



Q1 2016: COMMERCIAL REAL ESTATE REPORT FOR METRO VANCOUVER

Q1 2016 Report: Some noteworthy activity – and permit updates

During the first quarter (Q1) of 2016, the investment market experienced continuing activity. At NAI Commercial our apartment team was particularly busy putting approximately 20 multi-family buildings under contract. We're continuing to see demand for income properties and development sites.

Bentall and Royal Centre properties change hands

Q1 saw an interesting development in the office market: Ivanhoe Cambridge closed the deal to sell its interest in Bentall 1, 2, 3 and 4 to the Anbang Insurance Group of Beijing. The price tag: more than \$1 billion. And Royal Centre, 1055 West Georgia Street, traded from Brookfield Asset management to Klaus Michael Kuehne, a German billionaire, for a reported \$285,000,000 or \$725 per square foot.

Commercial real estate in the news

In February, *Business in Vancouver* featured an article on vacancies in the Vancouver office market and the challenges of finding pre-lease tenants. "White elephants weigh on Metro Office Market" >>[Click Here for Article](#) focused on the Exchange Tower being built at 425 Howe Street and on the Ormidale Block Building at 151 West Hastings Street. The article also looked briefly at challenges with Renfrew Centre, the Solo District office space in Burnaby, and the Anvil office tower in New Westminster. The article was noteworthy in that we rarely see articles with a negative slant about real estate in our area.

Not a large-tenant market

The truth is that leasing office space in Greater Vancouver requires a great deal of effort, occasional luck and sometimes even a government tender. Our market does not tend to feature large tenants taking down huge amounts of spaces. It does happen, but is the exception rather than the rule. For example, as we get into this quarter's stats, we see the number of spaces leased and the number of spaces removed – but seldom do we see the average sizes of those deals. To satisfy your curiosity, here are the average sizes of spaces removed and added to the market during Q1:

Market	Average size (SF) of space added to the market in Q1	Average size (SF) of space removed from the market in Q1
Downtown	3,508	3,891
Suburban	4,888	4,456
Vancouver Periphery	11,848	3,547

As you can see, in each area the average size of the space removed from the market was less than 5,000 square feet (SF). Vancouver and its periphery markets remain a small market town. Leasing takes time and our market does not always lend itself to being a pre-leasing market. Larger tenants do not always have the luxury of waiting for a building to be built, but the vast majority of tenants are small and can wait until they are closer to their lease expiry or closer to a building's completion. The good news is that our market has lots of aging inventory and the new product will lease up. The question is simply: At what rate do developers need to lease space at in order to encourage tenants to relocate?

Q1 Statistics

Downtown Vancouver's vacancy rate dropped from 11.3% in Q4 2015 to 10.8% in Q1 2016 – the first reduction in overall vacancy rates in over a year since Q3 2014, which appears to be a result of the inventory changing in the quarter as during the most recent quarter 184 new spaces were added to inventory and 153 spaces removed, with a net result of 50,197 SF added to inventory. That is statistically negligible compared to a total inventory of 25.5 million SF – suggesting the market remains flat.

Three noteworthy transactions

There were three noteworthy transactions downtown: Mobify committed to 25,000 SF at 725 Granville Street; Mott Macdonald leased 9,000 SF at Bentall 5; and Osler Law committed to 10,000 SF at 1055 West Hastings.

Vacancies dropped during Q1 in the suburban market, going from a rate of 14.4% at year end to 13.4%. That continued the suburban trend of

	Vacancy Rate Q4	Vacancy Rate Q1	% Change from Previous Quarter	Spaces Added Previous Quarter 4	Spaces Added Q1 2016	Total Area Added	No. Spaces Removed Q1	No. Removed Last Quarter	Total Area Removed	Absorption for the Quarter
Downtown	11.3	10.8	-4.42%	156	184	645,529	153	135	595,332	-50,197
Suburban	14.4	13.4	-6.94%	105	100	488,774	114	99	507,958	19,184
Vancouver Periphery	7.1	12.1	70.42%	32	35	414,494	35	21	124,142	-290,552

removing more space from the market than was added. In the last 90 days, 114 spaces totaling 507,958 SF were removed from inventory in the suburban market, while 100 spaces were added, totaling 488,774 SF for a net absorption of 19,184 SF. Transactions of significance: Regus Package offices committed to 17,000 SF at 220 Brew Street, where Kids & Co Daycare also leased 11,000 SF; in Richmond, Syscon Justice Systems committed to 17,000 SF at 3600 Lysander Lane.

Renfrew Centre accounts for most of inventory growth

In the periphery market, Renfrew Centre created about 160,000 SF of new inventory. That was responsible for almost all of the increase in inventory in the Vancouver Periphery Market, which is now at 8,184,007 SF.

The periphery market also increased in overall vacancies, from 7.1% last quarter to 12.1% this quarter. Renfrew Centre accounts for 2% of the total inventory, or 16% of all vacant space, in a market where the addition of 35 spaces to inventory was balanced by the removal of the same number of spaces. Negative absorption for the quarter was 290,552 SF, of which Renfrew Centre accounted for about half.

Advice for landlords and tenants

In the past we have counselled that, as a landlord, you want to renew tenants as early as possible whenever vacancy rates make the market extra competitive. In the same kind of market, tenants are better served by being patient.

This quarter, however, we want to update our usual recommendation with a heads-up to those tenants who may need tenant improvements. The City of Vancouver has never been more back-logged and slower about issuing building permits for improvement work. What was a process previously measured in weeks can now take months.

Backlogs and new standards

The sheer volume of development the City is dealing with is compounded by the new ASHRAE (American Society of Heating, Refrigerating and Air-Conditioning) standards because the city lacks sufficient resources to process and review them. Additionally, many buildings formerly used the TIPs (Tenant Improvement Permit Systems) program with the City, which enabled contractors to fast-track. However, many of the buildings that were formerly approved on the TIPs program were removed from the program, leaving most renovations, except those in recently constructed buildings, facing a new and lengthy permit process. You'll find a list of eligible buildings here [[http://vancouver.ca/home-property-development/tenant-improvement-permit-system-inspection.aspx#building list](http://vancouver.ca/home-property-development/tenant-improvement-permit-system-inspection.aspx#building%20list)]. You will note that not much of the traditional office inventory is included.

It used to take about four months to source, negotiate, design and build a space for occupancy; now it takes twice that.

Operating-cost budgets for 2016

As we complete our first quarter, 2016 operating costs budgets are in, as follows :

BUILDING NAME	ADDRESS	CLASS	BUILDING AREA (SF)	OP.COSTS & TAXES
Waterfront Centre	200 Burrard St	A	256,128	\$24.20
The Grosvenor Building	1040 West Georgia St	A	264,177	\$23.62
Guinness Tower	1055 West Hastings St	A	260,000	\$23.32
Pacific Centre Tower IV	777 Dunsmuir St	A	386,601	\$23.13
Bentall One	505 Burrard St	A	255,250	\$23.01
Granville Square	200 Granville St	A	383,972	\$22.78
401 West Georgia Building	401 West Georgia St	A	433,300	\$22.64
HSBC Building	885 West Georgia St	A	175,000	\$22.59
Royal Centre	1055 West Georgia St	A	385,878	\$22.43
Bentall Two	555 Burrard St	A	475,000	\$22.33
Vancouver Centre	650 West Georgia St	A	331,128	\$22.19
Bentall Three	595 Burrard St	A	215,479	\$22.11
Oceanic Plaza	1066 West Hastings St	A	227,482	\$22.07
BC Securities Commission Tower	701 West Georgia St	A	471,100	\$22.05
Commerce Place	400 Burrard St	A	147,088	\$22.03
TD Bank Tower	700 West Georgia St	A	341,470	\$22.00
1185 West Georgia St	1185 West Georgia St	A	213,000	\$21.96
FortisBC Centre	1111 West Georgia St	A	576,840	\$21.52
Manulife Place	1095 West Pender St	A	360,000	\$21.40
Park Place	666 Burrard St	A	154,495	\$21.07
1075 West Georgia	1075 West Georgia St	A	206,044	\$21.03
Grant Thornton Place	333 Seymour St	A	285,188	\$21.00
999 West Hastings St	999 West Hastings St	A	193,088	\$20.98
Canaccord Financial Place	609 Granville St	A	249,707	\$20.91
1500 West Georgia	1500 West Georgia St	A	550,000	\$20.91
Harbour Centre	555 West Hastings St	A	577,976	\$20.51
Bentall Four	1055 Dunsmuir St	A	205,000	\$20.44
Bentall Five	550 Burrard St	A	477,185	\$20.40
510 Burrard St	510 Burrard St	A	262,915	\$20.32
Telus Gardens	510 West Georgia St	A	282,618	\$20.32
MNP Tower	1021 West Hastings St	A	171,256	\$20.23
1177 West Hastings St	1177 West Hastings St	A	307,399	\$19.49
Pivotal Building	858 Beatty St	A	71,247	\$19.34
Cathedral Place	925 West Georgia St	A	190,673	\$19.20
510 Seymour St	510 Seymour St	A	97,840	\$19.00
Robson Court	840 Howe St	A	199,979	\$18.81
900 Howe St	900 Howe St	A	108,450	\$18.57
1188 West Georgia St	1188 West Georgia St	A	210,000	\$18.55
888 Dunsmuir St	888 Dunsmuir St	A	106,153	\$18.27
World Trade Centre	999 Canada Place	A	138,308	\$18.18
Rogers Arena - West Tower	89 West Georgia St	A	41,000	\$18.00
Vancouver House	605 Robson St	A	26,000	\$17.11
The Cosette	1085 Homer St	A	222,929	\$16.91
1250 Homer St	1250 Homer St	A	67,526	\$16.67
980 Howe St	980 Howe St	A	27,843	\$16.55
Bower Building	543 Granville St	A	289,500	\$16.00

* All statistics are courtesy of Altus Insite

We're always here to help – even after your lease is signed

NAI Commercial appreciates those landlords who have asked us to review their marketing program and help them lease their premises. For tenants who have engaged us to help with their office renewals and relocations, we remind you that we remain an interested party. We always available to answer questions and address concerns – even after your lease is signed.

Regards,

Rob DesBrisay

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