

FIGURES | VANCOUVER OFFICE | Q4 2021

First signs of declining vacancy rates in wake of strengthened demand

▼ 7.0%

Vacancy Rate

▲ 689K

SF Net Absorption

▼ 3.7M

SF Under Construction

▲ \$33.84

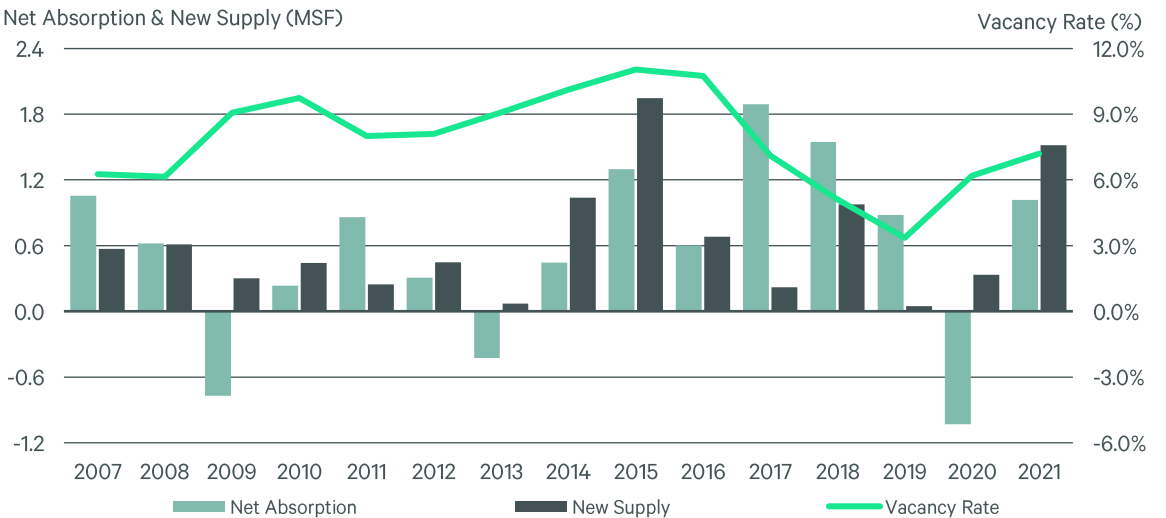
PSF Avg. Asking Rental Rate

Note: Arrows indicate change from previous quarter.

Overview

- Vacancy rates for all classes of office product in Metro Vancouver decreased by 40 basis points (bps) to 7.0% in Q4 2021. Even though 543,000 sq. ft. of new office inventory was introduced this quarter, nearly three-quarters was pre-leased prior to construction completion.
- Suburban vacancy rates witnessed a 40 bps decrease, the first decline since the beginning of the pandemic. The primary driver of this decline can be attributed to Richmond and Burnaby, which experienced 120 and 90 bps decreases quarter-over-quarter.
- Average net rental rates for Class AAA product in Metro Vancouver witnessed the most significant change. AAA rental rates currently sit at \$41.26 per sq. ft., a 12.1% increase year-over-year.

Figure 1: Metro Vancouver Supply & Demand



Source: CBRE Research, Q4 2021.

Metro Vancouver

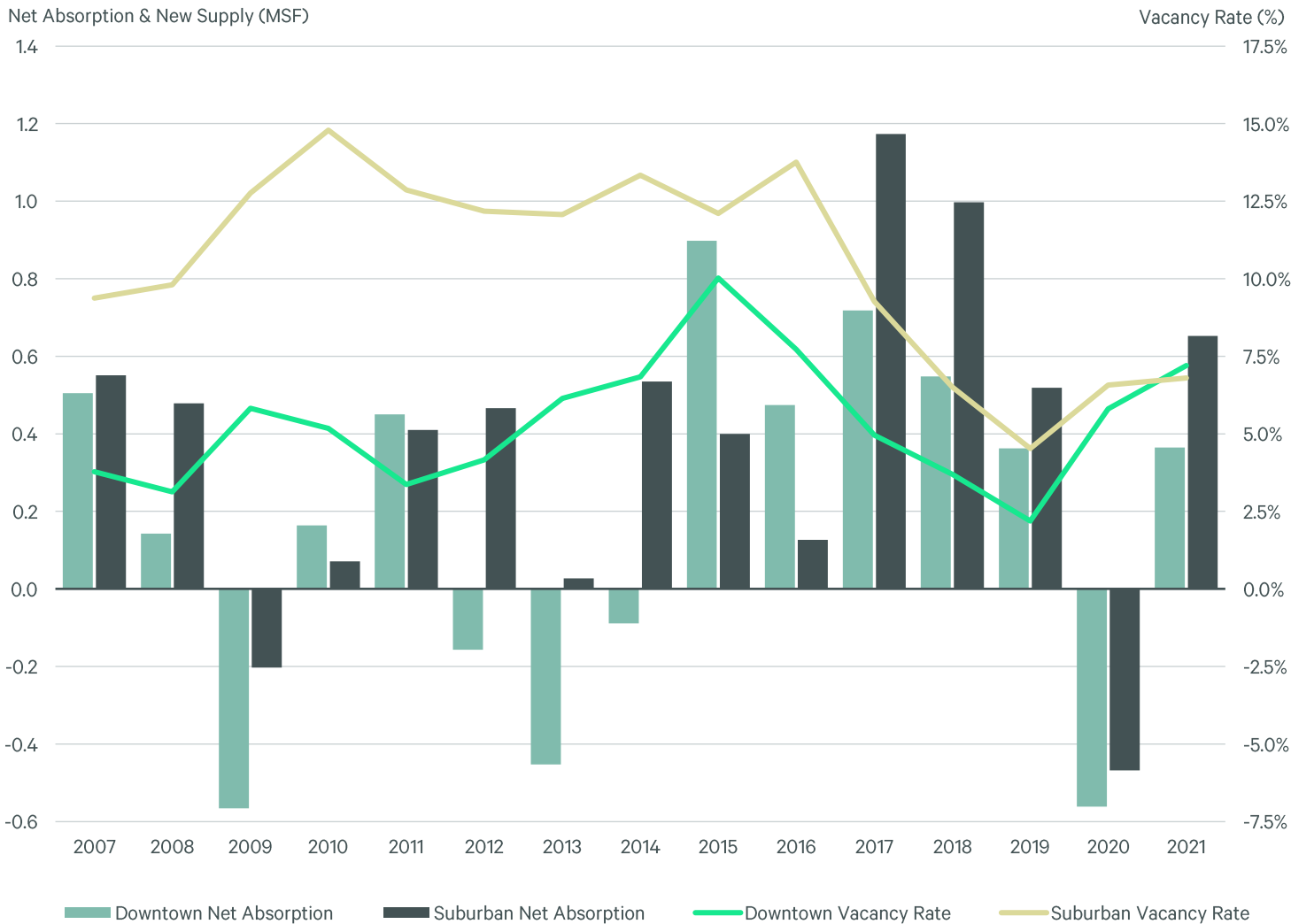
The Metro Vancouver office market underwent continual growth and witnessed an uptick in activity in Q4 2021. Occupier sentiment reversed trends constituted during the pandemic as the city recorded the third largest quarterly absorption total over the last five years, spurring the first decline in overall vacancy since the beginning of 2020.

Vacancy rates through the downtown core recorded at 7.2%, while all suburban markets reached 6.8%, both experiencing 40 bps declines quarter-over-quarter. This marked the second consecutive quarter where suburban markets recorded vacancy rate below that of the downtown core.

While the suburban markets continued to showcase their competitive pricing and parking accessibility, deal activity on shell space within the downtown core continued to rebound. Provided that demand persists as expected through 2022, the gap in vacancy rates could potentially reverse and place the downtown core below that of the suburban markets.

Through the construction pipeline, Metro Vancouver brought 543,000 sq. ft. of new supply to market in Q4, bringing the annual total to 1.5 million sq. ft. This is the highest total Metro Vancouver has recorded in the last five years and marks the beginning of deliveries for our current construction cycle. While a significant portion of new supply delivered earlier this year was vacant, occupier interest has increased as companies revisit their return-to-office strategies and are assessing their real estate needs. With an estimated two-thirds of future supply pre-committed, and significant deal activity on the vacant space remaining, little relief can be expected in the form of new inventory.

FIGURE 2: Regional Supply & Demand



Source: CBRE Research, Q4 2021.

Downtown Vancouver

The Downtown Vancouver office market experienced a 40 bps decrease quarter-over-quarter, driven by decreases in all classes excluding AAA. AAA office space saw a 180 bps increase in vacancy, brought on by 346,000 sq. ft. of inventory being brought onto the market, 72.1% of which was pre-leased. This drop in vacancy can be attributed to 404,000 sq. ft. of positive net absorption that occurred this quarter. This marks the fifth consecutive quarter of net absorption growth and second consecutive quarter of positive net absorption. This growth in net absorption was caused by an uptick in shell leasing, driven by a lack of quality existing inventory. Teach and service sector occupiers lead the demand with significant transactions including Thorsteinssons LLP in Bentall 6 and Owen Bird in VCII.

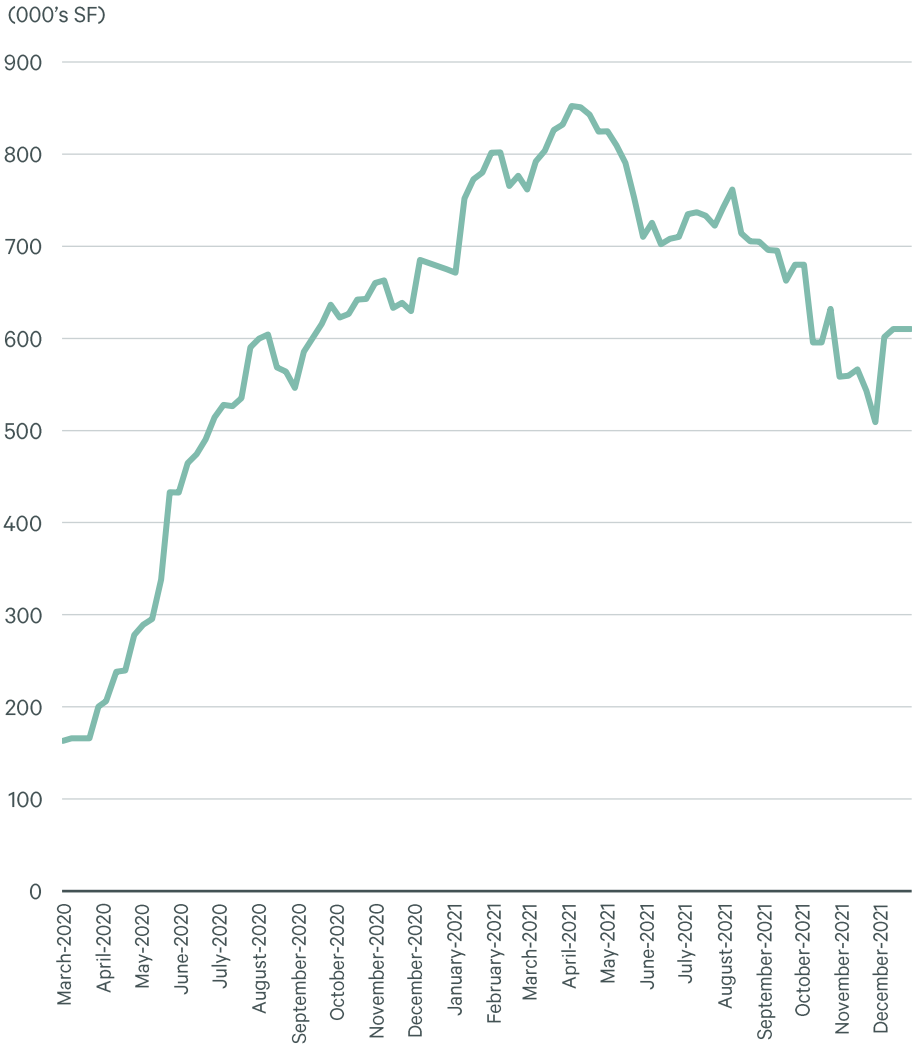
Sublets in the downtown market saw a sharp decrease, falling to 20.7% of all vacant space. This is the lowest percentage since the start of COVID-19 in Q2 2020, where numbers peaked at 42.8%. While occupiers had some initial uncertainty about their total office footprint and the activation of hybrid work models through the pandemic, sublease listings continued to be removed from the market indicating an artificial inflation of vacancy rates in the Downtown core. Average net rental rates downtown remain above pre-pandemic levels, currently at \$39.83 per sq. ft., primarily upheld by new AAA products being brought to market. This is the fourth consecutive quarter in which rental rates have risen.

Broadway Corridor

Annual net absorption totals of 325,000 sq. ft. drove vacancy rates along the Broadway Corridor to 6.4% in Q4 2021. This marked a 70 bps decrease year-over-year. Average asking lease rates for Class A office product experienced the largest change, reaching \$38.04 per sq. ft., a 22.6% increase year-over-year. This was driven by the new delivery of 138,000 sq. ft. of best in class product, with above market asking rates on the remaining vacant inventory. The vacant product within this building accounts for nearly half of all Class A vacant inventory.

The majority of vacant space along the Broadway Corridor resides in Class A and B inventory, accounting for two-thirds of all product. Despite vacant sublease space halving quarter-over-quarter and accounting for only 6.9% of vacant product, vacancy for all classes remained at 6.4%; a 90 bps increase quarter-over-quarter, however, down 130 bps year-over-year. Activity in the area continued to build, with five projects under construction which will add 503,000 sq. ft. of much needed inventory to one of Vancouver’s fastest growing sub-markets. Of this, 69% was pre-leased to a wide array of tenants seeking a more flexible take on office space such as AbCellera, Animal Logic and Canfor.

FIGURE 3: Total Sublease Availability in the Downtown Core



Source: CBRE Research, Q4 2021.

Burnaby

Burnaby’s overall vacancy rate experienced a decrease of 90 bps with vacancy rates reaching 8.1% for all classes, the first decline this submarket has experienced through 2021 . Activity was driven by significant net absorption in Class A & B inventory, which accounted for 81% of all net absorption in Q4.

Average asking lease rates continued to rise, with all classes reaching a record high \$27.98 per sq. ft. at the end of 2021. This marked a 17.1% increase year-over-year with no signs of experiencing compression, as demand in the urban core returned and vacant inventory declined.

Richmond

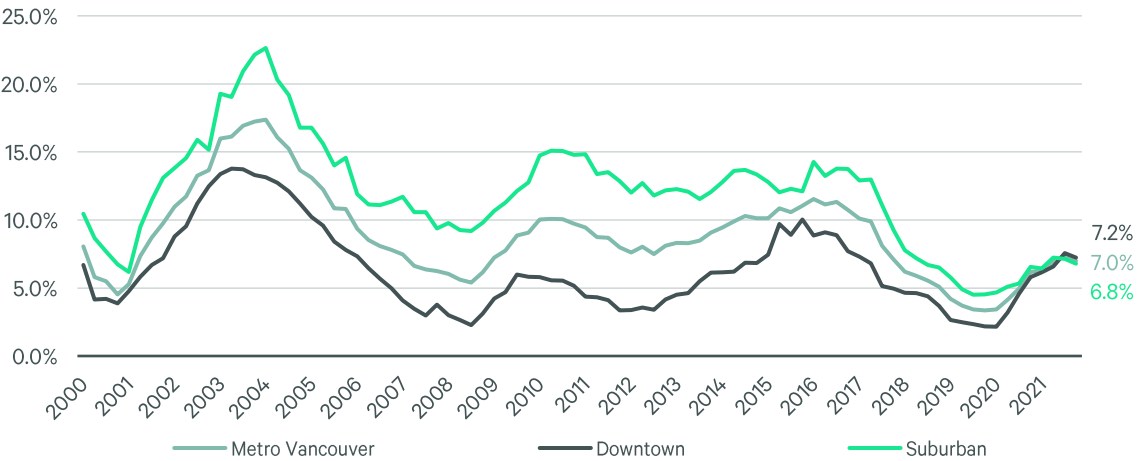
Sitting at 7.9% overall, Richmond’s vacancy rate experienced a 120 bps decrease quarter-over-quarter. Despite this drop, vacancy rates were still 210 bps above pre-pandemic levels which were reported at 5.8% in Q4 2019. With Atomsphere, Richmond’s only competitive office project now on hold, vacancies are expecting to continue trending downward.

Surrey

After three consecutive quarters of vacancy increases, the Surrey market witnessed its first decrease in 2021. This quarterly 50 bps drop to 5.5% can be attributed to both Class A and B buildings which saw a 50 bps and 40 bps drop respectively.

Average asking lease rates continued to grow, reaching \$28.76 per sq. ft. for all classes. This marked a 32.2% increase from pre-pandemic levels in Q1 2020. There are currently no major office projects under construction, but with Surrey’s population quickly climbing to the largest suburb of B.C., the municipality’s developers are adjusting to change that. This will include a guaranteed timeline to approve building permits and rezoning.

FIGURE 4: Historical Regional Vacancy Rates



Source: CBRE Research, Q4 2021.

FIGURE 5: Metro Vancouver Top Lease Transactions

Size (SF)	Tenant	Address	Submarket	Industry	Deal Type
29,566	Bosa Developments	1021 W Hastings St	CBD	FIRE	Headlease
26,986	Tipalti Canada Inc	505 Burrard St	CBD	Technology	Headlease
22,863	PayByPhone Technologies	1290 Homer St	Yaletown	Technology	Headlease
20,051	Thorsteinssons LLP	1090 W Pender St	CBD	Law	Headlease
15,553	Owen Bird	733 Seymour St	CBD	Law	Sublease

Source: CBRE Research, Q4 2021.

FIGURE 6a: Vancouver Office Market Statistics

	Class	Total Buildings	Inventory (SF)	Vacancy Rate (%)	Net Absorption (SF)	YTD Net Absorption (SF)	New Supply (SF)	Under Construction (SF)	Avg. Asking Rate (\$ PSF)	Avg. Additional Rent (\$ PSF)
Downtown Vancouver	AAA	16	6,046,510	6.4%	220,956	154,415	345,846	2,740,400	\$52.43	\$24.62
	A	37	7,578,906	7.8%	84,618	167,475	-	176,147	\$44.61	\$22.36
	B	54	6,795,940	6.5%	21,482	21336	-	-	\$35.31	\$21.82
	C	80	4,499,034	8.6%	77,388	21,107	-	-	\$27.98	\$17.60
		187	24,920,390	7.2%	404,444	364,333	345,846	2,916,547	\$39.83	\$21.50
Broadway Corridor	AAA	11	1,089,741	5.0%	-17,204	194,653	-	175,250	\$37.18	\$22.23
	A	27	1,793,877	4.5%	120,129	166,594	137,834	327,425	\$38.04	\$19.56
	B	35	1,748,478	8.6%	-9,669	-38,817	-	-	\$30.84	\$17.68
	C	38	850,115	7.3%	-11,407	2,452	-	-	\$25.32	\$15.06
		111	5,463,457	6.3%	81,849	324,882	137,834	502,675	\$32.35	\$18.33
Burnaby	AAA	13	2,437,686	15.0%	13,078	-158,433	-	-	\$30.94	\$18.78
	A	25	2,348,469	5.7%	44,232	56,244	-	149,825	\$34.74	\$17.91
	B	37	3,151,973	5.7%	20,013	160,248	-	-	\$24.58	\$16.41
	C	22	864,679	3.7%	1,463	-2,802	-	-	\$21.66	\$17.28
		97	8,802,807	8.1%	78,786	55,257	-	149,825	\$27.98	\$17.22
Richmond	AAA	21	1,776,082	5.4%	52,834	31,027	-	134,390	\$20.67	\$14.43
	A	24	1,567,642	10.6%	-11,670	-67,615	-	-	\$19.85	\$12.86
	B	19	526,886	11.0%	5,564	-13,546	-	-	\$17.52	\$15.33
	C	7	199,849	1.1%	0	6,006	-	-	\$12.00	\$11.67
		71	4,070,459	7.9%	46,728	-44,128	-	134,390	\$19.60	\$13.74

Source: CBRE Research, Q4 2021.

FIGURE 6b: Vancouver Office Market Statistics

	Submarket	Class	Total Buildings	Inventory (SF)	Vacancy Rate (%)	Net Absorption (SF)	YTD Net Absorption (SF)	New Supply (SF)	Under Construction (SF)	Avg. Asking Rate (\$ PSF)	Avg. Additional Rent (\$ PSF)
North Shore		A	14	821,041	6.2%	-10,141	-26,375	-	-	\$23.22	\$15.33
		B	17	752,877	2.6%	-3,807	1,559	-	-	\$22.07	\$12.29
		C	11	236,929	2.9%	0	-774	-	-	\$19.00	\$14.93
			42	1,810,847	4.3%	-13,948	-25,590	-	-	\$22.10	\$13.99
Surrey		A	20	2,186,987	5.7%	66,458	287,880	59,479	-	\$32.04	\$14.06
		B	21	807,730	6.5%	3,583	8,679	-	-	\$21.84	\$13.21
		C	14	288,403	1.1%	0	1,532	-	-	\$10.00	\$8.80
			55	3,283,120	5.5%	70,041	298,091	59,479	-	\$28.76	\$13.73
New Westminster		A	7	600,867	0.8%	22970	26,138	-	-	\$25.00	\$16.36
		B	14	615,296	4.8%	-2815	17,888	-	-	\$21.96	\$15.02
		C	10	275,766	2.1%	729	0	-	-	\$12.18	\$19.91
			31	1,491,929	2.7%	20884	44,026	-	-	\$20.88	\$15.90
Total Suburban		AAA	45	5,303,509	9.7%	48,708	67,247	-	309,640	\$28.00	\$17.77
		A	117	9,318,883	6.0%	231,978	442,866	-	-	\$28.85	\$15.27
		B	144	7,603,240	6.5%	12,869	136,011	-	-	\$25.21	\$16.08
		C	102	2,715,741	4.1%	-9,215	6,414	-	-	\$22.41	\$15.67
			408	24,910,594	6.7%	284,340	652,538	197,313	786,890	\$26.78	\$15.99
Metro Vancouver		AAA	61	11,350,019	8.0%	269,664	221,662	345,846	3,050,040	\$41.26	\$21.49
		A	154	16,897,789	6.8%	316,596	610,341	-	176,147	\$37.46	\$19.14
		B	197	14,399,180	6.5%	34,351	157,347	-	-	\$29.44	\$18.49
		C	182	7,214,775	6.9%	68,173	27,521	-	-	\$26.64	\$17.14
			594	49,831,887	7.0%	688,784	1,016,871	543,159	3,703,437	\$33.84	\$18.97

Market Area Overview



Definitions

Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. Building Area: The total floor area sq. ft. of the building, typically taken at the “drip line” of the building. Net Absorption: The change in Occupied Sq. Ft. from one period to the next. Net Lease Rate: Rent excludes one or more of the “net” costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate. Vacancy Rate: Total Vacant Sq. Ft. divided by the total Building Area. Vacant Sq. Ft.: Space that can be occupied within 30 days.

Survey Criteria

Includes all competitive office buildings in Greater Vancouver. Under construction refers to buildings which have begun construction as evidenced by site excavation or foundation work.

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