

ALPHA PROJECT DEVELOPMENTS LTD.

**St. Andrew's Square 1
210 – 737 Yates Street
Victoria, B.C. V8W 1L6
Tel: (250)360-1944 Fax: (250)381-4680**

04 October 2017

**Development Services
City of Victoria
1 Centennial Square
Victoria, BC V8W 1P6**

Attention: Charlotte Wain, Senior Planner

Dear Charlotte,

Re: 1400 Quadra Street

Thank you for your response with respect to the letter from Colliers dated 11 July 2017, a copy of which is enclosed for your reference. You have requested further information supporting the contents of that letter and we attach an additional letter from Colliers together with a mid year office survey for your review.

In speaking with Colliers, they have offered to provide additional information to you should you have any specific questions pertaining to the survey results.

Yours truly,



Bijan Neyestani



July 11th, 2017

Alpha Project Development Ltd
400-931 Fort Street,
Victoria, B.C.
V8V 3K3

Attn: Mr. Bijan Neyestani

Dear Mr. Neyestani

**RE: Office Development Potential, Corner of Johnson and Quadra Streets,
Victoria, BC**

Further to our recent conversation, you have asked us for our opinion with respect to an office development at the corner of Johnson and Quadra Streets in downtown Victoria.

Market conditions for the first half of 2017 for office in the market have been relatively flat with limited new supply coming to market and limited absorption. These conditions will change dramatically, however, in late 2017 and early 2018 as Phase I of Capital Park is completed and Phases I and II of 1515 Douglas are ready for occupancy.

By April 2018, approximately 407,000 sf of new inventory will have been added to the market. Furthermore, in fall 2019, an approximately 130,000sf of additional office space will be ready for occupancy at Capital Park.

The impact of this new supply on the market vacancy is expected to be substantial as we have noted at least three office buildings that are anticipated to be emptied in their entirety, in addition to other office buildings that will experience newly vacated areas.

It is important to note that there is approximately 511,000sf of current vacancy in the region providing a market vacancy of approximately 6.05%. We anticipate that in 2018 the vacancy rate will increase to between 10-11%. The impact of this additional vacancy will be downward pressure on rates as landlords compete with each other for available tenants.

We anticipate, provided limited new inventory is added to the market and with current absorption rates remaining consistent going forward, that it will be a five year process to have vacancy rates return to historical levels.

We note that your site is not currently situated in a traditional office area. Johnson and Quadra is outside the periphery in terms of amenities and features that the vast majority of office users are looking for in the core. Specifically, office tenants are generally seeking locations with a desirable streetscape with close proximity to restaurants, retail and other office tenancies.

Currently, the Johnson and Quadra area does not offer these amenities in any significant way and we don't see this changing in the foreseeable future. In fact, given the surrounding residential nature of new development, we would suggest that office demand will continue to be challenged in this area.

In short, current market conditions would suggest that caution be applied to any new office development. Furthermore, should you decide to proceed with an office project, we would suggest that a site in the traditional office areas of the downtown core would be substantially better received in the market.

We would be pleased to meet with you to discuss in further detail at your convenience.

Yours truly,

A handwritten signature in black ink, appearing to be 'G. Smith', written over a horizontal line.

Graham C. Smith
Senior Vice-president

1175 Douglas Street
Suite 1110
Victoria, BC
Canada V8W 2E1

MAIN +1 250 388 6454
FAX +1 250 3823564

www.colliers.com



October 2, 2017

Alpha Project Developments Ltd.
P.O. Box 846
Victoria, B.C.
V8W2R9

Attention: Messrs. Bijan Neyestani and Fred Rohani

Dear Sirs:

Re: **Rezoning Application**
1400-1402 Quadra Street & 850 Johnson Street
Victoria, B.C.

We understand your application with the City of Victoria to rezone the above-referenced property is proceeding through the application process with the objective being the development of a 15 story 125 suite purpose built rental apartment building with ground level retail/commercial space. We have taken the opportunity of reviewing the building plans and specifications for this proposed development and wish to commend you for bringing forward yet another project that will enhance the urban fabric of our downtown core and provide much needed rental housing that will help satisfy the demand created by the burgeoning population of Victoria residents who are choosing more and more to live in the core of our City. If required, Colliers International would be happy to speak in favour of this rezoning application.

Our support for this rezoning is based on many factors which we have elaborated on herein.

Existing Zoning: We have taken time to review the existing zoning under which the proposed development could be built, providing a sizeable mixed use commercial and residential development with office and street level retail on the lower floors and residential (condo or rental) accommodation on the upper floors. While we completely support the development of residential density in this location, we question the viability of new office space on this site. While demand for new office space has been proven out, as evidence by recent leasing activity in several new projects, we see the Quadra/ Johnson location as being inferior for any significant office demand by either the private or public sector. Locational challenges related to the neighbouring Street Link housing project would act to deter any office user from leasing space in this location. Economic rents for new office development in this location would also bring into question the viability of the mixed-use model. Furthermore, the mix of office and residential use within one building has proven to be problematic over time.

Office Use: While an office use at this location may generate positive daytime traffic to the general neighbourhood with the arrival and departure of office users during the day, the office use would not generate any significant pedestrian traffic during the evenings or on weekends. Our research has proven out that the densification of our downtown core for residential use far outpaces the economic and social drivers provided by office use, especially at times of the day or on weekends when street front traffic is most desirable. The increase in resident street front



traffic also acts to reduce unsavory activity in a neighbourhood. We can credit the City with a reduction in our downtown storefront retail vacancy rate for over ten percent (10.0%) two years ago to just over five percent (5.0%) in Q2 2017 by adopting a policy of increased residential density in our downtown core. The change in the zoning and overall use of the subject site would work to further the progress being made by both the City and the development community in creating a much-improved urban experience and environment.

Residential Densification: Despite the ongoing development of numerous purpose-built apartment built rental apartment buildings in Victoria's downtown core, demand for this accommodation continues to far outpace supply. With residential vacancy rates remaining at historic low levels, we see a continued and almost insatiable demand for more rental housing in our downtown core. This level of demand far outpaces any comparable level of demand we see in other asset categories in the core of our city, including office and retail space.

We welcome the opportunity of discussing this subject and our support for your rezoning the subject property located at the north-west corner of Johnson and Quadra Streets. Please let us know when it would be appropriate to speak at any of the upcoming neighbourhood association meetings or City Council meetings.

If you have any further questions or require any additional information in this regard, please contact me directly.

Your truly,

COLLIERS INTERNATIONAL

A handwritten signature in black ink, appearing to read "David Ganong", written over the company name.

David Ganong
Managing Director – Vancouver Island.

Research &
Forecast Report

GREATER VICTORIA OFFICE MARKET

Second Quarter 2017

Colliers
INTERNATIONAL

Accelerating success.



Investment Market

Office Investment sales for the first half of 2017 were limited to sales under \$2.6M with nine buildings transacting for a total sales volume of \$9M year-to-date. Six of these sales were to "owner-occupiers." So far, no larger notable investment sales have occurred in 2017 which is a reflection of a lack of supply of investment product. Demand remains strong from the full spectrum of investors, including institutional and private equity. For the balance of 2017, we expect to see an increase in sales volume with the continuing low cap rate trend ranging from sub 5% to 6%, depending on asset class, tenancy strength, and location.



Forecast

Vacancy is expected to increase between 1.5% to 2.0% by the end of 2017 as we see new supply starting to come to market. The first phase of Capital Park will be providing 125,000 square feet of new Class A office space by September of this year. This building has been fully pre-leased to the Provincial Government. 750 Pandora Ave, the larger tower behind 1515 Douglas Street, will be coming to market early 2018, adding a further 184,000 square feet of Class A office space to the downtown inventory. BCIMC is expanding from their current size and will be occupying the entire building at 750 Pandora Avenue.



Suburban Notable Lease Transactions

	TENANT NAME - ADDRESS	TYPE	APPROX. MATE. SIZE (SQ. FT.)
1.	Provincial Government - 2261 Keating Cross Road	Renewal	26,800
2.	Coast Capital Savings - 2950 Jutland Road	Sublease	12,881
3.	Provincial Government - 29 Helmcken Road	Headlease	10,550
4.	ARO Inc. - 2261 Keating Cross Road	Headlease	7,333
5.	Island Trust - 1627 Fort Street	Renewal	7,237

Downtown Notable Lease Transactions

	TENANT NAME - ADDRESS	TYPE	APPROX. MATE. SIZE (SQ. FT.)
1.	Provincial Government - 727 Fisgard Street	Renewal	44,708
2.	Provincial Government - 810 Fort Street	Renewal	12,122
3.	CRD - 1675 Douglas Street	Renewal	6,960
4.	Benevity - 1005 Langley Street	Expansion	5,727
5.	Provincial Government - 703 Broughton Street	Headlease	5,465

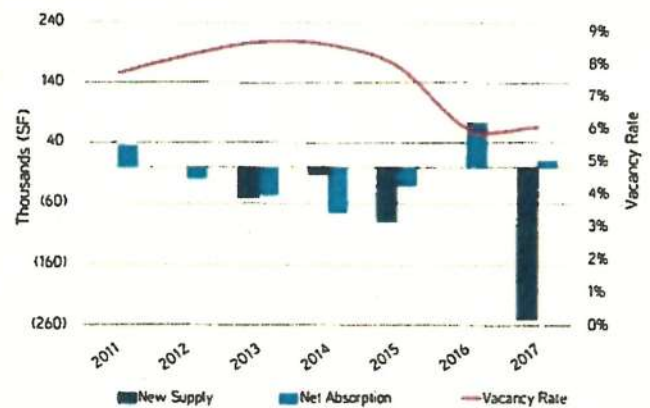
Downtown

Downtown vacancy has remained nearly unchanged from 6.02% as of year-end 2016 to 6.05% second quarter 2017. Downtown Class A office space is still the lowest vacancy segment even though there was a slight increase from year-end 2016's 1.07% to 1.44% mid-year 2017. Total downtown absorption has decreased significantly from a positive 73,454 square feet as of year-end 2016 to 11,729 square feet mid-year 2017. New Supply is at a negative 249,858 square feet, which is primarily due to the adjustment of the office inventory.

Trends

- › Class A office space remains in high demand as tenants look to upgrade from their current office situation.
- › New Class A construction is now surpassing the \$30 per SF base rent level. This is a historic new high and tenants are willing to pay for the added benefits new Class A office space has to offer.
- › There is a noticeable increase in the number of tenants looking for large office floor plates (20,000 SF to 40,000 SF), however, there are limited options in the downtown core for these size ranges and tenants are having to look at the Suburban market for more options.
- › Parking is still becoming more difficult to secure in the downtown core as a number of surface parking lots have been sold as development sites, and new bike lane infrastructure is further impacting the accessibility of parking in the downtown core. There is also an expected increase in parking rates over the next year. Tenants are therefore looking to the suburbs to satisfy challenging parking requirements.

Downtown Historical Performance



Supply

The Azzurro on 1950 Blanshard Street added 11,087 square feet of Class B+ office space to the inventory. This was the only new supply for the first two quarters of the year, however, there were a few changes to the office building inventory. 1105 Pandora Ave has been removed from the inventory, by a negative 27,000 square feet, as the site is to be redeveloped into condos. 940 Blanshard Street had a building size reduction by 233,445 square feet as to only account for the office portion of the building.

Downtown	Q4 2016	Q2 2017	Trend
Office Inventory	4,761,916	4,512,058	↓
Net Absorption	73,454	11,729	↓
Vacancy Rate	6.01%	6.05%	↑
New Supply	0	11,087	↑
Under Construction	500,000	500,000	↔

Market Indicators

MARKET	CLASS	TOTAL INVENTORY (SF)	VACANT (SF)	VACANCY RATE	NET ABSORPTION	NET NEW SUPPLY
	A	513,808	7,384	1.44%	(1,901)	0
	B	3,393,962	184,410	5.43%	14,015	(222,358)
	C	604,288	81,125	13.42%	(385)	(27,500)
Region Total		4,512,058	272,919	6.05%	11,729	(249,858)

396 offices in 68 countries on 6 continents

United States: 153

Canada: 29

Latin America: 24

Asia Pacific: 79

EMEA: 111

\$2.6B

US* in annual
revenue

2B

square feet
under management

15,000

professionals
and staff

*Based on 2014 revenue

MARKET CONTACT

David Gannon
Managing Director | Vancouver | United States
+1 250 414 8388
david.gannon@colliers.com

Curtis Scott
Managing Market Intelligence | Vancouver
+1 604 682 2657
curtis.scott@colliers.com

REGIONAL AUTHORS:

Tristan Spark
Vice President | Victoria
+1 250 414 8391
tristan.spark@colliers.com

Grant Evans
Vice President | Victoria
+1 250 414 8373
grant.evans@colliers.com

Elina Densheu
Market Intelligence Coordinator | Victoria
+1 250 414 8382
elina.densheu@colliers.com

Colliers International | Victoria
1175 Douglas Street, Suite 1110
Vancouver, BC | Canada
+1 250 398 6454

[Twitter](#) [Facebook](#) [LinkedIn](#)

About Colliers International Group Inc.

Colliers International Group Inc. is an industry leading global real estate services company with more than 15,000 skilled professionals operating in 68 countries. With an enterprising culture and significant employee ownership, Colliers professionals provide a full range of services to real estate occupiers, owners and investors worldwide. Services include strategic advice and execution for property sales, leasing and finance; global corporate solutions; property, facility and project management; workplace solutions; appraisal, valuation and tax consulting; customized research and thought leadership consulting.

Colliers professionals think differently, share great ideas and offer thoughtful and innovative advice that help clients accelerate their success. Colliers has been ranked among the top 100 outsourcing firms by the International Association of Outsourcing Professionals' Global Outsourcing for 11 consecutive years, more than any other real estate services firm.

[colliers.com](#)

© 2015 Colliers International Inc.

Colliers International Group Inc. is an equal opportunity employer. The company does not discriminate on the basis of race, gender, religion, age, sexual orientation, marital status, or any other protected characteristics. Colliers International Group Inc. is an equal opportunity employer. The company does not discriminate on the basis of race, gender, religion, age, sexual orientation, marital status, or any other protected characteristics.

Aon.

BEST EMPLOYER

2015 - 2017



Accelerating success.