

**METRO VANCOUVER OFFICE REPORT**



# METRO VANCOUVER OFFICE MARKET REPORT

We review Q4 with tempered expectations following an unusual Q3 where we were able to report major commitments by companies such as Amazon, Mastercard, EY, Bennet Jones, Deloitte, Apple and DLA Piper. It is easy to think this could be a trend, which could lead to landlords asking what happened to all the action as we return to normalcy. Our readers are likely aware of the dramatic shift that occurred in Metro Vancouver's residential market as sales hit a near 20 year low and buyers await a price drop. Heavy taxes on foreign investment and growing consumer anticipation of a global recession have many residential sellers struggling to move their property. This has been a dramatic shift from the wild run we've had leading up to this point. To begin to understand the shift on the commercial side, we will look back at Q4 2017 and compare it to Q4 2018.

## Downtown Snapshot (Yearly)

Class	Vacancy Rate Q4 2017 (%)	Vacancy Rate Q4 2018 (%)	Vacancy Rate Q4'18 VS Q4'17 (%)
A	5.80	3.00	-48.28
B	7.40	4.40	-40.54
C	11.50	6.10	-46.96
All Classes	6.4	3.8	

Class	Inventory Size (SF) Q4 2017	Inventory Size (SF) Q4 2018
A	14,579,359	15,446,416
B	5,375,033	6,765,229
C	2,176,955	3,336,329

## Downtown Q4 2018 versus Q4 2017

The vacancy rate across downtown fell from 6.4% to 3.8%, and the inventory increased to 25,547,974 SF from the total of 22,131,347 SF at the end of 2017. More interestingly, class A vacancy rate at the end of 2017 was 5.8% on an inventory of 14,579,359 SF, meaning we had 845,602 SF of vacant A class space in downtown Vancouver. As we finished 2018, the Class A vacancy dropped to 3.0% on an increased inventory of 15,446,416 SF or 463,393 SF of vacant space. *The Vancouver office market is the tightest it has ever been.*

## How have things changed in 10-years?

Looking back to the last quarter inspired us to get a more historical view of how inventory and vacancy rates have changed in the last 10 years. The data (which we have attached to this report), pulled from Altus Insite, shows some fairly consistent trends throughout Metro Vancouver. Inventory grew by over 7,000,000 SF, with the majority of that growth taking place in downtown and suburban markets. The Vancouver periphery, especially the Broadway Corridor saw

	Vacancy Rate Q3 (%)	Vacancy Rate Q4 (%)	% change from previous Quarter	Spaces Added Q3 2018	Spaces Added Q4 2018	% Change from Previous Quarter	Spaces Leased Q2 2018	Spaces Leased Q3 2018	Total Area Leased	Number of Spaces Removed Q3 2018	Number of Spaces Q4 2018	Total Number of Spaces Removed	Absorption for the Quarter
Vancouver Downtown	4.20	3.80	-9.52	88	113	28.41	92	93	294,467	3	19	95	-539,456
Vancouver Suburban	9.40	7.70	-18.09	90	79	-12.22	93	79	364,571	17	37	110	-70,178
Vancouver Periphery	4.00	2.40	-40.00	38	29	-29.27	38	38	172,358	4	6	42	27,933

Total -581,701

Statistics provided by Altus Insite

## Quarterly Vacancy Rates

**Downtown**  
 Q3 2018: 4.20%  
 Q4 2018: 3.80%



**Vancouver Suburban**  
 Q3 2018: 9.40%  
 Q4 2018: 7.70%



**Vancouver Periphery**  
 Q3 2018: 4.00%  
 Q4 2018: 2.40%



## Yearly Vacancy Rates

**Vancouver Downtown**  
 Q4 2017: 6.70%  
 Q4 2018: 3.80%



**Vancouver Suburban**  
 Q4 2017: 11.70%  
 Q4 2018: 7.70%



**Vancouver Periphery**  
 Q4 2017: 6.30%  
 Q4 2018: 2.40%



marginal growth compared to other areas. Downtown Vancouver experienced a building boom in the mid-2010s, seeing nearly 2,000,000 SF added to the market but has since stagnated. Readers may remember our past report on upcoming developments in downtown, many of which will be coming online in the next 2-3 years. For those interested in those developments, we are happy to provide past reports and discuss the general development trends throughout the city.

In contrast to the steadily increasing inventory, we've noted that there has been a general *downward trend in vacancy rates*. This is clearest in downtown and the periphery, where we see historical lows of 3.9% and 2.4%. The vacancy rate for all of downtown is 5.2%, down from 6.7% in 2009. If we only look back 5 years, the trend is even more pronounced: The overall vacancy in 2014 was 11.4%.

**Tenants** should be mindful of these figures when they consider entering leases. Historically, low vacancy rates show that Vancouver continues to be a "landlord's market," where it is tougher for tenants to negotiate their leases. If you are actively in need of space, please reach out to us to discuss some of our recent successes in this tight market and learn how we can help you negotiate the best possible lease given current market conditions.

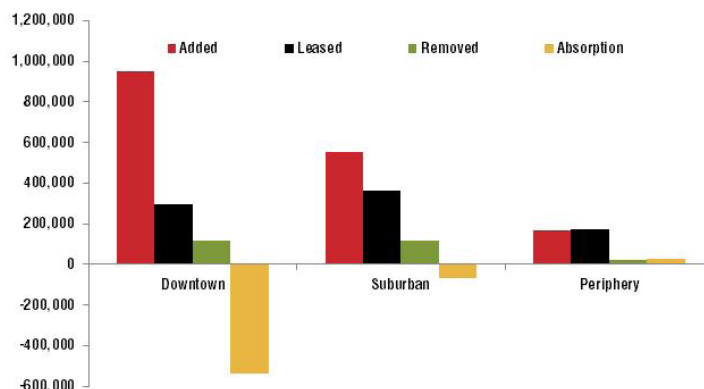
For **landlords**, market conditions indicate that your buildings should be doing well regardless of where they are in the city. If you are unhappy with the performance of your assets, please call us to discuss how we can help you take full advantage of this market and ensure your buildings are full.

### In the news

A significant focus in the news for the past quarter was the BC Electoral Reform regarding maintaining the current first-past-the-post voting system or changing to a new proportional representation (PR) system. The referendum was clear, with *61.3% voting to maintain the first-past-the post system* that has been successfully used in British Columbia. News regarding the referendum seems to have come and gone quickly, and the real estate community, investors and businesses seem pleased about the rejection of the PR system. The clear desire to continue with the first past the post system's stability was likely one of the most significant positive signals for the business community of BC in 2018.

In other political movements, we will be paying attention to the upcoming Nanaimo by-election on January 30, 2019 as departing NDP MLA Leonard Krog vacated his seat to serve as mayor of Nanaimo. The Green and NDP alliance currently holds 44 seats to the Liberal's 42 seats (43 seats before Darryl Plecas defected as the speaker). If the NDP lose Nanaimo to the Liberals, it will place the onus on the speaker to break the tie regarding legislation. Plecas is also the focus of an active recall campaign; he was voted in as a Liberal candidate only to abandon his constituents and secure power for the NDP/Green alliance. Sheila Malcomson of the NDP, Michael Ney of the Greens and Tony Harris of the Liberals now vie for the Nanaimo riding. We support Harris' bid, as we want to stop the new and increased taxes levied by the NDP that are negatively affecting investor confidence in our province. See the insert for a list of new and increased taxes the NDP have implemented since 2017.

## Q4 2018 Absorption



## Downtown Snapshot

The downtown Vancouver office market just completed a potentially historic run that saw significant corporate moves and a vacancy rate falling to 3.8% from 4.2%. In the fourth quarter, 113 new spaces were added downtown bringing on 949,938 SF of space being marketed (we caution that this includes the Post North for 550,000 SF) and 93 spaces were leased totalling 294,467 SF. There were however 19 spaces totalling 116,015 SF removed. Accounting for the addition of the Post North, the market was essentially neutral for existing inventory. The average size of space added to the market was 8,407 SF while 3,166 SF was removed. The class A space availability rate also shrunk again to 3.0% making securing quality space in Vancouver a continued challenge.

Class	Availability Rate Q4 (%)	Availability Rate Q3 (%)	Inventory Size (SF)	Area Available (SF)
A	3.3	3.00	15,446,416	463,392
B	5	4.40	6,765,229	297,670
C	7.6	6.10	3,336,329	203,516

## Significant Transactions

As to leasing activity, Q4 was quiet compared to Q3.

- ▶ The Government renewed at 1138 Meville St
- ▶ Richardson GMP leased 29,000 SF at 1055 West Hastings St, and MLT Aikins leased 16,000 SF at 1066 West Hastings St
- ▶ Methanex subleased 18,882 SF at 355 Burrard St
- ▶ Insight Global leased 12,000 SF at 609 Granville St
- ▶ Vanbex leased 10,000 SF at 860 Homer St
- ▶ The Ministry of Transportation 13,000 SF at 401 West Georgia St
- ▶ BDO committed to 43,000 SF at 1055 West Georgia St

# Suburban Snapshot

The suburban market finished the year with a vacancy rate of 7.7% down from 11.7% at the end of 2017, on an inventory of approximately 23,373,281 SF, showing an annual suburban absorption of 934,931 SF.

The suburban vacancy rate dropped again from 9.4% last quarter to 7.7%; however, there were 79 spaces added to the market totalling 551,164 SF and 79 spaces leased totalling 354,571 SF. 17 spaces totalling 116,415 SF were removed in the quarter for effective absorption of nil, on the quarter, but 937,931 SF on the year.

Class	# of Buildings	Inventory Size (SF)	Total Availability Rate (%)
All office classes	349	23,373,281	7.70
A	177	15,293,292	8.30
B	124	6,239,373	7.10
C	48	1,840,616	4.60

Class	# of Buildings	Inventory Size (SF)	Total Availability Rate (%)
Burnaby	118	9,952,963	7.60
Langley	4	140,944	4.50
New Westminster	20	1,391,355	10.90
North Shore	39	1,991,390	4.90
Richmond	77	4,654,452	8.80
Surrey	55	3,567,570	8.10
Tri-Cities	13	590,346	5.60

## Significant Transactions

On the transaction front;

- ▶ Parkland Fuels leased 53,000 SF at 2025 Willingdon Ave
- ▶ Hawkrige Systems leased 6,300 SF at 10271 Shellbridge Way while nearby, Arlo Technologies leased 28,000 SF at 10851 Shellbridge Way
- ▶ Sideways Holdings Inc., leased 105 SF at 3231 152<sup>nd</sup> St
- ▶ Electronic Arts expanded into 68,000 SF at 4260 Still Creek Dr

## Periphery Snapshot

The periphery market finished the year at 2.4% compared to Q4 2017 at 6.3% on an inventory of 8,188,297 SF accounting for about 319,000 SF of absorption on the year.

The periphery market, which is defined as 93 buildings in the Broadway Corridor and 57 buildings in outlying Vancouver, experienced a vacancy drop again to the lowest of the markets; 2.4% from a previous low of 4%. There were 41 spaces added totalling 166,983 SF and 38 spaces leased and 6 spaces removed totalling 194,916 SF putting more pressure on the vacancy rate.

Class	# of buildings	Inventory Size (SF)	Total Availability Rate (%)
All office classes	150	8,712,418	2.40
A	68	5,450,778	2.00
B	51	2,277,296	2.90
C	31	984,344	3.50

## Significant Transactions

The periphery saw an increase in interest with the pending development of Oakridge, which caused those tenants to hit the market to find suitable future locations.

- ▶ Primex Investments leased 6,000 SF at 1785 West 4<sup>th</sup> Ave
- ▶ Dexter Realty committed to 7,000 SF at 2608 Granville St
- ▶ Relic Entertainment committed to 47,000 SF at 285 West 5<sup>th</sup> Ave
- ▶ Copperleaf expanded by 20,000 SF at 2955 Virtual Way.

## 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.

### Vancouver Office:

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 Angie MacDonald  
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 Brian Larrivée  
 Ted Weibelzahl  
 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.



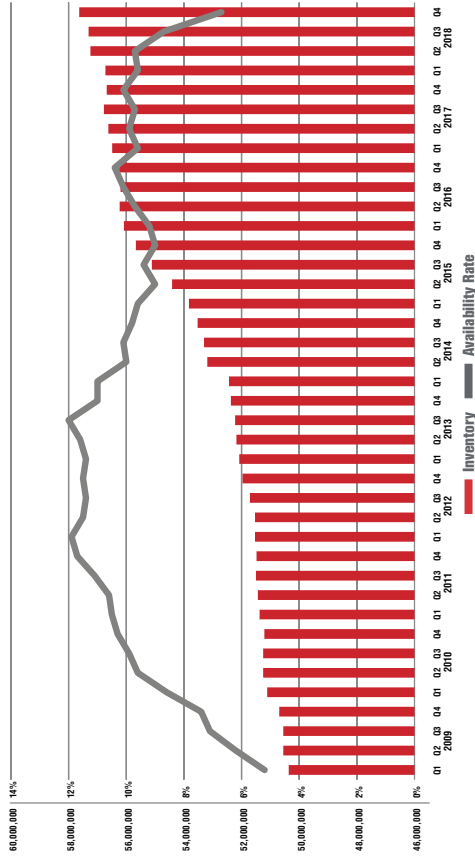
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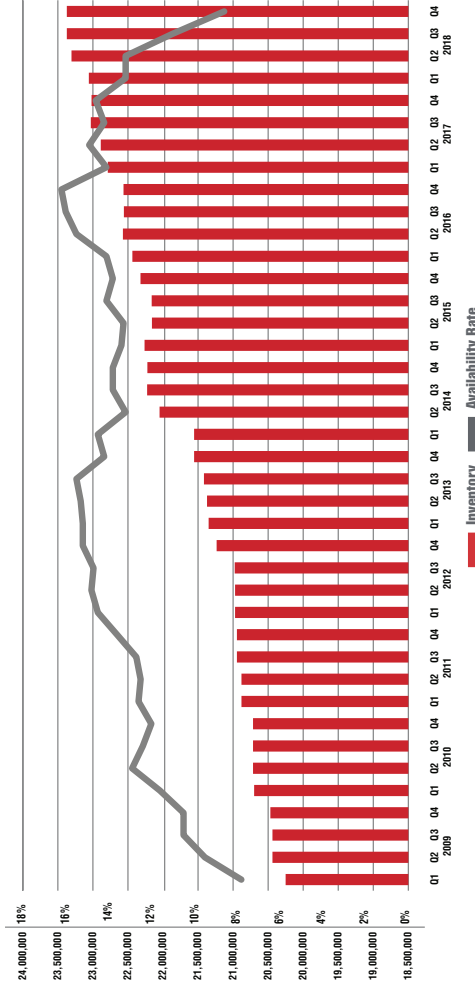
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# 10-Year Office Inventory and Vacancy Trends

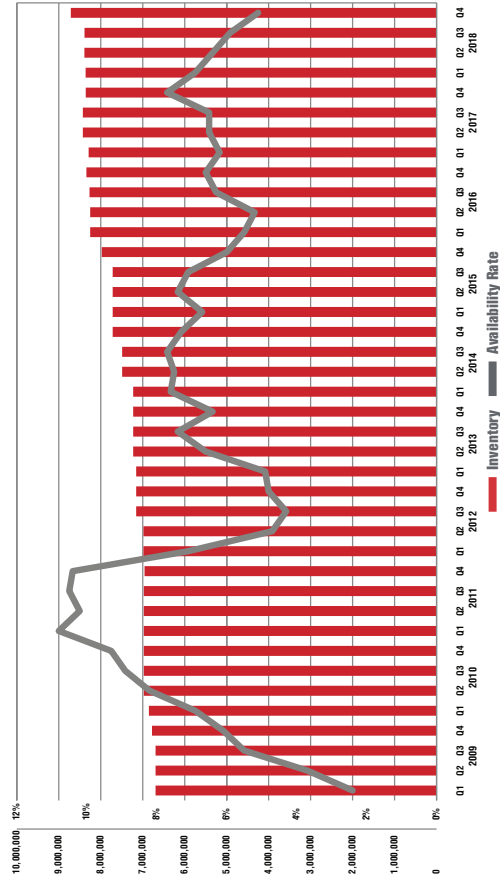
Greater Vancouver



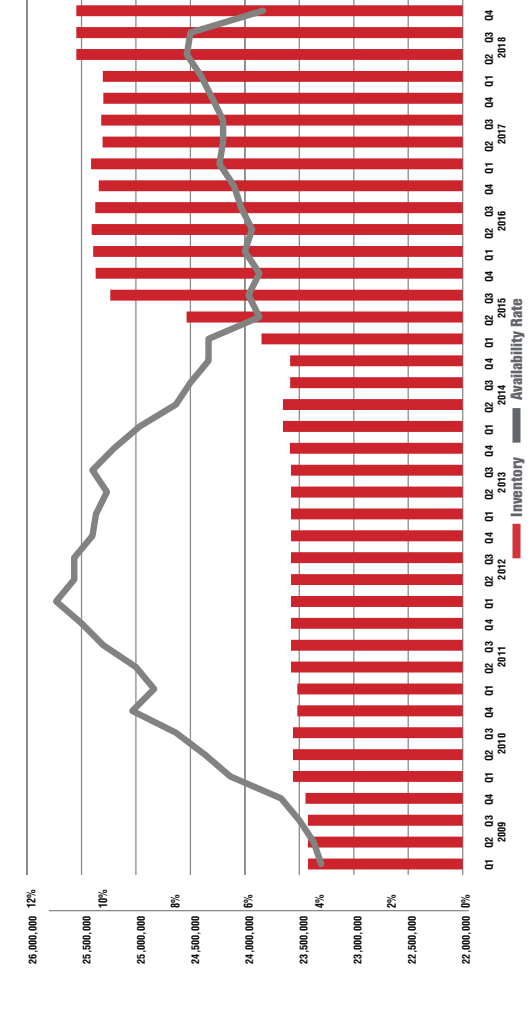
Downtown



Periphery



Suburban



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# New and Increased BC Taxes Implemented by NDP

Tax	Cost	New/Increase
1 Employer Health Tax	2.95% of payroll over \$500K 1.95% of all payroll if over \$1.5M	New
2 Victoria Gas Tax	+2.0cents/L	Increase
3 Vancouver Gas Tax	+1.5cents/L	Increase
4 AirBnB Tax	\$16M in revenue	New
5 Luxury Vehicle Tax	+5% on vehicles from \$125-\$150K	Increase
6 Tobacco Tax	+2.8%	Increase
7 PPT Surcharge	2% on top of the 3% rate	Increase
8 Foreign Buyers Tax	+5% (now 20%)	Increase
9 Additional School Tax	Surtax of .2% over 3M Surtax of .4 over 4M	New
10 Speculation Tax	2% for foreigners and for residents with a majority of international income; 0.5% for Canadians and BC residents with majority domestic income	New
11 Photo Radar	<i>Unspecified fines</i>	New
12 Carbon Tax	\$5/T, per year for 4 years	Increase
13 Parking Sales Tax(Translink)	+3% of 15cents/hr on \$5 parking	Increase
13.2 Development Cost Charges (Translink)	Single family dwelling unit - \$2,100 (\$2,975) Duplex/townhouse - \$1,900 (\$2,470) Apartment dwelling unit - \$1,200 (\$1,545) Retail/service - \$1.25/SF Office - \$1.00/SF Industrial - \$0.30/SF	Increase
13.3 Property Tax (Translink)	\$5.50 annual increase for an average household	Increase
14 Cannabis Tax	\$50M in 2018/2019 revenue	New
15 Income Tax	+2.1% on incomes over \$150K	Increase
16 Corporate Tax	General increase to 12%	Increase
17.1 ICBC Unlisted Driver Premium	\$50/YR	New
17.2 ICBC Learner Driver Premium	\$130-\$230/YR	New
18 BC Hydro Crisis Fund	25cents/MTH on hydro bill	New
19 Per-Trip Rideshare Fees	Fees TBD. Will fund admin costs for PTB and accessible taxis	New