

Vancouver Office, Q4 2019

Metro Vancouver closes decade with record-low vacancy

 Vacancy Rate
3.7%

 Net Absorption
48,401 sq. ft.

 Gross Leasing
1,204,037 sq. ft.

 Under Construction
5,480,731 sq. ft.

*Arrows indicate change from previous quarter

MARKET HIGHLIGHTS

- The Metro Vancouver office market finished 2019 with a record low vacancy rate of 3.7%, a 10 basis point (bps) decrease quarter-over-quarter and 190 bps year-over-year.
- Vacancy in the Downtown core fell 10 bps from Q3 2019, a bellwether of continued strong demand for office space.
- Suburban markets built on a stellar Q3 performance, with the vacancy rate holding steady at an all-time low of 5.2%.
- As 2019 closed, vacancy decreased across all markets year-over-year. This trend is anticipated to continue through 2020 with high expectations for upcoming developments.

ECONOMICS

- As of September 2019, Canada’s gross domestic product (GDP) inched up by 10 bps month-over-month and gained 1.6% year-over-year. In the same period, Greater Vancouver’s GDP grew by 2.8%.
- British Columbia’s Consumer Price Index was reported at 2.2% by Statistics Canada in November 2019.
- In November 2019, BC’s unemployment rate settled at 5.0%, remaining the lowest in Canada (5.9% nationally).
- In December 2019, the Bank of Canada maintained overnight rate target steady at 1.75%.

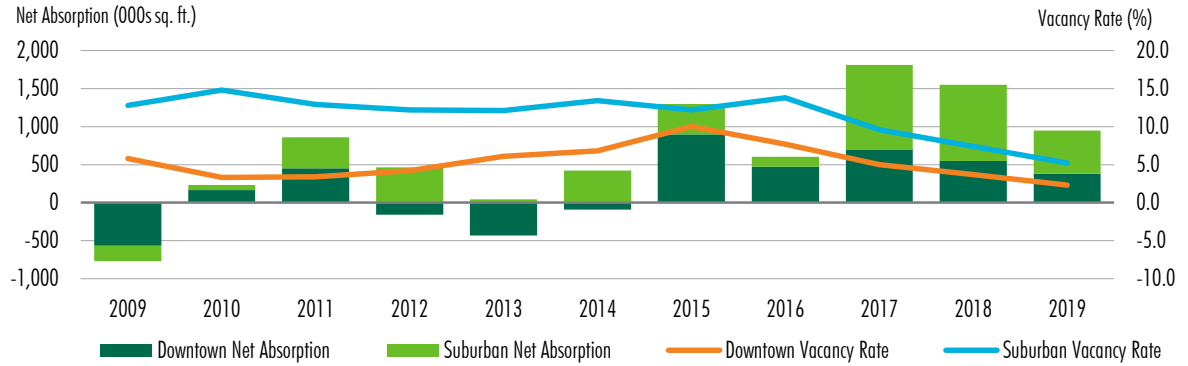
PROVINCIAL & METRO VANCOUVER OVERVIEW

British Columbia continues to rank among the top three provinces in Canada, with solid fundamentals in GDP, employment and population growth: 2.4% GDP growth in 2019 and 2.6% in 2020 (Conference Board of Canada, Autumn 2019). Such performance may be attributed to the roll-out of large construction and energy projects, including the BC LNG pipeline, the Site C Dam development and the progressive expansion of Vancouver International Airport. Additionally, the Services sector experienced impressive growth in Greater Vancouver, with 7.2% growth in professional, scientific and technical services (including Tech and Information Technology). Vancouver ranked 1st of the top 30 tech markets in North America, registering a 30% job growth over the past year.

Demand for commercial real estate continues to be strong in Canada generally and Greater Vancouver specifically, unimpacted by the new provincial ownership regulations within the residential sector. Despite global political unrest, office market fundamentals in Greater Vancouver remain healthy. Office investment volumes in 2019 reached \$2.32 billion, 11.1% lower than in 2018 (although some year-end transactions have yet to be posted and may reduce this difference). Several significant transactions are a clear sign of investor confidence in the Vancouver office market. The most notable transaction of 2019 was the sale of Bentall Centre to Hudson Pacific Properties and Blackstone for \$1,070,000,000 in June 2019, the second trade of the Centre in three years, and the largest transaction of the decade.

On the leasing front, Metro Vancouver performed particularly well, closing the decade with several records. Overall vacancy dipped for the 13th consecutive quarter, settling at an all-time low of 3.7%, while average asking rates registered a 6.2% increase year-over-year., across all classes and markets. Despite muted levels of absorption this quarter, the year finished with strong gross leasing activity, with 1,204,037 sq. ft. leased in Q4. The Downtown market remained the main driver of this activity, once again dipping to a record-low vacancy rate of 2.3%, 10 bps under that of Q3, and accounting for 47.3% of the overall quarterly gross leasing activity. Suburban vacancy held at its Q3 record of 5.2%. Broadway Corridor and Burnaby led the submarkets, closing the year with the strongest leasing activity, especially in higher-quality product. With vacancy rates dropping across

Figure 1: Metro Vancouver Supply & Demand



Source: CBRE Research, Q4 2019

all markets, anticipation for new developments intensified quarter after quarter, as pre-leasing activity continued through 2019 unabated.

DOWNTOWN VANCOUVER

In Q4 2019, Downtown Vancouver registered a new record-low vacancy rate of 2.3%, down 10 bps from Q3, after over three years of progressive decrease. Absorption settled at 53,090 sq. ft., a 46.5% increase from Q3 2019, although somewhat muted compared to Q4 2018. Total absorption for 2019 finished at 378,606 sq. ft., well above the 10-year average of 293,717 sq. ft., an indication of consistent demand through the most recent demand cycle.

Average asking rents in Downtown Vancouver registered at record-high levels in all classes, as competition escalates in the face of limited supply. Overall, this represents a 4.0% increase quarter-over-quarter and 4.8% since Q1 2019. Over the latter period, Class AAA average net asking rate swelled by 5.0% and Class A rate by 10.2%. Little abatement can be expected through 2020 given the market’s continued strength.

In this highly constrained environment, anticipation for new developments is intensifying as these now represent the main opportunity for large blocks of space. However, projects delivering in the short term will not bring significant supply relief, with 67.0% of the new inventory scheduled for 2020 to 2023 already pre-leased. In Q4, PI Financial confirmed their prelease commitment for approximately 40,000 sq. ft. at Vancouver Centre II (753 Seymour St), Colliers committed to two floors in Bentall 6 (1090 W Pender St – 41,172 sq. ft.), and University Canada West announced the opening of their new campus in Vancouver House for Summer 2020 (1461 and 1462 Granville St). Four of the five buildings scheduled to deliver in 2020 are 100% pre-leased, bringing 670,835 sq. ft. to inventory, although deferring any relief in vacancy to 2021. This quarter, construction on The George completed in Railtown, delivering

16,427 sq. ft. of office space, 51.0% of which already pre-leased. In addition to Colliers’ pre-lease in Bentall 6, the largest transactions included Fluor Canada’s expansion in 1185 W Georgia St (37,378 sq. ft.), RBS Lawyers extending their lease of 26,399 sq. ft. at 401 W Georgia St., and Investors Group committing to approximately 17,000 sq. ft. at 666 Burrard St.

SUBURBAN

Suburban markets maintained their strong performance from Q3, as the vacancy rate remained stable at 5.2%. Particularly peaking occupiers’ interest this quarter, Burnaby, Broadway Corridor and North Shore all saw their vacancy rates decrease and gross leasing activities grow from Q3. Over the past 10 years, suburban markets have seen significant development, with consistent delivery of new supply and positive net absorption. Such activity resulted in average asking rate swelling by an average of 28.0% since 2010, while the vacancy rate dropped by 59.4% over the same period, though most of this activity occurred after it last peaked at 13.8% in Q4 2016.

BROADWAY CORRIDOR

Broadway Corridor’s vacancy rate remained steady quarter-over-quarter holding at its record low of 2.4%. In turn, the overall average net asking rate increased by 2.8% from Q3 2019, with Class B rates gaining as much as 8.2%. Gross leasing activity expanded by 83.7% quarter-over-quarter mainly due to pre-leasing in new developments. The City of Vancouver committed to 43,400 sq. ft. at 510 West Broadway, to be completed in Q4 2020. This quarter also saw the construction start of a future office building at 425 W 6th Avenue, set to bring 140,750 sq. ft. of office space to market in 2021. At the corner of Granville St. and W Broadway, PCI Developments has applied to the City for the redevelopment of this high-profile corner into a five-storey office building integrating the future SkyTrain station in its design. The Broadway Corridor office market has expanded noticeably over the past 10 years, growing by 19.3%. It is set to expand even

further in the next 3 years as 847,703 sq. ft. are currently under construction.

BURNABY

Burnaby’s office market contracted further this quarter with overall vacancy inching down by 10 bps, albeit with varying performance across building classes. The Class AAA vacancy rate plummeted by 200 bps and registered almost as much gross leasing activity in Q4 as in the first three quarters of 2019 combined. This can be mainly attributed to significant occupancies in Metrotower 3 by Investors Group (4730 Kingsway), and in SOLO District by Provincial Health Services Authority (2025 Willingdon Dr). Additionally, the largest lease transaction in Metro Vancouver was registered at 2700 Production Way, with Traction On Demand extending their lease of 49,539 sq. ft. The overall average asking rate escalated by 4.0% year-over-year, with quality product in office campuses now listed as high as \$30-\$35 per sq. ft.

On the development front, Cressey’s strata project at Kings Crossing completed in Q4 2019. 2020 will see the delivery of only one office project: the first phase of the Amazing Brentwood, where the 80,000 sq. ft. of office space are fully pre-leased. Looking at a longer term, the development pipeline features several master-planned communities: City of Lougheed, Brentwood, Gilmore, Metrotown; which are not expected to commence delivery until 2024-2025.

RICHMOND

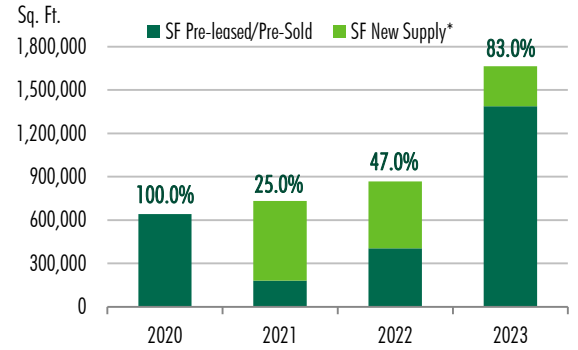
The Richmond market slowed slightly in Q4 with several blocks of space returning to the market, and a reduction in gross leasing activity throughout 2019. However, this may prove advantageous for Richmond tenants as it offers large blocks of space available immediately, a rare commodity in Metro Vancouver. 13888 Wireless Way, and Crestwood Corporate Centre are among current opportunities for significant tenants. In Q4 2019, Richmond also came one step closer to the construction of a new SkyTrain Station at Capstan Way and No.3 Road, as funds from the City and private developers have

Figure 3: Q4 2019 Significant Transactions

Size (SF)	Tenant	Address	Submarket	Tenant Industry	Deal Type
49,539	Traction on Demand	2700 Production Way	Burnaby	Business Services	Extension
41,262	City of Vancouver	510 West Broadway	Broadway Corridor	Government	New - Prelease
41,172	Colliers International	1090 West Pender Street	Downtown	FIRE	New - Prelease
37,378	Fluor Canada	1185 West Georgia street	Downtown	Engineering	Extension/Expansion
22,000	Investors Group	4730 Kingsway	Burnaby	FIRE	New

Source: CBRE Research, Q4 2019

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



Source: CBRE Research, Q4 2019

*Projects currently under construction

officially been transferred to Translink to kick off this project. This new station, located between Aberdeen and Bridgeport stations, will serve several new communities. The Lansdowne area is also experiencing major developments: construction of 7960 Alderbridge Way started in the Fall 2019, and will deliver 134,000 sq. ft. of Class AAA office space to market.

NORTH SHORE

For the 4th consecutive quarter, vacancy contracted, dropping by 100 bps in Q4 to 3.2%. Of note, the Class A vacancy rates dropped by 270 bps, due to healthy levels of gross leasing activity and absorption. The Class A category recorded the largest transactions of the quarter, in 221 W Esplanade and in Centreview where Jane Software took approximately 10,000 sq. ft. With Centreview now fully absorbed and very little new office space scheduled for development, the North Shore is expected to tighten further in 2020.

SURREY

Surrey remained relatively stable quarter-over-quarter, though vacancy increased by 30 bps, and absorption dipped slightly in Class A and Class B categories. Nonetheless, this quarter also witnessed a sizeable lease transaction in the future Phase B of the King George Hub development, removing about 50,000 sq. ft. from the market. With an impressive number of residential projects currently under construction or in the planning stage, Surrey City Centre is expected to establish itself as one of the major urban centres in suburban Metro Vancouver within the next few years.

Figure 4: Statistics Summary

Submarket	Class	Total Buildings	Inventory (sq. ft.)	Vacancy Rate (%)	Q4 2019 Net Absorption (sq. ft.)	YTD 2019 Net Absorption (sq. ft.)	Q4 2019 Gross Leasing (sq. ft.)	Q4 2019 New Supply (sq. ft.)	Net Asking Rent (\$ per sq. ft.)	Additional Rate (\$ per sq. ft.)
Downtown Vancouver	AAA	15	5,700,664	1.8	13,882	123,351	113,290	-	\$50.24	\$22.50
	A	29	6,847,341	2.6	9,988	150,504	120,060	16,427	\$42.18	\$21.44
	B	53	6,741,318	1.0	20,147	115,964	224,934	-	\$34.87	\$19.56
	C	81	4,562,649	4.1	9,073	-11,213	110,905	-	\$29.29	\$16.49
	TOTAL	178	23,851,972	2.3	53,090	378,606	569,189	-	\$37.65	\$19.49
Broadway Corridor	AAA	7	711,343	0.6	0	-2,034	71,262	-	\$32.00	\$25.85
	A	25	1,756,300	1.5	4,790	129,287	10,700	-	\$31.78	\$17.15
	B	35	1,707,161	4.1	-478	6,150	8,226	-	\$33.69	\$18.15
	C	37	826,286	2.6	-8,797	-8,472	14,258	-	\$26.05	\$14.78
	TOTAL	104	5,001,090	2.4	-4,485	124,931	104,446	-	\$31.81	\$17.28
Burnaby	AAA	12	2,361,541	6.0	48,640	20,208	61,966	-	\$27.90	\$16.43
	A	24	2,420,304	10.5	726	97,335	123,664	-	\$26.24	\$14.98
	B	38	3,131,102	8.0	-62,959	10,346	76,013	-	\$22.36	\$15.72
	C	22	864,679	0.9	17,426	25,303	20,839	-	\$17.82	\$11.74
	TOTAL	96	8,777,626	7.4	3,833	153,192	282,482	-	\$25.14	\$15.67
Richmond	AAA	21	1,702,060	6.7	-25,579	166,949	17,315	-	\$19.89	\$12.51
	A	24	1,567,642	6.1	-8,880	12,550	22,035	-	\$18.91	\$11.74
	B	19	526,886	2.6	-1,255	-3,947	13,458	-	\$15.52	\$12.65
	C	7	199,849	4.3	0	-236	8,581	-	\$12.95	\$11.49
	TOTAL	71	3,996,437	5.8	-35,714	175,316	61,389	-	\$19.05	\$12.15
North Shore	A	13	806,262	5.0	21,309	22,880	47,870	-	\$23.06	\$14.09
	B	17	752,877	1.5	-5,110	-6,293	15,728	-	\$21.92	\$10.85
	C	11	236,929	2.5	1,234	3,153	755	-	\$15.73	\$15.56
	TOTAL	41	1,796,068	3.2	17,433	19,740	64,353	-	\$22.10	\$13.86
Surrey	A	16	1,798,485	2.6	-4,708	46,504	68,886	-	\$22.15	\$14.41
	B	21	807,730	6.0	-4,897	-7,275	15,851	-	\$18.76	\$11.19
	C	14	288,403	1.1	1,159	2,890	0	-	\$11.36	\$9.28
	TOTAL	51	2,894,618	3.4	-8,446	42,119	84,737	-	\$20.12	\$12.64
New Westminster	A	7	600,867	8.0	-2,532	22,795	18,682	-	\$24.90	\$17.20
	B	13	589,296	4.0	22,798	32,211	16,866	-	\$20.26	\$14.34
	C	10	275,766	2.3	2,424	532	1,893	-	\$12.16	\$18.65
	TOTAL	30	1,465,929	5.3	22,690	55,538	37,441	-	\$22.48	\$16.45
Suburban	AAA	40	4,774,944	5.4	23,061	185,123	150,543	-	\$24.19	\$14.61
	A	109	8,949,860	5.7	10,705	331,351	291,837	-	\$23.69	\$14.42
	B	143	7,515,052	5.5	-51,901	31,192	146,142	-	\$23.88	\$15.23
	C	101	2,691,912	2.0	13,446	23,170	46,326	-	\$19.09	\$14.02
	TOTAL	393	23,931,768	5.2	-4,689	570,836	634,848	-	\$23.63	\$14.70
Metro Vancouver	AAA	55	10,475,608	3.5	36,943	308,474	263,833	-	\$30.31	\$16.47
	A	138	15,797,201	4.4	20,693	481,855	411,897	-	\$28.87	\$16.39
	B	196	14,256,370	3.4	-31,754	147,156	371,076	-	\$25.77	\$15.98
	C	182	7,254,561	3.3	22,519	11,957	157,231	-	\$26.84	\$15.90
	TOTAL	571	47,783,740	3.7	48,401	949,442	1,204,037	-	\$28.07	\$16.22

Source: CBRE Research, Q4 2019


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