

FIGURES | VANCOUVER OFFICE | Q3 2022

# Recent shifts in market sentiment signal a flight to quality

▲ 6.6%  
Vacancy Rate

▼ -147K  
SF Net Absorption

▲ 4.5M  
SF Under Construction

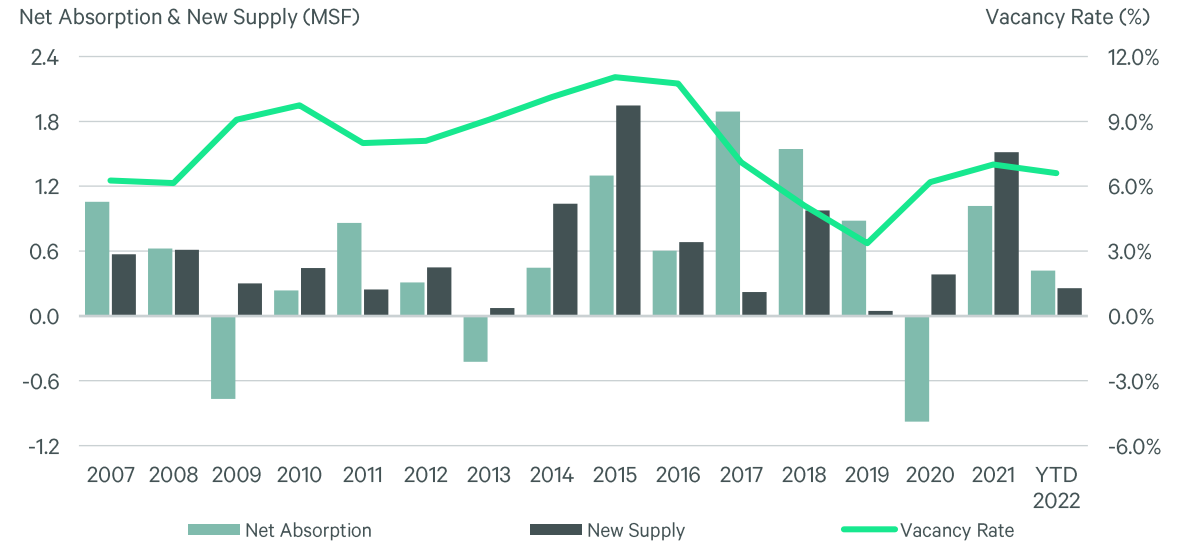
▼ \$33.63  
PSF Avg. Asking Rental Rate

Note: Arrows indicate change from previous quarter.

## Overview

- For the first time in four quarters Metro Vancouver’s office vacancy rate experienced an increase, growing 30 basis points (bps) quarter-over-quarter to 6.6%. Suburban markets continue to drive change, though through Q3 2022, new to market subleases from tenants no longer requiring the full extent of their space applied upwards pressure on vacancy rates and accounted for all negative net absorption through the region.
- Vacancy rates in all classes of office inventory through Metro Vancouver experienced a quarter-over-quarter increase, with the exception of Class AAA which recorded a 10 bps decline. Recent listing activity has brought the total vacant sublease inventory up, while direct vacancy remained somewhat level.
- Demand for quality office product within the downtown core continues to drive declines in the vacancy rate. Vacancy in Class AAA inventory has declined 110 bps to 4.6% and is the lowest of any downtown class. Looking forward, 81.8% of all space currently under construction within the downtown core is already pre-leased, driven by an estimated 150,000 sq. ft. of deal activity within the last quarter alone.

FIGURE 1: Metro Vancouver Supply & Demand  
Net Absorption & New Supply (MSF)



Source: CBRE Research, Q3 2022.

## Metro Vancouver

Vacancy levels of all classes of office product throughout Metro Vancouver contributed to an increase of 30 bps quarter-over-quarter, bringing the overall market vacancy rate up to 6.6% in Q3 2022. This marks the region’s first quarter of increase this year, leaving the vacancy rate sitting 80 bps below the markets peak of 7.4% recorded in Q3 2021.

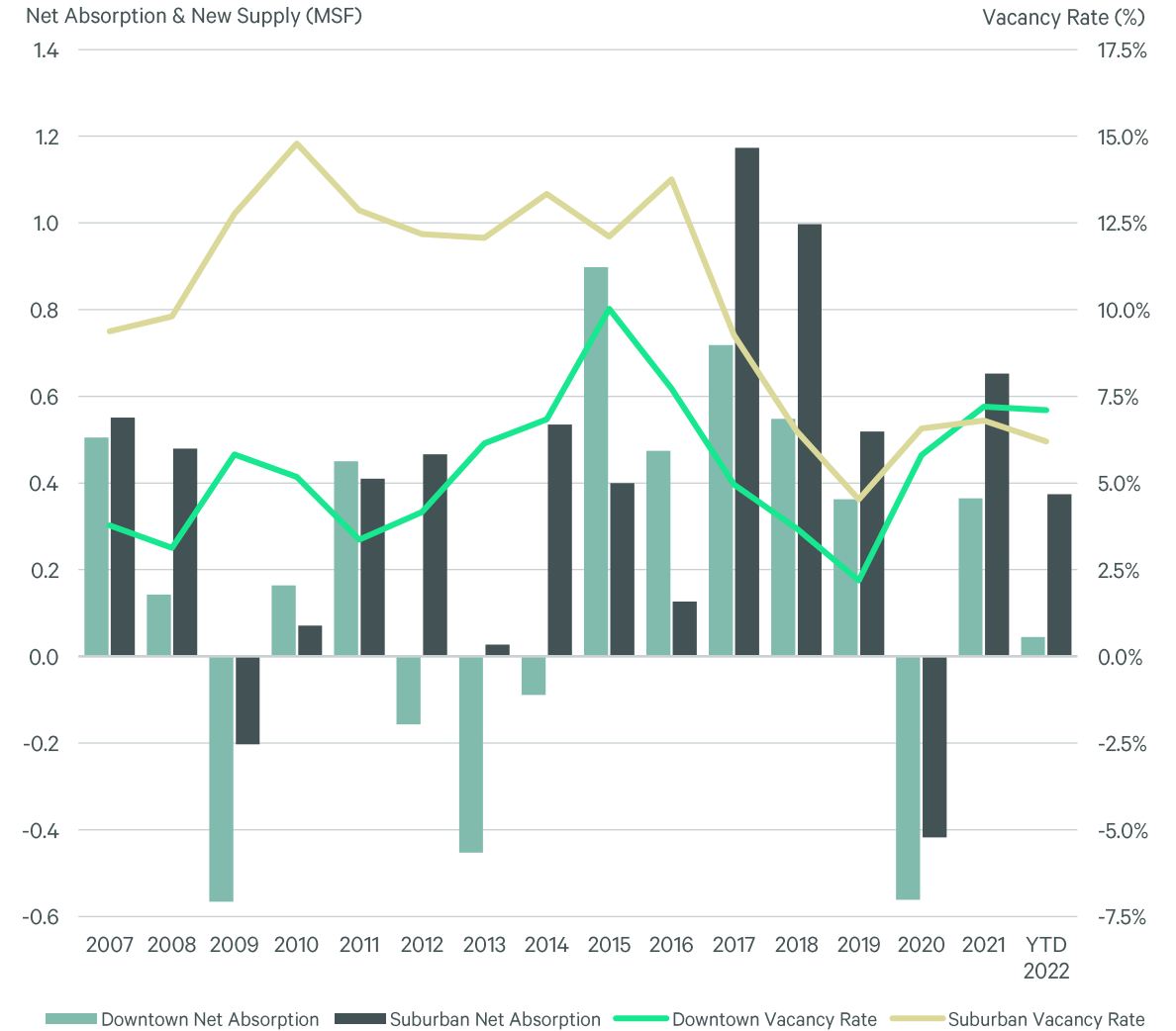
This increase in vacancy rate is still backed by significant leasing activity, totalling just under 1.0 million sq. ft., only a 13.7% decline from last quarter. While leasing activity remained relatively level to the previous quarter, average asking lease rates experienced a modest decline of 1.7% quarter-over-quarter to \$33.63 per sq. ft., marking the first decline in 5 quarters. Despite this decrease, rates remain elevated in comparison to Q3 2021.

Construction activity continued to climb as developers maintain pace to keep up with recent demand. New projects within the region started construction this quarter bringing the Metro Vancouver total to 4.5 million sq. ft., with numerous projects in the process of attracting new tenants.

The flight-to-quality remains prevalent as the downtown core experienced a 10 bps decline in vacancy rate. Class AAA inventory recorded the most significant decline of 110 bps, to 4.6% overall. While 26.3% of this inventory remains vacant on a sublease basis, occupiers continue to seize this chance to upgrade their tired, existing premises in advance of lease expiry.

Vacancy within the suburban office market experienced a 70 bps increase quarter-over-quarter to 6.2% overall with the majority of this change stemming from numerous sublease listings added to available inventory.

FIGURE 2: Regional Supply & Demand



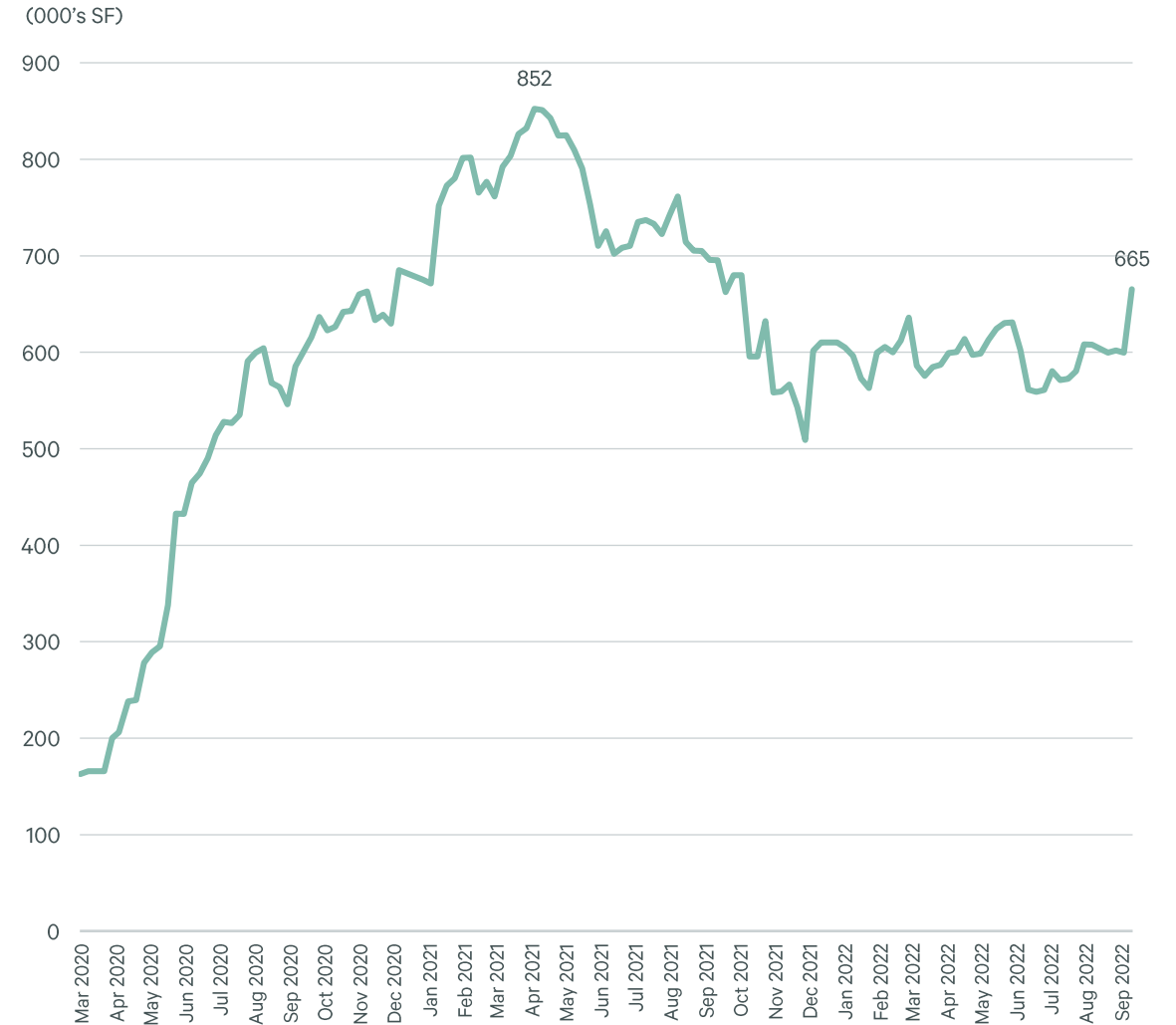
Source: CBRE Research, Q3 2022.

## Unsteady vacancy rates

The region witnessed numerous large blocks of space both transacted upon and added to the market, ultimately pushing vacancy rates upwards for the first time in 4 quarters. Downtown Class AAA space was one of the only areas to record a quarterly decline in vacancy rate, while similar quality inventory in Richmond experienced significant increases undoing all declines recorded over the previous 12 months. Vacancy throughout Class A inventory in the Metro Vancouver market increased 40 bps quarter-over-quarter, primarily backed by net negative absorption recorded in the Broadway Corridor and Surrey, increasing 130 and 230 bps to 7.6% and 6.2%, respectively. Collectively, total sublease inventory through the Metro Vancouver market increased to 875,000 sq. ft., making up 26.3% of all vacant inventory. This marks a minor increase from Q2 2022 where 774,000 sq. ft. of sublease vacancy made up 24.4% of the vacant market. Total sublease inventory within the suburban markets is at 445,000 sq. ft. equivalent to 28.5% of all vacant space which is the highest it has been within the last 12 months.

Throughout the downtown core, recorded sublease vacancy declined quarter-over-quarter to 429,000 sq. ft. while total sublease availability inflated to 665,000 sq. ft. This marks the highest recorded amount since the start of 2022. Continued uncertainty in the economic markets coupled with the prevalence of hybrid work models has provided the opportunity for office occupiers to shed excess inventory. Those which are able to bring to market a full floorplate are garnering notable activity, while the market for space under 5,000 sq. ft. continues to grow. As headlines signalling towards recession continue to dominate the news, tenants are beginning to seize any opportunity to shed excess costs in the form of subleasing their office space. Provided we continue on this current trajectory, it must be considered that we could record sublease inventory levels above that which were recorded during the peak of the pandemic. Combining increased sublease inventory levels paired with a significant level of vacant space expected to be delivered to market in Q4 2022, vacancy rates in the downtown core could approach 10.0% which would be the highest record rate within the last five years.

FIGURE 3: Downtown Core Total Sublease Availability



Note: Sublease availabilities above contain no restrictions surrounding occupancy dates.  
Source: CBRE Research, Q3 2022.

## Construction pipeline

Within the construction pipeline, numerous new deals have launched in recent months leading to a total of 4.5 million sq. ft. currently under construction throughout Metro Vancouver. Two-thirds of this space is focused within the downtown core where recent deals, most notably Cannacord Genuity leasing 6 floors in The Stack, have pushed pre-commitment levels to 81.8%. Numerous vacancies remain for occupiers to secure space before the end of 2022; however, no inventory is available within the 2023 calendar year for pre-commitment in the core. The near-term impact of this vacant inventory is expected to apply upwards pressure on vacancy rates, but also offer best-in-class availability to occupiers with approaching expiries looking to upgrade their office premises.

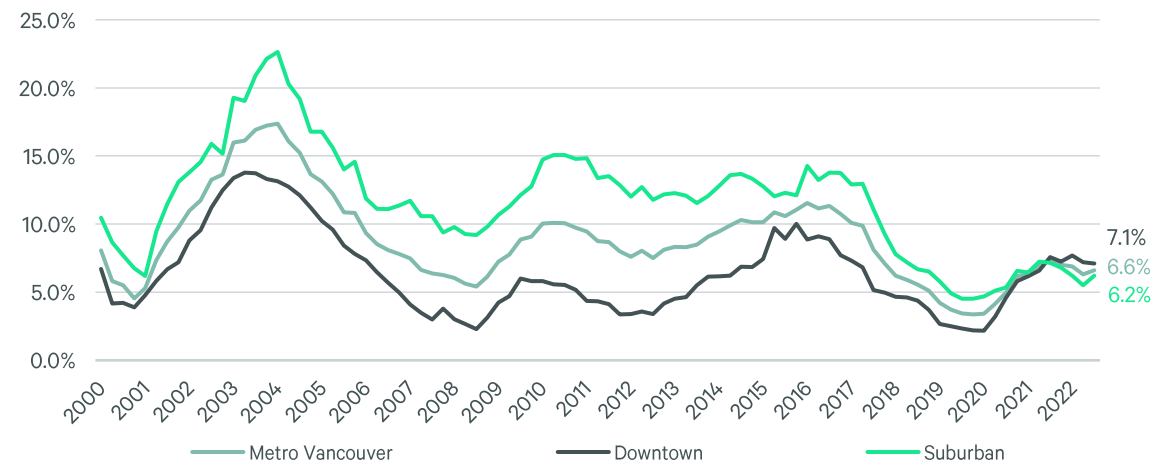
The suburban markets have witnessed an uptick in construction activity, with the launch of two new developments in the False Creek Flats. These two projects mark the fourth and fifth of the calendar year along the Broadway Corridor surmounting to a total 904,000 sq. ft., of which 17.2% is already pre-committed. While some of these projects are being developed in close proximity to the new St. Paul's Hospital and would cater towards medical users, all also offer significant blocks of availabilities in close proximity to both transit and the downtown core.

## Cooling 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 had previously driven net absorption, particularly within suburban markets. However, in efforts of reducing their annual costs, some tenants are taking advantage of the increased flexibility and have listed their excess office space for sublease.

Just over 133,000 sq. ft. of sublease inventory was added to market within the last quarter, a 42.7% increase, the majority of which comes from Canfor relocating their headquarters to Mt Pleasant and offering their existing premises to the market. As more occupiers push for higher quality office space in efforts of drawing their employee base back into the office, their existing footprints will likely prevent any positive net absorption being recorded and cause vacancy rates to hold or increase.

FIGURE 4: Historical Regional Vacancy Rates



Source: CBRE Research, Q3 2022.

FIGURE 5: Notable Metro Vancouver Lease Transactions

Size (SF)	Tenant	Address	Submarket	Industry	Deal Type
100,052	Cannacord Genuity	1133 Melville Street	CBD	FIRE	New Deal
32,213	The Board of Education of School District No. 39	1750 W 75 <sup>th</sup> Street	South Vancouver	Education	Renewal
29,617	Lululemon	1523 W 3 <sup>rd</sup> Avenue	Broadway Corridor	Retail	New Deal
16,187	TD Bank	700 W Georgia Street	CBD	FIRE	New Deal
13,500	Strand Development	320 Granville Street	CBD	FIRE	New Deal

Source: CBRE Research, Q3 2022.

FIGURE 6a: Vancouver Office Market Statistics

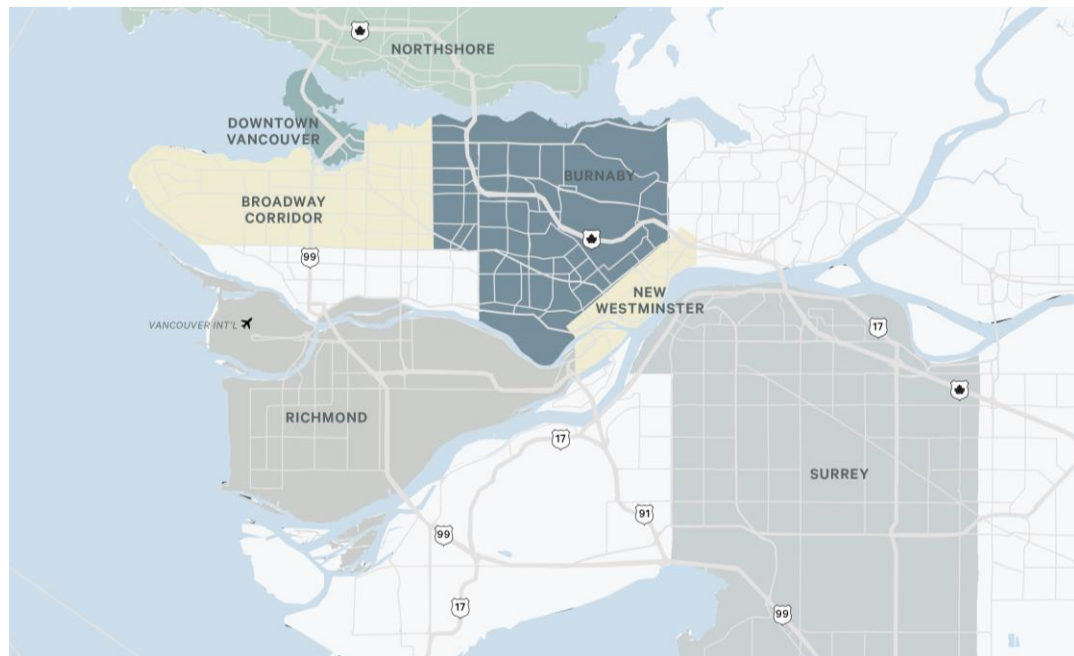
	Class	Total Buildings	Inventory (SF)	Vacancy Rate (%)	Net Absorption (SF)	YTD Net Absorption (SF)	YTD New Supply (SF)	Under Construction (SF)	Avg. Asking Rate (\$PSF)	Avg. Additional Rent (\$PSF)
<b>Downtown Vancouver</b>	AAA	16	6,046,510	4.6%	64,393	110,008	-	2,740,400	\$50.42	\$25.40
	A	37	7,579,809	8.4%	-1,124	-45,963	-	176,147	\$44.84	\$22.97
	B	54	6,795,940	6.5%	12,415	-2091	-	-	\$35.93	\$22.26
	C	80	4,499,034	8.9%	-42,857	-17,032	-	-	\$28.95	\$17.21
		<b>187</b>	<b>24,921,293</b>	<b>7.1%</b>	<b>32,827</b>	<b>44,922</b>	<b>-</b>	<b>2,916,547</b>	<b>\$39.32</b>	<b>\$21.69</b>
<b>Broadway Corridor</b>	AAA	12	1,262,714	3.2%	5,000	188,995	175,250	474,800	\$38.52	\$20.64
	A	29	1,861,558	7.6%	-25,095	20,008	81,582	622,094	\$36.05	\$20.18
	B	35	1,746,131	10.2%	-20,603	-26,625	-	-	\$29.61	\$17.88
	C	38	849,886	5.1%	0	17,888	-	-	\$24.72	\$15.61
		<b>114</b>	<b>5,720,289</b>	<b>7.1%</b>	<b>-40,698</b>	<b>200,266</b>	<b>256,832</b>	<b>1,096,894</b>	<b>\$31.92</b>	<b>\$18.59</b>
<b>Burnaby</b>	AAA	13	2,435,140	7.8%	-4,492	176,183	-	218,350	\$31.70	\$18.63
	A	25	2,348,469	4.4%	690	30,009	-	126,347	\$33.82	\$18.90
	B	38	3,151,973	8.6%	-34,446	-90,891	-	-	\$24.09	\$16.49
	C	22	864,679	1.0%	14,275	23,238	-	-	\$19.95	\$16.27
		<b>98</b>	<b>8,800,261</b>	<b>6.5%</b>	<b>-23,973</b>	<b>138,539</b>	<b>-</b>	<b>344,697</b>	<b>\$27.69</b>	<b>\$17.44</b>
<b>Richmond</b>	AAA	21	1,776,082	8.8%	-53,043	-59,996	-	134,390	\$20.63	\$14.39
	A	24	1,567,642	5.2%	8,951	84,218	-	-	\$20.49	\$13.58
	B	19	526,886	10.8%	-2,959	1,015	-	-	\$17.47	\$15.83
	C	7	199,849	0.0%	2189	2,189	-	-	\$12.00	\$11.67
		<b>71</b>	<b>4,070,459</b>	<b>7.2%</b>	<b>-44,862</b>	<b>27,426</b>	<b>-</b>	<b>134,390</b>	<b>\$19.72</b>	<b>\$14.46</b>

Source: CBRE Research, Q3 2022.

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)
<b>North Shore</b>		A	14	821,041	2.9%	5,008	26,360	-	-	\$24.55	\$15.47
		B	17	752,877	2.9%	-11,322	-2,211	-	-	\$20.83	\$11.03
		C	11	236,929	1.7%	352	2967	-	-	\$20.51	\$13.34
			<b>42</b>	<b>1,810,847</b>	<b>2.8%</b>	<b>-5,962</b>	<b>27,116</b>	<b>-</b>	<b>-</b>	<b>\$21.72</b>	<b>\$12.46</b>
<b>Surrey</b>		A	20	2,177,508	6.2%	-49,176	-9,023	-	-	\$29.33	\$13.18
		B	21	807,730	8.3%	-12,447	-14,927	-	-	\$23.19	\$14.11
		C	14	288,403	1.1%	0	0	-	-	\$10.00	\$8.80
			<b>55</b>	<b>3,273,641</b>	<b>6.3%</b>	<b>-61,623</b>	<b>-23,950</b>	<b>-</b>	<b>-</b>	<b>\$26.73</b>	<b>\$13.43</b>
<b>New Westminster</b>		A	7	600,867	1.4%	0	-3,538	-	34,527	\$27.15	\$16.16
		B	14	615,296	3.4%	-2,474	8,520	-	-	\$17.50	\$14.03
		C	10	275,766	2.1%	0	0	-	-	\$12.12	\$23.26
			<b>31</b>	<b>1,491,929</b>	<b>2.3%</b>	<b>-2,474</b>	<b>4,982</b>	<b>-</b>	<b>34,527</b>	<b>\$18.87</b>	<b>\$16.08</b>
<b>Total Suburban</b>		AAA	46	5,473,936	7.1%	-52,535	305,182	-	827,540	\$28.97	\$17.45
		A	119	9,377,085	5.3%	-59,622	148,034	-	782,968	\$29.83	\$16.34
		B	144	7,600,893	8.1%	-84,251	-125,119	-	-	\$24.60	\$16.29
		C	102	2,715,512	2.4%	16,816	46,282	-	-	\$21.93	\$15.92
			<b>411</b>	<b>25,167,426</b>	<b>6.2%</b>	<b>-179,592</b>	<b>374,379</b>	<b>-</b>	<b>1,610,508</b>	<b>\$26.89</b>	<b>\$16.48</b>
<b>Metro Vancouver</b>		AAA	62	11,520,446	5.8%	11,858	415,190	175,250	3,567,940	\$39.54	\$21.37
		A	156	16,956,894	6.7%	-60,746	102,071	81,582	959,115	\$38.29	\$20.08
		B	198	14,396,833	7.3%	-71,836	-127,210	-	-	\$29.20	\$18.71
		C	182	7,214,546	6.5%	-26,041	29,250	-	-	\$27.91	\$17.02
			<b>598</b>	<b>50,088,719</b>	<b>6.6%</b>	<b>-146,765</b>	<b>419,301</b>	<b>256,832</b>	<b>4,527,055</b>	<b>\$33.63</b>	<b>\$19.31</b>

## 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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