

NEW HOUSING TAXES HIT VANCOUVER MARKETS

Last quarter we wrote about the debate over making Vancouver housing more affordable. In February the provincial government increased the property transfer tax from 2% to 3% on properties selling for over \$2,000,000. That was hard on buyers with properties under contract. The buyers had to scramble for additional funds on closing. Then, this past quarter, a 15% tax was levied on foreign buyers of residential properties and on class-one multi-family properties. The effect of that tax is mostly on residential property, but it has caused some buyers to eye commercial properties cautiously. They are openly wondering what other taxes or restrictions may be forthcoming.

What we can say is that the appetite for foreign investors wanting to acquire property in British Columbia just continues to grow. While there are ebbs and flows in the market, there seems to be no shortage of capital wanting to land here.

BILLION DOLLAR DEAL IN COMMERCIAL REAL ESTATE

Also in this past quarter, the Ontario Teachers' Pension Plan, through Cadillac Fairview, announced plans to sell up to 49% of its Vancouver holdings. As Vancouver's largest commercial landlord, Cadillac Fairview could be involved in a transaction worth more than \$2 billion for a minority interest. And, with Anbang now in control of Bentall Centre and Kuehne + Nagel operating Royal Centre, this could represent another significant change in Vancouver's ownership landscape.

British Columbia also got some positive economic news this month: the federal government's approval of the Pacific Northwest LNG project. However, the approval comes with some 190 conditions that have to be met, leaving the project and an actual start date very much up in the air.

U.S. ELECTION BRINGS UNCERTAINTY TO CANADIAN MARKETS

The U.S. election will be the biggest news of the fourth quarter. The Hillary-versus-Donald show has proven both interesting and horrifying, and we can only hold our breaths till the November 8th election. What will the outcome mean for Canada? Well, no matter what the result, the United States is still our largest trading partner and our growth is closely linked to U.S. growth.

Canada was hit hard by the downturn in oil and we're still recovering. Perhaps the most significant issue for us in this election season is NAFTA, that is, the North American Free Trade Agreement. Both candidates have indicated a desire to revamp the deal, which has for many years been a source of stability and certainty for Canadian trade with the U.S.. Revamping it can only cause uncertainty and risk for the Canadian economy until a new deal is in place. But all we can do is wait and see what effect the results of the U.S. election will have on Canadian business.



NAI is
growing
**& on the
move!**

NAI Commercial continues to grow, thanks to all our clients who keep believing in us. We're excited to have relocated to new, expanded premises at Suite 1300, 1075 West Georgia Street. We welcome and encourage you to drop in and see our new space, new technologies, new finishes and new faces.

Quarterly Vacancy Rates

Vancouver Downtown

Q2 2016: 9.7%

Q3 2016: 9.0%

0.7%

Vancouver Periphery

Q2 2016: 11.9%

Q3 2016: 11.6%

0.3%

Suburban

Q2 2016: 12.4%

Q3 2016: 12.2%

0.2%

Yearly Vacancy Rates

Vancouver Downtown

Q3 2015: 10.7%

Q3 2016: 9.0%

1.7%

MORE OF THE SAME FOR THE VANCOUVER OFFICE MARKET

The Metro Vancouver Office Market continued its trend this past quarter, with vacancies declining slightly in all sectors. At the end of this report, you'll see our recap of what is currently under construction – and who is ready and marketing for the next phase of office construction.

Downtown Q3 data showed that 165 spaces averaging 3,727 rentable square feet (SF) each and totaling 615,093 SF were added to the market. During the same period 174 spaces totaling 587,745 SF were removed, giving a negative absorption of 27,348 SF for the quarter. The vacancy rate, however, fell again to 9% from last quarter's 9.7%. Downtown has been very consistent this year with negative absorption ranging from 20,000 to 50,000 SF per quarter. We also note that the Downtown inventory in Q1 was 25,598,228 SF, measured in 228 buildings. In the same quarter last year, the inventory was 25,579,400 SF, in 227 buildings, representing a downtown vacancy rate of 10.7%.

Significant Transactions

Here are some significant transactions during this last quarter. **Bench Accounting** has committed to 48,000 SF in 501 Robson Street. **Intracorp** will relocate from 666 Burrard into 17,000 SF in Bentall 5. The old Tom Lee Music building attracted **EF Language Schools**, which took on 14,900 SF. Other transactions include **MCM Architects** relocating from Bentall II to 1055 West Hastings and **Steelhead LNG** committing to the 22nd floor at 1075 West Georgia.

Slightly Lower Suburban & Periphery Vacancy Rates

In the Suburban Market, the vacancy rate fell slightly from 12.4% last quarter to 12.2% this quarter. The market added 109 spaces, equaling 485,608 SF to inventory, while removing 286,284 SF. That gives a negative absorption of 199,324 SF for the quarter, following a positive absorption of 103,000 SF last quarter.

The vacancy rate dropped again in Vancouver's Periphery Market, going from 11.9% last quarter to 11.6% this quarter. Thirty spaces were added during the quarter, bringing 336,705 SF on to the market, while only 25 spaces totaling 199,902 SF were removed, for a total negative absorption of 136,803 SF.

	Vacancy Rate Q2	Vacancy Rate Q3	% change from previous Quarter	Spaces Added Previous Quarter 2	Spaces Added Q3 2016	Total Area Added	No. Spaces Removed Q2	No. Spaces Removed Q3	Total Area Removed	Absorption for the Quarter
Downtown	9.70%	9.00%	-7.22%	163	165	615,093	186	174	587,745	27,348
Suburban	12.40%	12.20%	-1.61%	74	109	485,608	99	97	286,284	199,324
Vancouver Periphery	11.90%	11.60%	-2.52%	32	30	336,705	26	25	199,902	136,803

Total

363,475

Statistics provided by Altus Insite

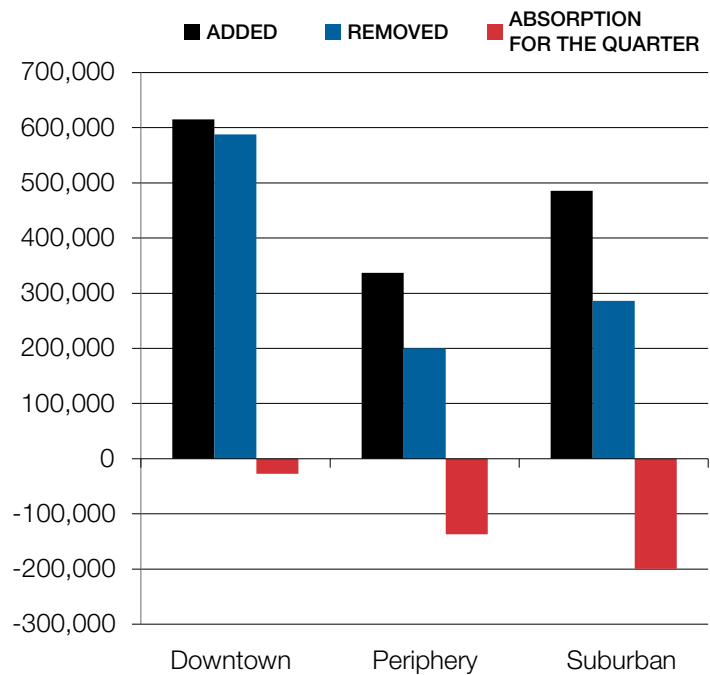
Deals of Interest

In deals of interest, **Best Buy** renewed its lease for 140,000 SF at 8800 Glenlyon Parkway. **Capcom** has committed to 50,000 SF at 2025 Willingdon Avenue, where Regus also continues to expand by committing to 20,000 SF. **Strive Living Society** leased 11,000 SF at 4370 Dominion Street and **D-Wave** took 9,000 SF at 4601 Canada Way.

Large Tenants Take Most of the Periphery Market Action

Most of the tenant activity in the Periphery Market was with large tenants: **Kit and Ace** committed to 90,000 SF at 569 Great Northern Way and **Intel** took 80,000 SF at Marine Gateway. **Zymeworks** expanded again and now occupies about 23,000 sf in 1385 West 8th Avenue in addition to their space at 1770 West 7th Avenue, while **Krahn Engineering** committed to 16,000 SF of sublease space at 2920 Virtual Way, where **Copperleaf** also expanded by 10,000 SF.

It is interesting to compare markets and the average size of spaces being added and removed. The Downtown and Suburban Markets have similar sizes, while in the Periphery Market the size of the spaces leased and coming to market are more than double that of the other markets.



Average Size	Added	Removed
Vancouver Downtown	3,728	3,378
Vancouver Periphery	11,224	7,996
Suburban	4,455	2,951

Statistics provided by Altus Insite



Projects Under Construction

1

Address 475 Howe Street

Developer Credit Suisse

Building Area 353,813 SF

Completion Q4 2017

2

Address 1575 W. Georgia St.

Developer Bosa

Building Area 41,784 SF

Completion 2018

3

Address 151 W. Hastings St.

Developer Century Group

Building Area 23,599 SF

Completion 2016

Projects in the Wings

1 1290 Burrard Street
Reliance Properties;
129,099 SF

2 1133 Melville Street
Oxford; 400,000 SF

3 753 Seymour Street
GWL; 340,000 SF

4 555 West Cordova Street
Cadillac Fairview;
374,000 SF

5 601 West Hastings Street
Morguard; 212,500 SF

6 1090 West Pender Street
Bentall Kennedy;
450,000 SF

WANT TO KNOW WHAT WE THINK?

If you are interested in an honest opinion about the office market and the options available to your firm, we are happy to personally review the conditions with you. We will share our thoughts and offer strategies for how to best position your firm for any future commitment to new or existing premises.

For landlords trying to lease commercial premises, people in our business may joke that the first and foremost thing to do in a slow market is to return your calls. But be assured – at NAI we return your calls promptly in any type of market! If you are interested in an honest assessment of your leasing strengths and weaknesses, please feel welcome to phone us. We would be happy to review your challenges and suggest where you might be able to add more muscle to your leasing program. And indeed, I will return your call quickly.

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