

MARKETVIEW

VANCOUVER OFFICE, Q1 2021

Downtown and suburban vacancy spread at historic low

 Vacancy Rate
6.3%

 Net Absorption
- 17,703 sq. ft.

 Gross Leasing
543,082 sq. ft.

 Under Construction
5.0 million sq. ft.

Market Highlights

- The vacancy rate for all classes of office product in Metro Vancouver inched up 10 basis points (bps) from Q4 2020 and now sits at 6.3%. Nearly half of all this vacant product is located within the Downtown market.
- Compared to Vancouver’s Downtown vacancy rate, which rose from 5.8% in Q4 to 6.2% in Q1 2020, the Suburban market experienced a 10 bps dip quarter-over-quarter, bringing the overall vacancy rate to 6.5%. Burnaby was the primary driver of this change, recording a substantial 70 bps decrease and achieving an overall vacancy rate of 6.5%.
- Average net rental rates for Class A office product in the Downtown submarket currently sits at \$41.25 per sq. ft. This represents a 6.6% decrease from Q1 2020; however, remains 7.8% above the Q1 2019 average of \$38.28 per sq. ft.

Spanning a full calendar year since the beginning of the COVID-19 pandemic, health and safety measures continue to impact office sector performance. Market uncertainty has shifted occupier sentiment and has caused near-term impacts to vacancy rates, which have risen to 6.3%, a 290 bps lift from 3.4% in Q1 2020. When comparing the Downtown and Suburban markets going back to Q1 2000, the difference in vacancy rates has historically averaged at 5.6%; however, Q1 2021 saw that gap close to 0.3%. In that same period, the lowest this spread has reached prior to 2020 was 1.4% in Q1 2001.

Total sublease vacancies reached a historical high of 988,400 sq. ft., accounting for 32.4% of total vacant space recorded in Q1 2020. As vaccination efforts ramp up throughout the Metro Vancouver region, occupier sentiment surrounding the office market will play an important role as companies begin assessing their new space requirements. Increasing vacancy rates linked to a surge of sublease product, particularly in the Downtown core provides businesses a prime opportunity to secure new space options at a discounted rate in comparison to pre-pandemic levels.

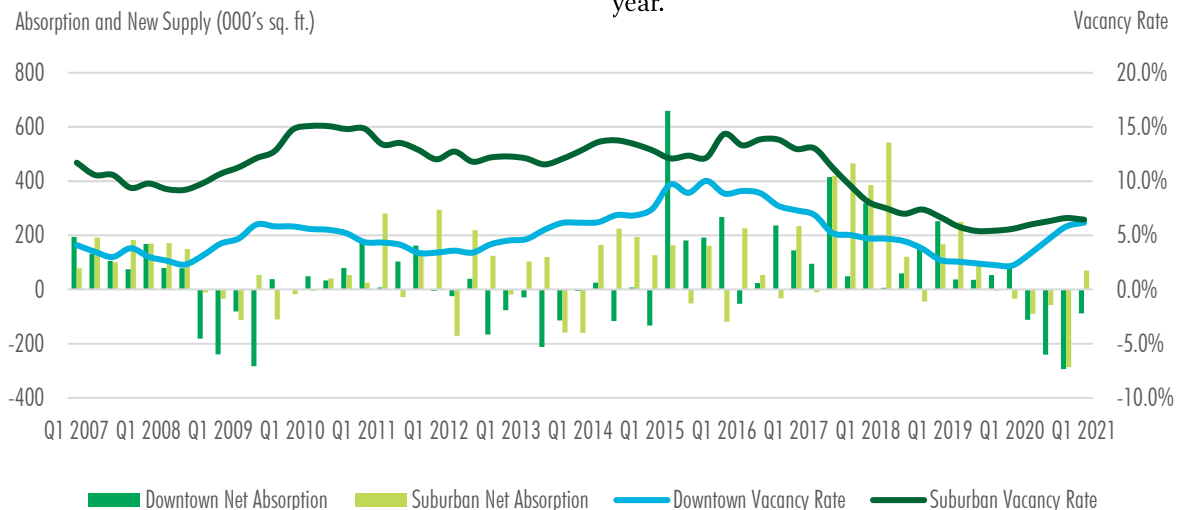
Downtown Vancouver

Since the onset of the COVID-19 pandemic, Downtown Vancouver has experienced four consecutive quarters of negative absorption totaling 733,764 sq. ft. The market witnessed an increase in vacancy rates in Q1 2021, marking a 40 bps lift from Q4 2020, and a 400 bps jump from Q1 2020 to 6.2%. As it stands, 62.0% of all vacant space in the Downtown core consists of Class B & C product, which has seen a significant escalation of 450 bps from the 57.5% seen in Q1 2020.

Although Q1 2021 witnessed a significant shift in vacant product, average net rental rates remained steady at \$36.42 per sq. ft., exemplifying only a slight 1.4% decrease in rates versus Q1 2020. Average net rental rates for Class AAA & A space in Vancouver have fallen 7.5% and 6.6%, respectively.

Vacant sublease product in the Downtown office market have increased fourfold, cumulating a total of 567,661 sq. ft. In comparison, in Q1 2009 during the Global Financial Crisis sublease vacancy accounted for 2.0% of market inventory, which stands 40 bps lower than present day figures. Continued upward pressure applied from pandemic restrictions could inflate total sublease vacancy rate above the 2.4% seen in Q1 2021.

Figure 1: Metro Vancouver Supply & Demand



Source: CBRE Research, Q1 2021.

Broadway Corridor

The Broadway Corridor experienced a 4.6% increase in vacancy year-over-year, registering an 8.4% overall vacancy rate in Q1 2021. While this uptick in comparison to pre-pandemic levels can be largely attributed to 122,343 sq. ft. of vacancy at 1077 Great Northern Way, where MEC’s headlease was terminated, recent increases are associated to two fully vacant floors at 369 Terminal Avenue. As a result of these vacancies, the vacancy rate in Class B product has risen to 8.7%, a 2.5% lift from Q1 2020 and the highest recorded rate in the last decade.

The Broadway Corridor’s vacant product remains misrepresented in Suburban tallies, accounting for only 16.5% of suburban sublease vacancies, while 32.7% of the Suburban direct vacancies came from the Broadway Corridor – a ratio that has grown 540 bps in comparison to Q1 2020 as a pre-pandemic indicator.

Average net rental rates remain above pre-pandemic levels, currently at \$34.44 per sq. ft., primarily upheld by vacancies at MEC’s former headquarters which hold above market asking rates. Withholding this opportunity, the overall average net rental rate for the Broadway Corridor would have experienced a 7.0% decline year-over-year.

Burnaby

Burnaby’s overall vacancy rate experienced a 70 bps decline quarter-over-quarter to 6.5%, a 1.2% shift from Q1 2020 as a significant portion of pre-existing office product became available for sublease. By the end of Q1 2021, 53.8% of all vacant office space was on market for sublet. This statistic sets Burnaby’s record as the highest percentage of any competing submarket this quarter. Scaling to the entire Metro Vancouver market, Burnaby is contributing to just under one-third of all sublease vacancies. Worthy to consider, Burnaby was one of three submarkets throughout Metro Vancouver experiencing a decrease in vacancy rates.

Surrey

Similar to other suburban counterparts, Surrey was the second submarket with a decline in the overall vacancy rate, down 40 bps to 4.8% in Q1 2021. This positions Surrey 20 bps below the overall vacancy rate of Q1 2019, with no new supply delivered over that same period. Looking forward, significant new supply is expected by 2023; however, much of this has been pre-absorbed indicating further compression of vacancy rates should demand regress to pre-pandemic levels.

Figure 3: Q1 2021 Significant Lease Transactions

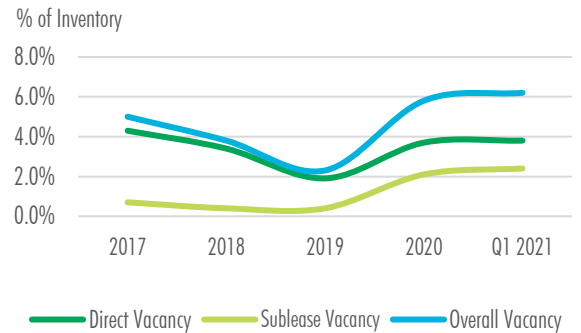
Size (sq. ft.)	Tenant	Address	Submarket	Tenant Industry	Deal Type
33,282	IGG.com Canada Inc.	5 East 8 th Avenue	Broadway Corridor	Creative Industries	Sublease
25,956	Medipure Pharmaceuticals Inc.	8900 Glenlyon Parkway	Burnaby	Life Sciences	New Deal
24,372	CONFIDENTIAL	4401 Still Creek Drive	Burnaby	CONFIDE	New Deal
24,199	Notch Therapeutics Inc.	887 Great Northern Way	Broadway Corridor	Life Sciences	New Deal
17,395	New York Institute of Technology	2925 Virtual Way	East Vancouver	Education	New Deal

Source: CBRE Research, Q1 2021.

Richmond

The Richmond suburban market remained steady with vacancy rates settling at 7.0% for all classes, with Class B product experiencing a 380 bps increase quarter-over-quarter. While the overall vacancy rate increased only 20 bps quarter-over-quarter, total sublease vacant space halved to 13,479 sq. ft. A slight supply increase is expected within this calendar year or the next; while leasing fundamentals holding relatively steady throughout the pandemic, Richmond continues to represent sound opportunities for occupiers who do not need to be situated on transit within the Downtown core.

Figure 2: Downtown Vacancy Rate Breakdown



Source: CBRE Research, Q1 2021.

Figure 4: Q1 2021 Vancouver Office Statistics Summary

Submarket	Class	Total Buildings	Inventory (sq. ft.)	Vacancy Rate	Q1 2021 Net Absorption (sq. ft.)	YTD 2021 Net Absorption (sq. ft.)	Q1 2021 Gross Leasing (sq. ft.)	Q1 2021 New Supply (sq. ft.)	Average Net Asking Rent per sq. ft.	Average Additional Rate per sq. ft.
Downtown Vancouver	AAA	15	5,700,664	4.0%	(29,566)	(29,566)	38,497	-	\$46.45	\$23.47
	A	33	7,159,336	4.7%	(1,318)	(1,318)	75,158	-	\$41.25	\$21.84
	B	54	6,795,940	7.2%	(31,141)	(31,141)	101,165	-	\$37.06	\$21.78
	C	80	4,499,034	9.6%	(25,944)	(25,944)	65,225	-	\$27.19	\$17.79
	TOTAL	182	24,154,974	6.2%	(87,969)	(87,969)	280,045	-	\$36.42	\$20.80
Broadway Corridor	AAA	9	983,686	15.1%	(3,009)	(3,009)	8,120	-	\$43.39	\$17.77
	A	26	1,656,142	5.2%	36,893	36,893	0	44,000	\$32.36	\$20.80
	B	35	1,746,131	8.7%	(40,403)	(40,403)	3,712	-	\$29.15	\$16.61
	C	38	849,886	6.4%	10,067	10,067	0	-	\$26.92	\$14.91
	TOTAL	108	5,235,845	8.4%	3,548	3,548	11,832	44,000	\$34.44	\$17.28
Burnaby	AAA	12	2,361,541	5.4%	6,530	6,530	3,409	-	\$28.87	\$16.40
	A	23	2,273,767	6.6%	(34,691)	(34,691)	62,169	-	\$32.22	\$17.76
	B	38	3,151,973	8.2%	81,808	81,808	86,684	-	\$22.71	\$15.72
	C	22	864,679	3.4%	35	35	2,005	-	\$21.60	\$16.56
	TOTAL	95	8,651,960	6.5%	53,682	53,682	154,267	-	\$24.76	\$16.19
Richmond	AAA	21	1,776,082	6.5%	11,699	11,699	9,880	-	\$20.75	\$14.29
	A	24	1,567,642	6.3%	(357)	(357)	30,321	-	\$19.42	\$12.33
	B	19	526,886	12.2%	(19,894)	(19,894)	0	-	\$17.14	\$15.64
	C	7	199,849	4.1%	0	0	0	-	\$12.95	\$11.67
	TOTAL	71	4,070,459	7.0%	(8,552)	(8,552)	40,201	-	\$19.20	\$13.84
North Shore	A	14	821,041	4.9%	(15,649)	(15,649)	1,972	-	\$22.72	\$14.32
	B	17	752,877	2.5%	2,585	2,585	12,904	-	\$21.33	\$14.18
	C	11	236,929	2.0%	1,558	1,558	1,558	-	\$15.70	\$16.77
	TOTAL	42	1,810,847	3.5%	(11,506)	(11,506)	16,434	-	\$21.43	\$14.56
Surrey	A	16	1,798,485	4.4%	5,709	5,709	14,949	-	\$28.94	\$11.22
	B	21	807,730	7.0%	4,635	4,635	6,249	-	\$21.31	\$12.98
	C	14	288,403	1.1%	1,532	1,532	6,594	-	\$12.65	\$9.94
	TOTAL	51	2,894,618	4.8%	11,876	11,876	27,792	-	\$25.26	\$11.95
New Westminster	A	7	600,867	4.6%	3,168	3,168	6,711	-	\$23.01	\$17.44
	B	14	615,296	4.7%	18,050	18,050	5,800	-	\$21.13	\$14.79
	C	10	275,766	2.1%	0	0	0	-	\$12.18	\$19.91
	TOTAL	31	1,491,929	4.2%	21,218	21,218	12,511	-	\$21.13	\$16.44
Suburban	AAA	42	5,121,309	7.6%	15,220	15,220	21,409	-	\$32.92	\$16.28
	A	110	8,717,944	5.5%	(4,927)	(4,927)	116,122	44,000	\$25.68	\$14.57
	B	144	7,600,893	7.6%	46,781	46,781	115,349	-	\$23.62	\$15.56
	C	102	2,715,512	3.9%	13,192	13,192	10,157	-	\$22.45	\$15.35
	TOTAL	398	24,155,658	6.5%	70,266	70,266	263,037	44,000	\$26.33	\$15.46
Metro Vancouver	AAA	57	10,821,973	5.7%	(14,346)	(14,346)	59,906	-	\$37.71	\$18.83
	A	143	15,877,280	5.2%	(6,245)	(6,245)	191,280	44,000	\$32.15	\$17.59
	B	198	14,396,833	7.4%	15,640	15,640	216,514	-	\$28.52	\$17.82
	C	182	7,214,546	7.4%	(12,752)	(12,752)	75,382	-	\$25.98	\$17.16
	TOTAL	580	48,310,632	6.3%	(17,703)	(17,703)	543,082	44,000	\$30.85	\$17.85

Source: CBRE Research, Q1 2021.



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