

Vancouver fends off ‘zombie’ towers scaring U.S. cities

COVER | Core office towers are going dark from Manhattan to San Francisco as employees prefer working from home – but Vancouver’s downtown appears immune

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San Francisco property owners are concerned about the possible collapse of the city's commercial real estate market as 24 million square feet of office space has gone vacant since the COVID-19 pandemic began, according to a recent survey by MyEListing, a Texas-based commercial leasing platform.

In the heart of mid-Manhattan, New York City, blocks of office buildings stand virtually vacant and staring into an uncertain future: too old to attract fickle tenants, too new to be demolished and too expensive to be left empty, the report found.

MyEListing said it relates to the reluctance of workers to return to the office – and adds that the situation could worsen as office leases signed prior to the pandemic come due and tenants refuse to renew.

U.S. cities with near record-high office vacancy rates include Houston at 18.8 per cent, Dallas-Fort Worth at 17.5 per cent, and Washington, D.C., Chicago and San Francisco, which were all above 15 per cent in Q3 2022.

San Francisco saw its office vacancy rate increase from 6.28 per

cent in Q1 2020 to 15.45 per cent in Q3 2022. Some of the city's office tower owners have attempted to bail out without success.

Wells Fargo had purchased a 14-storey office building on California Street in downtown San Francisco 17 years ago, paying \$324 per square foot.

“After putting the building on the market in 2022, bids came in at 60 per cent to 70 per cent under what the building would have sold for in 2019,” said Nate Barber, a digital specialist with MyEListings. Wells Fargo has since taken it off the market.

“These have been nicknamed zombie buildings,” said Barber, whose company handles leasing on more than 120,000 U.S. commercial properties.

A 2022 study by professors at New York University estimated that lower tenant demand because of remote work may cut 28 per cent, or \$456 billion, off the value of offices across the U.S. About 10 per cent of that would be in New York City, where the Manhattan vacancy rate is now 22.5 per cent, up 160 basis points from Q3 2022.

Vancouver

While some analysts say higher



Vancouver is performing better than most downtown office markets, but the vacancy rate is edging up. | CHUNG CHOW

office vacancies due to remote and hybrid workers is a global phenomenon, Vancouver has apparently dodged the zombie invasion.

So far, at least.

“Our office is completely full,” said Paul Sullivan, a property tax expert and appraiser at Ryan ULC, which has a full-floor office on West Pender Street, Vancouver, with a 40-person staff.

Thomas Davidoff, a professor at the University of British Columbia's Sauder School of Business, said “Vancouver is not seeing the panic of San Francisco.”

Sullivan believes that Vancouver's downtown offices will continue to retain and attract tenants, but headwinds are building, according to a Q3 2022 report from NAI Commercial.



Rob DesBrisay of NAI Commercial: “Vancouver is an attractive city for larger firms to have a presence.”

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In the second quarter this year, downtown Vancouver office absorption went negative by 360,910 square feet, NAI found. As of Q3, the vacancy rate increased to 11.5 per cent, up from 9.5 per cent a year earlier and from 11.2 per cent

in the second quarter 2022.

This translates into more than three million square feet of vacant office space downtown.

(Other analysts say the downtown vacancy is closer to 90 per cent.)

Newer A-Class office towers are performing the best, with the vacancy rate dropping to 10.5 per cent, down from 11.3 per cent in the second quarter, NAI stated.

In comparison, the Class B vacancy rate increased to 12.4 per cent and Class C space has shot up to 14.6 per cent, according to NAI.

“We can conclude that non-view space or poorly improved space has become much harder to lease, with greater competition,” NAI cautioned.

Meanwhile, an increase in sub-leases means they----- now accounts for more than a quarter of the empty office space in the core.

Rob DesBrisay, managing partner, leasing and investment at NAI Commercial, said Vancouver has advantages that will keep zombie towers at bay,

“Vancouver is still a favourable city to live in, and our talent pool and low 70-cent dollar makes it an attractive city for larger firms to have a presence. I don't think we will see the vacancy hit San Francisco levels,” DesBrisay said. ■