

Vancouver Office, Q2 2020

Global disruption causes office availability to rise as demand stalls



Vacancy Rate
4.6%



Net Absorption
-201,131 sq. ft.



Gross Leasing
893,314 sq. ft.



Under Construction
5.5 million sq. ft.

*Arrows indicate change from previous quarter

MARKET HIGHLIGHTS

- Metro Vancouver experienced a substantial increase in overall office vacancy to 4.6%, 70 basis point (bps) more than in Q1 2020.
- Downtown vacancy grew for the first time in years, now at 3.3%, largely attributed to sublease supply soaring as firms look to reduce costs.
- Suburban markets registered a 40-bps increase to 6.0% as a result of flat leasing velocity and negative absorption.
- Metro Vancouver remains a highly competitive office market with the lowest overall vacancy in Canada.

ECONOMICS

- The global pandemic provoked an economic recession in Canada, driving Gross Domestic Product (GDP) to decrease 11.6% month-over-month in April 2020, after declining 2.1% in Q1 2020.
- British Columbia's Consumer Price Index was reported by Statistics Canada at -0.2% in May over April 2020 and +0.2% over May 2019.
- In May 2020, employment rose by 290,000 jobs across Canada. The national unemployment rate reached an unprecedented 13.7%.
- Bank of Canada maintained the overnight target rate at 0.25% in June 2020.

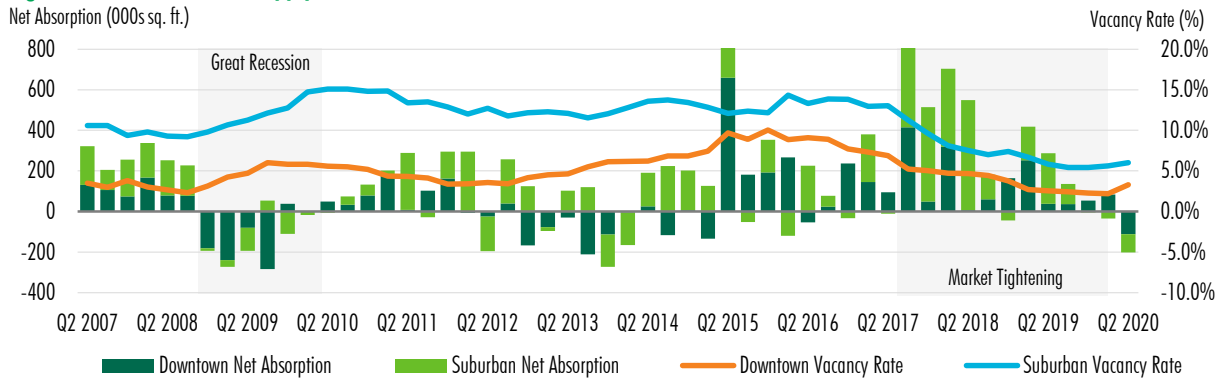
PROVINCIAL & METRO VANCOUVER OVERVIEW

Early signs of economic recession brought on by the pandemic are starting to be seen with Statistics Canada estimating national GDP decreasing 2.1% in Q1 2020, the deepest quarterly decline since Q1 2009. The Conference Board of Canada projects an annual 8.2% economic contraction in 2020. British Columbia is expected to fare better and is forecast to see a decline of 3.8% in annual GDP in 2020 (Conference Board of Canada, May 4th 2020 forecast). Employment losses in B.C. reached nearly 400,000 in March and April combined. However, 43,000 net jobs were created between mid-April and mid-May, as restrictions started to ease with Phase 1 of the provincial re-opening plan announced in early May. B.C. Premier John Horgan announced the implementation of Phase 2 in late May and Phase 3 on June 24th, allowing more retail, accommodations and health-care sectors to reopen and non-essential travels within the Province to resume. Unemployment reached record levels of 13.4% in B.C. and 10.7% in Metro Vancouver in May 2020, as some reentered the labour force looking for work. Immigration into the province is also expected to fall this year as borders remain closed to temporary workers and international school operators saw their enrolments tumble.

Tourism and travel is an important sector in B.C.'s economy and while it will experience some setbacks in 2020, it is expected to fare better than most. Economic forecasts predict an impressive rebound for the province in 2021 with Conference Board of Canada anticipating 7.0% GDP growth, unemployment moderating back down to 5.5% and increased household spending spurred on by pent-up demand. Remaining uncertainties for British Columbia include the possibility of a resurgence of the virus as well as prolonged border closures.

This disruption provoked a change of pace on Vancouver's office leasing market. Overall vacancy rose by 70 basis points to 4.6% as overall absorption recorded negative levels for the first time since Q1 2015 (-201,131 sq. ft.). Gross leasing activity fell by 5.9% quarter-over-quarter, as leasing velocity was mostly flat during the months of March and April. Some submarkets still registered decent levels of activity thanks to the conclusion of large renewals and extensions, or deals started before the pandemic. Among the deals brokered by CBRE that closed in Q2, 40.3% were renewals or extensions compared to 28.4% in Q1 2020.

Figure 1: Metro Vancouver Supply & Demand



Source: CBRE Research, Q2 2020.

The most notable trend this quarter revolves around the increased sublease availability. In Metro Vancouver, 628,802 sq. ft. of sublease space was added to the market between mid-March and end of June. This trend was especially evident Downtown (75% of the new listings) and was led by tech, business services and education users (24%, 11% and 11% respectively). Motivations behind these subleases vary however. Some schools and tourism-related tenants have shut down their campuses and offices, while other companies, less impacted by restrictive measures, take this as a practical opportunity to cut costs as they continue to work remotely. Additionally, over half of the new availabilities are scheduled to expire within the next two years (48.3%), and 77.0% of them were under 5,000 sq. ft. This can be seen as a sign that smaller tenants are either more financially strained, or nimbler in their adaptation to remote work processes. Meanwhile the largest new availabilities were unrelated to COVID-19 (Newmont Gold in 666 Burrard St or Stemcell Technologies in 750 W Pender St). These details combined give an idea of the type of space coming back on a head-lease basis in the near future.

On the investment front, despite most investors adopting a wait-and-see approach, office investment in Greater Vancouver increased from Q1 2020. This was due to three large transactions closing in April and early May, which account for 88% of the total registered so far for Q2. The largest transaction was Allied Properties purchasing The Landing at 375 Water St for \$225 million, followed by Peterson Group acquiring Crestwood Corporate Centre for \$180 million.

Looking forward, office leasing demand remains uncertain. Aside from influences such as a second wave of the pandemic or government restrictions, unprecedented long-term dynamics might play a role in how this experience will ripple through occupiers' real estate usage and preferences in the coming years: office density and physical distancing, commuting and remote work, coworking and collaborative

spaces, health and safety standards etc. In the meantime, many occupiers have adopted a wait-and-see approach. Office buildings in Vancouver are progressively reopening and welcoming tenants back under newly adapted health and safety procedures. The months of May and June have, for some tenants and landlords, been dedicated to organizing the return to their offices in the safest way possible, which may include health checks, enhanced cleaning protocols, masks, furniture reconfiguration and lobby circulation to allow for physical distancing.

DOWNTOWN VANCOUVER

For the first time since Q2 2016, overall vacancy Downtown rose by 110 bps quarter-over-quarter, settling at 3.3%, the second tightest market in Canada after Downtown Toronto. All classes registered higher vacancy and negative absorption, except Class A which benefitted from the delivery of 402 Dunsmuir Street, 100% leased by Amazon. This marks the third official Vancouver location for the tech giant (not including coworking space).

This trend is largely due to new sublease availabilities released to market since mid-March. Approximately 479,730 sq. ft. were added Downtown by end of June, provoking a 200%-increase in sublease vacancy in Q2 2020. Interestingly, this is a similar phenomenon as witnessed in Q4 2008 and Q1 2009 at the start of the Great Financial Crisis. At the time, sublease vacancy peaked in Q1 2009, two quarters into the recession. It then took two more quarters to observe the full extent of the damage in direct lease vacancy, as tenants defaulted on their leases or decided not to renew their commitments.

Another force driving vacancy up was a reduction in gross leasing activity, -5.9% quarter-over-quarter and -27.3% year-over-year, as demand stalled in Q2. Two significant transactions concluded during this quarter were Lululemon Athletica extending their lease of 1380 Burrard St (88,362 sq. ft.), and SNC-Lavalin surrendering 82,000 sq. ft. at 745 Thurlow St as they move part of their offices to 3777 Kingsway.

SUBURBAN

Similarly, suburban markets experienced an increase in vacancy across the board, although subleases were not as prevalent as in Downtown. Now at 6.0%, overall vacancy grew by 40 bps, less than half of the Downtown increase, and absorption was negative for the third successive quarter. Gross leasing activity was largely paused during the economic shutdown, although Burnaby still performed well thanks to several large deals started before the health crisis. Surrey was also home to the second largest transaction of the quarter as 85,000 sq. ft. were pre-leased in PCT's upcoming Phase B of the King George Hub. On the construction front, North Vancouver saw the arrival of 14,779 sq. ft. on the market at The Lonsdale (1301-1333 Lonsdale Avenue), most of which was already pre-leased.

BROADWAY CORRIDOR

Overall vacancy in Broadway corridor increased by 40 bps to 4.5%, as absorption was slightly negative in all classes. Broadway remains a tight office market, sensitive to minor shifts in vacancy. Class AAA settled at 2.0% after gaining 180 bps due to one vacancy in 555 W 12th Ave. This movement induced a marginal decrease in rental rates quarter-over-quarter by 2.7%, after increasing by 14.1% between Q1 2019 and Q1 2020. Gross leasing activity dipped compared to Q1 2020 as the wait-and-see approach observed in other markets was predominant in Broadway as well. The top lease transaction was registered in 138 E 7th Ave, where GHD Limited committed to 15,244 sq. ft. Looking to new developments, demolition started at 1465-1489 W Broadway to make way for the future office building and SkyTrain Station. With construction relatively unaffected by COVID-19, most projects already under construction in Mount Pleasant and False Creek remained on track for their scheduled delivery.

BURNABY

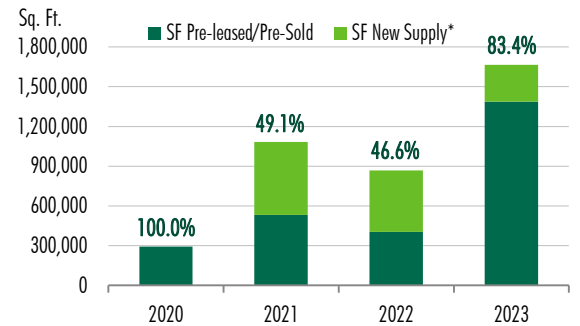
Overall vacancy in Burnaby recorded a marginal 20-bps increase to 7.8% in Q2 2020, with only Class A contracting (now at 9.5%). Net absorption was negative for the second consecutive quarter adding 17,581 sq. ft. of net new office space to the market.

Figure 3: Q2 2020 Significant Transactions

Size (SF)	Tenant	Address	Submarket	Tenant Industry	Deal Type
88,362	Lululemon Athletica	1380 Burrard St, Vancouver	Downtown	Retail	Extension
85,000	Confidential	9850 King George Blvd, Surrey	Surrey	Insurance	New / Pre-lease
61,187	Avigilon Corp.	4620 Viking Way, Richmond	Richmond	Technology	Extension
55,176	Chemetics Inc.	2930 Virtual Way, Vancouver	Burnaby	Technology	Extension
39,164	SNC-Lavalin	3777 Kingsway, Burnaby	Burnaby	Engineering	New / Sublease

Source: CBRE Research, Q2 2020.

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



Source: CBRE Research, Q2 2020.

*Projects currently under construction

However, Burnaby registered healthy levels of gross leasing activity, buoyed by a few large transactions closing during the quarter: Chemetics Inc. renewed their lease of 55,176 sq. ft. in 2930 Virtual Way, and SNC-Lavalin subleased two floors in 3777 Kingsway, representing 39,164 sq. ft. with occupancy later in the year.

On the development front, the delivery of the 1st phase of the Amazing Brentwood was delayed to Q4 2020. Q4 2020 will also see the delivery of 6051 Silver Dr, in Phase 5 of Anthem Properties' Station Square, with 45,276 sq. ft. Also of note, Appia Development is seeking additional density for the next phase of SOLO District (2088 Skyline Dr) to accommodate over 180,000 sq. ft. of total office space. This would be a welcome addition as some of the master-planned mixed-use projects in Burnaby might not include large-scale office buildings until later phases, expected from 2025 onwards.

RICHMOND

After four successive quarters of sub-6.0% vacancy, Richmond's overall vacancy rate increased by 60 bps to 6.4%, with classes AAA, A and B all inching up. This can be explained by negative net absorption in every class, including several new vacant subleases. In spite of this trend, average asking net rent rose by 2.4% quarter-over-quarter, particularly in Class A which saw the addition of newer product to available inventory (+6.9%). Additionally, gross leasing activity recorded just over half of its Q1 level, at 96,950 sq. ft., although higher by 46.7% than a year ago in Q2 2019. Part of this quarter's activity can be attributed to renewals from Avigilon Corp. in 4620 Viking Way and Westport Tower Inc. in 1750 W 75th Ave.

Figure 4: Statistics Summary

Submarket	Class	Total Buildings	Inventory (sq. ft.)	Vacancy Rate (%)	Q2 2020 Net Absorption (sq. ft.)	YTD 2020 Net Absorption (sq. ft.)	Q2 2020 Gross Leasing (sq. ft.)	Q2 2020 New Supply (sq. ft.)	Net Asking Rent (\$ per sq. ft.)	Additional Rate (\$ per sq. ft.)
Downtown Vancouver	AAA	15	5,700,664	2.1	-32,606	-17,218	51,604	-	\$50.00	\$22.57
	A	32	7,068,611	2.9	81,624	193,857	118,560	138,900	\$43.08	\$21.87
	B	53	6,741,318	3.4	-128,642	-162,868	158,735	-	\$36.20	\$20.23
	C	81	4,562,649	5.0	-31,838	-40,830	62,679	-	\$29.52	\$17.19
	TOTAL	181	24,073,242	3.3	-111,462	-27,059	391,578	138,900	\$36.65	\$19.67
Broadway Corridor	AAA	7	711,343	2.0	-13,134	-10,449	0	-	\$32.00	\$25.85
	A	25	1,756,300	3.3	-6,587	-30,968	44,844	-	\$29.37	\$20.64
	B	35	1,707,161	7.6	-3,179	1,061	32,639	-	\$33.34	\$17.55
	C	37	826,286	3.0	3,478	-3,604	4,947	-	\$28.12	\$15.66
	TOTAL	104	5,001,090	4.5	-19,422	-43,960	82,430	-	\$31.81	\$18.55
Burnaby	AAA	12	2,361,541	5.1	-14,075	21,303	54,629	-	\$28.41	\$15.95
	A	24	2,420,304	9.5	16,957	26,317	92,382	-	\$24.75	\$14.64
	B	38	3,131,102	10.4	-15,844	-76,368	53,049	-	\$22.48	\$16.04
	C	22	864,679	1.5	-4,619	-5,314	16,738	-	\$20.23	\$12.89
	TOTAL	96	8,777,626	7.8	-17,581	-34,062	216,798	-	\$24.58	\$15.64
Richmond	AAA	21	1,702,060	7.9	-15,726	-20,505	10,304	-	\$20.81	\$13.50
	A	24	1,567,642	5.9	-5,201	3,781	67,080	-	\$19.51	\$11.65
	B	19	526,886	4.2	-3,889	-8,242	6,818	-	\$17.07	\$15.03
	C	7	199,849	4.1	0	451	12,748	-	\$12.57	\$10.11
	TOTAL	71	3,996,437	6.4	-24,816	-24,515	96,950	-	\$19.79	\$12.71
North Shore	A	14	821,041	4.1	12,610	21,614	29,816	14,779	\$21.08	\$12.06
	B	17	752,877	3.6	-2,911	-15,410	7,989	-	\$18.16	\$10.15
	C	11	236,929	2.4	0	141	0	-	\$17.69	\$17.12
	TOTAL	42	1,810,847	3.7	9,699	6,345	37,805	14,779	\$19.67	\$11.85
Surrey	A	16	1,798,485	4.3	-22,271	-30,811	15,454	-	\$27.33	\$12.32
	B	21	807,730	6.1	-4,226	-674	32,713	-	\$20.49	\$12.17
	C	14	288,403	1.6	0	-1,532	4,106	-	\$12.60	\$9.20
	TOTAL	51	2,894,618	4.5	-26,497	-33,017	52,273	-	\$24.26	\$12.15
New Westminster	A	7	600,867	6.3	0	9,990	9,439	-	\$23.89	\$17.34
	B	13	589,296	4.8	-11,052	-5,092	6,041	-	\$21.09	\$13.78
	C	10	275,766	2.1	0	374	0	-	\$12.18	\$19.91
	TOTAL	30	1,465,929	4.9	-11,052	5,272	15,480	-	\$21.88	\$16.30
Suburban	AAA	40	4,774,944	5.6	-42,935	-9,651	64,933	-	\$24.94	\$15.29
	A	110	8,964,639	5.9	-4,492	-77	259,015	14,779	\$24.11	\$14.15
	B	143	7,515,052	7.7	-41,101	-104,725	139,249	-	\$24.92	\$15.54
	C	101	2,691,912	2.3	-1,141	-9,484	38,539	-	\$20.38	\$14.37
	TOTAL	394	23,946,547	6.0	-89,669	-123,937	501,736	14,779	\$24.40	\$14.95
Metro Vancouver	AAA	55	10,475,608	3.7	-75,541	-26,869	116,537	-	\$28.39	\$16.29
	A	142	16,033,250	4.6	77,132	193,780	377,575	153,679	\$29.26	\$16.25
	B	196	14,256,370	5.7	-169,743	-267,593	297,984	-	\$27.17	\$16.48
	C	182	7,254,561	4.0	-32,979	-50,314	101,218	-	\$27.35	\$16.52
	TOTAL	575	48,019,789	4.6	-201,131	-150,996	893,314	153,769	\$28.10	\$16.38

Source: CBRE Research, Q2 2020.


CONTACTS
Clementine Montuelle
Research Analyst

+1 778 372 1938

Clementine.Montuelle@cbre.com
Tyler Bains
Senior Research Analyst

+1 604 662 5135

Tyler.Bains@cbre.com
Nedene De Guzman
Research Analyst

+1 778 372 4420

Nedene.DeGuzman@cbre.com
Shane Kerins
Research Coordinator

+1 778 372 1946

Shane.Kerins@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 CBRE Research Portal at
www.cbre.com/research-and-reports

LINKEDIN



TWITTER

