

Q3 Metro Vancouver

# OFFICE MARKET REPORT



Q3 2022

### Welcome to the Q3 2022 Metro Vancouver Office Report.

On October 15<sup>th</sup>, the Vancouver municipal election takes place the same day all municipal elections occur throughout BC. The City of Vancouver is potentially poised to have new faces on City Council, causing us to pause and reflect on how politics has changed over the years and how the business of politics, media and trivial debates get exasperated. In this municipal election, any potential leader or party must be well-versed in what they claim to be their top priorities, affordable housing, the environment, and policing all essential topics. However, let us not forget to mention fiscal responsibility and accountability to taxpayers. We hope for a safer City with a solution to end unprovoked violent attacks, as well as meaningful policing and policies to curb glass breakage and vandalism of commercial properties. It is interesting to note the Vancouver Police Union is backing mayoral candidate Ken Sim's of ABC (A Better City), which has promised more resources to combat the rising violence and property crime. On the real estate side, housing affordability remains a crucial topic. Given that Canada continues to support and needs immigration and that Vancouver and Metro Vancouver arguably have the most attractive climate in Canada, continuous population growth that outstrips housing supply is likely, if not guaranteed. No doubt, more supply and a more efficient permitting process with City Hall would be helpful; however, long term, the amount of demand looks to be too much for affordability to change. On that note, we found the following article for your perusal, *Vancouver's 128 Years of Affordability Fears*, (<https://thetyee.ca/Life/2012/11/24/Affordability-Crisis>) and below are only a sampling of some of the historical quotes in the article, reminding us it is unlikely Vancouver's affordable housing problem will change quickly.

#### 1. William Cornelius Van Horne, in a letter to Major A.B. Rogers of the CPR, 1884.

*"[The government] believes that all people have the right to expect decent living accommodation. It believes that appropriate steps must be taken to assure an adequate supply of housing... not just to meet present needs, but to meet the needs of the future as well. A great deal of time has been spent, by both public and private authorities, on analysing the housing problem. We must now concentrate our efforts on finding the solution."*

#### 2. B.C. Magazine, 1911.

*"Housing costs are high, but we can't afford to throw up our hands and say we can't afford to build many more houses until costs come down again. In a city growing as fast as ours this would be the counsel of stupidity and despair. We must have more homes and we must have them at prices people can afford to pay."*

#### 3. "Housing: Everyone's Responsibility." Dept. of Municipal Affairs. Victoria, 1969.

*"Vancouver's housing problems focus on the issue of cost of housing services. Inadequate income, or alternatively, the high cost of shelter, is seen to be the major factor constraining choices... An estimated 23% of the City's families pay in excess of 30% of their income for shelter."*

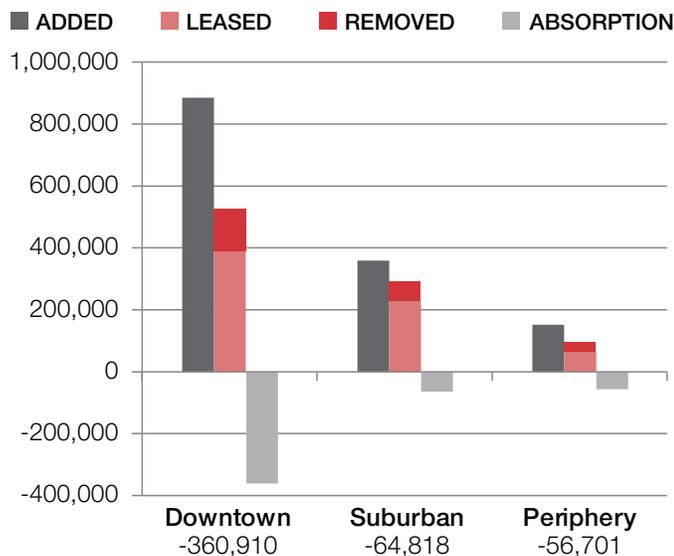
Despite consistent pressure, it seems that little has changed in the last century. The process of developing housing due to direct Civic policies has gotten longer and more expensive. The red tape and delays caused at the City level have never been more significant. Can a party enact sensible change? Can City councillors trust their planning departments and abide by Official Community Plans? Who knows, but we admire the party that will engage with City staff and find and implement a path to greater efficiencies and eliminating ridiculous policies, procedures and wait times. This initiative is the City's greatest opportunity to reduce construction costs and help developers deliver housing at a reduced price. While we are on the municipal politics front, once upon a time, it was a Civic government's primary role to be stewards of the taxpayer's money; somewhere along the way, that message got lost. Municipal councils no longer seem concerned and have done a poor job controlling expenditures and making sure that value is

received for tax dollars paid. The approval of ridiculous costly projects and the lack of accountability in all municipalities is a problem. As a voter, if you believe your City council should be better and the status quo is not sufficient, strategic voting may be your best bet. A vote for the leading poll person and party, if it is not the incumbent, is your best opportunity to affect change, but don't be surprised if the same affordable housing debate continues a century from now.

On to the Q3 Metro Vancouver Office Report.

Anxious to examine this quarter's data, we can share that our e-mail is filled with more sublease opportunities daily. Many firms have decided it has been too long and adapted well to remote working and now it is time to try and recover on their redundant premises. See this quarter's article on your options to deal with redundant lease space.

## Q3 2022 In Quarter Absorption



**Net Absorption for the Quarter: -482,429 SF**

## Availability Rates



|           | Spaces Added Q2 2022 | Spaces Added Q3 2022 | % Change from Previous Quarter | Total Area of Space Added (SF) | # of Spaces Leased Q2 2022 | # of Spaces Leased Q3 2022 | Total Area of Space Leased (SF) | # of Spaces Removed Q2 2022 | # of Spaces Removed Q3 2022 | Total Area of Spaces Removed (SF) | Total # of Spaces Removed | Total Area Taken Off Q3 2022 (SF) |
|-----------|----------------------|----------------------|--------------------------------|--------------------------------|----------------------------|----------------------------|---------------------------------|-----------------------------|-----------------------------|-----------------------------------|---------------------------|-----------------------------------|
| Downtown  | 175                  | 170                  | 37.80%                         | 884,526                        | 181                        | 104                        | 388,971                         | 43                          | 28                          | 134,645                           | 132                       | 523,616                           |
| Suburban  | 98                   | 101                  | 15.29%                         | 358,536                        | 76                         | 68                         | 229,895                         | 26                          | 18                          | 63,823                            | 86                        | 293,718                           |
| Periphery | 59                   | 54                   | 145.83%                        | 151,625                        | 55                         | 22                         | 66,769                          | 11                          | 7                           | 28,155                            | 29                        | 94,924                            |
| Subtotal  | 332                  | 325                  |                                | 1,394,687                      | 312                        | 194                        | 685,635                         | 80                          | 53                          | 226,623                           | 247                       | 912,258                           |

Statistics provided by Altus Insite

# DOWNTOWN

## Snapshot

| Office Class | Availability Rate Q2 2022 | Availability Rate Q3 2022 | Change from Last Quarter | Inventory Size (SF) Q2 2022 | Inventory Size (SF) Q3 2022 |
|--------------|---------------------------|---------------------------|--------------------------|-----------------------------|-----------------------------|
| All          | 11.2%                     | 11.5%                     | ↑ 0.3%                   | 27,309,805                  | 26,970,147                  |
| A            | 11.3%                     | 10.5%                     | ↓ 0.8%                   | 17,068,683                  | 16,725,460                  |
| B            | 10.4%                     | 12.4%                     | ↑ 2.0%                   | 6,826,324                   | 6,826,324                   |
| C            | 11.5%                     | 14.6%                     | ↑ 3.1%                   | 3,414,798                   | 3,418,363                   |

Statistics provided by Altus Insite

This quarter the Downtown availability rate increased to 11.5% from 11.2% last quarter. The A Class availability dropped again from 11.3% to 10.5%. In comparison, the B Class availability rate increased from 10.4% last quarter to 12.4% on an inventory of 6,826,324 SF, with the C Class availability also rising from 11.5% to 14.6% on an inventory of 3,418,363 SF. That is roughly 242,500 SF more of available B and C Class space added in the quarter with a combined availability rate of 13.1%. An availability rate of 13.1% is significant, and landlords should want to extend their tenants and lock them into leases.

As to activity, there were 170 new spaces added in the quarter totalling 884,526 SF, and there were 181 spaces leased, totalling 388,971 SF and 43 spaces removed, totalling 134,645 SF, for overall negative absorption in the quarter of 360,910 SF. We can conclude that commodity, non-view space, or poorly improved space has become much harder to lease with greater competition.

Given our daily intake of new sublease opportunities, it was no surprise that the sublease market Downtown saw subleases increase to 26.3% of available space, up from 23.3% last quarter. The total sublease inventory finished the quarter at 815,712 SF, a rise of 109,399 SF, including the likes of:

- ▶ the 12<sup>th</sup> and 13<sup>th</sup> floor of 753 Seymour for 32,000 SF
- ▶ the 20<sup>th</sup> floor of 1055 Dunsmuir for 17,600 SF
- ▶ the 3<sup>rd</sup> and 4<sup>th</sup> floor of 250 Howe Street for 25,000 SF
- ▶ the 4<sup>th</sup> and 5<sup>th</sup> floor of 555 Robson for 27,000 SF
- ▶ the 26<sup>th</sup> floor of 1133 Melville for 13,600 SF
- ▶ the 18<sup>th</sup> and 19<sup>th</sup> floor of 555 West Hastings for 24,000 SF
- ▶ the 16<sup>th</sup> and 17<sup>th</sup> floor of 1067 West Cordova for 31,000 SF

to highlight the larger subleases that came online in the quarter.

## Downtown Significant Transactions

- ▶ *Colliers Property Management* committed to 31,000 SF (two floors) at 1066 West Hastings Street, while the brokerage operations will relocate to 31,000 SF at 1067 West Cordova Street
- ▶ *MLT Aikins* expanded by taking an additional floor of 16,000 SF at 1066 West Hastings Street
- ▶ *Willowtree* (a US software company) leased 12,784 SF on the 4<sup>th</sup> floor at 401 West Georgia St
- ▶ *Ansys Canada* leased 21,000 SF at 1095 West Pender Street
- ▶ *Productboard* subleased 12,000 SF at 411 Dunsmuir Street
- ▶ *Canaccord* committed to 98,000 SF at 1133 Melville Street

# SUBURBAN

## Snapshot

The Suburban market was flat for the quarter, with the overall availability rate steady at 7.1%. After dropping last quarter, the Class A availability increased from 7.1% back to 7.8%, as did the Class B availability, which also increased from 6.2% to 6.8%. However, the C Class availability dropped again in the quarter from 3.6% to 3.0%.

As to the individual markets, we outline the availability and the change from the previous quarter below

With respect to activity, there were 101 spaces added to the market totalling 358,536 SF and 68 spaces leased totalling 229,895 SF, and 18 spaces totalling 63,823 SF removed for a slight negative absorption in the quarter of 64,818 SF.

The Suburban sublease market was not like Downtown and saw the availability rate stay relatively flat, with a slight decrease in sublease space down to 358,689 SF from 365,521 SF representing 20.1% of available space.

## Suburban Significant Transactions

- ▶ *BC Federation of Labour* leased 15,100 SF at 4259 Canada Way, Burnaby
- ▶ *Nintendo* leased 14,500 SF at Suite 200, 4402 Skyline Drive, Brentwood, Burnaby
- ▶ *Western Pacific Enterprises* subleased 18,000 SF at 19433 96<sup>th</sup> Ave, Surrey
- ▶ *Vancouver Shipyards* subleased 16,000 SF at 889 Harbourside Drive in North Vancouver
- ▶ *EB Horsman* leased 7,000 SF at 9440 202<sup>nd</sup> Street, Langley

| Office Class | Total Availability Rate |         | Change from Last Quarter |
|--------------|-------------------------|---------|--------------------------|
|              | Q2 2022                 | Q3 2022 |                          |
| All Classes  | 7.1%                    | 7.1%    | ↔ 0.0%                   |
| A            | 7.9%                    | 7.8%    | ↓ 0.1%                   |
| B            | 6.2%                    | 6.8%    | ↑ 0.6%                   |
| C            | 3.6%                    | 3.0%    | ↓ 0.6%                   |

| Area            | Total Availability Rate |         | Change from Last Quarter |
|-----------------|-------------------------|---------|--------------------------|
|                 | Q2 2022                 | Q3 2022 |                          |
| Burnaby         | 7.5%                    | 8.2%    | ↑ 0.7%                   |
| Langley         | 6.6%                    | 6.5%    | ↓ 0.1%                   |
| New Westminster | 4.4%                    | 4.1%    | ↓ 0.3%                   |
| North Shore     | 5.6%                    | 5.3%    | ↓ 0.3%                   |
| Richmond        | 7.9%                    | 6.4%    | ↓ 1.5%                   |
| Surrey          | 7.2%                    | 7.3%    | ↑ 0.1%                   |
| Tri-Cities      | 2.9%                    | 3.2%    | ↑ 0.3%                   |
| Suburban        | 7.1%                    | 7.1%    | ↔ 0.0%                   |

*Statistics provided by Altus Insite*

# VANCOUVER PERIPHERY

## Snapshot

The Periphery market saw very little activity and the availability rate increase again in the quarter, rising from 10.3% last quarter to 10.9%. The A Class market rose slightly from 10.1% to 10.4%, while the B Class increased significantly to 9.8% after falling in the previous quarter to 8.1%. The C Class rose slightly to 14.8% from 14.6%. Last quarter we were surprised by the increase in the sublease market, reporting that the sublease market represented 43.7% of the available space and 471,479 SF of inventory. This availability increased again and now represents 552,777 SF, an increase of 81,298 SF and 47.8% of availability; the Periphery market looks like it could become very competitive for Sublandlords and Landlords to attract tenants.

The largest sublet added in the quarter was 55,951 SF at 1700 West 75<sup>th</sup> Avenue by Canfor, who has about a year and a half remaining on their lease and is seeking to recover some of their remaining lease costs.

| Office Class | # of Buildings | Inventory Size (SF) | Total Availability Rate |
|--------------|----------------|---------------------|-------------------------|
| All Classes  | 185            | 10,609,520          | 10.9%                   |
| A            | 81             | 6,158,052           | 10.4%                   |
| B            | 63             | 2,901,857           | 9.8%                    |
| C            | 41             | 1,549,611           | 14.8%                   |

*Statistics provided by Altus Insite*

## Vancouver Periphery Significant Transactions

- ▶ *Lululemon* leased 30,000 SF at 1523 West 3<sup>rd</sup> Avenue
- ▶ A Montessori School leased 5,300 SF at 5550 Fraser Street

# NAI COMMERCIAL WELCOMES



## SUKH PANNU

Associate

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NAI Commercial is pleased to welcome Sukh Pannu to the NAI Team.

Over the course of his career, Sukh has been involved in Acquisition and Disposition of real estate in excess of \$100 million. Before entering the brokerage business, Sukh worked at Fourbridges Assets Management where he was the point person for development land acquisitions. During his tenure, He learnt the intricacies of Land development economics and used his knowledge, research abilities and negotiating skills to secure profitable deals for his clients.

# NOT USING YOUR OFFICE SPACE?

## *What Are Your Options?*

Since the start of the Covid-19 pandemic, the nature of “workspace” has changed. Previously novel ideas such as “working remotely”, “hot desks”, and a 3-day workweek have become commonplace. As such, many businesses find themselves with more office space than they need, which is an unnecessary drain on finances.

On the other hand, many businesses hope to bring their staff back to the office on at least a semi-regular basis to maintain and improve corporate culture, encourage collaboration, provide mentorship to younger employees, and maintain productivity.

So, what does a company do when they have more office space than they need? How does a company maintain control of space they don't need now but hope to use again in the future? It is important to remember that the terms of the lease will dictate the relationship between the Tenant and Landlord, but typically there are three answers: **default**, **early termination**, and **subleasing**.

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**Default:** Simply put, the Tenant stops honouring their lease obligation. In most cases, the Tenant moves out surreptitiously (a “midnight move”) and stops paying rent. Such a breach of the lease triggers the Landlord's default remedies which typically include (a) forfeiture of the deposit held by the Landlord, (b) the Landlord's right to seize and sell the Tenant's chattels (desks, computers, etc.) even if they have been removed from the office building (the legal term is “Distress”), and (c) suing the Tenant for damages, including loss of rent and expenses incurred in finding a new tenant. If the company has financial assets, it is likely the Landlord will succeed in their lawsuit, and thus there is no enduring financial benefit to the Tenant. There is also the damage to the business's reputation and that of its owners. A company that has previously defaulted will find that other landlords refuse to lease them space in the future. While the company may be renamed, or dissolved and reincorporated, landlords will investigate who controls a company, and if it is discovered that the owner defaulted on a lease under a previous company's name, the Landlord may refuse to accept them as a tenant. Thus, defaulting on a lease can have both immediate and long-term risks, and it is best to review your options with your legal counsel to fully understand potential repercussions.

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**Early Termination:** Some leases will include a right for the Tenant to terminate their lease early, freeing them to then lease alternate, more suitably sized office space. However, this must have been negotiated prior to the lease being signed as it is not a standard lease term. If such a right exists, it typically comes with costs; including (a) payment of a lump-sum to the Landlord and (b) reimbursement of unamortized expenses incurred by the Landlord to initially secure the Tenant; such as leasing fees, any improvement allowance and Landlord's work to the premises. If the lease does not contain such a right, the Tenant's commercial realtor may still be able to negotiate an early termination with the Landlord. The Landlord may agree if they feel they can lease the space to another tenant at a higher lease rate or if they feel the Tenant is likely to default in the near future and they will soon be left with a vacancy anyways. Regardless, there will be costs to the Tenant to affect an early lease termination, but it does settle the matter amicably. There is no risk of a lawsuit, costs (when negotiated) are certain, and the reputation of the Tenant and its owners is maintained.

# NOT USING YOUR OFFICE SPACE?

## *What Are Your Options?*



**Sublease:** This is the most typical option for tenants to reduce costs associated with excess office space. Most leases include some right of sublease, but it is important to have a commercial realtor negotiate subleasing rights prior to the lease being signed to expand those rights as much as possible. There are restrictions on the right to sublease (again, review your lease), but first and foremost, a tenant usually must be current with their lease obligations, or the Landlord will not consent to a sublease. It is important to note that a sublease does not relieve the Tenant of their responsibilities: the Tenant is obligated to continue to pay rent, in full, to the Landlord. However, they will be reimbursed by their subtenant by the amount agreed by those parties in their sublease agreement. There are costs to affecting a sublease, including (a) an administration fee to the Landlord, (b) subleasing fees to the Realtors negotiating the transaction, and (c) typically a subsidy of the rent since a subtenant is in a strong position to negotiate a sublease rent lower than what the Tenant is paying to the Landlord. Nonetheless, a sublease allows a tenant to reduce their costs while maintaining their reputation. Moreover, a tenant may choose to sublease only a portion of their space which allows them to continue operating in a more suitably sized space (and avoid moving costs) while also being able to recover the sublet space at a future date when they are ready to occupy that area again.

When considering how to deal with excess office space it is important that a company and its principals engage a commercial realtor and their lawyer as soon as possible to understand their rights and opportunities, gauge their options in the marketplace, and position themselves early to secure the best possible outcome.

Please contact the writer to discuss your options should you wish to consider a negotiated early lease termination, or a sublease of some or all of your office space.



### **Roy Gibbs, LL.B.**

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*The information provided in this article is not intended as professional, legal advice. Please contact your solicitor for legal advice as needed.*

# NAI Commercial Office Team

NAI Commercial continues to expand our leasing team and is looking for agents with over three years of commercial real estate experience who live and work primarily in the Surrey, Langley and Abbotsford markets. NAI Commercial has a unique platform and opportunities for a talented agent or team to join our Langley Office. If you know of an agent who is looking to expand their career while making more money and enjoy greater freedom to develop their business, have them contact Rob DesBrisay.



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