

Vancouver Office, Q1 2019

Supply shortage dramatically impacting tenant decisions

 Vacancy Rate
4.7%

 Net Absorption
418,172 sq. ft.

 Gross Leasing
1,118,792sq. ft.

 Under Construction
4,916,703 sq. ft.

*Arrows indicate change from previous quarter

MARKET HIGHLIGHTS

- Robust tenant demand and a shortage of available inventory continued to impact the Metro Vancouver office leasing market.
- Downtown office vacancy dropped to a decade low 2.7% in Q1 2019, down from 3.8% in Q4 2018. Pre-leasing commitments should ensure market stability well into the next development cycle.
- Suburban vacancy decreased by 70 basis points (bps) quarter-over-quarter to 6.7% in Q1 2019.
- Metro Vancouver office vacancy dropped to 4.7%, a record low.

ECONOMICS

- Canada’s real GDP increased 1.6% year-over-year as of January 2019.
- Statistics Canada reported a 1.5% year-over-year increase in Canada’s Consumer Price Index in February 2019.
- In April 2019, the Bank of Canada left its benchmark interest rate unchanged at 1.75%.
- In March 2019, BC’s unemployment rate increased 20 bps month-over-month to 4.7%.
- In the recently released Budget 2019, the BC government increased operation and capital spending highlighted by \$20.1 billion on infrastructure, \$1.3 billion for childcare and a \$7 billion commitment over 10 years to housing affordability.

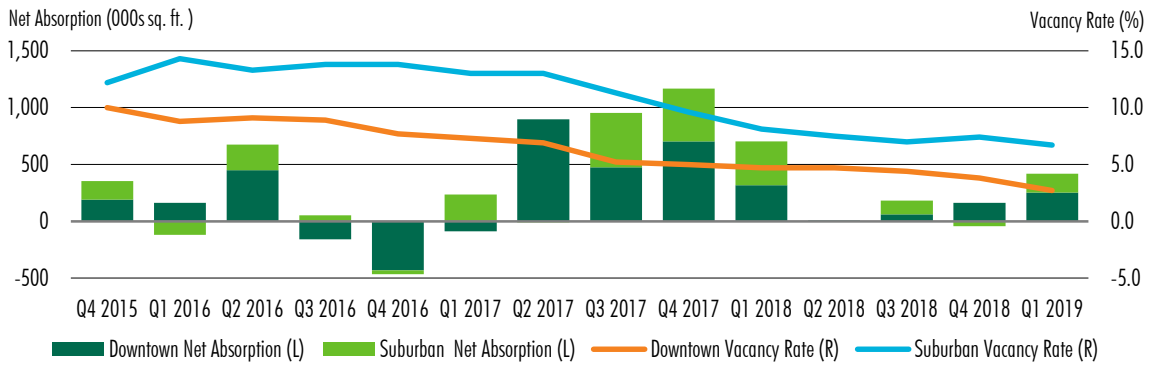
PROVINCIAL & METRO VANCOUVER OVERVIEW

With the national economy entering a more moderate phase of the economic cycle, BC continued to lead all provinces in economic growth. Strong year-over-year growth contributed to consecutive government surpluses in 2017 and 2018, allowing the province to increase operating and capital spending in Budget 2019.

Robust economic fundamentals, solid demand from a number of sectors and limited new supply being introduced to the market in the near term have seen the Metro Vancouver office market migrate in favor of a landlord’s market. Overall office availability reduced to its lowest vacancy level in Q1 2019 to 4.7%, a 90 bps quarter-over-quarter drop, largely influenced by significant absorption in downtown Vancouver. Robust leasing activity saw 1.1 million sq. ft. leased in the quarter, a 10.6% year-over-year increase. Overall asking rates continued to trend upwards in response to tightening market conditions. While the downtown market continued to receive consistent demand from existing tenants and new entrants to the market, suburban demand continues to be driven by existing occupants. Should such demand in the downtown Vancouver market continue, it is entirely possible that more firms will consider relocating to the suburbs. Going forward, total transaction volume for office properties across the Metro Vancouver totaled approximately \$661.0 million, a 27.1% increase from the same period in 2018. The three largest transactions: 1075 West Georgia Street, Airport Executive Park and Metrotown Place I & III represented 87.4% of total tracked transaction volume. In 2019, steady demand, limited supply and sustained confidence in the investment value of Metro Vancouver’s office properties will remain the key factors in market expectations for both occupiers and investors.

Despite a slight upward fluctuation, BC’s unemployment rate remained the lowest in Canada. Notwithstanding continued strong demand in the commercial real estate sector, the Metro Vancouver residential market witnessed its lowest number of sales for the month of March since 1986.

Figure 1: Metro Vancouver Supply & Demand



Source: CBRE Research, Q1 2019

DOWNTOWN VANCOUVER

Downtown Vancouver’s overall vacancy rate dropped a further 110 bps quarter-over-quarter and 200 bps year-over-year to 2.7%, the lowest since Q3 2008. This quarter, significant occupancies included a high-calibre tech tenant leasing 89,800 sq. ft. at 475 Howe Street; Teck Resources expanding by 20,590 sq. ft. at 550 Burrard Street, and Methanex Corporation subleasing 18,882 sq. ft at 355 Burrard Street until mid-2020. Robust demand for office space was reflected in reduced vacancy rates and rental rate escalations across all building classes. Tenants with requirements in excess of 20,000 sq.ft. continued to face challenges as only three availabilities exist, two of which will be available later in the year. Based on the foregoing, we anticipate continued rent appreciation through 2019. Interestingly, given the expansion of US-based technology companies into Metro Vancouver appears to be plateauing, it remains to be seen the levels to which rents will rise.

On the pre-leasing front, major office projects scheduled for completion before the end of 2023 have achieved prelease commitment of 45.8%, driven exclusively by multiple floor commitments from a select number of the market’s largest occupants. As illustrated in Figure 2, 82.4% of the 729,000 sq. ft. of new product which will be completed in 2020 has been leased or under offer, and 38.3% of the 370,000 sq. ft at VC II (753 Seymour Street) due in 2021 has been leased by Kabam (105,000 sq. ft.) and B2 Gold (37,000 sq. ft.). Office building values remain strong as evidenced by the sale of 1075 West Georgia for \$275.0 million to a consortium including Crestpoint Real Estate Investments, Kingsett Capital, and Reliance Properties (100% share sale).

SUBURBAN

Suburban vacancy rates reduced further in Q1 2019, dipping 70 bps quarter-over-quarter to 6.7%. This represents the lowest suburban vacancy since 2001.

Over that period, suburban office inventory has increased by almost 100% to 23.9 million sq. ft. In spite of reduced availability, absorption has slowed as evidenced by Q1 2019 absorption of 166,358 sq. ft. compared to 385,337 sq. ft. in Q1 2018.

Notwithstanding the foregoing, suburban markets continued to attract occupier interest, as witnessed by 619,093 sq. ft. of gross leasing activity, a 25.9% quarter-over-quarter increase, and increasing asking rates. Suburban markets also attracted institutional investor interest, as evidenced by seven office building sales that closed this quarter. Notable transactions included Fiera Properties’ purchase of the Airport Executive Park in Richmond for \$208.0 million, and Slate Asset Management’s purchase of Metrotown Place I & III (4330 Kingsway & 5945 Kathleen Avenue) in Burnaby for \$95.0 million.

BROADWAY CORRIDOR

Broadway Corridor represents the second strongest office submarket in Metro Vancouver from an occupancy perspective, with a growing technology sector and well-established health care and government users. Densification of both residential and office developments has facilitated further growth in the transit-friendly area. Vacancy fell 70 bps quarter-over-quarter to 3.3%, despite more than 388,000 sq. ft. of new office inventory delivered last year. In particular, Class A vacancy dropped 260 bps quarter-over-quarter as a result of 44,374 sq. ft. of positive net absorption.

Active pre-leasing activity indicates strong occupier interest in new and premium product. With 500 West Broadway’s 41,613 sq. ft. of office space now 100% pre-leased to the City of Vancouver, overall preleasing rate for the area climbed to 36.2% of the 258,920 sq. ft. of new office product completing by the end of 2020. Notable Q1 2019 transactions included Genevant Sciences Corporation leasing 12,942 sq. ft. at 887 Great Northern Way, Yana Health System

leasing 11,118 sq. ft. at 369 Terminal Avenue, and 3V Geomatics leasing 7,205 sq. ft. at 2233 Columbia Street.

BURNABY

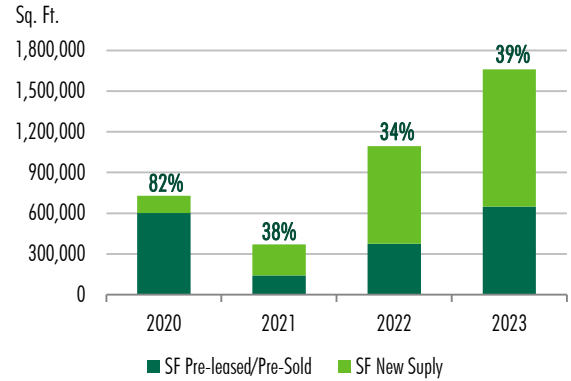
The Burnaby office market performed steadily into the first quarter, maintaining a vacancy rate of 9.2%. From a long-term perspective, the Burnaby market continues to strengthen, with leasing activity increasing 60.3% quarter-over-quarter. Overall average asking rate increased 17.5% year-over-year to \$25.44 per sq. ft.

Major transactions this quarter included Klohn Crippen Berger’s 50,000 sq. ft. extension at 2955 Virtual Way, Veritas Pharma Inc’s 18,160 sq. ft. sublease at 8900 Glenlyon Parkway, and Binnie Engineering’s 12,570 sq. ft. lease at 4940 Canada Way. In addition, WeWork secured two Burnaby locations, as the co-working operator locked up the entire office portion in Station Square at 6060 Silver Avenue (55,922 sq. ft.) slated to commence operations in September 2019, and 80,000 sq. ft. in Brentwood Tower 3 at the Amazing Brentwood complex, scheduled to complete in early 2021. On the investment side, value remained strong as indicated by Slate Asset Management’s purchase of Metrotown Place I and III for \$95.0 million, representing a price of \$379 per sq. ft.

RICHMOND

The Richmond market saw vacancy drop by 340 bps quarter-over-quarter to 6.8%, a new record low. A large portion of the 136,789 sq. ft. positive net absorption may be attributed to more than 105,000 sq. ft. of occupancies at Marine Gateway, including City of Vancouver, RBC and a coworking operator. Richmond’s rapid transit connectivity to downtown Vancouver, coupled with its proximity to YVR has seen consistent occupier and investor interest. There are several new projects planned for the Richmond Town Centre area with delivery in 2021. Of note, the International Trade Centre at 8451 Bridgeport Road, comprising 117,334 sq. ft. of strata office is 100% pre-sold. A notable sale

Figure 2: Downtown New Supply vs. Pre-Commitments



Source: CBRE Research, Q1 2019

transaction in Q1 2019 was Fiera Properties’ \$208.0 million acquisition of the Airport Executive Park, improved with 13 buildings that range in sizes from 24,600 sq. ft. to 98,700 sq. ft.

NEW WESTMINSTER

With 11,483 sq. ft. absorbed in Q1 2019, vacancy dropped 80 bps quarter-over-quarter. Despite quarterly fluctuations, the vacancy rate followed a downward trend for the past five years. Notable transactions this quarter include Fraser Health Authority leasing 23,100 sq. ft. in 505 6th Street, and Harlock Murray Underwriting Ltd leasing 3,700 sq. ft. in 960 Quayside. A transit-oriented region that is home to five SkyTrain stations and a walkable downtown, the New Westminister office market shows significant potential for future growth.

SURREY

The Surrey market concluded Q1 2019 with a vacancy rate of 5.0%, increasing by 20 bps quarter-over-quarter. While Class B and C vacancy rose, Class A inventories saw 10,414 sq. ft. of positive net absorption, bringing the Class A vacancy down 60 bps quarter-over-quarter to 4.5%. Market activity remained steady, as evidenced by 66,894 sq. ft. of gross leasing activity, an increase of 10.5% from Q4 2018. One new development completing this year is Avondale Development’s TPC Professional Centre at 3231 152nd Street, 56.6% of its 59,480 sq. ft. of office already preleased. On the investment side, transaction volume exceeded \$6.6 million and achieved an average price of \$398 per sq. ft., up from \$320 in Q1 2018.

Figure 3: Q1 2019 Significant Transactions

Size (SF)	Tenant	Address	Submarket	Tenant Industry	Deal Type
50,350	Klohn Crippen Berger	2955 Virtual Way	Burnaby	Engineering	Extension
43,273	The Toronto-Dominion Bank	700 West Georgia Street	Downtown	Finance	Extension
40,031	Haywood Securities	200 Burrard Street	Downtown	Finance	Renewal
39,466	Boeing Canada Operation Ltd	13575 Commerce Parkway	Richmond	Engineering	Renewal

Source: CBRE Research, Q1 2019

Figure 4: Statistics Package

Submarket	Class	Total Buildings	Inventory (sq. ft.)	Vacancy Rate (%)	Q1 2019 Net Absorption (sq. ft.)	YTD 2019 Net Absorption (sq. ft.)	Q1 2019 Gross Leasing (sq. ft.)	Q1 2019 New Supply (sq. ft.)	Net Asking Rent (\$ per sq. ft.)	Additional Rate (\$ per sq. ft.)
Downtown Vancouver	AAA	15	5,700,664	2.4	92,531	92,531	7,216	-	\$47.84	\$21.99
	A	28	6,830,914	3.1	99,596	99,596	202,742	-	\$38.28	\$21.23
	B	53	6,741,318	1.8	61,945	61,945	214,390	-	\$31.75	\$18.89
	C	81	4,562,649	3.9	-2,258	-2,258	75,351	-	\$26.30	\$16.34
	TOTAL	177	23,835,545	2.7	251,814	251,814	499,699	-	\$35.92	\$19.65
Broadway Corridor	AAA	7	711,343	1.0	-5,107	-5,107	9,312	-	\$27.00	\$21.50
	A	24	1,709,671	3.8	44,374	44,374	45,059	-	\$30.50	\$17.88
	B	35	1,707,161	4.5	-573	-573	43,611	-	\$27.68	\$16.96
	C	37	826,286	1.6	0	0	4,899	-	\$26.76	\$12.68
	TOTAL	103	4,954,461	3.3	38,694	38,694	102,881	-	\$28.67	\$17.06
Burnaby	AAA	12	2,361,541	7.6	-17,436	-17,436	49,083	-	\$28.35	\$16.02
	A	24	2,420,304	15.7	-26,430	-26,430	117,296	-	\$26.06	\$15.91
	B	38	3,131,102	7.1	36,846	36,846	60,837	-	\$20.70	\$16.10
	C	22	864,679	3.0	6,867	6,867	4,899	-	\$17.88	\$14.65
	TOTAL	96	8,777,626	9.2	-153	-153	232,115	-	\$25.44	\$15.92
Richmond	AAA	21	1,702,060	9.9	112,284	112,284	71,666	-	\$18.94	\$12.53
	A	24	1,567,642	5.5	23,233	23,233	26,533	-	\$17.51	\$11.76
	B	19	526,886	1.7	697	697	3,768	-	\$15.50	\$13.56
	C	7	199,849	3.9	575	575	49,083	-	\$12.28	\$11.41
	TOTAL	71	3,996,437	6.8	136,789	136,789	151,050	-	\$18.17	\$12.31
North Shore	A	13	806,262	9.5	-13,298	-13,298	8,902	-	\$23.96	\$14.36
	B	17	752,877	1.1	-2,771	-2,771	13,267	-	\$18.27	\$11.13
	C	11	236,929	3.8	200	200	200	-	\$15.53	\$16.46
	TOTAL	41	1,796,068	5.2	-15,869	-15,869	22,369	-	\$22.52	\$14.27
Surrey	A	16	1,812,485	4.5	10,414	10,414	29,430	-	\$19.03	\$10.91
	B	21	807,730	6.0	-7,251	-7,251	37,464	-	\$16.70	\$11.24
	C	14	288,403	4.8	-7,749	-7,749	0	-	\$11.95	\$9.41
	TOTAL	51	2,908,618	5.0	-4,586	-4,586	66,894	-	\$17.57	\$10.88
New Westminster	A	7	600,867	10.1	10,103	10,103	36,911	-	\$24.66	\$16.76
	B	13	589,296	9.2	1,380	1,380	6,873	-	\$16.92	\$13.54
	C	10	275,766	2.5	0	0	0	-	\$12.21	\$18.75
	TOTAL	30	1,465,929	8.3	11,483	11,483	43,784	-	\$20.51	\$15.43
Suburban	AAA	40	4,774,944	7.4	89,741	89,741	130,061	-	\$24.04	\$14.44
	A	108	8,917,231	8.4	48,396	48,396	264,131	-	\$23.99	\$14.76
	B	143	7,515,052	5.6	28,328	28,328	165,820	-	\$20.94	\$14.83
	C	101	2,691,912	2.8	-107	-107	59,081	-	\$16.48	\$13.66
	TOTAL	392	23,899,139	6.7	166,358	166,358	619,093	-	\$22.85	\$14.63
Metro Vancouver	AAA	55	10,475,608	4.7	182,272	182,272	137,277	-	\$30.67	\$16.54
	A	136	15,748,145	6.1	147,992	147,992	466,873	-	\$27.74	\$16.45
	B	196	14,256,370	3.8	90,273	90,273	380,210	-	\$23.79	\$15.90
	C	182	7,254,561	3.5	-2,365	-2,365	134,432	-	\$23.23	\$15.50
	TOTAL	569	47,734,684	4.7	418,172	418,172	1,118,792	-	\$27.05	\$16.24

Source: CBRE Research, Q1 2019


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