

# Metro Vancouver Q4 Office Report



# Q4 2017 Vancouver Office Report

We are pleased to provide you with the year-end Metro Vancouver Office Report. As we look forward to 2018, it's important to review some key events from the past year. Of great interest is the political maneuvering occurring at both the provincial and federal levels.

As we reflect on the first eight months of a historical NDP/Green leadership, it is no surprise the BC Liberals held office for such a long tenure. In a controversial decision that is misaligned with established party values, Premier John Horgan announced in December that the current government would continue with the construction of the Site C Dam. Upon announcement, Green Party members immediately accused the NDP of "lacking the courage" to cancel the project. This sort of inter-party conflict causes us to question the future stability of the partnership that was needed to form our government. Horgan dampened his announcement by acknowledging that although Site C is not a project the NDP would have proposed, it is one they intend to complete, as scrapping the project would create debt, preventing the achievement of other promises.

Further on the provincial level, Horgan stood by the decision to increase corporate taxes from 11% to 12% and the personal provincial tax rate for the top income bracket from 14.7% to 16.8%.

On the Federal front, in response to considerable backlash over the proposed tax reform that would punish small businesses across the country, Minister of Finance Bill Morneau and the Federal Liberals have announced adjustments to the proposed tax reform aimed at small businesses. Without specific details they said they will reduce the reach of the "reasonableness test" (which determines if someone receiving income is making a legitimate contribution when it comes to business owners sharing income), or what they refer to as income sprinkling. The government still intends to curb income sprinkling, and continues to lack an understanding of how entrepreneurs across the country and small business assume the risk of business ownership that fuels the Canadian economy.

While fielding accusations against his own personal wealth management, Morneau announced additional damage control in the form of a pledge to reduce the small business tax rate from 11% to 9% over the course of two years. Interestingly, the Senate released a 50-page report in December outlining their concern with the proposed tax changes, expressing a lack of confidence in the government's case for the proposals. Amid these changes, Canada continues to navigate through renegotiating the NAFTA with the U.S. and Mexico. We await more information on those proposed changes and the potential impact on the Canadian economy.

On a positive note, the BDC forecasts a reduced but solid growth of 2.2% for the upcoming year and BC continues to be a key province in driving this number. In contrast to the government tax reform, the BDC was confident that the level of job and economic growth means significant opportunity for entrepreneurs. The BDC also notes that over 60% of small business owners are older than 50 years, with many of those looking to transition out of ownership. For those looking to expand their interests outside of the commercial real estate sphere, this could be the year to invest in an operating business.

## Quarterly Vacancy Rates

### Vancouver Downtown

Q3 2017: 7.1%  
Q4 2017: 6.7%

**-5.6%**

### Suburban

Q3 2017: 12.9%  
Q4 2017: 11.7%

**-9.3%**

### Vancouver Periphery

Q3 2017: 8.2%  
Q4 2017: 6.3%

**-23.2%**

## Yearly Vacancy Rates

### Vancouver Downtown

Q4 2016: 8.6%  
Q4 2017: 6.7%

**-22.1%**

### Suburban

Q4 2016: 12.5%  
Q4 2017: 11.7%

**-6.4%**

### Vancouver Periphery

Q4 2016: 12.4%  
Q4 2017: 6.3%

**-49.2%**

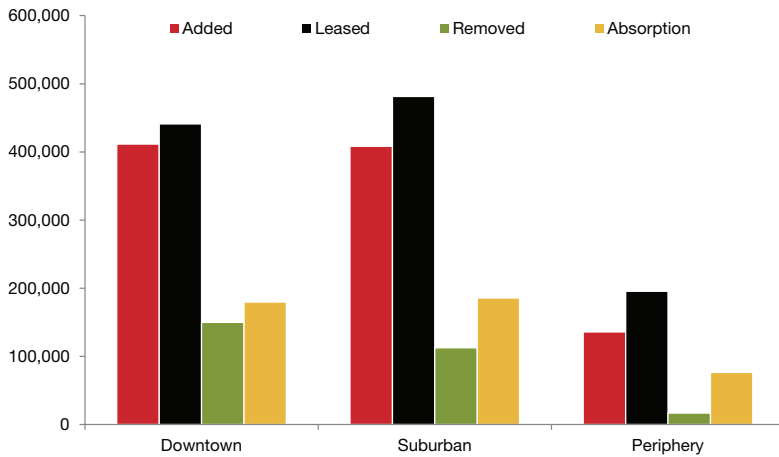
	Vacancy Rate Q3	Vacancy Rate Q4	% change from previous Quarter	Spaces Added Previous Q3	Spaces Added Q4 2017	Total Area Added	No Spaces Leased Q3	No Spaces Leased Q4	Total Area Leased	No. Spaces Removed Q3	No. Spaces Removed Q4	Total Area Removed	Absorption for the Quarter
<b>Downtown</b>	7.10%	6.70%	-5.63%	159	109	411,386	166	124	441,214	20	20	149,773	179,601
<b>Suburban</b>	12.90%	11.70%	-9.30%	111	77	408,180	93	79	481,324	5	20	112,380	185,524
<b>Vancouver Periphery</b>	8.20%	6.30%	-23.17%	33	14	135,765	30	34	195,536	4	4	16,668	76,439

**Total**

**441,564**

Statistics provided by Altus Insite

# Q4 2017 Absorption



## Downtown Snapshot

The Downtown market tightens further as vacancy rates continue to drop. With a positive economic forecast, we wonder how much more the market can constrict. Q4 marks the fifth consecutive month in which the vacancy rate has dropped, with the availability rate dropping from 7.1% to 6.7%. The availability rate per class is as follows:

### Downtown Core

Class	Availability Rate Q3 (%)	Availability Rate Q4 (%)	Inventory (SF)	Area Available (SF)
A	6.4%	5.8%	14,568,859	844,994
B	7.0%	7.4%	5,366,065	397,089
C	13.0%	11.5%	2,176,955	250,350

It is worth noting the inventory size of the different classes and how much area the vacancy represents (Class A in particular having more available area than B and C combined).

Looking at transaction activity, 109 new spaces totalling 411,386 SF were added to the market, and 124 spaces totalling 441,214 SF were removed. Additionally, 20 spaces equating to 149,773 SF were removed from inventory. The average size of space added to the market was only 3,774 SF, while the average size of space leased was 3,558 SF.

## Significant Transactions

- ▶ **WeWork** expanded at 555 Burrard Street to the tune of 50,000 SF which was the largest transaction of the quarter
- ▶ **Facebook** leased approximately 45,000 SF at 200 Burrard Street

- ▶ **Translink** committed to 10,000 SF in Bentall Four
- ▶ **Hyperwallet** took two floors at 475 Howe Street, where **Sovereign General Insurance** also leased approximately 8,000 SF

## Suburban Snapshot

The Suburban market vacancy rate increased in Q2 and Q3, but fell from 12.9% to 11.7% for the closing quarter. Only 77 spaces were added to inventory in Q4 compared to 111 spaces in Q3. The 77 spaces totalled 408,108 SF with an average size of 5,301 SF, while 79 spaces consisting of 481,324 SF was leased. 20 spaces equating 112,380 SF were removed from inventory, suggesting positive absorption of 73,144 SF in the quarter.

Class	# of Buildings	Inventory Size (SF)	Total Availability Rate (%)
A	178	15,253,992	13.2%
B	126	6,321,376	10.2%
C	45	1,758,761	3.9%

A comparison of the suburban vacancy per class, and the vacancy per city is below.

Class	# of Buildings	Inventory Size (SF)	Total Availability Rate (%)
Burnaby	121	10,044,379	10.7%
Langley	23	1,142,378	7.1%
New Westminster	20	1,327,488	11.7%
North Shore	40	1,965,402	9.6%
Richmond	77	4,654,171	11.3%
Surrey	54	3,439,965	17.7%
Tri-Cities	14	760,346	11.1%

The class A rate fell the most, dropping from 14.7% in Q3 to 13.2% for Q4.

## Significant Transactions

Only a few significant transactions occurred in Q4. These include:

- ▶ **Translink** committing to 21,000 SF at 287 Nelsons Court and 17,000 SF at 13401 108<sup>th</sup> Avenue
- ▶ **Transoft** leasing 13,000 SF at 13700 International Place in Richmond

# Vancouver Periphery Snapshot

The Periphery market saw a significant decrease in rate from 8.2% in Q3 to 6.3% to close out the year. Although only 14 spaces totalling 135,765 SF were added to the market, 34 spaces totalling 195,536 SF were leased. With the spaces removed being considered, there was 76,439 SF of absorption.

Class	# of Buildings	Inventory Size (SF)	Total Availability Rate (%)
All office classes	140	8,188,297	6.3%
A	62	5,072,533	5.7%
B	47	2,129,664	6.0%
C	31	986,100	10.1%

## Significant Transactions

Readers should note that all categories and class vacancies fell from the previous quarter. Key transactions to close the year include:

- ▶ **AbCellera Biologics** leasing 14,000 SF at 2215 Yukon Street
- ▶ **HSBC** renewing a 28,000-SF lease at 2955 Virtual Way
- ▶ **The City of Vancouver** committing to 21,000 SF at 450 Marine Drive
- ▶ **Eastside Games** taking 8,000 SF at 555 West 12<sup>th</sup> Avenue

## 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 and are available to answer questions and concerns, even after your lease is signed.

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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 and teams looking to enhance their career in commercial real estate that may be a good fit for our firm.



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