Vancouver Office, Q1 2020

After steady 2020 start, Vancouver economic forecast upended

Vacancy Rate
3.9%

Net Absorption
50,135 sq. ft.

Gross Leasing
949,554 sq. ft.

Under Construction
5.5 million sq. ft.

*Arrows indicate change from previous quarter

MARKET HIGHLIGHTS

- Market conditions in Metro Vancouver remained tight on the heels of a record-low average vacancy in Q4 2019, with a marginal 10 basis points (bps) increase to 3.9% in Q1 2020.
- Downtown vacancy contracted by 10 bps quarter-over-quarter settling at 2.2%.
- Suburban markets registered a 20 bps growth in vacancy to 5.6%, remaining one of the tightest suburban office market across Canada.
- The 2020 forecast was upended by the COVID-19 pandemic. As the global situation progressively unfolds, Metro Vancouver should be able to rely on strong fundamentals at the start of the economic crisis.

ECONOMICS

- Canada's Gross Domestic Product (GDP) grew by 0.3% month-over-month in January 2020, and 1.8% year-over-year, despite a slow-down in Q4 2019. Metro Vancouver registered an overall GDP growth of 2.9% in 2019, however a recession is now forecast for 2020.
- British Columbia's Consumer Price Index was reported by Statistics Canada at 2.2% in February 2020, and 0.6% in March 2020 (1.7% excluding energy).
- As of the third week of March 2020, B.C.'s unemployment rate soared to 7.2%, and Canada's to 7.8%.
- After keeping the overnight target rate at 1.75% until the beginning of March 2020, Bank of Canada cut its rate several times in response to financial volatility. It now sits at 0.25%.

PROVINCIAL & METRO VANCOUVER OVERVIEW

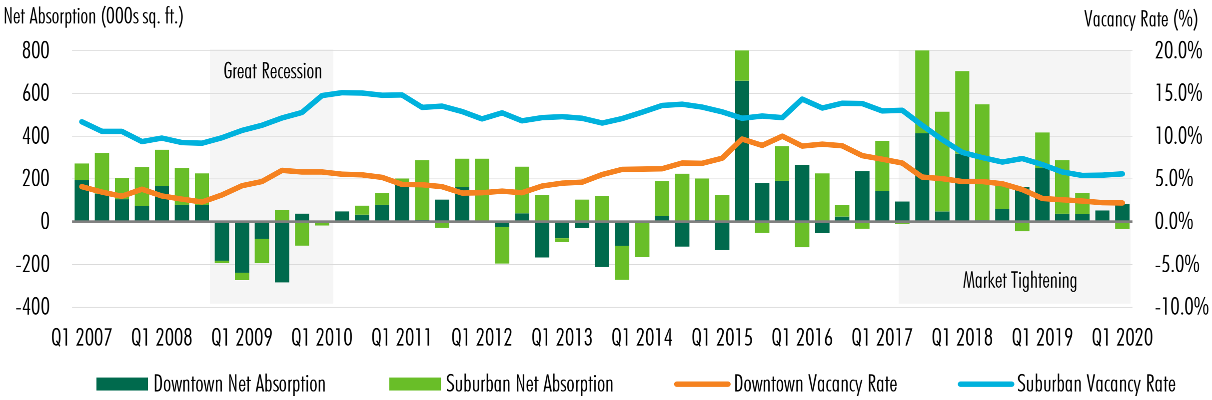
Prior to the event-based recession brought on by the COVID-19 health crisis in March, British Columbia and Metro Vancouver were forecast to out-perform the national economy in 2020, as they did in 2019. As of February 2020, Metro Vancouver was expected to show a 2.9% GDP growth throughout the year (2.6% for British Columbia), along with a tightening labour market which saw unemployment levels lower to 5.0% in B.C. and 4.6% in Metro Vancouver.

This forecast was upended in March as social distancing measures and travel restrictions were implemented, effectively closing stores and businesses, public places and office buildings. With retail, accommodation and food services sectors representing a combined 23.6% of the work force in February 2020, Vancouver was poised to record massive job losses. As of the third week of March, Metro Vancouver had lost 117,300 jobs, 65% of which came from the two previously mentioned sectors. The unemployment rate surged from 4.6% to 7.5%, not counting people with reduced hours or considered out of the labour force. The GDP forecast now shows a clear recession for 2020 as a whole, with -3.2% in British Columbia, before a strong bounce-back in 2021 at +6.3% (Conference Board of Canada).

Looking to commercial real estate and the office market, Q1 2020 saw somewhat subdued levels of leasing activity in Metro Vancouver, totalling 949,554 sq. ft. leased, with Broadway, Burnaby and Richmond amounting to the same levels of activity as Downtown. Absorption remained mostly stable, with only 3.6% increase from its muted Q4 level. This is a reminder of the growing proportion of pre-leases and early renewal or extension deals due to low vacancy and lack of options, meaning many spaces are never physically vacant between tenancies. Overall vacancy remained stable as well, despite a slight 10 bps uptick from its record-low point in Q4 2019, now at 3.9%. Similarly, asking net rents, averaged across all markets and classes, held steady (-0.4% quarter-over-quarter).

Office investment volumes were subdued in Q1 2020, following the same trend as in H2 2019, due in part to volatility in the financial markets induced by the pandemic. However, transactions started before the crisis

Figure 1: Metro Vancouver Supply & Demand



Source: CBRE Research, Q1 2020.

appear to be processing. Ongoing and upcoming deals are largely paused or deferred until investors and lenders have more visibility on the extent of the recession and its local implications. However, capitalization rates are expected to keep stable, and a strong recovery is anticipated for 2021.

On the development front, construction was deemed an essential service in British Columbia, allowing projects to move forward. Delays can still be expected as construction crews are limited in numbers and some materials have become harder to source. Municipalities across Metro Vancouver are moving forward as well with adapted remote permitting and inspection processes.

All told, the office real estate market in Vancouver should be able to rely on recorded strong fundamentals and high levels of office demand coming into this crisis, even more so Downtown. Heavy office-using services sectors, which are more prone to keep operations going remotely, registered a limited 4.3% decrease in employment across B.C. (including FIRE, Professional, Scientific and Technical Services, Business Services and Other Support Services). Large tech firms in particular are holding strong, buoyed by an all-time high demand for e-commerce, social media and remote work and entertainment solutions.

For office occupiers, the month of March was devoted to crisis management as they navigated through immediate issues: remote work organisation and/or layoffs; government relief packages; potential rent and loan payment deferrals; lease expiries and commencements for tenants moving offices. The implication of return to work strategies on the demand for office spaces remains to be seen but closely watched by both occupiers and owners of office space.

DOWNTOWN VANCOUVER

For the second successive quarter, vacancy inched down by 10 bps overall with Class AAA and A dropping by 30 bps to 1.5%, and 50 bps to 2.1% respectively. Class A also registered the highest level of absorption and Class AAA, the highest gross leasing activity. These trends confirm occupiers' continued interest for high quality space Downtown, despite limited options and escalating rents. Overall net rents grew by 4.2% year-over-year and remained stable quarter-over-quarter (-0.5%). More precisely, Class AAA average net rent was sustained just above $50.00 per sq. ft. in Q1 2020 and Class A saw a 4.8% quarterly increase to $44.19 per sq. ft.

Major movements this quarter include Allocadia Software taking occupancy in 200 Granville St (17,994 sq. ft.), and General Electric extending their lease of 17,667 sq. ft. in 1055 Dunsmuir St. Amazon announced that it will occupy IWG's entire coworking location in the upcoming 400 W Georgia (120,000 sq. ft.). Additionally, Shopify announced their first official office satellite in Vancouver, taking four floors of the previous Deloitte space in Bentall 4 (71,000 sq. ft., 1055 Dunsmuir St). This transaction marks the first move to backfill spaces left behind by large tenants planning to relocate to upcoming developments. As vacancy in existing buildings tightened throughout 2019 and again in Q1 2020, these spaces are highly scrutinized by large occupiers looking to expand, relocate or enter the Vancouver market.

Looking further ahead, although the near-completion of Vancouver House just kicked off the 2020-2023 development cycle, a second development cycle is taking shape with a number of projects currently in planning or permitting phases, potentially completing in 2024-2026. However, there is potential for slight delays and adjustments to delivery timelines as a result of COVID-19-related slowdowns in permitting and construction.

SUBURBAN

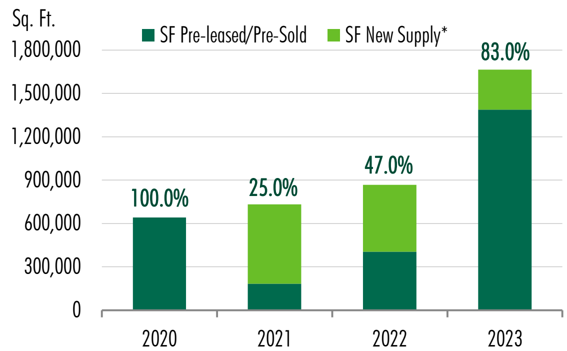
Overall, suburban markets held steady quarter-over-quarter with vacancy settling at 5.6%. Burnaby, Richmond and Broadway showed the highest levels of leasing activity, totaling 442,365 sq. ft. Class A and AAA, mainly in business park settings (Canada Way, Still Creek, Airport Executive Park), or in new developments (Citylink, on W 8th Avenue), were in highest demand. Overall average net rents increased by 6.2% year-over-year, and registered a 3.9% average growth over the past 10 years. With this sustained performance, Vancouver's suburban market was one of the tightest across Canada, a position only reinforced by the 1.6 million sq. ft. currently under construction scheduled to deliver by 2024.

BROADWAY CORRIDOR

Broadway Corridor's vacancy increased by 50 basis points quarter-over-quarter, due to several spaces becoming vacant during the quarter, also bringing absorption down. Leasing activity, on the other hand, grew by 14.1% from Q4 2019, driven by pre-leases and extensions: Spaces committed to 40,015 sq. ft. in the upcoming CityLink (525 W 8th Avenue - to be delivered in Q1 2021), and Celator Pharmaceuticals extended their lease of 14,892 sq. ft. in 887 Great Northern Way. In parallel, rental rate growth continued for the 4th successive quarter, now at $32.70 per sq. ft. for average net asking rent across all classes. This represents a 14.1% increase year-over-year.

Experiencing tightening conditions over the past few quarters and featuring only one large block of space in the existing inventory (2145-2165 W Broadway), Broadway Corridor will see some vacancy relief with upcoming developments. Notable events this quarter include the conditional approval of PCI's project for the future Granville/Broadway SkyTrain Station, the completion of the Beltline strata project (224 W 8th Avenue - office portion sold out), and the issuance of the development permit to build the next phase of the Main Alley campus (building M4, 110 East 5th Avenue).

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



Source: CBRE Research, Q1 2020.

*Projects currently under construction

BURNABY

Burnaby's vacancy rate inched up by 20 bps quarter-over-quarter to 7.6% with varying performances in each building class. Class AAA dropped significantly for the second successive quarter, now at 4.5% (-150 bps from Q4 2019). Class A decreased as well by 30 bps to 10.2%. Together, they represented 85% of the total gross leasing activity. Major transactions included Themis Solutions leasing 19,657 sq. ft. and Ricoh Canada committing to 14,081 sq. ft. for future occupancy, both in 4621 Canada Way. Conversely, Class B vacancy swelled by 190 bps, now at 9.9%, due to spaces previously available but occupied becoming vacant during Q1. This shows occupiers' preference for higher quality product, leaving lower grade spaces longer on the market.

RICHMOND

Overall vacancy in Richmond remained steady quarter-over-quarter at 5.8%, although down 100 bps year-over-year. As well, overall average net asking rent gained 1.5% from Q4 2019 and 6.4% from Q1 2019. This was even more apparent in Class AAA with a 9.6% increase in average net rent year-over-year, while vacancy declined by 300 bps. In Richmond, as in other submarkets, Class AAA and A led the quarterly activity. Indeed, Richmond was home to the largest lease deal this quarter as Sierra Wireless renewed on their 99,798 sq. ft. space at 13811 Wireless Way. Also of note was Shearwater Research committing to 33,340 sq. ft. in Building C of Airport Executive Park (10200 Shellbridge Way).

Figure 3: Q1 2020 Significant Transactions

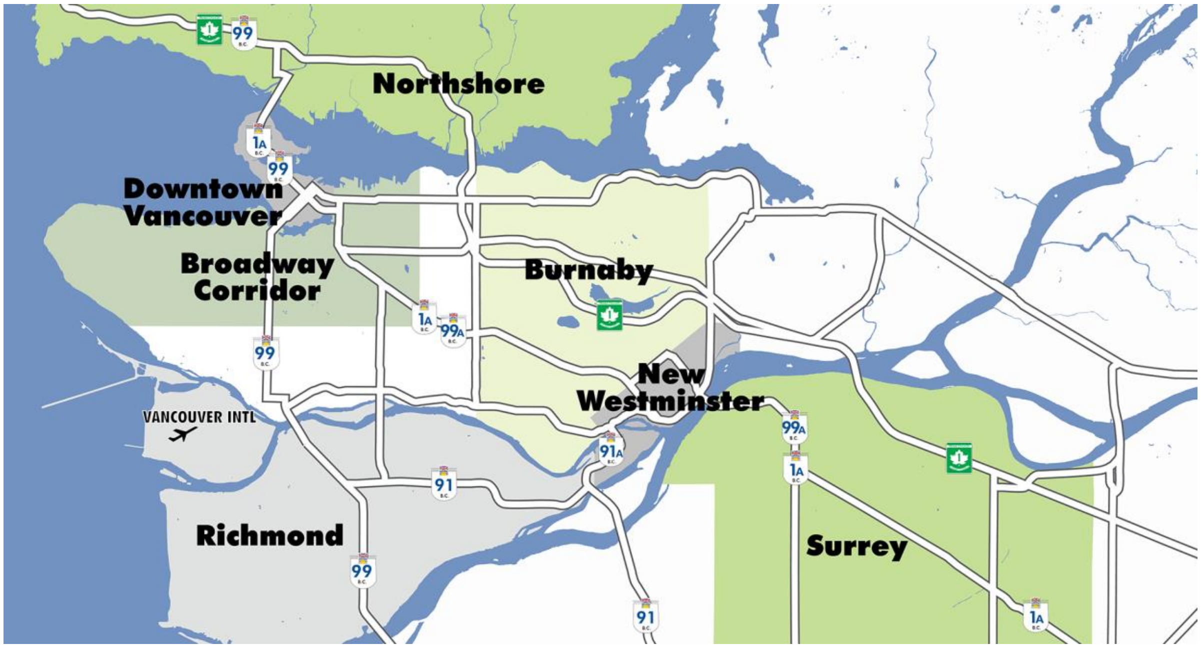
Size (SF)	Tenant	Address	Submarket	Tenant Industry	Deal Type
99,798	Sierra Wireless	13811 Wireless Way	Richmond	Technology	Renewal
71,000	Shopify	1055 Dunsmuir Street	Vancouver	Technology	New
40,015	Spaces	525 W 8th Avenue	Vancouver	Business Services	New / Pre-Lease
33,34	Shearwater Research	10200 Shellbridge Way	Richmond	Technology	New
19,657	Themis Solutions	4621 Canada Way	Burnaby	Technology	New

Source: CBRE Research, Q1 2020.

Figure 4: Statistics Summary

Submarket	Class	Total Buildings	Inventory (sq. ft.)	Vacancy Rate (%)	Q1 2020 Net Absorption (sq. ft.)	YTD 2020 Net Absorption (sq. ft.)	Q1 2020 Gross Leasing (sq. ft.)	Q1 2020 New Supply (sq. ft.)	Net Asking Rent ($ per sq. ft.)	Additional Rate ($ per sq. ft.)
Downtown Vancouver	AAA	15	5,700,664	1.5	15,388	15,388	149,360	-	$50.19	$22.62
	A	31	6,929,711	2.1	112,233	112,233	115,426	82,370	$44.19	$22.15
	B	53	6,741,318	1.5	-34,226	-34,226	90,043	-	$34.89	$20.51
	C	81	4,562,649	4.3	-8,992	-8,992	84,383	-	$28.92	$17.34
	TOTAL	**180**	**23,934,342**	**2.2**	**84,403**	**84,403**	**439,212**	**82,370**	**$37.45**	**$20.02**
Broadway Corridor	AAA	7	711,343	0.2	2,685	2,685	46,476	-	$32.00	$25.85
	A	25	1,756,300	2.9	-24,381	-24,381	17,242	-	$32.67	$17.31
	B	35	1,707,161	7.4	4,240	4,240	45,350	-	$33.74	$18.10
	C	37	826,286	3.5	-7,082	-7,082	10,150	-	$28.47	$14.98
	TOTAL	**104**	**5,001,090**	**4.1**	**-24,538**	**-24,538**	**119,218**	**-**	**$32.70**	**$17.45**
Burnaby	AAA	12	2,361,541	4.5	35,378	35,378	32,378	-	$28.21	$16.28
	A	24	2,420,304	10.2	9,360	9,360	83,081	-	$25.46	$14.36
	B	38	3,131,102	9.9	-60,524	-60,524	11,152	-	$22.37	$16.12
	C	22	864,679	1.0	-695	-695	8,821	-	$20.23	$12.42
	TOTAL	**96**	**8,777,626**	**7.6**	**-16,481**	**-16,481**	**135,432**	**-**	**$24.51**	**$15.68**
Richmond	AAA	21	1,702,060	6.9	-4,779	-4,779	115,013	-	$20.75	$13.12
	A	24	1,567,642	5.6	8,982	8,982	47,892	-	$18.24	$11.60
	B	19	526,886	3.5	-4,353	-4,353	12,062	-	$18.05	$15.70
	C	7	199,849	4.1	451	451	12,748	-	$12.95	$11.67
	TOTAL	**71**	**3,996,437**	**5.8**	**301**	**301**	**187,715**	**-**	**$19.33**	**$12.55**
North Shore	A	13	806,262	3.9	9,004	9,004	20,183	-	$20.84	$11.93
	B	17	752,877	3.2	-12,499	-12,499	8,051	-	$19.26	$9.65
	C	11	236,929	2.4	141	141	2,349	-	$17.69	$17.12
	TOTAL	**41**	**1,796,068**	**3.4**	**-3,354**	**-3,354**	**30,583**	**-**	**$19.92**	**$11.52**
Surrey	A	16	1,798,485	3.0	-8,540	-8,540	2,891	-	$24.53	$14.81
	B	21	807,730	5.6	3,552	3,552	2,845	-	$19.38	$11.10
	C	14	288,403	1.6	-1,532	-1,532	0	-	$12.65	$9.94
	TOTAL	**51**	**2,894,618**	**3.6**	**-6,520**	**-6,520**	**5,736**	**-**	**$21.77**	**$12.99**
New Westminster	A	7	600,867	6.3	9,990	9,990	20,167	-	$25.48	$17.27
	B	13	589,296	3.0	5,960	5,960	10,586	-	$20.73	$13.78
	C	10	275,766	2.1	374	374	905	-	$12.18	$19.91
	TOTAL	**30**	**1,465,929**	**4.2**	**16,324**	**16,324**	**31,658**	**-**	**$22.85**	**$16.53**
Suburban	AAA	40	4,774,944	4.7	33,284	33,284	193,867	-	$24.23	$14.59
	A	109	8,949,860	5.7	4,415	4,415	191,456	-	$23.86	$14.17
	B	143	7,515,052	7.2	-63,624	-63,624	90,046	-	$25.05	$15.63
	C	101	2,691,912	2.3	-8,343	-8,343	34,973	-	$21.52	$14.48
	TOTAL	**393**	**23,931,768**	**5.6**	**-34,268**	**-34,268**	**510,342**	**-**	**$24.27**	**$14.86**
Metro Vancouver	AAA	55	10,475,608	3.0	48,672	48,672	343,227	-	$30.34	$16.48
	A	140	15,879,571	4.1	116,648	116,648	306,882	-	$29.33	$16.32
	B	196	14,256,370	4.5	-97,850	-97,850	180,089	-	$26.50	$16.35
	C	182	7,254,561	3.5	-17,335	-17,335	119,356	-	$26.96	$16.58
	TOTAL	**573**	**47,866,110**	**3.9**	**50,135**	**50,135**	**949,554**	**82,370**	**$28.20**	**$16.40**

Source: CBRE Research, Q1 2020.



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