

METRO VANCOUVER OFFICE REPORT

Q2 2019

NAICommercial

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The challenge is clear: *securing a new lease at an affordable rate is difficult*. Leverage in negotiation is derived from having options, and the lack of opportunities means tenants must often accept the asking rate or risk being beaten out by the competition.

On the other hand, a unique opportunity is available to businesses that need to downsize or relocate out of Vancouver. If this is the case, and you have term left on your lease, there is a good chance that your remaining lease obligation is no longer a significant liability. Traditionally, sublease rents are discounted substantially due to factors such as the fixed term, the lack of a legal option for renewal, and the risk of the Sublandlord defaulting. In Vancouver, rents have climbed significantly due to low vacancy, and a lease negotiated in the past is often below the current market rate.

Conventionally, we estimated a 50% recovery of rents/expenses on a sublease. Today, the competition for available space (including subleases) has allowed us to achieve recoveries above 90% in some instances, with some Subtenants also offering to purchase furniture to make the deal more attractive to the Sublandlord.

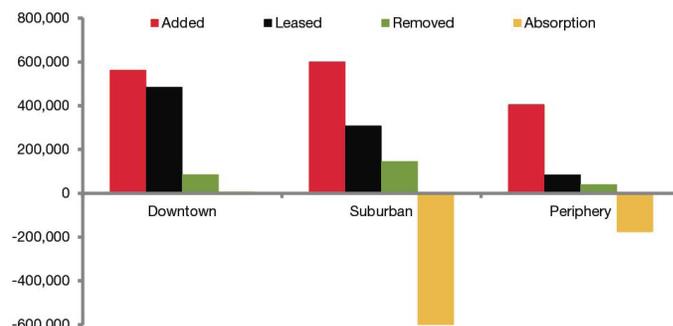
Landlords realize that older leases are disconnected from current rates, which has allowed us to facilitate lease terminations in several of our most recent subleasing assignments, minimizing our clients' expenditures and eliminating their lease liability.

Comparatively, tenants looking to expand, face a new challenge. Previously, if a Landlord could accommodate your request, tenants could exchange spaces within the portfolio if they paid the new market rent and leased a larger area. In the current market, Landlords may only allow expansion on the basis that tenants remain liable for both their current lease as well as the lease for their expansion premises. As such, expansion may present additional costs and risks that increase complexity and liability for tenants.

NAI Commercial enjoys helping our clients navigate expanding or downsizing in this tight office market by negotiating with Landlords and marketing sublease premises. For example, we canvass specific buildings to connect with neighbouring tenants who want to give up or take over space so our clients can make the most beneficial leasing decision.

If you are curious about your options, please contact us to learn how we can facilitate an expansion, contraction, or lease termination. We are happy to review your lease and current situation to provide an actionable plan to accomplish the desired goal for your firm.

Q2 2019 Absorption



Downtown Snapshot

The downtown vacancy has dropped further to 3.5%. 165 new spaces totalling 563,349 SF were added. Leasing activity saw a slight uptake, with 150 transactions occurring for a total of 485,488 SF. 24 spaces were taken off the market for a total of 85,861 SF, providing virtually no absorption for the quarter.

Class	Availability Rate Q2(%)	Availability Rate Q1(%)	Inventory Size (SF)	Area Available (SF)
A	3.20%	3.30%	15,644,316	500,618
B	2.60%	3.30%	6,866,149	178,520
C	6.20%	6.80%	3,451,978	213,982

Beyond the rumours discussed earlier, there were several significant transactions that occurred in the last quarter.

Significant Transactions

Some key transactions in the quarter include:

- ▶ **B2Gold** committed to 37,000 SF in 753 Seymour St
- ▶ **Iqbit** committed to 15,000 SF at 1285 West Pender St
- ▶ **First Coin Capital** leased 8,000 SF at 208 Robson St
- ▶ **Harvest One** committed to 7,000 SF at 1066 West Hastings St
- ▶ **Sumitomo Metals** took 5,000 SF at 700 West Georgia St

Suburban Snapshot

Overall vacancy in the suburbs dropped again to 8.5% from just over 9% in the last quarter. 154 spaces totalling 601,280 SF were added, and 87 spaces totalling 308,508 SF leased. 26 spaces totalling 145,991 SF were taken off the market, resulting in negative absorption. Given this, we suspect in the next quarter we will see the same or perhaps a slightly higher vacancy rate.

Class	# of Buildings	Inventory Size (SF)	Total Availability Rate (%)
All office classes	372	24,265,412	8.50%
A	178	15,310,161	11.00%
B	138	6,936,035	4.30%
C	56	2,019,216	3.60%

Submarket	# of Buildings	Inventory Size (SF)	Total Availability Rate (%)
Burnaby	118	9,906,205	7.40%
Langley	4	140,944	12.30%
New Westminster	24	1,503,560	8.70%
North Shore	49	2,323,784	4.40%
Richmond	77	4,634,006	11.90%
Surrey	64	4,005,489	11.50%
Tri-Cities	11	559,052	2.20%

Significant Transactions

Significant transactions in the suburban areas include:

- ▶ **WeWork** hits the suburban market, taking 78,000 SF of space in 4567 Lougheed Highway.
- ▶ **Lafarge** expanded by 13,000 SF at 7455 132nd St, Surrey
- ▶ **Yorkville University** leased 24,300 SF at 611 Agnes St New Westminister
- ▶ **BC Housing** took 11,000 SF in 4555 Kingsway, Burnaby
- ▶ **Advesa Digital** leased 6,000 SF at 4601 Canada Way, Burnaby
- ▶ **Hanson Education** committed to 6,000 SF at 960 Quayside Dr, New Westminister
- ▶ **The Fraser Health Authority** leased 23,000 SF at 505 6th St, New Westminister
- ▶ **Virogin Biotech** took 16,000 SF at 13511 Commerce Pkwy, Richmond

Periphery Snapshot

In the periphery, overall vacancy increased from 2.8% to 4.0%. 65 spaces totalling 406,764 SF were added. 25 spaces totalling 84,185 SF were leased and six spaces totalling 39,940 SF were removed, resulting in negative absorption of 176,588 SF.

Class	# of Buildings	Inventory Size (SF)	Total Availability Rate (%)
All office classes	170	9,724,727	4.00%
A	69	5,576,511	1.20%
B	55	2,481,101	6.70%
C	46	1,667,115	9.40%

Significant Transactions

- ▶ **Klohn Crippen** expanded by 50,000 SF at 2955 Virtual Way, Vancouver
- ▶ **Ellis Mortgage** committed to 8,000 SF at 4710 Kingsway, Burnaby
- ▶ **Genevent Sciences** leased 14,000 SF at 887 Great Northern Way, Vancouver
- ▶ **Royal Pacific Realty** leased 10,000 SF at 1200 West 73rd Ave, Vancouver where the law firm **Chen & Leung** leased 7,000 SF.

NAI Commercial Office Team

NAI Commercial appreciates those landlords who have asked us to review and assist with their leasing program. For tenants who have engaged us to help with their office renewals and relocations, we remind you that we remain an interested party and are available to answer questions and concerns, even after your lease is signed.

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 Ken Kiers

We continue to appreciate the reminders and suggestions of agents to join our team. We have openings in both our Vancouver and Langley office and we welcome the referrals of agents and teams looking to enhance their career in commercial real estate that may be a good fit for our firm.

