

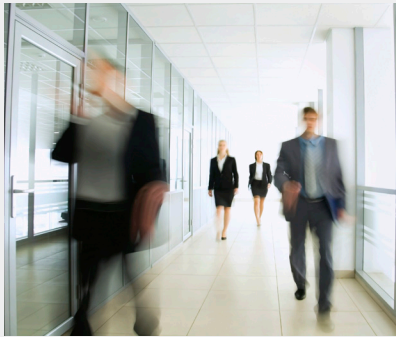


NAI Commercial

2Q'16

Office Report for
Metro Vancouver

Q1 OFFICE REPORT: Metro Vancouver



Brexit, Bentall and other surprises: **NAI's 2016 Q2 Office Report.**

What an interesting second quarter we've had. The biggest and most shocking event was, of course, Brexit. In the June 23rd referendum, a 52%-48% majority of United Kingdom voters chose to leave the European Union. The vote was surprising because most observers had thought the "stay" vote would win; the effect was immediate. World capital markets lost an estimated \$3 trillion. London real estate markets have also reported significant losses. Around the world, repercussions from the vote have heightened pressure to keep interest rates low and to push up the value of the US dollar – which is likely to push the loonie even lower than its current value of CAD 1.304 = 1 USD.

Locally, BCIMC and Bentall managements are on the move

The big news in Vancouver real estate was having BCIMC bring its management in-house and create QuadReal Property Group to oversee and manage its \$18 billion in real estate assets. This move will result in much of the talent at Bentall Kennedy being transferred over to QuadReal, including Remco Daal, who will be co-president and head up Canadian operations. Meanwhile, China's Anbang Insurance Group acquired the remaining stakes in Bentall Centre; these will now be managed by the Canderel Group.

The debate over making Vancouver housing more affordable

The controversy over affordable housing in Vancouver rages on. In my view, there is a lot of political posturing and dubious debate going on just to address a relatively small handful of vacant homes. Those vacant homes are not draining city resources; in fact, they pay their full share of property taxes while using minimal city services. True, our housing market is crazy; and true, we are the only market in North America that sells 100% of its new inventory. This has however helped create a robust housing and real estate industry that drives jobs and fuels our economy. Ultimately the market will sort itself out, so we should proceed cautiously before penalizing foreign ownership or punishing the owners of vacant homes. Whatever you might think about those issues, the fact is that we do, collectively, enjoy the benefits of increased investment in our town.

One way to maintain perspective is to remember that those vacant homes are just a fraction of the total inventory of expensive condominiums and detached homes in Vancouver. If you'd like an informed analysis of the current housing issues take a few minutes to read this report in The Tyee: <http://thetyee.ca/Life/2012/11/24/Affordability-Crisis/>. You'll see that the issue is not new. In fact, it's been debated here since at least 1884! As Vancouverites we might be better off questioning why the City raised taxes at a time when its revenues are at an all-time high.

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Office Space Statistical Changes Quarter-over- Quarter

1Q16 vs. 2Q16



NET ABSORPTION

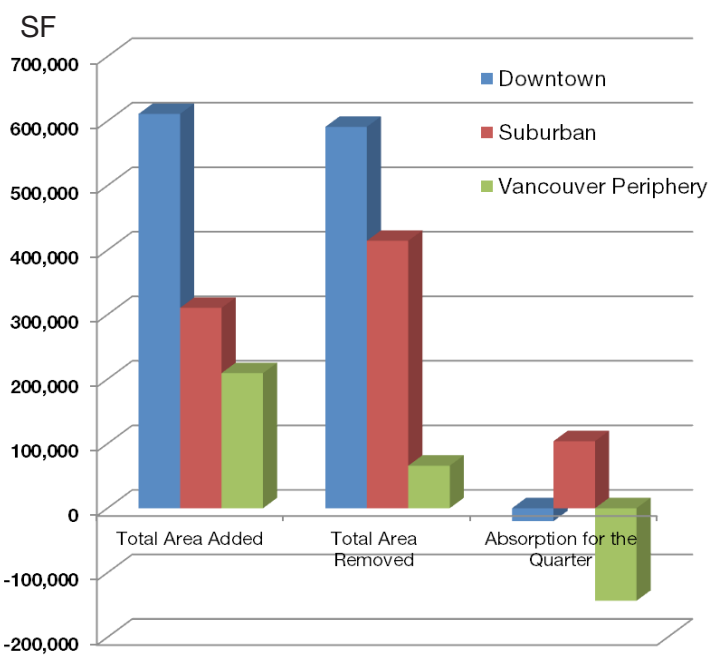


VACANCY RATE

Now, here's your look at current supplies and absorption rates for office space

Q2's data for the Metro Vancouver market are intriguing. For instance, while the downtown vacancy rate dropped, absorption for the quarter was slightly negative, with just 20,100 square feet (SF) being taken off the market. Examining the data closely reveals that overall the inventory did not change between Q1 and Q2.

The inventory is drawn from 228 buildings in downtown with a total inventory of 25,611,667 SF and no change in the amount of new inventory under construction. 510 Seymour, at 71,277 SF, and The Exchange, at 353,831 SF, account for the pending inventory under construction. The total occupied area did increase from 22,872,071 to 23,066,752 SF, which accounts for the reduction in vacancies. However, that reduction does not get picked up in the data for the last 90 days. Statistically, an absorption of only 20,100 SF is negligible. Our conclusion is that the vacancy rate reduced minimally, but absorption was negative – indicating that the market is relatively flat and vacancy rates may be near the end of a long, downward trend.



	Vacancy Rate Q1	Vacancy Rate Q2	% change from previous Quarter	Spaces Added Previous Quarter 1	Spaces Added Q2 2016	Total Area Added	No. Spaces Removed Q2	No. Spaces Removed Q1	Total Area Removed	Absorption for the Quarter
Downtown	10.8%	9.7%	-10.19%	184	163	611,052	186	153	590,952	-20,100
Suburban	13.4%	12.4%	-7.46%	100	74	310,476	99	114	414,364	103,888
Vancouver Periphery	12.1%	11.9%	-1.65%	35	32	209,357	26	35	65,862	-143,495

Sublease vacancy rate vs. overall vacancy rate

Curious about the sublease rate, we examined the rolling history of sublease space Downtown. We found that, over the last five years, the sublease vacancy rate compared to the overall vacancy rate Downtown was as follows:

Quarter	Total Vacancy	Sublease Vacancy	Sublease % of Total Vacancy
Q3 2011	6.00%	1.31%	21.80%
Q3 2012	5.60%	1.34%	24.00%
Q3 2013	7.90%	2.25%	28.50%
Q3 2014	9.80%	2.12%	21.60%
Q3 2015	10.70%	2.12%	19.80%
Q2 2016	9.90%	1.91%	19.30%

3Q15 vs. 2Q16



Total Vacancy Rate



Sublease Vacancy Rate

This seems to indicate the sublease market has steadily shrunk from its high in 2013. That strongly suggests that firms have right-sized their businesses and that sublease inventory is not being replaced.

Significant transactions

During Q2 Downtown Vancouver saw several major transactions: The Guarantee Company of North America leased a floor in 1111 West Georgia Street; Teck committed to 9,000 SF at Bentall 5; McHelhanny leased 40,000 SF at 858 Beatty Street; and Rocky Mountaineer committed to 36,000 SF at 980 Howe Street.

Suburban market

The Suburban market enjoyed reasonable activity in Q2, with the vacancies decreasing to 12.4% from 13.4% in Q1. Seventy-four spaces were added to the market compared to 100 in the previous quarter; meanwhile, 114 spaces were removed, giving a 90-day absorption of 103,888 SF.

As for significant transactions, the suburbs enjoyed reasonable levels of activity: LMI Technologies leased 62,000 SF at 9200 Glenlyon Parkway, and Yellow Pages committed to 75,000 SF at 2025 Willingdon Avenue. Elsewhere, Encorp committed to 14,000 SF at 4259 Canada Way; OSI Marine committed to 13,000 SF at 4585 Canada Way; Westminster Savings crossed the river to occupy 70,000 SF at 13450-102nd Avenue in Surrey; and Work Safe BC committed to 40,000 SF at 220 Brew Street.

What's happening in the Vancouver Periphery office market?

The Vancouver Periphery office market's vacancy rate has dropped to 11.9% from last quarter's 12.1%.

1Q16 **vs.** 2Q16



Only 35 spaces were added to the market, accounting for 209,356 SF of new spaces; and only 26 spaces were removed, accounting for 65,862 SF. That negative absorption of 143,494 SF, added to the previous quarter's negative absorption of 290,552 SF, warranted a closer look at the data. Within the 143,494 SF, 46,000 SF is the space under construction at 288 East Broadway, so the actual negative absorption was closer to 97,494 SF.

Some of the more interesting additions to inventory were 40,000 SF of sublease space at 450 Marine Drive; 22,912 square feet at 2025 West Broadway; and 36,000 SF at 657 West 37th Avenue. The only significant transaction was Zymeworks, which committed to 10,000 SF at 1770 West 7th Avenue.

Longer wait for City of Vancouver permits

As you may recall from last quarter's Report, I discussed the City of Vancouver's delays and backlog of permits waiting to be issued. As a result, we cautioned Tenants and Landlords about the unprecedented delays. The City is promising to improve the situation, however, on several projects we continue to experience delays – and can only hope that permits will be issued more promptly in the near future. In the meantime, we suggest all parties allow extra time for permitting.

Q1 OFFICE REPORT: Metro Vancouver

We're always here to help you find the best leasing solutions

As always, our team is ready to **help you review your options, renew leases, evaluate relocations or market your premises.** If you are curious about our services, or simply want some good, honest advice from experienced professionals, we are happy to share our knowledge with you. If you missed our article last month on addressing an upcoming lease expiry, you can read it here [convert the word “here” into a hyperlink].

NAI Commercial offers a full-service consulting approach to help you get the most from your commercial real estate. We welcome you to contact us for a free opinion on your current properties.

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2Q'16

Office Market Report on Metro Vancouver

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