

FIGURES | VANCOUVER OFFICE | Q1 2024

Delayed weakness in suburban markets will impact market recovery

▲ 9.5%
Vacancy Rate

▲ 1.0M
SF Net Absorption

▼ 1.6M
SF Under Construction

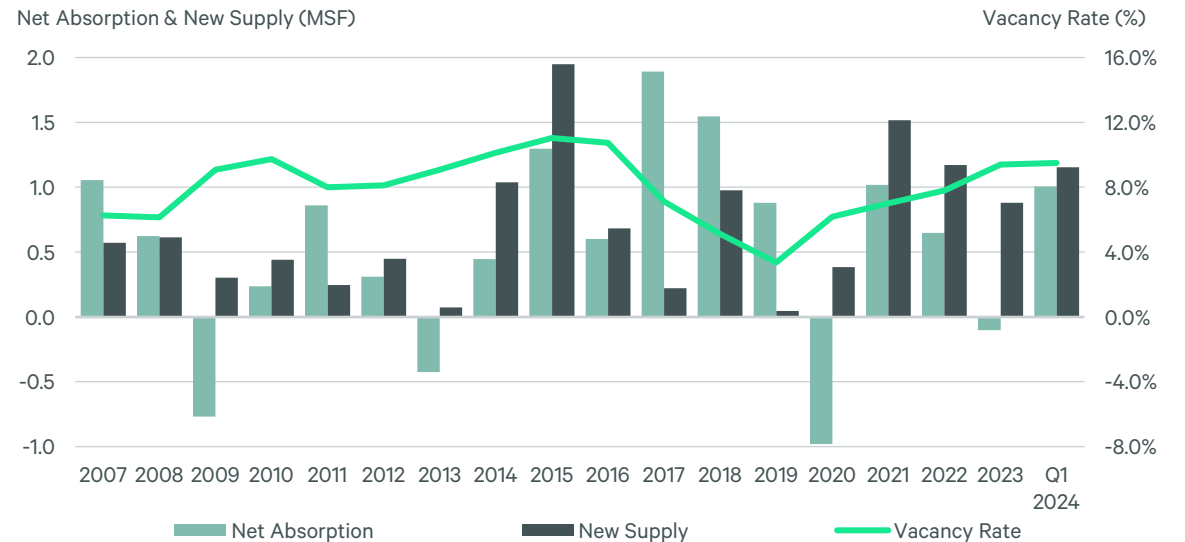
▲ \$34.60
PSF Avg. Asking Rental Rate

Note: Arrows indicate change from previous quarter.

Overview

- Metro Vancouver faces similar challenges to the national market: bifurcation between quality and commodity space, increasing capital costs for landlords in amenities and improvements, and a paused development cycle.
- The downtown construction cycle concluded with the recent delivery of 1.2 million sq. ft. 90% of this new supply has been committed to, resulting in a negligible impact to overall vacancy due to high pre-leasing activity.
- Overall vacancy for Metro Vancouver sits at 9.5%, just 10 basis points (bps) higher than last quarter. Downtown vacancy is expected to drop over the next few years with no new supply on the horizon.
- The suburban markets are experiencing an influx of sublease supply coupled with the expected delivery of about 1.6 million sq. ft., of which only 35.2% has been pre-leased.
- A large share of recent leasing activity has included renewals with limited new entrants to the market as tenants are downsizing area but upgrading quality; however, tenant demand remains modest, particularly the traditional Vancouver tenants: business services, FIRE, and technology.

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



Source: CBRE Research, Q1 2024.

The Paused Construction Cycle

The downtown construction cycle concluded with three project completions in Q1 2024, delivering 1.2 million sq. ft. that is 90% leased. The remaining 115,000 sq. ft. of vacant space has had a negligible effect on overall vacancy due to high pre-leasing activity. Following a period of significant downtown development, the next potential addition to supply is 2028, meaning that inventory will be fixed for a number of years. With no new supply to support strong absorption seen in the past few years, activity is expected to moderate. The suburban pipeline remains on track to deliver 1.6 million sq. ft. between now and 2025, with no new major project launches to note beyond this. While active projects continue to be built on spec, some developments are expected to remain on hold at least until lead tenants are secured.

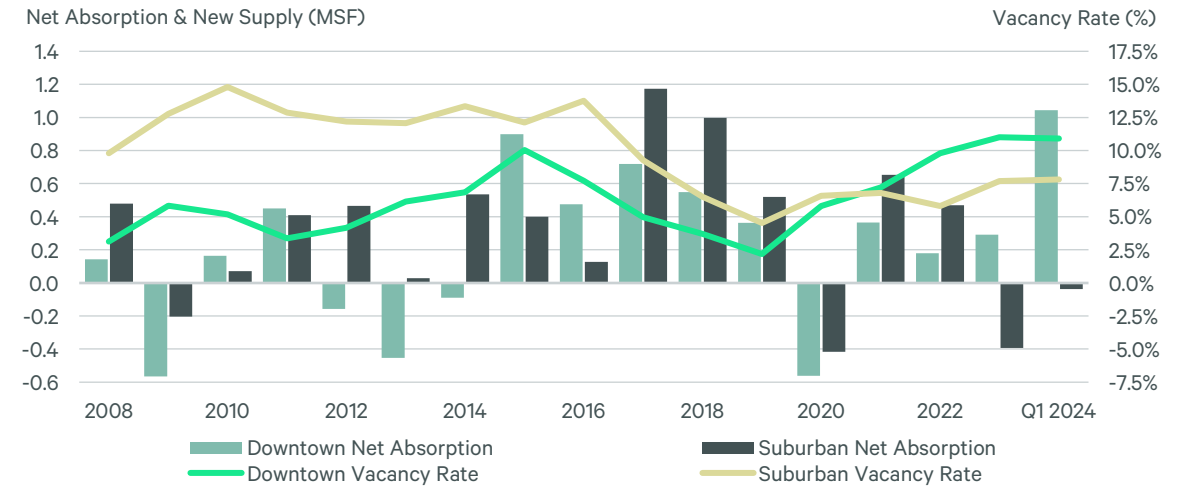
The Future of Vacancy Expectations

Overall vacancy sits at 9.5%, just 10 bps higher than last quarter. The recent introduction of multiple large blocks of space brought about 373,000 sq. ft. of vacant space to the market in Q1, with 60.8% of those vacancies available on a headlease basis. Aside from new lease opportunities added to the office inventory, there are additional lease expiries including Fluor at 1075 West Georgia and 1185 West Georgia, that pressure vacancy.

Currently, downtown availability is 13.6% of total inventory, of which 3.0 million sq. ft., or 10.9%, is currently vacant. Without substantial new leasing activity, the originally predicted vacancy decline could take longer than anticipated. Second-generation space will pose a challenge for landlords. This continued shift to quality is affecting the lease-ability of generic office space and buildings with little view or tenant amenities. However, considering the fixed supply fundamentals and steady tenant demand, a forecasted downward trend between 2025-2027 is still realistic.

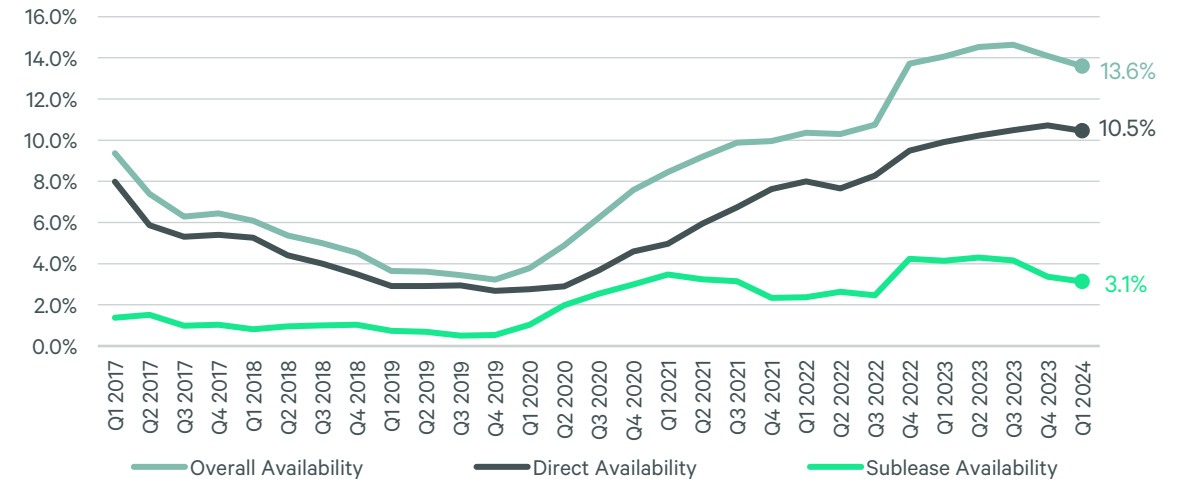
The suburban markets have experienced negative absorption over the last two quarters, pushing overall vacancy to 7.8%. The addition of a few substantially sized subleases in Burnaby and Richmond coupled with the expectation of new supply to deliver partially vacant adds to the conclusion that suburban vacancy will continue to rise until demand restores.

FIGURE 2: Regional Supply & Demand



Source: CBRE Research, Q1 2024.

FIGURE 3: Downtown Availability Rate (%)



Source: CBRE Research, Q1 2024.

Sublease Market Saturated with Options

Overall sublease vacancy fell for the second quarter in a row to 2.3%, reaching 1.2 million sq. ft. of total market inventory. This decline was driven by the downtown core, noting 120,000 sq. ft. of total subleasing activity and a limited number of new listings added. Despite a minor decline in vacancy from the last quarter, market health may not be as strong as perceived, with challenges regarding the substantial amount of sublease inventory which has sat latent on the market for several quarters now.

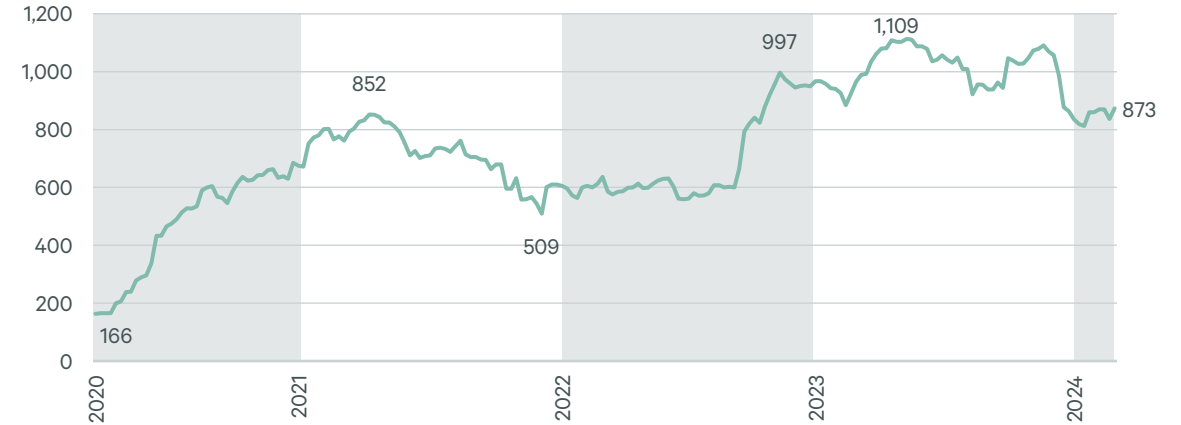
From now until the end of 2025, 250,000 sq. ft. of sublease space downtown could return to market on a head lease basis upon expiry. From 2026 to 2029, there is another 477,000 sq. ft. expected, posing further difficulties for office landlords. The sublease market is mostly comprised of spaces in Class AAA/A inventory, providing the last opportunities for reasonably priced, premium move-in ready space. Most sublease space added in Q1 was outside of the core, and right now, the largest subleases on the market by industry are technology, gaming, and healthcare.

Suburban Market Struggles

Lack of activity in the suburban markets has pushed overall vacancy up, closing the gap existing since Q3 2021 between core and non-core markets. We believe that large blocks of sublease space are coming to the Broadway Corridor, Burnaby, and Richmond, which will impact suburban availability further. VFX, animation, and technology tenants are being impacted heavily with shrinking footprints outside the core and cost containment measures.

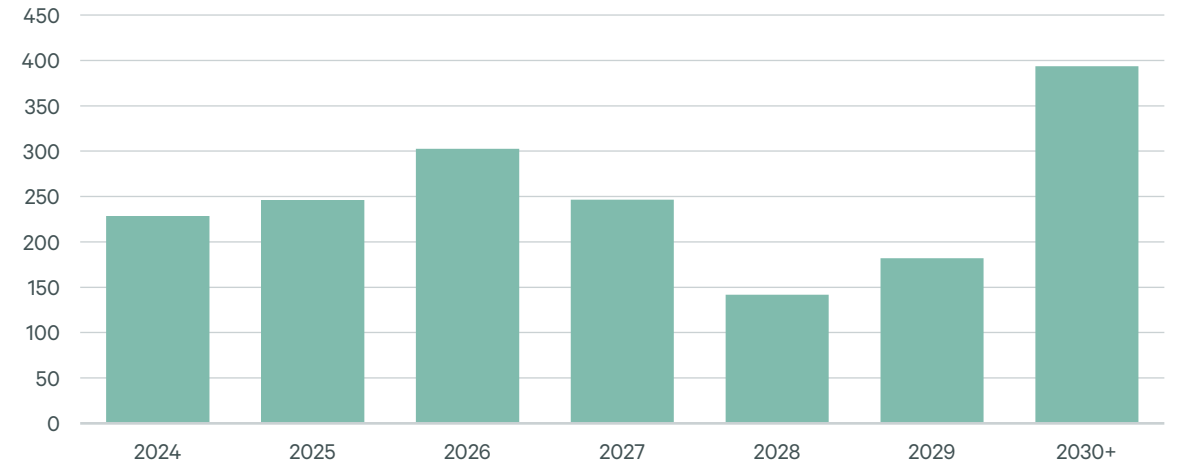
The construction pipeline is experiencing a lack of substantial pre-leasing activity, adding to the expected continuation of vacancy increase. Despite the appeal that non-core markets provide, especially along the Broadway/Mt. Pleasant submarket, the trend to consolidate operations to a smaller footprint or relocate to downtown, adds to the current challenges being faced. Nonetheless, tenant demand continues particularly along Broadway/Mt. Pleasant, with cost and proximity being major decision factors.

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



Note: Sublease availabilities above contain no restrictions surrounding occupancy dates.
Source: CBRE Research, Q1 2024.

FIGURE 5: Metro Vancouver Sublease Availability by Expiry (000s SF)



Source: CBRE Research, Q1 2024.

Leasing Activity and What’s Driving Demand

Demand is expected to moderate in the short term as the market absorbs new supply and faces competition from the pending reintroduction of second-generation space. It is a tenant’s market in terms of securing favourable terms on a long-term deal. In the interim, flexibility on face rates and financial incentives such as tenant inducements will continue to be necessary for landlords to compete with the bloat of affordable sublease space available. Quality supply should continue to absorb with tenants as demand remains for Class AAA/A space, considering almost 90% of inventory built since 2020 is now committed to.

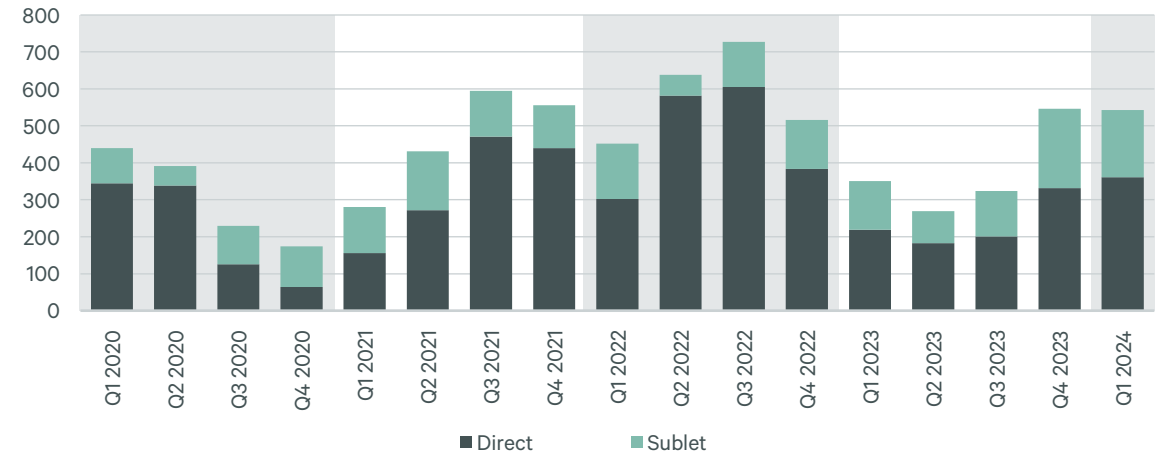
With a few renewals encompassing a major portion of the gross leasing activity, there is still activity on full floors in Class AAA/A inventory downtown. Despite no new major occupiers to enter the market recently, demand still exists, with a total of about 360,000 sq. ft. and 250,000 sq. ft. in downtown and Broadway/Mt. Pleasant respectively, worth of tenants currently in the market for space. Current tenant demand encompasses a variety of industries including business services, FIRE, and technology.

Availability Trends

Availability paints a bigger picture of the direction the market is heading. There is about 3.8 million sq. ft., or 13.6% of space available downtown, and 3.0 million sq. ft. of it is vacant. This leaves about 737,000 sq. ft. of marketed upcoming vacancies between now and the end of 2025. Full floor availabilities account for most of the space in the market, about 2.2 million sq. ft. in total. Since the start of March 2023, full floor head lease options have increased 13.6% by total sq. ft., while total subleases experienced a 15.0% decline by total sq. ft.

The suburban markets are experiencing a similar gap, noting 2.5 million sq. ft. or 10.0% availability, versus 7.8% vacancy. As upcoming lease expiries approach and spaces are left vacant by tenant movements, one could expect availability to remain elevated until the market regulates.

FIGURE 6: Downtown Gross Leasing Activity (000s SF)



Source: CBRE Research, Q1 2024.

FIGURE 7: Notable Metro Vancouver Lease Transactions

Size (SF)	Tenant	Address	Submarket	Industry	Deal Type
90,550	LMI Technologies	9200 Glenlyon Parkway	Burnaby	Technology	Renewal
53,436	RBC	200 Burrard Street	CBD	FIRE	Renewal
36,797	Kiewit	4350 Still Creek Drive	Burnaby	Manufacturing/ Transportation	Renewal
35,751	CONFIDENTIAL	2665 East Mall	Broadway Corridor	Life Sciences	Direct
34,674	Polygon Homes	1333 W Broadway	Broadway Corridor	Real Estate	Renewal

Source: CBRE Research, Q1 2024.

FIGURE 8a: Vancouver Office Market Statistics

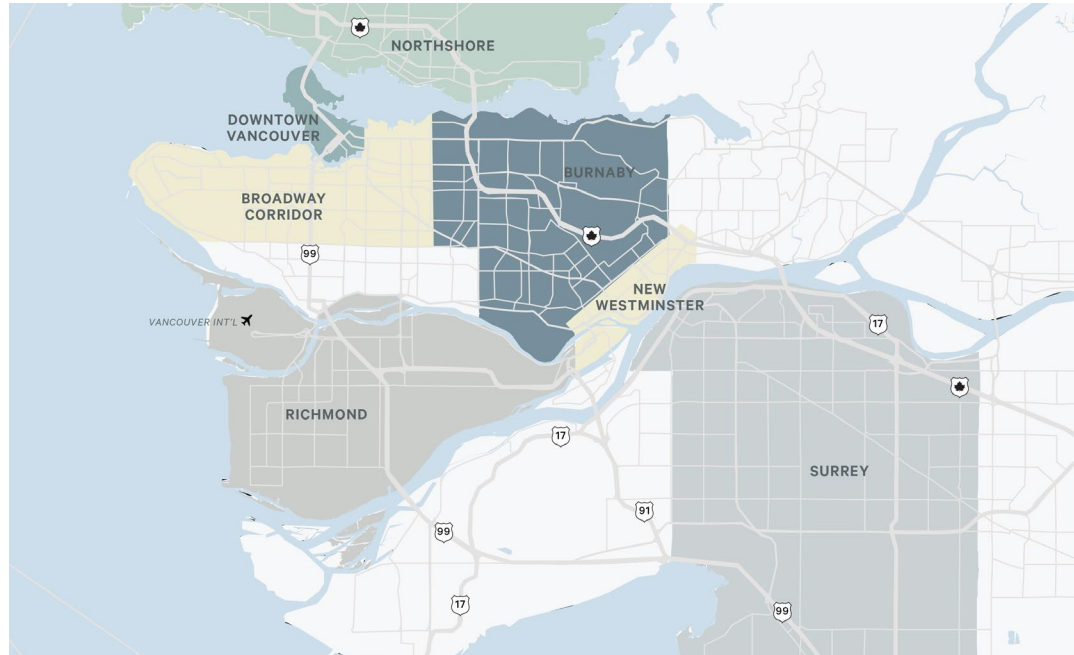
	Class	Total Buildings	Inventory (SF)	Vacancy Rate (%)	Net Absorption (SF)	YTD Net Absorption (SF)	New Supply (SF)	Under Construction (SF)	Net Asking Rent (PSF)	T&O (PSF)
Downtown Vancouver	AAA	22	8,726,910	10.2%	1,071,875	1,071,875	1,102,000	-	\$50.97	\$26.27
	A	39	7,815,062	10.1%	-15,566	-15,566	51,561	-	\$41.73	\$25.14
	B	54	6,795,940	12.9%	34,042	34,042	-	-	\$33.86	\$23.60
	C	79	4,458,890	10.9%	-47,084	-47,084	-	-	\$24.20	\$19.04
	TOTAL	194	27,796,802	10.9%	1,043,267	1,043,267	1,153,561	-	\$38.45	\$23.84
Broadway Corridor	AAA	12	1,262,714	2.5%	0	0	-	327,487	\$35.24	\$22.05
	A	29	1,861,558	5.2%	-895	-895	-	457,461	\$35.47	\$22.32
	B	34	1,686,154	13.5%	5,245	5,245	-	-	\$30.44	\$20.00
	C	38	849,886	6.2%	0	0	-	-	\$26.30	\$16.14
	TOTAL	113	5,660,312	7.2%	4,350	4,350	-	784,948	\$31.57	\$20.28
Burnaby	AAA	13	2,412,466	13.2%	-39,322	-39,322	-	218,350	\$33.43	\$19.54
	A	27	2,441,662	9.9%	21,933	21,933	-	397,493	\$32.62	\$19.45
	B	38	3,151,973	8.8%	-13,588	-13,588	-	-	\$25.05	\$17.44
	C	22	864,679	1.6%	0	0	-	-	\$22.00	\$18.89
	TOTAL	100	8,870,780	9.6%	-30,977	-30,977	-	615,843	\$29.70	\$18.66
Richmond	AAA	21	1,776,082	10.9%	-22,945	-22,945	-	198,294	\$20.23	\$13.94
	A	24	1,567,642	8.6%	-51,757	-51,757	-	-	\$19.08	\$12.29
	B	19	526,886	20.8%	-2,052	-2,052	-	-	\$16.75	\$17.15
	C	7	199,849	2.0%	0	0	-	-	\$14.00	\$12.64
	TOTAL	71	4,070,459	10.9%	-76,754	-76,754	-	198,294	\$18.56	\$14.75

Source: CBRE Research, Q1 2024.

FIGURE 8b: 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	2.0%	12,077	12,077	-	-	\$26.49	\$19.63
	B		17	752,877	2.2%	1,267	1,267	-	-	\$20.57	\$9.89
	C		11	236,929	0.0%	2,483	2,483	-	-	\$22.00	\$16.00
	TOTAL		42	1,810,847	1.8%	15,827	15,827	-	-	\$23.29	\$14.36
	Surrey	A		20	2,177,508	4.3%	45,562	45,562	-	-	\$31.31
B			21	807,730	7.4%	7,816	7,816	-	-	\$23.93	\$14.41
C			13	253,403	0.0%	0	0	-	-	\$18.00	\$12.97
TOTAL			54	3,238,641	4.7%	53,378	53,378	-	-	\$28.19	\$14.74
New Westminister	A		8	635,394	6.7%	-3,163	-3,163	-	-	\$27.04	\$17.95
	B		14	615,296	4.4%	0	0	-	-	\$23.90	\$15.27
	C		10	275,766	3.6%	0	0	-	-	\$14.00	\$25.22
	TOTAL		32	1,526,456	5.2%	-3,163	-3,163	-	-	\$24.39	\$18.08
Total Suburban	AAA		46	5,451,262	10.0%	-62,267	-62,267	-	744,131	\$28.91	\$17.80
	A		122	9,504,805	6.6%	23,757	23,757	-	854,954	\$30.08	\$17.93
	B		143	7,540,916	9.5%	-1,312	-1,312	-	-	\$24.39	\$16.88
	C		101	2,680,512	3.0%	2,483	2,483	-	-	\$20.08	\$16.74
	TOTAL		412	25,177,495	7.8%	-37,339	-37,339	-	1,599,085	\$26.88	\$17.39
Metro Vancouver	AAA		68	14,178,172	10.1%	1,009,608	1,009,608	1,102,000	744,131	\$43.64	\$23.45
	A		161	17,319,867	8.2%	8,191	8,191	51,561	854,954	\$37.86	\$22.74
	B		197	14,336,856	11.1%	32,730	32,730	-	-	\$30.71	\$21.37
	C		180	7,139,402	7.9%	-44,601	-44,601	-	-	\$22.83	\$18.28
	TOTAL		606	52,974,297	9.5%	1,005,928	1,005,928	1,153,561	1,599,085	\$34.60	\$21.70

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 in existing inventory. **Full floor:** a floor over 8,000 sq. ft.

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

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

For media related inquiries:

Carly Clements

Marketing Manager
carly.clements@cbre.com

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