2009
Saskatoon Office Study

prepared by:

Grace Muzyka, AACI, P.App
and
Cameron H. Walker, B.Comm. AACI, P.App

Brunsdon Junor Johnson Appraisals Ltd.
#204 - 640 Broadway Avenue
Saskatoon, SK S7N 1A9
tel: (306) 244-5900
fax: (306) 652-7667

email: info@realestateappraisals.com
web site: www.RealEstateAppraisals.com
Visit our web site for copies of this and other studies and reports by
Brunsdon Junor Johnson Appraisals

2008 TO 2009
SASKATOON OFFICE STUDY

HIGHLIGHTS - 2008

The year 2008 was another period of growth and movement within the Saskatoon office market. Key highlights include the beginning of construction for a 50,000 sq.ft., LEED designated office building on 3rd Avenue South, which marks the first major rental office development in over ten years in the downtown core. Inflationary pressures were apparent in both rental rates and operating costs, and vacancies were again lower, for the fifth year in a row.

- On a city-wide basis, office vacancy decreased from 5.6% at January 2008 to the current estimate of 3.0% for January 1, 2009. Vacancy in the downtown office market dropped from 5.2% in January 2008 to 3.8% in January 2009. The suburban market saw a more drastic decrease in vacancy, from 6.0% estimated at January 2008, to 2.2% at January 2009. This statistic can largely be attributed to some 100,000 sq.ft. of available space at Innovation Place which was absorbed during 2008.

- Approximately 130,000 sq.ft. of inventory was added to the overall Saskatoon office market in 2008, with just over 70,000 sq.ft. being added in the suburban category, and just under 60,000 added in the core. The change in the suburban market was through a number of smaller buildings, with the largest being the D&S Homes office in the Stonebridge area. In the core, the largest single addition was the inclusion of the Bayside building, now fully converted and occupied by office tenants.

- Positive absorption occurred in both the central core and suburban areas. Core absorption was rather insignificant, but a large portion of the suburban figure came from Innovation Place.

- Amongst the planned or recently started projects in the core, The River Landing destination complex by Lake Placid Developments remained at the forefront, as it enters the marketing and pre-leasing stage. The new 50,000 sq.ft. office building on 3rd Avenue South under development by North Prairie Developments Inc., will be the first LEED certified building downtown. Another major project announced was the planned construction of 184,000 sq.ft. of office space between 1st and 2nd Avenue, on 20th Street East. The project is also slated to be a LEED standard building, and the project has been named 275 Second.

- In the suburban areas, there have been fewer large scale announcements, but Cameco Corporation's new office adjacent their existing tower is perhaps the more notable, and it should be occupied by some time in 2009.

- Net effective rental rates in the downtown core continued to increase through 2008. In the early stages of 2009, there is a general consensus towards stabilization of rates, but this may not be an absolute considering the continually decreasing vacancies, Saskatoon's comparatively low rates in comparison to other western Canadian cities, and the inability to bring on new supply quickly to meet the existing demand.

- Operating costs are increasing, as are parking rates, and possible developments on currently undeveloped sites that have an interim use as parking will undoubtedly affect this further. The City has attempted to address the parking issue by requesting that developers pay close attention to this with new office developments. Spokespersons with The Partnership, a key downtown business improvement group, have also voiced concern over current parking considerations.

- 2009 marks the first year for the new assessment system, which allows for the inclusion of an income approach to determining assessment values, as opposed to the previous system that operated solely on a depreciated cost method.

- 2008 saw approximately the same number of sales as 2007, in the office segment. Most sales were for buildings in the 5,000 sq.ft. and smaller size category.

- A streetscape revitalization project targeting the southern portion of 3rd Avenue South has been announced as a future City project. This may take some time to complete, but will undoubtedly improve the profile of this particular location.

- Fundamentals of the economies remain good, but market participants have proven to be acting with a degree of caution, including lenders.

FORECAST - 2009

- The Saskatoon office market continues a trend that has been consistent for the last five years of this study. Vacancies are down, rental rates are increasing, and new supply is both limited and slow to come on stream.

- Slowing housing starts (as reported by CMHC in early 2009) may free some skilled trades workers for the requirements of two new office buildings expected to begin construction in 2009, but there will be a competing demand for this skilled labour by the retail developments taking place in the city.

- Rental rates will show more modest gains in 2009, or will stabilize.

- There will be some larger spaces on the market in 2009, but these may not be the kind of space that will be in demand, as larger space users re-evaluate their requirements and long-term outlook. Smaller sized businesses may also be in a position to delay expansions until a more certain economic situation can be determined.

- Vacancy rates will likely increase for 2009, mainly due to newer projects that are coming available within the year. Absorption will not be immediate, and will partially affect the vacancy rates on a city-wide

- Larger scale projects may face delays, cancellations, phasing, or project design changes in response to the changing demand characteristics. New projects requiring large elements of financing will undoubtedly be affected.

- Continued development in Stonebridge may include more office space, which is in keeping with the Stonebridge Business Park theme.

STUDY CRITERIA

The study area is broken into two major components, with the central core area considered separately from the suburban space.

The study includes above-grade office space and excludes main floor retail/commercial space. There has been an increase in the overall total inventory, to 6.166 million sq.ft., up from 6.034 million in 2008. The split between core and suburban space is now roughly 53%/47%.

Building Type categories are provided as a general breakdown showing the rental space separate from government, medical and owner-occupied. Buildings are included in a category if over 50% of the use applies to one category.

Building Classes are distinguished in the rental category of space with a breakdown to Class A, AB, B or C. Items such as rental rates, quality of finish, location and age were used to determine the different categories, with an emphasis on achievable rental rates.

Judgment calls are necessary for some buildings not falling clearly into one class or another. The AB category recognizes some of the city's better quality buildings, which form a significant part of the quality office accommodation in the city.

Crossover space refers to tenants in transition. The vacancy figures are as of a specific date, being January 1, 2009. Tenants occupying one space with tenant improvements underway in another location are shown in occupancy in the building they physically occupy, thus preventing double accounting.

CENTRAL CORE MARKET

The central core is defined by Idylwyld Drive to the west, 25th Street to the north and the South Saskatchewan River to the east and south.

Saskatoon has a relatively small central core, compared to other larger Western Canadian cities, with an inventory of approximately 3.28 million square feet. As a result, the addition of buildings in the 100,000 sq.ft. category can have a significant impact on vacancies over the short term.

Establishing absorption figures over a period of time is one of the objectives of the Study. The information gathered and summarized on Table #1 on the following page is effective January 1, 2009.

CENTRAL CORE VACANCY

Vacancy in the higher quality, Class A and AB class buildings decreased during 2008. In the A class category, vacancy was down by more than one-and-a-half percentage points. It went below the one percent mark, to 0.8% at January 1, 2009. This is down from 2.4% in 2008. Other classes of buildings showed similar decreases. Class AB for 2008 is 2.6%, down from 4.5% in 2007. Together, these two categories account for 922,240 square feet of space in the downtown core of Saskatoon.

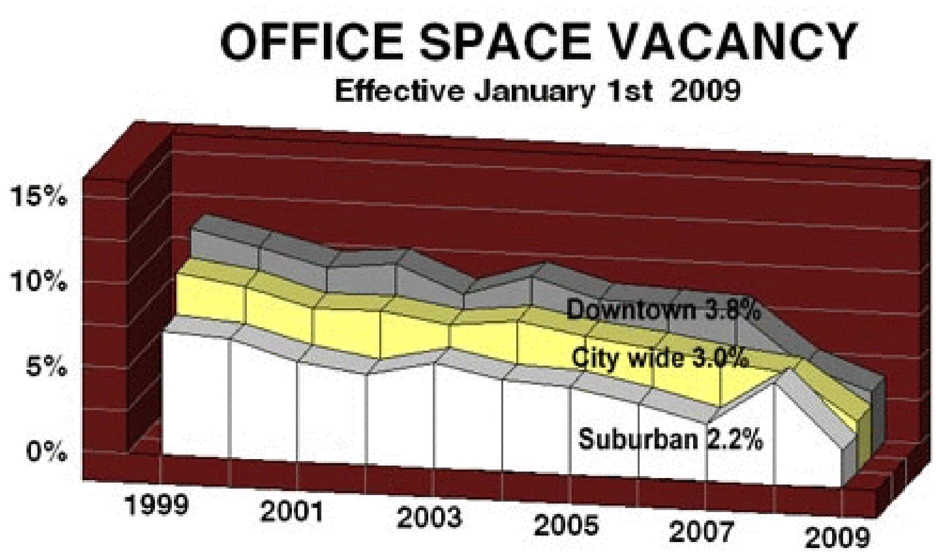
Figure 1

Vacancy in the class B building category also decreased during the 2008 study year, although less drastically than in Class A and AB categories. Vacancy that was 10.4% in 2008, is now at 6.5% for January 1, 2009. This is somewhat significant, since the class B category constitutes around 20% of the overall core inventory.

In the class C category, the smallest of the rental grouping, the vacancy rate was found to be 21.5% for 2009, which is up almost 50%, from the 2008 number of 14.3%. This class category is rather small in relation to the other classes, and as such, is subject to quicker fluctuations. The vacancy is caused by small vacancies created in a number of buildings. This category also has a higher vacancy due to some spaces suffering from some forms of excessive functional depreciation.

It may be possible to see some improvement in this category again, throughout 2009. Some class C space can be an effective, low cost, shorter term answer to temporary space requirements. Many office tenants may opt for the formation of sub-office space that can easily come from this category as a short term solution to expansion needs.

In the medical office space category vacancies have gone up. The change was a 3.7% vacancy rate for 2009, up slightly from 2.4% in 2008. Government classified space remained unchanged, at a zero percent vacancy for 2009. For the owner occupied building category there was a sharp drop in reported vacancy from 6.9% in 2008 to 0.3% at January 1, 2009.



Category	Total Inventory Jan 1st / 2009 Square feet	% of Total Inventory	Vacancy at Jan 1 / 2009	Jan 1st 2009 % Vacant	Jan 1st 2008 % Vacant	Absorption 2008 (sq. ft.)
Rental						
Class A	431,276	13.2%	3,500	0.8%	2.4%	6,812
Class AB	490,964	15.0%	12,555	2.6%	4.5%	7,090
Class B	656,674	20.0%	42,743	6.5%	10.4%	18,258
Class C	263,826	8.0%	56,609	21.5%	14.3%	(23,039)
Total Rental	**1,842,740**	**56.2%**	**115,407**	**6.3%**	**7.4%**	**9,121**
Owner Occupied	486,238	14.8%	1,250	0.3%	6.9%	0
Government	767,855	23.4%	0	0.0%	0.0%	0
Medical	181,998	5.6%	6,798	3.7%	2.4%	(2,280)
Total Core	**3,278,831**	**100.0%**	**123,455**	**3.8%**	**5.2%**	**6,841**
Under Construction	123,066					

TABLE #1
2009 CENTRAL CORE OFFICE INVENTORY - CITY OF SASKATOON
EXECUTIVE SUMMARY
January 1, 2008 to January 1, 2009

CORE RENTAL RATES

Effective rental rates are the net return to the landlord after incentives for tenant improvements, free rent and any other inducements, and represent a more accurate picture of the actual market rent on a net basis.

During 2008, there were rental increases seen in all of the rental category properties, with class A buildings achieving between $18.00 and $20.00/sq.ft. on a net effective basis. There was limited activity in most segments simply due to the lack of vacancies.

Most industry professionals expressed the belief that with a still tightening vacancy situation in the downtown, there will be upward pressure on these rates, but this is quite dependant on the nature of demand, which was observed to be changing in the latter months of 2008, in response to the general economic conditions across the country. As vacancies remain low, it is expected that asking rates will probably increase over achieved rates seen to this point.

As rates in the upper level class categories increase, so too will the lower level classes, and this will be particularly apparent with short term leases for smaller spaces that can accommodate short-term requirements. Some spaces that were previously seen as undesirable may now be viewed as desirable as tenants re-evaluate their needs.

TABLE #2
2009 FACE RENTAL RATES AND OPERATING COSTS BY CLASS

CLASS	ASKING FACE RATE/SQ.FT.	OPERATING COST/SQ.FT.
A	$18.00 - $20.00	$10.00 - $12.00
AB	$13.00 - $18.00	$9.00 - $11.00
B	$12.00 - $16.00	$8.00 - $10.00
C	$8.00 - $12.00	$5.00 - $9.00

The summary face rates and occupancy costs for typical classes of office space are shown on Table 2 above.

There is some indication of rental incentives being offered to new tenants, but this is quite limited and is commonly a short rent-free period at the on-set of the lease term.

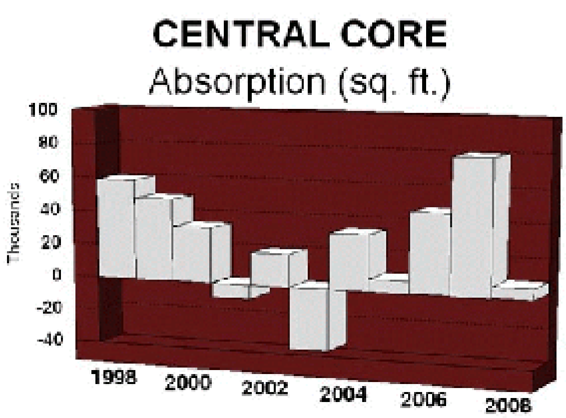
Tenant improvement packages remain minimal and are only being offered on longer term (> 5 year) leases. Market indications suggest a broad range of rates, but major finishing and demising has been shown to cost approximately $50 per square foot.

It is more common at present to see the tenant doing their own improvements, especially with shorter term leases and smaller spaces. This is a trend that is expected to continue through 2009, as it simply is not a necessity in attracting a quality tenant at present, outside of new construction or major transformations of existing spaces.

CENTRAL CORE ABSORPTION

In the A class category, there was a small amount of absorption to note, as 6,841 sq.ft. was taken throughout the year, with the majority attributed to space in the Princeton Tower. In the AB category, there was 7,600 sq.ft. of positive absorption in The Affinity Credit Union building on 4th Avenue. The Class B segment also had some notable absorption, and over a number of buildings in this well populated category. There was also some vacancy added, however, notably by the reclassification of the Vecima building to this category. Net absorption in the class B category was 18,258 square feet.

The Class C category saw a negative absorption with a net 23,039 sq.ft. added to the overall inventory. This figure was largely influenced by the Glengarry Building, which is largely vacant and under renovation at present and the movement of the Phoenix building into the rental category.
With positive absorption in all of the class categories except class C, the overall result has been a further decrease in vacancy rates through 2008. This is despite the fact that nearly 60,000 square feet of additional inventory was added to the downtown core office category.



SUBURBAN MARKET OVERVIEW

The suburban market is divided into five location groupings for this study. The first is the peripheral core space, which includes office buildings north of 25th Street on 2nd Avenue and other buildings in close proximity to the central core, such as Queen Street and Broadway Avenue. The second grouping is the North Industrial, which includes a significant concentration of office space in the Larkhaven Industrial area, in the vicinity of the Saskatoon Inn, plus other office buildings scattered throughout the North Industrial area. The third grouping is the southeast quadrant, including 8th Street East, which represents a significant portion of the overall inventory, at 26.7%. This quadrant excludes office space at Innovation Place on the University Campus, which has been classified separately, as the fourth category. Innovation Place represents 27.2% of the total suburban market, which makes it the largest grouping of the five.

The category shown as "Other" is a catch-all category for buildings not included in the main groupings, including 22nd Street West, Pinehouse Drive and other scattered locations throughout the city. The largest building in this group is the Cameco Head Office building on 11th Street West, containing some 128,000 square feet.

The majority of Saskatoon's suburban office space is situated in the south and east parts of the city. The suburban areas east of the river, including Innovation Place, now account for 53.9% of the total suburban office space inventory.

SUBURBAN MARKET VACANCY AND ABSORPTION

Overall vacancy rates in the suburban market have shown a substantial decrease, which is mainly due to the absorption of nearly 100,000 square feet of new construction at Innovation Place. Every other category of the five suburban market sub-groupings also showed positive absorption, except for the North Industrial, which saw a modest increase in available space. The overall effect was shown in the overall vacancy rate decreasing to 2.2% at January 1st 2009 from 6.0% in January 2008. An estimated 121,754 square feet was absorbed during the year.

Vacancies decreased in all surveyed suburban locations except the North Industrial, which is estimated at a 2.5% vacancy rate. This was slightly higher than last year because of the addition of inventory at the Whitestone Business Park, which is a new office condo project that is currently being marketed.

The Peripheral Core area now sits at virtually no vacancy, as the area seemed to follow the trend shown in the core itself. Although this is a smaller grouping, it is quite significant. There is currently only 600 square feet available in an overall inventory of 250,000.

There were no changes in the category labelled "Other," or the catch-all for various locations spread through-out the city.

The positive absorption at Innovation Place is noteworthy. This is a unique area, and it has benefits to some users, in the way of synergy with other tenants, and better parking considerations. The rather quick absorption of the new space at 121 Research Drive is a positive indication for the potential for the area. Future growth will likely continue if the area maintains this level of acceptance by the market. Currently sitting at just 1.8%, the vacancy at Innovation place is below the city average of 3.0% and below the suburban office space average of 2.2%.

Suburban office space has the advantages of better parking considerations, generally lower operating costs, and can sometimes have more favourable access. These are the trade-offs for a central location and high profile of a downtown location. In the current economic environment, suburban office space may again be a target for a number of users seeking space in 2009.

TABLE #3
2009 SUBURBAN OFFICE INVENTORY - CITY OF SASKATOON
EXECUTIVE SUMMARY
January 1, 2008 to January 1, 2009

Category	Total Inventory Jan 1st / 2009 Square feet	% of Total Inventory	Vacancy at Jan 1 / 2009	Jan 1st 2009 % Vacant	Jan 1st 2008 % Vacant	Absorption 2008 (sq. ft.)
Peripheral Core	252,517	8.7%	600	0.2%	3.7%	8,540
North Industrial	713,305	24.7%	18,101	2.5%	2.0%	(4,517)
South East	770,758	26.7%	23,159	3.0%	3.1%	14,118
Other	364,098	12.6%	6,248	1.7%	3.0%	4,713
Innovation Place	786,437	27.2%	14,500	1.8%	14.4%	98,900
Total Suburban	**2,887,115**	**100.0%**	**62,608**	**2.2%**	**6.0%**	**121,754**
Under Construction	125,111					

Face Rates and Operating Costs

Face rates in the suburban market tend to be at similar levels as the central core buildings, primarily the \$8.00/sq.ft. to \$26.00/sq.ft. range. The lower end would include spaces with some forms of depreciation or perhaps poorer locations, and the high end would represent new construction. Rates may be lower than this for office buildings located in industrial areas with only average levels of finish. Second level spaces without elevator servicing are also discounted beyond the low end of the range, and can be at or near \$6.00/sq.ft. in some cases.

Rents in newly constructed office buildings in the suburban locations are in the $16.00 to $26.00/sq.ft. range. Newer, freestanding buildings suitable for banks, which may or may not fit into an office classification, are leasing in the $34.00 to $36.00/sq.ft. range.

These rates are in line with the rates being charged for new retail space, which can sometimes include a tenant improvement package.

CITY SUMMARY

In the following table, the downtown core and suburban office figures are summed and the information is presented on a city-wide basis.

QUALIFICATION

Readers of this Study are welcome to use the information as deemed appropriate, providing ***Brunsdon Junor Johnson Appraisals Ltd.*** is quoted as the reference source. ***Brunsdon Junor Johnson Appraisals Ltd.*** is a real estate appraisal firm providing a wide range of appraisal and consulting services, with the primary market being the north central portion of the Province of Saskatchewan.

Special recognition and thanks is paid to all the building owners, property managers, real estate agents and government agencies who assisted by providing the information upon which this report is based. Without their support this study would not be possible.

TABLE #4
2009 - CITY-WIDE - SASKATOON
January 01, 2008 to January 01, 2009

CATEGORY	TOTAL INVENTORY JAN 2009 (IN SQ.FT.)	% OF TOTAL INVENTORY	VACANCY AT JAN 2009 (IN SQ.FT.)	JAN 2009 % VACANT	JAN 2008 % VACANT	2008 ABSORPTION (IN SQ.FT.)
Core	3,278,831	53.2%	123,455	3.8%	5.2%	6,841
Suburban	2,887,115	46.8%	62,608	2.2%	6.0%	121,754
City Total	**6,165,946**	**100.0%**	**186,063**	**3.0%**	**5.6%**	**128,595**
Under Construction	248,177					