a major high technology or government user could occupy an entire building. These users often occupy offices with larger floor plates (i.e. 25,000 square feet or more) – a size that sites such as 5b could be well-suited to, according to the Focus Group. There could also be office development potential around BC Place and on the Northeast side of GM Place, connecting directly to Skytrain, having a Georgia Street address, and in the closest proximity to the CBD.

Offices in NEFC will have a number of synergistic effects with other land uses in NEFC:

- High Tech, software, computers services, information-based industries which are more mobile due to their adoption of technology such as web-based conferencing and their attraction to areas of higher amenity which can help in hiring and retaining young employees. Residential, retail, restaurants, and sporting and events space could be considered attractive nearby uses for these business types.

- Government agencies looking for large amounts of office space with, on average, larger floor plates which could be accommodated more easily outside of the CBD. Also, companies, which are suppliers to these government agencies, could also see benefits from co-location. A location near Skytrain (and/or with ample parking), hotels, and proximity to other government agencies could be attractive to the government sector.

- Businesses that can benefit from locations near BC place and GM place such as sports teams administration offices, player agents, sports marketing and events organizers, television and radio broadcasters' offices and studios and sports medicine clinics. Sites that connect to GM Place and BC Place could be attractive to these businesses.

7. RETAIL

7.1. Retail Overview

Downtown Vancouver is considered one of the most vibrant and successful urban cores in North America. Planning policies and social trends since the 1970s have created a downtown peninsula that is as much a residential, commercial, and recreational area as it is a business and office district.

As the North American trend for downtown urban lifestyles gains momentum, Vancouver's downtown peninsula will continue to attract residents, visitors, and workers. Population forecasts suggest the resident population of the area could increase by up to 40,000 people by 2031. The number of dwelling units in the downtown could reach over 88,000 to accommodate the resident population.

The contemporary Canadian retail landscape is characterised by constant change and innovation. The retail environment continues to evolve in response to changes in demand, consumer demographics, competition, retail technology, and corporate organisations; but at an ever-increasing rate. The Canadian retail system has never been more volatile.

7.2. Changing Consumer Characteristics and Behaviour

Changing socio-economic profiles have, over the past decade, shaped and continue to shape consumer behaviour and, in turn, the retail industry. These include:

- Increased number of two income households;
- Increased participation of women in the workforce;
- Increased levels of education;
- Rising income levels;
- Decreased disposable time;
- Increased importance of home environment; and,
- Aging of the baby boom generation.

An increasing value-conscious, convenience driven market and the influence of technologies such as internet-based retailing have resulted in dramatic changes by both developers and retailers. These changes are reflected in retail trends in the retail industry.

7.3. Key Retail Trends

This section reviews the key retail trends that are reshaping the retail industry. These changes reflect the complex relationship between consumer demands and retail business fundamentals. The overall conclusion is that solid fundamentals still prevail, but the retail delivery system is in constant motion, continually adapting to market opportunities and impediments. Examples of specific changes that are taking place are described as follows:

Mixed-Use: Mixed-Use has established itself as a distinct product type and has transitioned from a "trend" to a fixture in North American development. Combining the elements of residential, retail, office and entertainment, Mixed-Use projects are succeeding in both the urban and suburban markets and on a global scale. Multiple driving forces such as increasing land values, risk-averse lenders, demographic and social changes affecting housing preferences, and planning

departments seeking more effective and efficient urban forms have contributed to this trend in Vancouver and elsewhere. Retail uses are a key component of mixed-use projects and typically dominate the ground floor, corner and street-front positions. Vancouver has seen a proliferation of grocery and convenience retail in the ground floor of residential towers both Downtown and in suburban areas.

External Retailing: Often referred to as "high streets", retailing in the last decade has made a strong push back to the streetfront. Lifestyle centres and street-based retail districts have re-emerged after several decades of dominance by enclosed shopping centres. Pedestrian-oriented shopping districts have seen tenant interest from retail classes that had opted for malls almost exclusively. Vancouver's many successful external shopping environments include Robson Street, South Granville, Cambie Street, 4th Avenue, Commercial Drive, Broadway, Main Street, Kerrisdale, and Gastown.

Larger-Format Retailers (specialised 50,000+ square foot retailers): One of the most significant trends in the retail industry is the move towards new formats for large chain retailers. Larger-format retailers seek out locations on major thoroughfares and at regional scale centres and include large specialty stores (i.e. Staples, Best Buy/Future shop), superstores (i.e. Wal-Mart Supercentre), membership clubs, and warehouse clubs (i.e. Costco). These larger-format retailers with their low gross margins and low cost structures are changing the way retailing in Canada is done.

In Vancouver, larger-format retailers have located both at large redeveloped sites in the downtown core (Future Shop & Winners; Home Sense); on Cambie Street (Canadian Tire, Best Buy, Home Depot) along the Broadway corridor (Office Depot, Future Shop, Staples), and at more peripheral locations as free-standing retail destinations (Home Depot, The Brick, and Wal-Mart opening soon on Grandview Highway). In some cases, pioneered in Vancouver, these stores have found success with second and third-level locations in high-traffic areas such as Downtown.

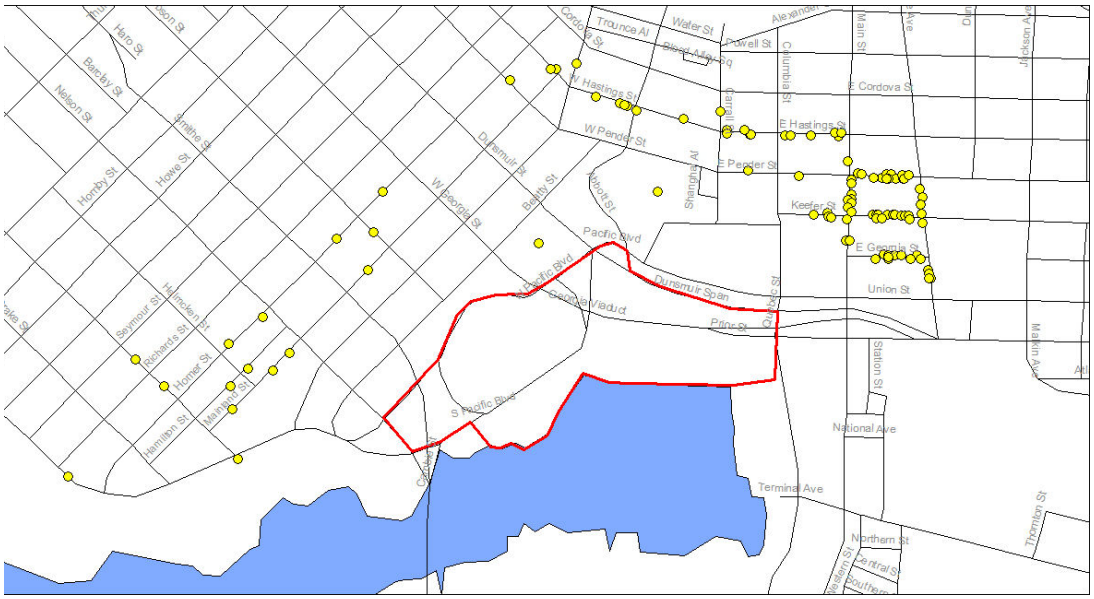
7.4. Supply

In May 2008, Colliers conducted an inventory of retail and service commercial business uses in the NEFC trade area (see map in Section 7.5.1). The inventory of Yaletown and surrounding areas was combined with an in-house inventory of Gastown and Chinatown-area businesses to create a comprehensive view of the existing retail and service commercial supply in the area surrounding NEFC. While every effort was made to be complete in the inventory tabulation, the dynamic nature of the at-grade business community as well as the logistical complexity of this type of effort meant that the inventory is presented at a high-level.

7.4.1. Convenience Retail

The inventory classified retailers as convenience businesses if their predominant merchandise offerings appeared to satisfy the daily or frequent needs of customers. Supermarkets, convenience stores, small grocery stores, vegetable markets, pharmacy and drug stores, and other specialty food and liquor stores are shown in the convenience category on the map below.

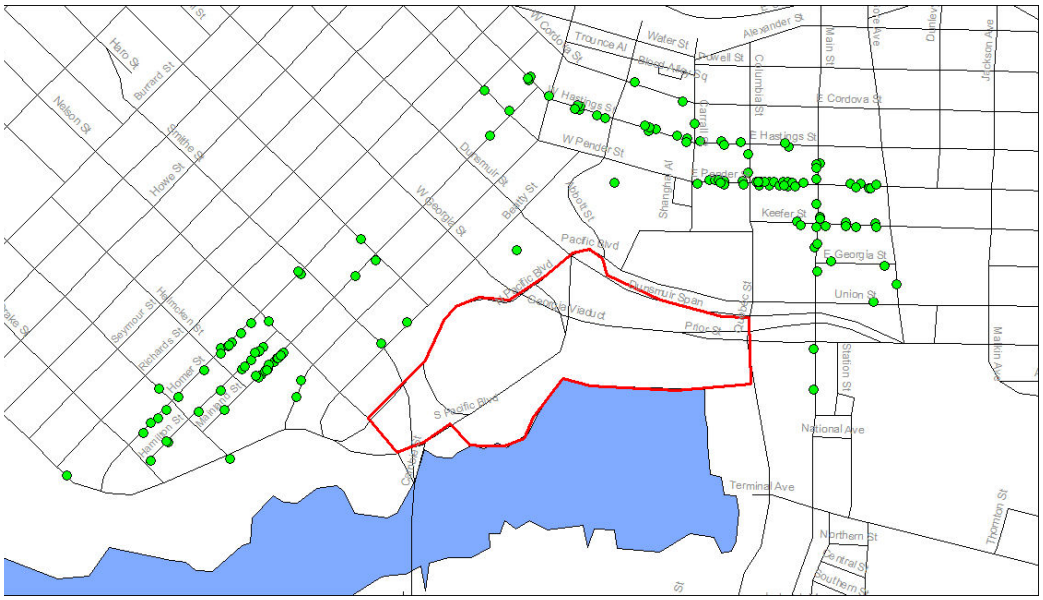
The map shows that while Chinatown has an extensive offering of convenience retailers, Yaletown and the rest of the NEFC trade area have very little. The most significant retailers in this category are Urban Fare on Davie, T&T Supermarket on Keefer Place, Costco, and several drug stores across the area.



7.4.2. Destination and Comparable Goods

This category includes many of the retail categories typically associated with department stores and shopping malls. It includes clothing, shoes, books and music stores, furniture and housewares, electronics, general merchandise stores, art galleries, and so on.

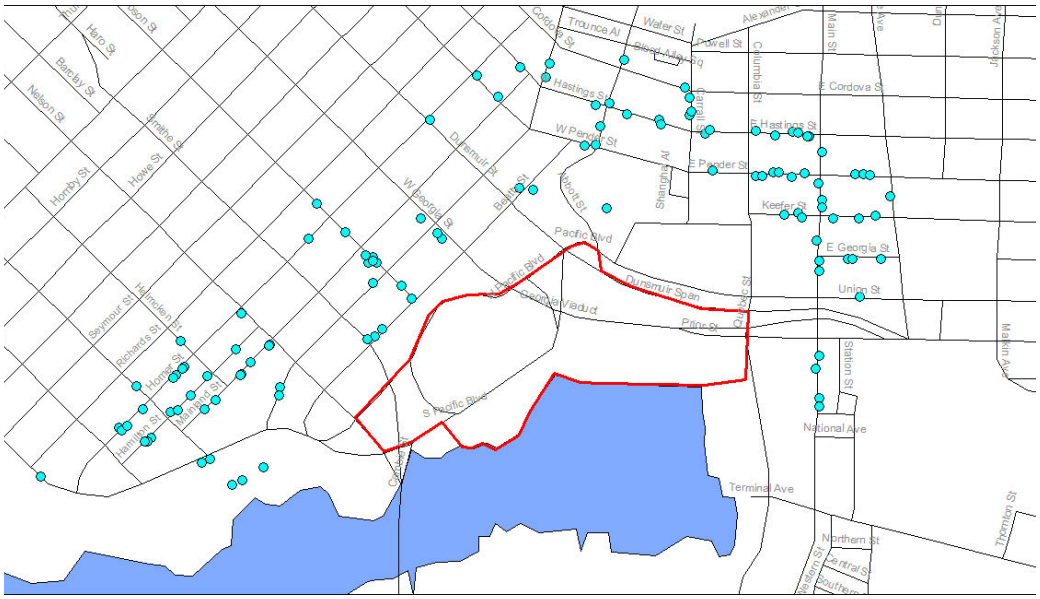
The map shows that both Yaletown and the Gastown/Chinatown areas have strong clusters of these businesses. Yaletown's destination and comparable goods merchants are typically clothing and shoe stores and home furnishings compared to Chinatown which has more general merchandise stores and gift shops.



7.4.3. Eating and Drinking Places

This category includes a wide variety of establishments from which prepared food and/or drinks can be purchased. In most cases there is the opportunity to consume the products on-site, but a small number of these establishments offer take-out food only. The category includes the high-end destination restaurants of Yaletown as well as fast food outlets, coffee shops, pubs, and the bars in the Downtown Eastside.

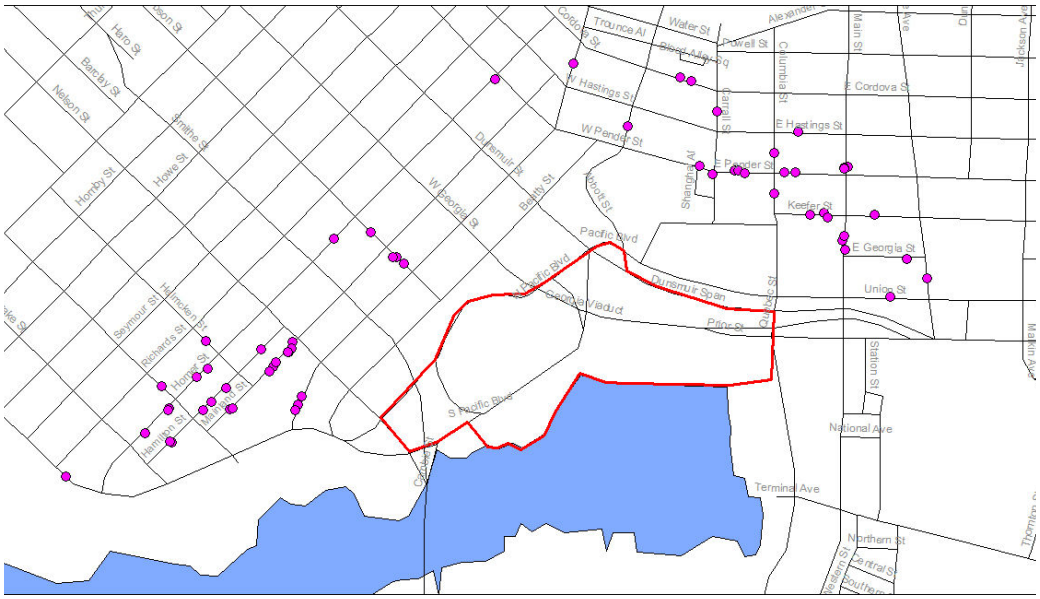
The map shows a very dispersed pattern for this category, with virtually every block in the survey area represented with an eating or drinking establishment. This dispersal is no doubt the result of the proliferation of cafes in the Downtown area. A map of full-service restaurants would show more clustering in Yaletown and parts of Chinatown.



7.4.4. Personal Services

The following map shows the location of personal service businesses in the inventoried area. Personal Services include hair salons, spas, nail salons, tailors, tanning salons, etc.

Yaletown is very highly served in this business category with an extensive supply of hair and nail salons, spas, and cosmetic laser treatment. Chinatown and Gastown have relatively fewer personal service establishments compared to the density and number of other uses shown above.



7.4.5. Inventory Analysis

The maps above show that two well-established shopping districts that cater to significantly different market types flank NEFC. To the west are the upscale boutiques, services, and restaurants of Yaletown, but that area offers little in the way of convenience retail. Local residents of Yaletown likely make regular shopping trips to other parts of the Downtown peninsula or to Cambie Street for convenience goods.

Chinatown offers a wide range of retail and service offerings, but likely captures little of the outflow spending from Yaletown residents due to the ethnic Chinese-targeted merchant mix, and perceived parking challenges. Anecdotal evidence from Citygate residents – less than 1 km south of Chinatown on Main Street – indicates only occasional Chinatown shopping trips from these residents, who prefer to shop for groceries and other necessities on Cambie Street, at IGA on Main Street, and occasionally at Choices or Urban Fare in Yaletown. While Costco represents a major source for a wide range of consumer goods, its membership requirement means that it should not be considered a potential shopping opportunity for all residents.

Residents of Citygate, International Village and the Spectrum development by GM Place are currently the most under-served by local convenience retail opportunities in their immediate areas.

7.5. Retail Demand

The amount of retail and service commercial floor area that is supported by a given population can be calculated using an expenditure-based forecasting model. The Metro Core Jobs and Economy research project forecast demand for retail space based on population growth and GDP, and concluded that between 2001 and 2031 the Metro Core area would see demand for 1.9 million square feet of retail space. The key with any model is the values that are input, and the assumptions that are inherent in the calculations. Assumptions for the forecast created for this study are described below.

7.5.1. Residential Population

For the purposes of this report, we have assumed that the population living within 500 metres of the NEFC represent its residential retail trade area. Certainly there is potential to capture inflow from other parts of the City and region, and that potential will be reflected in the model, however the residential trade area is assumed to be a localised, based on walking-distance around the site boundaries. This represents the area from which we would expect the bulk of residential-based retail and commercial spending would originate.

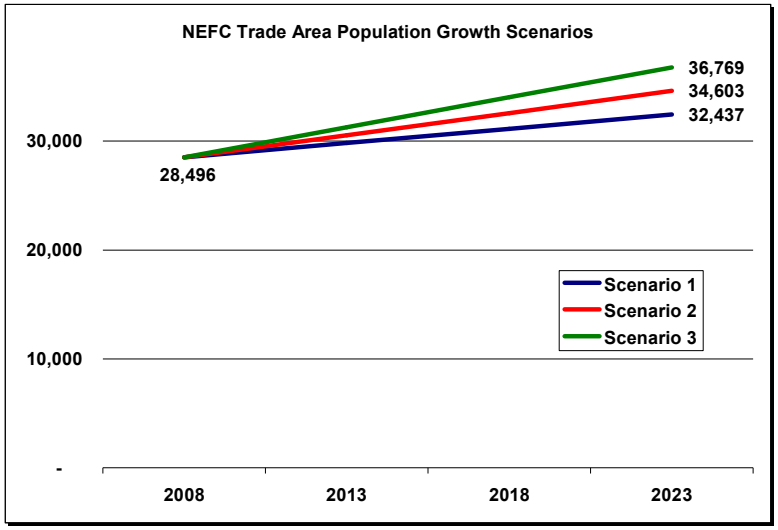
According to block-level data from the 2006 national Census, the population living within the trade area shown above was approximately 17,600. There were 11,038 occupied private dwelling units. This represents an increase of 5,417 residents, or 44.3% over the 2001 census total.

According to City of Vancouver estimates, residential growth in the trade area has been dramatic since the May 2006 Census count, with homes for an additional 10,858 people built or under construction in the area. Our current estimate for the 2008 population of the trade area, based on the 2006 Census plus the City's estimate of growth since 2006, is approximately 28,500.

The Planning Department has generated three population growth scenarios for use in our demand modelling. The scenarios for build-out population of the trade area are based on the amount of residential space built in NEFC – none; 1 million square feet; and 2 million square feet:

- Scenario 1: Additional 3,941 residents = 32,437 total trade area residents
  - *Population within NEFC boundary: 0*
- Scenario 2: Additional 6,107 residents = 34,603 total trade area residents
  - *Population within NEFC boundary: 2,083 based on 1 million sf*
- Scenario 3: Additional 8,273 residents = 36,769 total trade area residents
  - *Population within NEFC boundary: 4,165 based on 2 million sf*

The following chart shows the population scenarios provided by the City for the NEFC retail trade area, and the straight-line trending and 15-year build-out timing we have assumed for each scenario.



7.5.2. Employee Population

The working population of an area supports retail and service commercial businesses in the vicinity by spending money on food and drinks and retail merchandise during or after work. Typically, the range of business types is narrow, and consists mainly of[9]:

- food services
  - fast food,
  - sit down restaurants,
  - deli/grocery stores)
- shopping goods
  - clothing,
  - home furnishings,
  - cards and gifts,
  - sporting goods, toys, books, media
- Convenience Goods
  - Cosmetics, personal care, drugstore items
  - Newspapers and magazines
  - Groceries
  - Snack foods

Our projection of office demand in NEFC has been used, in conjunction with employee populations from the Planning Department, to estimate the current and potential future local employment to include in our demand modelling below.

Research from the International Council of Shopping Centres shows that 85% of downtown office workers purchase lunch outside of the office each week. Of those, only 23% walked 4 to 6 blocks for lunch. We have considered approximately 10% of the spending potential generated by workers in the trade area but outside of the NEFC could flow to NEFC retail and services.

The following table shows the estimated employee totals in NEFC and in the rest of the trade area. The 1,000 NEFC employees in 2008 are not all office employees. They include people who work at the Plaza of Nations, BC Place and GM Place who are, in some cases, part time and casual staff.

[9] *Office Worker Retail Spending Patterns, ICSC, 2004*

	2008	2013	2018	2023
NEFC Office Employees (325 sq ft ea.)	1,000	2,089	3,177	4,266
NEFC Hotel & Retail Employees	-	520	580	640
Other Trade Area Employees	28,368	28,968	29,568	30,168

Source: City of Vancouver, Colliers International

7.5.3. Visitor Population

With the variety and quality of venues for sporting, cultural, music, performance, and other events in NEFC and the surrounding area, there are already millions of people visiting the neighbourhood annually, and very little opportunity to capture their spending potential currently. The case study analysis showed that sporting and cultural venues in other cities can be successfully co-located with commercial space such as retail and restaurants. This section describes the assumed visitor volumes at each of the principal NEFC venues.

BC Place: had attendance of 983,464 in 2007. We have assumed that attendance will increase by 2% per year and will jump by an estimated 255,000 (17 games with an average attendance of 15,000 people) when the Whitecaps soccer team starts playing there in 2011. Attendance at other events such as concerts, the boat show and the auto show is expected to continue at its current level. By 2023 we have assumed that BC Place will have almost 1.548 million annual visitors.

GM Place: had attendance of 1.374 million people from June 2006 to July 2007. This attendance level is expected to continue, but could increase substantially if, as expected, the Canucks make extended playoff runs. Concerts and other special events are expected to continue at the current level as well.

Vancouver Art Gallery: recent reports in the media and coinciding with announcements about the future plans for BC Place have included plans to relocate the Vancouver Art Gallery from its current location at Robson and Howe to the Plaza of Nations site. According to VAG information, attendance in 2005 was 275,000 with only a fraction of holdings on display. We have estimated that a new VAG facility on the waterfront would see attendance jump immediately by 50% over 2005 levels to 412,500, and increase by 1% per year thereafter.

Performance and Events Space: The Plaza of Nations site's function as a semi-outdoor entertainment venue are in question in light of the recent announcements regarding the redevelopment of the site with the Vancouver Art Gallery and higher-density uses at the edges of the site. It is the City's intention, however, that the performance function of the Plaza of Nations remain available somewhere in the NEFC area. We have assumed that this will happen, and as such we have assumed that 500,000 attendance at outdoor and semi-outdoor concerts, events, cultural celebrations, and shows will continue for the life of this projection.

Queen Elizabeth Theatre & Playhouse: While these facilities on Hamilton Street are important cultural venues in the City, and they could come to anchor an enhanced cultural precinct, they are separated from NEFC by several blocks and a significant grade change that will limit the pedestrian flows between the Queen Elizabeth Theatre area and any commercial opportunities in NEFC. The NEFC commercial expenditure potential generated by the 320,000 annual visitors to the QE and Playhouse has been reduced by 50% due to the physical separation.

Other: Science World, the Seawall, traffic from Southeast False Creek, the park space to the north end of the Creek, Dr. Sun Yat Sen Gardens, Cirque Du Soleil, the marina, the BC Sports Hall of Fame, and many other attractions are either in NEFC or in the close vicinity. We have estimated that these other events and attractions could generate the equivalent of an additional 1.2 million annual visitors to NEFC.

In total, we have estimated that the 2008 visitor volumes in NEFC[10] will be approximately 4.48 million. With the Vancouver Art Gallery relocating to the site, and increased visitation to BC Place, we estimate NEFC could see almost 5.4 million visitors per year by 2023. The addition of residential units in this neighbourhood would also increase daily visitation to facilities and venues, but residential population growth is considered separately in this report.

Event and Venue Visitor Potential Volumes				
Venue	**2008**	**2013**	**2018**	**2023**
BC Place	1,085,824	1,367,364	1,509,681	1,547,802
GM Place	1,374,000	1,374,000	1,374,000	1,374,000
Performance and Events Facility*	500,000	500,000	500,000	500,000
Vancouver Art Gallery		412,500	433,542	455,657
QET & Playhouse**	320,000	320,000	320,000	320,000
Other	1,200,000	1,200,000	1,200,000	1,200,000
Total	***4,479,824***	***5,173,864***	***5,337,222***	***5,397,459***

*assumes the continued operation of the Plaza of Nations or replacement with a similar facility in NEFC
**capture rate reduce by half to account for non-adjacent location

7.5.4. Retail Expenditures

Calculating the spending potential of a group of residents is the first step in estimating the potential for retail and service businesses in an area. We calculate the gross spending potential based on observed spending patterns, incomes, retail sales data, and so on. From this, we determine potential net expenditures by applying capture rates. Capture rates are typically determined based on the competition available in an area, survey data, or other information on the likelihood of people spending in this area versus another.

The following tables show gross and net retail expenditure potential from trade area residents. Spending levels are shown for four summary retail categories including supermarkets, other food and convenience, comparable goods, and automobiles and related merchandise. For a list of detailed categories see Appendix C.

The tables below show that gross retail expenditure potential from trade area residents in 2023 ranges from $555 million in Scenario 1 to $629 million in Scenario 3. After applying capture rates for each retail category and each scenario, net retail and service commercial expenditure potential that could be captured by NEFC businesses in 2023 ranges from $91 million in Scenario 1 to $137 million in Scenario 3.

Residents Spending – Scenario 1 (NEFC Population: 0)

GROSS RETAIL EXPENDITURE POTENTIAL, 2008-2023 North East False Creek -- Scenario 1				
	2008	**2013**	**2018**	**2023**
Supermarkets	$ 71,217,113	$ 79,083,201	$ 86,779,801	$ 95,055,833
Other Food & Convenience Stores	$ 51,460,855	$ 57,144,820	$ 62,706,315	$ 68,686,503
Comparison Goods Stores	$ 157,850,866	$ 175,285,844	$ 192,345,155	$ 210,688,765
Automobiles and Related Merchandise Stores	$ 135,218,006	$ 150,153,134	$ 164,766,459	$ 180,479,939
Total Retail	**$ 415,746,840**	**$ 461,667,000**	**$ 506,597,730**	**$ 554,911,040**

Source: Colliers International Realty Advisors, 2008

[10] *Including QET and Playhouse Theatre*

NET RETAIL EXPENDITURE POTENTIAL, 2008-2023 North East False Creek -- Scenario 1				
	2008	2013	2018	2023
Supermarket	$ 10,682,567	$ 11,862,480	$ 13,016,970	$ 14,258,375
Pharmacies and personal care stores	$ 2,303,347	$ 2,557,757	$ 2,806,685	$ 3,074,354
Other Food & Convenience Stores	$ 2,842,738	$ 3,156,725	$ 3,463,946	$ 3,794,296
Comparison Goods Stores	$ 29,760,290	$ 33,047,379	$ 36,263,643	$ 39,722,041
Automobiles and Related Merchandise Stores	$ -	$ -	$ -	$ -
Service Commercial	$ 22,794,471	$ 25,312,171	$ 27,775,622	$ 30,424,533
Total Commercial	**$ 68,383,413**	**$ 75,936,513**	**$ 83,326,867**	**$ 91,273,600**

Source: Colliers International Realty Advisors, 2008

Residents Spending - Scenario 2 (NEFC Population: 2,083)

GROSS RETAIL EXPENDITURE POTENTIAL, 2008-2023 North East False Creek -- Scenario 2				
	2008	2013	2018	2023
Supermarkets	$ 71,217,113	$ 80,998,587	$ 90,805,978	$ 101,403,162
Other Food & Convenience Stores	$ 51,460,855	$ 58,528,861	$ 65,615,595	$ 73,273,026
Comparison Goods Stores	$ 157,850,866	$ 179,531,247	$ 201,269,073	$ 224,757,452
Automobiles and Related Merchandise Stores	$ 135,218,006	$ 153,789,825	$ 172,410,854	$ 192,531,439
Total Retail	**$ 415,746,840**	**$ 472,848,520**	**$ 530,101,500**	**$ 591,965,080**

Source: Colliers International Realty Advisors, 2008

NET RETAIL EXPENDITURE POTENTIAL, 2008-2023 North East False Creek -- Scenario 2				
	2008	2013	2018	2023
Supermarket	$ 14,243,423	$ 16,199,717	$ 18,161,196	$ 20,280,632
Pharmacies and personal care stores	$ 3,455,021	$ 3,929,559	$ 4,405,354	$ 4,919,465
Other Food & Convenience Stores	$ 4,264,107	$ 4,849,770	$ 5,436,985	$ 6,071,489
Comparison Goods Stores	$ 29,760,290	$ 33,847,783	$ 37,946,107	$ 42,374,470
Automobiles and Related Merchandise Stores	$ -	$ -	$ -	$ -
Service Commercial	$ 25,861,420	$ 29,413,415	$ 32,974,821	$ 36,823,028
Total Commercial	**$ 77,584,261**	**$ 88,240,245**	**$ 98,924,463**	**$ 110,469,085**

Source: Colliers International Realty Advisors, 2008

Residents Spending - Scenario 3 (NEFC Population: 4,165)

GROSS RETAIL EXPENDITURE POTENTIAL, 2008-2023 North East False Creek -- Scenario 3				
	2008	2013	2018	2023
Supermarkets	$ 71,217,113	$ 82,913,971	$ 94,832,156	$ 107,750,490
Other Food & Convenience Stores	$ 51,460,855	$ 59,912,901	$ 68,524,876	$ 77,859,550
Comparison Goods Stores	$ 157,850,866	$ 183,776,645	$ 210,192,990	$ 238,826,140
Automobiles and Related Merchandise Stores	$ 135,218,006	$ 157,426,513	$ 180,055,248	$ 204,582,940
Total Retail	**$ 415,746,840**	**$ 484,030,030**	**$ 553,605,270**	**$ 629,019,120**

Source: Colliers International Realty Advisors, 2008

NET RETAIL EXPENDITURE POTENTIAL, 2008-2023 North East False Creek -- Scenario 3				
	2008	2013	2018	2023
Supermarket	$ 17,804,278	$ 20,728,493	$ 23,708,039	$ 26,937,623
Pharmacies and personal care stores	$ 5,758,369	$ 6,704,136	$ 7,667,799	$ 8,712,331
Other Food & Convenience Stores	$ 7,106,845	$ 8,274,089	$ 9,463,420	$ 10,752,557
Comparison Goods Stores	$ 29,760,290	$ 34,648,186	$ 39,628,571	$ 45,026,899
Automobiles and Related Merchandise Stores	$ -	$ -	$ -	$ -
Service Commercial	$ 30,214,891	$ 35,177,452	$ 40,233,914	$ 45,714,705
Total Commercial	**$ 90,644,672**	**$ 105,532,356**	**$ 120,701,743**	**$ 137,144,114**

Source: Colliers International Realty Advisors, 2008

Office Worker Spending

After reducing the number of NEFC and trade area employees contributing to the local retail and commercial spending potential by 25% (some employees will also be residents, who are counted in the modeling above), net employee spending potential is expected to increase from $6.3 million in 2008 to over $20.5 million by 2023.

EMPLOYEE EXPENDITURE POTENTIAL, 2008-2023 North East False Creek				
	2008	**2013**	**2018**	**2023**
NEFC Office Employees (325 sq ft ea.)	1,000	2,089	3,177	4,266
NEFC Hotel & Retail Employees	-	520	580	640
Other Trade Area Employees	28,368	28,968	29,568	30,168
Reduction for Double-Counting	25%	25%	25%	25%
lunches	$ 4,003,429	$ 6,691,932	$ 9,479,337	$ 12,984,901
shopping	$ 7,000,426	$ 11,701,565	$ 16,575,642	$ 22,705,500
dinner/drinks	$ 2,261,284	$ 3,779,850	$ 5,354,279	$ 7,334,352
convenience goods	$ 4,614,931	$ 7,714,089	$ 10,927,254	$ 14,968,275
Gross Spending Potential	**$ 17,880,070**	**$ 29,887,436**	**$ 42,336,513**	**$ 57,993,027**
lunches	$ 1,601,371	$ 2,676,773	$ 3,791,735	$ 5,193,960
shopping	$ 1,750,107	$ 2,925,391	$ 4,143,911	$ 5,676,375
dinner/drinks	$ 678,385	$ 1,133,955	$ 1,606,284	$ 2,200,305
convenience goods	$ 2,307,465	$ 3,857,044	$ 5,463,627	$ 7,484,138
Net Spending Potential	**$ 6,337,329**	**$ 10,593,164**	**$ 15,005,556**	**$ 20,554,778**

Colliers International 2008

Visitor Spending

Spending generated by visitors to NEFC it is estimated at approximately $15.5 million in 2008, very little of which is currently being captured by local businesses. By 2023, net spending potential by visitors to NEFC is expected to be over $18.5 million, comprised almost $1.5 million in retail merchandise spending potential and $17.3 million in the eating and drinking spending potential.

Event and Venue Visitor Potential Volumes				
Venue	**2008**	**2013**	**2018**	**2023**
BC Place	1,085,824	1,367,364	1,509,681	1,547,802
GM Place	1,374,000	1,374,000	1,374,000	1,374,000
Performance and Events Facility*	500,000	500,000	500,000	500,000
Vancouver Art Gallery		412,500	433,542	455,657
QET & Playhouse**	320,000	320,000	320,000	320,000
Other	1,200,000	1,200,000	1,200,000	1,200,000
Total	***4,479,824***	***5,173,864***	***5,337,222***	***5,397,459***
Reduction for Double-Counting	20%	20%	20%	20%
Gross Spending Potential				
Retail Merchandise	$12,095,506	$14,038,820	$14,496,223	$14,664,884
Eating & Drinking	$43,198,237	$50,138,643	$51,772,224	$52,374,587
Net Spending Potential				
Retail Merchandise	$1,209,551	$1,403,882	$1,449,622	$1,466,488
Eating & Drinking	$14,255,418	$16,545,752	$17,084,834	$17,283,614

*assumes the continued operation of the Plaza of Nations or replacement with a similar facility in NEFC
**capture rate reduce by half to account for non-adjacent location

7.5.5. Commercial Floor Area Demand

The following charts show the cumulative net retail and service commercial demand that could be supported in NEFC by all of the market groups. The totals have been reduced by a double-counting factor to account for the fact that some of the workers in NEFC offices and some of the visitors to cultural and events space would also be residents of the trade area.

The total retail and service commercial potential ranges from 255,000 square feet in Scenario 1 to 330,700 square feet in Scenario 3.

In Scenario 1, total demand for retail and service commercial floor area in 2023 would be comprised of a 19,000 square feet supermarket; 4,100 square feet of pharmacies and personal care stores; 18,100 square feet of other food and convenience merchants (such as liquor stores, convenience stores, and specialty food stores); almost 112,000 square feet of comparison goods and boutiques; and over 100,000 square feet of service commercial uses including 62,900 square feet of eating and drinking establishments.

NET WARRANTED COMMERCIAL FLOOR AREA, 2008 - 2023 North East False Creek -- Scenario 1				
	2008	2013	2018	2023
Supermarket	14,200	15,800	17,400	19,000
Pharmacies and personal care stores	3,100	3,400	3,700	4,100
Other Food and Convenience	8,100	11,100	14,300	18,100
Comparison Goods / Boutiques	79,400	90,000	100,300	111,800
Service Commercial	68,600	81,000	90,900	102,000
Eating & Drinking Establishments	*44,300*	*52,100*	*57,400*	*62,900*
Sub-Total	**173,400**	**201,400**	**226,600**	**255,000**

Source: Colliers International Realty Advisors, 2008

In Scenario 2, there would be 2,083 additional residents in NEFC compared to Scenario 1. In Scenario 2 there would be net supportable demand in NEFC for 27,000 square feet of supermarket space; 6,600 square feet of pharmacies and personal care stores; 21,500 square feet of other food and convenience stores; 118,300 square feet of comparison goods and boutiques; and 113,600 square feet of service commercial space including 68,700 square feet of eating and drinking establishments.

NET WARRANTED COMMERCIAL FLOOR AREA, 2008 - 2023 North East False Creek -- Scenario 2				
	2008	2013	2018	2023
Supermarket	19,000	21,600	24,200	27,000
Pharmacies and personal care stores	4,600	5,200	5,900	6,600
Other Food and Convenience	10,200	13,700	17,200	21,500
Comparison Goods / Boutiques	79,400	92,000	104,500	118,300
Service Commercial	74,200	88,400	100,400	113,600
Eating & Drinking Establishments	*47,100*	*55,800*	*62,100*	*68,700*
Sub-Total	**187,300**	**221,000**	**252,200**	**287,100**

Source: Colliers International Realty Advisors, 2008

Scenario 3 would have an additional 2,083 residents over Scenario 2 and 4,165 more residents in NEFC than Scenario 1. Scenario 3 would see net supportable floor area in NEFC of 330,700 square feet of space. This total would include 35,900 square feet of supermarkets; 11,600 square feet of pharmacies and personal care stores; 28,500 square feet of other food and convenience; 124,900 square feet of comparable goods stores; and 129,800 square feet of service commercial space (including 76,800 square feet of restaurants, lounges, fast food and cafes).

NET WARRANTED COMMERCIAL FLOOR AREA, 2008 - 2023 North East False Creek -- Scenario 3				
	2008	2013	2018	2023
Supermarket	23,700	27,600	31,600	35,900
Pharmacies and personal care stores	7,700	8,900	10,200	11,600
Other Food and Convenience	14,400	18,800	23,200	28,500
Comparison Goods / Boutiques	79,400	94,000	108,700	124,900
Service Commercial	82,100	98,900	113,600	129,800
Eating & Drinking Establishments	*51,100*	*61,100*	*68,700*	*76,800*
Sub-Total	**207,300**	**248,300**	**287,300**	**330,700**

Source: Colliers International Realty Advisors, 2008

7.6. Retail Location Elements

Retail location factors can be broken down into two main categories: macro location and micro location elements. Macro factors help a retailer isolate the city or neighbourhood in which to locate. Micro location elements describe the more site-specific influences that can help identify particular areas that would be most suitable from the standpoint of both the customer and the business.

In considering macro location factors, the fundamental question being asked by the retailer is "Are there/Where are the people who might buy products from my store?" Some of the pieces of information that can answer that question include:

- population (size, age profile, household size, inflow/tourism);
- income levels (household incomes, disposable income, retail spending);
- competition (existing and potential future retail activity, quality of competition);

The macro location questions are important to this study, and are covered in the Retail Market Demand section above. This section is focused on the micro location elements within the NEFC neighbourhood. Some of these factors are:

- accessibility (by public and private transportation, on foot);
- proximity (to residential centres, major work nodes, other commercial/non-commercial anchors);
- visibility (from important transportation and/or activity points)

Furthermore, if the retail/commercial space does not yet exist, then the developer needs to consider how the space could integrate with other nearby land uses such as existing commercial areas, the waterfront, non-retail anchors, etc.

7.7. NEFC Potential Retail Sites

From a retail development standpoint, the opportunities for successful sites in NEFC will be where there is the potential to establish critical mass while recognizing the importance of the location factors described above. Locations on the corners of streets are preferred, and the opportunity to double-load the street (i.e. have retail or commercial uses on both sides of the road, facing each other) will be beneficial. As a result, commercial streets should have fewer lanes (and potentially slower traffic) and preferably two (2) way traffic. The base of residential

towers that also offers visibility and either pedestrian or vehicle traffic flows should also be considered for convenience-based service commercial and retail development.

Most of the undeveloped areas in NEFC appear to be large enough to support retail to some degree, as retail businesses can come in many shapes and sizes. There are, however, some retail uses that could be more difficult to position. The demand model above shows demand potential for almost 36,000 square feet of supermarket space[11], which could be provided in two 18,000 square foot stores (i.e. Nesters, Choices, etc.), or in one 36,000 square foot store (i.e. Safeway, Save-On Foods, IGA, etc.). For the comparison goods and boutiques as well as services and specialty food and convenience categories, the retail brokers surveyed suggested there is demand for smaller CRU units in the range of 500 to 1500 square feet, as well as a mix of larger unit sizes.

Some of the synergies of mixed-use development in NEFC could include:

- Residents of NEFC will support supermarkets, convenience retail, specialty food stores, services, and comparable goods.
- Residents of surrounding trade area will offer some support for convenience retail and will use comparable goods stores and boutiques, as well as services and eating and drinking places.
- Hotel guests will enjoy access to restaurants and cafes as well as comparable goods shopping and boutiques and personal services.
- Office employees will support nearby restaurants, cafes, convenience goods, and to a lesser extent, comparable goods and boutiques.
- Sporting events and cultural venues visitors could also visit restaurants and cafes.
- A redeveloped casino and hotel complex would create localised demand for restaurants and potentially for a concentration of boutique retail catered to visitors.
- In light of the changing Canadian retail environment, there could be opportunities for large format retail. In most cases these are not combined with other uses such as hotels, office, or residential, but could be accommodated on a separate parcel, or underneath the viaduct, for example.

The following map shows areas for potential retail development in NEFC. The ultimate retail distribution should consider the locations of office and residential uses to best serve those markets with appropriate retail.

[11] *Scenario 3*


Hastings Str
Dunsmuir Street
Taylor Street
Carrall Street
Main Street
Hamilton Street
1A
Expo Boulevard
Dunsmuir Viaduct
Quebec Street
Cambie Street
Beatty Street
Griffiths
7a
GM Place
10
BC Place
6C
9
Georgia
Milross Avenue
Nelson Street
5b
6b
Plaza of Nations
Boulevard
False Creek
Science World
Cambie Bridge
East 1st Avenue
Image © 2008 IMTCAN
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Streaming 100%

8. CONCLUSIONS

8.1. Retail and Service Commercial

With no residential development in NEFC, the maximum retail and service commercial floor area in NEFC is estimated to be 255,000 square feet in 2023, comprised of a combination of neighbourhood convenience retail; comparison goods and boutique retail; personal, financial and other services; and eating and drinking establishments. These businesses would serve the surrounding residential areas as well as employees and visitors to the area. The addition of 1 million square feet of residential space (2,083 residents) would result in greater demand for neighbourhood convenience retail and services, bringing the total demand to 287,100 square feet. If 2 million square feet of residential were built in NEFC the 4,165 people living there, combined with the demand from other sources, would support 330,700 square feet of retail and service commercial floor area.

8.2. Hotel

The composition of the Focus Group included several hotel developers and consultants who suggested that NEFC could accommodate 450 hotel rooms in three hotels, and that a key driver of demand could be a major casino development. Our research shows that Downtown Vancouver should be able to easily absorb 450 rooms over the next 15 years. If a casino redevelopment occurs, the demand for hotel rooms in NEFC could be realized in less time. Ideally these hotels would span a range of price points to spread the synergies across other demand generators such as offices and sporting venues. Using an average room size of 400 square feet, 450 rooms would equate to 180,000 square feet.

8.3. Office

Downtown's office market is currently experiencing very low vacancy rates and rising lease rates per square foot. Despite a highly cyclical absorption pattern over the last 30 years, there is a consistent short, medium, and long-term trend in demand for over 300,000 square feet of office space annually. NEFC could attract some of this demand if the space and lease rates were appropriate. Projected demand in NEFC is for almost 71,000 square feet annually, or 1.06 million square feet over 15 years.

The following table summarizes the individual commercial components, and the projected demand for each in NEFC over the next 15 years. The total projected maximum commercial demand in NEFC in 15 years is 1,572,100 square feet – a total that does not include commercial uses outside of the three considered in this report, such as a casino, movie theatres, live-work space, art galleries, or temporary retail (farmers markets).

NEFC Commercial Demand (square feet)			
	15-year Demand		
Retail and Service Commercial	222,700	287,100	330,700
Office	1,061,400		
Hotel	180,000		

Colliers, 2008

8.4. Development Economics

The preceding sections have focused on the supply and demand for commercial space in NEFC over the long term. The delivery of any particular development is dependant upon the development economics of the project at any particular point in time. No detailed development economic analysis was conducted for this study. However, input provided by the focus group, as well as our own anecdotal and related experience provide the following insights:

- The economic return from developing office and hotel uses in this area may be lower than the land owners find acceptable at this time.
- The types of office tenants that would be inclined to locate outside of the CBD are not the types of tenants that would pay the $25 to $35 per square foot rents that is the current average for Class AAA space in Downtown Vancouver. Even if those rents could be achieved, an economically viable stand-alone office development is unlikely.
- High-end hotels in this city are highly unlikely to be built as a single use with construction costs as high as they are, and without significant increases in average room rates.
- Development economics in NEFC could benefit from faster approval times, lower development costs, and greater predictability of costs and timing of the planning process

Whereas lease or sales revenues from retail and service commercial space could justify the development of those uses as stand alone developments in NEFC, stand-alone hotel and office developments may not be able to achieve the necessary returns to the developer. The addition of residential or other higher margin uses within the same development--whether on a multi-building site or within an individual building--may be one way to make it more likely that land owners and developers would build hotels and offices in NEFC. Further development economic analysis should be conducted to fully understand the feasibility of office and hotel development in this neighbourhood, and the scale, if any, of incentive that would be required to stimulate the desired land use mix in a reasonable timeframe.

APPENDIX A – CASE STUDY QUESTIONNAIRE

Case Study Review – Questionnaire -- Time Sensitive!

Colliers International has been retained on behalf of the City of Vancouver in British Columbia, Canada to undertake a market analysis of commercial land uses associated with the potential redevelopment of a waterfront precinct near the Central Business District. We are identifying other examples of mixed-use waterfront areas that have incorporated the same key elements, including professional sports venues, office space, retail, and other recreation and amenity uses.

The following issues will be important in our research, and we would appreciate your help in answering them for developments in your market. We would be happy to discuss this on the telephone at a convenient time for you, or your answers can be emailed.

Precinct/ Redevelopment name:
Location:

1. What is the general mix of uses?

2. What is the gross area of each use?

3. What other attractions/ anchors/ activity generators are located in the area?

4. How does the development interact/ address the waterfront/ existing built form? (For example, is the development integrated with the waterfront in an active or passive role?)

5. What was the timing of the development phasing/ market absorption?

6. How many landowners were involved in the development?

7. Was the redevelopment market led or did it require government investment/ partnership?

8. If required, what type of government investment was required?

9. How do values/ lease rates compare to other areas in the market?

10. What has been the impact of the development? (For example, has it spurred redevelopment in the surrounding area?)

Please email this completed questionnaire to: Justen.Harcourt@colliers.com

APPENDIX B - TERMS OF REFERENCE

This study, prepared on behalf of the City

City Staff Consultation

We will meet with City staff to review policy objectives and the requirements of the commercial development analysis; and refine and finalize the statement of work, if required. In addition, we will ensure that any data and information required to complete the work that we do not have access to is identified and supplied by staff if available.

Case Study Review

We will undertake a case study review and prepare a descriptive commentary of successful urban commercial waterfronts and sports/ entertainment/ cultural precincts to identify the economic sectors and activities that may be most suitable for NEFC. Examples could include Toronto, Chicago, Seattle, and other areas with similar land use interfaces.

Market Assessment

We will undertake a market assessment identifying commercial, institutional, and other non-residential uses that support the entertainment/ cultural events district. Determining the economic viability of commercial development requires an assessment of current and projected market conditions in Vancouver, identifying the strategic opportunities for new hotel, retail (including merchandising mix) and office floor space in NEFC. The market assessment will provide a summary of:

- Current market conditions and anticipated future trends regarding the supply and demand for retail, hotel and office space in the City of Vancouver and the Metro Vancouver Region, including the analysis and inventory summary of the NEFC trade area;

- Tenant demand, including an examination of growing business types in the local/ regional economy identifying as anchor tenants for both office and retail uses. This phase of the market assessment will utilize our past experience couple with work previously assembled by City Staff as part of the Metro Core Jobs and Economy Study

Trade Areas

Given the nature of mixed-use development, the uses on site and the residential and business areas in close proximity will form the Primary Trade Area (PTA). People living and working outside of the PTA will be an important source of secondary revenue. The development of the Secondary Trade Area will include the following:

- Assessment of driving times from NEFC;
- Assessment of existing and anticipated competition;
- Physical and Psychological barriers.

We will layer all of these factors and provide a detailed description of the Trade Area, the factors most critical to the Trade Area, and the subjective parts of the Trade Area delineation process. We will look at the character and distribution of the Trade Areas' populations.

Competition

We will conduct an inventory of the local market to determine the level of retail competition in order to estimate the potential market capture rates from the PTA and the STA.

Retail Demand

We will develop a twenty-year projection model for the Primary and Secondary Trade Areas by major retail category. This information will provide projections of retail expenditures for four five-year periods from 2009 to 2029. Population projections for the PTA will include projections of residential growth in the area surrounding the site as well as the anticipated build-out of the residential program for the site itself.

Merchandise Mix And Market Share Analysis

This component of the work program will evaluate the market demand in conjunction with the preliminary land use plan. The purpose of this section will be to determine the merchandise mix that would target an achievable market share and be realistic and market responsive. The major categories that would be investigated in this section are:

- Supermarkets
- Convenience and specialty food stores
- Beer, wine and liquor stores
- Pharmacies and personal care stores
- General merchandise stores
- Clothing stores
- Shoe, clothing accessories and jewellery stores
- Home centres and hardware stores
- Home electronics and appliance stores
- Furniture stores
- Home furnishings stores
- Specialized building materials and garden stores
- Sporting goods, hobby, music and book stores
- Computer and software stores
- Miscellaneous store retailers
- Automobiles and Related Merchandise
- Restaurants and Quick Food
- Commercial Services
- Hotels
- Office Space

Refinement of Findings

We will work with staff to refine a concept plan for commercial development including identification of preferred sites for each type of commercial/ non-residential building, order of magnitude, preferred form of development, and appropriate commercial floor space mix for NEFC. Implicit in the refinement process is the implementation of a feasible phasing strategy for the development of commercial floor space that accurately identifies market absorption rates ensuring appropriate market demand, identification of potential anchor tenants & establishing critical mass for the area.

Deliverables:

We will prepare a draft report outlining all findings for staff review and will present our findings to the staff team as well as the external Focus Group.

We will provide a final report subsequent to our consultation with staff and the external Focus Group, incorporating any feedback into the report[12].

[12] Four (4) hard copies and one (1) electronic copy in .pdf format. All graphics supporting the analysis will be provided as separate electronic files in .jpeg format.

On-going consultation:

Subsequent to completing our initial report we will provide ongoing consultation and advice to City staff in reviewing the revised development scenarios. We will be available to attend staff technical team meetings, consultation with landowners and/ or Council meetings to provide an overview of the NEFC commercial development analysis.

APPENDIX C - RETAIL MODEL CATEGORIES

Supermarkets

Other Food and Convenience Stores

- Convenience and specialty food stores
- Beer, wine and liquor stores
- Pharmacies and personal care stores

Comparable Goods Stores

- General merchandise stores
- Clothing stores
- Shoe, clothing accessories and jewellery stores
- Home centres and hardware stores
- Home electronics and appliance stores
- Furniture stores
- Home furnishings stores
- Specialized building materials and garden stores
- Sporting goods, hobby, music and book stores
- Computer and software stores
- Miscellaneous store retailers

Automobiles and Related Merchandise

- New car dealers
- Used and recreational motor vehicle and parts dealers
- Gasoline stations

APPENDIX D - INTERNATIONAL VILLAGE DISCUSSION

International Village is approximately 200,000 square feet of commercial space at Pender Street and Abbott, which barely warrants mention in the inventory section. Originally developed a decade ago, the mall's 200,000 square feet of leasable area has never been 100% leased, and for most of that time, vacancy rates have likely been in excess of 50%. However, the residential population has increased in the area, and some would say that the T&T Supermarket (on a neighbouring site) and the Tinseltown Cinemas have been strong anchor tenants. Why, then, has IV not succeeded?

- The original high-end concept for this centre was never fully accepted by Vancouver shoppers. The location near the troubled Downtown Eastside dissuaded shoppers and tenants who saw Pacific Centre, Oakridge Mall, Robson Street, South Granville, and many other areas more appealing.
- The timing of development coincided with dramatic changes in the demographics of the region, with Richmond and Coquitlam gaining the lion's share of affluent Asian immigrants, and retail areas in those cities – particularly Richmond – exploding and gaining much of the Asian market.
- In 2001 the average household incomes within 500 meters of IV were 41% of the city average. The centre must rely on regional inflow, which necessitates strong anchors and marketing.
- The anchor tenant of IV is the Tinseltown Cinema. Smaller retailers need retail anchors to attract customers. The T&T Supermarket is on a different site, and more importantly, it is a convenience anchor, which will do little to attract a regional customer base.

IV will eventually be fully leased by a productive business use. It will require a strong anchor, extensive marketing, and attentive management – or a non-retail tenant.