Vacancy is plateauing with a steady recovery in sight

▼ 9.4% Vacancy Rate

▲ 138K SF Net Absorption

▼ 3.1M SF Under Construction

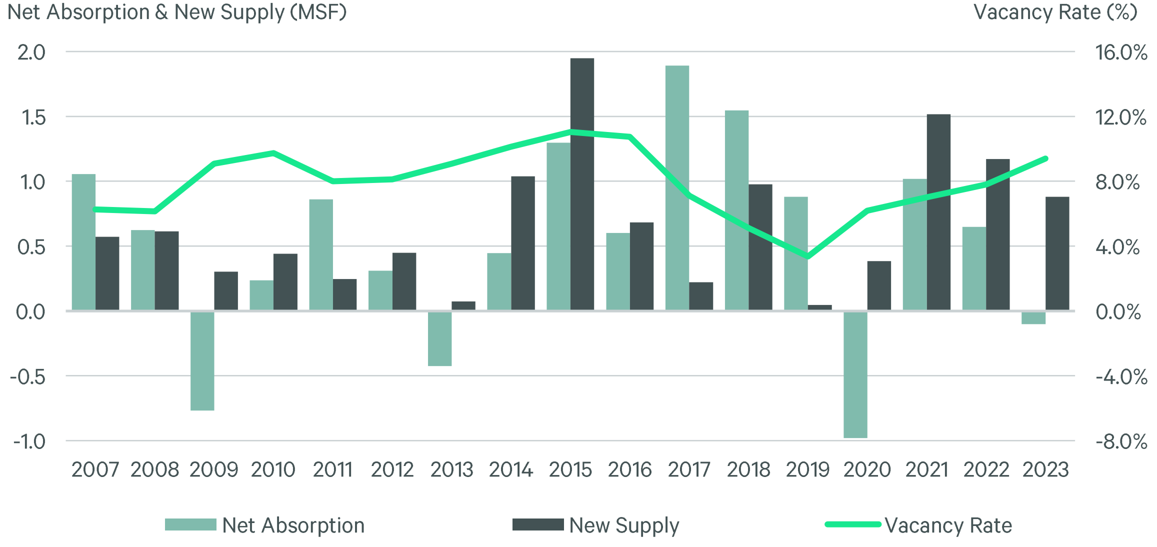
▼ $34.27 PSF Avg. Asking Rental Rate

Note: Arrows indicate change from previous quarter.

Overview

- Following a period of significant development, the office pipeline is lightening, with some suburban projects on hold until economic uncertainty clears.
- Class B net absorption has been negatively impacted downtown due to the transition out of older buildings and demand for Class AAA/A space as the flight to quality continues.
- With Metro Vancouver recording Canada's lowest vacancy rate of 9.4% and limited new supply in the coming years, rental rates are anticipated to rise as vacancies decline.
- Suburban market listings drove sublease vacancy higher, though downtown performance remained stable, noting that overall sublease availability significantly decreased in Q4 2023.
- Overall, the outlook for downtown's office market is positive, with strong fundamentals supporting a sustained recovery.

FIGURE 1: Metro Vancouver Supply & Demand



Source: CBRE Research, Q4 2023.

Quality Space Outperforms

Overall downtown vacancy noted an 80 basis points (bps) decline to 11.0% due to the execution of numerous full floor leases in Class A inventory. Demand for quality space continues to garner leasing activity such as Workday's 18,000 sq. ft. expansion to now occupy the top seven floors in 601 West Hastings, and Sage Software taking 19,000 sq. ft. in the same building.

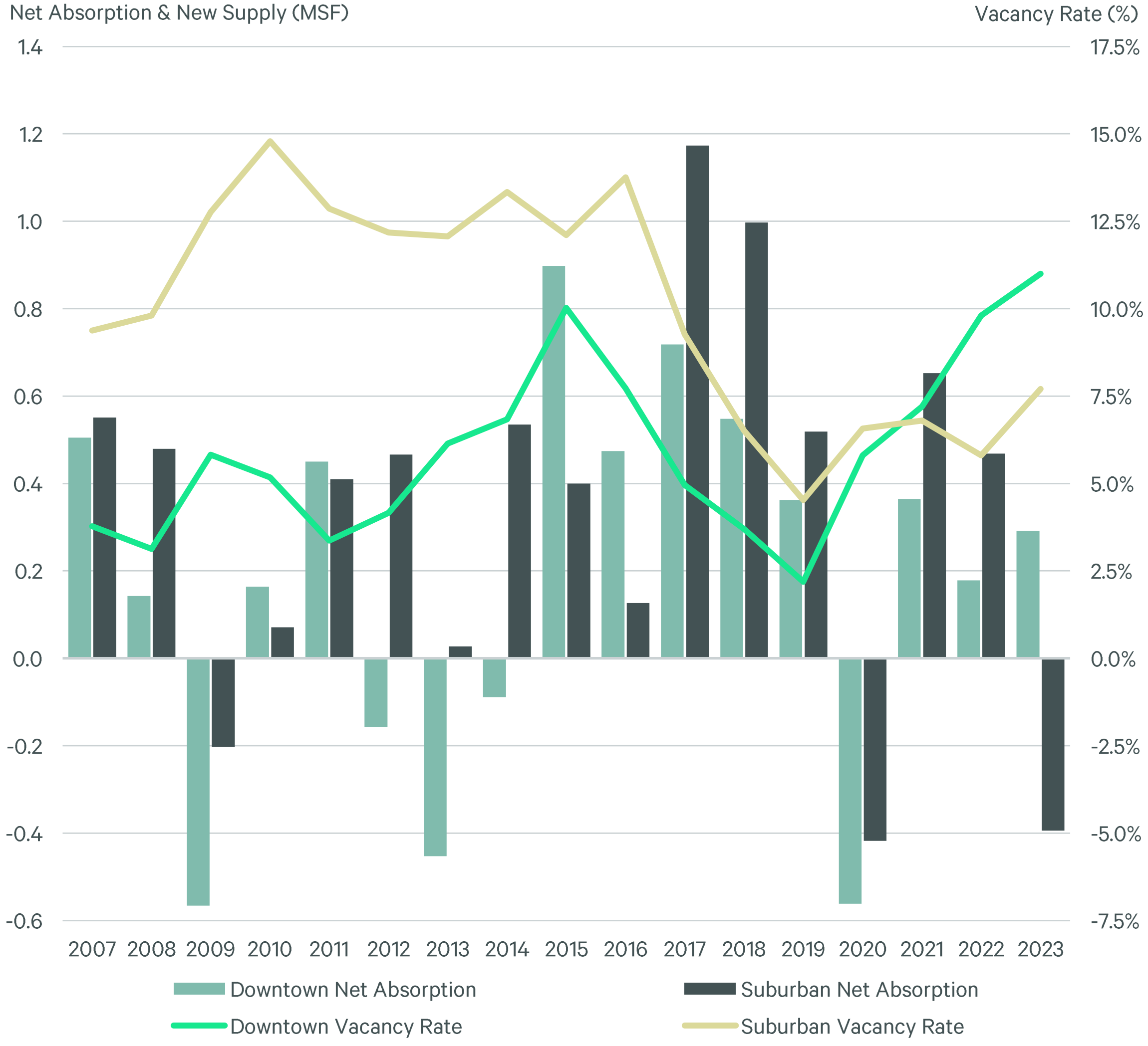
With tenants prioritizing amenity-rich spaces that enhance collaboration, downtown Class B inventory has been impacted the most, ending the year with negative 371,761 sq. ft. of net absorption. Across metro Vancouver, direct vacancy in Class B inventory rose by 151,000 sq. ft. to 1.4 million sq. ft., indicating a continued decline in demand for low-cost, commodity office space. Calgary's underutilized spaces, for example, are being repurposed for residential and other uses. However, due to unique market conditions office conversions lack incentives and financial viability.

Higher quality product remains more face rate sensitive than the older buildings. Class B and C buildings downtown may continue to see the decline in asking rates noticed throughout 2023, as they decreased year-over-years by 7.0% and 13.4%, respectively. Meanwhile Class AAA noted 3.7% growth year-over-year. While Class C asking rates did decrease by 5.5% downtown quarter-over-quarter, there was moderate leasing activity with limited new listings added.

Tenant-Friendly Conditions

Despite recent economic fluctuations, the office market remains tenant-friendly. A wide array of options are available for prospective tenants from a headlease and sublease perspective. There is a strong incentive now to enter longer leases due to favourable lease terms often being negotiated, such as larger tenant inducements and free rent incentives particularly offered by institutional landlords who account for about half of the downtown supply. Considering the amount of sublease inventory still available the market is full of move-in ready space, often furnished, with discounted rents. Easily improved and turnkey spaces continue to move more quickly than shell product due to cost and time considerations.

FIGURE 2: Regional Supply & Demand



Source: CBRE Research, Q4 2023.

The Rebound of Office

The downtown office market is poised for a strong recovery driven by limited new supply, continued transition to quality assets, and strong demand from tech and business service companies. Activity was strong in Q4 2023 with a total of 550,000 sq. ft. leased downtown, the strongest performing quarter in 2023. The year ended with 213,000 sq. ft. of positive net absorption downtown.

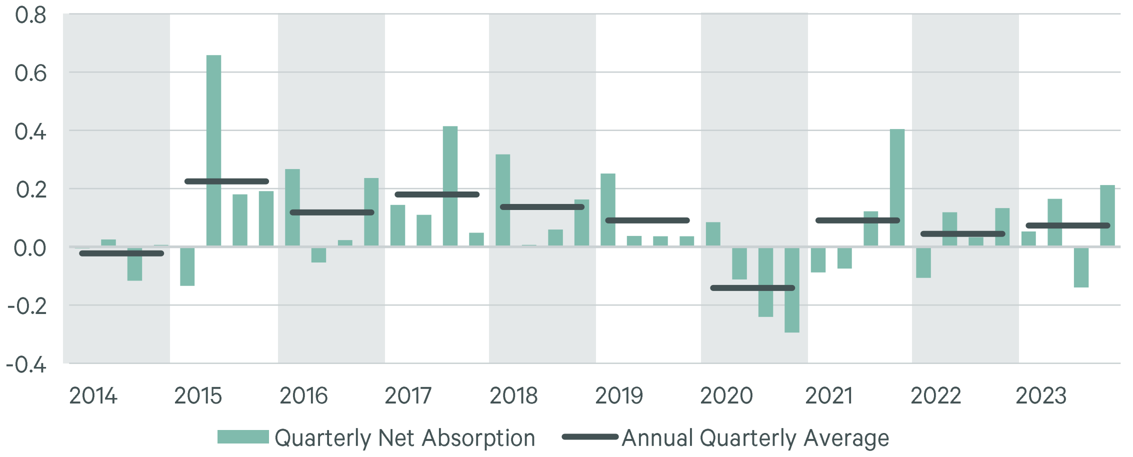
There is a continued flight-to-quality as tenants move into premium space. Currently, there are limited large blocks of high-quality contiguous space available. To illustrate the small supply of high-bank space available above the 25th floor, prospective tenants are looking at about 12 advertised options in the core. With no new deliveries in sight beyond early 2024, the remaining vacant supply should continue to garner attention, especially in amenity-rich buildings.

The noted asking rate decline of 5.1% year-over-year is heavily weighed by Class C and Class B product, seeing as Class AAA was the only building class to see year-over-year growth in rates of 3.7%. With limited new supply coming online in the next few years, existing vacancies, especially heavily discounted options, should continue to absorb tenant demand. Rental rates in challenged buildings should recover steadily with necessary investments being made in improvements and build outs and increasing occupancy rates being the major focus for landlords.

The supply of full floor availabilities has been on a decline for the last quarter, noting strong leasing activity on a direct and sublease basis. Particularly in the sublease market, listing activity has slowed and the amount of vacant sublease space has declined by 172,000 sq. ft. to 745,000 sq. ft. due to leasing in large format spaces picking up this last quarter.

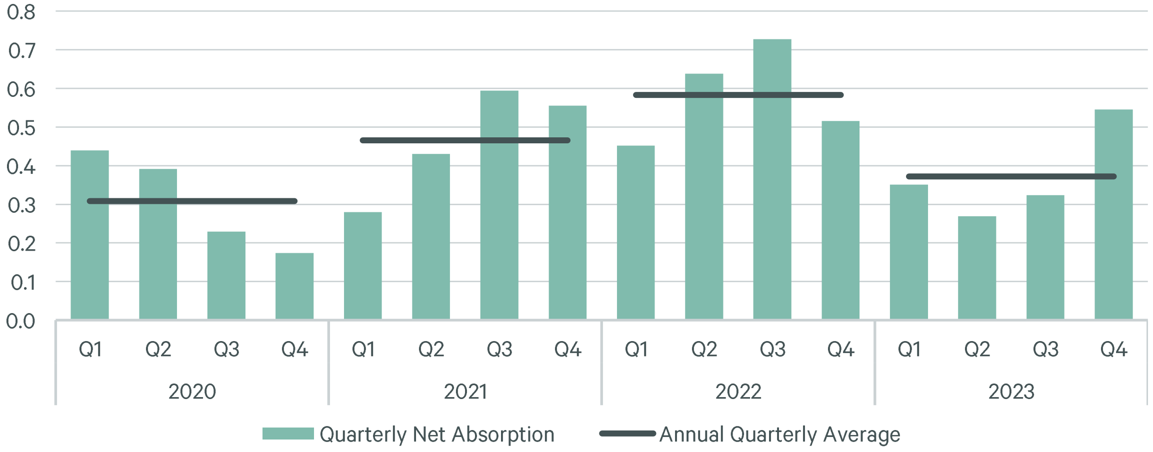
Although suburban leasing activity has slowed this past quarter, an overall vacancy of 7.7% remains well below the Metro Vancouver average. Development activity continues with 2.0 million sq. ft. in expected supply between now and 2026, in contrast with a shrinking pipeline downtown. The Broadway Corridor remains an active area for office development, accounting for half of the upcoming new supply. With a blended Class AAA/A vacancy of 4.1%, the remaining 735,000 sq. ft. of upcoming unencumbered space can alleviate tenant demand for parking, accessibility, and proximity to staff outside the downtown core.

FIGURE 3: Downtown Historical Net Absorption (MSF)



Source: CBRE Research, Q4 2023.

FIGURE 4: Downtown Historical Gross Leasing (MSF)



Source: CBRE Research, Q4 2023.

Sublease Market Shift

The Metro Vancouver sublease market is experiencing its first quarterly decline in vacant space in over a year by 6.6% to 1.3 million sq. ft. Signals are mixed, however, as the vacancy decline is heavily influenced by the downtown market's strong subleasing activity in Q4 2023, contrasting with a lack of substantial movement in the suburban markets.

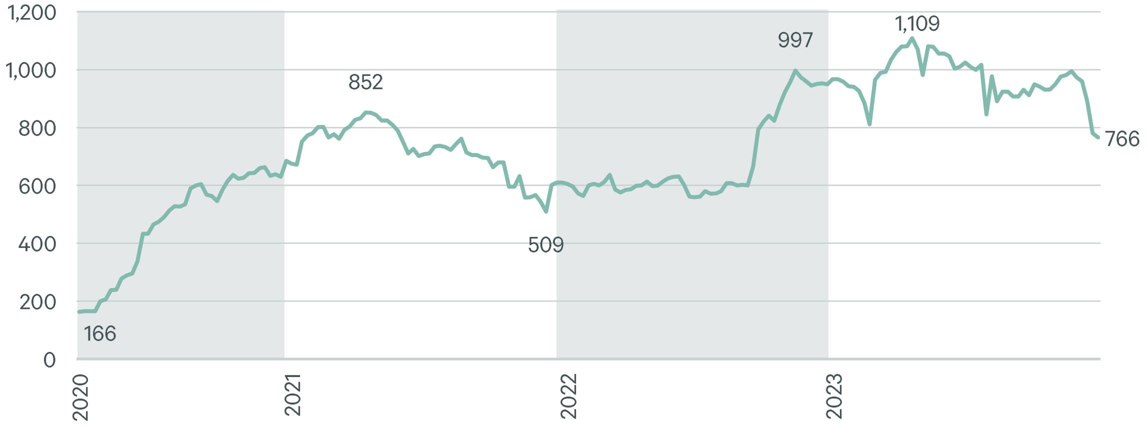
Primary drivers of the availability decline downtown were full floor sublease transactions, tenants with near-term expiries retaining their space, or tenants returning their space to landlords. Despite total downtown leasing activity being 844,000 sq. ft. lower year-over-year than 2.3 million sq. ft. in 2022, subleasing gained traction as 37.3% of deals came from subleases in 2023, compared to 19.8% the prior year. Primarily Class AAA and A product subleased to premium tenants including Teck Resources in Bentall 5, and ITG Software in 555 Robson Street. Further, a decline in new listing activity downtown has sublease vacancy trending down significantly over the last quarter.

The Shrinking Construction Pipeline

Following a period of significant growth and development, the downtown construction cycle is set to conclude in early 2024, including The Post North and Bentall 6's completion. Given the 2.4 million sq. ft. of downtown office deliveries since 2021, 82.3% has already been occupied, leaving only 17.7% unaccounted for. Among the 1.2 million sq. ft. of new construction to complete in Q1 2024 across three projects, only 10.0% is left unclaimed. With the delivery of this mostly-leased office space, the 115,000 sq. ft. of unencumbered vacancies will have a trivial effect on the downtown market.

Following a period of significant development and leasing outside the downtown core, the suburban construction pipeline could also lighten in 2024 as the next 2.0 million sq. ft. construction cycle completes. Considering some projects have been put on hold in the Broadway Corridor, pending pre-lease commitments, and cooling demand with the current economic backdrop, this trend has led to the conversion of older inventory to non-office related uses. If there are limited project commencements over the next year, the suburban pipeline will diminish, similar to downtown.

FIGURE 5: Downtown Core Total Sublease Availability (000s SF)



Note: Sublease availabilities above contain no restrictions surrounding occupancy dates.
Source: CBRE Research, Q4 2023.

FIGURE 6: Notable Metro Vancouver Lease Transactions

Size (SF)	Tenant	Address	Submarket	Industry	Deal Type
211,378	Fraser Health Authority	13450 102 Avenue	Surrey	Health Care	Renewal
44,193	Intact Insurance	999 W Hastings Street	CBD	Insurance	Renewal
34,144	Teck Resources	550 Burrard Street	CBD	Other Office	Sublease
32,696	Cedar Coast Capital Corp.	9900 King George Boulevard	Surrey	Business Services	Sublease
27,362	ITG Software ULC and Kaseya US, LLC	555 Robson Street	CBD	Technology	Sublease

Source: CBRE Research, Q4 2023.

FIGURE 7a: Vancouver Office Market Statistics

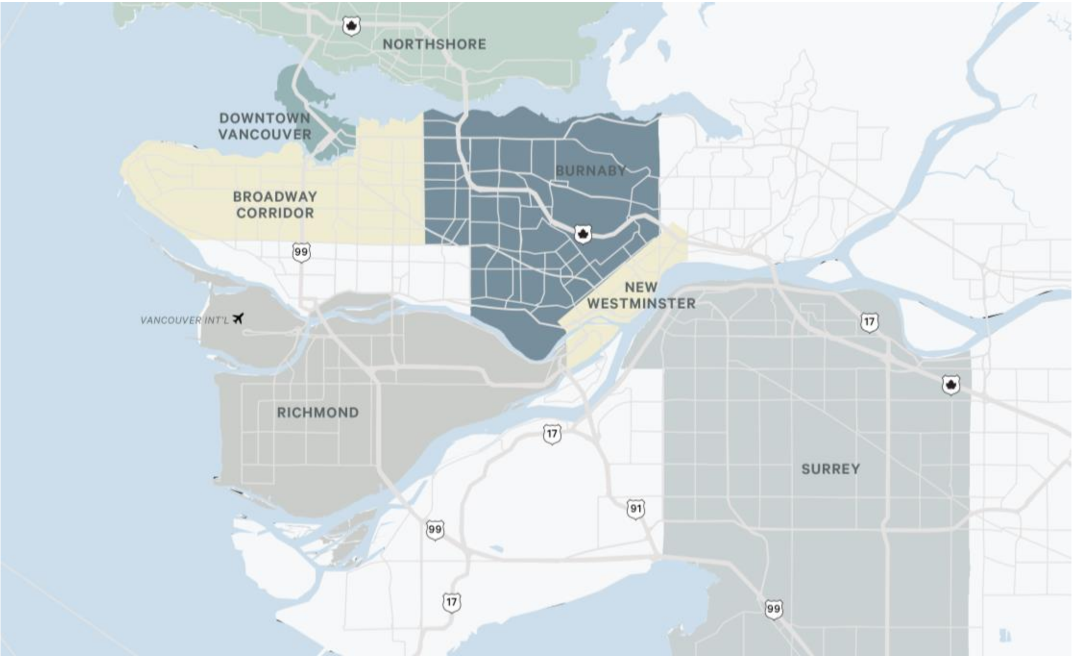
	Class	Total Buildings	Inventory (SF)	Vacancy Rate (%)	Net Absorption (SF)	YTD Net Absorption (SF)	New Supply (SF)	Under Construction (SF)	Net Asking Rent (PSF)	T&O (PSF)
Downtown Vancouver	AAA	20	7,624,910	11.3%	78,017	638,968	-	1,102,000	$51.12	$25.93
	A	38	7,763,501	9.3%	30,970	16,570	-	51,561	$42.38	$24.25
	B	54	6,795,940	13.4%	30,239	-371761	-	-	$33.87	$22.86
	C	79	4,458,890	9.8%	73,269	8,066	-	-	$24.97	$18.63
		191	**26,643,241**	**11.0%**	**212,495**	**291,843**	**-**	**1,153,561**	**$38.66**	**$23.23**
Broadway Corridor	AAA	12	1,262,714	2.5%	18,915	7,190	-	551,887	$35.24	$22.05
	A	29	1,861,558	5.2%	15,008	17,424	-	457,461	$35.60	$21.52
	B	34	1,686,154	13.8%	-69,976	-108,325	-	-	$30.73	$19.99
	C	38	849,886	6.2%	4,026	-14,332	-	-	$25.35	$17.19
		113	**5,660,312**	**7.3%**	**-32,027**	**-98,043**	**-**	**1,009,348**	**$31.65**	**$20.20**
Burnaby	AAA	13	2,412,466	11.5%	2,270	-110,031	-	218,350	$33.64	$19.50
	A	27	2,441,662	10.8%	-71,744	-73,464	-	217,493	$33.28	$18.61
	B	38	3,151,973	8.3%	-12,464	-13,496	-	-	$24.65	$17.47
	C	22	864,679	1.6%	-888	-7,692	-	-	$22.00	$18.89
		100	**8,870,780**	**9.2%**	**-82,826**	**-204,683**	**-**	**435,843**	**$29.82**	**$18.44**
Richmond	AAA	21	1,776,082	9.6%	-17,418	-44,517	-	198,294	$20.07	$13.32
	A	24	1,567,642	5.3%	18,889	6,233	-	-	$19.12	$12.14
	B	19	526,886	20.4%	14,531	-41,500	-	-	$17.05	$16.61
	C	7	199,849	2.0%	0	0	-	-	$13.36	$12.64
		71	**4,070,459**	**9.0%**	**16,002**	**-79,784**	**-**	**198,294**	**$18.50**	**$14.35**

Source: CBRE Research, Q4 2023.

FIGURE 7b: 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	3.5%	-598	-22,432	-	-	$26.05	$16.46
	B	17	752,877	2.4%	14,040	-4,899	-	-	$21.16	$11.75
	C	11	236,929	1.0%	0	1505	-	-	$22.00	$16.00
	TOTAL	**42**	**1,810,847**	**2.7%**	**13,442**	**-25,826**	**-**	**-**	**$23.95**	**$14.62**
Surrey	AAA	-	-	-	-	-	-	315,922	-	-
	A	20	2,177,508	6.4%	11,972	14,955	-	-	$30.71	$14.52
	B	21	807,730	8.4%	-3	8,930	-	-	$23.94	$14.46
	C	14	288,403	0.6%	0	-1,784	-	-	$18.00	$12.97
	TOTAL	**55**	**3,273,641**	**6.4%**	**11,969**	**22,101**	**-**	**315,922**	**$28.03**	**$14.48**
New Westminster	A	8	635,394	6.2%	-941	7,561	34,527	-	$26.00	$16.81
	B	14	615,296	4.4%	0	-11,956	-	-	$23.90	$15.27
	C	10	275,766	3.6%	0	-3,979	-	-	$14.00	$25.22
	TOTAL	**32**	**1,526,456**	**5.0%**	**-941**	**-8,374**	**34,527**	**-**	**$23.70**	**$17.46**
Total Suburban	AAA	46	5,451,262	8.8%	3,767	-147,358	-	1,284,453	$29.56	$17.85
	A	122	9,504,805	6.9%	-27,414	-49,723	34,527	674,954	$30.05	$16.99
	B	143	7,540,916	9.5%	-53,872	-171,246	-	-	$25.19	$17.60
	C	102	2,715,512	3.1%	3,138	-26,282	-	-	$22.32	$18.10
	TOTAL	**413**	**25,212,495**	**7.7%**	**-74,381**	**-394,609**	**34,527**	**1,959,407**	**$27.48**	**$17.47**
Metro Vancouver	AAA	66	13,076,172	10.3%	81,784	491,610	-	2,386,453	$44.15	$23.32
	A	160	17,268,306	8.0%	3,556	-33,153	34,527	726,515	$36.35	$20.70
	B	197	14,336,856	11.3%	-23,633	-543,007	-	-	$30.01	$20.52
	C	181	7,174,402	7.3%	76,407	-18,216	-	-	$24.57	$18.55
	TOTAL	**604**	**51,855,736**	**9.4%**	**138,114**	**-102,766**	**34,527**	**3,112,968**	**$34.27**	**$20.97**

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. Availability: All current and future marketed lease availabilities, including projects under construction or renovation.

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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