NAI Commercial

COMMERCIAL REAL ESTATE SERVICES, WORLDWIDE

Q1 metro vancouver

OFFICE MARKET REPORT

Q1 2020

DOWNTOWN VACANCY RATES	SUBURBAN VACANCY RATES	PERIPHERY VACANCY RATES
Quarterly: ▼10.00%	**Quarterly: ▼8.14%**	**Quarterly: ▲23.40%**
Q4 2019: 4.00% | Q1 2020: 3.60%	Q4 2019: 8.60% | Q1 2020: 7.90%	Q4 2019: 4.70% | Q1 2020: 5.80%
Yearly: ▼5.26%	**Yearly: ▼13.19%**	**Yearly: ▲107.14%**
Q1 2019: 3.80% | Q1 2020: 3.60%	Q1 2019: 9.10% | Q1 2020: 7.90%	Q1 2019: 2.80% | Q1 2020: 5.80%

METRO VANCOUVER | office market report | Q1 2020

Welcome to our Q1 2020 Metro Vancouver Office Report. In this report, we offer our quick thoughts and thank-yous regarding COVID-19. Also included is an article about when and how to ask for rent relief. As usual, we share the most recent office market statistics and comment on what we think the impact of the COVID-19 pandemic will be on rental and vacancy rates in Metro Vancouver. In addition, we include a report on 2020 additional rent estimates for select Downtown Vancouver buildings showing who has the highest operating costs and which buildings have the lowest.

Even though the writing of this report is from a remote location, NAI Commercial remains open and is operating while following the guidelines of our Provincial Health Officer (PHO) including the practice of social distancing, frequent washing of hands and stepped up cleaning of surfaces in high-traffic areas both in and out of the office. The amount of information, opinions and politics around dealing with COVID-19 can be exhausting and overwhelming. Everybody reacts differently as they deal with the situation daily and plan and hypothesize for the future. We encourage you to stay positive and use this time to adjust your business plans, contemplate how you would like to shift your operations, and prepare for the future. Looking at the brighter side of things, ride-sharing is now here, with *Uber* and *Lyft* in operation. The roaming protests of a select few that caused significant financial damage to our country, inconveniencing hundreds of thousands of people are a thing of the past. We question what kind of country is Canada to allow so few protesters to close a railway and cause thousands of people to lose their jobs. That is now a distant memory as Canadians respond to the COVID-19 crisis, with everyone acting together for a single purpose of doing their part to flatten the curve.

We would like to thank all the front-line workers, doctors, nurses, first responders, pharmacists and those that support them behind the scenes, who are dealing with this crisis—placing themselves at the forefront every day, risking infection. We also want to thank the unglorified worker, deemed an essential service, who are making sure that grocery stores and other essential services continue to operate and remain clean. We applaud all of you that go to work, face the public, and keep our society running. Thank you, and we wish you good health.

We are all in this together. There will be challenges and tragedies, that we in no way want to minimize, but we will get through this, together.

Professional sports will resume, we will dine out again, and we will go back to our regular routine much better prepared to face this kind of adversity again.

Being forced to work together and realizing our greatest threat is a virus that knows no borders and does not discriminate will prepare the world to collectively be faster at responding to future viral threats similar to COVID-19. More focus will shift to support medical research and healthcare. One thing that we are all watching for is the development of a vaccine, not only a vaccine for COVID-19, but new protocols, process and research that will allow the development and deployment of future vaccines in exponentially faster time.

No doubt you have learned in this short period that human interaction and contact are a vital part of humanity. We look forward to connecting with as many of you as possible in the future in person.

Wishing you all good health and resilience as we weather this pandemic. We look forward to reporting positive news in our Q2 report.

	Vacancy Rate Q4 2019	Vacancy Rate Q1 2020	% Change from Previous Quarter	Spaces Added Q4 2019	Spaces Added Q1 2020	% Change from Previous Quarter	Total Area of Space Added (SF)	# of Spaces Leased Q4 2019
Downtown	4.00%	3.60%	-10.00%	147	156	6.12%	501,138	113
Suburban	8.60%	7.90%	-8.14%	119	60	-49.58%	292,829	86
Vancouver Periphery	4.70%	5.80%	23.40%	45	62	37.78%	386,764	24

DOWNTOWN snapshot

Market	Average Size of Space Added (SF)	Average Size of Space Leased in (SF)	Average Size of Space Removed (SF)
Downtown	3,212	3,484	6,498
Suburban	4,880	4,162	5,423
Periphery	6,238	3,346	12,585

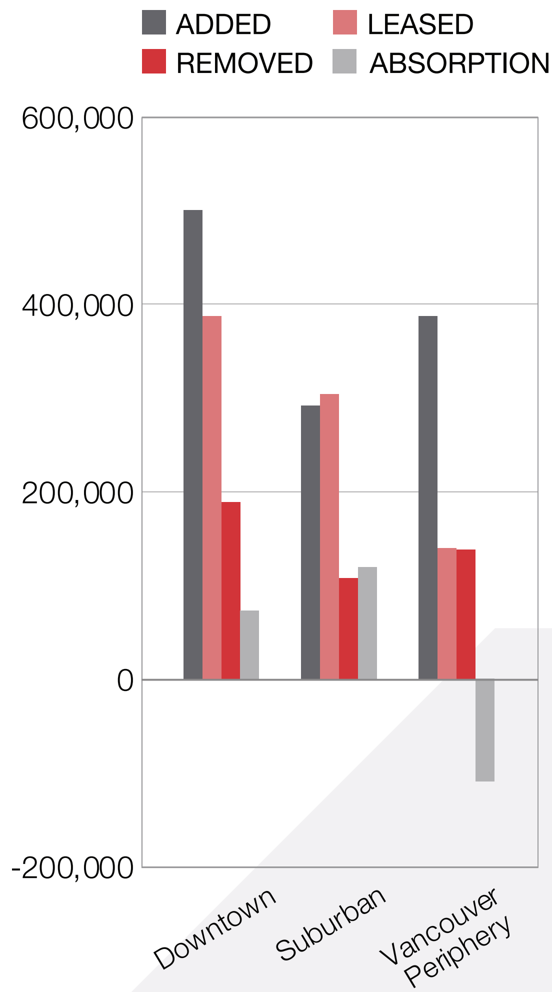
Office Class	Availability Rate Q4 2019	Availability Rate Q1 2020	Inventory Size (SF) Q4 2019	Inventory Size (SF) Q1 2020
A	3.30%	3.10%	15,659,462	15,806,688
B	3.00%	3.00%	6,866,149	6,880,653
C	9.30%	6.90%	3,519,413	3,530,903

In Q1, the Downtown market dropped in vacancy to 3.6%, down from 4.0% in Q4, and the same as Q1 2019. New spaces added to the market were similar to Q4, with 156 spaces totalling 501,138 SF, very similar to last quarter's 492,244 SF. There were 113 spaces leased in the quarter totalling 386,764 SF and 29 spaces removed totalling 188,431, leaving a positive absorption of 74,057 SF. Appended to our Q1 report is the "2020 Additional Rent Survey of "A" Class Buildings Downtown". The average additional rent was $23.10/SF for the surveyed buildings, with 401 W Georgia St reporting the highest at $27.06/SF and 543 Granville St the lowest rate at $17.94/SF. 550 Burrard St is worth mentioning for keeping costs in line at $20.04/SF. In "B" Class office buildings, the average was $21.13/SF with the highest reported by 355 Burrard St at $25.52/SF. The Class "C" average rate was $16.58/SF.

Downtown Significant Transactions

- *Allied Property REIT* entered an agreement to purchase The Landing at 375 Water St, that should close in Q2 2020
- *Plantronics* committed to the 6th floor of 1055 Dunsmuir St for 16,000 SF and *Shopify* leased 70,000 SF of upper space at 1055 Dunsmuir St
- *Acciona* leased 7,500 SF at 900 W Hastings St
- *Strand Project Advisors* subleased 6,000 SF at 609 Granville St
- *TD Bank* expanded by 16,800 SF at 700 W Georgia St
- *Neurio Technology* sublet 13,500 SF at 555 Robson St
- *Plotkin Health* subleased 11,000 SF at 1177 W Hastings St

Q1 2020 Absorption



Statistics provided by Altus Insite

	# Spaces Leased Q1 2020	Total Area of Space Leased (SF)	# of Spaces Removed Q4 2019	# of Spaces Removed Q1 2020	Total Area of Spaces Removed (SF)	Total # of Spaces Removed	Total Area Taken Off Q1 2020 (SF)	Absorption for the Quarter (SF)
Downtown	111	386,764	19	29	188,431	132	575,195	74,057
Suburban	73	303,847	21	20	108,464	107	412,311	119,482
Vancouver Periphery	42	140,545	6	11	138,432	30	278,977	-107,787
Total								**85,752**

SUBURBAN snapshot

The Suburban market saw the vacancy rate fall to 7.9% after increasing in Q4 to 8.6%. The number of spaces added to the market fell by nearly half to 60 spaces down from 119 in Q4, totalling 292,829 SF. There were 73 spaces leased totalling 303,847 SF and 20 spaces removed totalling 108,464 SF resulting in a positive absorption of 119,482 SF. Class "A" vacancy continues to be the highest at 9.3% with the Class "B" vacancy at 5.5% and Class "C" vacancy at 4.8%. The average asking rents and additional rents are reported below.

Office Class	# of Buildings	Inventory Size (SF)	Total Availability Rate
All Classes	370	24,150,088	7.90%
A	176	15,250,841	9.30%
B	141	7,043,733	5.50%
C	53	1,855,514	4.80%

Area	# of Buildings	Inventory Size (SF)	Total Availability Rate
Burnaby	119	9,965,750	6.40%
Langley	6	300,724	11.30%
New Westminster	23	1,438,584	3.70%
North Shore	47	2,226,091	3.20%
Richmond	75	4,437,955	13.00%
Surrey	65	4,054,560	11.80%
Tri-Cities	11	559,052	2.00%

Average Asking & Additional Rents

Market	Inventory Size (SF)	# of Participating Buildings	Average Asking Rent/SF	Average Additional Rent/SF
Suburban Vancouver	10,668,392	44	$19.47	$12.51
Burnaby	4,069,442	9	$21.39	$14.48
Langley	160,772	1	$10.00	$9.87
New Westminster	523,451	3	$20.67	$16.43
North Shore	802,056	10	$20.55	$13.77
Richmond	2,318,451	9	$16.53	$10.93
Surrey	2,134,913	7	$19.14	$10.09
Tri-Cities	230,833	1	$10.00	$9.50
All Office Classes	10,668,392	44	$19.47	$12.51
Class A	7,391,048	25	$21.15	$11.78
Class B	2,824,459	13	$17.65	$13.14
Class C	452,885	6	$16.42	$14.21

Statistics provided by Altus Insite

Suburban Significant Transactions

- *Traction Guest* leased 17,500 SF at 3292 Production Way
- *Seymour Healthcare* expanded to 12,000 SF at 221 W Esplanade
- *Peter Kiewit & Sons* leased 10,000 SF at 4350 Still Creek Dr
- *Copper Tree Analytics* committed to 9,000 SF at 5455 152nd St
- *Investors Group* took 22,000 SF at 4730 Kingsway
- *Ricoh Canada* leased 14,000 SF at 4621 Canada Way

VANCOUVER PERIPHERY
snapshot

The vacancy rate in the Periphery market increased in the quarter to 5.8%, up from 4.7% in Q4. There were 62 spaces added to the market totalling 386,764 SF, but 42 spaces leased totalling 140,545 SF and 11 spaces totalling 18,432 SF removed, the net result was a negative absorption of 107,787 SF. The vacancy rate among “C” Class buildings remains high at 13.1%, while the Class “A” vacancy remains stable at 3.6%.

Office Class	# of Buildings	Inventory Size (SF)	Total Availability Rate
All Classes	170	9,704,147	5.80%
A	70	5,570,864	3.60%
B	56	2,513,711	5.70%
C	44	1,619,572	13.10%

Market	# of Participating Buildings	Average Asking Rent/SF	Average Additional Rent/SF
Vancouver Periphery	9	$26.33	$19.11
Broadway Corridor	6	$25.17	$18.84
Vancouver Outlying	3	$28.67	$19.66
All Office Classes	9	$26.33	$19.11
Class A	3	$35.00	$18.00
Class B	4	$22.75	$20.14
Class C	2	$20.50	$18.72

Statistics provided by Altus Insite

Vancouver Periphery
Significant Transactions

- *Thinkific* expanded by 7,000 SF at 369 Terminal Ave and a tenant has been rumoured to have leased 15,000 SF at 138 E 7th Ave

COVID-19 AND THE MARKET

In Vancouver, over the last decade, vacancy rates had bottomed out, Downtown reported a 3.4% vacancy in Q2 of 2019 that peaked in Q4 of 2015 at 11.1%. In the Suburban market, vacancy was 16.5% in Q1 of 2011 and dropped to a low of 7.6% in Q4 of 2018. What will happen to tenancies and vacancy as a result of COVID-19 is anyone’s guess, and we heard a Landlord predicting that vacancy rates could climb to as high as 10%–15%. It will take a while for the economy to return to normal and for business confidence to accelerate, but Vancouver is still uniquely positioned. Vancouver is a small market town with lots of smaller tenancies. For some tenants this event will be the catalyst to wind up operations; for others, it will be a catalyst to “right” size. Perhaps one of the greatest lessons will be the effectiveness of working remotely. Some people and firms will decide that a portion of their workforce faired better than expected working remote, and hence there could be more shared or hotelling workspaces used within an office.

Packaged office firms could be hit hard, as they generally operate with shorter-term contracts that would be cancelled and those companies may be slower to return to a traditional office. But this is a global effect on all firms, and there will be a push back to normalcy. Most firms will return slowly to their previous operating levels, and those with longer-term leases will naturally once again fill their desks. Our prediction is that vacancy rates will rise, but we won’t see the type of challenges that Calgary is going through. We expect vacancy rates to remain in the single digits and increase slightly in each quarter for the next year, while the amount of space occupied and offered for sublease also to increase. Time will tell, but Vancouver appears to be well-positioned when it comes to a diverse and stable tenant mix.

WEATHERING AN UNANTICIPATED CRISIS AS A TENANT

By Rob DesBrisay, NAI Commercial

Over the past month, we have watched as businesses are forced to deal with an unprecedented crisis. If you have ever done a SWOT analysis of your business, you run different models and analyze different threats and results. What if sales fell to 50%, what if the competition cut their prices, or your biggest competitor moved next door or developed a new technology, how would you pivot? What if you lost critical staff or salespeople? Very rarely does one contemplate or plan for a forced long term shut down due to a required government order.

What options are available to you **and what can you learn from a crisis?**

Operating a business is a challenge, and managing cashflows is critical. How do you pay critical staff and overhead in the event of a crisis? Does it mean securing an operating line of credit to have on tap, or making sure that you have cash reserves of a certain level to maintain operations for a reasonable time? Is that three months, six months or a year? It all depends on your business.

In our most recent crisis, the effect in British Columbia was drastic. The timeline was such that the first reported local COVID-19 case was on January 28th, 2020. At that time, many British Columbians still viewed COVID-19 as another country's problem; it was a television crisis. It was not until March 5th, 2020 that the first local case of community transmission was reported. And shortly after that, it was recommended not to travel, and things escalated so quickly that on March 17th the Province declared a State of Emergency and the calls for social distancing were issued and the population slowly started to understand the seriousness of the transmission of COVID-19. On March 20th, the order for personal establishments to close became a reality and it was then that businesses, especially retail businesses, were hamstrung.

In early March, we started to see requests for rent relief and discuss plans with our clients. Many corporate stores and franchisers issued template letters for their operators to send to their Landlords. Many of these letters simply cited the crisis and demanded rent abatement, with the offer in some cases of simply adding those same months on to the end of the Lease. Such letters, no matter how politely written, were generally not met with any success. In many cases, these letters arrived before the effects of the crisis were even felt in operations. Landlords viewed such requests as predatory. As such, these Tenants may have inadvertently hampered their ability to have an open discussion with the Landlord to find a solution. When considering an "ask," it is prudent to look at who your Landlord is, what their tenant mix may be, and their capacity to even give consideration to rent relief, and then act prudently.

Before asking for rent relief, you need to consider the value of your lease to your operations and the market in which you are asking for relief. If you have a lease that is critical to your operations, in terms of it being a strategic location that is profitable or perhaps at below market rents, you need to be very careful in your request and approach to the landlord. If you default on your lease without agreement from your landlord, you may risk the landlord terminating your lease, or you may accidentally void renewal options that you have negotiated. The best practice that we have witnessed is a phased approach. The first letter or approach to your landlord should be one of concern and empathy. State that the crisis has impacted your business, mention that sales or revenue has dropped to a fraction of what was anticipated. You let them know that you are taking all reasonable steps to reduce expenses. If you have laid off staff, let them know that and share what other expenses you already cut. Then talk openly about your cash position and reserves. Also mention that you have inquired with your insurer, (I note that the *Globe and Mail* reported that *Aviva Canada,* stands by its pandemic coverage for dentists who followed provincial orders), and your financial institution for assistance and are exploring all programs offered through the Federal Government and the *BDC* as an example.

Finish with a note that you appreciate your ongoing relationship with them and that you will be able to pay the next month's rent, but you are closely monitoring your cashflows and options and will keep them informed as to changes in your position.

Now at this point, hopefully, things stabilize and you ideally can afford your rent and the world returns to normal. However, if you are still in crisis your next approach is critical.

Your next letter is your "ask" and you should send it before the end of the month and at least 10 days before your rent is due. This letter refers to the first letter, speak of the avenues where you have failed to secure financings, confirm the additional measures you have taken, such as layoffs, and other cost cutting measures. You then make an ask, given your situation, and propose a solution that you believe will allow you to remain viable when the crisis subsides. The requests that seem to get the least response are from tenants who simply ask the landlord to forgive their rent outright and allow the lease to remain in good standing. Such requests have even come from tenants who continue to fully operate from their premises, and in general, these requests have not been met with a cooperative mindset. In some cases, tenants have requested relief and asked that their lease term simply be extended for the same number of months at the same rental rate. Our experience shows that these requests are not helpful in negotiating a timely and satisfactory resolution and damages the Landlord-Tenant relationship. Instead, propose something of a rent deferral. For example, ask for the rent to be reduced by 50% over the next three months, and then make a commitment to repay that rent in the following months in addition to your then due rent. Or request that the shortfall be amortized over the next year's rent. Another strategy is to offer to extend the lease or renew it early for a new term of five years if that is your intent. Depending on your market, the landlord may view this as a win, and it may serve your purposes as well. It is also essential to have the landlord confirm that an agreement of any terms outside of the lease will not be deemed a default, and both the rights of the landlord and the tenant under the lease will be preserved. Our experience shows that a well documented and sensible approach generally gets a faster and more realistic response from the landlord while maintaining the Landlord-Tenant relationship.

No two cases and no two leases are ever the same, and we encourage you to fully understand your lease and the risks associated with any agreement or strategy you take with your landlord. We also always encourage you to seek legal advice before taking any action that may amend or constitute a default of your lease.

We remain available to assist whenever possible to provide general advice and share our comments and experience as it may relate to your particular commercial lease.

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www.naibc.ca/tenant-representation

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

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.

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2020 ADDITIONAL RENT SURVEY

Class "A" Buildings Downtown

Building Name	Address	Estimated Additional Rent/SF
401 West Georgia Building	401 West Georgia St	$27.06
Commerce Place	400 Burrard St	$26.75
Park Place	666 Burrard St	$26.08
One Bentall Centre	505 Burrard St	$25.50
Two Bentall Centre	555 Burrard St	$25.20
Granville Square	200 Granville St	$25.20
The Grosvenor Building	1040 West Georgia St	$25.19
Manulife Place	1095 West Pender St	$24.94
The Stack	1133 Melville St	$24.90
BC Securities Commission Tower	701 West Georgia St	$24.86
HSBC Building	885 West Georgia St	$24.50
Oceanic Plaza	1066 West Hastings St	$24.23
1500 West Georgia	1500 West Georgia St	$23.71
Vancouver Centre	650 West Georgia St	$23.58
Canaccord Genuity Place	609 Granville St	$23.56
Royal Centre	1055 West Georgia St	$23.54
Three Bentall Centre	595 Burrard St	$23.50
Four Bentall Centre	1055 Dunsmuir St	$23.50
1177 West Hastings St	1177 West Hastings St	$23.02
Cathedral Place	925 West Georgia St	$22.63
Pacific Centre	725 Granville St	$22.50
510 Burrard St	510 Burrard St	$21.97
888 Dunsmuir St	888 Dunsmuir St	$21.95
1075 West Georgia	1075 West Georgia St	$21.79
FortisBC Centre	1111 West Georgia St	$21.52
601 West Hastings St	601 West Hastings St	$21.50
Harbour Centre	555 West Hastings St	$21.33
1188 West Georgia St	1188 West Georgia St	$21.03
World Trade Centre	999 Canada Place	$20.64
B5	550 Burrard St	$20.04
Grant Thornton Place	333 Seymour St	$19.94
111 Dunsmuir	111 Dunsmuir St	$18.62
Bower Building	543 Granville St	$17.94