

MARKETVIEW

VANCOUVER OFFICE, Q2 2021

Return to work spurs leasing speculation

 **Vacancy Rate**
6.9%

 **Net Absorption**
18,837 sq. ft.

 **Gross Leasing**
917,369 sq. ft.

 **Under Construction**
4.6 million sq. ft.

Market Highlights

- Vacancy rates for all classes of office product in Metro Vancouver increased 60 basis points (bps) to 6.9% in Q2 2021. New office inventory introduced to the market this quarter contributed to the increase in vacancy in the downtown core.
- In comparison to Downtown vacancy, which rose from 6.2% to 6.6% in Q2 2021, suburban vacancy witnessed an 80 bps increase quarter-over-quarter, bringing the overall vacancy rate to 7.3%. Richmond was the primary driver of this change, recording a substantial 220 bps increase to 9.2% overall.
- Average net rental rates for Class AAA and C product in Metro Vancouver witnessed the most significant change. AAA rental rates currently sit at \$34.17, a 9.4% decrease from Q1; however, remains 6.8% above the Q2 2019 average of \$32.01 per sq. ft.

Metro Vancouver office occupier sentiment appeared positive in the second quarter, the first such quarter since the onset of the COVID-19 pandemic. The shift in occupier sentiment is derived from a significant decrease in sublet vacancy from 32.4% to 27.7% in Q2 2021, the lowest since the second quarter of 2020. Considerations for hybrid work models have been adopted by many companies, including Microsoft, Lululemon, and others who are integrating a part-time optional work from home schedule, suggesting that near term remote work remains a real alternative for many firms.

Phase 4 of B.C.'s Restart Plan, scheduled to commence in September, will include significant reductions in workplace restrictions, inducing companies to begin assessing their spatial needs to welcome employees back for a return to work mandate. In Q2 2021, Metro Vancouver office vacancy rates rose to 6.9%, representing a 60 bps increase from 6.3% in Q1 2021. Despite the rise in rates, this excess space can be attributed to the 338,152 sq. ft. of new inventory that entered the market this quarter. Of the new office space provided, 61.2% is already pre-leased and accounts for 8.5% of current direct vacancies. Nearly all of this space delivered in Suburban markets.

Downtown Vancouver

Downtown Vancouver witnessed a fifth consecutive quarter of negative absorption representing -74,641 sq. ft. in the second quarter – resulting in a 0.4% increase in vacancy to 6.6% quarter-over-quarter. Sublease vacancy accounted for 35.3% of Downtown vacancy, a 7.5% decline since the peak of the pandemic which saw rates as high as 42.8%. Despite such increase in vacancy in Q2 2021, leasing activity is on the rise and spurring competition amongst firms in the Downtown core. Notable transactions include Workday leasing the top three floors representing 27,000 sq. ft. at 601 West Hastings, while BDC finalized 16,000 sq. ft. location at 1133 Melville Street – The Stack development.

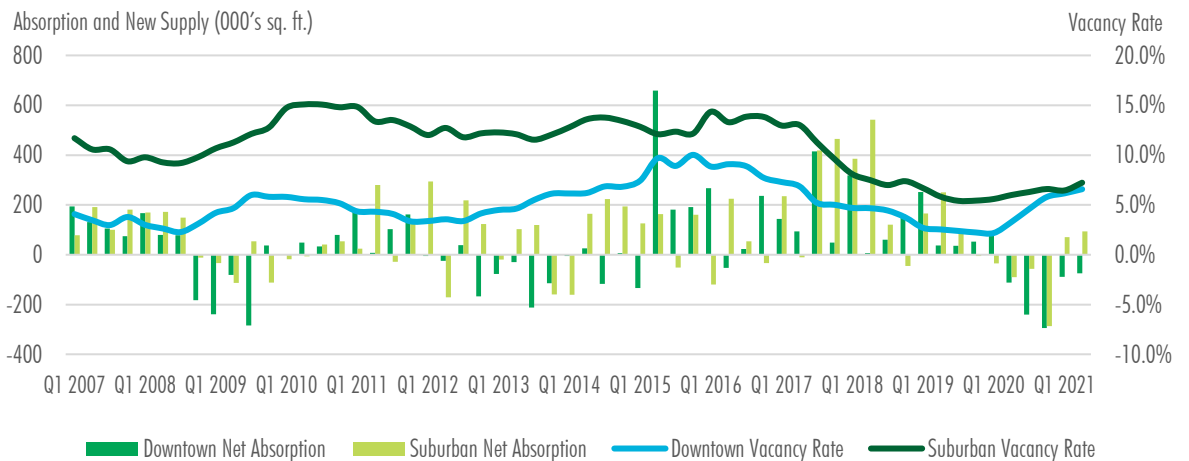
Strong market fundamentals coupled with steady demand from a flourishing tech sector serve as viable pillars as developers consider constructing additional supply within the Downtown core. 3.5 million sq. ft. of office space is currently under construction, with over 3.2 million sq. ft. forecasted in the pipeline. Activity within Vancouver’s Downtown office market is stabilizing with sublease opportunities declining steadily and headlease spaces leasing. Shell space is also witnessing interest from tenants, which lends a positive outlook into the market’s recovery.

Broadway Corridor

The Broadway Corridor experienced a significant increase in absorption activity this quarter totalling 91,328 sq. ft., eclipsing the 3,548 sq. ft. experienced in Q1 2021. The total vacant space in the market doubled year-over-year, recording an 8.5% overall vacancy rate in Q2 2021. As Class AAA & A vacancies in the Downtown core continue to shrink while the need for flexible office product faces heightened demand, the Broadway Corridor has inevitably become a node for activity. Despite a slight reduction in average net rental rates, rates remain above pre-pandemic levels. The 3.5% decline compared to Q1 2021 can be attributed to strong market fundamentals, a viable economy and future connectivity and transit opportunities for the area.

There are currently six projects under construction, which will add 500,706 sq. ft. of much needed inventory. A significant volume of development is anticipated to be delivered by 2023 as the city’s Skytrain extension begins construction. The transit project includes an extra 5.7 km line that will connect from VCC-Clark Station to a new terminus station at Arbutus Street. The six new stations will stretch along West Broadway, connecting the area to the rest of the Greater Vancouver area and providing a swift mode of transportation to a new, developing hub.

Figure 1: Metro Vancouver Supply & Demand



Source: CBRE Research, Q2 2021.

Burnaby

Burnaby’s overall vacancy rate experienced an increase in vacancy with rates reaching 7.3%, an 80 bps jump from 6.5% the prior quarter. This increase can be attributed to 110,744 sq. ft. of direct space coming to market this quarter. Sublet office space witnessed a decline of 40,022 sq. ft. since Q1 2021, bringing the quarter’s total to 265,000 sq. ft. Vacant square footage witnessed a 12.5% increase year-over-year, the highest volume since Q2 2018. Large occupiers are actively taking advantage of increasing vacancy, including Svante Inc., a carbon capture company that is leasing 141,248 sq. ft. vacated by Best Buy and Evolution Games, which subleased 49,761 sq. ft. in 3777 Kingsway.

Surrey

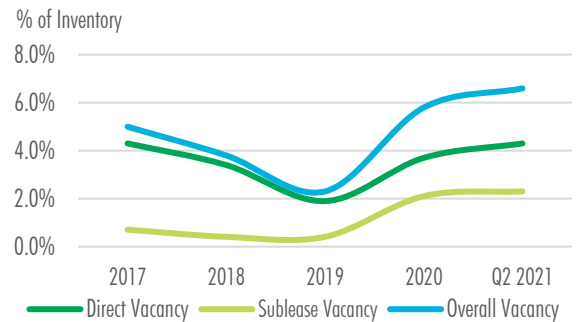
The Surrey office market momentum mirrored that of Burnaby, experiencing a 20 bps increase to a vacancy rate of 5.0% in Q2 2021. With 328,476 sq. ft. of new office space product anticipated to enter the Surrey market this year, of which 60% is pre-leased, developers continue to recognize the opportunities that lie ahead for this City. The Prime Minister recently announced up to \$1.3 billion in federal funding toward the Surrey Langley Skytrain extension project, which will

further connect growing Surrey neighbourhoods, the Township of Langley, and the City of Langley to Surrey Centre and the regional Skytrain network. As a result, Surrey remains the tightest major suburban office market with 5.0% vacancy, a mere shift from pre-pandemic rates of 3.4%.

Richmond

The Richmond office market experienced its 5th consecutive quarter of increased vacancy rates. Up 220 bps to 9.2% overall, the city also holds steady with the highest vacancy rating amongst suburban submarkets, with increases coming from Class AAA and A buildings. Richmond remains an attractive choice for suburban occupiers who require large blocks of space, like Poole Construction Company Limited (PCL) who recently renewed and expanded their office to 50,370 sq. ft. at 13911 Wireless Way.

Figure 2: Downtown Vacancy Rate Breakdown



Source: CBRE Research, Q2 2021.

Figure 3: Q2 2021 Significant Lease Transactions

Size (sq. ft.)	Tenant	Address	Submarket	Tenant Industry	Transaction Type
141,284	Svante Inc.	8800 Glenlyon Parkway	Burnaby	Energy	New Transaction
51,150	Broadcom Canada Ltd.	13711 International Place	Richmond	Technology	Renewal
50,370	PCL Constructors Westcoast Inc.	13811-13911 Wireless Way	Richmond	Building Materials	Renewal / Expansion
49,761	Evolution Games	3777 Kingsway Street	Burnaby	Technology	New Transaction
26,042	Fortis BC	4370 Still Creek Drive	Vancouver	Energy	Extension

Source: CBRE Research, Q2 2021.

Figure 4: Q2 2021 Vancouver Office Statistics Summary

Submarket	Class	Total Buildings	Inventory (sq. ft.)	Vacancy Rate	Q2 2021 Net Absorption (sq. ft.)	YTD 2021 Net Absorption (sq. ft.)	Q2 2021 Gross Leasing (sq. ft.)	Q2 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	5.0%	(59,716)	(89,282)	50,145	-	\$45.33	\$24.10
	A	34	7,187,956	5.0%	6,872	5,554	86,436	28,620	\$42.10	\$22.31
	B	54	6,795,940	7.2%	4,691	(26,450)	159,244	-	\$36.66	\$22.12
	C	80	4,499,034	10.2%	(26,488)	(52,432)	133,551	-	\$28.88	\$17.48
	TOTAL	183	24,183,594	6.6%	(74,641)	(162,610)	429,376	28,620	\$36.75	\$20.95
Broadway Corridor	AAA	11	1,089,741	14.2%	98,042	95,033	1,765	103,778	\$38.54	\$20.17
	A	26	1,656,142	5.8%	(9,285)	27,608	77,359	-	\$32.40	\$20.05
	B	35	1,746,131	7.9%	14,083	(26,320)	35,277	-	\$30.48	\$17.22
	C	38	849,886	7.7%	(11,512)	(1,445)	15,211	-	\$27.98	\$14.42
	TOTAL	110	5,339,623	8.5%	91,328	94,876	129,612	103,778	\$33.23	\$18.36
Burnaby	AAA	12	2,361,541	6.6%	(27,683)	(21,153)	23,255	-	\$29.30	\$16.51
	A	24	2,319,043	9.0%	(13,395)	(48,086)	107,517	45,276	\$27.79	\$18.88
	B	38	3,151,973	7.7%	17,922	99,730	81,835	-	\$22.63	\$16.06
	C	22	864,679	3.7%	(2,290)	(2,255)	1,767	-	\$21.28	\$16.77
	TOTAL	96	8,697,236	7.3%	(25,446)	28,236	214,374	45,276	\$25.09	\$16.94
Richmond	AAA	21	1,776,082	9.7%	(57,405)	(45,706)	63,663	-	\$20.50	\$14.19
	A	24	1,567,642	8.9%	(40,956)	(41,313)	10,845	-	\$19.48	\$12.21
	B	19	526,886	11.2%	5,097	(14,797)	6,442	-	\$17.12	\$15.55
	C	7	199,849	1.1%	6,006	6,006	6,006	-	\$12.00	\$11.67
	TOTAL	71	4,070,459	9.2%	(87,258)	(95,810)	86,956	-	\$19.47	\$13.66
North Shore	A	14	821,041	7.1%	(18,802)	(34,451)	24,506	-	\$24.64	\$16.93
	B	17	752,877	4.0%	(11,598)	(9,013)	1,200	-	\$21.31	\$14.24
	C	11	236,929	2.9%	(2,332)	(774)	1,174	-	\$19.00	\$15.84
	TOTAL	42	1,810,847	5.3%	(32,732)	(44,238)	26,880	-	\$22.61	\$15.70
Surrey	A	17	1,958,963	4.8%	145,553	151,262	20,254	160,478	\$30.15	\$13.67
	B	21	807,730	7.1%	(620)	4,015	5,732	-	\$21.27	\$13.04
	C	14	288,403	1.1%	0	1,532	1,532	-	\$12.50	\$9.02
	TOTAL	52	3,055,096	5.0%	144,933	156,809	27,518	160,478	\$26.54	\$13.34
New Westminster	A	7	600,867	4.6%	0	3,168	0	-	\$23.01	\$17.44
	B	14	615,296	4.3%	2,653	20,703	2,653	-	\$21.61	\$15.28
	C	10	275,766	2.1%	0	0	0	-	\$12.18	\$19.91
	TOTAL	31	1,491,929	4.0%	2,653	23,871	2,653	-	\$21.33	\$16.73
Suburban	AAA	44	5,225,087	9.2%	12,954	28,174	88,683	103,778	\$29.37	\$17.02
	A	112	8,923,698	7.0%	63,115	58,188	240,481	205,754	\$26.26	\$15.93
	B	144	7,600,893	7.3%	27,537	74,318	133,139	-	\$23.90	\$15.84
	C	102	2,715,512	4.2%	(10,128)	3,064	25,690	-	\$24.05	\$15.20
	TOTAL	402	24,465,190	7.3%	93,478	163,744	487,993	309,532	\$26.08	\$16.12
Metro Vancouver	AAA	59	10,925,751	7.0%	(46,762)	(61,108)	138,828	103,778	\$34.17	\$19.15
	A	146	16,111,654	6.1%	69,987	63,742	326,917	234,374	\$31.85	\$18.18
	B	198	14,396,833	7.2%	32,228	47,868	292,383	-	\$28.70	\$18.20
	C	182	7,214,546	8.0%	(36,616)	(49,368)	159,241	-	\$27.71	\$16.93
	TOTAL	585	48,648,784	6.9%	18,837	1,134	917,369	338,152	\$30.59	\$18.16

Source: CBRE Research, Q2 2021.



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