Resurging demand in shell leasing drives decline in vacancy rates

▼ 6.3%
Vacancy Rate

▲ 538K
SF Net Absorption

▲ 4.1M
SF Under Construction

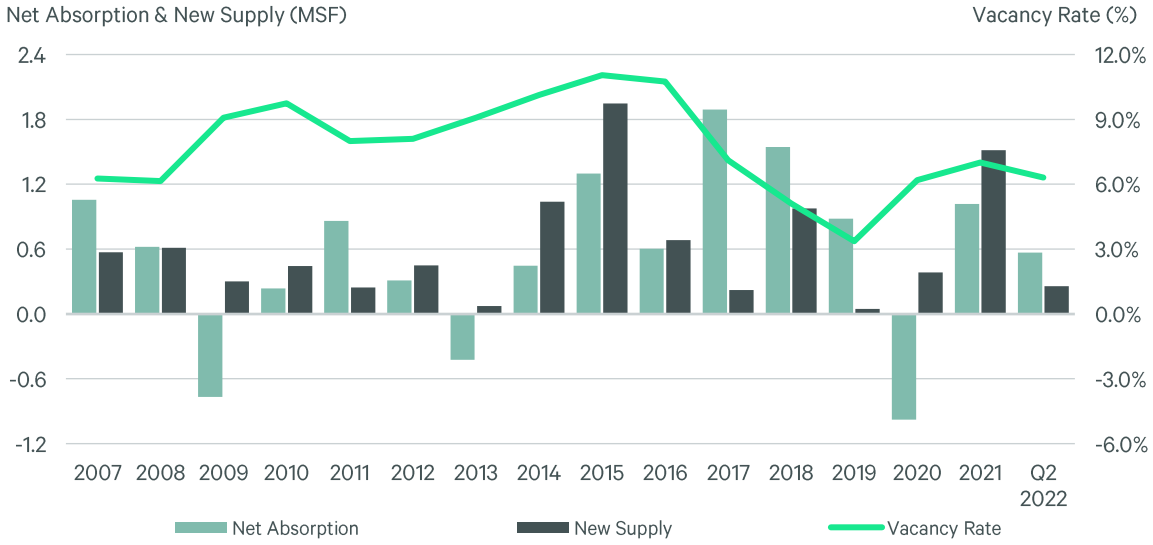
▲ $34.20
PSF Avg. Asking Rental Rate

Note: Arrows indicate change from previous quarter.

Overview

- Vancouver office vacancy rates experienced its fourth consecutive quarter of downward pressure, declining 60 basis points (bps) to 6.3%. Suburban markets continue to spearhead this decrease, holding steady at a 5.5% overall vacancy rate, 120 basis points below the 5-year average of 6.7%. Sustained demand within these markets could push vacancy rates below the record low of 4.5%, which was last recorded in Q4 2019.
- The steady demand for office space within the downtown core has led to numerous shell deals completed for product during our current development cycle. Nearly three-quarters of space currently under construction within the CBD has been pre-leased, leaving just over 750,000 sq. ft. available across five buildings of 2.8 million sq. ft.
- While sublease vacancy levels throughout Metro Vancouver have held at roughly 25.0% of vacant inventory for the third consecutive quarter, the total sq. ft. posts a 15.6% decline year-over-year. At the height of the pandemic, total sublease vacancy accounted for 2.3% of total market inventory; that figure has since fallen to 1.5%, the lowest since Q2 2020.

FIGURE 1: Metro Vancouver Supply & Demand



Source: CBRE Research, Q2 2022.

Metro Vancouver

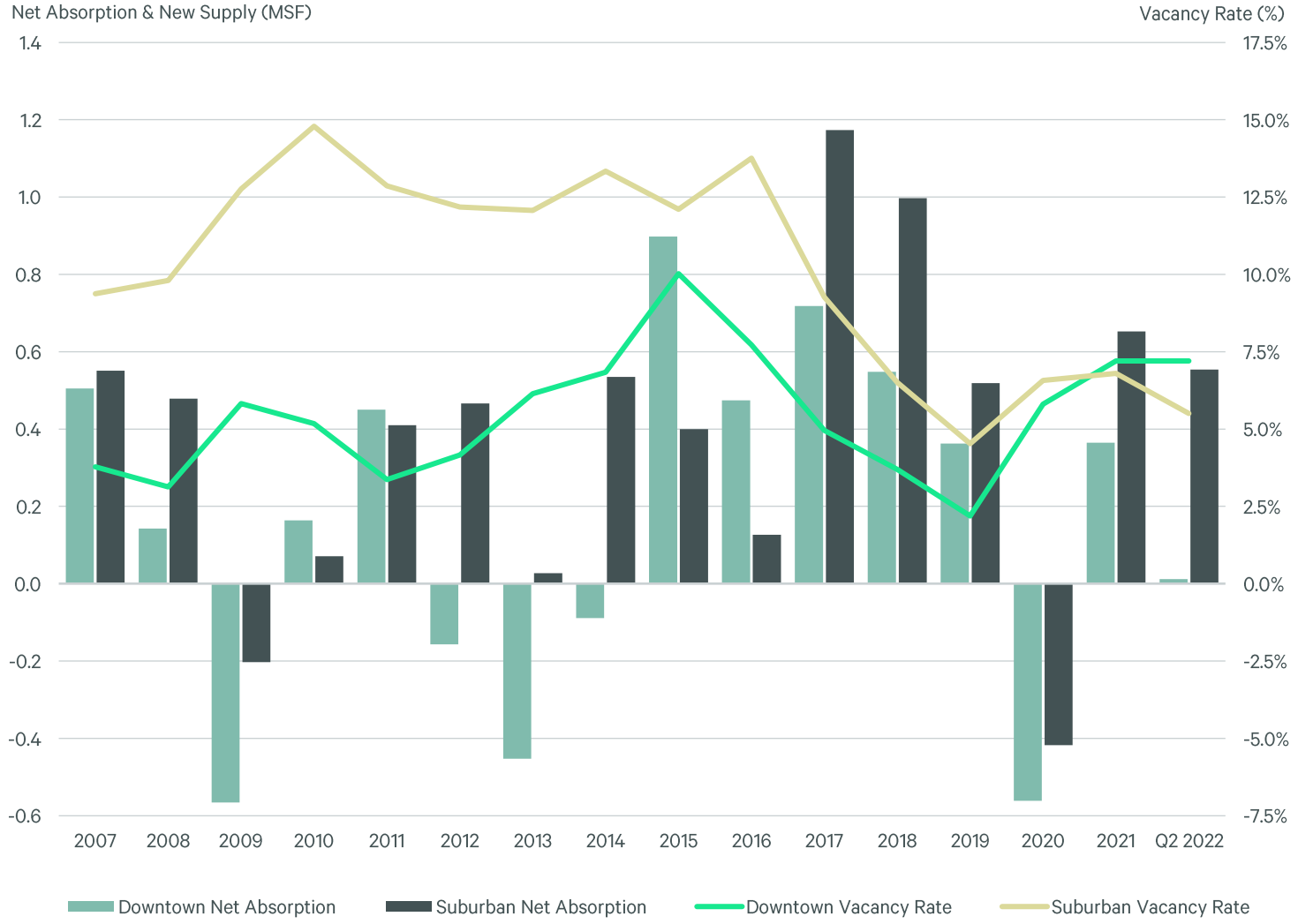
Vacancy rates of office product in all classes throughout Metro Vancouver dropped 60 bps quarter-over-quarter to 6.3% in Q2 2022. This marks the region's third consecutive decline, falling 110 bps from the peak of 7.4% recorded in Q3 2021.

A consecutive decline in vacancy coupled by strong market fundamentals caused Metro Vancouver's office rates to hold firm, reaching $34.20 per sq. ft., an 11.8% increase year-over-year. Construction activity continues to climb as developers maintain pace to keep up with recent demand. New projects within the region have started construction this quarter bringing the Metro Vancouver total to 4.1 million sq. ft., with numerous projects already underway adding new tenants.

The downtown core experienced a 50 bps decline in vacancy rate, primarily driven by the lease up of 1280 Burrard Street by Lululemon. Average asking lease rates continue to escalate, growing 8.6% year-over-year and reaching a new high of $39.91 per sq. ft. Construction activity experienced no change and sits at 2.9 million sq. ft.; however, 83.8% of this space has been pre-leased leaving marginal relief.

The suburban office market continues to lead the downward trend as vacancy dropped 70 bps from 6.2% in Q1 2022 to 5.5%. This is the third consecutive quarter of declining vacancy, with Fortinet's new lease in Broadway Tech Centre leading the charge. Average asking lease rates remain elevated from pre-pandemic levels of $23.88 per sq. ft. from Q1 2020, growing 13.6% and sitting at $27.13 per sq. ft.

FIGURE 2: Regional Supply & Demand



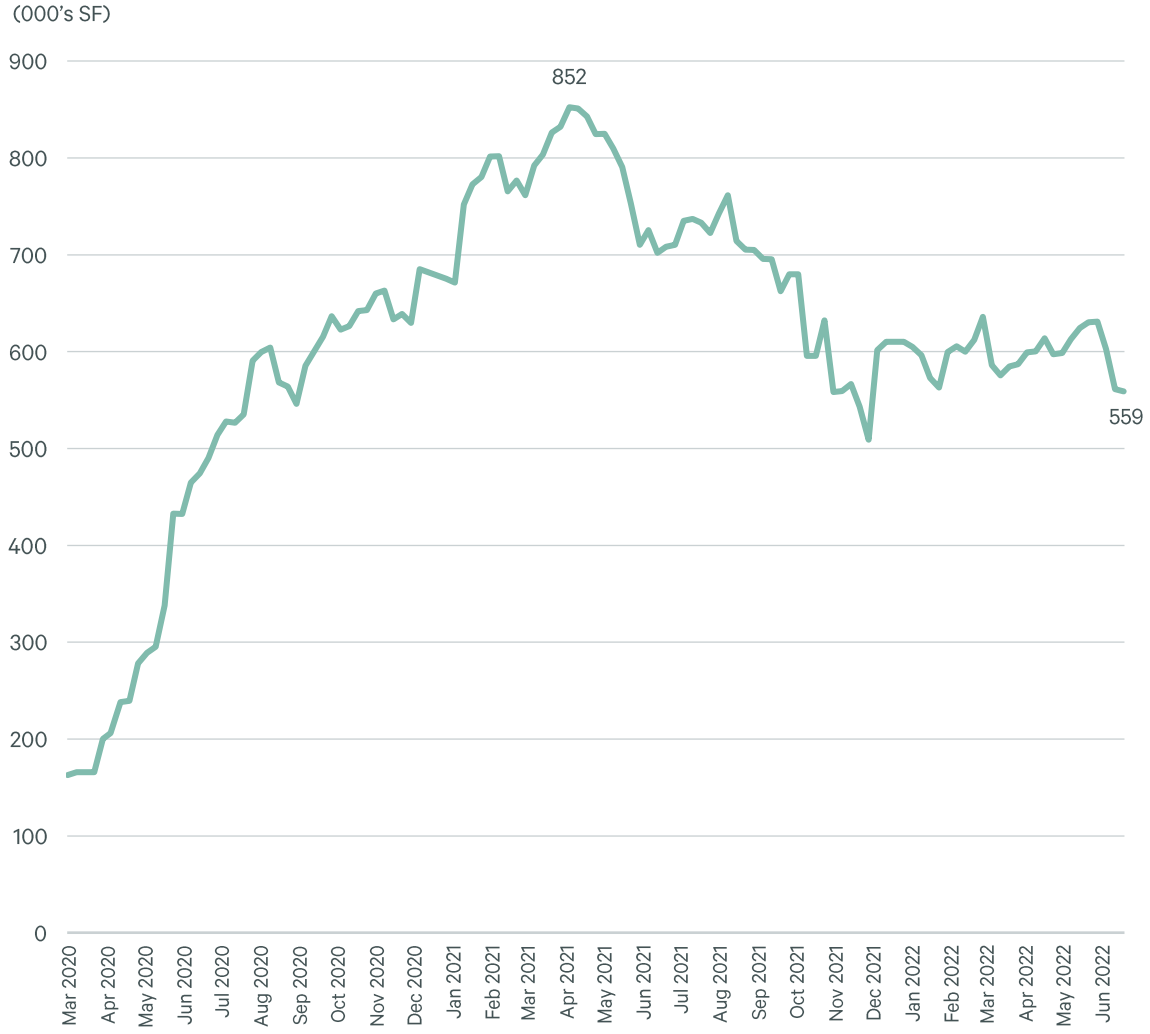
Source: CBRE Research, Q2 2022.

Declining vacancy rates

The Metro Vancouver market witnessed increasingly large blocks of space push vacancy rates downward for the third consecutive quarter, falling 60 bps quarter-over-quarter to 6.3% overall. Most notably, Class AAA office inventory experienced a 140 bps decline quarter-over-quarter, driven primarily by Fortinet's 175,546 sq. ft. lease at Broadway Tech Centre, which nearly halved Burnaby's Class AAA vacancy rate to 7.6% in Q2 2022, from 14.9% in Q1 2022. Class A space in Burnaby also witnessed a 100 bps decline to 4.5% in Q2 2022, and sits significantly below the pandemic peak of 9.0% recorded in Q2 2021. Sustained leasing activity within the Burnaby market could drive vacancy rates below the record low of 5.1% recorded in Q4 2019, though some large blocks of space and sublease inventory remain vacant and are keeping this figure slightly elevated. In other suburban regions, like the Broadway Corridor, the overall vacancy rate has held constant at 6.4% for the third consecutive quarter. Collectively, total sublease inventory within the suburban markets is at 312,149 sq. ft. equivalent to 22.5% of all vacant space which is the lowest it has been since Q3 2020. With continued deal activity we could see this ratio of sublease inventory decline to better resemble pre-pandemic figures of 13.0-17.0%.

Throughout the downtown core, all classes of office inventory recorded quarterly declines. Most notably, Class A product, which witnessed a 100 bps decline to 8.4%, while Class AAA and B recorded 20 and 30 bps declines to 5.7% and 6.7%, respectively. Total vacant sublease space in all classes experienced little to no change quarter-over-quarter, sitting at 462,000 sq. ft., but have decreased 17.9% year-over-year. Total vacant sublease inventory in Class AAA product has experienced three consecutive quarters of decline. Total sublease space marketed for availability with varying occupancy dates has fallen 34.4% from the pandemic peak of 852,000 sq. ft. to 559,000 sq. ft.; however, recent uncertainty in the economic markets has held this figure relatively levelled in recent months. Tenant movements within the sublease market since the start of 2022 have been active and have accumulated to an estimated 22,000 sq. ft. of net absorption in that period. Through all of 2021, an estimated net negative 30,000 sq. ft. of absorption was recorded, while through 2020 negative 556,000 sq. ft. of absorption was recorded exclusively within the downtown sublease market.

FIGURE 3: Total Sublease Availability in the Downtown Core



Source: CBRE Research, Q2 2022.

Leasing in the construction pipeline

Within the construction pipeline, numerous new deals have transacted in recent months leading to a total of 71.0% of the 4.0 million sq. ft. pre-leased. Recent deals within the downtown core account for over 400,000 sq. ft. in activity; however, recent construction starts in the suburban markets has lowered the pre-commitment total to 38.1%. With limited available inventory in core markets look for this figure to increase in the upcoming quarters.

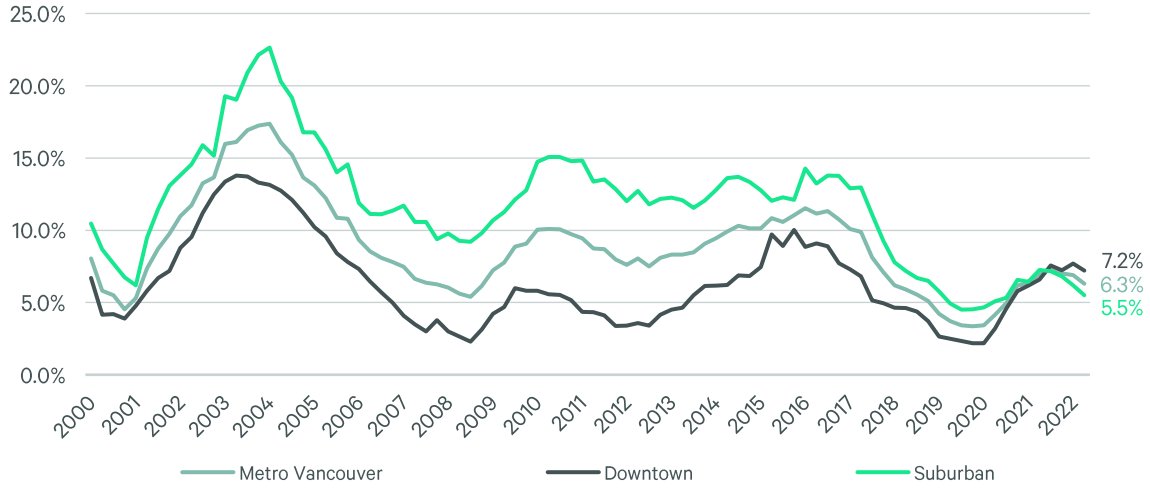
Looking forward, fewer options remain for tenants looking to pre-lease space within the construction pipeline as downtown deliveries within the 2023 calendar year are fully pre-committed while 64.6% of 2022 deliveries are leased. In comparison to mid-2021, only 37.0% of 2022 deliveries and 84.0% of 2023 downtown deliveries were pre-leased. Few large block availabilities remain within existing inventory, particularly within the downtown core, and position themselves as prime opportunities for occupiers with near-term requirements of scale. Expect further increases in pre-commitment activity through the balance of 2022 as occupiers assess their real estate needs and absorb what little inventory remains available.

Demand in the suburbs

While the pandemic changed the landscape of office occupancy levels throughout the region, continued adoption of hybrid work-from-home policies has driven absorption, particularly within suburban markets. Notable factors diving this demand include increased parking accessibility, proximity to staff and existing facilities as well as larger footplates. Each of these are an added benefit to occupiers, providing fewer physical touchpoints to their employee base on a daily basis, and offer increased flexibility for their real estate needs.

Collectively, these factors, as well as others, have driven suburban vacancy rates below that of the downtown core for the first time. Initially recorded in Q3 2021, this trend is expected to continue into the near future. Just over 1.1 million sq. ft. of new supply has delivered in the suburbs in the last 3 years, and only 1.1 million sq. ft. of space is currently under construction. In comparison to the downtown core, 1.1 million sq. ft. has completed in that same time frame; however 2.9 million sq. ft. of space is currently under construction. While demand is high, look for vacancy rates in the suburban markets to approach record lows in the near term.

FIGURE 4: Historical Regional Vacancy Rates



Source: CBRE Research, Q2 2022.

FIGURE 5: Metro Vancouver Top Lease Transactions

Size (SF)	Tenant	Address	Submarket	Industry	Deal Type
175,546	Fortinet	2910 Virtual Way	Broadway Corridor	Technology	New Deal
108,694	Lululemon	1280 Burrard Street	CBD	Retail	New Deal
107,128	Lululemon	1380 Burrard Street	CBD	Retail	Extension
32,000	Sandstrom Resources	733 Seymour Street	CBD	Mining	New Deal
20,892	Microsoft	545 Robson Street	CBD	Technology	New Deal

Source: CBRE Research, Q2 2022.

FIGURE 6a: Vancouver Office Market Statistics

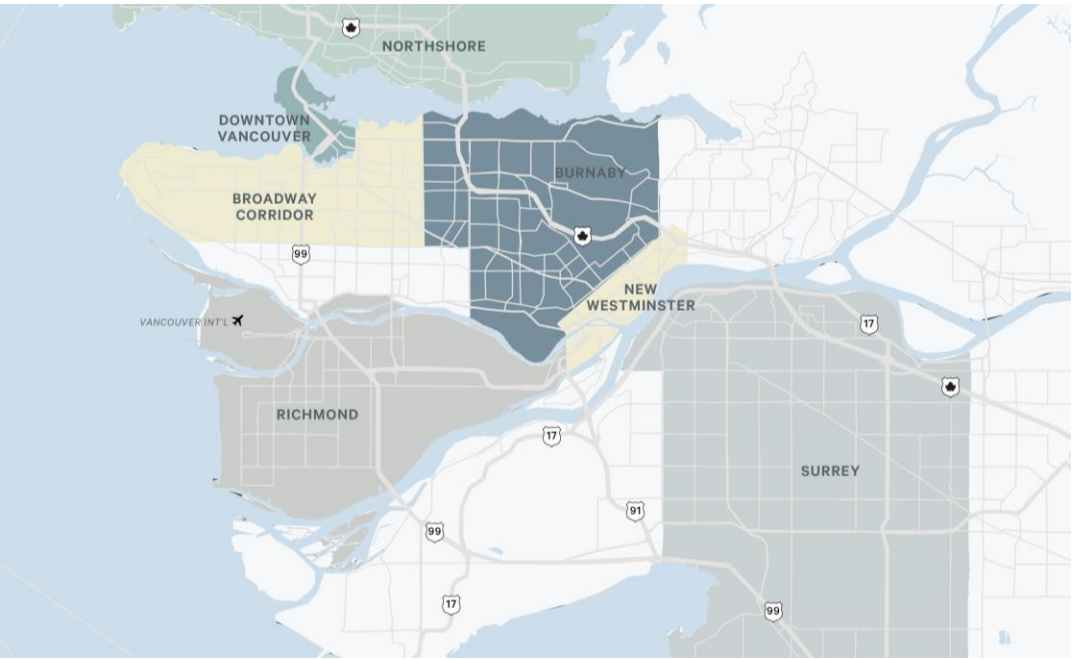
	Class	Total Buildings	Inventory (SF)	Vacancy Rate (%)	Net Absorption (SF)	YTD Net Absorption (SF)	New Supply (SF)	Under Construction (SF)	Avg. Asking Rate ($PSF)	Avg. Additional Rent ($PSF)
Downtown Vancouver	AAA	16	6,046,510	5.7%	16,003	45,615	-	2,740,400	$50.87	$25.54
	A	37	7,579,809	8.4%	76,325	-44,839	-	176,147	$45.07	$22.66
	B	54	6,795,940	6.7%	20,050	-14,506	-	-	$35.14	$22.12
	C	80	4,499,034	8.0%	6,402	25,825	-	-	$28.78	$17.19
		187	24,921,293	7.2%	118,780	12,095	-	2,916,547	$39.91	$21.78
Broadway Corridor	AAA	12	1,262,714	3.6%	178,714	183,995	175,250	-	$37.37	$21.10
	A	29	1,861,558	6.3%	54,694	45,103	81,582	622,094	$36.54	$19.93
	B	35	1,746,131	9.0%	5,800	-6,022	-	-	$30.78	$17.82
	C	38	849,886	5.1%	3,043	17,888	-	-	$25.74	$14.75
		114	5,720,289	6.4%	242,251	240,964	256,832	622,094	$32.61	$18.47
Burnaby	AAA	13	2,435,140	7.6%	178,046	180,675	-	218,350	$31.20	$20.34
	A	25	2,348,469	4.5%	24,460	29,319	-	126,347	$34.71	$18.65
	B	38	3,151,973	7.5%	-1,614	-56,445	-	-	$24.35	$16.85
	C	22	864,679	2.7%	3,202	8,963	-	-	$21.27	$17.40
		98	8,800,261	6.3%	204,094	162,512	-	344,697	$27.44	$17.75
Richmond	AAA	21	1,776,082	5.8%	-41,291	-6,953	-	134,390	$20.77	$14.03
	A	24	1,567,642	5.8%	25,481	75,267	-	-	$20.50	$13.57
	B	19	526,886	10.2%	858	3,974	-	-	$18.02	$15.27
	C	7	199,849	1.1%	0	0	-	-	$12.00	$11.67
		71	4,070,459	6.1%	-14,952	72,288	-	134,390	$19.90	$14.12

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	3.6%	1,683	21,352	-	-	$24.52	$15.60
	B	17	752,877	1.4%	602	9,111	-	-	$21.57	$12.57
	C	11	236,929	1.8%	0	2,615	-	-	$19.75	$12.83
		42	1,810,847	2.4%	2,285	33,078	-	-	$22.22	$13.65
Surrey	A	20	2,177,508	3.9%	-12,610	40,153	-	-	$30.33	$12.94
	B	21	807,730	6.8%	-2,113	-2,480	-	-	$24.30	$14.06
	C	14	288,403	1.1%	0	0	-	-	$10.00	$8.80
		55	3,273,641	4.4%	-14,723	37,673	-	-	$27.56	$13.27
New Westminster	A	7	600,867	1.4%	0	-3,538	-	34,527	$27.15	$16.16
	B	14	615,296	3.0%	0	10,994	-	-	$17.84	$13.31
	C	10	275,766	2.1%	0	0	-	-	$12.18	$22.92
		31	1,491,929	2.2%	0	7,456	-	34,527	$19.18	$15.77
Total Suburban	AAA	46	5,473,936	6.1%	315,469	357,717	175,250	352,740	$28.26	$17.72
	A	119	9,377,085	4.6%	93,708	207,656	81,582	782,968	$30.05	$16.21
	B	144	7,600,893	7.0%	3,533	-40,868	-	-	$25.41	$16.47
	C	102	2,715,512	3.0%	6,245	29,466	-	-	$22.08	$15.62
		411	25,167,426	5.5%	418,955	553,971	256,832	1,135,708	$27.13	$16.52
Metro Vancouver	AAA	62	11,520,446	5.9%	331,472	403,332	175,250	3,093,140	$41.28	$22.22
	A	156	16,956,894	6.3%	170,033	162,817	81,582	959,115	$38.75	$19.94
	B	198	14,396,833	6.8%	23,583	-55,374	-	-	$29.34	$18.75
	C	182	7,214,546	6.1%	12,647	55,291	-	-	$27.46	$16.88
		598	50,088,719	6.3%	537,735	566,066	256,832	4,052,255	$34.20	$19.43

Source: CBRE Research, Q2 2022.

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.

Contacts

Tyler Bains
Research Manager
+1 604 662 5135
tyler.bains@cbre.com

For media related inquires:

Britainny Hari
Marketing & Communications Manager
britainny.hari@cbre.com