

MARKETVIEW

VANCOUVER OFFICE, Q3 2020

Downtown office vacancy rises; impact of COVID-19 unfolds

 Vacancy Rate
5.4%

 Net Absorption
- 297,112 sq. ft.

 Gross Leasing
634,820 sq. ft.

 Under Construction
4.8 million sq. ft.

Market Highlights

- Metro Vancouver office vacancy increased for the second successive quarter to 5.4%.
- Downtown vacancy rose by 130 basis points (bps) compared to Q2 2020 (now 4.6%).
- Vacancy in suburban market settled at 6.3%, 30 bps over Q2 2020.
- Metro Vancouver remained the tightest office market in Canada.

Economics

- Real GDP in Q2 fell 11.5% compared to Q1. July registered a 3% growth in GDP month-over-month.
- British Columbia's Consumer Price Index fell 0.2% in August over July 2020 (+0.1% for Canada).
- Statistics Canada estimates BC's unemployment rate at 8.4% in September and 9.0% nationally.
- Bank of Canada maintained its target rate at 0.25% in September.

In Q3, the pandemic continued to unfold, and the economic impact due to restrictive health and safety measures progressed. In Q2 2020, Statistics Canada registered an 11.2% drop in real GDP compared to Q1 2020, before recording a 3% increase in July over June. Conference Board of Canada now forecasts the annual GDP settling at -6.6% nationally and -6.0% for Greater Vancouver. As the country reopened its economy in May and June, economic activity surged at the beginning of the summer, and was estimated in July at 94% of its February level, according to Statistics Canada.

Economic sectors are recovering at different paces. While some function at normal levels, even under adapted business practices, others will remain hindered until a vaccine is found. This, combined with extended border closures and restrictions, and the rising number of COVID-19 cases in recent weeks, suggests that a full economic recovery might take place at a slower pace, confirming the "K shape" of this recession. Government relief packages, such as the Canada Emergency Commercial Rent Assistance program implemented in the Spring have performed well and were extended through the summer and the month of September.

On the employment front, 1.9 million jobs were recovered across Canada, with the unemployment rate settling at 9.0% in September, down from its peak of 13.7% in May, but still high above its pre-COVID-19 rate of 5.6%. In BC, the unemployment rate settled at 8.4%. Correspondingly, Metro Vancouver’s employment level is estimated to be 7.9% away from its pre-COVID-19 form, as the region relies on the tourism industry, still very much held up by border closures and quarantine measures. Employment gains in BC were led by office-using sectors such as Information, Culture & Recreation; Education; Business, Building and Other Support Services. Vancouver can also count on a strong technology sector, registering the highest job growth in 2019 among the top 30 tech markets in North America.

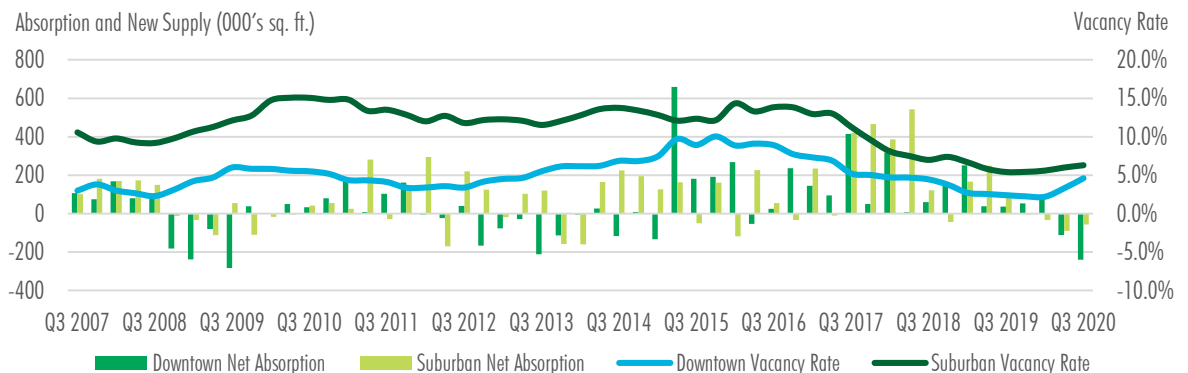
Looking to the office leasing market, Greater Vancouver’s vacancy rate increased for the second successive quarter, now at 5.4%, an 80-bps increase from Q2 2020. Quarterly absorption settled at -297,112 sq. ft., a level not seen since Q4 2013. In Q3 2020, year-to-date gross leasing recorded at 79.1% of the Q3 2019 year-to-date total, as tenants and prospects were dealing with the aftermath of the crisis, waiting to see how the situation would evolve, and mulling over how to move forward. Despite this quarter’s performance and uncertainties regarding the recovery, Metro Vancouver remains the tightest office market in Canada and is bolstered by its strong market fundamentals at the start of the pandemic.

Downtown Vancouver

Overall vacancy rose by 130 bps from 3.3% in Q2 to 4.6% in Q3 2020. This was observed in all building classes, with Class C seeing the most significant increase (+250 bps), due to booming sublease availability. Overall sublease vacant space, which tripled between Q1 and Q2, was again a factor inflating the vacancy rate, although in a more moderate way. Indeed, Downtown sublease vacancy rose by 32.9% quarter-over-quarter. More importantly, direct vacancy grew by 50.2% quarter-over-quarter, compared to 7.3% in Q2 over Q1. This could be an early indication of the mid-term impact of the COVID-19 pandemic, as some groups fold operations, terminate their sublease commitments, or decide not to renew their leases and keep working remotely for the foreseeable future.

As expected, absorption settled at -240,156 sq. ft. in Q3, dropping by 115.5%, or more than double the Q2 negative absorption. On top of growing availability, absorption was further deepened by muted deal activity. Q3 2020 registered 229,079 sq. ft. in gross leasing, less than half of its Q3 2019 level, and 41.5% under its Q2 2020 level. Downtown still saw the largest lease transaction of the quarter as B2Gold committed to 45,634 sq. ft. in 666 Burrard Street, with occupancy in 2021. After the initial shock at the beginning of Q2, and despite uncertainty regarding the evolution of the pandemic, activity on the leasing market seemed

Figure 1: Metro Vancouver Supply & Demand



Source: CBRE Research, Q3 2020.

to pick up over Q3 with tours and listing mandates accelerating, which can be expected to translate in higher deal volumes in the coming months.

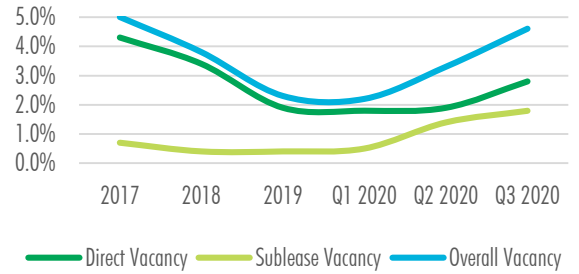
Additionally, absorption in the next year will also be sustained by new supply: over 1 million sq. ft. is set to complete in 2021, approximately 50% of which is pre-leased. This includes B2Gold’s space in Vancouver Centre 2, although their future floors are now available for sublease (36,507 sq. ft.), a full year before the building’s completion. Other notable developments on the construction front include the delivery of 155 Water St, fully leased, and 353 Railway St, 100% vacant and contributing to Class A vacancy rate. Finally, Westbank’s rezoning proposal for the Central Steam project was approved and will be moving to the development permit phase.

Observers might note that this increased availability Downtown marks a shift in market dynamics, changing from a landlord-favorable environment to a more tenant-driven market. This is most apparent in Classes B and C where some private landlords are more inclined to negotiate rather than wait for a potential return to a pre-COVID-19 market. Similarly, this pandemic has accelerated the end of the rent cycle (net rents reaching a plateau) moving Downtown Vancouver to commence a new rent cycle, as asking net rent started to come off in all classes in Q3 2020. Despite this market shift, trophy rents in Class AAA have mostly been maintained throughout Q2 and Q3.

Broadway Corridor

Office vacancy along Broadway Corridor increased by 90 bps quarter-over-quarter to 5.4%. All classes saw this increase, with varying degrees: Classes B and C remained relatively stable, marginally inching up by 20 bps; Class A vacancy rose by 150 bps mostly due to two subleases; and Class AAA vacancy doubled (2.0% to 4.0%). Absorption was negative again this quarter, bringing it to

Figure 2: Downtown Vacancy Rate Breakdown




Source: CBRE Research, Q3 2020.


Figure 3: Downtown New Supply and Pre-leasing (Projects under construction)





Source: CBRE Research, Q3 2020.

Figure 4: Downtown Major 2021 Developments

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400 W Georgia St
350,000 SF | Q1 2021
100% Pre-Leased
- 

1280 Burrard St
135,000 SF | Q1 2021
0% Pre-Leased
- 

601 W Hastings St
227,000 SF | Q3 2021
0% Pre-Leased
- 

753 Seymour St
362,000 SF | Q4 2021
54.4% Pre-Leased

Source: CBRE Research, Q3 2020.

-88,326 sq. ft. year-to-date. Gross leasing was muted compared to its pre-COVID-19 levels, but activity on the listing side now offers new options for potential occupiers in this tight market. This showed in the sublease vacancy, doubling quarter-over-quarter and accelerated by a few larger spaces from Technology companies such as Axiom Zen in 565 Great Northern Way (20,891 sq. ft.). Additionally, construction activity remained strong, as 500 W Broadway nears completion, and 370,749 sq. ft. are set to deliver in 2021.

Burnaby

Burnaby’s vacancy increased slightly by 20 bps, from 7.8% to 8.0%, driven by an increase in sublease space. Class A saw the addition of several vacant sublet availabilities, namely in Broadway Tech Centre (2925 and 2985 Virtual Way) and Glenlyon Business Park (9200 Glenlyon Parkway). Conversely, direct vacancy decreased by 7.0% quarter-over-quarter, as Ricoh Canada and Huawei took occupancy of their new spaces (respectively 4621 Canada Way and 4321 Still Creek Drive), as well as several larger spaces close to SkyTrain being leased up. This could be a sign of occupiers’ renewed interest in suburban markets, especially along rapid transit lines. This could also hint at a potential long-term effect of this public health crisis, where providing offices in the suburbs, with shorter commute times, could be a selling point to attract talented employees.

Richmond

In Q3 2020, Richmond registered a slight increase in vacancy, from 6.4% to 6.7% quarter-over-quarter. Class B was the main driver, with its vacancy rate swelling by 220 bps over Q2 2020 (now at 6.2%), due in large part to new availabilities in 10551 Shellbridge Way. Absorption was slightly negative at -9,623 sq. ft., and gross leasing activity was recorded higher than its Q2 level by 10.2%, both sustained mainly by one deal: Whitewater West Industries subleased 44,078 sq. ft. in 6651 Fraserwood Place, the 2nd largest lease deal of the quarter in Greater Vancouver.

Surrey

Vacancy in Surrey inched up by 30 bps in Q3 2020 to 4.8%, led by Class B and C vacancies, increasing by 40 bps and 240 bps respectively, due to one new sublease in 9801 King George Boulevard. Class A average asking net rent was pushed upwards by availabilities in newer buildings such as Station Tower and City Centre 2 (respectively 13401 108 Avenue, and 9639 137A Street). On the development front, Century Group’s Holland Parkside new community at 9905 King George Boulevard progressed in Q3. The new development permit, currently in review with city staff, proposes three residential towers (243 units) and a 10-storey office tower, potentially delivering 190,000 sq. ft. of office space to market in 2024.

Figure 5: Q3 2020 Significant Lease Transactions

Size (sq. ft.)	Tenant	Address	Submarket	Tenant Industry	Deal Type
45,634	B2Gold	666 Burrard St, Vancouver	Downtown	Non-energy related mining	New
44,079	Whitewater West Industries	6651 Fraserwood Pl, Richmond	Richmond	Building Materials, Construction	New / Sublease
42,837	Double India Holding	1055 W Georgia St, Vancouver	Downtown	Other Services	Extension
18,908	Confidential	750 W Pender St, Vancouver	Downtown	Government	New
16,152	Vtech Technologies Canada	13888 Wireless Way, Richmond	Richmond	Technology	New

Source: CBRE Research, Q3 2020.

Figure 6: Q3 2020 Vancouver Office Statistics Summary

Submarket	Class	Total Buildings	Inventory (sq. ft.)	Vacancy Rate	Q3 2020 Net Absorption (sq. ft.)	YTD 2020 Net Absorption (sq. ft.)	Q3 2020 Gross Leasing (sq. ft.)	Q3 2020 New Supply (sq. ft.)	Average Net Asking Rent per sq. ft.	Average Additional Rate per sq. ft.
Downtown Vancouver	AAA	15	5,700,664	2.6%	(30,215)	(47,433)	45,634	-	\$48.47	\$22.74
	A	34	7,165,763	3.8%	28,253	222,110	58,034	97,152	\$42.51	\$21.48
	B	53	6,741,318	5.2%	(121,564)	(284,432)	80,241	-	\$35.52	\$20.06
	C	81	4,562,649	7.5%	(116,630)	(157,460)	45,170	-	\$28.52	\$17.18
	TOTAL	183	24,170,394	4.6%	(240,156)	(267,215)	229,079	97,152	\$37.25	\$19.92
Broadway Corridor	AAA	7	711,343	4.0%	(13,720)	(24,169)	0	-	\$32.00	\$27.45
	A	25	1,756,300	4.8%	(26,293)	(57,261)	15,966	-	\$29.90	\$19.64
	B	35	1,707,161	7.8%	(3,495)	(2,434)	14,356	-	\$33.71	\$16.29
	C	37	826,286	3.2%	(858)	(4,462)	0	-	\$27.86	\$15.45
	TOTAL	104	5,001,090	5.4%	(44,366)	(88,326)	30,322	-	\$32.01	\$17.82
Burnaby	AAA	12	2,361,541	4.8%	5,619	26,922	2,310	-	\$28.60	\$16.22
	A	24	2,420,304	10.8%	(31,712)	(5,395)	66,380	-	\$26.06	\$14.77
	B	38	3,131,102	10.0%	13,487	(62,881)	43,190	-	\$21.58	\$16.36
	C	22	864,679	1.6%	(745)	(6,059)	13,350	-	\$17.43	\$14.40
	TOTAL	96	8,777,626	8.0%	(13,351)	(47,413)	125,230	-	\$24.48	\$15.99
Richmond	AAA	21	1,702,060	8.2%	(5,039)	(25,544)	32,249	-	\$20.59	\$13.29
	A	24	1,567,642	5.5%	6,888	10,669	70,165	-	\$19.22	\$10.84
	B	19	526,886	6.4%	(11,472)	(19,714)	4,404	-	\$16.41	\$14.98
	C	7	199,849	4.1%	0	451	0	-	\$12.95	\$11.67
	TOTAL	71	3,996,437	6.7%	(9,623)	(34,138)	106,818	-	\$19.37	\$12.58
North Shore	A	14	821,041	2.9%	10,079	31,693	2,896	-	\$20.34	\$12.08
	B	17	752,877	3.9%	(2,011)	(17,421)	0	-	\$18.06	\$10.02
	C	11	236,929	2.2%	650	791	650	-	\$17.69	\$17.12
	TOTAL	42	1,810,847	3.2%	8,718	15,063	3,546	-	\$18.93	\$11.59
Surrey	A	16	1,798,485	4.2%	1,191	(29,620)	117,565	-	\$29.37	\$11.77
	B	21	807,730	6.5%	(2,874)	(3,548)	12,132	-	\$20.58	\$12.86
	C	14	288,403	4.0%	(6,851)	(8,383)	0	-	\$12.60	\$9.20
	TOTAL	51	2,894,618	4.8%	(8,534)	(41,551)	129,697	-	\$25.40	\$12.10
New Westminster	A	7	600,867	4.6%	10,200	20,190	10,128	-	\$23.63	\$17.50
	B	13	589,296	4.8%	0	(5,092)	0	-	\$21.09	\$13.78
	C	10	275,766	2.1%	0	374	0	-	\$12.18	\$19.91
	TOTAL	30	1,465,929	4.2%	10,200	15,472	10,128	-	\$21.40	\$16.19
Suburban	AAA	40	4,774,944	5.9%	(13,140)	(22,791)	34,559	-	\$24.99	\$15.58
	A	110	8,964,639	6.2%	(29,647)	(29,724)	283,100	-	\$25.00	\$13.75
	B	143	7,515,052	7.8%	(6,365)	(111,090)	74,082	-	\$24.34	\$15.31
	C	101	2,691,912	2.6%	(7,804)	(17,288)	14,000	-	\$20.54	\$14.86
	TOTAL	394	23,946,547	6.3%	(56,956)	(180,893)	405,741	-	\$24.48	\$14.88
Metro Vancouver	AAA	55	10,475,608	4.1%	(43,355)	(70,224)	80,193	-	\$32.41	\$17.84
	A	144	16,130,402	5.2%	(1,394)	192,386	341,134	97,152	\$31.69	\$16.70
	B	196	14,256,370	6.6%	(127,929)	(395,522)	154,323	-	\$27.20	\$16.52
	C	182	7,254,561	5.7%	(124,434)	(174,748)	59,170	-	\$26.92	\$16.72
	TOTAL	577	48,116,941	5.4%	(297,112)	(448,108)	634,820	97,152	\$29.57	\$16.89

Source: CBRE Research, Q3 2020.



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