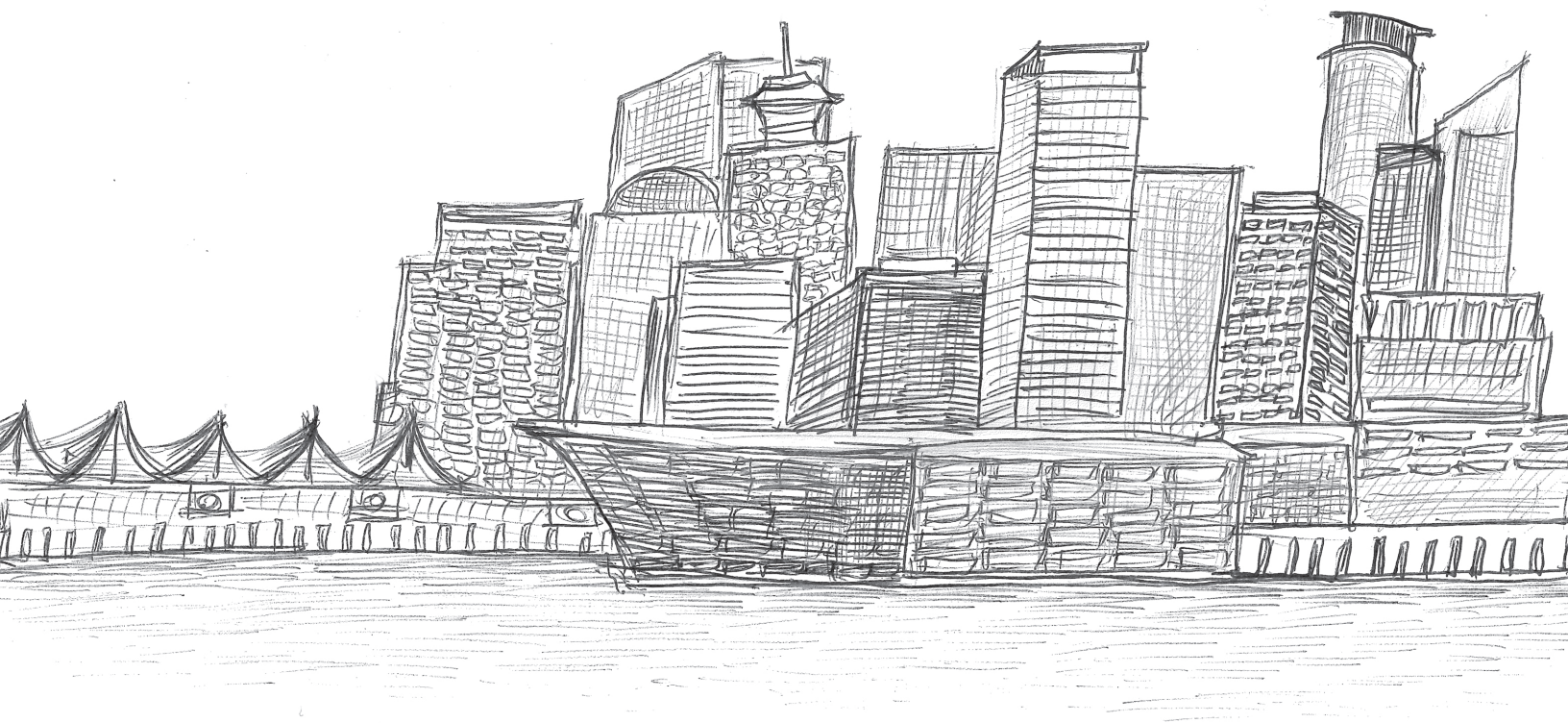




COMMERCIAL REAL ESTATE SERVICES, WORLDWIDE

Metro Vancouver Office Report

Q4 2016



Welcome to 2017

Happy New Year! At NAI we're enthusiastic about heading into 2017 in our expanded office at a new location: Suite 1300, 1075 West Georgia Street. Moving here made the fourth quarter of 2016 an especially busy time for NAI, but an exciting one as well. We look forward to having you visit.

In another exciting 2017 development for us, we welcomed NAI Okanagan to our team. NAI Okanagan is our fifth BC office, based in Kelowna. We continue to look for quality agents to join our team, helping us to grow and serve the needs of our clients.

2016 Review

For 2016 as a whole, there is no shortage of events to review. Oil fell to a low of \$36.00 per barrel towards the end of 2015, rising throughout 2016 to \$52.00 per barrel.

One year ago, our Canadian dollar was at \$0.71 cents, climbing to nearly \$0.80 at the end of April. Despite a surprise result in the recent U.S. election, our dollar closed out the year at \$0.745.

Here are some other notable events from last year:

FEBRUARY

The B.C. government increased the Property Transfer Tax from 2% to 3% for values greater than \$2 million.

MAY

Fort McMurray's wildfire caused the evacuation of 90,000 people, the destruction of 2,400 homes and damage claims totaling \$3.77 billion – making it the costliest insured natural disaster in Canadian history. The impact dropped oil sand production, temporarily pushing oil prices down.

Q1

Q2

NOVEMBER

In the year's second big surprise, Americans elected Donald Trump president, causing more uncertainty for Canada. Given Trump's negative opinion of the North American Free Trade Agreement (NAFTA), our dollar has remained surprisingly stable since the election. And despite predictions, the market repercussions to date have proved minimal.

DECEMBER

Snow and ice reminded the West Coast of our weakness in responding to extreme weather conditions. We suffered chaos in transportation, delay of city services and that new topic of polite conversation: salt shortages.

JUNE

Setting the tone for surprises in 2016, by 52%-48% United Kingdom voters chose to leave the European Union in a referendum held June 23. Capital markets world-wide lost an estimated \$3 trillion, with the pound falling from \$1.47 USD to \$1.09 USD. But six months later, new Prime Minister Theresa May picked up the reins, and through the last half of 2016 the pound climbed to \$1.23 USD.

JULY

Our provincial government introduced a controversial 15% Foreign Buyers Tax on residential properties in Metro Vancouver. Since the tax came into effect on August 2, we've seen a softening of residential demand and a seeming increase in foreign buyers' appetite for non-residential real estate assets not affected by the tax.

NOVEMBER

The City of Vancouver is enjoying record revenues. It also has a growing tax base and what seems like fewer city services. Yet local residents and property owners continue to be hit by increased property taxes. Meanwhile, both restriction of short-term rentals and a tax on vacant properties loom on Metro Vancouver's horizon. With a new trend of tenants using short-term rentals to offset their rent costs, the new regulations could quite possibly injure the very demographic they aim to assist.

NOVEMBER

Also in November, our federal government gave preliminary approval for Kinder Morgan's expansion of the Trans Mountain Pipeline. The Trans Mountain will run from Edmonton to Burnaby; also, there's Enbridge's plan to rebuild its line 3 from Hardisty, Alberta to Superior, Wisconsin. Not approved, however, was Enbridge's other proposed pipeline, the Northern Gateway connecting Bruderheim, AB. to Kitimat, B.C.

Q3

Q4

2016 Downtown Vancouver Office Market

Downtown Vancouver's vacancy rate continued its decline, moving from 9% in Q3 to 8.6% in Q4. The activity report shows that 525,926 square feet (SF) of premises were added to the market while only 456,067 SF were removed, meaning there were 69,859 SF of negative absorption. This caused us to re-examine the statistics acquired from Altus InSite. Let's go back 180 days to get an overall view of what's been happening:

- ▶ Q4 2016 Downtown: 8.6% total available
- ▶ Q2 2016 Downtown: 12.0% available

Over the same periods we reported negative absorption of 27,348 SF in 2016's Q3 and 69,859 SF in Q4.

Lo and behold, Altus now tracks a third category of data: Spaces Taken Off the Market. These are spaces that were being marketed as available at some point, but have been removed, further reducing the availability rate. For example, over the last 90 days, the Downtown Core saw 108,882 SF of Spaces Taken Off the Market. Over the last 180 days, that number was 257,383 SF. While this is not a perfect relationship, it does help make more sense of the data: a reduced vacancy rate accompanied by a positive absorption, and an increased vacancy rate coinciding with negative absorption. Of the Spaces Taken Off the Market, most of these appear to be sublease spaces where tenants decide to endure the remainder of their lease or find a new use for the space. Our own reports will now account for these scenarios and demonstrate all three categories of data.

To summarize, Downtown Vancouver saw a lot of space readjusted and removed from the market. The overall vacancy rate appears to have dropped slightly to 8.6% but not due to traditional absorption. The average size of a unit added was 3,530 SF, while that of units removed from market was 3,082 SF.

We also note that only 148 units were removed from the market in Q4, versus 174 in the previous quarter.

Significant Transactions

- ▶ Architecture Interactive committed to 13,000 SF at 1055 West Georgia Street
- ▶ Tetra Tech will make use of their own space and move 12,000 SF of tenancy from Richmond to 885 Dunsmuir Street
- ▶ Industrial Light & Magic expanded by 50,000 SF at 1 Alexander Street
- ▶ Rocky Mountaineer leased 36,000 SF at 980 Howe Street
- ▶ App Nations occupied 23,000 SF at 190 Alexander Street.

Quarterly Vacancy Rates

Vancouver Downtown

Q3 2016: 9.0%

Q4 2016: 8.6%

4.65%

Suburban

Q3 2016: 12.2%

Q4 2016: 12.5%

2.46%

Vancouver Periphery

Q3 2016: 11.6%

Q4 2016: 12.4%

6.90%

Yearly Vacancy Rates

Vancouver Downtown

Q4 2015: 11.3%

Q4 2016: 8.6%

31.40%

Suburban

Q4 2015: 14.4%

Q4 2016: 12.5%

15.20%

Vancouver Periphery

Q4 2015: 7.1%

Q4 2016: 12.4%

74.65%

	Vacancy Rate Q3	Vacancy Rate Q4	% Change from previous Quarter	Spaces Added Q3 2016	Spaces Added Q4 2016	% Change from previous Quarter	Total Area Added (sf)
Downtown Vancouver	9.00%	8.60%	-4.44%	165	149	-10.74%	525,926
Suburban	12.20%	12.50%	2.46%	109	81	-34.57%	374,060
Vancouver Periphery	11.60%	12.40%	6.90%	30	37	18.92%	227,298
Total							

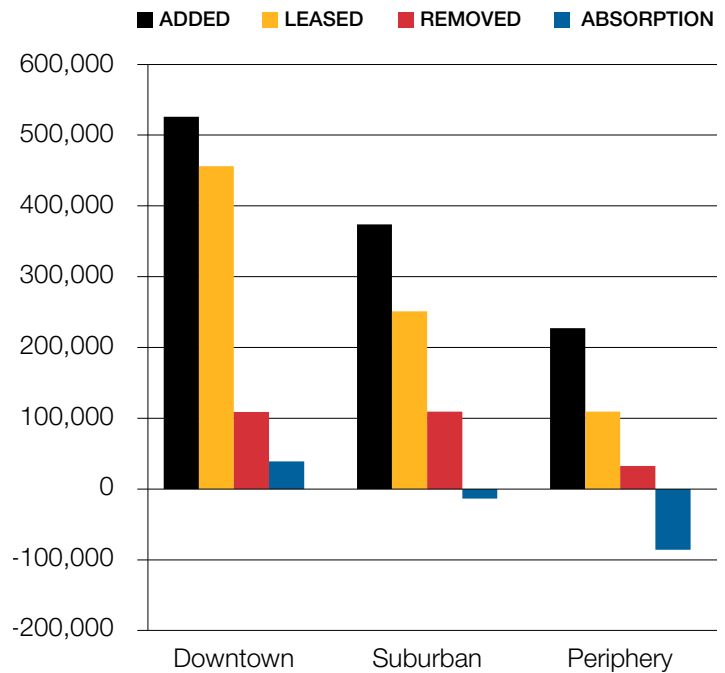
2016 Suburban Office Market

The vacancy rate increased from 12.20% to 12.5%, with a slight negative absorption of 13,654 SF this past quarter. The average size of units coming to market was 4,618 SF versus the suites removed averaging 3,138 SF. Similar to Downtown, fewer spaces were withdrawn from the market in Q4 with only 80 spaces removed, versus 97 spaces in Q3.

Significant Transactions

Tenant activity in the suburban market was hot for the quarter with Burnaby seeing the bulk of the action.

- ▶ Regus committed to 21,000 SF at 2025 Willingdon Avenue
- ▶ PerfectMind leased 18,000 SF at 4333 Still Creek Drive
- ▶ Konica Minolta expanded by 17,000 SF at 4401 Still Creek Drive
- ▶ MaxLinear took down 14,000 SF at 4370 Still Creek Drive
- ▶ In Richmond, PCL leased 11,000 SF at 13711 International Place.



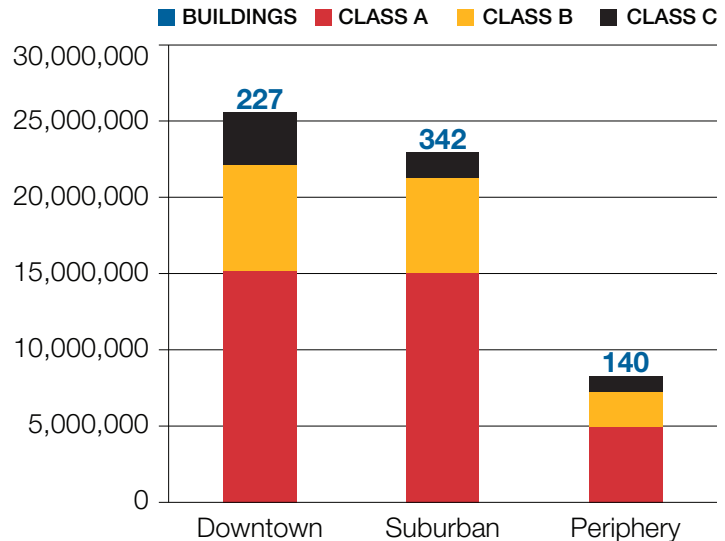
Average Size (sf)	Added	Removed
Vancouver Downtown	3,530	3,082
Vancouver Periphery	4,618	3,138
Suburban	6,143	6,074

Statistics provided by Altus Insite

2016 Vancouver Periphery Office Market

The Periphery Market saw the largest increase to the vacancy rate, climbing from 11.6% last quarter to 12.40%. For the entire year, it climbed from 7.1% to 12.40%. The Periphery Market also saw the most negative absorption: 85,627 SF, with 227,298 SF being added to the market and only 141,671 SF removed or leased.

There were only 18 spaces removed from the market in the quarter. After a strong Q3 in notable transactions, there is very little to report on new transactions – and nothing of significance to announce for Q4.



	No. Spaces Removed Q3	No. Spaces Leased Q4	Total Area Leased (sf)	Number of spaces removed	Total Area Removed (sf)	Total Area Leased & Removed (sf)	Absorption Q4 (sf)
Downtown Vancouver	174	148	456,067	17	108,882	564,949	39,023
Suburban	97	80	251,078	15	109,328	360,406	-13,654
Vancouver Periphery	25	18	109,328	6	32,343	141,671	-85,627
Total							-60,258

Statistics provided by Altus Insite

Why Should I Have My Own Representation?

I recently came into a negotiation for a group who had been representing themselves in securing a new lease. This group had been interested in a specific space and had been dealing with only the landlord's agent. By the time I spoke with them, they already had an Offer to Lease in front of them and a pen in hand. Fortunately in the 11th hour, they decided to seek a second opinion.

With a quick review of their offer, I realized they did not have the conditions precedent that I would recommend in their situation. They had left out a crucial option: the tenant's review and approval that the tenant's existing use is compliant with the current zoning. As it turned out, their use was not compatible with the designated zoning.

This resulted in seeking an extension from the landlord and renegotiating the commencement of the lease. At the same time, they engaged the help of a professional consultant who assisted with the process and approval for a change of use for the space. Without this concession, the tenant would have been bound to a lease with no ability to use the premises.

I am pleased to represent my clients and work for their best interests, helping to protect them from the possible pitfalls of leasing. A commercial realtor hired to secure and handle the transaction will work alongside your legal counsel and other consultants. Though a realtor will potentially save a significant portion of both time and money, there isn't usually a cost to the tenant to hire someone to stand in their corner. A commercial broker understands the market, trends, and relationships of this sometimes complex industry.

We are happy to provide initial thoughts and advice so you can determine if working with our team is the right fit for your business.

Written by:
Jesse Godin, Commercial Sales & Leasing

NAI COMMERCIAL Office Team

We continue to grow and look for honest, ethical salespeople who are looking for an opportunity to accelerate their career. If you know a commercial agent who has impressed you and wants to learn more about the benefits of NAI Commercial, please send them our way.

NAI Commercial offers a full-service consulting approach to help you get the most out of your real estate assets. If you are:

- ▶ interested in tenant representation;
- ▶ looking for a second opinion on marketing your property;
- ▶ or seeking a revitalized marketing program,

we are happy to review your situation and offer our opinion and advice.

Thanks for taking the time to read
our 2016 Office Market Report.

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