



**metro vancouver**

**OFFICE  
REPORT**

**Q1 2017**

# Q1 2017 Vancouver Office Market

We witnessed a slower start to the quarter as the “Wet Coast” battled freezing temperatures and mountains of a foreign, icy precipitation we now know as “snow.” Weather conditions seemed to keep people in their homes, off the street and away from transactions. NAI Commercial, however, experienced the opposite with a record number of significant transactions in the Office Sector this quarter. Vancouver seems to have finished strong in the first quarter of 2017.

British Columbia is facing a Provincial Election on May 9<sup>th</sup>. Our hopes and wishes are that we don’t follow the way of Alberta and continue with a positive economic environment throughout the province while maintaining some semblance of fiscal responsibility.

## America hasn’t been great yet.

For the first quarter, the rest of the world sat back to watch “The Donald Trump Show” as he took over Commander-and-Chief on January 20<sup>th</sup>.

### Some highlights of the season so far:

- ▶ Withdrew from trade deal with Asia.
- ▶ Signed executive order for the Keystone Pipeline.
- ▶ Called for more intensive security checks for foreign nationals.
- ▶ Executive order for every new regulation on business, two existing regulations need to be removed.
- ▶ Signed two executive orders ordering a review of the U.S. trade deficit with specific countries including Canada.

The approval of the Keystone Pipeline no doubt benefits the Canadian economy. The U.S. withdrawal from the trade deal with Asia allows Canada a momentary escape from the Trans-Pacific Partnership (TPP). In one study, exports to the US would have declined by 3.6 billion dollars. Hopes are high that this keeps Canada’s protections on dairy, poultry and egg farmers on track.

In fact Jim Balsillie, former co-CEO of BlackBerry and current chair of the Canadian Council of Innovators, refers to the TPP as a regulation that will restrict emerging Canadian companies. Canada must first develop a national innovation strategy focusing on commercializing and selling Canadian ideas around the world and stop being duped into agreeing to protections that benefit our competitors.

We won’t know right away but we may have a winning situation without any backlash. On the risk side – the order to revise the trade deficit with Canada – it is hard to picture an upside, we only hope the downside is limited.

## Quarterly Vacancy Rates

### Vancouver Downtown

Q4 2016: 8.6%  
Q1 2017: 8.6%

**0.0%**

### Suburban

Q4 2016: 12.5%  
Q1 2017: 11.9%

**5.0%**

### Vancouver Periphery

Q4 2016: 12.4%  
Q1 2017: 9.1%

**36.3%**

## Yearly Vacancy Rates

### Vancouver Downtown

Q1 2016: 10.8%  
Q1 2017: 8.6%

**20.4%**

### Suburban

Q1 2016: 13.4%  
Q1 2017: 11.9%

**11.2%**

### Vancouver Periphery

Q1 2016: 12.1%  
Q1 2017: 9.1%

**12.1%**

	Vacancy Rate Q4	Vacancy Rate Q1	% change from previous Quarter	Spaces Added Previous Quarter Q4	Spaces Added Q1 2017	% change from previous Quarter	Total Area Added
<b>Downtown Vancouver</b>	8.60%	8.60%	0.00%	149	169	11.83%	692,773
<b>Suburban</b>	12.50%	11.90%	-5.04%	81	122	33.61%	638,192
<b>Vancouver Periphery</b>	12.40%	9.10%	-36.26%	37	72	48.61%	274,571

Total

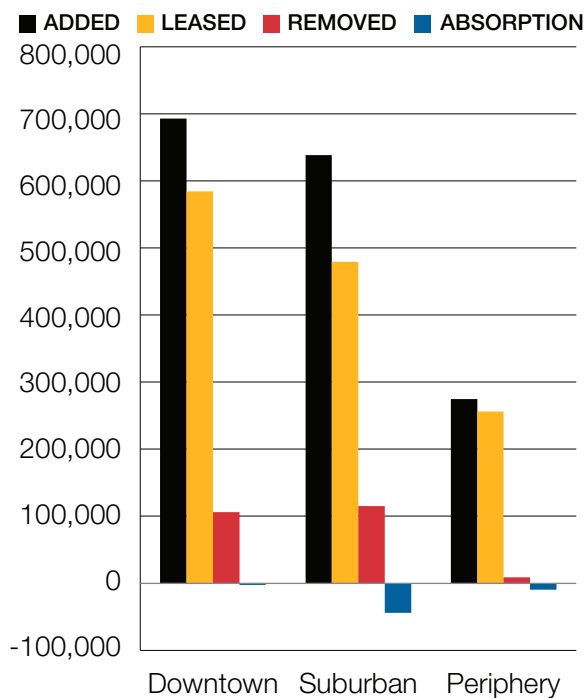
# Taxes & Operating Costs for 2017

As it is the first quarter of 2017, we are including a summary of taxes and operating costs for the different markets. A more detailed list breaking down the costs per building can be provided on request.

The summary is as follows:

Market	Class	Sample Size	Average
Downtown	A	19	\$20.27
	B	20	\$17.22
	C	15	\$14.48
Suburban	A	37	\$12.82
	B	30	\$12.40
	C	6	\$12.05
Vancouver Periphery	A	4	\$14.88
	B	6	\$16.72
	C	4	\$11.43

## Q1 2017 Absorption



# Downtown Snapshot

Looking at these statistics, we see that more spaces came to market this quarter with 169 new spaces added, compared with 149 new spaces in the last quarter of 2016. The 169 spaces added to the market total 692,773 sf. At the same time, 584,087 sf were leased and another 106,209 sf removed from the market, totaling 171 spaces removed from Q1 office supply. The net result nearly broke even. With only 2,477 sf of negative absorption, the resulting vacancy rate remained unchanged at 8.6% from Q4 2016.

## Significant Transactions

Downtown was busy this quarter. We are confident this will reveal itself in positive absorption numbers in the second and third quarters of the year. The talk of the town was WeWork, the latest Vancouver addition to the shared workspace network. WeWork has been expanding rapidly and has taken a significant gamble on Vancouver, entering the market by committing to approximately 80,000 sf in Bentall 3. Also growing Vancouver's coworking sector is Regus, continuing their expansion with a new 'Spaces' concept rolling out 36,000 sf at Gastown's Ormidale Block. For more on shared office space, see our article "Shared Spaces: What Are They & How Are They Affecting The Market" at the end of this report.

Other deals of interest include:

- ▶ The Executive Group securing approximately 100,000 sf in The Exchange to be converted to hotel use, much to the relief of Credit Suisse who have not had a lot of activity in traditional office leasing.
- ▶ Altus is making its own move, committing to a full floor in 1055 West Georgia, the same building where OnePlus has committed to 10,000 sf.
- ▶ BuyuTab leased 10,500 sf at 788 Beatty Street and;
- ▶ Lululemon is continuing their expansion with 55,000 sf at 855 Homer Street.
- ▶ Quadreal plans to set up show in approximately 50,000 sf at 666 Burrard Street.
- ▶ Sophos successfully leased 46,000 sf at 777 Dunsmuir,
- ▶ SAP is expanding their location at 910 Mainland Street and;
- ▶ Seaspan will be expanding by 38,000 sf at 200 Granville Street.
- ▶ Kokko leased 32,000 sf at 948 Homer Street.
- ▶ Salesforces committed to 17,000 sf at 375 Water Street.
- ▶ Dentsu took 10,000 sf at 1075 West Georgia Street.

	No Spaces Leased Q4	No Spaces Lease Q1	Total Area Leased	Number of Spaces removed	Total Area Removed	Total removed	Absorption for the Quarter
Downtown Vancouver	148	171	584,087	21	106,209	690,296	-2,477
Suburban	80	131	479,197	14	115,035	594,232	-43,960
Vancouver Periphery	18	40	256,331	1	8,716	265,047	-9,524
<b>Total</b>							<b>-55,961</b>

Statistics provided by Altus Insite

## Suburban Snapshot

The suburban market saw a continued trend of reduced vacancy, moving from 12.5% last quarter to 11.9% at the end of Q1. 122 new spaces were added to the market representing 638,192 sf, compared to 81 spaces last quarter and a total of only 251,078 sf. There was significant activity throughout the market with 131 spaces leased totaling 479,197 sf with another 115,035 sf removed from the market. The net result was negative absorption of 43,960 sf. Judging by the transactions report with few significant transactions, we expect the vacancy to change very little in the second quarter.

### Significant Transactions

Q1 was populated by mostly renewal activity in the likes of ICBC, Rogers, PCL Construction and the Canadian Food Inspection agency to name a few. The new deals were not as active as Downtown, but we did see a few new commitments:

- ▶ RDH Building Science Inc. leased 17,587 sf at 4333 Still Creek Ave,
- ▶ HY Louie set up operation at 4401 Still Creek Ave with 25,000 sf,
- ▶ Crow Computing committed to 11,600 sf at 5477 152<sup>nd</sup> St,
- ▶ Associated Engineering leased 36,000 sf at 4940 Canada Way
- ▶ Loyaleaf Financial took 18,000 sf at 13571 Commerce Pkwy.

## Vancouver Periphery Snapshot

The Vancouver Periphery market was also active in Q1. We saw a dramatic reduction in vacancy from 12.4% to 9.10% at the end of the quarter. Again there was a significant increase in the number of spaces added to the market, with 72 new spaces compared to 37 in Q4. These spaces added have to be small units as the square footage has only marginally increased with 274,571 sf compared to 227,298 last quarter. 256,331 sf of premises were leased and only 8,716 sf removed for other reasons, resulting in minimal negative absorption of 9,524 sf. Given the transactions reported, we think the market will remain stable and relatively flat in the second quarter with only a small decrease in vacancy.

### Significant Transactions

Renfrew Centre at 2889 East 12<sup>th</sup> Avenue was very active with Vancouver Coastal Health taking 11,000 sf, BC Safety Authority committing to 52,000 sf, HEA BC for 48,000 sf, and Associated Engineering for 38,000 sf. Elsewhere, HSBC expanded by 28,000 sf at 2985 Virtual Way where Post Media also leased 29,000 sf. Columbia College committed to 10,000 sf at 333 Terminal Avenue and Digital Domain leased 10,000 sf at 2025 West Broadway.

## Shared Spaces: What Are They & How Are They Affecting The Market?

Packaged office is a concept that's been around for decades in some form or another. The idea is simple: break up vacant space into small, short-term rentals; charge a premium on the rent; and, if you can keep it occupied, you have a business. Over the last several years Vancouver has witnessed a consolidation in this sector with Regus being the largest player in leasing new space and acquiring other packaged offices to grow.

However as mentioned in the "Downtown Snapshot," WeWorks is responsible for the largest recent office deal in the downtown core. They've committed to seven floors (80,000 square feet) in the Bentall 3 tower, anticipated opening in summer of 2017. This lease will be the largest contiguous business centre in Vancouver to date, causing us to dive a little deeper into this sector and what it implies for the Metro Vancouver office market.

## What Do These Services Provide?

Open working space, high-end coffee amenities, co-ed washrooms, a mother's room, rooftop patios, mentorship and a personal concierge are just some of the options soon to be available. Even though they themselves are leasing space from a building owner, shared office companies act as a landlord to larger companies looking to take up multiple floors, or a simple club membership to a start-up company of two employees.

They provide a community outside of your classic, cut-out, solitary office spaces. They encourage strangers working at a lone desk or part of a large corporation to meet in the common area over a cup of coffee and a shared love of turtles. Much in the way that the invention of the Internet brought out new opportunities for those with shared interests to converse across vast distances, shared offices are creating a neighbourhood in which those with very different jobs can complement each other's lives, whether that's offering accounting services to a freelancer or a software engineer offering IT assistance to a neighbouring lawyer with an aging computer.

To compete with the skyrocketing value of WeWork and other new players in the coworking market,

Regus branched out in 2015 expanding from its traditional, large-format corporate model to new target markets with the purchase of a Dutch company called “Spaces.” Spaces and WeWork operate in the same market, aiming to attract young, cool, hip, and creative people that may not necessarily associate their aspirations with a corporate Regus environment.

In Q1, Regus leased Century Group’s entire new building in Gastown, Ormidale Block. Regus expects to open their first Vancouver Spaces location in the fall of this year. 36,000 square feet of brand-new, open concept space finished with modern décor, glass offices and a rooftop patio. When speaking with Wayne Berger, Executive Vice-President of Regus, he mentioned their focus on the individuality of each area in the city. Although the Financial District and Gastown are next-door neighbours, there is a defined difference in the community feel and overall vibe of their offices in each separate district.

We are seeing more and more US-based incubators looking to expand to Vancouver. Seattle-based SURF (Start Up Really Fast) Incubator has been on the scene looking for an ideal space to house their advanced incubation business. Their model allows pre-established businesses the mentorship and leadership to bring their company to new heights.

## Is This True Absorption?

With all of these recently completed business centre transactions, it poses a question: is this true office space absorption or has the office market evolved to include a new middle man while stabilizing income for landlords? There is no doubt that the market is changing. Businesses are changing and their needs for office space are adapting as well. Large companies are looking for new ways to downsize and offer employees flexibility to work where they’re most productive.

Companies with the sole motivation of offering savings for businesses on the costs associated with leasing – such as build-out construction and interior design – as well as offering new opportunities for community relationships are hugely desirable. It just makes sense.

Small technology businesses, research companies, and freelancers of all sorts are becoming more and more common. Where do these firms go for brick-and-mortar space? If they succeed and grow, it’s often in brief and sudden bursts supported by short-term financing demanding short-term commitments. The need for the flexibility to scale up or scale down while still offering large-office amenities is in high demand. Committing to a space for even a three-year term is out of the question for these companies.

We believe these companies will quickly prove that shared office deals represent true absorption. WeWork seems to be in serious discussions with their larger executive clients willing to commit to the majority of the space recently leased in Bentall 3.

Not everyone is confident in the drastic leaps these co-working companies seem to be taking. Property experts see the long leases as a classic worry in this space. Regus has sought to mitigate risk by entering into profit-sharing partnerships with landlords. WeWork has signed some profit-sharing deals, but has drawn scepticism from the industry by taking out major leases at a time when office rents in the larger markets are at record highs.

*Written by:*

**Kaitlin Beaudry & Conor Finucane**, Commercial Sales & Leasing

## Who Are the Companies Competing in Vancouver?

- |  |  |
|--|--|
| 1. <b>Plus Vancouveroffice.com</b><br>#400-601 W Broadway,<br>#1100-1200 W 73 <sup>rd</sup> Ave  | 19. <b>Instant Offices</b> (no addresses)  |
| 2. <b>Newlook Ltd.</b><br>1275 W 6 <sup>th</sup> Ave   | 20. <b>Next Gen Offices</b><br>4388 Still Creek Ave<br>4300 N Fraser Way<br>17848 65A Ave        |
| 3. <b>The Network Hub</b><br>#300-422 Richards St  | 21. <b>Suite Genius</b><br>1965 W 4 <sup>th</sup> Ave<br>225 W 8 <sup>th</sup> Ave               |
| 4. <b>Broadway Business Center</b><br>1523 W Broadway  | 22. <b>The Profile</b><br>120 Lonsdale Ave<br>375 Water St<br>535 Thurlow St                     |
| 5. <b>Hastings Executive Offices</b><br>#700-838 W Hastings St   | 23. <b>Hive</b><br>#210-128 W Hastings St  |
| 6. <b>MPS Executive Suites</b><br>#720-999 W Broadway  | 24. <b>The Profile Coworking Business Centre</b><br>#200-375 Water St                            |
| 7. <b>Central Business Centres</b><br>#300-3665 Kingsway   | 25. <b>L'atelier Vancouver Coworking</b><br>#400-319 W Hastings St                               |
| 8. <b>Automation Plus Business Services</b><br>#1000-355 Burrard St  |  |
| 9. <b>Regus</b><br>777 Hornby St<br>885 W Georgia St<br>701 W Georgia St<br>666 Burrard St<br>1021 W Hastings St<br>1066 W Hastings St<br>1090 Homer St<br>999 Canada Place<br>1500 W Georgia St<br>4170 Still Creek Dr<br>4720 Kingsway<br>5811 Cooney Rd<br>220 Brew St<br>7404 King George Blvd<br>1530 Croydon Dr<br>8661 201st St<br>22420 Dewdney Trunk Rd |  |
| 10. <b>WeWorks</b><br>595 Burrard St   |  |
| 11. <b>Griffin</b><br>901 3 <sup>rd</sup> St NW Vancouver  |  |
| 12. <b>Intelligent Office</b><br>#600-1285 W Broadway  |  |
| 13. <b>Waterfront Business Centre</b><br>#220-145 Chadwick Ct  |  |
| 14. <b>Award Business Centre</b><br>#708-1155 W Pender St<br>#200-1892 W Broadway<br>5050 Kingsway   |  |
| 15. <b>South Granville Business Centre</b><br>2628 Granville St  |  |
| 16. <b>Executive Suites</b><br>#200-100 Park Royal   |  |
| 17. <b>CMPNY</b><br>#201-4501 Kingsway<br>#301-3007 Glen Dr  |  |
| 18. <b>Van Cubers</b><br>#250-997 Seymour St   |  |
|  | <b>Accelerators:</b>   |
|  | 26. <b>Centre4Growth</b><br>900-1188 W Georgia St  |
|  | 27. <b>Discovery Parks</b><br>1111 Melville St<br>#155-887 Great Northern Way<br>1333 W Broadway |
|  | 28. <b>Entrepreneurship @ UBC</b><br>6163 University Blvd  |
|  | 29. <b>Highline Vancouver</b><br>2416 Main St  |
|  | 30. <b>Green Tech Exchange</b><br>515 W Hastings St  |
|  | 31. <b>Invoke Labs</b><br>#400-322 Water St  |
|  | 32. <b>Institute B</b><br>120 Columbia St  |
|  | 33. <b>Launch Academy</b><br>128 W Hastings St   |
|  | 34. <b>New Ventures BC</b><br>9 <sup>th</sup> Floor, 1188 W Georgia St                           |
|  | 35. <b>SFU Time Ventures</b><br>#250-13450 102 <sup>nd</sup> Ave Surrey                          |
|  | 36. <b>Spring Activator</b><br>#90-425 Carrall St  |
|  | 37. <b>VentureLabs</b><br>#1200-555 W Hastings St  |
|  | 38. <b>Victory Square Labs</b><br>150 W Hastings St  |
|  | 39. <b>Wave Front Vancouver</b><br>#1400-1055 W Hastings   |
|  | 40. <b>Zen Launchpad</b><br>288 E 1 <sup>st</sup> Street, North Van                              |



*We're always here to help, even after your lease is signed.*

## NAI Commercial Office Team

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.

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.

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