

FIGURES | VANCOUVER OFFICE | Q1 2023

Vacancy rates continue to climb as sublease activity picks up

▲ 8.4%

Vacancy Rate

▼ -13K

SF Net Absorption

▼ 3.2M

SF Under Construction

▼ \$35.33

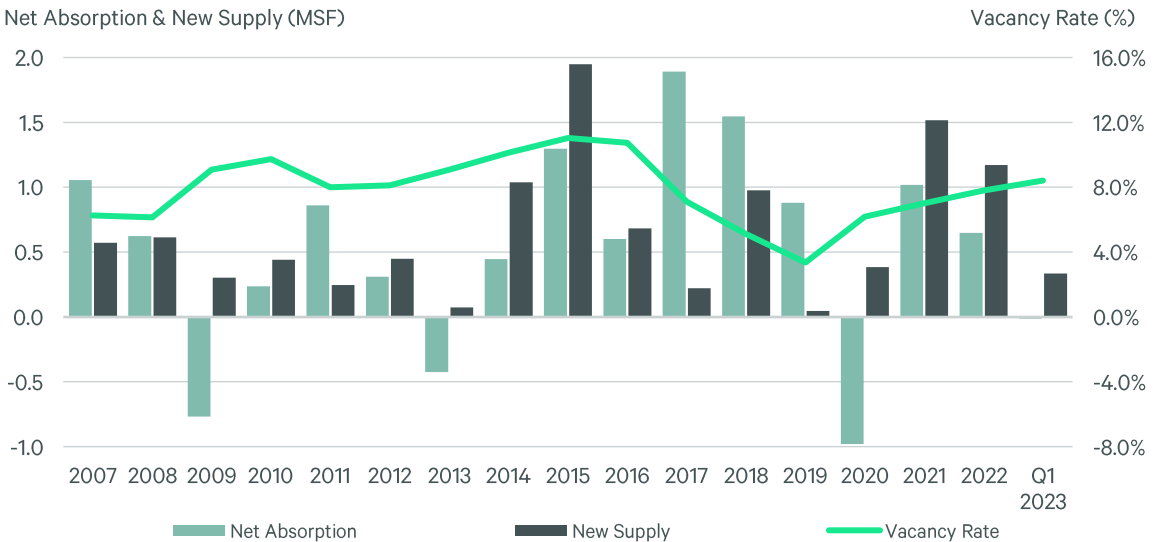
PSF Avg. Asking Rental Rate

Note: Arrows indicate change from previous quarter.

Overview

- Metro Vancouver's vacancy rate increased for the third quarter in a row, growing 60 basis points (bps) to 8.4% and presently stands 60 bps above the 10-year historical average of 7.8%. Following a quarter of negative net absorption coupled with the delivery of vacant new supply, total vacancy is up by 287,000 sq. ft. to 4.3 million sq. ft.
- Total sublease vacancy surpassed the 1.0 million sq. ft. threshold as it rose for the third consecutive quarter, rewinding the progress made since the last peak of 1.1 million sq. ft. in Q3 2021. As listing activity continues, the increase in vacant sublease space reflects a 13.3% increase year-over-year.
- The flight to quality continues as leasing activity across Class AAA and Class A product performed well with a combined 293,000 sq. ft. of positive net absorption compared to negative 306,000 sq. ft. in Class B and Class C.
- With construction completed at Bosa Waterfront, 320 Granville Street, all new supply with vacant inventory in the present downtown construction cycle has delivered. Looking ahead, 99.0% of the expected new supply within the downtown core, Bentall 6 at 1090 W Pender and The Post at 349 W Georgia, is spoken for.

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



Source: CBRE Research, Q1 2023.

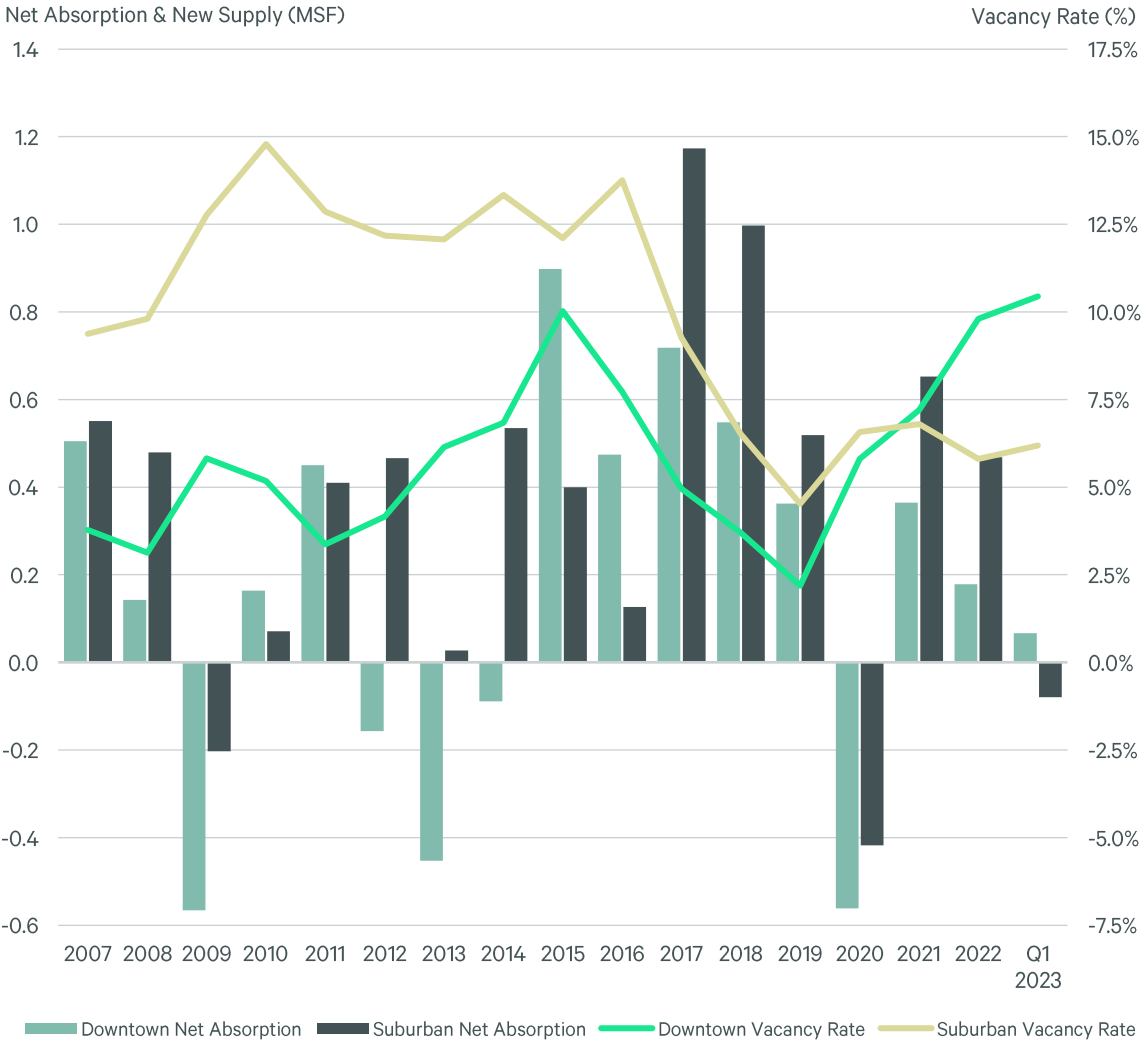
Metro Vancouver Overview

Metro Vancouver’s vacancy rate increased for the third quarter in a row, growing 60 bps to 8.4%. Following a quarter of negative net absorption coupled with further delivery of vacant supply, total vacancy is up by 287,000 sq. ft. to 4.3 million sq. ft. due to increase in both direct and sublease space. Total sublease vacancy surpassed the 1.0 million sq. ft. threshold as it rose for the fourth consecutive quarter, rewinding much of the progress noted since the last peak of 1.1 million sq. ft. in Q3 2021. The increase in vacant sublease space reflects a 2.7% increase quarter-over-quarter as listing activity continues.

Leasing activity across Class AAA and Class A product performed well with a combined 293,000 sq. ft. of positive net absorption compared to negative 306,000 sq. ft. in Class B and Class C. Average asking rate growth across the region has slowed as downtown and suburban markets saw quarterly declines of 0.9% and 0.4%, respectively. With the exception of the Broadway Corridor, Surrey, and New Westminster, the remaining submarkets all experienced quarterly decreases in asking rates. Despite marginal decline last quarter, asking rents grew 3.4% year-over-year from steady escalations driven by Class AAA rates.

With nearly 1.7 million sq. ft. expected to complete construction this year in the downtown core, delivering effectively 100.0% occupied, the flight to quality reflects upward pressure on Class AAA asking rates as they grew by 4.0% quarter-over-quarter. This remains while all other building class rates decreased over the same period. If no significant projects launch in the upcoming months, the pipeline of new supply should reach a 5-year low leaving future room for growth. The Broadway Corridor has undergone significant changes since last September since the Broadway Plan took effect. Development activity remains high with an expected 700,000 sq. ft. of new inventory delivering through the end of 2025 and about 80% of that supply remains available for prelease.

FIGURE 2: Regional Supply & Demand



Source: CBRE Research, Q1 2023.

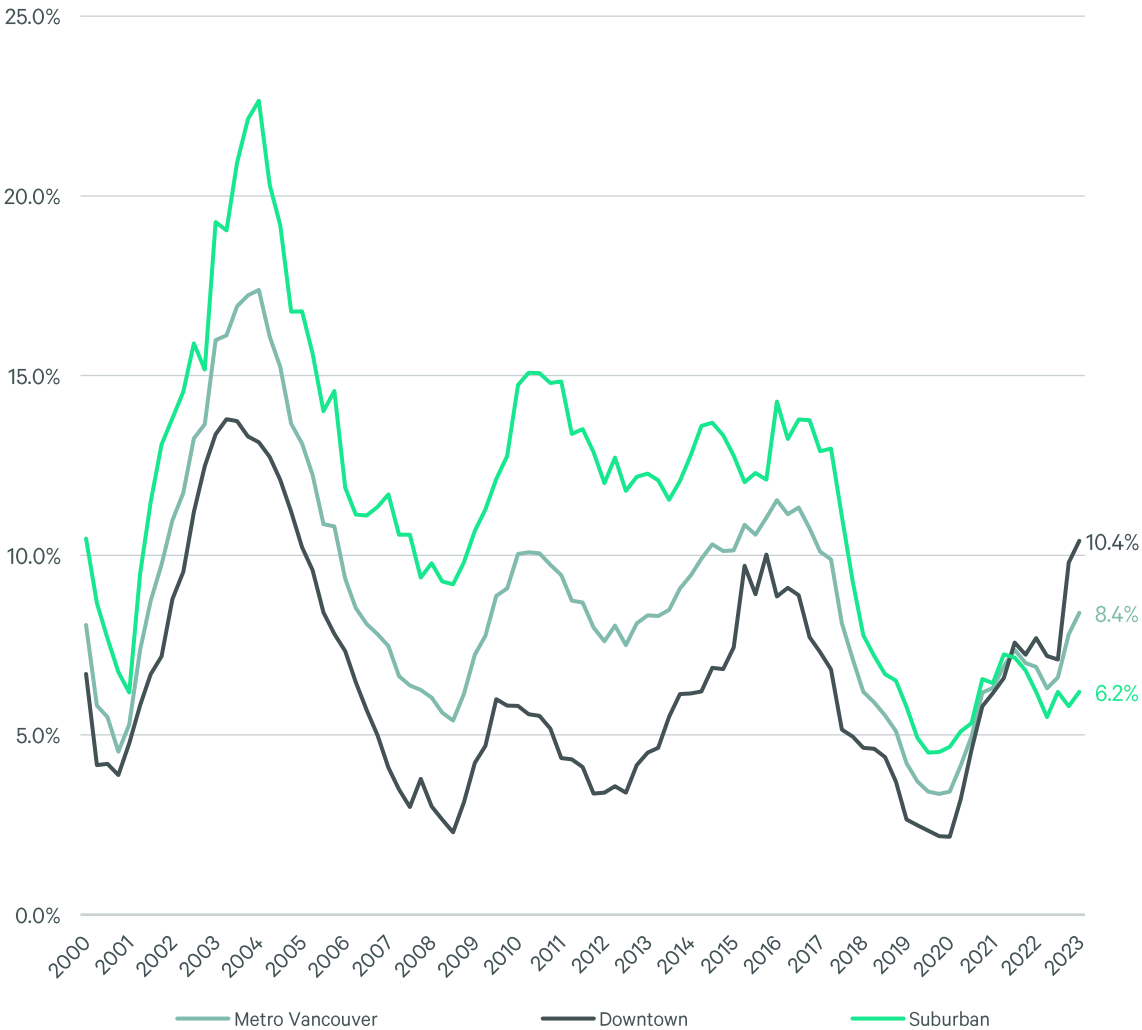
Rising vacancy rates

Metro Vancouver saw vacancy rise to 8.4% quarter-over-quarter from 7.8% in Q4 2022. Total vacancy is now 150 bps higher than Q1 of last year, the highest it's been since Q2 2017. Despite vacancy increasing for the third consecutive quarter, it remains just 50 bps above the fifteen-year average of 7.9%. In contrast to last quarter's delivery of 315,000 sq. ft. of vacant office product, roughly 76,000 sq. ft. of vacant space was added from the delivery of Bosa Waterfront at 320 Granville Street, driving the majority of the increases on Class AAA vacancy for this quarter. Additional blocks of primarily direct space pushed total vacancy to 4.3 million sq. ft., representing a 288,000 sq. ft. increase quarter-over-quarter. Total available sublease space reached 1.0 million sq. ft., reflecting three consecutive quarters of increase. Although sublease availability is 2.7% higher than last quarter, it's still lower than the peak of 1.1 million sq. ft. recorded in Q3 2021. Between downtown and the surrounding submarkets, the noted increase in sublease vacancy is 1.3% and 6.6% quarter-over-quarter, respectively. Suburban sublease inventory accounts for 18.4% of vacant space which is substantially lower than the 28.4% recorded one year ago.

Additional listings added pushed both downtown and suburban vacancy up to 10.4% and 6.2%, respectively. The elevation in vacancy is largely attributed to a net increase in direct vacant space downtown. Downtown vacant space rose by 200,000 sq. ft. to a total 2.7 million sq. ft., accounting for nearly two-thirds of Metro Vancouver's total. This pushed the downtown vacancy up 60 bps to 10.4%, driven by an increase in all building classes except for Class AAA which recorded a 60 bps decrease to 11.4%. Overall asking rates within the downtown core experienced a slight decline by 0.9% to \$40.35 per sq. ft. as shell headlease product must compete against built-out move in ready sublease availability.

Suburban vacancy rates overall have fared well since the onset of the COVID-19 pandemic. The gap between downtown and suburban vacancy has been increasing since its crossover in Q3 2021. No suburban markets exceed 8.0% in vacancy with the North Shore, Burnaby, and Broadway Corridor recording the lowest with 3.3%, 6.3%, and 6.5% respectively.

FIGURE 3: Historical Regional Vacancy Rates



Source: CBRE Research, Q1 2023.

The construction cycle

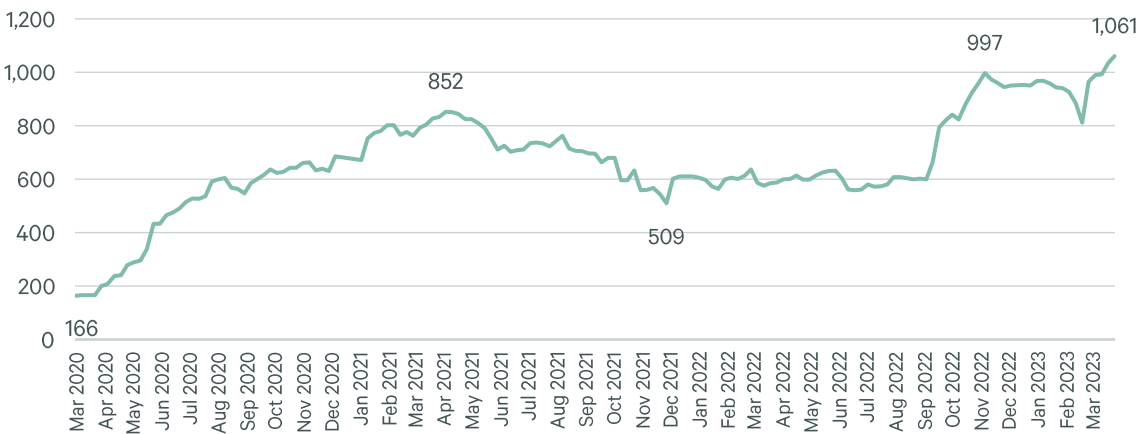
The completion of 334,000 sq. ft. of Class AAA and Class A inventory coupled with few new project launches drove total construction from 3.4 million sq. ft. to 3.2 million sq. ft. quarter-over-quarter. The construction pipeline continues to lighten looking forward as limited new projects launch throughout Metro Vancouver. As the supply of available space continues to rise, developers are faced with the decision on whether or not to push speculative projects awaiting higher prelease commitments outward, thereby delaying the next new supply cycle. Those which are first to act are likely to position themselves at the forefront of our next delivery cycle and could stand to benefit from our growing local economy.

266,000 sq. ft. of office product delivered in the Downtown core including Bosa Waterfront at 320 Granville Street, with half of its 165,000 sq. ft. of leasable space spoken for. Looking forward, Downtown Vancouver is slated to deliver another 1.7 million sq. ft. by the end of this year, which accounts for half of the total activity through the Metro Vancouver market. This marks a slight decline from last quarter and could continue to decrease further should fundamentals remain solid in the suburban markets. Looking ahead, of the expected new supply within the downtown core is effectively fully accounted for due to take up by large international tech occupiers.

Sublease listing activity resurges

Average net rents for sublease product throughout Metro Vancouver are currently at \$31.56 per sq. ft., reflecting a 6.8% decrease since last quarter and a 10.7% discount to headlease product. Office utilization remains a topic of interest for both landlords and occupiers. Total sublease listing activity in Metro Vancouver continues to increase across the region with nearly 120,000 sq. ft. of net space added year-over-year, and more expected in the coming months. Just over 40.0% of all 750,000 sq. ft. sublease availability through our market carries term to the end of the 2025 calendar year, with two-thirds of all sublease availability in the Downtown market carrying term into the 2025-2027 calendar years. Minimal expiry exposure in the Downtown market, in comparison to the suburbs, should cause a lesser impact on overall regional vacancy should leasing activity rebound.

FIGURE 4: Downtown Core Total Sublease Availability (000s SF)



Note: Sublease availabilities above contain no restrictions surrounding occupancy dates.
Source: CBRE Research, Q1 2023.

FIGURE 5: Notable Metro Vancouver Lease Transactions

Size (SF)	Tenant	Address	Submarket	Industry	Deal Type
31,868	WDBC Productions Limited	745 Thurlow Street	CBD	Creative	Sublease
16,802	ABB Inc.	10271 Shellbridge Way	Airport Exec. Park	Technology	Sublease
11,668	JDSF Retail (Canada) Inc.	22 E 5th Avenue	Broadway Corridor	Retail	Sublease
11,618	Mogan Daniels Slager LLP	1155 W Pender Street	CBD	Legal	New Deal
11,546	Bernard LLP	400 Burrard Street	CBD	Legal	Sublease

Source: CBRE Research, Q1 2023.

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	19	7,124,910	11.4%	191,546	191,546	164,500	1,602,000	\$51.67	\$25.35
	A	39	7,804,706	9.3%	59,532	59,532	101,930	51,477	\$43.96	\$23.46
	B	54	6,795,940	9.8%	-132,307	-132,307	-	-	\$35.09	\$22.68
	C	80	4,499,034	11.9%	-51,956	-51,956	-	-	\$28.57	\$17.60
		192	26,224,590	10.4%	66,815	66,815	266,430	1,653,477	\$40.35	\$22.46
Broadway Corridor	AAA	12	1,262,714	3.1%	0	0	-	230,000	\$38.15	\$20.43
	A	30	1,886,758	7.9%	-9,452	-9,452	25,200	448,385	\$37.30	\$20.59
	B	34	1,686,154	8.6%	-19,742	-19,742	-	-	\$31.34	\$18.29
	C	38	849,886	4.7%	-1,684	-1,684	-	-	\$25.37	\$15.93
		114	5,685,512	6.5%	-30,878	-30,878	25,200	678,385	\$33.77	\$19.16
Burnaby	AAA	13	2,412,466	7.5%	-12,323	-12,323	-	218,350	\$33.62	\$18.36
	A	26	2,390,947	3.5%	56,835	56,835	42,478	131,435	\$33.90	\$18.69
	B	38	3,151,973	8.9%	-31,431	-31,431	-	-	\$24.56	\$16.45
	C	22	864,679	1.0%	-1,814	-1,814	-	-	\$20.94	\$16.71
		99	8,820,065	6.3%	11,267	11,267	42,478	349,785	\$28.96	\$17.43
Richmond	AAA	21	1,776,082	5.5%	28,604	28,604	-	198,294	\$20.03	\$14.55
	A	24	1,567,642	6.5%	-12,114	-12,114	-	-	\$18.56	\$12.50
	B	19	526,886	18.6%	-32,121	-32,121	-	-	\$17.04	\$16.24
	C	7	199,849	2.0%	0	0	-	-	\$13.36	\$12.64
		71	4,070,459	7.4%	-15,631	-15,631	-	198,294	\$18.11	\$14.36

Source: CBRE Research, Q1 2023.

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%	-23,258	-23,258	-	-	\$25.37	\$15.15
		B	17	752,877	3.5%	-13,567	-13,567	-	-	\$21.50	\$12.06
		C	11	236,929	1.7%	0	0	-	-	\$22.38	\$13.34
			42	1,810,847	3.3%	-36,825	-36,825	-	-	\$23.09	\$13.38
Surrey		A	20	2,177,508	6.4%	13,947	13,947	-	-	\$29.43	\$13.24
		B	21	807,730	10.8%	-10,722	-10,722	-	-	\$24.24	\$14.38
		C	14	288,403	0.0%	0	0	-	-	\$10.00	\$8.80
			55	3,273,641	7.0%	3,225	3,225	-	315,922	\$27.16	\$13.74
New Westminster		A	7	600,867	2.1%	0	0	-	34,527	\$26.00	\$15.90
		B	14	615,296	3.7%	-7,843	-7,843	-	-	\$24.31	\$14.48
		C	10	275,766	3.2%	-3074	-3,074	-	-	\$12.12	\$25.11
			31	1,491,929	3.0%	-10,917	-10,917	-	34,527	\$21.25	\$17.58
Total Suburban		AAA	46	5,451,262	5.8%	16,281	16,281	-	962,566	\$31.84	\$18.01
		A	121	9,444,763	5.5%	25,958	25,958	67,678	614,347	\$29.68	\$16.21
		B	143	7,540,916	8.7%	-115,426	-115,426	-	-	\$24.56	\$16.24
		C	102	2,715,512	2.4%	-6,572	-6,572	-	-	\$21.87	\$17.02
			412	25,152,453	6.2%	-79,759	-79,759	67,678	1,576,913	\$27.40	\$16.57
Metro Vancouver		AAA	65	12,576,172	9.0%	207,827	207,827	164,500	2,564,566	\$46.04	\$23.27
		A	160	17,249,469	7.2%	85,490	85,490	169,608	665,824	\$37.42	\$20.14
		B	197	14,336,856	9.3%	-247,733	-247,733	-	-	\$29.52	\$19.27
		C	182	7,214,546	8.3%	-58,528	-58,528	-	-	\$27.82	\$17.54
			604	51,377,043	8.4%	-12,944	-12,944	334,108	3,230,390	\$35.33	\$20.18

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

Aaron Bowbyes

Research Analyst
+1 604 662 5117
aaron.bowbyes@cbre.com

For media related inquiries:

Britainny Hari

Marketing & Communications Manager
britainny.hari@cbre.com

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