Vacancy rates continue to climb as sublease activity picks up

▲ 9.0%
Vacancy Rate

▲ 132K
SF Net Absorption

▼ 2.7M
SF Under Construction

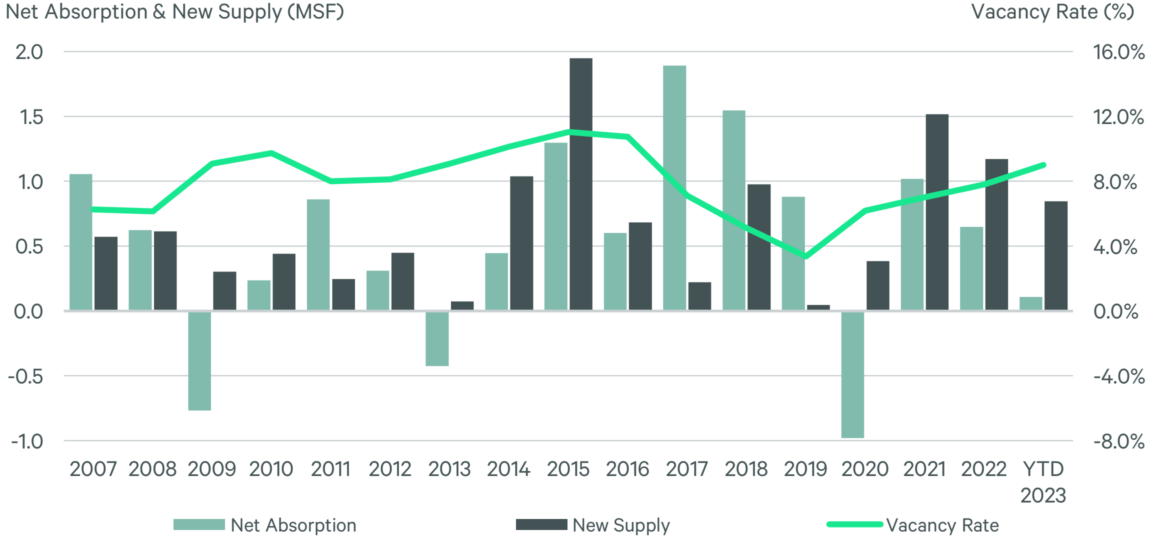
▲ $35.42
PSF Avg. Asking Rental Rate

Note: Arrows indicate change from previous quarter.

Overview

- Metro Vancouver's vacancy rate increased for the third quarter in a row, growing 70 basis points (bps) to 9.0% and presently stands 120 bps above the 10-year historical average of 7.8%.
- Total sublease vacancy was recorded at 1.3 million sq. ft., a historical high, and comprised 27.0% of total vacancy within the region. As listing activity continues, the increase in vacant sublease space reflects a 13.5% increase from the previous post-pandemic peak of 1.1 million sq. ft.
- The flight to quality continues as leasing activity across Class AAA and Class A product performed well with a combined 306,000 sq. ft. of positive net absorption compared to negative 174,000 sq. ft. in Class B and Class C. The primary driver of positive net absorption within quality inventory was from pre-commitment activity in new supply.

FIGURE 1: Metro Vancouver Supply & Demand



Source: CBRE Research, Q2 2023.

Metro Vancouver Overview

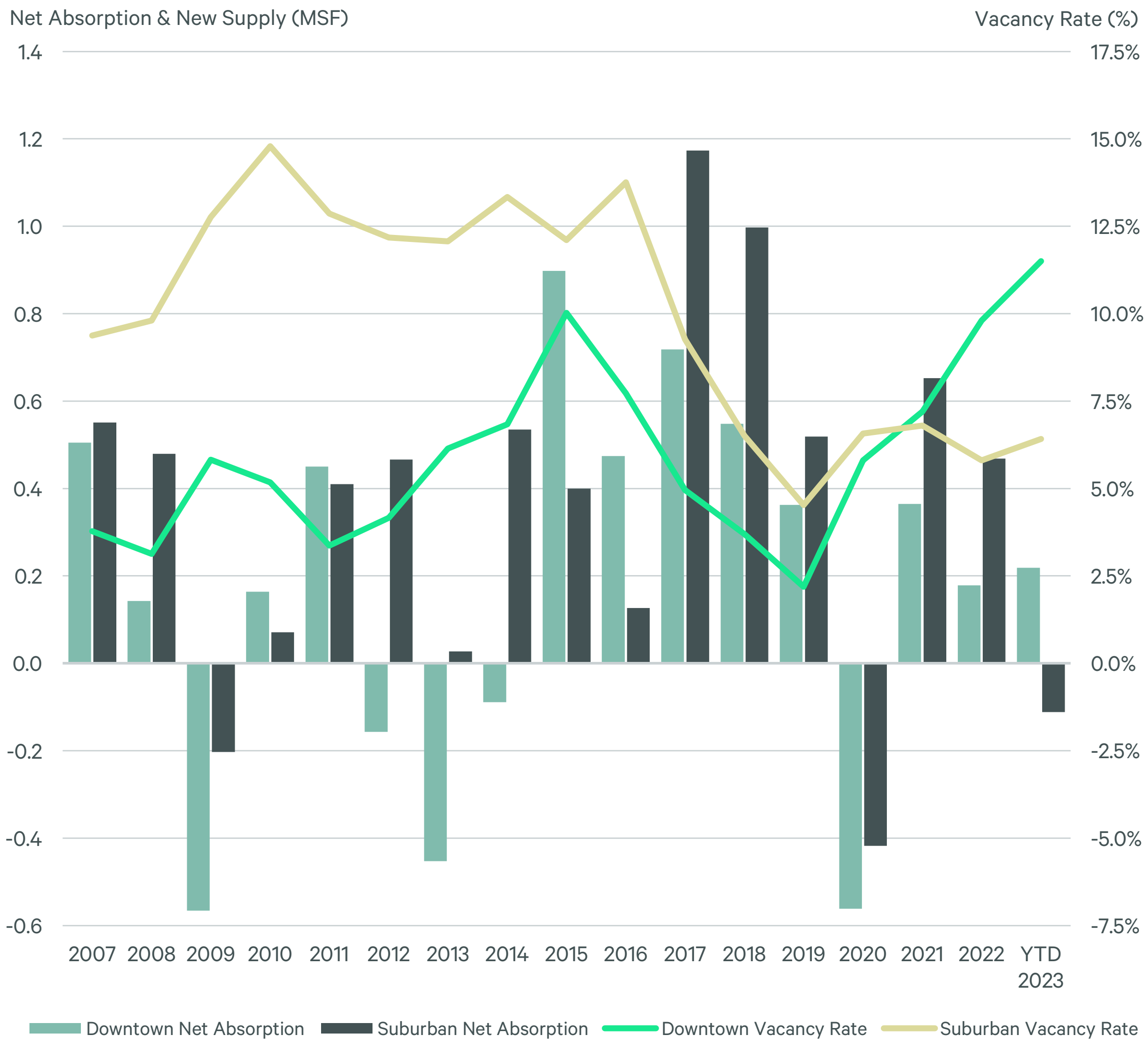
Vacancy rates through the Metro Vancouver market continue to rise, increasing for the fourth consecutive quarter, marking a 70 bps increase to 9.0%. While net absorption totaled approximately 132,000 sq. ft. for this quarter, all new supply this was fully pre-committed meaning the marketed experienced just under 419,000 sq. ft. of net negative absorption within existing inventory. As a result, overall vacant sq. ft. has reached a 6-year high while total sublease vacancy has set a record high of 1.3 million sq. ft.. Proportionate to all vacant inventory throughout the market, sublease vacancy makes up 27.0% which remains on pace with this indicator historically.

Gross leasing activity throughout the region experienced a net decline quarter-over-quarter, falling to 595,000 sq. ft. from 641,000 sq. ft. in Q1 2023. 64.0% of this deal activity was situated within Class AAA and Class A inventory, which continues to perform well as occupiers pursue quality product. A continuing trend is the lease up of built-out space, which within the downtown core has accounted for over 80.0% of deal activity since the beginning of 2022.

Average asking lease rates grew by only $0.10 per sq. ft. quarter-over-quarter and sit near record highs, however inventive offerings from landlords have increased in comparison to previous years as they continue to compete against turn-key ready solutions through the sublease market. Landlords have also recently enhanced their offerings by turn-keying portions of their portfolio in order to drive demand towards their headlease vacancies.

With an additional 1.2 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 have grown 50.0% from the $29.33 per sq. ft. recorded in Q1 2020 to $44.00 per sq. ft. In comparison, Class A inventory has only experienced a 28.9% increase over that same period.

FIGURE 2: Regional Supply & Demand



Source: CBRE Research, Q2 2023.

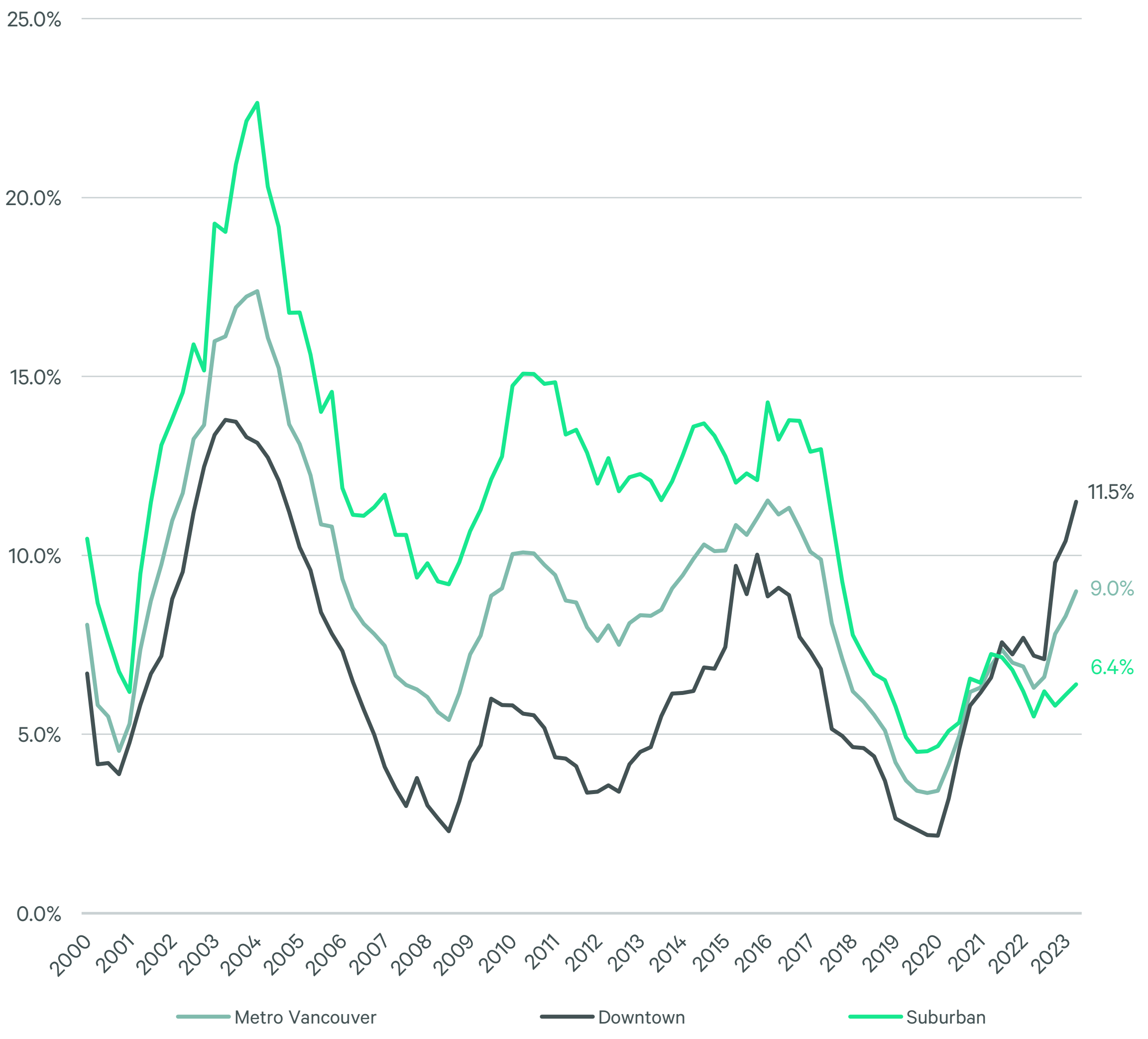
Unsteady vacancy rates

While vacancy rates currently sit at 9.0% overall and having increased 270 bps over the last four quarters, much of this can be attributed to new supply completions over that same period. Of the 2.0 million sq. ft. delivered in the last four quarters, just under one-quarter of this inventory delivered vacant accounting for nearly one-third of the 1.5 million sq. ft. of vacancy increase.

Vacancy within the downtown core continues to grow, driven primarily by Class B and Class C inventory, while Class AAA product recorded a 20 bps decline quarter-over-quarter. In total, just under 3.1 million sq. ft. of product is tracked as vacant, with 1.0 million sq. ft. made up of contiguous blocks of space of 50,000 sq. ft. or larger. This can be compared to the pre-pandemic downtown market in Q1 2020 when there were no blocks of vacant space larger than 50,000 sq. ft. When considering the suburban markets, vacancy has grown for the second consecutive spanning 60 bps over that period to reach 6.4%. As the spread in vacancy between the downtown market to the suburban markets continues to grow since its initial crossover in Q3 2021, it has reached a new high of 510 bps. The noted gap can be attributed to two factors. Firstly, suburban markets have experienced less development and a shorter new supply cycle compared to the downtown market. Secondly, suburban inventory continues to offer unique real estate amenities that are more difficult to provide in the downtown core.

Looking forward, the changing landscape of how the physical office ties to the workplace will continue to dictate any further changes to the vacancy rate. Amenity offerings, ESG considerations and the flight to quality will all play a significant part in a tenants real estate decisions. Numerous buildings have undergone extensive overhauls in order to address these concerns and are benefitting as a result. Although some occupiers have moved to a fully remote workplace solution, the residual sublease vacancy has proven a great opportunity for growing companies to upgrade their office space at a discount to current headlease offerings. In these instances, we might continue to track Class B and Class C vacancy increasing while higher class inventory is less impacted.

FIGURE 3: Historical Regional Vacancy Rates



Source: CBRE Research, Q2 2023.

Local development pipeline

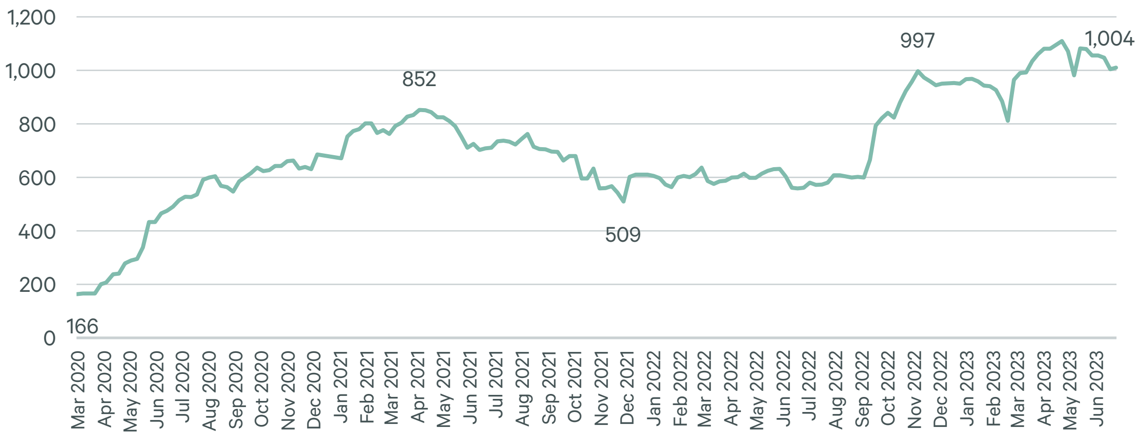
Recent completion of Quadreal's south tower at The Post marks the only completion in the Downtown core totalling 500,000 sq. ft. Meanwhile, Delta-Q Technology's expansion at Discovery Park has brought 50,715 sq. ft. of new supply to the suburbs. Total construction activity as a result has declined as limited new projects launch throughout Metro Vancouver. While total availability throughout Metro Vancouver continues to climb, developers must decide whether or not to delay speculative projects, thereby deferring the next new supply cycle. Those which are first to act are likely to position themselves at the forefront of the next delivery cycle and could stand to benefit from our growing local economy.

Projects within the construction pipeline and those which have recently completed construction continue to attract occupiers and complete deals. Most notably, Pan American Silver leased 30,000 sq. ft. at GWL's Vancouver Centre II which delivered in 2022. As effectively all upcoming inventory within the central business district is spoken for, further demand from occupiers looking to upgrade their real estate solutions would apply downwards pressure on rising vacancy rates.

Sublease listing activity continues to grow

As total sublease vacancy continues to grow throughout the Metro Vancouver market, total vacant inventory has reached a record high of 1.3 million sq. ft. Total availability of product occupiable reached 1.7 million sq. ft., of which 35.5% is made up of contiguous blocks of space larger than 30,000 sq. ft. Expiries for the 1.7 million sq. ft. span past 2030, however, 60.0% of all availabilities are set to expire between 2024 and 2026. Net additions for the first half of 2023 total 356,000 sq. ft. matching the pace of sublease inventory brought to market during the peak levels of the COVID-19 pandemic. Expiry exposure in the Downtown market, is somewhat limited for the 2023 and 2024 calendar years in comparison to the suburbs and should minimize the impact on direct vacancy in the near term.

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



Note: Sublease availabilities above contain no restrictions surrounding occupancy dates.
Source: CBRE Research, Q2 2023.

FIGURE 5: Notable Metro Vancouver Lease Transactions

Size (SF)	Tenant	Address	Submarket	Industry	Deal Type
93,866	CONFIDENTIAL	2920 Virtual Way	Burnaby	CONFIDENTIAL	New Deal
35,692	Osler	1055 Dunsmuir Street	CBD	Legal	Sublease
30,000	Pan American Silver	733 Seymour Street	CBD	Mining	New Deal
25,956	FTXT (Canada) Energy Technology Company	8900 Glenlyon Parkway	Burnaby	Technology	New Deal
17,662	VCH Urgent Care Centre	500 W 12th Avenue	Broadway Corridor	Health Care	New Deal

Source: CBRE Research, Q2 2023.

FIGURE 6a: Vancouver Office Market Statistics

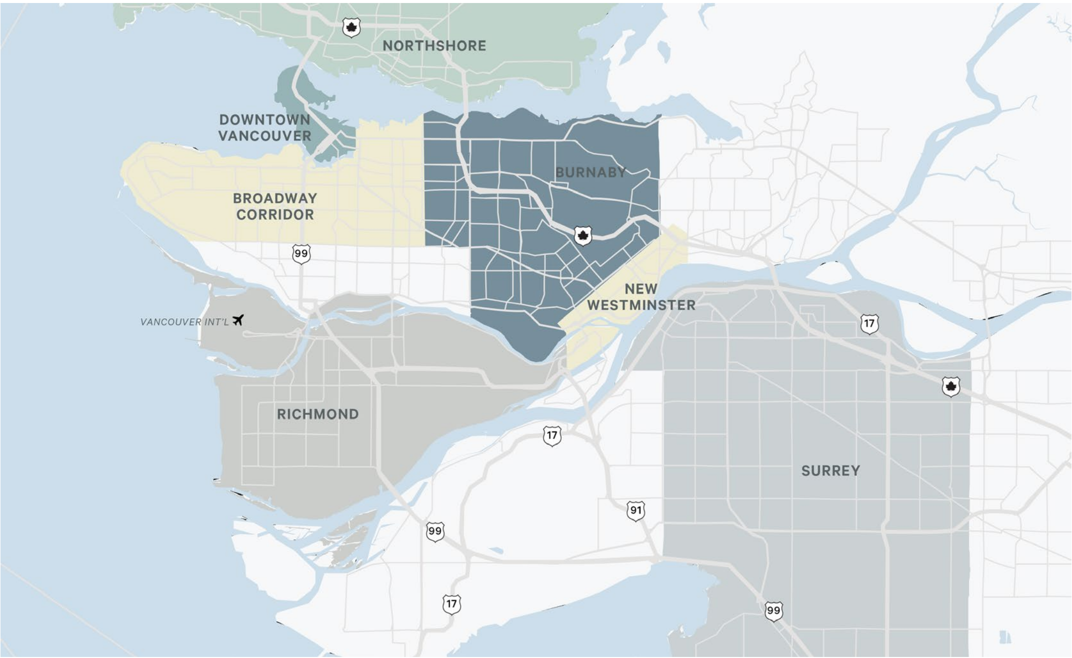
	Class	Total Buildings	Inventory (SF)	Vacancy Rate (%)	Net Absorption (SF)	YTD Net Absorption (SF)	New Supply (SF)	Under Construction (SF)	Net Asking Rent (PSF)	T&O (PSF)
Downtown Vancouver	AAA	20	7,624,910	11.2%	454,960	646,506	500,000	1,102,000	$50.93	$26.30
	A	39	7,791,218	10.5%	-97,411	-51,367	-	51,477	$43.71	$23.58
	B	54	6,795,940	12.5%	-182,953	-315260	-	-	$35.27	$22.89
	C	80	4,499,034	12.1%	-9,329	-61,285	-	-	$28.43	$18.17
		193	**26,711,102**	**11.5%**	**165,267**	**218,594**	**500,000**	**1,153,477**	**$39.94**	**$22.92**
Broadway Corridor	AAA	12	1,262,714	4.2%	-13,977	-13,977	-	224,400	$37.90	$20.64
	A	29	1,861,558	5.6%	17,296	9,444	-	448,385	$35.55	$21.37
	B	34	1,686,154	8.3%	4,705	-15,037	-	-	$31.14	$19.00
	C	38	849,886	6.1%	-11,829	-13,513	-	-	$25.37	$15.77
		113	**5,660,312**	**6.2%**	**-3,805**	**-33,083**	**-**	**672,785**	**$33.09**	**$19.67**
Burnaby	AAA	13	2,412,466	10.6%	-75,521	-87,844	-	218,350	$31.44	$19.66
	A	27	2,441,662	4.0%	36,254	93,089	50,715	80,499	$32.75	$18.44
	B	38	3,151,973	8.8%	2,512	-28,919	-	-	$24.64	$16.88
	C	22	864,679	1.0%	0	-1,814	-	-	$21.37	$18.56
		100	**8,870,780**	**7.2%**	**-36,755**	**-25,488**	**50,715**	**298,849**	**$28.57**	**$18.24**
Richmond	AAA	21	1,776,082	6.2%	-12,180	16,424	-	198,294	$20.19	$14.30
	A	24	1,567,642	5.6%	14,762	2,648	-	-	$19.35	$12.35
	B	19	526,886	17.2%	7,492	-24,629	-	-	$16.79	$16.62
	C	7	199,849	0.9%	2189	2,189	-	-	$13.36	$12.64
		71	**4,070,459**	**7.1%**	**12,263**	**-3,368**	**-**	**198,294**	**$18.52**	**$14.45**

Source: CBRE Research, Q2 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)	Net Asking Rent (PSF)	T&O (PSF)
North Shore	A	14	821,041	3.8%	-2,027	-25,285	-	-	$25.37	$15.25
	B	17	752,877	3.5%	0	-13,567	-	-	$21.50	$12.06
	C	11	236,929	1.0%	1505	1505	-	-	$22.00	$16.00
		42	**1,810,847**	**3.4%**	**-522**	**-37,347**	**-**	**-**	**$23.18**	**$13.62**
Surrey	A	20	2,177,508	7.6%	-24,973	-11,026	-	-	$31.04	$14.76
	B	21	807,730	9.3%	11,945	1,223	-	-	$24.67	$14.36
	C	14	288,403	0.0%	0	0	-	-	$10.00	$8.80
		55	**3,273,641**	**7.3%**	**-13,028**	**-9,803**	**-**	**315,922**	**$28.91**	**$14.63**
New Westminster	A	7	600,867	0.7%	8,502	8,502	-	34,527	$26.00	$15.90
	B	14	615,296	3.7%	0	-7,843	-	-	$24.31	$15.01
	C	10	275,766	3.2%	0	-3,074	-	-	$12.12	$25.16
		31	**1,491,929**	**2.4%**	**8,502**	**-2,415**	**-**	**34,527**	**$20.67**	**$18.15**
Total Suburban	AAA	46	5,451,262	7.7%	-101,678	-85,397	-	956,966	$30.50	$18.81
	A	121	9,470,278	5.2%	49,814	77,372	50,715	563,411	$29.65	$16.45
	B	143	7,540,916	8.4%	26,654	-88,772	-	-	$24.51	$16.62
	C	102	2,715,512	2.7%	-8,135	-14,707	-	-	$22.28	$17.45
		412	**25,177,968**	**6.4%**	**-33,345**	**-111,504**	**50,715**	**1,520,377**	**$27.45**	**$17.09**
Metro Vancouver	AAA	66	13,076,172	9.7%	353,282	561,109	500,000	2,058,966	$44.00	$23.76
	A	160	17,261,496	7.6%	-47,597	26,005	50,715	614,888	$37.92	$20.64
	B	197	14,336,856	10.4%	-156,299	-404,032	-	-	$30.39	$20.04
	C	182	7,214,546	8.6%	-17,464	-75,992	-	-	$27.79	$18.09
		605	**51,889,070**	**9.0%**	**131,922**	**107,090**	**550,715**	**2,673,854**	**$35.42**	**$20.80**

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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