

**MARKETVIEW**

VANCOUVER OFFICE, Q4 2020

# Despite sluggish demand, office market fundamentals remain sound

 **Vacancy Rate**  
6.2%

 **Net Absorption**  
- 581,109 sq. ft.

 **Gross Leasing**  
393,070 sq. ft.

 **Under Construction**  
4.8 million sq. ft.

**Market Highlights**

- Metro Vancouver office vacancy increased for the third consecutive quarter to 6.2%, up 280 basis points (bps) from the 2019 year-end total.
- Downtown vacancy rose by 120 bps in comparison to Q3 2020 (now 5.8%), returning to levels last seen in Q2 2017.
- Vacancy in the overall suburban market surged 130 bps to 6.6%, this quarter, the highest it has been since Q3 2018.
- Metro Vancouver remained the tightest office market in Canada, with the lowest overall and downtown vacancy rates of any North American market.
- Average asking lease rates grew 10.2% year-over-year throughout the Metro Vancouver region, primarily backed by the Downtown market which hold higher averages than the suburbs

Metro Vancouver office sector performance in 2020 was impacted by COVID health and safety measures and fluctuating consumer market sentiment caused by the pandemic. Vancouver’s overall vacancy rate now sits at 6.2%, marking a 120 bps increase from Q3 and 280 bps from year-end 2019; however, still the lowest vacancy of any Canadian market. With a 1.4 million sq. ft. surge of vacancy in 2020, roughly 63.7% comes from the Downtown core alone. In accordance, 50.0% of new vacancies introduced in 2020 came via sublease options.

Despite rising vacancy rates throughout the region, average asking lease rates were not among the most impacted segments in the market. Hovering at an average of \$30.85 per sq. ft., the rental rate witnessed a 10.2% increase from 2019. It is important to note that 46.9% of the product contributing to this figure is centralized in the Downtown core and indicative of higher asking rates. The significant growth in vacancy marks the highest rate recorded since Q1 2018; however, it is worth noting that vacant sublease space counted for 30.4% of the total vacant space. The high ratio vacant sublease product seen throughout 2020 has set an all-time high, over 5.0% larger than what was registered during the Global Financial Crisis of 2008.

### Downtown Vancouver

Overall vacancy rates increased from 2.2% to 5.8% year-over-year in 2020. Stay-at-home orders incited change among all building classes; however, Class B office product experienced the largest shift year-over-year (+580 bps). 50.4% of all vacant product within Class B inventory is driven by sublease vacancies (232,072 sq. ft.), which, as a result, accounts for 46.3% of all sublease vacancies in Downtown Vancouver. Contrastingly, Class A office space experienced 63,890 sq. ft. of net negative absorption in Q4. For the 7th consecutive year Class A space recorded positive absorption, and continued to hold as the only product in Downtown Vancouver with a positive year-end total of 158,220 sq. ft.

Despite persistent upward pressure on vacancy rates, average asking lease rates in Downtown Vancouver witnessed a 1.2% year-over-year increase to \$37.62 per sq. ft. While Class AAA & C product accepted modest declines, the subtle increase was primarily bolstered by Class A & B space which drew a competitive edge during the pandemic against the former. With 3.5 million sq. ft. currently under construction in the Downtown core and 1.1 million sq. ft. slated for completion this year, 48.4% of which already pre-leased, occupiers with future requirements can carry optimism knowing there are still significant options on the market.

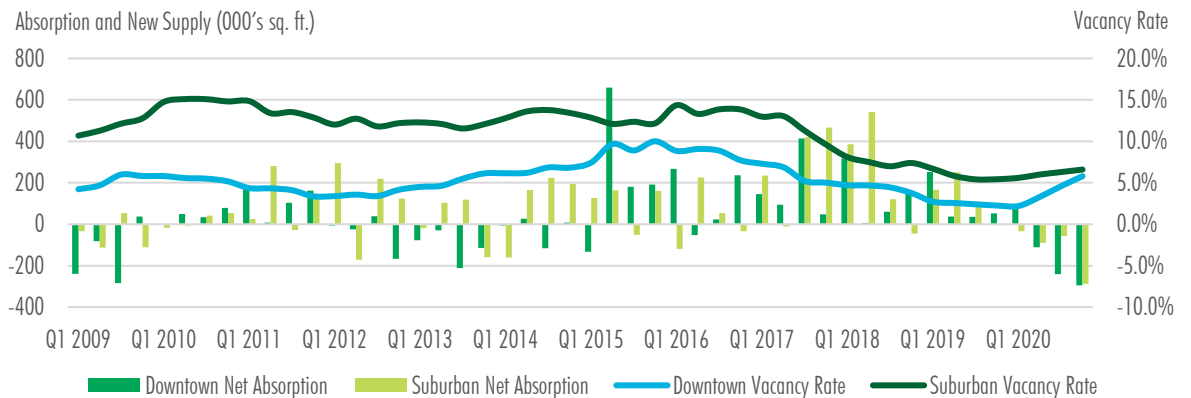
### Broadway Corridor

The Broadway Corridor experienced a similar vacancy uptick with rates changing from 3.4% to 7.7% year-over-year in 2020. Predominately driven by Class AAA office product that witnessed 141,414 sq. ft. of negative net absorption, the overall Broadway Corridor withstood a total negative 227,516 sq. ft. absorption throughout the year.

Although a majority of this vacancy comes from the 122,343 sq. ft. of space at 1077 Great Northern Way, 2020 marks the lowest annual total of absorption in its history. Formerly the MEC Headquarters and available for sublease, MEC's headlease has since been terminated and the entire building is now available. Once leased up, this space would lower the overall vacancy of the Broadway Corridor by 210 bps to 5.6%, measuring a 220 bps lift from Q4 2019.

The average asking lease rates in the Broadway Corridor grew 7.2% year-over-year to reach \$34.15 per sq. ft. While Class AAA and overall rates rose due to the substantial square footage located at 1077 Great Northern way, remaining classes sustained modest declines to their average asking net rental rates. Construction activity remained unchanged from the end of 2019 at 584,903 sq. ft.; however, 60.5% of the product expected to deliver in 2021 has been pre-leased.

Figure 1: Metro Vancouver Supply & Demand



Source: CBRE Research, Q4 2020.

### Burnaby

Vacancy rates for the Burnaby office sector sits at 7.2%, reflecting a 220 bps increase from Q4 2019 (5.1%) and a 30 bps climb compared to 2018 numbers. While direct vacancy held steady year-over-year, sublease vacancies have surged 179% to 297, 224 sq. ft. In turn, the average asking lease rates decreased 3.2% from 2019 to \$23.89 per sq. ft., well above the 5-year average of \$23.47 per sq. ft. Construction activity from 2019 through until 2020 remained unchanged with only one building slated for completion in 2021. Currently, there is 45,276 sq. ft. of pending new space available for lease.

### Richmond

Experiencing little change both quarter-over-quarter and year-over-year, Richmond remains bullish compared to submarkets amidst market conditions in 2020. Despite inflation of the vacancy rates of 100 bps to reach 6.8% in Q4 2020, this is still 300 bps below what was recorded in Q4 2017. Average asking lease rates inched up 1.1% and now sit at \$19.26 per sq. ft., the lowest overall rate of any suburban market in Metro Vancouver. Looking ahead to 2021, no new office supply is expected to deliver in Richmond. The nearest scheduled completion is not anticipated until Q2 2022 at the earliest.

Figure 3: Q4 2020 Significant Lease Transactions

Size (sq. ft.)	Tenant	Address	Submarket	Tenant Industry	Deal Type
61,833	Arista Networks ULC	9100 Glenlyon Parkway	Burnaby	Technology	Renewal
21,515	Unity Technologies Canada Company	1110 Hamilton Street	Downtown	Technology	Sublease
20,019	Microsoft	725 Granville Street	Downtown	Technology	Sublease
18,908	Real Estate Council of BC	750 W Pender Street	Downtown	Government	New Lease
18,607	Symvivo Corporation	8900 Glenlyon Parkway	Burnaby	Life Sciences	New Lease

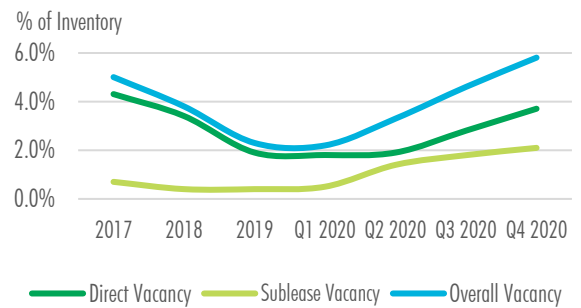
Source: CBRE Research, Q4 2020.

### Surrey

Primarily driven by Class A vacancies, which account for 56.2% of all vacant product in Surrey, the city’s overall vacancy rate increased 180 bps year-over-year to 5.2%. Vacant sublease product accounted for only 7.3% of the city’s vacant space, the second lowest ratio of any Metro Vancouver submarket. This increase is noteworthy considering the 0 sq. ft. of sublease product available in Q1 2020. Consequently, the overall average asking lease rate grew 23.3% year-over-year, recording now at \$24.81 per sq. ft. and marking the second consecutive year of average rental rate increase in Surrey.

Currently, there is 329,023 sq. ft. of office space under construction, all of which are expected to deliver in 2021. Indicative of robust fundamentals in suburban markets, 76.1% of this space has already been leased and marks the highest pre-commitment activity of any suburban market

Figure 2: Downtown Vacancy Rate Breakdown



Source: CBRE Research, Q4 2020.

Figure 4: Q4 2020 Vancouver Office Statistics Summary

Submarket	Class	Total Buildings	Inventory (sq. ft.)	Vacancy Rate	Q4 2020 Net Absorption (sq. ft.)	YTD 2020 Net Absorption (sq. ft.)	Q4 2020 Gross Leasing (sq. ft.)	Q4 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	3.44%	-61,157	-108,590	10,254	-	\$47.06	\$22.39
	A	33	7,159,336	4.73%	-63,890	158,220	42,864	-	\$42.93	\$21.77
	B	54	6,795,940	6.77%	-107,384	-391,816	70,528	-	\$37.37	\$20.84
	C	80	4,499,034	9.02%	-61,746	-219,206	50,002	-	\$28.66	\$17.20
	<b>TOTAL</b>	<b>182</b>	<b>24,154,974</b>	<b>5.80%</b>	<b>-294,177</b>	<b>-561,392</b>	<b>173,648</b>	<b>-</b>	<b>\$37.62</b>	<b>\$20.17</b>
Broadway Corridor	AAA	9	983,686	14.79%	-96,354	-141,414	0	-	\$41.76	\$17.65
	A	25	1,612,142	4.93%	-16,877	-53,247	15,716	-	\$31.02	\$19.84
	B	35	1,746,131	6.43%	731	-1,703	6,679	-	\$30.05	\$15.80
	C	38	849,886	7.54%	-26,690	-31,152	1,997	-	\$26.53	\$15.46
	<b>TOTAL</b>	<b>107</b>	<b>5,191,845</b>	<b>7.73%</b>	<b>-139,190</b>	<b>-227,516</b>	<b>24,392</b>	<b>-</b>	<b>\$34.15</b>	<b>\$16.99</b>
Burnaby	AAA	12	2,361,541	5.67%	-71,773	-44,851	4,066	-	\$28.52	\$16.11
	A	23	2,273,767	5.08%	-12,734	-18,129	91,186	-	\$27.22	\$14.90
	B	38	3,151,973	10.83%	-29,639	-92,520	10,193	-	\$22.01	\$15.40
	C	22	864,679	3.39%	-15,505	-21,564	3,900	-	\$21.14	\$15.70
	<b>TOTAL</b>	<b>95</b>	<b>8,651,960</b>	<b>7.17%</b>	<b>-129,651</b>	<b>-177,064</b>	<b>109,345</b>	<b>-</b>	<b>\$23.89</b>	<b>\$15.45</b>
Richmond	AAA	21	1,776,082	7.16%	11,623	-13,921	21,656	-	\$20.49	\$13.44
	A	24	1,567,642	6.29%	-12,904	-2,235	0	-	\$19.60	\$11.50
	B	19	526,886	8.41%	-10,736	-30,450	7,001	-	\$16.38	\$15.35
	C	7	199,849	4.10%	0	451	0	-	\$12.95	\$11.67
	<b>TOTAL</b>	<b>71</b>	<b>4,070,459</b>	<b>6.84%</b>	<b>-12,017</b>	<b>-46,155</b>	<b>28,657</b>	<b>-</b>	<b>\$19.26</b>	<b>\$12.94</b>
North Shore	A	14	821,041	2.95%	-464	31,229	9,405	-	\$22.72	\$14.12
	B	17	752,877	2.80%	7,972	-9,449	15,917	-	\$21.31	\$12.48
	C	11	236,929	2.61%	-1,039	-248	0	-	\$17.20	\$15.69
	<b>TOTAL</b>	<b>42</b>	<b>1,810,847</b>	<b>2.84%</b>	<b>6,469</b>	<b>21,532</b>	<b>25,322</b>	<b>-</b>	<b>\$21.43</b>	<b>\$13.75</b>
Surrey	A	16	1,798,485	4.69%	-8,600	-38,220	18,203	-	\$27.69	\$10.90
	B	21	807,730	7.55%	-8,638	-12,186	0	-	\$22.07	\$12.79
	C	14	288,403	1.61%	6,851	-1,532	6,851	-	\$12.60	\$9.20
	<b>TOTAL</b>	<b>51</b>	<b>2,894,618</b>	<b>5.18%</b>	<b>-10,387</b>	<b>-51,938</b>	<b>25,054</b>	<b>-</b>	<b>\$24.81</b>	<b>\$11.64</b>
New Westminster	A	7	600,867	5.13%	-3,168	17,022	0	-	\$23.47	\$17.52
	B	14	615,296	7.67%	1,012	-4,080	6,652	-	\$20.94	\$13.68
	C	10	275,766	2.12%	0	374	0	-	\$12.18	\$19.91
	<b>TOTAL</b>	<b>31</b>	<b>1,491,929</b>	<b>5.62%</b>	<b>-2,156</b>	<b>13,316</b>	<b>6,652</b>	<b>-</b>	<b>\$21.26</b>	<b>\$15.52</b>
Suburban	AAA	42	5,121,309	7.94%	-156,504	-200,186	25,722	-	\$31.62	\$15.84
	A	109	8,673,944	4.99%	-54,747	-63,580	134,510	-	\$24.92	\$13.82
	B	144	7,600,893	8.25%	-39,298	-150,388	46,442	-	\$23.13	\$14.85
	C	102	2,715,512	4.36%	-36,383	-53,671	12,748	-	\$22.51	\$15.24
	<b>TOTAL</b>	<b>397</b>	<b>24,111,658</b>	<b>6.57%</b>	<b>-286,932</b>	<b>-467,825</b>	<b>219,422</b>	<b>-</b>	<b>\$25.68</b>	<b>\$14.85</b>
Metro Vancouver	AAA	57	10,821,973	5.57%	-217,661	-308,776	35,976	-	\$36.82	\$18.05
	A	142	15,833,280	4.87%	-118,637	94,640	177,374	-	\$32.45	\$17.15
	B	198	14,396,833	7.55%	-146,682	-542,204	116,970	-	\$27.97	\$16.88
	C	182	7,214,546	7.27%	-98,129	-272,877	62,750	-	\$26.87	\$16.63
	<b>TOTAL</b>	<b>579</b>	<b>48,266,632</b>	<b>6.19%</b>	<b>-581,109</b>	<b>-1,029,217</b>	<b>393,070</b>	<b>-</b>	<b>\$30.85</b>	<b>\$17.15</b>

Source: CBRE Research, Q4 2020.



## CONTACTS

### **TYLER BAINS**

Research Manager

(604) 662-5135

[Tyler.Bains@cbre.com](mailto:Tyler.Bains@cbre.com)

*For media related inquiries, please contact:*

### **BRITAINNY HARI**

Marketing & Communications Manager

(604) 662-5177

[Britainny.Hari@cbre.com](mailto:Britainny.Hari@cbre.com)

## CBRE OFFICES

1021 W Hastings Street, Suite 2500

Vancouver, BC V6E 0C3

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