

Q2 Metro Vancouver

OFFICE
MARKET
REPORT



Q2020

METRO VANCOUVER

Office Market Report | Q2 2020

Welcome to our Q2 2020 Metro Vancouver office report. We are halfway through what will be a memorable and interesting year. COVID-19 continues to dominate the news, and despite British Columbia excelling at flattening the curve, business is anything but back to normal. We noticed an increase in traffic, but it has not yet translated into increased occupancy in office towers, which seem to be running at 5% to 20% of their usual occupancy levels. Unfortunately, it appears that activity levels in Q3 will be similar to that of Q2, with office buildings and parking lots continuing to have low occupancy levels as people and the economy try to get back to work.

For the last quarter, if you are a landlord, you no doubt had to deal with rent relief, deferrals, rent collections, and now a plan to welcome your tenants back to their offices. As a tenant, you have struggled with staffing, remote work, and figuring out how you will pivot your business going forward. None of this was part of your 2020 strategic plan, and it leaves you questioning the future. At the start of the pandemic, you thought in weeks, now you certainly have shifted to thinking in months. Business is still taking place, and it will continue and eventually return to something that resembles your old way of business, plus some new protocols. For those tenants with lease expiries it has been a challenge as they have wondered, how long can they put off a decision. Can they go month-to-month or will their Landlord renew them for just a year. Most of the tenants we speak with are wondering what their options are. Will their staff always work from home? Are their staff as effective working from home? How are their revenues tracking? Which of their staff have remained effective, and which have seemed redundant? Do they need all of their premises, or do they need more space to accommodate social distancing in the workplace? Every industry and sector has been affected. Most businesses have seen a downturn in their business, but all have similar questions as everyone keeps an eye on the future doing their best to plan for what may be next.

What has COVID-19 meant for the Vancouver office market? What trends are we seeing and what has happened to vacancy and rental rates? What about sublease space? Previous reports covered sublease availability, and in this report we will take a closer look at not only how the vacancy rate has changed, but also as a percentage of the availability, how much of it is sublease space?

Below is our overall Q2 findings and what the Vancouver market looks like according to the most recent statistics.

	Vacancy Rate Q1 2020	Vacancy Rate Q2 2020	% Change from Previous Quarter	Spaces Added Q1 2020	Spaces Added Q2 2020	% Change from Previous Quarter	Total Area of Space Added (SF)	# Spaces Leased Q1 2020
Downtown	3.60%	5.60%	55.56%	156	196	25.64%	678,583	111
Suburban	7.90%	8.20%	3.80%	60	115	91.67%	575,687	73
Vancouver Periphery	5.80%	6.20%	6.90%	62	44	-29.03%	106,057	42

QUARTERLY VACANCY RATES

Downtown
Q1 2020: 3.60%
Q2 2020: 5.60%

55.56%

Suburban
Q1 2020: 7.90%
Q2 2020: 8.20%

3.80%

Vancouver Periphery
Q1 2020: 5.70%
Q2 2020: 6.20%

8.77%

YEARLY VACANCY RATES

Downtown
Q2 2019: 3.40%
Q2 2020: 5.60%

64.71%

Suburban
Q2 2019: 8.50%
Q2 2020: 8.20%

-3.53%

Vancouver Periphery
Q2 2019: 3.70%
Q2 2020: 6.20%

67.57%

DOWNTOWN

Snapshot

Market	Average Size of Space Added (SF)	Average Size of Space Leased in (SF)	Average Size of Space Removed (SF)
Downtown	3,462	2,019	3,811
Suburban	5,006	4,893	5,615
Periphery	2,410	2,238	12,480

Office Class	Availability Rate Q1 2020	Availability Rate Q2 2020	Inventory Size (SF) Q1 2020	Inventory Size (SF) Q2 2020
A	3.10%	4.20%	15,806,688	15,851,451
B	3.00%	6.40%	6,880,653	6,920,028
C	6.90%	10.40%	3,530,903	3,475,903

The Downtown office market saw the vacancy rate increase to 5.60% from 3.60% at the end of Q1. Class “A” vacancy increased from 3.10% to 4.20%, while the “B” class vacancy rate more than doubled from 3.00% to 6.40%, and the “C” class vacancy increased from 6.90% to 10.40%. Where has the inventory come from? It appears that the Downtown sublease market has had a significant contribution this quarter. In Q1, subleases made up 23% of available space, that number increased to 39.20% for Q2 and now accounts for 576,183 total square feet. It will be interesting to see how the amount of sublease space changes for Q3; however, it is hard to imagine an increase as substantial as we have witnessed this quarter.

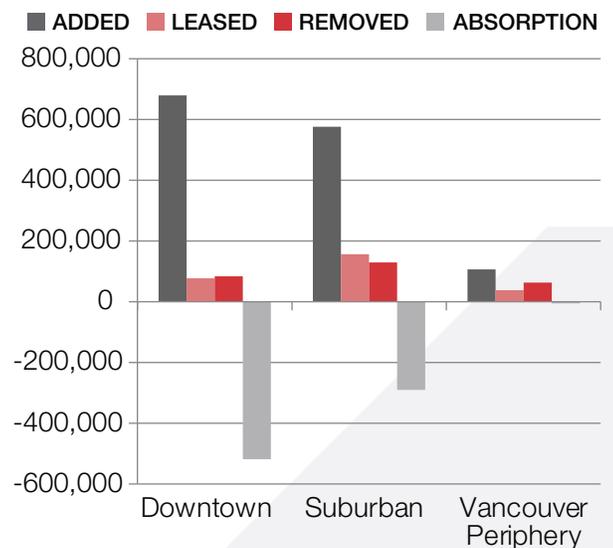
Logically the increase in sublease space translated to more spaces coming online, with 196 spaces added to the market in the quarter totalling 678,583 SF, compared to 156 spaces and 501,138 SF last quarter. It is no surprise that the number of spaces leased was down to only 38, totalling 76,708 SF, compared to 113 spaces leased and 386,764 SF last quarter. There were also 22 spaces removed from inventory totalling 83,831 SF. All in all, this led to negative 518,044 SF of absorption in the quarter, and that is significant. The Downtown “A” class market remains the tightest with a vacancy rate of 4.20%, followed by the “B” class market at 6.40% and the “C” class market at 10.40%.

As to rental rates, we have not witnessed a significant softening as of yet, but, there is no longer upward pressure, and we expect to see rental rates in the “C” class, and maybe the “B” class market start to soften.

Downtown Significant Transactions

- ▶ *Kabam* committed to an additional 15,500 SF at 753 Seymour Street
- ▶ *Bank of China* leased 8,000 SF at 1055 Dunsmuir Street
- ▶ *Zenabis* leased 5,000 SF at 1152 Mainland Street

Q2 2020 Absorption



Statistics provided by Altus Insite

	# Spaces Leased Q2 2020	Total Area of Space Leased (SF)	# of Spaces Removed Q1 2020	# of Spaces Removed Q2 2020	Total Area of Spaces Removed (SF)	Total # of Spaces Removed	Total Area Taken Off Q2 2020 (SF)	Absorption for the Quarter (SF)
Downtown	38	76,708	29	22	83,831	140	160,539	-518,044
Suburban	32	156,587	20	23	129,136	93	285,723	-289,964
Vancouver Periphery	17	38,039	11	5	62,400	53	100,439	-5,618
Total								-813,626

SUBURBAN

Snapshot

The Suburban office market saw the vacancy rate increase slightly to 8.20% from 7.90% in the previous quarter. Still, the number of spaces added to the market almost doubled with 115 spaces totalling 575,687 SF compared to 60 spaces totalling 292,829 SF last quarter, there was also only 32 spaces leased totalling 156,587 SF, nearly half again as the previous quarter. There were 23 spaces removed from inventory totalling 129,136 SF, resulting in a negative absorption of 289,964 SF for the past 90 days. In the Suburban market, the amount of sublease premises as a percent of the total available space has remained stable and in fact, reduced from 26.30% last quarter to 23.80% this quarter. In Q2 of 2019, the sublease availability was 21.60%. The vacancy distribution follows with the “A” class market having the highest vacancy at 9.60%, with the “B” class market the tightest at a vacancy of 5.50% and the “C” class market at 7.30%.

Office Class	# of Buildings	Inventory Size (SF)	Total Availability Rate
All Classes	369	24,050,993	8.20%
A	176	15,178,557	9.60%
B	141	7,037,422	5.50%
C	52	1,835,014	7.30%

Area	# of Buildings	Inventory Size (SF)	Total Availability Rate
Burnaby	119	9,965,750	6.10%
Langley	6	300,724	12.00%
New Westminster	23	1,438,584	6.40%
North Shore	46	2,205,591	3.90%
Richmond	75	4,365,671	14.00%
Surrey	65	4,048,249	12.50%
Tri-Cities	11	559,052	2.00%

Statistics provided by Altus Insite

Suburban Significant Transactions

- ▶ *Westland Insurance* leased 83,000 SF at 9850 King George Boulevard, Surrey
- ▶ *Shearwater Research* committed to 33,000 SF at 10200 Shellbridge Way, Richmond
- ▶ *Themis Solutions* leased 20,000 SF at 4621 Canada Way, Burnaby
- ▶ *Benchmark Botanics* took 10,000 SF at 3600 Lysander Lane, Richmond
- ▶ *Douglas College* leased 6,000 SF of premises at 625 Agnes Street, New Westminster
- ▶ *AlgaeCal* committed to a 3rd floor sublease at 13888 Wireless Way in Richmond

The Periphery market, similar to the Suburban market, saw a slight increase in the overall vacancy rate up from 5.80% last quarter to 6.20% this quarter. Unlike the other markets, there were only 44 spaces added totalling 106,057 SF. Leasing was also slow with only 17 spaces leased totalling 38,039 SF and 5 spaces removed totalling 62,400 SF. Overall the market stayed relatively neutral for the quarter.

As to the impact of sublease premises in the Periphery market, it remains a significant factor, with 40.20% of availability being subleases. It experienced its most significant increase from 22.80% at the end of the year to 39.90% in Q1, increasing slightly to 40.20% in Q2.

As to the distribution of vacancy, the Periphery market follows the Downtown market, in that the “A” class is the tightest with a 4.00% vacancy, while the “B” class has 5.70% vacancy and the “C” class 14.90% vacancy.

Office Class	# of Buildings	Inventory Size (SF)	Total Availability Rate
All Classes	172	9,789,167	6.20%
A	72	5,657,384	4.00%
B	57	2,534,211	5.70%
C	43	1,597,572	14.90%

Statistics provided by Altus Insite

Vancouver Periphery Significant Transactions

- ▶ *AbCellera* leased all 44,000 SF at 2131 Manitoba Street
- ▶ Spaces leased 40,000 SF at 525 West 8th Avenue
- ▶ *The City of Vancouver* committed to 42,000 SF at 510 West Broadway

NAI Commercial spent the last quarter monitoring the office market and counselling both landlords and tenants on options to consider during the COVID-19 pandemic. These are precarious times. For tenants, we are happy to meet with you in person or virtually to review your situation and discuss options you may want to consider for the future. We are conservative by nature and encourage you to let your business stabilize while considering options for the future. If you believe that subleasing all or a portion of your premises is an option, we are happy to provide a review and outline potential costs and options for you. If you have a decision to make in the next couple of years about your lease, we can help lay out a strategy and timeline for you to follow to make the most informed beneficial leasing decision for the future.

For Landlords, NAI Commercial has remained active and open during these times, making sure we are available to tour vacancies and provide guidance and assistance to our Landlord and Sublandlord clients. Now is the time to make sure all facets of your leasing program are in place, and you are preserving your tenancies for the future. Extending your quality tenants' leases now will serve you well over the long run. If you would like a review of your vacancies and leasing program, we would be happy to share our thoughts and give you some ideas for the future.

As to NAI Commercial, it has been an interesting quarter, while some deals delayed and financings questioned, we continue to grow. We are pleased to announce that Taylor Durham has joined our Leasing Team, and Damian Luke joined our Business Advisory, Mergers & Acquisitions division. We appreciate the referrals to our firm and look forward to continuing to meet with candidates who may be a good fit for our team.

We wish you all good health and fortitude as we move through the COVID-19 pandemic, knowing that this too shall pass.

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. We are available to answer questions and concerns, even after your lease is signed.

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 looking to enhance their career in commercial real estate that may be a good fit for our firm.



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