

NAICommercial

2018 Metro Vancouver Q3 Office Report



VANCOUVER OFFICE MARKET REPORT

Welcome to our office market report for October 2018. Although we're enjoying a terrific month for sports, this year we've focused the outcome of other "competitions"; the civic election which took place on October 20th and the referendum on electoral reform occurring between October 22nd to November 30th.

The local mayoral race was interesting, with an unusually high number of independent candidates. In total, twenty-one candidates were allowed to run, with some notably ridiculous options. In the end, it was clearly a three-person race. Kennedy Stewart, running as an independent, won with 28.7% of the vote, Ken Sim for the NPA was the runner-up with 28.2% of the vote, while Shauna Sylvester, also running as an independent, garnered 20.4% of the vote totalling 77.3% of the total turnout. Eleven candidates who ran achieved only 2.40% of the vote once combined. As some universities require at least 100 signatures to allow candidates to run for president, the city could consider such as a way to reduce these unnecessary candidates. Hopefully, the new council at city hall, which is made up of an Independent Mayor, three Green party members, five NPA members, a Cope member, and a One City member, will focus on fiscal responsibility and the reducing inefficiencies at City Hall. The new council replaces Vision, who held seven of the eleven council positions since 2014.

With a campaign which has focused on affordable housing it is interesting to note the CD Howe Commentary No. 513 states: "In Vancouver, the cost of housing restrictions is by far the largest in Canada and ranks among the largest internationally at \$600,000 per new home." In our industry, permitting has never taken longer, and the City continues to charge higher fees associated with development. Hopefully, the council can focus on reducing fees and shortening development timelines, which will reduce the costs that are shifted to the consumer.

As we shift from civic politics, we move into the debate of proportional representation. We want to ensure that we carefully consider our options before replacing an effective voting system with a yet to be defined proportional representation system.

The NDP / Green government backs the referendum on proportional representation. Vaughn Palmers' recent article on the subject discusses David Eby's influence on this decision and highlights some of the risks our democratic process faces with this referendum: <https://vancouver.sun.com/opinion/columnists/vaughn-palmer-leap-of-faith-with-horgan-on-electoral-reform-has-dark-side-for-voters>.

Those who have studied the topic know that the proportional representation has not been defined and fear a move away from the current electoral system will support weak coalition governments. It seems to be an opportunistic move to cement the future of the Green Party and other fringe parties for a disproportionate say in parliament and explains why Andrew Weaver forced the issue as part of

Quarterly Vacancy Rates

Downtown
Q2 2018: 4.6%
Q3 2018: 4.2%

-9.50%

Vancouver Suburban
Q2 2018: 10.7%
Q3 2018: 9.4%

-12.15%

Vancouver Periphery
Q2 2018: 5.7%
Q3 2018: 4.0%

-30.00%

Yearly Vacancy Rates

Vancouver Downtown
Q3 2017: 7.1%
Q3 2018: 4.2%

-41.00%

Vancouver Suburban
Q3 2017: 12.9%
Q3 2018: 9.4%

-27.13%

Vancouver Periphery
Q3 2017: 8.2%
Q3 2018: 4.0%

-51.22%

	Vacancy Rate Q2	Vacancy Rate Q3	% change from previous Quarter	Spaces Added Q2 2018	Spaces Added Q3 2018	% Change from Previous Quarter	Spaces Leased Q2 2018	Spaces Leased Q3 2018	Total Area Leased	Number of Spaces Removed Q2 2018	Number of Spaces Removed Q3 2018	Total Number of Spaces Removed	Absorption for the Quarter
Vancouver Downtown	4.60%	4.20%	-8.70%	137	88	-35.77%	169	88	433,663	13	3	182	-81,181
Vancouver Suburban	10.70%	9.40%	-12.15%	290	90	-68.97%	89	90	478,409	23	17	112	-176,964
Vancouver Periphery	5.70%	4.00%	-29.82%	31	38	22.58%	32	38	205,122	7	4	39	121,440

Total

-136705

Statistics provided by Altus Insite

his deal to form the coalition with the NDP. Continue to educate yourself on the topic and be mindful of the current government's reasoning and motivation for changing an electoral process that has built British Columbia. Hopefully, we can move forward with a stable defined electoral system.

For an excellent overview of what is being proposed, Sam Sullivan has created an educational video that you can view below. Additionally, Lydia Miljan's article was interesting and states that "the research is clear-a move from the current first-past-the post electoral system to a proportional system would likely increase both government spending and deficits in B.C."

<https://vancouver.sun.com/opinion/op-ed/lydia-miljan-the-costs-of-changing-the-way-british-columbians-vote>

OFFICE MARKET

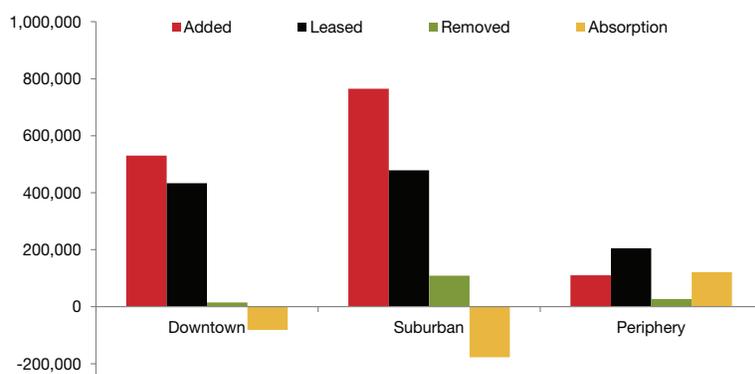
Vancouver's office market has been stable with tenants ranging in size from 2,000 SF to 6,000 SF traditionally forming the basis of our office market. Q3 has demonstrated something new and features larger tenants making commitments for future developments. The overall vacancy rate is 4.00% downtown, but "AAA" rated space has only 3.40% vacancy, whereas a healthy competitive leasing market may have a vacancy rate of 8% to 10%.

Earlier in the year, we shared our report on upcoming developments in downtown Vancouver. While we eagerly await the new buildings and designs; anchor tenants are signing leases. Amazon's absorbed the remaining vacancy at The Exchange after having committed to the expansion space being built at 401 West Georgia Street and the future development at 349 West Georgia Street. In summary, they are committing to approximately 650,000 SF of future space downtown, not to mention their commitment for their new 450,000 SF industrial fulfillment centre at Delta Import. Their commitment has been phenomenal and the only new tenant rivalling this sort of presence is WeWork, who have accommodated Amazon while they grow.

Given the delay in new "AAA" space being delivered for larger tenants - we have created a report of full floor office space for larger clients. We found less than 20 full floor spaces available downtown. Large technology firms have claimed many of these spaces, particularly in newer buildings. As outlined in our snapshot - both Amazon and WeWork continue to lay claim to large amounts of space in the core downtown area. Traditional firms such as Blakes, EY, and Deloitte have also announced tenancies in upcoming developments. As such, we anticipate a vacuum of full floor space left in Vancouver's older "AAA" and "A" buildings. These "shadow vacancies" represent additional space that is not yet marketed but will come available in the future.

If you are in the market for full floor space and want to ensure you're receiving comprehensive coverage, please contact us to receive a complementary survey of all available opportunities.

Q3 2018 Absorption



Downtown Snapshot

Downtown market vacancy dropped for the 8th consecutive quarter, falling to 4.20%.

Class	Availability Rate Q4 (%)	Availability Rate Q1 (%)	Inventory Size (SF)	Area Available (SF)
A	4.2	3.30	15,446,416	509,732
B	4.5	5.00	6,836,526	341,826
C	6.8	7.60	3,340,621	253,887

Absorption for the quarter appears negative at 81,181 SF as new product came online to lease. As such, 88 spaces totalling 530,008 SF were added, 92 spaces totalling 433,663 SF were leased and three spaces totalling 15,164 SF were removed from inventory.

Significant Transactions

There were some significant transactions in quarter 3.

- ▶ Amazon committed to the balance of the space at The Exchange (475 Howe Street)
- ▶ Mastercard Technologies eased 40,000 SF at The Exchange
- ▶ Spaces took 12,000 SF on the lower floor of the Hastings Building (1199 West Hastings Street)
- ▶ Kabam committed to floors 7 through 13 in Vancouver Centre II at 753 Seymour Street, totalling over 100,000 SF
- ▶ DLA Piper and EY both committed to around 60,000 SF each at 1133 Melville Street where they will join Blakes
- ▶ WeWork continued to expand their reach and leased seven floors at 333 Seymour Street
- ▶ Burgess and Cawley Sullivan committed to 11,000 SF at 1050 West Pender Street
- ▶ Bennet Jones leased 34,000 SF at 666 Burrard Street
- ▶ Fluor leased 20,000 SF at 1185 West Georgia Street

- ▶ Spaces and Deloitte have leased the majority of premises at 400 West Georgia Street
- ▶ Grow Technologies took 15,000 SF at 1285 West Pender Street
- ▶ Richardson GMP leased 33,000 SF at 1066 West Hastings Street

Suburban Snapshot

After a small increase in availability last quarter, vacancy in the suburban areas of Vancouver dropped once again to 9.40%. 90 new spaces totalling 650,650 SF were added, and 93 spaces totalling 478,409 SF were leased. Finally, 23 spaces totalling 109,190 SF were taken off the market. Absorption in the suburban market was once again negative at - 63,051 SF. The average size of leased space was 5,144 SF.

Class	# of Buildings	Inventory Size (SF)	Total Availability Rate (%)
All office classes	347	23,307,464	9.40%
A	179	15,336,052	10.70%
B	122	6,188,651	8.00%
C	46	1,782,761	3.20%

Class	# of Buildings	Inventory Size (SF)	Total Availability Rate (%)
Burnaby	118	9,953,001	7.40%
Langley	4	140,944	15.30%
New Westminster	20	1,327,488	13.90%
North Shore	39	1,989,402	5.70%
Richmond	77	4,654,452	8.90%
Surrey	55	3,567,570	17.10%
Tri-Cities	13	590,346	6.60%

Significant Transactions

The average transaction size in the suburbs was around 5,000 SF. The most significant transactions reported were:

- ▶ The Immigrant Services Society of BC taking almost 15,000 SF at 10334 152a Street, Surrey
- ▶ Financial CAD Corp committed to 19,000 SF at 13450 102nd Avenue, Surrey
- ▶ Century Group Lands leased 16,000 SF at 11 8th Street, New Westminster

Periphery Snapshot

Vacancy dropped significantly in the periphery – almost 30% from 5.7% to 4.00%. 38 spaces totalling 216,066 SF were

added, 38 spaces totalling 205,122 SF were leased and four spaces totalling 26,886 SF were removed.

Absorption for the quarter was positive at 15,942 SF.

Class	# of Buildings	Inventory Size (SF)	Total Availability Rate (%)
All office classes	146	8,517,390	4.00%
A	66	5,338,139	4.00%
B	49	2,194,907	3.70%
C	31	984,344	4.70%

Significant Transactions

The most significant leasing activity occurred at the Marine Gateway complex.

- ▶ WeWork expanded its influence beyond the downtown core by committing to three floors (at Marine Gateway). The City of Vancouver took two floors, and RBC took two floors.
- ▶ WeWork also expanded by 43,000 SF at 2015 Main Street
- ▶ Axiom Zen committed to 20,000 SF at 565 Great

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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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.

