Vacancy continues to climb, but approaching a plateau

▲ 9.6% Vacancy Rate

▼ -346K SF Net Absorption

▲ 2.8M SF Under Construction

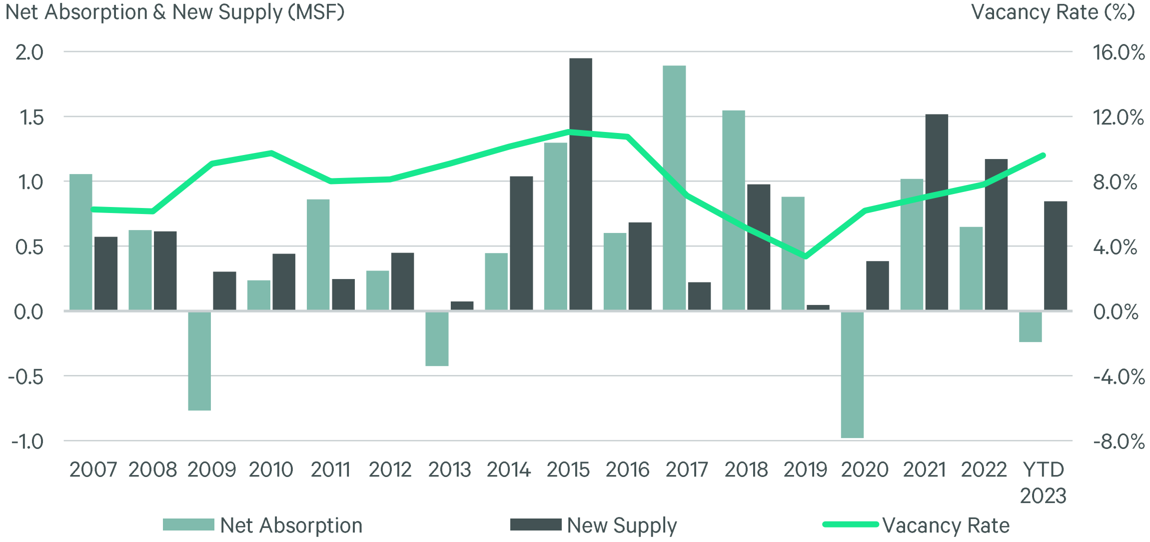
▼ $34.63 PSF Avg. Asking Rental Rate

Note: Arrows indicate change from previous quarter.

Overview

- Metro Vancouver's vacancy rate increased for the fifth consecutive quarter, growing 60 basis points (bps) to 9.6% and presently stands 180 bps above the 10-year historical average of 7.7%.
- Downtown overall vacancy increased 30 bps to 11.8%, driven by Class AAA increases. The main drivers to this increase came from shadow vacancies stemming from tenant relocations into best-in-class office premises situated within buildings from the new build cycle.
- Suburban vacancy rates increased for the third consecutive quarter by 80 bps, reaching 7.2% overall. This marks one of the largest quarter-over-quarter increase in over 5 years.
- WeWork recently exited from their 100,000 sq. ft. obligation in Bentall 6, the last building expected to deliver next year in our current Downtown build cycle. This lowers the building from 100.0% pre-leasing to 81.3%, and overall Downtown construction pre-commitment activity to 90.0%.

FIGURE 1: Metro Vancouver Supply & Demand



Source: CBRE Research, Q3 2023.

Metro Vancouver Overview

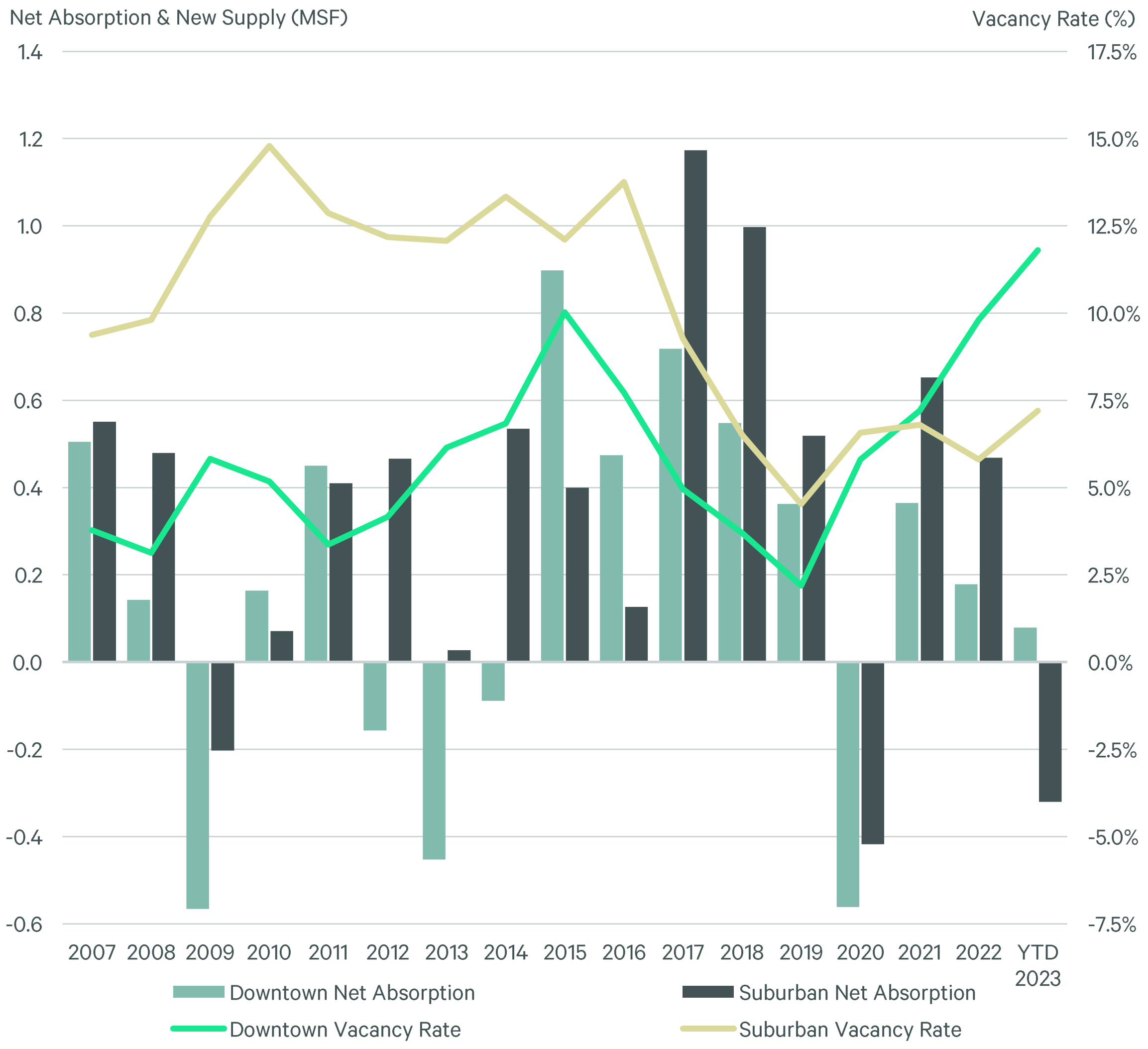
Vacancy rates through the Metro Vancouver market continue to climb, increasing for the fifth consecutive quarter, by 60 bps reaching 9.6% overall. Sustained upwards pressure has pushed vacancy to a 5-year high of just under 5.0 million sq. ft., of which 27.2% is from the sublease market.

Total absorption recorded for a net negative 346,000 sq. ft. for this quarter, bringing the year-to-date amount to net negative 241,000 sq. ft. Previous quarters recording positive net absorption were primarily driven by pre-commitment activity within the new supply pipeline, however, given no new supply was delivered through Q3 2023 all recorded activity is as a result of tenant movements within existing inventory.

Gross leasing activity through the Metro Vancouver region continues to experience a net decline quarter-over-quarter, falling to 533,000 sq. ft. from the 595,000 sq. ft. recorded in Q2 2023. Premium quality inventory continues to perform well as occupiers look to optimize their office real estate solutions, accounting for 51.0% of total leasing activity throughout the quarter. Deal activity through the Downtown core continues to outpace the suburban markets as 60.1% of total activity was driven by the Downtown submarkets. Improved space continues to attract the most demand through both the sublease and headlease markets, with sublets offering turn-key solutions and landlords packaging incentives to drive tenant demand.

Average asking lease rates experienced a quarterly decline of $0.77 per sq. ft., reaching $34.63 per sq. ft. overall. As vacancy continues to trend upwards, declining headlease asking rates combined with continued increases in incentive offerings from landlords are an effective solution in competition against turn-key ready solutions offered by the sublease market. Activity in turn-keyed headlease suites continues to drive tenant activity as terms offer flexible solutions for tenants looking to optimize their real estate solutions.

FIGURE 2: Regional Supply & Demand



Source: CBRE Research, Q3 2023.

Continued increases to vacancy rates

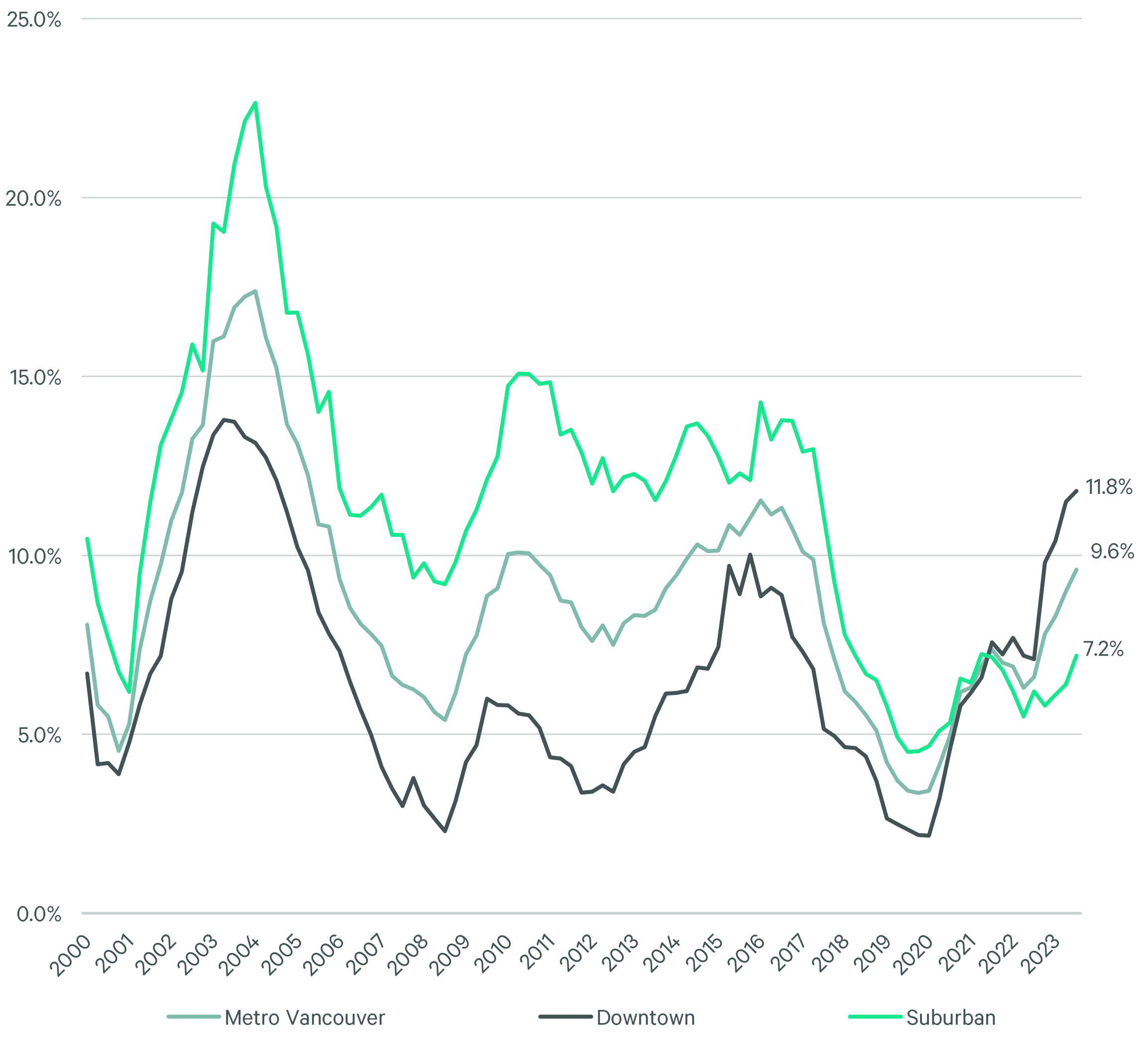
As vacancy rates currently sit at 9.6% overall and having increased by 300 bps over the previous four quarters, all increases through Q3 2023 were driven through existing inventory as no new supply was added to market. Total vacancy driven by sublease inventory has reached a record high 1.4 million sq. ft., compromising 27.2% of all vacant inventory. While the proportion of sublet vacancy to overall vacancy remains elevated, it remains in line with the historical trend throughout the previous three calendar years.

Specific to the Downtown core, vacancy continues to grow and is driven primarily by Class AAA and Class B inventory. Movements within Class AAA inventory can be attributed to relocation of tenants into recent construction deliveries, returning their existing office premises to landlords upon lease expiry. An overall net increase in listing activity from Class B inventory led to 87,000 sq. ft. of net negative absorption, driving vacancy rates to 13.8%. This marks a 130 bps increase quarter-over-quarter from 12.5% and now reaching levels which have not been recorded since the dot-com bubble. Similarly, as vacancy rates through the Downtown core continue to climb, they have now reached a 15-year high approaching levels last seen following the collapse of the dot-com bubble.

Recent increases in vacancy to the suburban markets have closed the spread to the Downtown core to 4.6%, down 50 bps from last quarter. This change in suburban vacancy is driven primarily by Class AAA and A inventory, recording an increase of 120 bps and 100 bps, respectively. While the spread initially grew because of the unique offerings that suburban office inventory provided to large format tenants in comparison to the Downtown core, recent construction starts that are expected to deliver over the coming years can be expected to apply further upwards pressure to the suburban vacancy rate thereby closing the gap.

Looking forward, as landlords continue to compete against growing vacancy, one notable trend to monitor is the conversion of existing office inventory to hotel and multifamily product. Numerous other landlords continue to complete extensive overhauls in order to address the changing landscape of how the physical office ties to the workplace.

FIGURE 3: Historical Regional Vacancy Rates



Source: CBRE Research, Q3 2023.

Completing new supply cycle

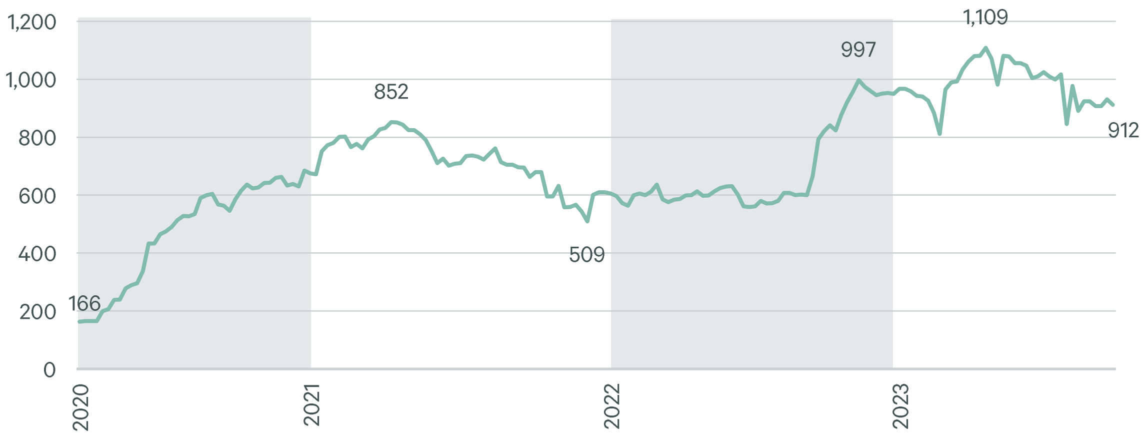
Coming off a quarter of no new supply deliveries throughout the market, the overall region nears the end of the current construction cycle. Within the Downtown market, 1.2 million sq. ft. is expected to deliver within the next 12 months of which nearly all is accounted for. The largest block of availability comes from WeWork's exit of Bentall 6 compromising just under 100,000 sq. ft. of vacancy. This lowers the overall pre-commitment level for the Downtown market to 91.0%, indicating that there is minimal expected impact to vacancy forecasts.

With the next wave of construction yet to commence, specifically within the Downtown core, any tenant movements are left to existing inventory as the nearest expected delivery for any new product would not be expected until the 2026 calendar year at the earliest. As developers decide whether or not to postpone speculative projects, further delays only allow for more time for vacancy rates to reverse course. As a result of this forecasted lull in new supply and a decline in total sublease availability, market fundamentals are positioned for vacancy rates to be near peak levels.

Opportunities for increased incentives

In the current landscape of increasing vacancy rates, abatements offered to new tenancies on a headlease deal have grown considerably. Pre-pandemic, when vacancy rates were at a record low of 3.4%, deal incentives featured minimal free rents periods packaged with a nominal tenant inducements. However, in recent months, some deals are recording extended fixturing periods in some cases providing tenants with early occupancy, extended rent-free periods post commencement and tenant inducement packages sometimes surpassing the $100 per sq. ft. mark. All previously mentioned abatements provide occupiers with an opportunity to execute on a lease with reduced net effective rents over the course of their lease term while refreshing and/or optimizing their current real estate solutions.

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



Note: Sublease availabilities above contain no restrictions surrounding occupancy dates.
Source: CBRE Research, Q3 2023.

FIGURE 5: Notable Metro Vancouver Lease Transactions

Size (SF)	Tenant	Address	Submarket	Industry	Deal Type
45,460	Salesforce	333 Seymour Street	CBD	Technology	Renewal
28,304	ATI Technologies ULC	2930 Virtual Way	Burnaby	Technology	Sublease
25,402	Stemcell Technologies	8900 Glenlyon Parkway	Burnaby	Life Sciences	New Deal
18,677	Workday	601 W Hastings Street	CBD	Technology	Expansion
16,235	Cushman & Wakefield	700 W Georgia Street	CBD	Real Estate	Renewal

Source: CBRE Research, Q3 2023.

FIGURE 6a: Vancouver Office Market Statistics

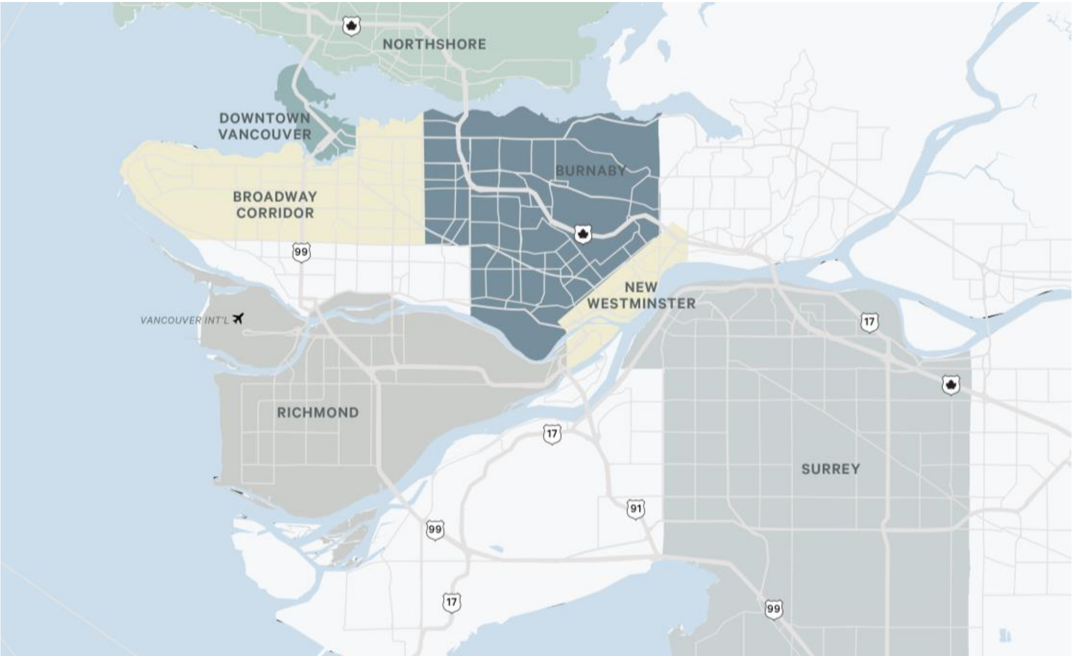
	Class	Total Buildings	Inventory (SF)	Vacancy Rate (%)	Net Absorption (SF)	YTD Net Absorption (SF)	New Supply (SF)	Under Construction (SF)	Net Asking Rent (PSF)	T&O (PSF)
Downtown Vancouver	AAA	20	7,624,910	12.3%	-85,555	560,951	-	1,102,000	$50.97	$25.82
	A	38	7,763,501	9.7%	36,967	-14,400	-	51,477	$42.66	$23.39
	B	54	6,795,940	13.8%	-86,740	-402000	-	-	$34.48	$22.79
	C	79	4,458,890	11.4%	-3,918	-65,203	-	-	$26.43	$18.23
		191	**26,643,241**	**11.8%**	**-139,246**	**79,348**	**-**	**1,153,477**	**$39.26**	**$22.86**
Broadway Corridor	AAA	12	1,262,714	4.0%	2,252	-11,725	-	299,887	$37.84	$20.15
	A	29	1,861,558	6.0%	-7,028	2,416	-	457,461	$35.10	$21.54
	B	34	1,686,154	9.7%	-23,312	-38,349	-	-	$30.25	$19.74
	C	38	849,886	6.7%	-4,845	-18,358	-	-	$25.35	$15.61
		113	**5,660,312**	**6.7%**	**-32,933**	**-66,016**	**-**	**757,348**	**$32.25**	**$19.83**
Burnaby	AAA	13	2,412,466	11.6%	-24,457	-112,301	-	218,350	$33.36	$19.28
	A	27	2,441,662	7.9%	-94,809	-1,720	-	80,499	$33.06	$18.27
	B	38	3,151,973	7.9%	27,887	-1,032	-	-	$24.59	$17.72
	C	22	864,679	1.5%	-4,990	-6,804	-	-	$21.37	$18.77
		100	**8,870,780**	**8.3%**	**-96,369**	**-121,857**	**-**	**298,849**	**$29.67**	**$18.40**
Richmond	AAA	21	1,776,082	8.6%	-43,523	-27,099	-	198,294	$20.37	$13.54
	A	24	1,567,642	6.5%	-15,304	-12,656	-	-	$18.34	$12.74
	B	19	526,886	23.1%	-31,402	-56,031	-	-	$16.73	$16.35
	C	7	199,849	2.0%	0	0	-	-	$13.36	$12.64
		71	**4,070,459**	**9.4%**	**-90,229**	**-95,786**	**-**	**198,294**	**$18.24**	**$14.44**

Source: CBRE Research, Q3 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	3.4%	3,451	-21,834	-	-	$25.59	$14.89
	B	17	752,877	4.3%	-5,372	-18,939	-	-	$21.12	$10.77
	C	11	236,929	1.0%	0	1505	-	-	$22.00	$16.00
		42	**1,810,847**	**3.5%**	**-1,921**	**-39,268**	**-**	**-**	**$23.19**	**$12.87**
Surrey	A	20	2,177,508	6.9%	14,009	2,983	-	-	$31.13	$14.92
	B	21	807,730	8.4%	7,710	8,933	-	-	$23.94	$14.47
	C	14	288,403	0.6%	-1784	-1,784	-	-	$18.00	$12.97
		55	**3,273,641**	**6.7%**	**19,935**	**10,132**	**-**	**315,922**	**$28.58**	**$14.75**
New Westminster	A	7	600,867	0.7%	0	8,502	-	34,527	$26.00	$15.90
	B	14	615,296	4.4%	-4,113	-11,956	-	-	$23.90	$15.27
	C	10	275,766	3.6%	-905	-3,979	-	-	$12.11	$25.22
		31	**1,491,929**	**2.7%**	**-5,018**	**-7,433**	**-**	**34,527**	**$20.60**	**$18.15**
Total Suburban	AAA	46	5,451,262	8.9%	-65,728	-151,125	-	1,032,453	$30.10	$17.66
	A	121	9,470,278	6.2%	-99,681	-22,309	-	572,487	$29.93	$16.92
	B	143	7,540,916	8.8%	-28,602	-117,374	-	-	$24.02	$17.10
	C	102	2,715,512	3.2%	-12,524	-29,420	-	-	$21.95	$17.16
		412	**25,177,968**	**7.2%**	**-206,535**	**-320,228**	**-**	**1,604,940**	**$27.19**	**$17.16**
Metro Vancouver	AAA	66	13,076,172	10.9%	-151,283	409,826	-	2,134,453	$43.98	$23.09
	A	159	17,233,779	7.8%	-62,714	-36,709	-	623,964	$36.76	$20.39
	B	197	14,336,856	11.2%	-115,342	-519,374	-	-	$29.75	$20.22
	C	181	7,174,402	8.3%	-16,442	-94,623	-	-	$25.80	$18.08
		603	**51,821,209**	**9.6%**	**-345,781**	**-240,880**	**-**	**2,758,417**	**$34.63**	**$20.68**

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 Director
+1 604 662 5135
tyler.bains@cbre.com

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

For media related inquires:

Carly Clements
Marketing Manager
carly.clements@cbre.com

CBRE