



An overview of Q3 Commercial Real Estate in Metro Vancouver

After a long run of steadily rising vacancy rates, there was a reversal in 2014's third quarter. A small reversal, it's true – but a welcome one if you're a landlord. And if you are a tenant, it's small enough to still leave you in a buyer's market. In fact, the reversal was more like the levelling out of a long trend.

Vacancy rate levels off

At the end of Q2, we recorded a negative office space absorption of 615,506 square feet and a vacancy rate of 12.4 percent – a significant rise from the previous quarter. But in Q3, we actually saw positive absorption. True, it was only a small amount – 57,388 – but it represents a large change in direction from Q2. Vacancy rates fell to 12.1 percent, an overall decrease of about 2.5 percent.

Vacancy rates by building class

As to what kind of space is available, Altus InSite reports there are 52 class A buildings in the downtown core, 56 class B buildings and 46 class C. The vacancy figures for these three types of space for Q3 2014 versus Q3 2013 are:

- **Class A:** 52 buildings, 9.0 percent vacancy, an increase from 7.4 percent
- **Class B:** 56 buildings, 11.3 percent vacancy, an increase from 8.3 percent
- **Class C:** 46 buildings, 12.9 percent vacancy, a decrease from 13.2 percent.

Overall, the 10.1 percent vacancy in the downtown core this quarter is an increase from 8.4 percent in Q3 2013,

Stats from Altus InSite as of October 31, 2014

Market	Vacancy Rate	No. Spaces Added	% Change	Total area added (SF)	No. Spaces Removed	Total Area Removed	Absorption for Quarter	Change from last Quarter
Downtown	10.1%	143	-14.69%	563,037	163	633,329	70,292	301,935
Suburban	16.0%	115	-17.39%	409,416	125	427,373	17,957	377,863
Van. Periphery	6.8%	41	39.02%	221,834	59	190,973	-30,861	-6,904
Total				1,194,287		1,251,675	57,388	672,894

While total inventory actually increased from 52,905,635 to 53,357,435 SF – a gain of 451,800 SF – the actual amount of available office space was 6,456,250 SF. That's a decrease of 104,049 SF from Q2. There was also a drop in vacancy rates from the previous quarter: down 0.5 percent in the suburban market, and down 0.2 percent in the downtown and periphery markets.

while the 12.1 percent vacancy rate for Metro Vancouver represents an increase from 10.1 percent in the same quarter last year.

In the first quarter of 2014, there were a reported 28 buildings under construction. Two quarters later, 11 of those projects have moved into inventory, leaving 17 new buildings still under construction. Almost all new construction falls into the class A category. We anticipate that few new projects will be coming online, and that the number of buildings under construction will continue to fall as projects complete.

Stats from Altus InSite as of October 31, 2014

Downtown Vancouver	Surveyed buildings	Total SF (Surveyed buildings)	Net Rent	Taxes & Operating costs	Total Gross Rent
Class A	23	5,364,190	28.57	19.62	48.18
Class B	28	2,926,565	23.77	16.58	40.35
Class C	24	1,373,479	17.94	13.81	31.75
Suburban					
Class A	56	3,929,921	18.62	10.98	29.6
Class B	47	2,737,840	15.17	11.75	26.92
Class C	11	440,518	12.95	9.85	22.80

Rental rates by building class

I was recently asked what I thought the difference in rent was between building classes in the downtown core. Rather than guessing, I looked at what is being reported: The average difference between a class A building and a C class building downtown was \$16.43 per square foot, as of October 31st, The difference between a class A and a class B was \$7.83 PSF.

As for suburban averages, the difference between a class A building and a class C building was \$6.80 PSF, and just \$2.68 PSF between class A and class B buildings.

Notable transactions – downtown

Tetra Tech has committed to 50,000 SF at 885 Dunsmuir Street. **Oxygen Capital** leased a floor at 1055 West Hastings Street. **Aquatic Informatics** will relocate into 13,500 SF at 1111 West Georgia Street, where **Western Potash** will also be relocating to a full floor.

Notable transactions – suburban

Suburban markets have been a little quieter; nevertheless, **BOSA** was able to get **CMW Insurance** to commit to 21,000 SF at 2025 Willingdon Avenue in Burnaby. Also on the move in the Broadway corridor, **Cardiome** will relocate to 11,000 SF at 1441 Creekside Drive.

Summary

Although market dynamics have not much changed, Q3 was statistically interesting. The trend of continuously increasing vacancy has slowed and there is little new construction. So, while demand is not huge, supply has levelled off. Landlords need to continue being proactive and eager in their approach to tenants, while tenants need to be smart about their needs and the timing of any moves to new premises.

NAI Commercial – we're here to help

NAI Commercial offers a full-service consulting approach to help you get the most out of your inventory. We do whatever it takes to make it easy for you to attain your objectives. Whether you want to retain us to represent your interests, are simply curious to learn more about our services, or would like us to provide a free opinion on your current properties or leases – we are here to help with good, honest advice. ▲

Thanks for taking the time to read this.

Regards,

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For more information...

To learn more about NAI Commercial, Rob DesBrisay and the many ways we can help with your commercial real estate needs, please call (604) 691-6602.

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