NAI Commercial

COMMERCIAL REAL ESTATE SERVICES, WORLDWIDE

Q3 Metro Vancouver

OFFICE MARKET REPORT

Q3 2020

METRO VANCOUVER

Office Market Report | Q3 2020

Welcome to the Q3 Office report. The last three months proved as we predicted in our Q2 report, that office occupancy levels would, and have, remained low. We reported on British Columbia's excellence at flattening the curve, then saw COVID-19 cases jump up, and people once again having to focus on keeping their bubbles and social connections small. We also witness more and more people wearing masks in public and trying to do the right thing in accordance to Public Health Officer guidelines.

On the political front, we are witnessing a US election race like few before it. No matter who wins, the outcome will affect our economy and the stock market in ways that we may not have imagined. On our side of the border, we saw Bill Morneau step down as Finance Minister, and Prime Minister Trudeau survive a non-confidence vote. While at the same time, we watched Erin O'Toole win the leadership race to lead the Conservative Party. In British Columbia, amid a pandemic, Premier John Horgan called an early election. This violates his agreement with the BC Greens and ignoring his promise of not calling an early election. Not to mention going against BC's own fixed election date law that he previously endorsed and supported.

On the COVID-19 front, businesses have been slow to return to normal, with many offices remaining closed or operating with drastically reduced staffing. Owners of companies are facing many challenges. Conversations in the last quarter started with CEO's commenting that they need to get their staff back to work and working and effectively. We continue to witness more and more of these conversations as the numbers reveal themselves. Not all absent employees who work remotely are as efficient than when working in a more controlled environment. You may also have witnessed workers less responsive and effective when working from home. Work is piling up, and permits and other services continue to be fraught with delays, while we chase bankers, insurance companies and others with multiple calls and request for work that used to be faster. Some firms and groups have remained diligent with quick response times, while others have fallen behind and are not as focused as they used to be. Some firms we spoke with are struggling just to get their workers back to work after ending their work from home policy. These struggles, along with COVID-19, are here for the foreseeable future. If your company's revenues are close to what they were pre-pandemic, consider yourself one of the fortunate. We encourage you to continue to innovate and adapt. COVID-19 is here for a while yet and the repercussions to the economy lingering even longer. For the companies who decided to wait and see, that time has come to an end, and it is now time to make decisions and organize as best you can for business today and our new reality.

QUARTERLY VACANCY RATES

Downtown
Q2 2020: 5.60%
Q3 2020: 7.30%

30.36%

Suburban
Q2 2020: 8.20%
Q3 2020: 8.80%

7.32%

Vancouver Periphery
Q2 2020: 6.20%
Q3 2020: 7.60%

22.58%

YEARLY VACANCY RATES

Downtown
Q3 2019: 3.90%
Q3 2020: 7.30%

60.71%

Suburban
Q3 2019: 8.40%
Q3 2020: 8.80%

4.65%

Vancouver Periphery
Q3 2019: 4.30%
Q3 2020: 7.60%

55.46%

	Vacancy Rate Q2 2020	Vacancy Rate Q3 2020	% Change from Previous Quarter	Spaces Added Q2 2020	Spaces Added Q3 2020	% Change from Previous Quarter	Total Area of Space Added (SF)	# Spaces Leased Q2 2020
Downtown	5.60%	7.30%	30.36%	196	216	10.20%	717,435	38
Suburban	8.20%	8.80%	7.32%	115	114	-0.87%	457,952	32
Vancouver Periphery	6.20%	7.60%	22.58%	44	89	102.27%	215,972	17

Statistics provided by Altus Insite

DOWNTOWN

Snapshot

Market	Average Size of Space Added (SF)	Average Size of Space Leased in (SF)	Average Size of Space Removed (SF)
Downtown	3,321	2,719	2,740
Suburban	4,017	3,893	2,752
Periphery	2,427	1,607	1,715

Office Class	Availability Rate Q2 2020	Availability Rate Q3 2020	Inventory Size (SF) Q2 2020	Inventory Size (SF) Q3 2020
A	4.20%	5.80%	15,851,451	15,883,651
B	6.40%	7.90%	6,920,028	6,920,028
C	10.40%	12.80%	3,475,903	3,477,495

As to the office market, we eagerly pulled the Q3 data and look forward to reporting on how things progressed and changed. What has happened to the vacancy rate? What are the attitudes of Landlords? How deep is the sublease market? What is happening to rental rates, and what should firms be considering.

Downtown remains quiet. The vacancy rate this past quarter increased to 7.3%, up from 5.6% in Q2, which is up from 3.6% at the beginning of the year. The class “A” availability sits at 5.8%, up from 4.2% last quarter. The class “B” vacancy also rose to 7.9%, as did the class “C” vacancy to 12.8%. Subleases accounted for 576,183 SF of availability in Q2 and now account for 750,144 SF of available space, but still only 39.10% of the inventory, which as a percent of total inventory was almost identical to Q2.

As to changes in inventory, 216 spaces were added to the market accounting for 717,435 SF; however, the number of spaces leased increased from 38 last quarter to 54 in Q3, totalling 146,802 SF or an average of 2,719 SF. There were also 60 spaces removed totalling 311,193 SF resulting in a negative absorption for the quarter of 406,242 SF.

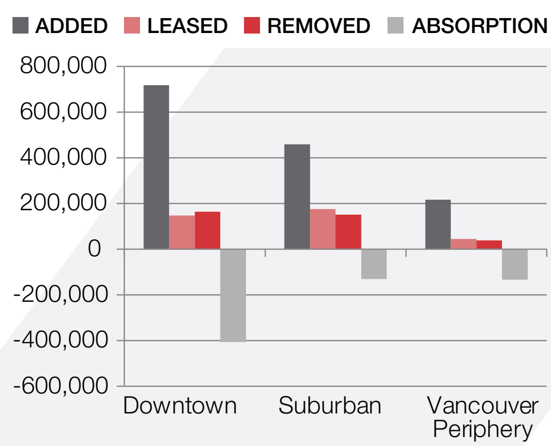
The “A” class market accounts for 5.8% of availability at 921,252 SF and is roughly the same as the availability of the "B" and "C" class markets combined.

On the rental rate front, there has been some indication that rental rates have begun to adjust for smaller tenants, while larger tenants have few available options, it is challenging to measure rate reductions. In a recent case, we saw an 18% adjustment on a proposal issued in February, versus a revised proposal today. There is, however, no rule of thumb, and rates are space and landlord specific.

Downtown Significant Transactions

- *B2Gold* leased 45,169 SF at 666 Burrard Street
- *BC Real Estate Council* sublet 19,000 SF at 750 West Pender Street
- *FuseFX* leased 12,000 SF at 1040 Hamilton Street
- *General Electric* leased 8,000 SF at 1055 Dunsmuir Street
- *Top Down Management* leased the 32nd floor of 1021 West Hastings Street
- *Eldorado Gold* leased 17,645 SF on the 19th floor of Bentall 5

Q3 2020 **Absorption**



	# Spaces Leased Q3 2020	Total Area of Space Leased (SF)	# of Spaces Removed Q2 2020	# of Spaces Removed Q3 2020	Total Area of Spaces Removed (SF)	Total # of Spaces Removed	Total Area Taken Off Q3 2020 (SF)	Absorption for the Quarter (SF)
Downtown	54	146,802	22	47	164,391	60	311,193	-406,242
Suburban	45	175,187	23	33	151,366	55	326,553	-131,399
Vancouver Periphery	28	44,985	5	11	37,736	22	82,721	-133,251
Total								**-670,892**

SUBURBAN

Snapshot

The Suburban office market saw only a slight increase in the vacancy rate, increasing to 8.8% from 8.2% last quarter. The markets of Burnaby, North Shore and Richmond saw vacancy rates increase slightly, while Surrey and New Westminster reduced their vacancy slightly, and Langley reporting a drop from a reported 12% to 6.1%, while the Tri-Cities vacancy stayed the same. The Suburban market saw 114 spaces added, bringing 457,952 SF to the market, while 45 spaces leased totalling 175,187 SF and 33 spaces removed, totalling 151,366 SF for overall negative absorption of 131,399 SF. The sublease market accounts for 23.4% of the availability and 494,951 SF.

The suburban market continued its trend with the "A" class market accounting for the most significant vacancy level of 10.3% and 1,562,796 SF of availability.

Office Class	# of Buildings	Inventory Size (SF)	Total Availability Rate
All Classes	368	24,036,063	7.30%
A	176	15,172,779	10.30%
B	141	7,037,422	6.00%
C	51	1,825,862	6.10%

Area	# of Buildings	Inventory Size (SF)	Total Availability Rate
Burnaby	119	9,932,750	6.90%
Langley	29	1,448,096	6.10%
New Westminster	23	1,446,185	4.80%
North Shore	46	2,205,591	4.20%
Richmond	74	4,351,728	14.50%
Surrey	64	4,021,661	12.00%
Tri-Cities	11	559,052	2.00%

Statistics provided by Altus Insite

Suburban Significant Transactions

- *Rejuvenation Dermatology* leased 5,500 SF at 3185 Willingdon Green
- *Whitewater West* subleased 44,000 SF at 6651 Fraserwood Place
- *SNC Lavalin* subleased 39,000 SF at 3777 Kingsway
- *DP World* leased 13,600 SF at 4720 Kingsway
- *ISL Engineering* leased 12,500 SF at 3999 Henning Drive
- *Inphi Canada* leased 4300 SF at 4333 Still Creek Drive

As a general market comparison, the Suburban market that we report on is 24,036,063 SF, and the "A" class vacancy is 1,562,796 SF, while the Downtown market is 26,247,382 SF and the "A" class availability is 921,252 SF.

VANCOUVER PERIPHERY

Snapshot

In the Periphery market, the vacancy rate increased to 7.6%, up from 6.2% last quarter with the number of spaces added to the market jumping to 89 spaces, (up from 44 spaces), and adding 215,972 SF to the market. 28 spaces leased, up from 17 last quarter totalling 44,985 SF, and 11 spaces removed, totalling 37,736 SF, netting a negative absorption of 133,251 SF. The Periphery market has the highest percentage of spaces made up by subleases at 40.5%, representing 302,561 SF.

The "C" class market has the highest vacancy rate at 14.8%, but "A" class, at 5.4%, still has the most number of units available at 73, totalling 306,995 SF.

Office Class	# of Buildings	Inventory Size (SF)	Total Availability Rate
All Classes	173	9,829,790	7.60%
A	73	5,685,103	5.40%
B	58	2,567,891	8.20%
C	42	1,576,796	14.80%

Statistics provided by Altus Insite

MARKET TRENDS

It appears that rentals rate have peaked and we have seen a softening in the past quarter, and now is a time for Landlords to preserve income and sign tenants to longer-term Leases. Landlords will look to lock in rates and tenancies as the world remains uncertain. For Tenants, it is a time to plan for the future, what does right-sizing look like, is now a good time to alter your premises. Trades are available, and offices are empty. Perhaps now is a time to convert surfaces for easier cleaning and maintenance, create more distance/space in your offices, etc.

NAI Commercial remains open and diligent to our clients. We welcome the chance to be a resource and continue to grow. We are delighted to announce that John Freyvogel, a leasing veteran with more than thirty years of experience, has joined our team. John looks forward to connecting with all of you and providing further insights into the office market during these unprecedented times.

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Looking ahead and planning for the future, many of our clients are asking about subleasing, for which we attach the following article, "*The Five Stages of Subleasing Commercial Premises*". Should you want to review your options and do a cost-benefit analysis, we will be happy to review your lease and provide our recommendations.

THE FIVE STAGES OF SUBLEASING COMMERCIAL PREMISES

There are times in your business cycle when things shift. These shifts can happen for many reasons, a pandemic, an economic downturn, an economic upturn, competition, health, a merger, retirement, etc. We work with clients who need to grow unexpectedly and clients who could downsize and reduce costs. Perhaps your firm is somewhere in between, contemplating what the future looks like, or maybe now have employees working from home, and your business is thriving. Your premises needs have changed for one reason or another, and your business model no longer suits your premises or the lease that you originally entered. Can you downsize? Can you sublease all or a portion of your office? How can you facilitate expansion? Subleasing all or a portion of your premises is one option that may be available to you, and below are five points to consider.

1. Need

The first step in determining if you should consider subleasing your premises is a needs analysis. In its simplest form, this usually starts with you trying to make your current situation work. Perhaps you have stacked people in offices that use to accommodate one or have offices and workstations that have become a storage area with employees working happily from home. You know there is a more efficient way to operate and that things should change, but you have a lease.

Step one is to do an assessment.

If you did not have a lease, what would you do? If your answer is something different than how you are currently operating, then it is time to consider your options.

2. Analysis

Once you have decided your premises needs have changed, the first step is to review your lease. Some points to consider include:

- How much term is there left on your lease, and what are your total costs?
- Do you have a provision in your lease for subleasing, or maybe even a termination provision?
- Is there any language in your lease that will affect your ability to sublease your space successfully?

After you review your lease and create a lease summary, next is a physical review of the space. What is right about your premises? What can you improve? If you intend to occupy a portion of the space, you will need to ensure you can separate the balance of the space from a practical, zoning, and costs perspective. Review your floorplan and make notes, then have a qualified planner review your floorplan and provide recommendations. The planner must take into consideration all building codes and exiting requirements, etc. Then, determine what the probable range of costs are. If you are subleasing a portion of your space, what is the cost and timing of constructing a demising wall and creating a second entry? How much should you budget for legal fees and commissions? Then ascertain, how long before revenue could be realized and what total revenue you can achieve. The total potential benefit versus the costs can determine if subleasing is worth serious consideration.

3. Implementation

Once you have determined that subleasing your space is a good idea, it is time to market your premises for sublease. You can do this by hiring a subleasing expert, or you can try and post the opportunity on various websites and see if you can have success on your own. Remember to review your lease and make sure your marketing efforts are in accordance with what your lease specifies, as your Landlord may have the right to approve all marketing, and it may not be possible to market your actual rental rate. While we recommend hiring a leasing expert with a track record in your area, every tenant and situation is unique.

A leasing broker will work on your behalf to find a subtenant for your space as soon as possible. They may even be able to have your lease terminated with the Landlord, depending on your situation. Once you have entered into an agreement with a leasing broker, they will begin marketing your space and handling all inquiries and tour requests. Be careful not to commit to any costs (demising the space, etc.) until you know you have a firm commitment in hand.

The Five Stages of Subleasing Commercial Premises (continued)

4. Risk Assessment

Once a seemingly suitable Subtenant has been secured, but before committing to subleasing your space, make sure you understand the potential risks associated with doing so. Having a subtenant relieve you of all or a portion of your rental payments is great, but you remain responsible for your lease even if your subtenant stops paying.

As a sublandlord (original tenant), you will remain liable to the Landlord until the end of the lease term, including any damages to the leased premises. It is crucial for you to understand who the potential subtenant is and ensure that they are a creditworthy tenant in good standing. You will want to understand the business history of the subtenant and review their financial statements. You may also want to run a credit check. These steps will help determine the likelihood of the subtenant honouring their lease commitment and securing the money you invested in making a sublease possible. If you are not comfortable with the subtenant from a financial perspective, you may consider prepaid rent or increased deposits to help offset any risk you may face.

5. Completion

After you have an agreement to sublease with a subtenant, it should be subject to the final approval of your Landlord. The last step is to get agreement or formal consent from your head landlord per your lease. It is important that you seek consent and provide notice and the required documents to your Landlord exactly how your lease specifies. Too often, agents and tenants ask for consent and do not follow the process outlined in the lease. A misstep at this stage can delay or prevent your sublease from being approved. You may choose to seek independent legal advice and have someone guide you through the sublease requirements and understand the process to request consent from your Landlord. You should also be prepared to pay a consent and documentation fee to your Landlord, which usually ranges from $500 to $2,000. Lastly, there may be a formal consent to sublease or a sublease document that your Landlord may require.

After your sublease is complete, and your subtenant has taken occupancy, make sure you have all contact information with various people of authority for the subtenant. You will want to keep on record their mobile numbers, e-mails, and alternate addresses if possible. If your subtenant is ever late with their rent, act quickly, send notice, and follow up with a demand letter. You are now a sublandlord.

The above is a quick guide designed to help you understand the basics of subleasing. Our team is well versed in subleasing, and we are happy to analyze your lease and provide you with the answers you need to see if subleasing is an option you should be considering. We provide guidance and analysis and only charge a fee if we successfully reduce your lease obligation.

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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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