Q1 Office Report: Metro Vancouver



Q1 2015 indicates more of the same for commercial realty

The first quarter of 2015 closed with little change over the last quarter of 2014. Crude oil is still hovering around \$50 a barrel. Since oil has such a strong influence on Canada's economy, the Canadian dollar seems to have stabilized around \$0.80. US.

The Canadian unemployment rate fell through 2014. That trend continued into 2015 with the unemployment rate falling to around 5.5 percent. Locally, we are happy to report that the Vancouver Office Space market is continuing on a steady, level path. Last quarter we reported a vacancy rate Downtown of 10.2 percent; that has increased slightly to 10.5 percent. The Suburban market shows a decrease of just 0.3 percent in vacancies. The Vancouver periphery market has decreased 0.4 percent.

Otherwise, the only big news was that ACL Software has committed to 40,000 SF at 980 Howe Street, where construction is on target for summer occupancy. Also, lululemon leased two floors at 1380 Burrard Street.

Looking forward, Canada Revenue Agency has committed to the 143,000 SF Containers project for the fall of 2016. This will take CRA's tenancy outside of Downtown and return the 152,000 SF premises at 1166 West Pender Street to the market. Triovest is already making plans to revitalize this property.

No upward pressure on lease rates

The market continues to experience slight increases in available space. While newly built space does continue to be absorbed by the market, it still isn't in quantities

Altus InSite Vacancy Statistics, April 2015

Market	Vacancy Rate	Last Quarter	Change	No. Spaces Added	% Change	Total Area Added	No. Space Removed	Total Area Removed	Absorption for Quarter	•
Downtown	10.50%	10.20%	2.94%	174	20.83%	741,903	160	469,918	-271,985	255,548
Suburban	15.20%	15.50%	-1.94%	148	46.53%	618,015	116	405,184	212,831	370,006
Van. Periphery	4.80%	5.20%	-7.69%	22	4.76%	78,971	32	91,869	12,898	-44,432
Total									471,918	158,890

No major deals despite increased absorption of space

Q1 saw a negative absorption of 471,918 square feet, with Downtown seeing negative 271,985 SF. Downtown there are few instances of more than one floor being leased and taken off the market in any building. The exception was 555 West Hastings, where an as-yet-undisclosed group leased two floors. Other full-floor deals include Mogo Finance Tech, leasing the 21st floor of 401 West Georgia; Istuary, committing to the eighth floor of 1125 Howe Street; and Synergy Lawyers, taking the penthouse of 925 West Georgia Street.

that create upward pressure on lease or rental rates. If anything, the pressure on rates remains downward. Even space like that of Atimi was renegotiated. Atimi had committed to leasing space in the new MNP tower; then business realities forced them to restructure and move into existing space at 1066 West Hastings. LGM will absorb the space Atimi had committed to at MNP Tower.

What kind of space is in demand?

In February The Globe and Mail featured an article about the demand for office space, and the number of

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large tenants "nosing around" for space. A fair number of companies are looking for premises, including some potentially large blocks of space. However, the tenants we are witnessing may not necessarily be the typical kind of tenant that has been driving the office market recently – namely, technology and digital media and arts companies.

Where does a new tech company want to operate? What kind of space does lululemon want? What about Hootsuite, or Nerd Corps Entertainment? Those are all unique tenants, looking for unique, creative environments. They are not excited by the idea of conventional office spaces in glass towers. In fact, they may prefer taking a funky, older space and renovating it into something hip and unconventional. Hootsuite and lululemon, for instance, are young, growing companies preferring to create their own environments that mesh with their culture.

Clearly, the office market is not for the faint of heart. It is a game best played by landlords with deep pockets and, more importantly, very long time horizons for their investments. You can read more by following these links:

Business In Vancouver article: Strong Demand Bouys Vancouver's Office Market

The Globe and Mail article:
Third Wave of New Office Space to Hit Vancouver

Growth indicated, despite vacancies

Just shy of 1,000,000 more SF of premises are being occupied than a year ago. Despite that, total office inventory increased by 200,000 SF net – which could signal that the employment and expansion trend in British Columbia remains positive.

In the Downtown market, occupied area (different from vacancy) decreased 37,000 SF during the first quarter. The suburban and periphery markets combined to occupy about 80,000 SF more of premises. The numbers suggest a trend, but in reality are too small of a sample. However, they could indicate that companies which are growing are doing so more often outside of the Downtown Core.

Change in Occupied Area

Market		Total Inventory	Total Occ'd. Area	Vacant & Leased Area	Sublet Vacant Area	Dir. Avail. Space	Change in Occ. Area from prev. Quarter	Change from Prev. Occ. Area Year
Downtown Vancouver	221	24,035,426	22,300,489	87,003	335,160	1,312,774	-36,296	53,330
Suburban Vancouver	338	22,466,780	19,237,908	152,550	285,798	2,790,524	30,024	350,560
Vancouver Periphery	132	7,470,353	7,144,297	41,670	40,931	243,455	61,187	582,662
Total								986,552

Big reveal coming in Chicago

The NAI Global Market Report, featuring Dr. Peter Linneman and Sam Zell, will be presented in Chicago on June 17. Dr. Linneman is one of the most influential people in real estate, according to Realtor Magazine. Mr. Zell is chairman of Equity Group Investments, and founded many of the industry's most successful Real Estate Investment Trusts.

I plan to be there! This is usually a highly insightful and interesting event for anybody in commercial real estate. If you'd like to go, please feel free to register using this **RSVP link** (please enter my name in the "invited by" box). Or, send an email to me or Irene Yung, and we will be glad to take care of registering you.

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Thanks for taking the time to read this.

Regards,

Rob DesBrisay

Managing Partner, BC

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