

FIGURES | VANCOUVER OFFICE | Q4 2022

New supply pipeline adds significant vacancy within the Downtown core

▲ 7.8%
Vacancy Rate

▲ 227K
SF Net Absorption

▼ 3.7M
SF Under Construction

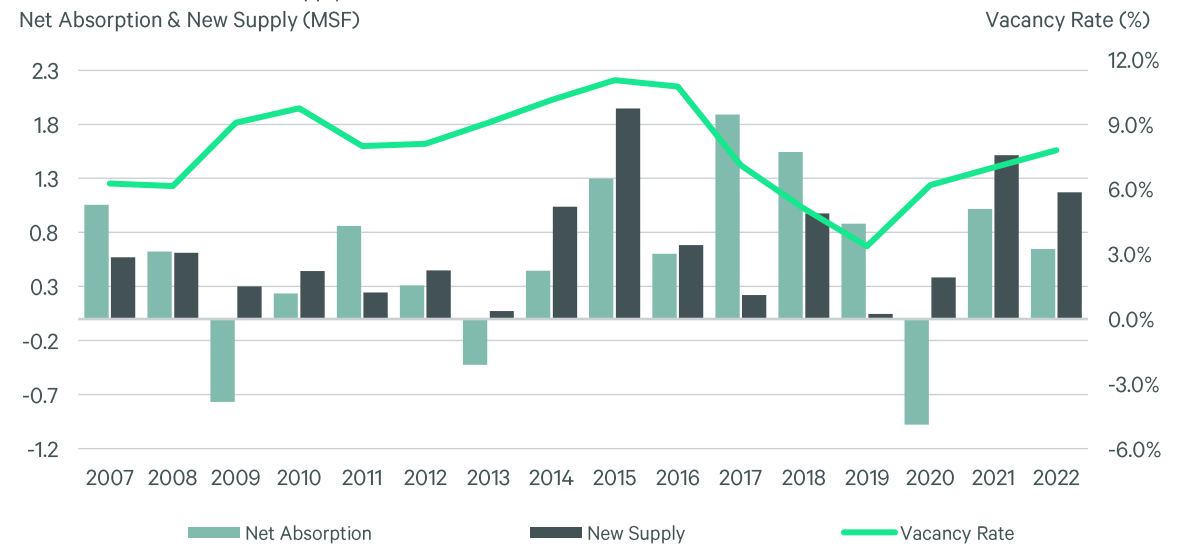
▲ \$35.48
PSF Avg. Asking Rental Rate

Note: Arrows indicate change from previous quarter.

Overview

- Metro Vancouver’s vacancy rate increased for the second quarter in a row, growing 120 basis points (bps) quarter-over-quarter to 7.8%. Occupiers, particularly in the downtown core, increased sublease listing activity in assessing their need for office space, applying upwards pressure on vacancy rates.
- Vacancy rates in all classes of office product increased, with Class AAA recording the largest increase of 360 bps driven by two large deliveries within the downtown core. Sublease vacancy rose for the second consecutive quarter as listing activity picked up, with the exception of most suburban markets which saw overall decreases in sublease product.
- Despite the recent uptick in downtown vacancy to 9.8%, demand for quality office product continued as 68.8% of 2022 construction deliveries were spoken for, supported by just under 600,000 sq. ft. of deal activity in Q4. Looking ahead, 2.2 million sq. ft. of office product is expected to complete in 2023, of which 93.0% is currently pre-leased.

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



Source: CBRE Research, Q4 2022.

Metro Vancouver

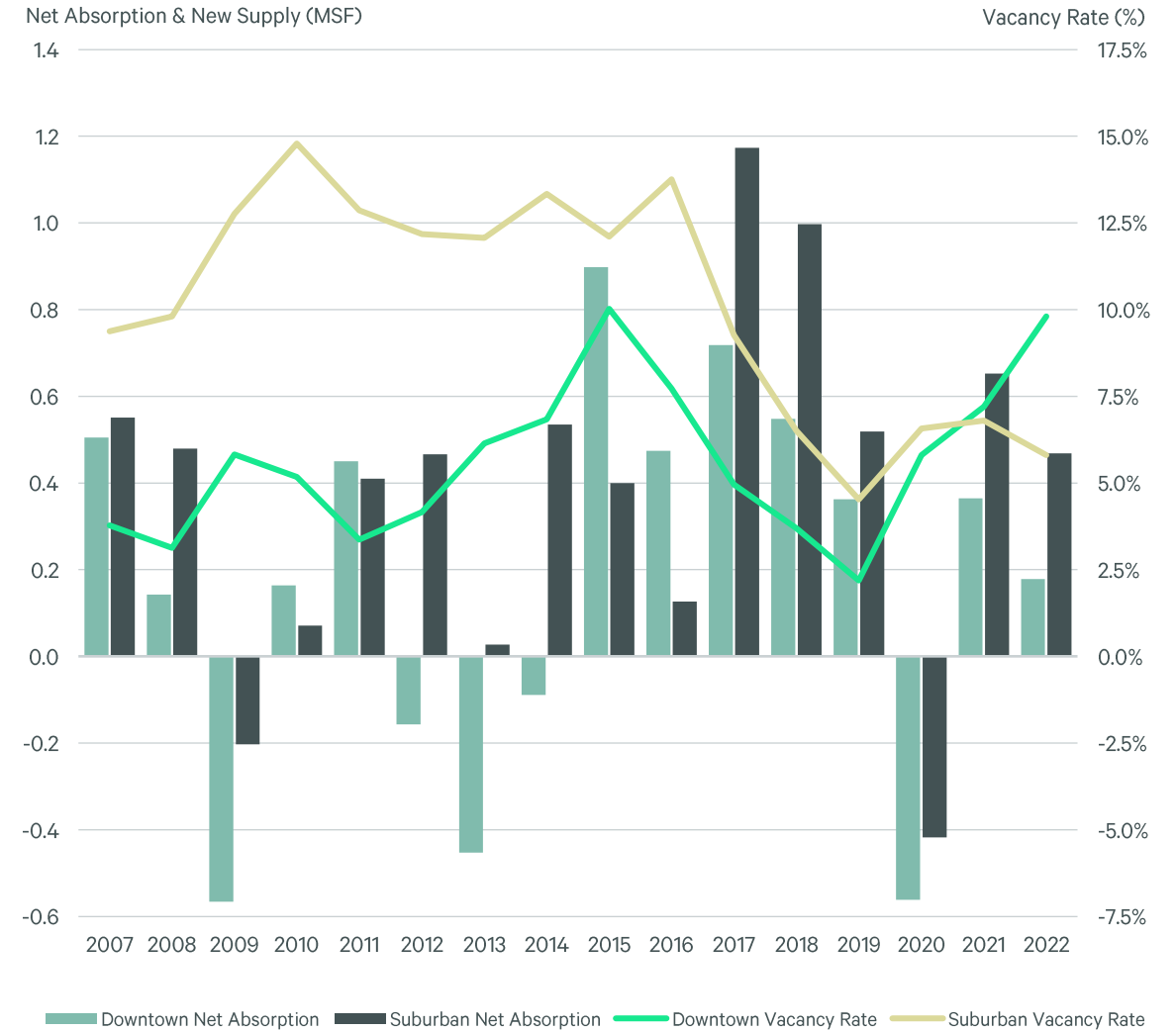
Metro Vancouver experienced a 120 bps increase in overall vacancy this quarter to 7.8% driven by increases in both direct and sublease vacancy. Downtown Vancouver was the primary driver in increase, accompanied by Surrey, while the remaining suburban markets, which account for the remaining half of Metro Vancouver’s vacant office supply, saw vacancy slightly decrease. Overall vacancy for the collective suburban markets experienced a 40 bps decrease quarter-over-quarter to 5.8%.

A divide between sublease vacancy in the Downtown and Suburban markets is shaping with Downtown up by a net 292,000 sq. ft., a 68.1% growth quarter-over-quarter, while the Suburban total decreased by 176,000 sq. ft., or a 39.5% decline quarter-over-quarter. This shows a level of sustained demand for space outside the downtown core. The rise in vacancy was caused by the delivery of new product in the downtown core and an increase in large blocks of sublease availability. The majority of 2022’s new supply was delivered in Q4 and centralized within the downtown core.

Two large AAA developments Downtown added about 315,000 sq. ft. of vacant supply to the market, accounting for most of the increase in direct vacancy. Direct and sublease vacancy quarter-over-quarter are up 13.3% to 991,000 sq. ft. and 23.3% to 3.0 million sq. ft., respectively. If we were to exclude the deliveries of VCII and The Stack, the two notable construction completions in the downtown core, vacancies would sit at 8.5% for the downtown core which marks a 140 bps net increase of vacancy within existing inventory. Overall vacancy for the Metro Vancouver region would have increased to 7.2%, which marks a 60 bps increase.

Metro Vancouver in the first half of 2022 experienced overall sublease vacancy decrease from 899,000 sq. ft. to 774,000 sq. ft. as business activity picked up. By the latter half of 2022, total sublease space available spiked up to 991,000 sq. ft. in December of 2022. Despite minor improvements when compared to the peak of 1.1 million sq. ft. in Q3 2021, sublease vacancy is higher on average than years prior to 2020.

FIGURE 2: Regional Supply & Demand



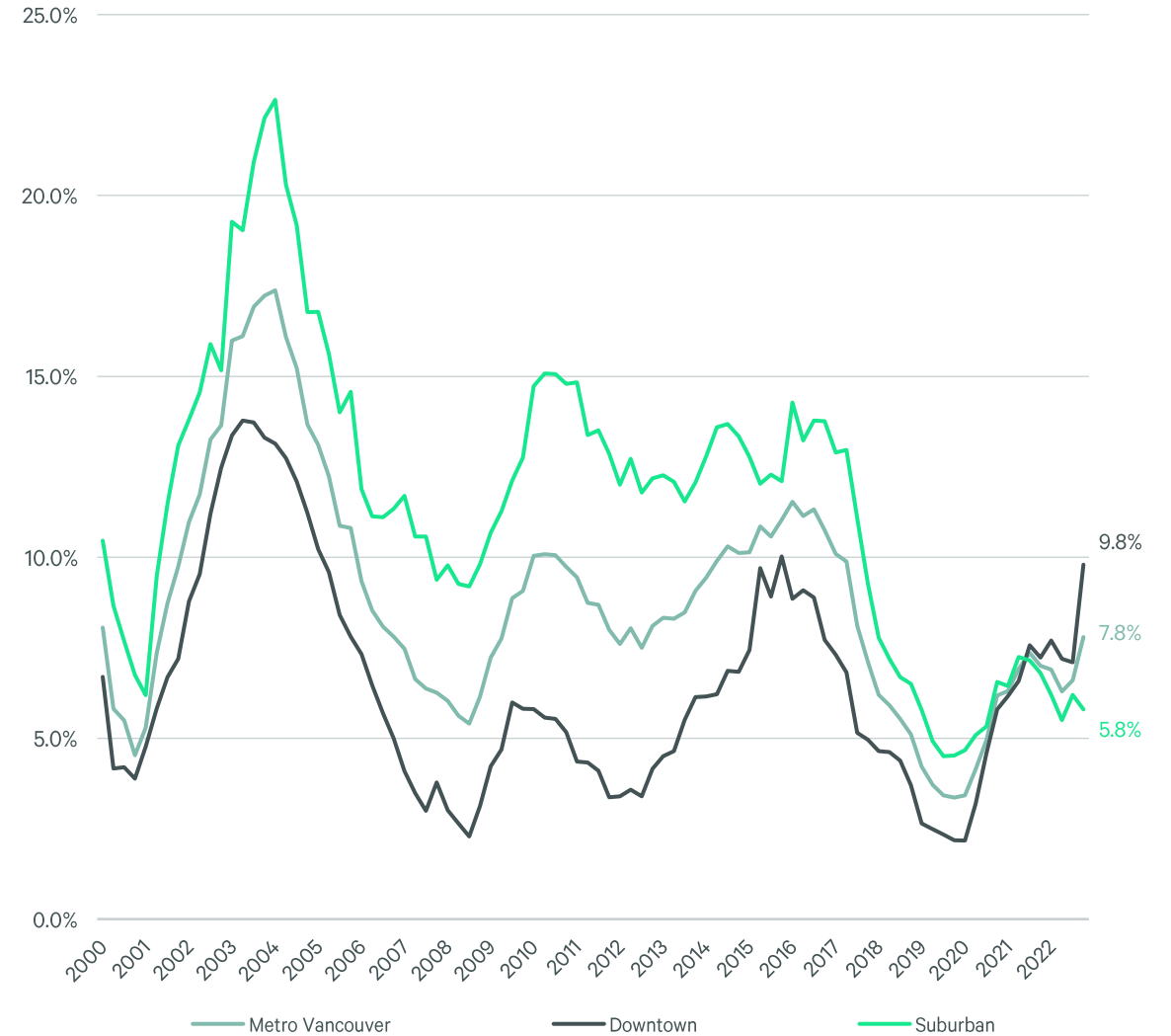
Source: CBRE Research, Q4 2022.

Unsteady vacancy rates

The region witnessed vacancy rates rise for the second quarter in a row by 120 bps to 7.8% after a previous 12-month decline. The climb in vacancy is driven primarily by an increase Downtown, undoing all progress recorded in the previous four quarters. 913,900 sq. ft. of Class AAA office space downtown completed construction with an estimated 65.5% commitment level, adding approximately 315,300 sq. ft. of vacant inventory to the market. The additional inventory in the downtown core contributed to an overall vacancy of 9.8% and 7.8% in Downtown and Metro Vancouver, respectively. Additional blocks of new and existing space added to market drove Metro Vancouver’s total vacancy to 4.0 million sq. ft., the highest it’s been since Q2 2017, which still remains 17.1% above today’s market. Collective total sublease available space in Metro Vancouver rose to 991,000 sq. ft. from 875,000 sq. ft., a 13.3% increase quarter-over-quarter. Although subleasing activity is up, it remains below the peak of 1.1 million sq. ft. recorded in Q3 2021. Total sublease inventory within the suburban markets is at 270,000 sq. ft., equivalent to 18.3% of all vacant space which is the lowest it has been since Q3 2020. Burnaby among submarkets had the most distinguished decline of 112,000 sq. ft. in total sublease vacancy quarter-over-quarter. Metro Vancouver sublease vacancy maintains a similar 24.7% proportion to total vacant space compared with 24.2% of 843,000 sq. ft. one year ago.

Despite a 370 bps increase in vacancy which is coupled with continued demand for amenity-rich office space, Class AAA asking rates grew by 12.0%, supported by 408,000 sq. ft. of net absorption in Q4 compared to 6.3% five-year average Class AAA rent growth. Class AAA sublease vacancies drove the net increase in Metro Vancouver as it rose by 114,000 sq. ft. to 419,000 sq. ft. quarter-over-quarter, while total sublease availability is up to 991,000 sq. ft., the remaining building classes saw insignificant net changes in sublease vacancy quarter-over-quarter. Conversely, sublease vacancies over the last 12 months are higher in all building classes except for Class AAA. The main drivers of year-over-year increases in sublease vacancy in 2022 were Class A and Class B buildings, attributing an additional 216,000 sq. ft. to the net increase. Across suburban markets, vacancy rates have decreased by 40 bps quarter-over-quarter, and are down 100 bps year-over-year. Due to widely-held expectations for a recession in 2023, cost-cutting measures such as subleasing office space have continued at an increased pace in the final quarter of 2022. Due to the significant increase in sublease inventory and delivery of vacant space, vacancy rates in the downtown core reached a 7-year high of 9.8%.

FIGURE 3: Historical Regional Vacancy Rates



Source: CBRE Research, Q4 2022.

Construction pipeline

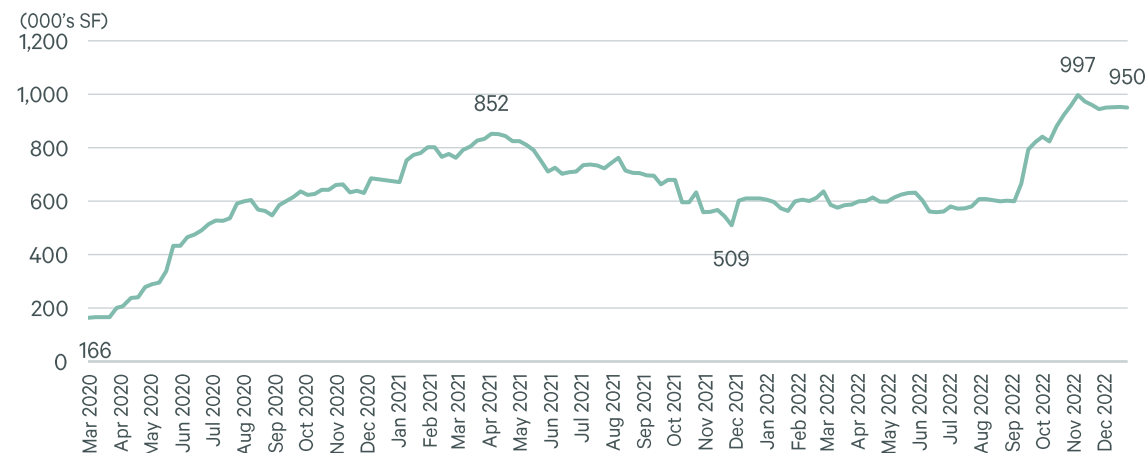
The majority of this year’s construction deliveries happened in Q4, namely The Stack and VCII for a total of 914,000 sq. ft., while Bosa’s Waterfront’s completion was pushed to the 2023 calendar year. The development cycle within Metro Vancouver, currently totalling 3.8 million sq. ft., continues to see steady demand. Half of this space is focused within the downtown core where recent deals have pushed pre-commitment levels to 58.2%. With most of the upcoming 1.9 million sq. ft. of supply downtown pre-leased, these deliveries will have minimal impact on vacancy rates. The short-term impact of Q4’s completions coupled with numerous vacancies on the market pushed vacancy rates up Downtown, however, preleasing remained strong and this influx of new supply provides healthy availability of AAA office space for larger full-floor occupiers. Strong levels of demand and continued deal activity in the suburban markets encouraged the commencement of several projects now totaling nearly 1.8 million sq. ft. currently under construction. Surrey Centre 4 broke ground this quarter which will add another 315,000 sq. ft. of office AAA space to Surrey’s Health and Technology District, offering further relief in the suburbs.

Sublease activity

Metro Vancouver average net rents for sublease product is now \$33.87, 3.6% higher than the previous quarter. As economic uncertainty and hybrid work models continue, occupiers of all sizes are rationalizing space by shedding excess inventory. Metro Vancouver’s 72.8% concentration of subleases downtown is up from 49.1% last quarter, due to large availabilities such as Kabam’s 48,000 sq. ft. at VCII and Microsoft’s 47,700 sq. ft. at 725 Granville. The average unit size downtown is 9,934 sq. ft., up from 8,464 sq. ft. last quarter as major occupiers continue shedding office space.

Downtown sublease vacancy escalated by net 292,000 sq. ft., while the Suburban total decreased by 176,000 sq. ft. quarter-over-quarter. A dichotomy in sublease activity between Downtown and Suburban markets exists as they experience year-over-year changes of 348,000 sq. ft. and negative 200,000 sq. ft. respectively. Total vacant sublease space downtown reached 722,000 sq. ft., the highest number recorded in 30 years due to an uptick in large and full-floor spaces given back by major tenants downtown.

FIGURE 4: Downtown Core Total Sublease Availability



Note: Sublease availabilities above contain no restrictions surrounding occupancy dates.
Source: CBRE Research, Q4 2022.

FIGURE 5: Notable Metro Vancouver Lease Transactions

Size (SF)	Tenant	Address	Submarket	Industry	Deal Type
162,000	Teck Resources	550 Burrard St	CBD	Engineering	Renewal
103,000	MNP	609 Granville St	CBD	Professional Services	Sublease
89,200	Fluor	1133 Melville St	CBD	Engineering	Pre-Lease
76,637	Coquitlam College	2920 Virtual Way	Burnaby	Education	Sublease
51,579	Corcym Canada Corp	5005 North Fraser Way	Burnaby	Life Sciences	New Deal

Source: CBRE Research, Q4 2022.

FIGURE 6a: Vancouver Office Market Statistics

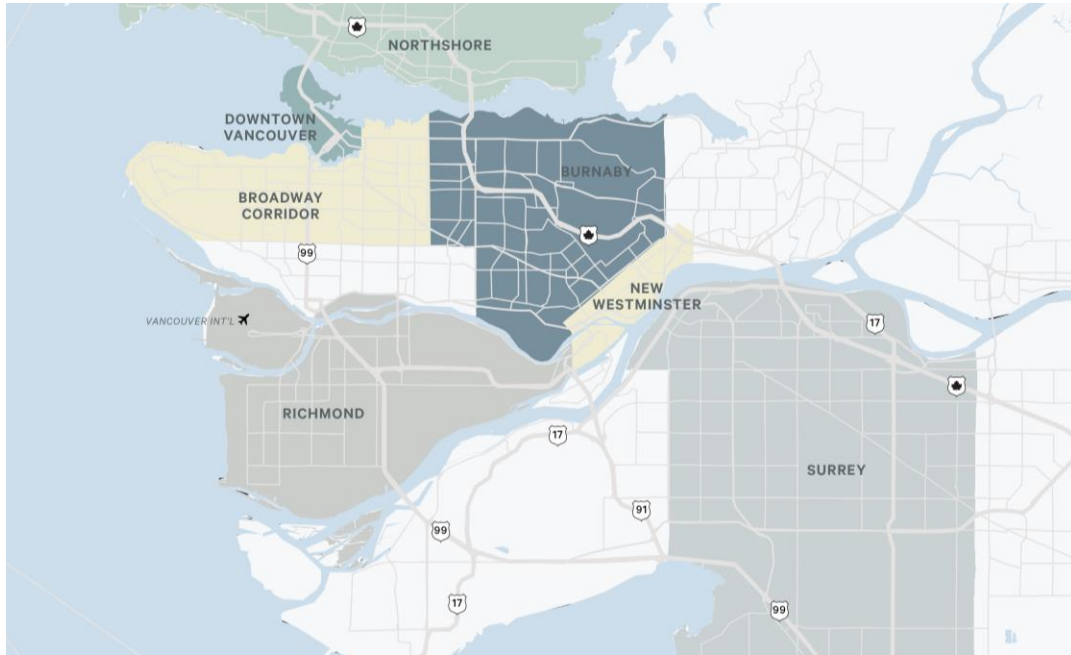
	Class	Total Buildings	Inventory (SF)	Vacancy Rate (%)	Net Absorption (SF)	YTD Net Absorption (SF)	New Supply (SF)	Under Construction (SF)	Avg. Asking Rate (\$PSF)	Avg. Additional Rent (\$PSF)
Downtown Vancouver	AAA	18	6,960,410	12.0%	354,205	464,213	913,900	1,770,500	\$49.28	\$24.91
	A	38	7,702,776	8.8%	-43,232	-89,195	-	153,407	\$44.44	\$22.73
	B	54	6,795,940	7.9%	-94,719	-96810	-	-	\$36.42	\$21.92
	C	80	4,499,034	10.8%	-83,058	-100,090	-	-	\$28.83	\$17.76
		190	25,958,160	9.8%	133,196	178,118	913,900	1,923,907	\$40.73	\$22.10
Broadway Corridor	AAA	12	1,262,714	3.1%	1,895	190,890	-	474,800	\$38.15	\$20.43
	A	29	1,861,558	6.1%	28,500	48,508	-	447,404	\$36.48	\$18.98
	B	35	1,746,131	10.6%	-7,014	-33,639	-	-	\$31.17	\$18.27
	C	38	849,886	4.5%	5,539	23,427	-	-	\$22.19	\$16.61
		114	5,720,289	6.6%	28,920	229,186	-	922,204	\$32.61	\$18.56
Burnaby	AAA	13	2,412,466	7.0%	21,653	197,836	-	218,350	\$34.87	\$16.83
	A	25	2,348,469	4.2%	6,328	36,337	-	126,347	\$34.38	\$18.36
	B	38	3,151,973	7.9%	23,200	-67,691	-	-	\$24.38	\$16.13
	C	22	864,679	0.7%	2,445	25,683	-	-	\$21.19	\$17.66
		98	8,777,587	5.9%	53,626	192,165	-	344,697	\$29.22	\$16.73
Richmond	AAA	21	1,776,082	7.1%	30,456	-29,540	-	134,390	\$20.17	\$15.75
	A	24	1,567,642	5.7%	-7,633	76,585	-	-	\$19.49	\$13.46
	B	19	526,886	12.5%	-9,078	-8,063	-	-	\$16.82	\$15.35
	C	7	199,849	2.0%	-4050	-1,861	-	-	\$13.36	\$12.64
		71	4,070,459	7.0%	9,695	37,121	-	134,390	\$18.72	\$14.60

Source: CBRE Research, Q4 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)
North Shore		A	14	821,041	0.8%	17,882	44,242	-	-	\$25.46	\$15.10
		B	17	752,877	1.7%	8,662	6,451	-	-	\$23.84	\$17.23
		C	11	236,929	1.7%	0	2,967	-	-	\$22.00	\$16.00
			42	1,810,847	1.3%	26,544	53,660	-	-	\$23.79	\$16.60
Surrey		A	20	2,177,508	7.1%	-19,739	-28,762	-	315,922	\$27.47	\$12.80
		B	21	807,730	9.5%	-9,371	-24,298	-	-	\$24.21	\$14.35
		C	14	288,403	0.0%	3101	3,101	-	-	\$10.00	\$8.80
			55	3,273,641	7.1%	-26,009	-49,959	-	315,922	\$26.25	\$13.38
New Westminister		A	7	600,867	2.1%	-4,409	-7,947	-	34,527	\$27.15	\$16.16
		B	14	615,296	2.4%	5,821	14,341	-	-	\$19.00	\$13.19
		C	10	275,766	2.1%	0	0	-	-	\$12.12	\$23.26
			31	1,491,929	2.2%	1,412	6,394	-	34,527	\$18.99	\$16.05
Total Suburban		AAA	46	5,451,262	6.1%	54,004	359,186	-	827,540	\$31.84	\$17.22
		A	119	9,377,085	5.1%	20,929	168,963	-	924,200	\$29.09	\$15.56
		B	144	7,600,893	7.9%	12,220	-112,899	-	-	\$25.36	\$16.40
		C	102	2,715,512	2.2%	7,035	53,317	-	-	\$20.23	\$17.07
			411	25,144,752	5.8%	94,188	468,567	-	1,751,740	\$27.51	\$16.30
Metro Vancouver		AAA	64	12,411,672	9.4%	408,209	823,399	913,900	2,598,040	\$44.29	\$22.71
		A	157	17,079,861	6.8%	-22,303	79,768	-	1,077,607	\$37.73	\$19.60
		B	198	14,396,833	7.9%	-82,499	-209,709	-	-	\$29.90	\$18.66
		C	182	7,214,546	7.5%	-76,023	-46,773	-	-	\$27.88	\$17.68
			601	51,102,912	7.8%	227,384	646,685	913,900	3,675,647	\$35.48	\$19.80

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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