

Vancouver Office, Q3 2019

# Metro Vancouver continues to face constrained supply

 Vacancy Rate  
3.8%

 Net Absorption  
195,422 sq. ft.

 Gross Leasing  
1,222,053 sq. ft.

 Under Construction  
5,372,150 sq. ft.

\*Arrows indicate change from previous quarter

**MARKET HIGHLIGHTS**

- The Metro Vancouver office market continued to tighten due to constrained supply, hitting a record low of 3.8% in Q3.
- The Downtown vacancy rate fell 20 basis points (bps) quarter-over-quarter to 2.4%. This downward trend is expected to continue with limited supply and significant preleasing activity.
- The suburban markets continued to face robust demand with vacancy reduced to 5.2%, 60 bps quarter-over-quarter, a new all-time low.
- In September 2019, the BC Ministry of Transportation announced the location of six proposed Skytrain stations on the Broadway Extension. The extension of the Millennium Line will connect False Creek and Mount Pleasant on rapid transit. Construction is set to begin by late 2020 and complete in 2025.

**ECONOMICS**

- As of July 2019, Canada’s GDP stayed unchanged month-over-month and is up 1.3% year-over-year.
- Statistics Canada reported a 2.0% year-over-year increase in BC’s Consumer Price Index in August 2019.
- In September 2019, the Bank of Canada leaves overnight rate target unchanged at 1.75%.
- In August 2019, BC’s unemployment rate increased 60 bps month-over-month to 5.0%, the second lowest in Canada.

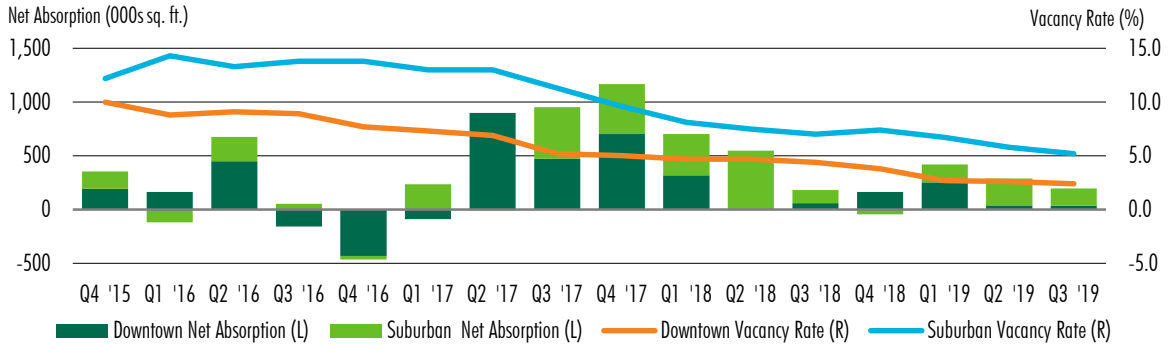
**PROVINCIAL & METRO VANCOUVER OVERVIEW**

Metro Vancouver’s robust economic fundamentals and continued expectation of steady growth fueled strong demand for office space across the region. Despite some economic uncertainty sentiments at the outset of 2019, demand for office space has remained strong as indicated by active preleasing activity and healthy absorption of the existing inventory. In Q3 2019, the overall vacancy rate fell 40 bps quarter-over-quarter to 3.8%, establishing a new all-time low. This scenario is expected to continue near term as supply lags demand driven by new entrants to the market and existing tenant expansions.

The Downtown submarket remained the most competitive from a demand perspective, with vacancy edging down a further 20 bps quarter-over-quarter to 2.4%. Moreover, demand for office space currently under construction is strong, a bellwether of longer-term market strength. In addition, suburban demand remains consistent as vacancy dropped 60 bps quarter-over-quarter to 5.2%.

On the investment front, total transaction volume for office properties across Metro Vancouver reached \$176.3 million, of which 25.0% represented the completion of a strata project in Richmond. Total dollar volume dropped compared to the same time last year with the decline attributed to a general investor sentiment of uncertainty related to a global economic slowdown and ongoing trade wars involving the United States and China. Notwithstanding the foregoing, the Vancouver office market remains highly desirable for investors in view of resilient regional economy, strong office demand and accretive lease rates. In Q3, significant sale transactions included 101 Smithe Street and the Burrard Medical Building.

Figure 1: Metro Vancouver Supply & Demand



Source: CBRE Research, Q3 2019

**DOWNTOWN VANCOUVER**

In Q3, the vacancy rate edged down a further 20 bps quarter-over-quarter to 2.4%. A lack of availability has contributed to moderated market activities and absorption levels: the 36,248 sq. ft. of quarterly absorption is about 39.4% lower than that in Q3 2018; However, the 325,516 sq. ft. of year-to-date (YTD) absorption remains well above the 7-year average absorption of 277,800 sq. ft, indicating consistent demand and revealing elevated competition in the supply-constrained market. The average asking rate continued to escalate, with Class AAA and A inventories asking rates at or near replacement costs.

As a result of high occupancy rates, strong demand for large blocks of space and opportunities for rising rents have waken just under 4.0 million sq. ft. of new supply under construction, the most amount of space under development in the market's history.

The upshot of this phenomenon has been significant preleasing activity, with three of the first four buildings being delivered to the market 100.0% preleased. A breakdown of such preleasing activity by industry includes: technology 51.5%; co-working 20.9%; and, business services 13.2%. The mix serves as an indication of the major demand drivers for office space downtown. Legal and education follow the aforementioned top three sectors. Near term, we expect demand will outstrip supply resulting in continued rent growth. What remains to be seen is the migration of industries to more affordable markets as facilities and labour costs outstrip revenue and wage growth.

In Q3 2019, top leasing transactions include Dale Matheson Carr-Hilton Labonte LLP leasing 39,243 sq. ft. in 1140 West Pender Street, Nexii Building Solutions taking 17,927 sq. ft. in 1455 West Georgia Street and MCW Consultants

occupying 13,817 sq. ft in 1111 West Georgia Street. For investments, 101 Smithe Street was sold for \$27,375,000, representing a price per sq. ft. of \$913. The Burrard Medical Building at 1140 Burrard Street was sold for \$17,375,000 sq. ft., at \$804 per sq. ft..

**SUBURBAN**

Suburban markets witnessed strong demand as vacancy fell to 5.2%, 60 bps quarter-over-quarter and 180 bps year-over-year. Vacancy in all suburban markets decreased in Q3, with the Broadway Corridor, Surry, and North Shore having the lowest vacancy rates. In 2017, suburban vacancy was 11.3%. Since that time vacancy has trended down 54.0% despite over 827,000 sq. ft. of new supply being introduced. Year to date absorption is 575,525 sq. ft., 12.7% higher than the 7-year average. Average asking rates are rising and should demand remain consistent, are expected to continue their upward trend.

**BROADWAY CORRIDOR**

The Broadway Corridor had similar market conditions as downtown in the third quarter. The vacancy rate settled at 2.4%, 20 bps down quarter-over-quarter and 180 bps down year-over-year. For occupier shifts to suburban locations led by downtown's lack of availability, the Broadway Corridor is the top choice for an off-core location. Healthy demand for office space has spurred record-setting development activities. In Q3, over 700,000 sq. ft. of upcoming supply was tracked to be under construction, representing 14.1% of the market's current inventory and 50.0% of all inventory under construction in suburban regions. With Translink announcing six stations on the future Broadway Skytrain extension, False Creek Flats and Mount Pleasant will be connected by transit with an influx of businesses and investments anticipated.

Average asking rate continued to exhibit an upward trend with asking rates in new developments approaching \$40.00 per sq. ft. Of the 155,300 sq. ft. of new supply scheduled to complete in 2020, 68.7% has been preleased and 100% of the 137,800 sq. ft. of office space at Main Alley’s M2 with delivery in 2021 already committed, only the first two floors of industrial flex space remaining available.

**BURNABY**

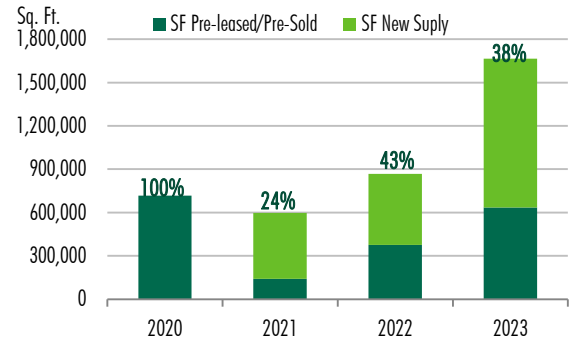
In Q3 2019 the vacancy rate for Burnaby’s office market hit 7.5%, the lowest since Q2 2008. Largely due to major occupancies in Class A building, the absorption reached 66,811 sq. ft., almost doubling that of Q3 2018. The pick-up in absorption has led to steady increases in average asking rates. Demand is forecasted to continue to reduce availability as leasing activity remains active. Although a number of large-scale, mixed-use developments have been planned, the timings stretch out to mid 2020s, representing a challenge for occupiers looking to expand near term. Strata prospects have also been well-received. Both Kings Crossing at 7350 Edmonds Street (78,800 sq. ft.) and The Centre at Sun Towers (70,000 sq. ft.) have been 100.0% pre-sold and are scheduled to complete in Q4 2019 and mid-year 2021, respectively.

Major transactions from this quarter included WeWork taking occupancy of 52,804 sq. ft. in Station Square, Worley Parsons moving into 29,190 sq. ft. in 4321 Still Creek Drive, and Alexander College expanding to take 33,554 sq. ft. in 4805 Kingsway and renewing in 17,305 sq. ft. in 4603 Kingsway.

**RICHMOND**

In the third quarter, Richmond’s office vacancy reduced further, reaching a record low of 4.9%. Much of the new stock is strata-oriented. With the strata offices at International Trade Centre completed, in 2021 Chunghwa Investments’ Bridgeport Business Centre at 9466 Beckwith Road will bring to market 120,290 sq. ft. of strata office

**Figure 2: Downtown New Supply vs. Pre-Commitments**



Source: CBRE Research, Q3 2019

and in 2022 Keltic Developments’ The Paramount at 6340 No. 3 Road 103,560 sq. ft.

**NEW WESTMINSTER**

In Q3 2018, New Westminister’s vacancy rate declined 340 bps quarter-over-quarter to 6.8% as a result of major occupancies. Yorkville University moved into 24,330 sq. ft. in 88 Sixth Street, Fraser Health 23,100 sq. ft. in Latitude Uptown at 505 6<sup>th</sup> Street and Hanson International 14,823 sq. ft. in 960 Quayside Drive. In the long term, the submarket is expected to remain stable and potentially benefit from tenants searching for alternatives in submarkets that are becoming tighter and more expensive.

**SURREY**

Continued occupier demand in the Surrey market saw overall vacancy rate decrease for the 2nd quarter in a row, and Class A vacancy down for the 5th consecutive quarter (now 3.1% and 2.3% respectively). Average asking rates rose to \$19.20 net per sq. ft. this quarter, a 10.1% increase quarter-over-quarter, due to Class A vacancies weighing more in the total vacant space (\$22.97 per sq. ft., +23.9% from Q2). On the investment side, the price per sq. ft. has been on an upward trend since 2012, settling so far this year at a record \$466.0 per sq. ft. Surrey also boasts a number of new office buildings currently under development (888,000 sq. ft. planned to deliver by 2023), buoyed by population growth, infrastructure projects and record low vacancy in more established markets.

**Figure 3: Q3 2019 Significant Transactions**

Size (SF)	Tenant	Address	Submarket	Tenant Industry	Deal Type
39,243	Dale Matheson Carr-Hilton Labonte	1140 West Pender Street	Downtown	Accounting	Extension
33,554	Alexander College	4805 Kingsway	Burnaby	Education	New
28,222	Charest Reporting Inc.	885 West Georgia Street	Downtown	Legal	New
24,331	Yorkville University	88 Sixth Street	New Westminister	Education	New
17,927	Nexii Building Solutions	1455 West Georgia Street	Downtown	Construction	New

Source: CBRE Research, Q3 2019

**Figure 4: Statistics Package**

Submarket	Class	Total Buildings	Inventory (sq. ft.)	Vacancy Rate (%)	Q3 2019 Net Absorption (sq. ft.)	YTD 2019 Net Absorption (sq. ft.)	Q3 2019 Gross Leasing (sq. ft.)	Q3 2019 New Supply (sq. ft.)	Net Asking Rent (\$ per sq. ft.)	Additional Rate (\$ per sq. ft.)
Downtown Vancouver	AAA	15	5,700,664	2.1	3,822	109,469	88,485	-	\$49.70	\$22.47
	A	28	6,830,914	2.5	22,033	140,516	176,496	-	\$40.45	\$20.99
	B	53	6,741,318	1.3	1,149	95,817	168,942	-	\$32.24	\$18.96
	C	81	4,562,649	4.3	9,244	-20,286	65,190	-	\$26.23	\$16.07
	<b>TOTAL</b>	<b>177</b>	<b>23,835,545</b>	<b>2.4</b>	<b>36,248</b>	<b>325,516</b>	<b>499,113</b>	<b>-</b>	<b>\$36.19</b>	<b>\$19.26</b>
Broadway Corridor	AAA	7	711,343	0.6	-1,409	-2,034	2,732	-	\$32.00	\$25.85
	A	25	1,756,300	1.8	9,631	124,497	27,579	-	\$31.74	\$16.77
	B	35	1,707,161	4.1	2,975	6,628	13,776	-	\$31.13	\$18.12
	C	37	826,286	1.5	-542	325	12,749	-	\$26.82	\$13.01
	<b>TOTAL</b>	<b>104</b>	<b>5,001,090</b>	<b>2.4</b>	<b>10,655</b>	<b>129,416</b>	<b>56,836</b>	<b>-</b>	<b>\$30.95</b>	<b>\$17.31</b>
Burnaby	AAA	12	2,361,541	8.0	-504	-28,432	3,304	-	\$28.39	\$15.88
	A	24	2,420,304	10.6	68,711	96,609	40,562	-	\$24.56	\$15.10
	B	38	3,131,102	5.9	-1,396	73,305	55,032	-	\$22.28	\$15.79
	C	22	864,679	2.9	0	7,877	9,272	-	\$18.98	\$9.23
	<b>TOTAL</b>	<b>96</b>	<b>8,777,626</b>	<b>7.5</b>	<b>66,811</b>	<b>149,359</b>	<b>108,170</b>	<b>-</b>	<b>\$25.29</b>	<b>\$15.21</b>
Richmond	AAA	21	1,702,060	5.2	18,480	192,528	10,225	-	\$20.27	\$12.72
	A	24	1,567,642	5.6	-7,928	21,430	9,865	-	\$19.75	\$12.87
	B	19	526,886	2.4	-2,334	-2,692	2,074	-	\$15.99	\$12.64
	C	7	199,849	4.3	0	-236	12,078	-	\$15.96	\$12.58
	<b>TOTAL</b>	<b>71</b>	<b>3,996,437</b>	<b>4.9</b>	<b>8,218</b>	<b>211,030</b>	<b>34,242</b>	<b>-</b>	<b>\$19.66</b>	<b>\$12.78</b>
North Shore	A	13	806,262	7.7	11,333	1,571	2,287	-	\$24.87	\$15.39
	B	17	752,877	0.9	-1,254	-1,183	23,280	-	\$22.98	\$11.48
	C	11	236,929	3.0	0	1,919	0	-	\$16.71	\$15.90
	<b>TOTAL</b>	<b>41</b>	<b>1,796,068</b>	<b>4.2</b>	<b>10,079</b>	<b>2,307</b>	<b>25,567</b>	<b>-</b>	<b>\$23.79</b>	<b>\$15.06</b>
Surrey	A	16	1,798,485	2.3	9,803	51,212	356	-	\$22.97	\$13.06
	B	21	807,730	5.4	3,294	-2,378	10,817	-	\$16.42	\$11.33
	C	14	288,403	1.5	1,103	1,731	2,262	-	\$11.36	\$9.28
	<b>TOTAL</b>	<b>51</b>	<b>2,894,618</b>	<b>3.1</b>	<b>14,200</b>	<b>50,565</b>	<b>13,435</b>	<b>-</b>	<b>\$19.20</b>	<b>\$12.03</b>
New Westminster	A	7	600,867	7.5	26,772	25,327	24,127	-	\$24.61	\$17.25
	B	13	589,296	7.8	24,331	9,413	29,824	-	\$18.65	\$13.60
	C	10	275,766	3.1	-1,892	-1,892	0	-	\$12.12	\$18.75
	<b>TOTAL</b>	<b>30</b>	<b>1,465,929</b>	<b>6.8</b>	<b>49,211</b>	<b>32,848</b>	<b>53,951</b>	<b>-</b>	<b>\$20.78</b>	<b>\$15.70</b>
Suburban	AAA	40	4,774,944	5.9	16,567	162,062	16,261	-	\$25.54	\$14.77
	A	109	8,949,860	5.8	118,322	320,646	104,776	-	\$23.91	\$14.79
	B	143	7,515,052	4.9	25,616	83,093	134,803	-	\$22.80	\$15.07
	C	101	2,691,912	2.5	-1,331	9,724	36,361	-	\$17.97	\$12.30
	<b>TOTAL</b>	<b>393</b>	<b>23,931,768</b>	<b>5.2</b>	<b>159,174</b>	<b>575,525</b>	<b>292,201</b>	<b>-</b>	<b>\$23.63</b>	<b>\$14.70</b>
Metro Vancouver	AAA	55	10,475,608	3.8	20,389	271,531	104,746	-	\$32.69	\$17.05
	A	137	15,780,774	4.4	140,355	461,162	281,272	-	\$28.45	\$16.49
	B	196	14,256,370	3.2	26,765	178,910	303,745	-	\$24.79	\$15.89
	C	182	7,254,561	3.6	7,913	(10,562)	101,551	-	\$24.02	\$15.06
	<b>TOTAL</b>	<b>570</b>	<b>47,767,313</b>	<b>3.8</b>	<b>195,422</b>	<b>901,041</b>	<b>791,314</b>	<b>-</b>	<b>\$27.91</b>	<b>\$16.25</b>

Source: CBRE Research, Q3 2019

**CONTACTS****Vicky Hou***Senior Research Analyst*

+1 778 372 3931

[Vicky.Hou@cbre.com](mailto:Vicky.Hou@cbre.com)**Clementine Montuelle***Research Analyst*

+1 778 372 1938

[Clementine.Montuelle@cbre.com](mailto:Clementine.Montuelle@cbre.com)**CBRE OFFICES**

CBRE Vancouver

1021 West Hastings Street, Suite 2500

Vancouver, BC V6E 0C3

To learn more about CBRE Research,  
or to access additional research reports,  
please visit the Global Research Gateway at  
[www.cbre.com/researchgateway](http://www.cbre.com/researchgateway)

