

An Economic and Investment Summary of Canada
& the Province of British Columbia

BC Economic Outlook March 2009



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Canada: An Overview

☞ Social

- Population March 2009 - 33.5 million
- 1st in G7 in the UN's Human Development Index*
- 1st in G7 in overall quality of life**

☞ Political

- Constitutional federal monarchy
- Historically centrist, fiscally-and socially-responsible
- Two ruling parties, have been in power for over 100 years

☞ Economic

- Sound fundamentals, solid currency, excellent trade surplus, improved tax climate, low interest and inflation rates
- Top performer among the G-7 in GDP growth over the 2004-07 period and is expected to continue its dynamic performance over the 2008-09 period.***
- Ranks #1 in the world by the World Economic Forum for soundness of banks.****

Source: *United Nations Human Development Report 2007-2008, November 27, 2007

**Rank among 55 economies considered in the World Competitiveness Yearbook 2007

***InvestinCanada.com - Think 2008 presentation

****World Economic Forum – Global Competitiveness Report - <http://www.weforum.org/documents/GCR0809/index.html>

Canada: The Economy

Deficit Spending 2009-2010

- The Conservative government plans to run a deficit for the next two years due to declining global economic conditions.*
 - Canada's Economic Action Plan will provide nearly \$30 billion in support of the Canadian Economy this year.
 - Tax reductions for Canadians and businesses - \$20 billion over 2008-09 and following five years.
 - Infrastructure project funding - \$12 billion
 - Housing construction and renovation - \$7.8 billion
 - Improve access to financing for consumers and business with support of up to \$200 billion.
 - Enhanced benefits and training opportunities for Canadians affected by the global economic slowdown.
 - *“With this stimulus plan, Canada will emerge from this recession with a more modern and greener infrastructure, a more skilled labor force, lower taxes and a more competitive economy.”* Jim Flaherty

Canada: The Economy (Cont.)

Credit Rating

- Government of Canada maintains AAA rating on Moody's Index*

Low Inflation

- Inflation projected to fall below 1.5% in 2009, and continue towards 1.0% by 2010.**
- Actual average of 2.2% over last 5 years – Compared to 2.9% for the U.S.***

Low interest and bond rates

- Influenced by low inflation, strong currency, partial driver of real estate boom
- Bank of Canada overnight rate – as of March 2, 2009 – 0.5%

Source United States: The Budget and Economic Outlook. An Update, United States Congressional Budget Office, August 2007.

*<http://www.gov.bc>.

** OECD Economic Outlook, Number 84 , November 2008

***Sources: Statistics Canada and the Federal Reserve Bank of St. Louis (FRED II Database), January 2008

Canada: The Economy - International Relations

- Canadian - European Union Strategic Partnership
 - October 17, 2008 Summit in Quebec City push the two parties closer to a free trade agreement.*
 - March 4, 2009 – Formal agreement to begin official free trade negotiations established.
 - Agreement would boost bilateral trade by more than 20%, equivalent to a \$12 billion dollar increase to the Canadian economy.

- Free Trade Negotiations
 - Conclusion of Free Trade negotiations with the nations of Jordan, Peru, and Colombia (February - August 2008)
 - Recent expansion of trade offices and relations in China, India, Brazil, Mexico, Ecuador, and Mongolia.

*Government of Canada: Office of the Prime Minister; New Release October 17, 2008 Quebec City

**Foreign Affairs and International Trade Canada; New Releases 2008

Canada: The Economy - Competitive Advantages

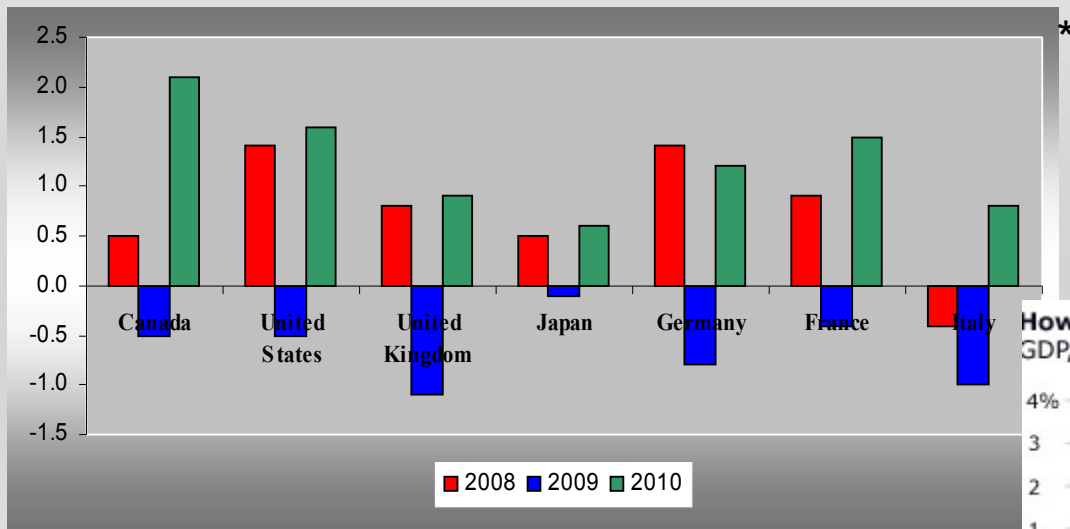
- ▣ People Advantage
 - Ranked #1 in higher education by the OECD

 - ▣ Business Environment Advantage
 - Rated #1 place to do business in the G7 for the next five years by The Economic Intelligence Unit

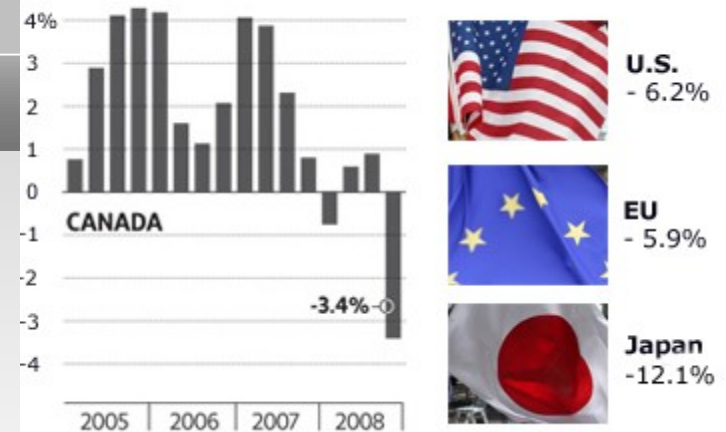
 - ▣ Geographical Location
 - Access to more than 443 million consumers with a combined GDP of more than US\$15.4 trillion through NAFTA membership.
 - Located at the crossroads between the North American marketplace and booming Asian economy.

 - ▣ Tax Environment
 - Canada offers low tax rates including the lowest payroll taxes among the G7 nations.
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G7 Comparative Analysis – GDP Growth



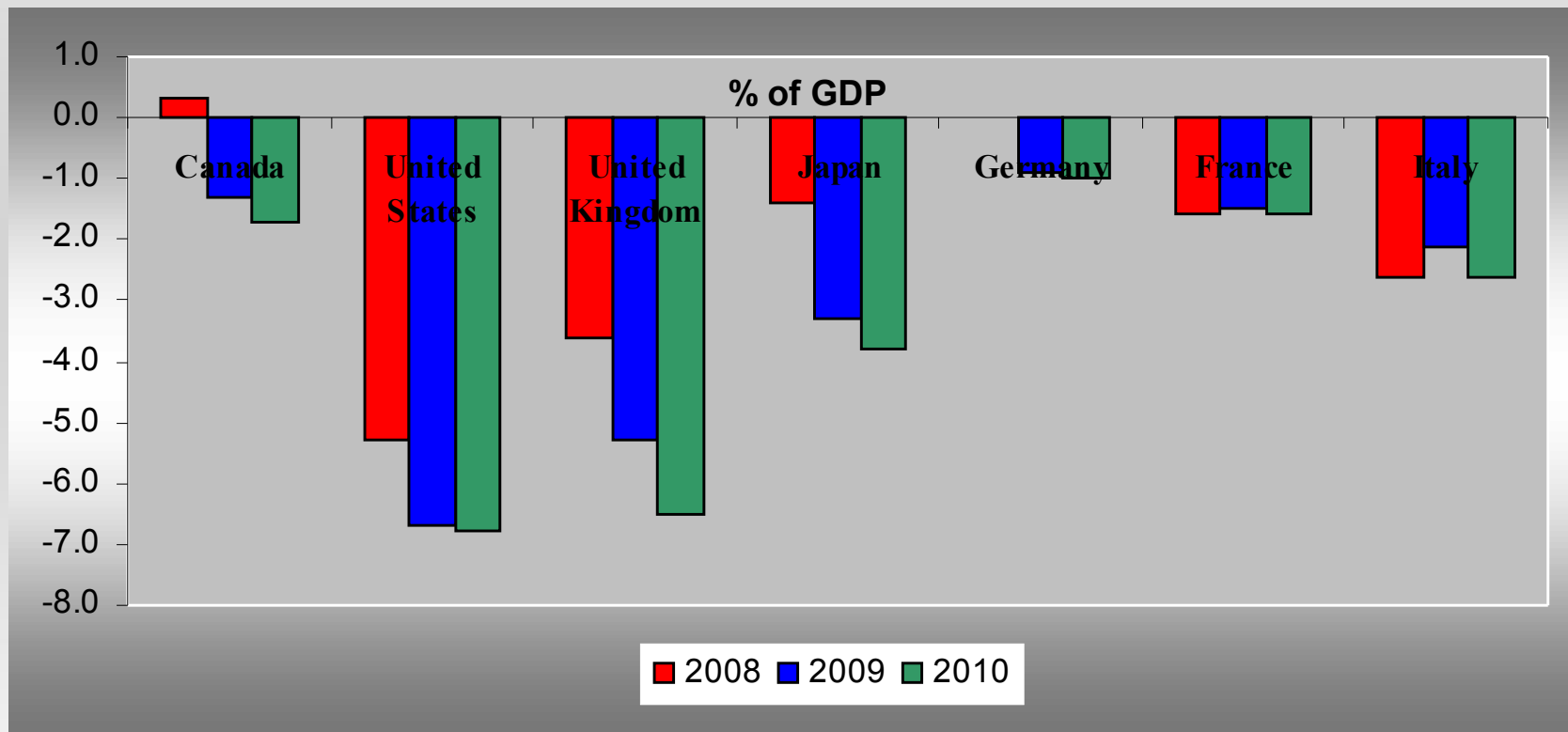
How Canada's recession compares
GDP, quarterly % change, annualized



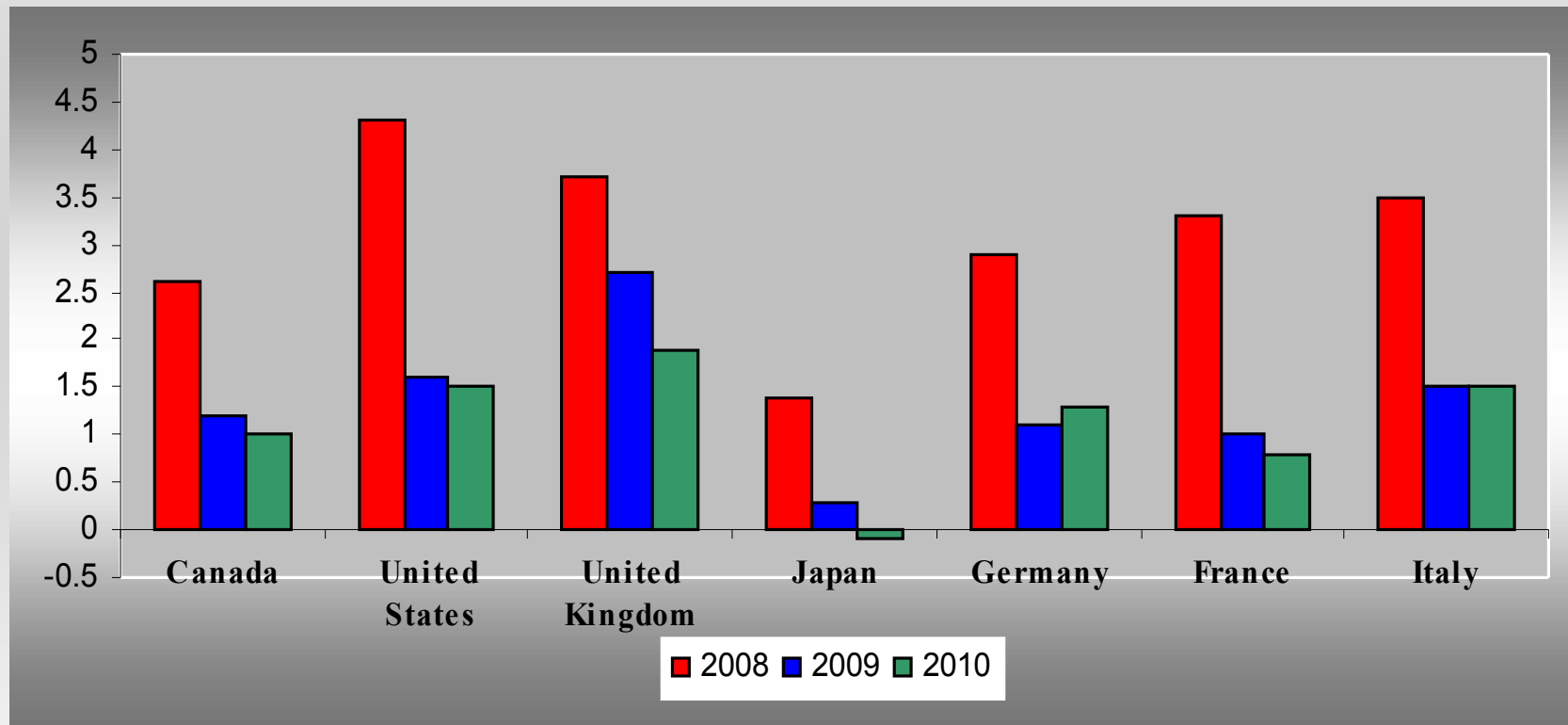
*Source: OECD Economic Outlook, Number 84, November 2008

** Royal Bank Economic Report – March 12, 2009 - <http://www.rbc.com/newsroom/pdf/20090312-economic-ab.pdf>

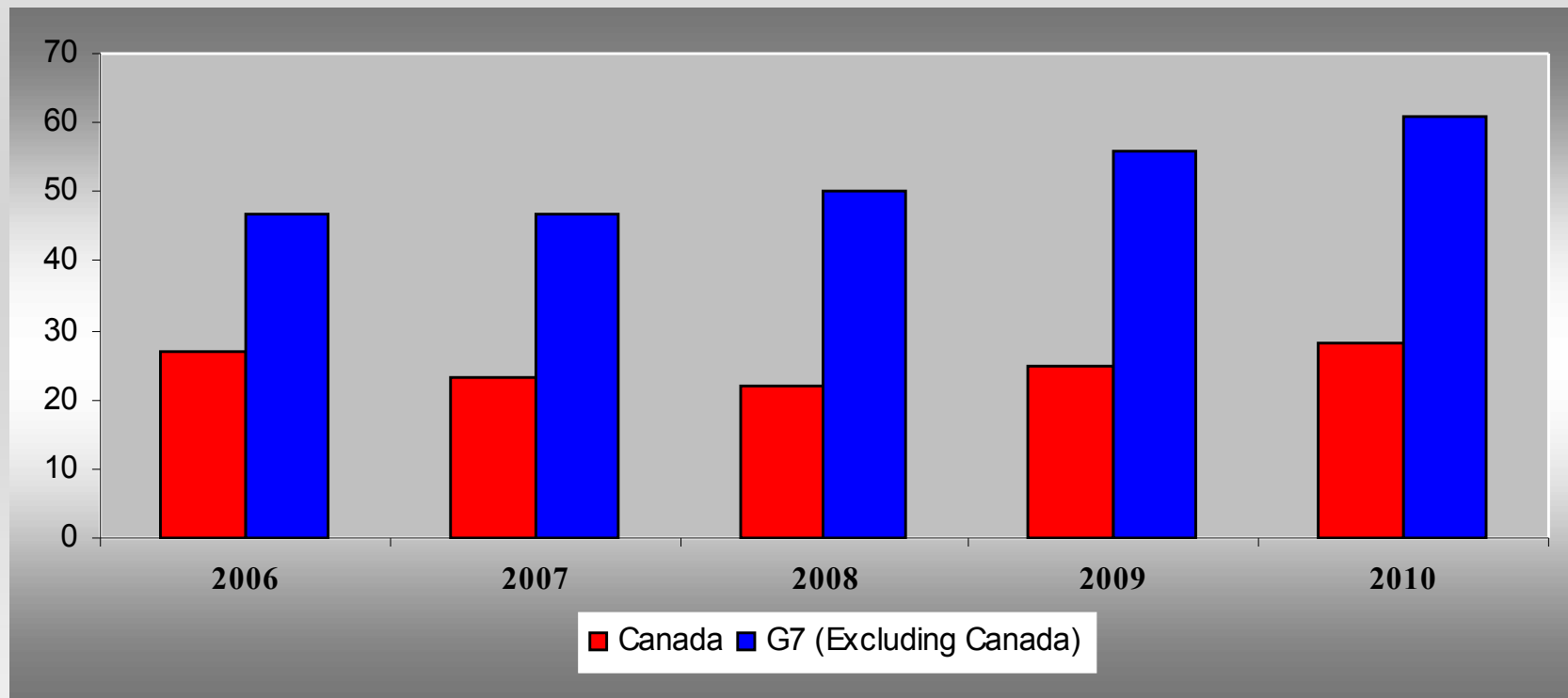
G7 Comparative Analysis - Financial Balances



G7 Comparative Analysis – Inflation (%)



G7 Comparative Analysis – Debt-to-GDP %



Canada: Investment Climate

- A strong Canadian Dollar:
 - Historically approached US\$0.60 in the mid-to late 1990s
 - Weakening of commodity market has depreciated the dollar, currently has stabilized around the US\$.80 mark.
 - Unlike the US dollar, the Canadian dollar has maintained stability with the Euro in the past 8 years

- Statutory Corporate Tax Rates(2008):
 - Average 33.5% in Canada, Compared to 40% in U.S*

Canada: Investment Climate (Cont)

Cost of Business*:

- Canada statistically ranks 2nd overall and first among G7 countries for affordable business costs, with a nominal 0.6 % advantage over the US
- Costs have risen most rapidly in British Columbia and Alberta, reflecting the western economic boom of recent years.
- Total labour costs are lowest in Mexico by a significant margin; however, Canada ranks much higher than Mexico on quality of life issues, such as healthcare, crime rates and education.

Positive Overall Business Climate:

- Canada ranks 1st in the G7 as “the best place to invest and do business” **
- 4th in Economist Intelligence Unit’s global business rankings forecast (2008-12)***
- Second among G7 for immigration laws highly conducive to hiring foreign labour.***
- Canada ranks 1st among the G-7 and OECD countries for the lowest number of procedures required to establish a new business ****
- Canada ranks 1st among the G-7 for the fewest number of days required for establishing a new business.****

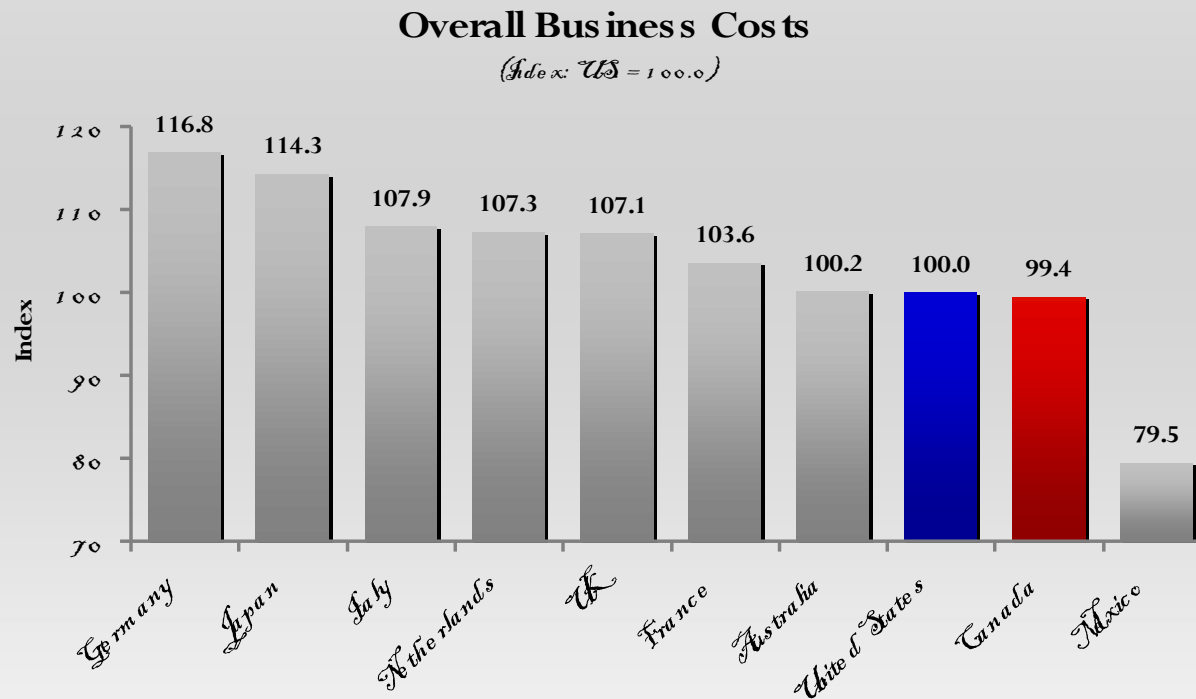
*Source: KPMG Competitive Alternatives 2008 Edition

**Source: Economic Intelligence Unit’s global business rankings forecast 2008-2012.

***Source : The Economist Intelligence Unit, December 2007

****Source: Doing Business in 2008 - The World Bank Group, 2007

Example: Comparative Business Costs*



*Source: KPMG Competitive Alternatives 2008 Edition

British Columbia: Socio-Political Climate

Social

- Population: 4.2 million (13.1% of Canada total)
- Quality of life unmatched anywhere in North America & by very few places in the world
- Vancouver is 4th Highest in World for Quality of Life - Mercer Consulting* based on 39 key quality-of-life determinants.
- Vancouver #1 in North America for quality of living**

Political - BC Liberal Party

- Centrist, business-friendly & socially-conscious government
- Next Provincial Election May 12, 2009
- Fiscally Conservative and Socially Liberal

*http://www.citymayors.com/features/quality_survey.html, June 2008

**Mercer Human Resource Consulting 2008

British Columbia: Socio-Political Climate (Cont.)

- ▣ National “Power” shift
 - Social & political influence shifting from historic Central Canada to Western Canada, largely due to recent shifting of economic power

 - ▣ Balanced Economic and Social Policies
 - Result - strong economy while keeping BC the best place to live in Canada and the world
 - Diverse multicultural & ethnic mix
 - Positive net in-migration, international and domestic
-

British Columbia: The Economy

Overview

- Ideally-located for trade with Asia-Pacific, Alberta & U.S.
- Vancouver & Prince Rupert are two of the largest ports in Western North America
- Historically resource-based (forestry and mining)
- Graduating to energy, tourism & high-tech over last 30 years
 - B.C.'s natural gas industry has reported a six-fold increase in export gas values in the past 10 years and a doubling of employment in the last 5 years. Expected to double and potential triple in the next 10-20 years, providing billions in royalty payments and land-lease fees, and tens of billions in capital expenditures (\$8.3 billion in 2007).
- Real estate boom in recent years have primarily been driven by strength in these sectors.

Economic Indicators & Investment Climate

- Highest possible credit rating of AAA from both S&P and Moody's.**
- Marginal corporate tax rate: 31.00% (less than US average of 40%)***
- Government debt-to-GDP ratio: 18.4% (2007/2008) Estimated for 2008/2009 19.0%****

British Columbia: The Economy (cont.)

- Government Fiscal Policy - The 2009/2010 Deficit Budget*
 - In divergence from public law, British Columbia will run a temporary two-year deficit to propel the provincial economy through the global economic downturn.
 - The unspecified amount will be introduced by the province for the 2009-2010 fiscal year on February 17, 2009. The budget will return to balance in the 2011-12.
 - The fiscal plan will focus on short-term job stimulus programs, and will include cuts in all areas of discretionary spending.
 - British Columbia will also maintain their Carbon Tax implemented last summer; outlined on the following page.

British Columbia: The Economy (cont.)

Carbon Tax:

- July 1, 2008, British Columbia began phasing in a carbon tax on all fossil fuels including gasoline, diesel, natural gas, coal, propane and home-heating fuel.
- The tax will generate about \$1.85-billion over three years.
- Two-thirds of the money raised in the first year will come from businesses
- Legislation will require a plan to be tabled in the legislature each year showing how the carbon-tax revenue will be returned to businesses and individuals.
- Essentially shifting the tax burden from income to carbon consumption.
- Tax Cuts:
 - July 1, 2008, the general corporate income-tax rate will be reduced to 11% from 12%. By 2011, it will be reduced to 10%.
 - The bottom two personal income-tax rates will be reduced in a tax cut of 2% in 2008 and 5% in 2009 on the first \$70,000 in earnings

British Columbia: The Economy (cont.)

- Unprecedented economic growth appears to have ended, however Canada and specifically British Columbia enters the recessionary period on very enviable terms.
- The Ministry of Finance's economic forecast projects flat real economic growth for fiscal 2009-10, superior to national and international averages on decline*.
- Additionally the current administration has been proactive in addressing the global economic and outlined a plan to take immediate steps to improve the province's economic competitiveness in the following 10 steps.

British Columbia: 10-Point Economic Plan

1. Unlimited deposit insurance for deposits to credit unions.
2. New pension opportunity
 - The creation of a privately financed contribution plan made available to those without a group pension plan.
3. An accelerated, retroactive personal income tax cut
 - 5% income tax reduction as of Jan. 1, 2008
4. School property tax rebate for industry.
 - 50% of school property taxes will be rebated to light and heavy industry to help B.C.'s oldest and largest employers.
5. Accelerated tax relief for small business.
 - December 1, 2008 the small business income tax rate will be 2.5% down from 3.5%

British Columbia: 10-Point Economic Plan (cont.)

1. Double commission paid to business for PST and HRT collection.
 - Province to double the commission paid to businesses for collecting the provincial sales and hotel room tax.
2. Accelerated public infrastructure
 - Funding will focus on projects without a long lead time.
3. 33% reduction in ferry fares for Dec/Jan
 - \$20 Million dollar investment to alleviate financial stress during holiday season.
4. Rein in avoidable government spending.
 - Will re-evaluate spending priorities and focus on scaling back unbudgeted increases.
5. Recall the Legislature
 - As a number of these measures require legislative approval, the Legislature will be recalled on November 20.

British Columbia: Major Projects*

- 898 major capital projects, worth an estimated record \$176.1 billion were planned or underway in B.C. between July and September 2008.
- Increase of 7% in the number of major capital projects
- Represents a 23% increase in value from the previous year, when there was 843 major capital projects planned or underway worth an estimated record \$143.4 billion.
- 35 projects completed construction in the third quarter with an estimated capital cost of approximately \$1.4 billion.

*The inventory includes projects with a capital cost of at least \$20 million within the Lower Mainland and projects valued at \$15 million or more in the rest of B.C.

Source: British Columbia Major Projects Inventory, September 2008

<http://www.gov.bc.ca/ecdev/>

British Columbia: Major Public Capital Projects*

Lower Mainland

- Golden Ears Bridge - (Langley) - Finish 2009 - C\$808 million
- RAV Canada Line, Skytrain Expansion - (Richmond) - Finish 2009 - C\$1,900 million
- Vancouver Trade & Convention Centre Expansion - (Vancouver) - Finish 2009 - C\$883 million
- Sea to Sky Highway Improvement - (Vancouver to Callaghan) - Finish 2009 - \$600 Million
- Roberts Bank/Deltaport Terminal Expansion - (Delta) - Finish 2011 - C\$1.2 billion
- Gateway Program - South Fraser Perimeter - (Surrey/Delta) - Finish 2012 - C\$1,002 million
- Coquitlam Light Rail Transit line, Evergreen Line - (Vancouver Area) - Finish 2012 - C\$953 million
- Gateway Program - Port Mann Bridge & Hwy 1 - (Langley to Vancouver) - Finish 2013 - C\$1,728 million
- Vancouver International Airport Expansion - (Richmond) - Finish 2027 - C\$1,775 million
- Cogburn Magnesium Hydrometallurgical Facility - (Hope) - Finish N/A - C\$1,300 million

Vancouver Island/BC Central Coast

- Nahwitti Wind Farm - (Port Hardy) - Finish 2009 - C\$900 million
- Knobb Hill Wind Power Project - (Port Hardy) - Finish 2009 - C\$700 million
- Klinaklini Hydroelectric Project - (Campbell River) - Finish 2011 - C\$560 million
- Victoria Sewage Treatment Plant - (Victoria) – Finish 2016 - C\$1,200 million
- Catface Mine - (Tofino Area) - Finish N/A - C\$400 million

British Columbia: Major Private Real Estate Projects*

Mainland

- Coal Harbour Redevelopment - (Vancouver) -Finish 2008 - C\$1,000 million
- Coopers Quay Residential Development - (Vancouver) - Finish 2008 - C\$500 million
- Central City Neighborhood - (Surrey) - Finish 2009 - C\$1,000 million
- Shangri-La Hotel and Condominium - (Vancouver) - Finish 2009 - C\$350 million
- Fairmont Pacific Rim Vancouver Hotel - (Vancouver) -Finish 2009 - C\$420 million
- Main Street Residential Development - (Vancouver) -Finish 2010 - C\$1,000 million
- Waterfront Landing Residential Development - (Squamish) - Finish 2011 - C\$800 million
- Residential Development No.2 rd and Dinsmore - (Richmond) - Finish 2019 - C\$1,000 million

Vancouver Island/BC Central Coast

- Cumberland mixed-use/retail development - (Cumberland) - Finish 2011 - C\$62 million**
- Sage Hills university & residential Community - (Union Bay) - Finish 2017- C\$1,500 million
- Bear Mountain Village - (Langford) - Finish 2019 - C\$1,400 million
- Bamberton Residential Development - (Langford area) - Finish 2035 - C\$500 million
- Colwood Corners Residential Development - (Colwood) - Finish N/A - C\$1,000 million
- South Nanaimo Lands - (Nanaimo) - Finish N/A - C\$1,000 million
- West Hills Green Neighborhood - (Langford) - Finish N/A - C\$2,500 million

*Source: British Columbia Major Projects Inventory, December 2007

**A Trilogy Properties development. For more details, contact Trilogy. www.trilogyproperties.com

BC: Lower Mainland



- ☞ Globally-recognized as an ideal place to live
 - 1st in America Quality of Life Rankings 2008*
 - 4th in World Quality of Life Rankings 2008*
 - Population of Greater Vancouver Regional District : 2.2 million

☞ Lower Mainland Real Estate

- Vancouver Real Estate Prices among the highest in Canada and the world.**
- Vancouver is the largest city in British Columbia, and also the center of the Canadian Province's economic activity.

☞ Political Realm

- Notable political shift to the left-centre in the November 14, 2008 Civic Election.
- The victorious Vision Party of Vancouver will attempt to act on platform promises of increased social and environmental endeavors including solving homelessness and creating the greenest city in the world.

*Source: mercer.com, 2008 Quality of Living Survey

**http://www.snapuprealestate.ca/vancouver_city_info/, 2007

BC: Vancouver Island



- One of BC's high-demand regions for real-estate
 - Greater Victoria, Mid-& Upper Island regions
 - Mildest climate in Canada*
 - Lower land prices combined with growing demand - potential for future lifts

- Example: Trilogy's Cumberland Development
 - Located near the village of Cumberland, mid-island
 - A comprehensive, master-planned community
 - Residential, mixed-use, retail and hospitality components
 - Estimated construction start – Q3 2009

BC: Whistler Resort

- ▣ Whistler Village and Resort
 - Resort investment appealing, new development not an option due to lack of zoned land

 - ▣ A driver of the BC economy
 - Major driver of BC Tourism
 - Internationally-recognized all-season resort
 - 2010 Olympic Winter Games to further raise Whistler's profile

 - ▣ Squamish
 - Approximately half-way between Vancouver & Whistler
 - Historically a mill town. Growth - a result of Whistler prosperity
 - Is waterfront property
-

Vancouver

Whistler 2010 Winter Olympic Games

Quick Facts*

- 17 days of Olympic Games events: February 12 – 28, 2010
- 10 days of Paralympic Games events: March 12 – 21, 2010
- 5,500 Olympic Games athletes and team officials (projected)
- 1,350 Paralympic Games athletes and team officials (projected)
- 10,000 media representatives
- 3 billion worldwide television viewers

Economic impacts

- Government of Canada and British Columbia Government will invest \$590 million in Games Facilities.**
- Estimated that the Olympic Games will generate a total of 77,000 person/years of extra employment with an incremental \$2.6 billion in wages, salaries and benefits (Will ramp between 2004 and 2009, peak in 2010 and will be a much lower level in subsequent years.)***

New Vancouver Convention & Exhibition Centre Expansion Project ****

- Part of the Vancouver-Whistler 2010 infrastructure projects will serve as the main media centre for the Olympic and Paralympic Winter Games in 2010
- The 1.1 million sq ft project will triple the convention center's existing capacity and help generate an additional \$107 million annually in delegate spending.

Effects on Real Estate Investment

- Both projects predicted to drive demand for Vancouver & Whistler real estate to 2010 and beyond

*Source www.vancouver2010.com/en, march 2008

**Source www.vancouver2010.com/en, Vancouver 2010 Progress Report, July 2007

***Source: www.boardoftrade.com, Jan 2005

****Source: www.vccep.bc.ca/theproject/overview.html

BC: Future Outlook

- Strong Economic Fundamentals
 - Natural resources, energy, tourism, real estate & high-tech will continue to drive BC's economy
 - Low interest rates, low inflation & high demand will help drive real estate profits
 - Indicators show downturn in 2009 but continual growth into 2010 and beyond

 - International Recognition
 - Consistently ranked among the top of the G7 for economic strength & globally for quality of life
 - 2010 Winter Olympic Games will further enhance BC's international image
 - All these factors will help drive demand for BC real estate
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Questions and Discussion

Thank You for Your Attention!

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