NAI COMMERCIAL
1075 W Georgia St, Suite 1300
Vancouver, BC V6E 3C9
+1 604 683 7535
naibc.ca

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METRO VANCOUVER

Office Market Report

Q2 2024

METRO VANCOUVER OFFICE MARKET REPORT

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Welcome to the **Q2 2024 Metro Vancouver Office Report**

On June 5th, 2024, the *Bank of Canada* reduced its interest rate from 5.0% to 4.75%, as expected. The next rate announcement is scheduled for July 24th. While this reduction is a positive development and may boost market confidence, there is still significant work needed to stimulate Canada's economy.

In the months leading up to June 25th, there was considerable activity following changes to capital gains taxes. These changes made Canada less competitive and more punitive for investors. Transactions were expedited, and gains were crystallized with tax paid on 50% of the gain before the alteration to taxes being paid on 67% of gains. Prime Minister, Justin Trudeau stated, *"At a time when the richest are only getting richer, I think it's fair to ask those people to pay a little more."* While this may be good politics, it might not be sound policy.

The 2023 Fraser Research Bulletin highlights that 20% of Canadians pay 61.9% of all the country's personal income tax. It also notes that higher taxes reduce Canada's competitiveness compared to other industrialized countries, making it a less attractive place for highly skilled workers to live and work.

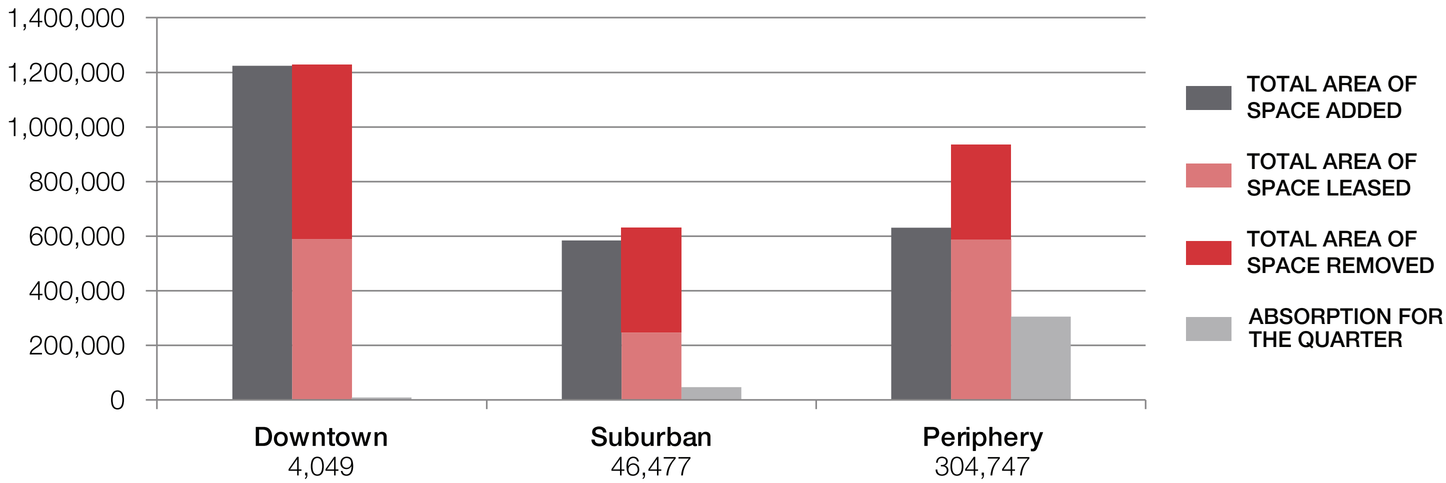
The next federal election is scheduled for on or before October 20th, 2025. Canadians will be seeking change but are still likely to be reluctant to support changes that would help Canada reduce its debt and start to address its shortfalls, such as health care, which continues to become harder for Canadians to access. In the Fraser Institutes Blog of October 2023, it points out that the Organization for Economic Cooperation and Development (OECD) Canada rank third highest on spending on health care, only behind the United Kingdom and Germany, yet Canada in 2020 ranked twenty eight out of thirty countries as per the number of physicians per 1,000 people. The high spending does not translate into performance or access to service.

For the next quarter, we will watch the October 19th Provincial election unfold. John Rustan of the Conservative Party of BC, and Kevin Falcon the Leader of the Opposition and the BC United Party, will see if they can unelect Premier, David Eby and the NDP. As of the time of this writing the BC United and Conservative Party have not joined forces, and unless they reach a cooperative agreement, it appears they will split the vote which so far seems to be working in favour of the NDP.

Regarding the office sector, both private firms and the public sector continue to struggle with getting their employees to return to the office. Many are also struggling with productivity. Some argue that workers will never fully return to the office, while others believe the current system and reduced productivity are unsustainable. One thing is certain, the office market has faced challenges globally, and Vancouver is only now starting to experience some of the issues that other markets have dealt with for a couple of years. While our vacancy rate has risen, the true challenge and measure we do not have comparison numbers for is the number of employee hours per week each office satisfies.

As we report on Q2, we note that the market continues to adjust, with a significant amount of inventory taken off the market this quarter. This includes subleases that are no longer viable and projects that were being marketed for lease but have been paused by developers due to current market conditions. Examples include Burrard Exchange at 1025 Dunsmuir for 410,000 square feet and False Creek Station at 1296 Station Street for 253,419 square feet.

Q2 2024 In Quarter Absorption



Net Absorption for the Quarter: 355,273 SF

Availability Rates

DOWNTOWN

Quarterly:			Yearly:		
Q1 2024:	16.4%	↓0.3%	Q2 2023:	15.3%	↑0.8%
Q2 2024:	16.1%		Q2 2024:	16.1%	

SUBURBAN

Quarterly:			Yearly:		
Q1 2024:	8.4%	↓0.3%	Q2 2023:	7.6%	↑0.5%
Q2 2024:	8.1%		Q2 2024:	8.1%	

PERIPHERY

Quarterly:			Yearly:		
Q1 2024:	11.7%	↑2.2%	Q2 2023:	11.8%	↑2.1%
Q2 2024:	13.9%		Q2 2024:	13.9%	

	Spaces Added Q1 2024	Spaces Added Q2 2024	% Change from Previous Quarter	Total Area of Space Added (SF)	# of Spaces Leased Q1 2024	# of Spaces Leased Q2 2024	Total Area of Space Leased (SF)	# of Spaces Removed Q1 2024	# of Spaces Removed Q2 2024	Total Area of Spaces Removed (SF)	Total # of Spaces Removed	Total Area Taken Off Q2 2024 (SF)
Downtown	151	189	25.17%	1,223,922	103	140	588,782	7	21	639,189	161	1,227,971
Suburban	128	75	-41.41%	583,921	67	63	247,048	12	20	383,350	83	630,398
Periphery	45	63	40.00%	630,970	27	57	588,782	14	25	346,935	82	935,717
Subtotal	324	327		2,438,813	197	260	1,424,612	33	66	1,369,474	326	2,794,086

Statistics provided by Altus Group

DOWNTOWN

Office Class	Total Availability Rate		Change from Last Quarter	Inventory Size (SF)	Inventory Size (SF)
	Q1 2024	Q2 2024		Q1 2024	Q2 2024
All Classes	16.4%	16.1%	⬇0.3%	29,337,644	29,348,688
A	15.7%	15.0%	⬇0.7%	19,043,167	19,043,167
B	15.9%	15.7%	⬇0.2%	6,855,554	6,855,554
C	21.6%	23.0%	⬆1.4%	3,438,923	3,449,967

For Q2, the Downtown vacancy rate has softened, falling to 16.1% from last quarter's 16.4%, and was 15.3% for Q2 of 2023. The number of spaces added to the market this quarter was 189, representing 1,223,922 square feet. Meanwhile, 140 spaces were leased, totaling 588,782 square feet, and 21 spaces were removed, totaling 639,189 square feet, resulting in negligible absorption for the quarter. The total inventory size of 29,337,644 square feet remained unchanged. The sublease market saw a decrease, with 928,647 square feet available, down from 1,010,585 square feet, now representing 19.6% of the total available space. There are still 4,727,149 square feet of space available for lease.

As for vacancy by class, the A Class market, after increasing last quarter to 15.7%, fell back to 15.0%. The B Class market decreased slightly to 15.7% from 15.9%, while the C Class availability continues to rise, hitting 23.0% up from 21.6%. The divergence in rental rates between renewal rents for quality space and the effective rents landlords need to accept for commodity space that requires improvements is the widest we have seen in over three decades. This issue is exacerbated by the increasing cost of constructing new premises and the time lag required to obtain simple building permits. For example, tenants are renewing leases in Class A buildings at effective rents in the upper $30s to $40s, while in the same building, a landlord may offer inducements that nets an effective rent in the teens or low $20s. This demonstrates the value of tenant retention strategies and the increase in landlords' building out ready-to-occupy suites.

Statistics provided by Altus Group

Downtown
Significant Transactions

- *Boomi* will occupy the 14th and 15th floor at 595 Burrard before moving into the 50,000 SF in 1055 Dunsmuir St
- *TikTok* leased all of the 22nd floor at 595 Burrard St
- *Industrial Light & Magic* leased 40,000 SF at 1133 Melville St
- *Fispan* leased 14,000 SF being the 17th floor of 1055 West Hastings St
- *Sangra Moller LLP* leased 8,100 SF on the 22nd floor of 1021 West Hastings St
- *Asana* lease 25,000 SF, being floors 5,6 and 7 at 601 West Hastings St
- *CIMA+ Engineering* leased 7000 SF on the 7th floor of 675 West Hastings St
- *Lithium Americas* subleased 7,500 SF at 666 Burrard St
- *Absolute Software* subleased the 14th floor of 980 Howe St for 16,000 SF where *Timbre Games* also subleased 16,000 SF on the 15th floor
- *Dr. Brian Conway* expanding in 6,700 SF at 1200 Burrard St
- *Davidson and Company LLP* leased an additional 7,500 SF on the 11th floor of 609 Granville St
- *The BC College of Nurses & Midwives* expanded leasing an additional 6,500 SF at 200 Granville St
- *Believeco* had leased 6,000 SF at 375 Water St, that is now available for sublease
- *Leede Jones Gable* leased 14,700 SF on, being the 4th floor at 1075 West Georgia Sr
- *InvestX* subleased 4,200 SF on the 14th floor of 1055 West Hastings St
- *Victory Square Media* subleased 9,400 SF at 1166 Alberni St on the 2nd floor

SUBURBAN

Looking at the Suburban office market, the availability rate reduced to 8.1% from 8.4% last quarter but was higher than the 7.6% at the same time last year. There were 75 spaces added to the market, totaling 583,921 square feet, and 63 spaces leased, totaling 247,048 square feet. However, 20 spaces totaling 383,350 square feet were removed, resulting in apparent absorption of 46,477 square feet. The Suburban sublease market offers 583,890 square feet, nearly identical to last quarter, representing 28.1% of the total available space.

The Class A and B availability rates are 8.5% and 8.3%, respectively, while the C Class availability, unlike Downtown, is a very healthy 4.0%. Richmond has the highest availability rate at 10.5%, while the Tri-Cities have an availability rate of 1.6%. New Westminster saw its availability rate increase from 7.2% to 9.4%, and the North Shore's availability dropped to 3.0%.

Suburban Significant Transactions

- *Lark Productions* expanded into an additional 7,800 SF at 3920 Norland Avenue, Burnaby
- *VCH* expanded into an additional 8,700 SF at 8100 Granville Avenue, Richmond
- *Cooledge Lighting* expanded by 6,100 SF at 13551 Commerce Parkway, Richmond

Office Class	Total Availability Rate		Change from Last Quarter	Inventory Size (SF)	Inventory Size (SF)
	Q1 2024	Q2 2024		Q1 2024	Q2 2024
All Classes	8.4%	8.1%	⬇0.3%	25,672,215	25,517,786
A	9.0%	8.5%	⬇0.5%	16,346,029	16,367,339
B	8.1%	8.3%	⬆0.2%	7,373,486	7,197,747
C	4.6%	4.0%	⬇0.6%	1,952,700	1,952,700

Area	Total Availability Rate		Change from Last Quarter
	Q1 2024	Q2 2024	
Burnaby	10.0%	8.9%	⬇1.1%
Langley	6.0%	6.6%	⬆0.6%
New Westminster	7.2%	9.4%	⬆2.2%
North Shore	3.7%	3.0%	⬇0.7%
Richmond	10.3%	10.5%	⬆0.2%
Surrey	6.9%	7.2%	⬆0.3%
Tri-Cities	4.3%	1.6%	⬇2.7%
Suburban	8.4%	8.1%	⬇0.3%

Statistics provided by Altus Group

VANCOUVER PERIPHERY

Office Class	# of Buildings	Total Availability Rate	Inventory Size (SF)	Inventory Size (SF)
	Q2 2024	Q2 2024	Q1 2024	Q2 2024
All Classes	186	13.9%	10,627,973	10,634,830
A	83	16.1%	6,238,966	6,245,823
B	62	10.2%	2,854,739	2,854,739
C	41	11.7%	1,534,268	1,534,268

In the Periphery market, the availability rate increased from 11.7% to 13.9%. Historically, the lowest availability rate in the Periphery market was 2.7% in Q3 of 2007, and 13.8% is a new high for the past 24 years. The sublease market increased this quarter to 532,537 square feet, up from 378,950 square feet last quarter, now representing 36.1% of available space. The A Class availability reduced slightly from 16.4% to 16.1%, while the B Class increased from 8.4% to 10.2%, and the C Class remained constant at 11.7%. There were 63 spaces totaling 630,970 square feet added to the market and 57 spaces leased, representing 588,782 square feet, while 25 spaces were removed, totaling 346,935 square feet, resulting in apparent positive absorption of 304,747 square feet.

Vancouver Periphery
Significant Transactions

- *ICBC announced it will be occupying 165,000 SF at The Hive at 2150 Keith Drive, Vancouver once it is completed*
- *New Tides Counselling* leased 4,000 SF at 1682 West 7th Avenue
- *Rebalance MD* leased 7,700 SF at 1665 West Broadway
- *The Granville Street BIA* leased 3,800 SF at 2608 Granville Street
- *Rambus Canada* leased 10,500 SF at Broadway Tech Centre 1 at 2920 Virtual Way

NAI Team

At NAI Commercial, we remain committed to expanding our team with experienced commercial realtors who share our vision for success and are interested in leveraging a global platform while having the freedom to grow their practice among a community of like-minded professionals.

If you are interested in exploring the possibility of collaborating with NAI and establishing your practice under our brand, we would be delighted to connect with you. Whether you are considering this opportunity for yourself or know of a fellow commercial realtor who might, we welcome the chance to discuss how NAI Commercial can be the right fit for your aspirations and goals. Please feel free to reach out to us for a conversation.

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Vancouver Office:

Rob DesBrisay
Managing Partner
604 691 6602
rob@naicommercial.ca

Brian Mackenzie
Chris Oteman
Cole Maedel
Conor Finucane
Irene Yung
Jesse Godin
John Freyvogel
Mark Blancard
Mark Kurkdjian
Roy Gibbs
Taylor Durham

Langley Office:

Angie MacDonald
Calvin Owen Jones
Gary Niesner
Ken Kiers
Lisa Ann Tabios
Roopy Burmy

NAI Commercial

1300-1075 W Georgia St, Vancouver, BC V6E 3C9
+1 604 683 7535 | naibc.ca

Exercising an Option to Renew:
Pitfalls and Requirements

ROY GIBBS, LL.B.

What is an **Option to Renew/Extend**?

Many commercial tenants have a clause in their lease that allows them to renew or extend their current lease. Every lease is unique and should be reviewed carefully to understand the specific requirements to effectively exercise the option to renew or extend as outlined in the lease.

The benefit to tenants is that, if they are occupying a space that they have invested in or absolutely do not want to lose, they can prevent the Landlord from leasing the space to another prospective tenant.

The specific language of the lease is important to review; however, it is typical that an Option to Renew/Extend has the terms similar to the following:

- The tenant must provide written notice to the Landlord within a specific time frame, often 6 – 9 months prior to the expiry of the current lease term;
- The manner of providing notice is usually a defined in the lease and must be provided accordingly;
- The tenant must not be in default of their lease or the option may be void;
- The extended lease term will be at market net rental rates, and sometimes not less than the net rent paid by the tenant in the final year of the current lease;
- If the landlord and tenant can't reach agreement on the market net rent, it may be decided by arbitration;
- There will be no leasing incentives such as an improvement allowance, landlord's work or free rent. Rather, the space is provided "as is".

While for some tenants it is imperative that they retain their space, exercising an Option to Renew/Extend is fraught with risk.

Firstly, once a tenant exercises the option they commit themselves to the new lease. Not only do they give up every other opportunity on the market, they lose their negotiating leverage with their current landlord. Moreover, unless there has been agreement in advance between the landlord and tenant as to what "current market net rent" is, it is possible that the tenant will commit themselves to a rent that is more expensive than they expected, with obvious downstream effects (less money for reinvestment in the business, less cash flow, etc.)

Secondly, as there will be no leasing incentives, any changes to the space required by the tenant will be at the tenant's sole expense and on top of the rent going forward. Construction costs have risen sharply in recent years and many tenants suffer significant sticker-shock when exploring the cost of renovating a space. Often, it proves to be cheaper to relocate to another building (where the space is improved as needed, or the landlord will do so to secure the tenant) rather than renovating an existing space. Naturally, renovating a space while also occupying can be very disruptive.

Most tenants do not occupy space so unique that they could not replicate it or even improve upon it elsewhere. Therefore, most tenants are better served by not exercising an Option to Renew and considering their options in the market (including "new" negotiations with their current landlord).

In the office sector there is an abundance of vacant office space available, plus a supply of fully improved sublease spaces. Tenants have a plethora of options with landlords, and sublandlords, eager to secure their tenancy. Moreover, one's current landlord is likely willing to negotiate a new lease with an existing tenant even if an Option to Renew/Extend has lapsed. After all, landlords are not looking to increase their vacancy and the current tenant is one with whom the landlord already has a relationship and who, presumably, has paid rent on time thus far.

Of course, there are situations where a tenant has a prime location in a building, has invested heavily in tenant specific improvements, or that specific location is critical to their business.. In such cases exercising the Option to Renew/Extend might be prudent. But, generally, tenants should exercise an Option to Renew/Extend only when it is imperative not to lose their space. Ideally a tenant can pre-negotiate their renewal terms without prejudicing their rights to renew or extend. Thus, if they cannot secure reasonable terms from their Landlord in advance, they can exercise their option and rely on the arbitration process outlined in their lease.

Exercising an Option to Renew:
Pitfalls and Requirements

Notice Requirements

The specific terms of one's lease will govern the notice requirements. However, while it is prudent to have discussions with one's landlord about market net rent, those discussions likely do not satisfy the notice requirements described in the lease.

Legal opinions on this issue are that the terms of the Option to Renew/Extend will be strictly construed and must be clear and unequivocal. It is also common that a lease will have a clause stipulating that time is of the essence, which also supports the position that strict compliance with notice provisions is required.

In other words, the court is likely to see a clear distinction between a tenant looking to negotiate the rent as a condition of renewal, versus a clear and unequivocal exercise of an Option to Renew/Extend.

As stated in *2324702 Ontario Inc. v. 1305 Dundas W Inc., 2020 ONCA 355 (1305 Dundas] at paragraph 20: The [tenant] wanted the [landlord] to agree on a rental figure before it committed itself to the renewal.… In adopting this posture, the [tenant] effectively sought to deny the [landlord] the certainty that a lease renewal option of this kind is meant to provide.*

Therefore, if a tenant wishes to exercise an Option to Renew/Extend, it is prudent for the tenant to reference the specific clause in their lease, use the specified words such as "exercise the option", and follow the prescribed notice provisions specific to their lease. Of course, this must be done within the window of opportunity and any other requirements of the option must be met.

Summary

Exercising an Option to Renew/Expand is rarely the most economical choice for a tenant. While a tenant can prevent any competition for their space, they forego all other opportunities, lose their negotiating leverage, and commit themselves to a "market rent" without any market leasing incentives.

However, if one chooses to do so, it is recommended that they:

1. Read or have their lease reviewed by a professional as it is the document that governs their relationship with the landlord, paying particular attention to deadlines and specific notice requirements. Notice provisions are very specific and are often not correctly followed. Tenants and their lawyers ought to review the procedures carefully and challenge anyone who suggests providing notice in any fashion other than what is specifically provided for in the lease.
2. Seek professional advice about the legal implications of relevant lease clauses.

If you have any questions regarding your lease reach out to a commercial leasing expert at NAI Commercial. We can provide complementary advice after a review of your lease.

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

Roy Gibbs, LL.B.
Personal Real Estate Corporation
Commercial Sales and Leasing, NAI Commercial
604 691 6686 | 778 834 4050 | rgibbs@naicommercial.ca

NAI Commercial

About the Author: Roy is a commercial leasing veteran with over twenty years of experience. He graduated with a Bachelor of Laws Degree from Osgoode Hall Law School in 1997 and practiced law before finding his passion in commercial real estate. Roy is not currently a practicing lawyer and encourages all his clients to seek a legal advice prior to entering any biding contract.