

Vancouver Office, Q1 2017

Robust start for 2017, suburbs heating up

 Vacancy Rate
10.1%

 Net Rental Rate
\$24.45 per sq.ft.

 Net Absorption
379,320 sq.ft.

 Under Construction
1,460,336 sq.ft.

Source: CBRE Research, Q1 2017.

*Arrows indicate change from previous quarter.

MARKET STATISTICS

- Large blocks of space becoming increasingly scarce as few options are available in the Downtown core
- Co-working group WeWork plans to occupy 5 floors (77,182 sq.ft.) at Bentall III (595 Burrard Street) in Q3 2017
- The Exchange (475 Howe Street) nears completion and seeks rezoning to convert floors 2 to 11 (approximately 110,000 sq.ft.) from office to hotel use
- Downtown has the lowest vacancy rate since Q4 2014 and Broadway continues to have the lowest vacancy rate overall
- 510 Seymour Street adds 68,230 sq.ft. to Class A Downtown inventory and 380 W 5th Avenue (100% pre-leased) adds 73,250 sq.ft. to the Class A Broadway Corridor inventory
- Metro Vancouver vacancy rate is down 70 bps QoQ and down 150 bps YoY

ECONOMY, POLITICS AND INFRASTRUCTURE

- Infrastructure spending over the next 5 years at \$23 billion, which exceeds spending prior to 2010 Winter Olympics
- False Creek Flats Planning Program seeks to promote growth and development of over 450 acres located in the Broadway Corridor submarket

METRO VANCOUVER

The Metro Vancouver office market started 2017 with 379,320 sq.ft. of positive net absorption, split 40% for downtown and 60% for the suburban markets. Overall, the Metro Vancouver office vacancy rate declined 70 basis points to 10.1% over the quarter and 150 basis points since this time last year.

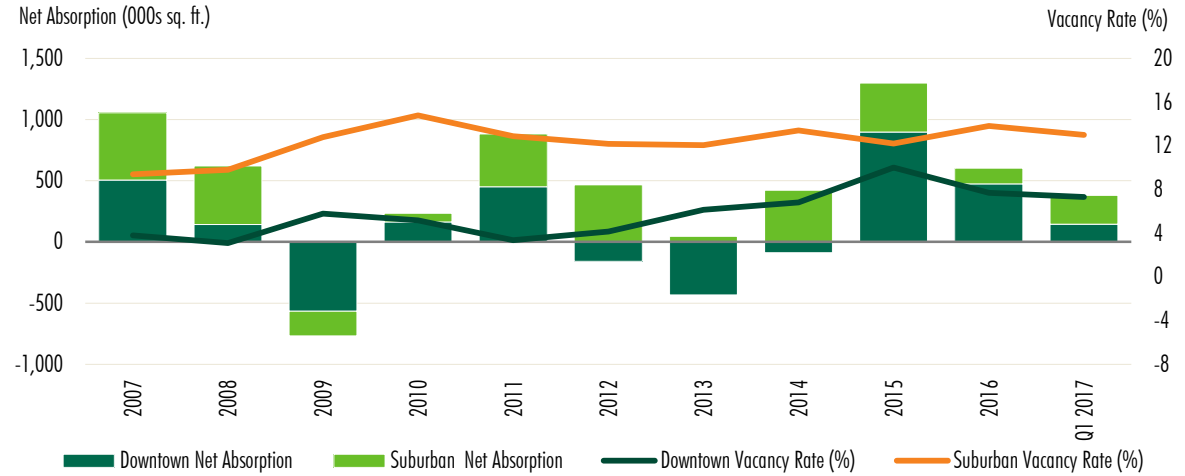
Gross leasing activity was also strong in the first quarter as an increasing number of organizations across all industry types are now utilizing their office space as an additional recruiting tool.

DOWNTOWN VANCOUVER

Market conditions continued to tighten in the Downtown Vancouver market as the vacancy rate decreased for the fourth consecutive quarter from 7.7% to 7.3%, accompanied by 144,597 sq.ft. of positive net absorption. Growing demand for office space in the Downtown Vancouver market has placed upward pressure on net rental rates, which increased across all building classes.

Leasing velocity in the first quarter of 2017 began strong with 575,525 sq.ft., which is a 24% increase from the first quarter of last year. Significant transactions this quarter included WSP leasing 53,000 sq.ft. in Robson Court (840 Howe Street) and BrainStation leasing 12,000 sq.ft. at 717 West Pender Street.

Figure 1: Metro Vancouver Supply & Demand



Source: CBRE Research, Q1 2017.

Class AAA experienced 15,846 sq.ft. of negative absorption as vacancy edged slightly from 6.3% to 6.6%. Despite this, the vacancy rate is 370 basis points lower than the same period last year.

Notable leasing activity this quarter includes WeWork leasing five floors, totaling 77,182 sq.ft. in Bentall III (595 Burrard Street). The entry of the shared workspace provider into the Vancouver market is further indication of the city's growing recognition as a global technology hub.

The positive momentum in Class A carried on for the third consecutive quarter, as the vacancy rate dropped from 9.0% to 7.9%, accompanied by 138,294 sq.ft. of positive net absorption. The completion of 510 Seymour, which as of this report is 70% leased, added 68,230 sq.ft. to the inventory. Notable transactions this quarter include Altus Group relocating to Royal Centre (1055 W Georgia Street) with occupancy slated for Q1 2018, while Watson Goepel LLP relocated within 1075 W Georgia Street for 20,000 sq.ft. with occupancy in Q3 2017.

Class B and C vacancy decreased 40 basis points to 7.7% and 20 basis points to 6.5%, respectively. A significant transaction this quarter includes Scanline VFX leasing 35,880 sq.ft. at 580 Granville Street. Class C vacancy is at its lowest since Q1 2009, and the average net asking rate has continued to climb for the last four quarters. This is attributed to a shortage of supply coupled with an increasing number of tenants looking for unique character spaces.

Large occupiers have very few choices in a tightening market. Further, the Downtown vacancy rate is expected to drop which will cause rents to rise and create greater competition among all tenants in the market. If these conditions persist, another construction cycle could be triggered as a response. The sub-5% vacancy witnessed in 2011 through 2012 kick-started the last construction cycle which brought on nearly 1.8 million sq.ft. in 2015.

SUBURBAN

In Q1 2017, the Suburban Vancouver market witnessed 234,723 sq.ft. of positive net absorption, the highest since Q1 2012. Four out of the six Suburban markets experienced positive net absorption with Broadway Corridor and Burnaby leading the charge.

Demand for new, high quality office space has increased in the Suburban markets, as over 755,000 sq.ft. of new supply delivered in the last twelve months is 90% leased.

BROADWAY CORRIDOR

The vacancy rate in the Broadway Corridor declined from 3.4% to 3.2% in Q1 2017 and it continues to remain the tightest market in Metro Vancouver.

Cressey Development Group's Fifth by Cressey (380 W 5th Avenue) added 73,250 sq.ft. to the Class A inventory. The building came to market fully leased by DHX Media. The Lightworks Building (22 E 5th Avenue) will also be coming on market in Q3 2017, with Saje Natural Business Inc. as the sole office tenant.

Currently, tenants seeking space in the Broadway Corridor require over 500,000 sq.ft. Projects currently under construction are expected to add 394,366 sq.ft. with over 60% pre-leased. As it stands today, more inventory is needed in order to fill the gap between the limited supply and growing demand.

The City of Vancouver and the Vancouver Economic Commission have begun the process of creating a plan for the re-development of over 450 acres located along Great Northern Way between Main Street and Clark Drive. The aim of the program is to increase job capacity, retain industrial functions and create a unique community in a well-situated but underutilized part of the city. Pent up demand for office space in this area is likely to trigger developers to construct more office space. Increasing the inventory would alleviate the shortage of supply this market has experienced since Q4 2014 when vacancy fell and remained below 5%.

BURNABY

The Burnaby office market led the Metro Vancouver submarkets with 145,790 sq.ft. of positive net absorption, while the vacancy rate declined from 17.5% to 15.5%.

Strong leasing activity in the first quarter led to RDH Building Science and PerfectMind leasing 20,000 sq.ft. and 18,000 sq.ft. in Willingdon Park, respectively. Burnaby continues to attract new tenants as Health Employers Association of British Columbia leased close to 50,000 sq.ft. in Renfrew Centre (2889 E 12th Avenue), and Directors Guild of BC leased 7,973 sq.ft. at 2985 Virtual Way.

The Burnaby vacancy rate is projected to decrease further by up to 300 basis points when Metro Vancouver occupies their space in Metrotower III (4730 Kingsway), and their existing premises (5945 Kathleen Avenue and 4330 Kingsway) come to market for sale.

The Q1 2017 Burnaby office statistics are based on the reclassification of the Burnaby office inventory.

RICHMOND

The Richmond office market experienced 10,520 sq.ft. of positive net absorption in Q1 2017, as vacancy dropped for the fourth consecutive quarter from 15.0% to 14.8%. The vacancy is anticipated to decline further when a large technology tenant occupies 86,000 sq.ft. in Marine Gateway (450 SW Marine Drive) in Q3 2017.

The vacancy rate in Airport Executive Park remains tight at 3.7%, which is expected to climb next quarter when Tetra Tech vacates 57,000 sq.ft. from 10851 Shellbridge Way. Vacancy in the No.3 Road Corridor submarket dipped further from 6.6% to 5.5%, while Crestwood Corporate vacancy continues to decline to 11.4%.

SURREY

In Q1 2017, the Surrey office vacancy rate dipped 90 basis points to 19.6%, with 26,445 sq.ft. of positive net absorption. A notable transaction this quarter includes Innovation Boulevard subleasing 7,645 sq.ft. in Central City (13450 102nd Avenue). Looking ahead, 56,000 sq.ft. will be added to the Surrey office inventory next quarter with the addition of Gateway Place (13479 108th Avenue) which will come to market fully leased.

NEW WESTMINSTER

The New Westminister office market witnessed 18,092 sq.ft. of negative absorption in Q1 2017 as the vacancy rate climbed 120 basis points to 16.0%. The Anvil Centre (11 8th Street – 137,000 sq.ft.) continues to inflate the vacancy rate. With the Anvil Centre excluded, remaining buildings in New Westminister have a vacancy rate of 6.7%.

NORTH SHORE

Vacancy in the North Shore market edged up 50 basis points to 7.7% in Q1 2017, accompanied by 9,466 sq.ft. of negative absorption. Onni's 1308 Lonsdale (47% pre-leased) is expected to be completed in late 2017, adding 79,000 sq.ft. to the Class A office inventory.

Figure 2: Market Statistics

Submarket	Class	Total Buildings	Inventory (sq. ft.)	Vacancy Rate (%)	Q1 2017 Net Absorption (sq. ft.)	YTD 2017 Net Absorption (sq. ft.)	Q1 2017 Gross Leasing (sq. ft.)	Q1 2017 New Supply (sq. ft.)	Net Asking Rent (\$ per sq. ft.)	Additional Rate (\$ per sq. ft.)
Downtown Vancouver	AAA	13	5,207,624	6.6	-15,846	-15,846	53,662	-	\$32.02	\$21.25
	A	33	6,749,655	7.9	138,294	138,294	181,838	68,230	\$31.86	\$19.81
	B	65	7,919,584	7.7	13,992	13,992	186,610	-	\$25.50	\$19.42
	C	66	3,926,367	6.5	8,157	8,157	153,455	-	\$22.13	\$16.25
	TOTAL	177	23,803,230	7.3	144,597	144,597	575,525	68,230	\$28.16	\$19.41
Broadway Corridor	AAA	6	626,343	0.9	218	218	0	-	\$31.00	\$22.95
	A	19	1,413,478	1.0	78,577	78,577	81,013	73,250	\$27.48	\$20.67
	B	34	1,691,846	6.3	9,451	9,451	45,438	-	\$24.99	\$13.51
	C	38	841,601	2.4	-8,800	-8,800	0	-	\$21.51	\$15.59
	TOTAL	97	4,573,268	3.2	79,446	79,446	126,451	73,250	\$24.99	\$14.83
Burnaby	AAA	12	2,361,541	29.7	97,751	97,751	151,825	-	\$26.62	\$15.99
	A	23	2,502,899	10.2	235,808	235,808	66,309	-	\$21.90	\$14.75
	B	38	3,054,738	10.9	-154,171	-154,171	45,341	-	\$17.53	\$10.38
	C	23	997,679	9.4	-33,598	-33,598	55,087	-	\$15.17	\$11.22
	TOTAL	96	8,916,857	15.5	145,790	145,790	318,562	-	\$23.66	\$14.54
Richmond	AAA	21	1,702,060	23.7	7,191	7,191	25,116	-	\$21.52	\$12.90
	A	24	1,567,642	8.9	-6,417	-6,417	5,801	-	\$14.06	\$9.61
	B	19	526,886	2.4	-464	-464	14,098	-	\$16.04	\$16.87
	C	7	199,849	17.8	10,210	10,210	0	-	\$14.65	\$7.53
	TOTAL	71	3,996,437	14.8	10,520	10,520	45,015	-	\$18.72	\$11.66
North Shore	A	12	727,462	8.6	-16,989	-16,989	6,148	-	\$23.32	\$14.58
	B	17	752,877	7.4	7,390	7,390	2,250	-	\$19.42	\$13.12
	C	11	236,929	6.1	133	133	1,147	-	\$16.46	\$15.03
	TOTAL	40	1,717,268	7.7	-9,466	-9,466	9,545	-	\$20.86	\$14.05
	Surrey	A	14	1,811,620	21.8	1,606	1,606	73,418	-	\$24.54
B		21	807,730	19.5	7,587	7,587	19,562	-	\$14.86	\$11.83
C		14	288,403	6.2	17,252	17,252	45,950	-	\$14.15	\$10.74
TOTAL		49	2,907,753	19.6	26,445	26,445	138,930	-	\$21.41	\$11.15
New Westminister		A	7	600,867	30.3	-5,321	-5,321	1,143	-	\$25.21
	B	13	589,296	4.7	879	879	3,366	-	\$14.71	\$12.67
	C	10	275,766	9.3	-13,570	-13,570	1,483	-	\$13.00	\$13.53
	TOTAL	30	1,465,929	16.0	-18,012	-18,012	5,992	-	\$22.64	\$13.84
	Suburban	AAA	39	4,689,944	23.7	105,160	105,160	176,941	-	\$25.15
A		99	8,623,968	12.1	287,264	287,264	233,832	73,250	\$22.69	\$12.21
B		142	7,423,373	9.3	-129,328	-129,328	130,055	-	\$18.15	\$11.96
C		103	2,840,227	7.3	-28,373	-28,373	103,667	-	\$15.38	\$11.49
TOTAL		383	23,577,512	13.0	234,723	234,723	644,495	-	\$22.13	\$13.22
Metro Vancouver	AAA	52	9,897,568	14.7	89,314	89,314	230,563	-	\$26.87	\$16.65
	A	132	15,373,623	10.3	425,558	425,558	415,670	141,480	\$25.91	\$14.89
	B	207	15,342,957	8.5	-115,336	-115,336	316,665	-	\$21.97	\$15.83
	C	169	6,766,594	6.8	-20,216	-20,216	257,122	-	\$19.09	\$14.10
	TOTAL	560	47,380,742	10.1	379,320	379,320	1,220,020	141,480	\$24.45	\$15.60

Source: CBRE Research, Q1 2017.

Figure 3: Q1 2017 Significant Transactions

Size (SF)	Tenant	Address	Submarket	Tenant Industry	Deal Type
77,182	WeWork	595 Burrard Street	CBD	Real Estate	Direct
53,000	WSP Global Inc.	840 Howe Street	CBD	Engineering	Direct
47,894	Health Employers Association of BC	2889 E 12th Avenue	Burnaby	Government	Direct
46,800	Saje Natural Business Inc.	22 E 5th Avenue	Broadway Corridor	Health Care	Direct
35,880	Scanline VFX	580 Granville Street	CBD	Technology	Direct
22,912	Rainmaker	2025 W Broadway	Broadway Corridor	Media	Sublease
20,000	Watson Goepel LLP	1075 W Georgia Street	CBD	Legal	Direct
19,788	Columbia College	333 Terminal Avenue	Broadway Corridor	Education	Direct
16,191	Loyaleaf Financial	13571 Commerce Parkway	Richmond	Financial Services	Direct
14,689	Altus Group	1055 W Georgia Street	CBD	Real Estate	Direct

Source: CBRE Research, Q1 2017.


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