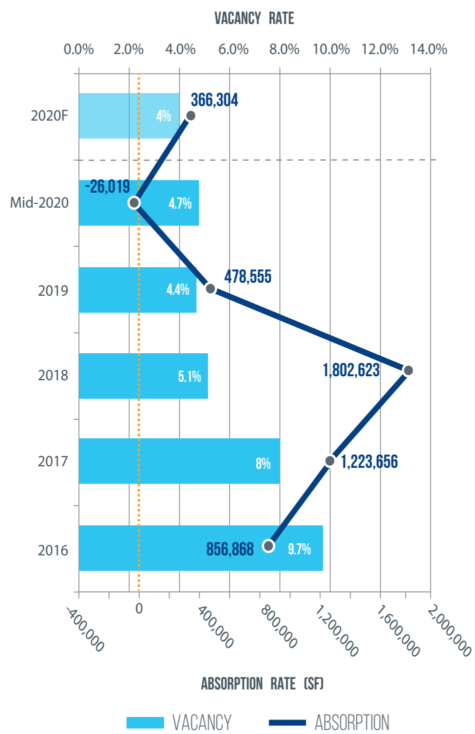
AVISON YOUNG

# Mid-Year 2020 Office Market Report

Metro Vancouver, BC

## METRO VANCOUVER VACANCY & ABSORPTION TRENDS




*12-month projection based on 10-year average absorption and known net absorption in new inventory*

## Pandemic impact fails to materialize as downtown remains tight amid record-low suburban vacancy

Predictions that the impacts from a global pandemic would fundamentally alter the dynamics of Metro Vancouver's office market failed to materialize at mid-year 2020 as vacancy in the suburbs reached record lows and downtown Vancouver continued to post one of the tightest office vacancy rates in North America despite an initial wave of sublease vacancy. New office development activity throughout the region remained on schedule with only minor delays due in large part to the provincial government designating construction as an essential service in its initial response to COVID-19 in March 2020. While Metro Vancouver's office market is by no means immune to the impacts that pandemic containment measures and work-from-home protocols will ultimately have on office workplaces around the world, the region weathered first contact with COVID-19 and is well-positioned to face what is still to come.

Vacancy in the 52.4-million-square-foot (msf) regional market rose slightly to 4.7% at mid-year 2020 from a record-low 4.3% at mid-year 2019, but was still less than the 5.1% recorded just 24 months ago. Regional vacancy is forecasted to decline to 4% by year-end 2020 due to a profound lack of new supply both downtown and in the suburbs as well as a strong track record of preleasing. The latter helps insulate against notable spikes in vacancy when new supply is added and force many existing businesses to consider existing head lease space or, at least in the case of downtown Vancouver, the rising availability of sublease opportunities. Downtown Vancouver and, to a lesser extent, the suburbs, were facing significant constraints to growth in 2020/21 prior to the emergence of the global pandemic. An improvement in office availability and increased options for tenants will initially relieve the pressure that many would have faced in 2020/21. While the release of some of this pressure may temporarily help bring the market back to a more balanced state of affairs, the ongoing deterioration of economic activity related to pandemic containment measures is not the answer to Metro Vancouver's new supply issues.

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**METRO VANCOUVER OFFICE VACANCY SUMMARY (MID-YEAR 2020)**

| DISTRICT | INVENTORY (SF) | HEAD LEASE VACANCY (SF) | SUBLEASE VACANCY (SF) | TOTAL VACANCY (SF) | VACANCY RATE (%) | 6-MONTH ABSORPTION (SF) |
|---|---|---|---|---|---|---|
| Downtown | 22,931,125 | 515,762 | 291,643 | 807,405 | 3.5% | -60,586 |
| Yaletown | 2,074,372 | 163,997 | 39,031 | 203,028 | 9.8% | -136,530 |
| Vancouver-Broadway | 7,830,307 | 253,910 | 44,839 | 298,749 | 3.8% | 42,342 |
| Burnaby | 9,318,790 | 351,464 | 149,846 | 501,310 | 5.4% | 85,496 |
| Richmond | 4,215,800 | 284,193 | 15,444 | 299,637 | 7.1% | 1,491 |
| Surrey | 2,906,607 | 128,068 | 5,908 | 133,976 | 4.6% | 16,291 |
| New Westminster | 1,688,572 | 136,190 | 4,400 | 140,590 | 8.3% | 20,477 |
| North Shore | 1,450,898 | 95,786 | 6,410 | 102,196 | 7.0% | 5,000 |
| **TOTAL** | **52,416,471** | **1,929,370** | **557,521** | **2,486,891** | **4.7%** | **-26,019** |

**VACANCY RATE JUNE 30, 2020 4.7%**

**VACANCY RATE DECEMBER 31, 2019 4.4%**

| Absorption (demand) | Vacancy (supply) | Rental Rates |
|---|---|---|
| ↘ | ↗ | ↔ |

# DOWNTOWN

## Rising sublease availability contributes small increase in vacancy

### VACANCY TRENDS

Downtown vacancy rose to 3.5% at mid-year 2020 from 2.6% at year-end 2019 (and 2% at mid-year 2019) – due largely to COVID-19 containment measures that resulted in most office-based employers adopting work-from-home protocols in March 2020. Despite the notable increase in vacancy year-over-year, overall vacancy was only the highest recorded since mid-year 2018 (5%). The increase in downtown vacancy was almost entirely attributed to the rising availability of sublease space. The amount of vacant space increased in almost all building classes since year-end 2019 with the exceptions of class AAA and C head lease space. Class AAA space recorded the smallest increase in vacancy – to 3.8% from 3.7% – due to a small increase in sublease space that offset an actual decline in vacant class AAA head lease space. While class A buildings were also impacted by a small increase in vacancy at mid-year 2020 (2.3%) from six months earlier (1.6%) primarily due to rising sublease space, the initial COVID-19-related impacts on the downtown office market appeared to have effected class B and C properties strongest. Vacancies in class B properties rose to 3.1% at mid-year 2020 from 1.4% at year-end 2019, while class C vacancy rose to 7.5% from 6.5% at year-end 2019. Sublease vacancy in both class B and C properties rose sharply, which contributed to the overall increase in vacancy in both classes. Generally speaking, the preliminary increase in sublease vacancy was largely attributed to smaller spaces concentrated in class B and C buildings. Overall, vacant sublease space downtown increased by more than 200,000 sf since year-end 2019 with the largest increases in class B (65,540 sf) and C (55,924 sf). From March 31, 2020 to June 30, 2020, there was approximately 406,000 sf of downtown sublease space offered to the market. These sublease offerings were captured in the statistics as vacant or SAF space as the case may be. The largest contiguous block of sublease space that emerged was 52,669 sf in **Park Place** (floors 32-35) followed by 28,341 sf at 750 West Pender (floors 4-6). However, the vast majority of sublease spaces that were being marketed were for less than 10,000 sf. Very few large-block lease or sublease opportunities emerged during the first half of 2020. It remains to be seen if landlords are inclined to take control of sublease offerings through contractual rights or if they will consent to transactions at discounts to prevailing market rates. Whether the impact of work-from-home protocols results in a material increase in sublease or head lease offerings as companies reconsider their medium- and long-term office space needs remains to be seen. Deal activity was very muted in the first half of 2020 with tenants generally opting for short-term extensions or deferring commitments wherever possible. Overall, leasing momentum, particularly within new developments, was highly constrained. Despite vacancy increasing to 3.5% at mid-year 2020, fundamentals would suggest the market remains supply constrained and tilted in favour of landlords; however, the uncertainty created by the global pandemic likely provides creditworthy tenants who are prepared to act with enhanced negotiating leverage.

MORE THAN **5 MSF** OF NEW DEVELOPMENT

### ABSORPTION TRENDS

First-half absorption was negative 60,586 sf, the first time that negative first-half absorption has been recorded downtown since 2014. While **Amazon** took occupancy of 402 Dunsmuir Street (a new 147,000-sf office building completed in the first half of 2020), there were few, if any, other notable occupancies to offset other tenants vacating or downsizing, including **Newmont** downsizing in the former head office of **Goldcorp** (in Park Place) and subleasing the space. (Newmont acquired Goldcorp in 2019.) **Mobify** is also subleasing its 20,109 sf at 725 Granville Street. Unlike **Scanline VFX**, which also reduced its footprint and is subleasing 24,516 sf at 580 Granville Street, the decisions by Mobify and Newmont to sublease space were not COVID-related. Downtown absorption is anticipated to be relatively anemic in 2020 with severely curtailed deal flow in the first half resulting in far fewer occupancies in the second half of 2020 as most tenants choose to renew or delay space-requirement decisions as they evaluate staffing requirements whilst monitoring provincial, national and global economic conditions.

### SPACE AVAILABILITY FACTOR

The space availability factor, or SAF, refers to head lease space or sublease space that is being marketed but is not physically vacant, and new supply that is near completion and available for lease. SAF was 1.9% at mid-year 2020 – virtually unchanged from 12 months earlier. Combined with vacant space, the amount of space being marketed for lease in the downtown core is 5.4% (or approximately 1.24 msf). The lowest overall availability rate on record occurred at year-end 2007 (3.5% or 681,330 sf).

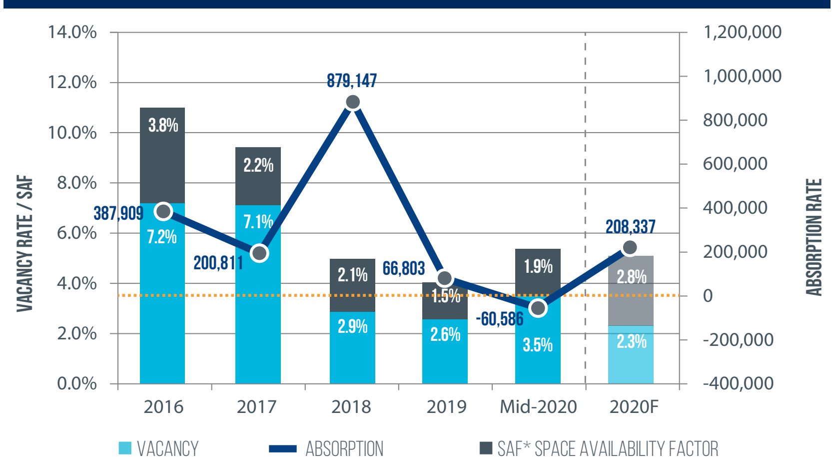
### NEW CONSTRUCTION

There is more than 5 msf of new office space (either under construction or in the permitting process) proposed for downtown Vancouver by 2024, which represents the largest development cycle in the city's history. The impact of COVID-19 containment measures was negligible as construction was declared an essential service by the provincial government and

### RECENT LEASE DEALS - MID-YEAR 2020 (>10,000 SF)

| TENANT | BUILDING | SF |
|---|---|---|
| Lululemon Athletica (renewal) | 1380 Burrard Street | 88,360 |
| Fasken LLP (renewal) | Bentall 5 | 86,000 |
| Scotiabank (renewal) | 650 West Georgia Street | 85,000 |
| Amazon | 745 Thurlow Street | 80,000 |
| McMillan LLP (renewal) | Royal Centre | 42,800 |
| Wesgroup Properties | Bentall 3 | 24,000 |
| Bosa Development | Bosa Waterfront Centre | 23,000 |
| Poly | Bentall 4 | 17,600 |
| Namdo Management (renewal) | 885 West Georgia Street | 16,200 |
| Kabam Inc. (expansion) | Vancouver Centre 2 | 15,410 |
| Hinterland Games | 1075 West Georgia Street | 13,870 |
| Thurber Management (renewal) | 1281 West Georgia Street | 13,100 |
| Family Insurance Solutions (renewal) | 1177 West Hastings Street | 11,600 |
| CI Financial (sublease) | 625 Howe Street | 10,700 |
| First National Financial (renewal) | 1140 West Pender Street | 10,600 |

### VACANCY WITH SPACE AVAILABILITY FACTOR (SAF) AND ABSORPTION




*12-month projection based on 5-year average absorption and known net absorption in new inventory, and 10-year average SAF.*

allowed to continue. While delays of up to three months may have impacted some projects due primarily to interruptions in shipments of building materials, most new developments remain on schedule. Approximately 64% (2.25 msf) of new downtown office space currently under construction (3.54 msf) to mid-2023 had been preleased by mid-year 2020, including Amazon leasing **The Post** (1.07 msf plus podium) in the largest office deal in Vancouver history. More than 300,000 sf of strata office space has also been sold in new downtown buildings delivering through 2022. Only three downtown options that deliver before 2022 remain available for lease: **The Offices at Burrard Place** (located in Downtown South) and 601 West Hastings, neither of which had prelease commitments at mid-year 2020; and **Vancouver Centre II**, which is 52% preleased. New space in 2022 also remains constrained with the only space for prelease available at the **Bosa Waterfront Centre** (which is 60% stratified with 15% of the remaining 40% space for lease preleased) and **The Stack**, which was 40% preleased at mid-year 2020. **The Seymour** will offer more than 55,000 sf of strata office when it is delivered in 2022. New supply in 2023 is limited primarily to **B6**, which was 48% preleased at mid-year 2020. Delivery of 625 West Hastings was pushed back to 2024. Commencement of construction on 1166 West Pender was pushed back to early 2021. Other downtown projects that remain in permitting include 601 West Pender, 720 Beatty Street, 555 West Cordova Street and 450 West Georgia Street. These developments may deliver in late 2024 and 2025.

## MARKET FORECAST

It is very difficult to comment on rental rates other than to suggest that stalled demand and increasing supply will buffer upward pressure on rental rates. There is Insufficient evidence or data points to accurately quantify prevailing market rates but current trajectory is likely flat to declining. Uncertain times usually result in landlords focusing more closely on tenant covenant and creditworthiness and less on achieving highest financial terms possible. Subdued deal velocity and increasing supply, particularly sublease offerings, will likely apply downward pressure to rental rates but a dramatic change in prevailing rates is not anticipated. While market fundamentals continue to favour landlords, the near-term trends and uncertainty are helpful for tenants. In the absence of a market-shifting event such as Amazon deciding it is no longer interested in occupying the space it preleased or a new iteration of COVID-19 that presides over further damage to the economy, it is anticipated that there will be incremental increases in supply through 2020 and into 2021, but a gradual return of leasing deal velocity by mid-2021. COVID-19, social distancing and work-from-home protocols have forced companies to reconsider their workplace strategies, which will have near, medium and longer-term implications for office markets around the world. Those reconsiderations have complicated forecasts and predictions of office-space demand and the full impact on the downtown Vancouver office market has yet to be revealed. Overall, the downtown Vancouver office market appears to have responded favourably to the global pandemic, but the medium and longer-term implications are uncertain. That uncertainty seems to have stifled demand and provided some tenants, likely the more creditworthy ones, with enhanced negotiating leverage. There was no evidence of widespread distress on either the tenant or landlord side of the market at mid-year 2020.

VACANCY
TO REMAIN
TIGHT
THRU 2020

| DEVELOPER | BUILDING | SF | PRELEASE SF | PRELEASE % | COMPLETION |
|---|---|---|---|---|---|
| Westbank | Creative Space @ Vancouver House, 1461 & 1462 Granville Street (two buildings) | 90,000 (office) | 90,000 | 100% | Q3 2020 |
| Low Tide Properties | 155 Water Street | 70,000 (office) | 70,000 | 100% | Q3 2020 |
| Westbank/Allied REIT | Deloitte Summit building, 410 West Georgia Street | 340,160 (office) | 325,620 | 92% | Q4 2020 |
| Reliance Properties/ Jim Pattison Developments | The Offices at Burrard Place, 1281 Hornby Street (mixed use) | 99,000 (office podium) | Strata | 100% sold | Q2 2021 |
| Reliance Properties/ Jim Pattison Developments | The Offices at Burrard Place, 1290 Burrard Street (mixed use) | 133,000 (office tower) | 0 | 0% | Q2 2021 |
| PCI Group / Greystone | 601 West Hastings Street | 215,000 | 0 | 0% | Q3 2021 |
| GWL Realty Advisors | Vancouver Centre II, 733 Seymour Street | 377,000 | 197,410 | 52% | Q4 2021 |
| Bosa Developments | Bosa Waterfront Centre, 320 Granville Street | 374,790 (60% strata/ 40% lease) | Strata/Lease | 100% sold /15% leased | Q1 2022 |
| Bonnis Development | The Seymour, 807 Seymour Street | 56,782 (office) | Strata | 11% sold | Q2 2022 |
| Oxford Properties | The Stack, 1133 Melville Street | 532,000 (office) | 213,000 | 40% | Q2 2022 |
| QuadReal Property Group | The Post, 349 West Georgia Street (mixed-use) | South tower: 510,000 North tower: 560,000 | 1.07 msf plus podium | 100% | Q3 2022/ Q2 2023 |
| Asia Standard Americas | 1438 Robson Street | 29,190 (office) | 0 | 0% | Q1 2023 |
| BentallGreenOak | B6, 1090 West Pender Street | 534,000 | 258,000 | 48% | Q2 2023 |
| Reliance Properties | Two Burrard Place, 1261 Hornby Street | 40,252 (office podium) | Strata | 0% sold | Q3 2023 |
| Uptown Property Group | 625 West Hastings Street | 120,000 | 0 | 0% | Q2 2024 |
| *Bonnis Properties* | *968-980 Granville Street* | *51,477 (office)* | *0* | *0%* | *Marketing for prelease commitment* |
| *Reliance Properties* | *1166 West Pender Street* | *348,930* | - | - | *Proposed* |
| *Reliance Properties* | *601 West Pender Street* | *398,500* | - | - | *Proposed* |
| *Cadillac Fairview* | *The Crystal at Waterfront Square, 555 West Cordova Street* | *335,000 (office)* | - | - | *Proposed* |
| *Westbank* | *720 Beatty Street* | *498,444 (office)* | - | - | *Proposed* |
| *FDG Properties* | *117-131 Water Street* | *68,576 (office)* | - | - | *Proposed* |
| *Austeville Properties* | *450 West Georgia Street* | *374,068* | - | - | *Proposed* |
| *Aquilini Development and Construction* | *Aquilini Centre East, 777 Pat Quinn Way* | *69,300 (office)* | - | - | *Proposed* |
| *Canadian Metropolitan Properties* | *750-772 Pacific Boulevard (Plaza of Nations)* | *TBD (office)* | - | - | *Proposed* |

| CLASS | INVENTORY | HEAD LEASE VACANCY (SF) | SUBLEASE VACANCY (SF) | TOTAL VACANCY (SF) | TOTAL VACANCY (%) | 6-MONTH ABSORPTION (SF) | SAF (SF) | SAF (%) | NET RENTAL RATE RANGE (PSF) | GROSS OCCUPANCY COST (PSF) |
|---|---|---|---|---|---|---|---|---|---|---|
| AAA | 5,127,576 | 126,576 | 67,190 | 193,766 | 3.8% | 135,369 | 92,315 | 1.8% | $38 - $72** | $58 - $97** |
| A | 8,180,469 | 105,649 | 78,432 | 184,081 | 2.3% | -55,315 | 186,788 | 2.3% | $32 - $60** | $51 - $84** |
| B | 6,639,398 | 122,205 | 84,644 | 206,849 | 3.1% | -113,224 | 95,907 | 1.4% | $28 - $45** | $43 - $67** |
| C | 2,983,682 | 161,332 | 61,377 | 222,709 | 7.5% | -27,416 | 59,421 | 2.0% | $25 - $35** | $37 - $53** |
| **Total** | **22,931,125** | **515,762** | **291,643** | **807,405** | **3.5%** | **-60,586** | **434,431** | **1.9%** | - | - |

***Due to a lack of available lease comparables resulting from severely constrained deal velocity, rental rate ranges and gross occupancy costs at mid-year 2020 are unable to be updated and remain unchanged from year-end 2019.*

# DOWNTOWN DEVELOPMENT TIMELINE

| | CREATIVE SPACE, 1461 & 1462 GRANVILLE STREET | 155 WATER STREET | DELOITTE SUMMIT BUILDING, 410 WEST GEORGIA | THE OFFICES AT BURRARD PLACE, 1290 BURRARD STREET | THE OFFICES AT BURRARD PLACE, 1281 HORNBY STREET |
|---|---|---|---|---|---|
| |  |  |  |  |  |
| | Q3 2020 | Q3 2020 | Q4 2020 | Q2 2021 | Q2 2021 |
| DEVELOPER | Westbank | Low Tide Properties | Westbank/Allied REIT | Reliance Properties / Jim Pattison Developments | Reliance Properties / Jim Pattison Developments |
| STOREYS | 5 | 7 | 24 | 13 | 7-storey podium (3 floors) |
| OFFICE SF | 90,000 | 70,000 | 353,000 | 133,000 | 99,000 (strata) |
| TENANTS | 90,000 sf - Global University Systems Canada | 70,000 sf- Microsoft | 132,380 - Deloitte Canada<br>119,320 sf - Spaces<br>58,920 sf - Apple<br>15,000 sf - Northeastern University | No tenants at this time | Sold (phases 1 & 2 - 99,000 sf) |
| OCCUPANCY | 100% | 100% | 92% | 0% | 100% sold |

| | THE POST, 349 WEST GEORGIA STREET | B6, 1090 WEST PENDER STREET | THE POST, 308 DUNSMUIR STREET | TWO BURRARD PLACE, 1261 HORNBY STREET | 625 WEST HASTINGS STREET |
|---|---|---|---|---|---|
| |  |  |  |  |  |
| | Q3 2022 | Q2 2023 | Q2 2023 | Q3 2023 | Q2 2024 |
| DEVELOPER | QuadReal Property Group | BentallGreenOak | QuadReal Property Group | Reliance Properties | Uptown Property Group |
| STOREYS | 21 (south tower) | 32 | 22 (north tower) | 3 floors (in podium) | 28 |
| OFFICE SF | 510,000 | 534,000 | 560,000 | 40,252 (strata) | 120,000 |
| TENANTS | 510,000 sf - Amazon | 170,000 sf - WeWork<br>47,000 sf - BentallGreenOak<br>41,000 sf - Colliers | 560,000 sf - Amazon | No presales at this time | No tenants at this time |
| OCCUPANCY | 100% | 48% | 100% | 0% sold | 0% |

601 WEST HASTINGS STREET

Q3 2021

VANCOUVER CENTRE II, 733 SEYMOUR STREET

Q4 2021

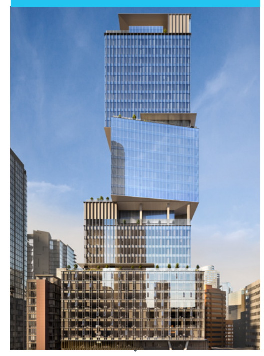
BOSA WATERFRONT CENTRE, 320 GRANVILLE STREET

Q1 2022

THE SEYMOUR, 807 SEYMOUR STREET

Q2 2022

THE STACK, 1133 MELVILLE STREET



Q2 2022

| | 601 WEST HASTINGS STREET (Q3 2021) | VANCOUVER CENTRE II, 733 SEYMOUR STREET (Q4 2021) | BOSA WATERFRONT CENTRE, 320 GRANVILLE STREET (Q1 2022) | THE SEYMOUR, 807 SEYMOUR STREET (Q2 2022) | THE STACK, 1133 MELVILLE STREET (Q2 2022) |
|---|---|---|---|---|---|
| DEVELOPER | PCI Group / Greystone | GWL Realty Advisors | Bosa Development | Bonnis Development | Oxford Properties |
| STOREYS | 25 | 33 | 30 | 13 | 36 |
| OFFICE SF | 215,000 | 377,000 | 226,790 (strata) / 148,000 | 56,782 (strata) | 532,000 |
| TENANTS | No tenants at this time | 120,410 sf - Kabam Inc.<br>40,000 sf - PI Financial<br>37,000 sf - B2Gold | 23,000 sf - Bosa Development<br>Approx. 60% of the building has been sold as strata office space | 6,496 sf - Bonnis Properties | 80,000 sf - Blake, Cassels & Graydon<br>67,000 sf - DLA Piper<br>66,000 sf - EY Canada |
| OCCUPANCY | 0% | 52% | 100% sold / 15% | 11% sold | 40% |

# PROPOSED DOWNTOWN DEVELOPMENTS

### 1166 WEST PENDER STREET
DEVELOPED BY
RELIANCE PROPERTIES

STOREYS / OFFICE AREA
32 /348,930 SF

This redevelopment of an existing office building will involve the construction of a new 32-storey building with 348,930 sf of office space. Demolition of the existing building was pushed back from fall 2020 to the first quarter of 2021. The existing building is occupied until December 2020 after the lease was extended by six months. Construction of the building is scheduled for completion in 2024/25. No prelease commitments were confirmed at mid-year 2020.

### 601 WEST PENDER STREET
DEVELOPED BY
RELIANCE PROPERTIES

STOREYS / OFFICE AREA
29 / 398,500 SF

The rezoning application for this project was approved in June 2020. The application calls for 398,500 sf of office space in a 29-storey mixed-use development that would replace the existing six-storey parkade currently on the site. The new building would include retail space at grade with the top two floors of the tower set aside as amenity space for the building's occupants. A construction timeline has not been provided.

### THE CRYSTAL AT WATERFRONT SQUARE, 555 WEST CORDOVA STREET
DEVELOPED BY
CADILLAC FAIRVIEW

STOREYS / OFFICE AREA
26 / 335,000 SF

After years of delay, Cadillac Fairview's development permit application for The Crystal at Waterfront Square, a 26-storey, 380,000-sf office tower, was resubmitted in late 2019 after the initial design generated substantial public criticism in 2015. The development permit board meeting scheduled for May 25, 2020 was cancelled and had not been rescheduled as of June 30, 2020. Construction may break ground in mid-2021 with the building delivered in early 2024 pending permit approvals.

### 450 WEST GEORGIA STREET
DEVELOPED BY
AUSTEVILLE PROPERTIES

STOREYS / TOTAL AREA
23 / 374,068 SF

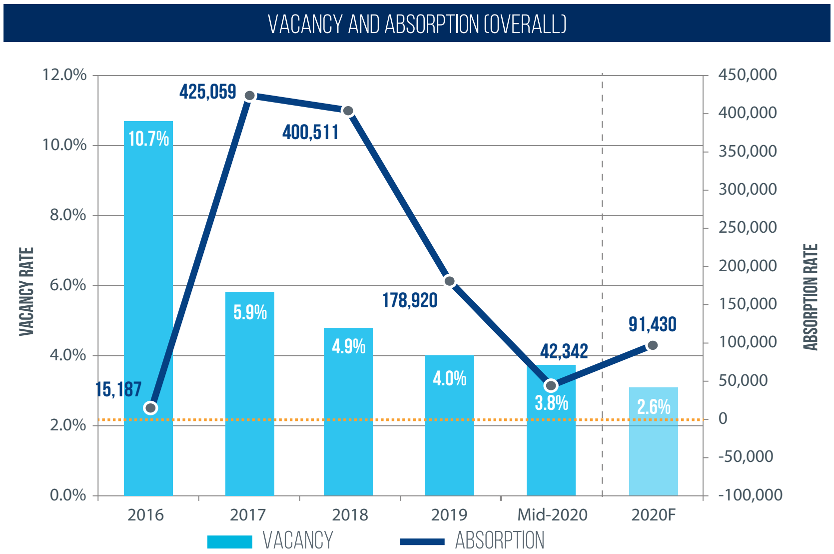
A rezoning application was filed in December 2019 to redevelop the existing surface parking lot and a low-rise commercial building at 450 West Georgia into a 23-storey office building with retail space at grade totalling 374,068 sf. The proposal went before the urban design panel on June 17, 2020 and a virtual open house for the project ran from June 15, 2020 to July 5, 2020. A construction schedule has not been proposed.

### 720 BEATTY STREET & 701 EXPO BOULEVARD
DEVELOPED BY
WESTBANK

STOREYS / OFFICE AREA
17 / 498,444 SF

A revised rezoning application was filed with the City in March 2020. The UDP had supported the building design in April 2019. The proposed office building at 720 Beatty would include 17 floors of office space (498,444 sf) for lease as well as minimal retail (12,863 sf) at grade. A five-storey commercial building would also be built at 701 Expo Boulevard. While a delivery date was not confirmed at mid-year 2020, a completion in 2024 had been originally proposed.

# Vacancy slides to lowest point since 2015




*12-month projection based on 10-year average absorption and known net absorption in new inventory*

## VACANCY TRENDS

Overall vacancy in the Vancouver-Broadway office market slipped to 3.8% at mid-year 2020, down from 4.7% one year earlier, and to its lowest point since mid-year 2015. Class A vacancy remained very tight at 2.4%, slightly lower than the 2.6% recorded 12 months prior, as demand for new space remained strong but with little new supply being delivered to the market. With few options available in newer buildings amid continuing tenant mandates in the Vancouver-Broadway market, vacancy in class B remained steady at 6.9%, while vacancy in class C buildings also remained stable at 3.7%. Vacancy in the core Vancouver-Broadway corridor submarket declined to 4.8% from 6.5% a year earlier, due primarily to tenants occupying space in class B and C buildings as a lack of new supply led tenants to lease up what space was available. Vacancy in the peripheral Vancouver-Broadway market dipped slightly to 1.8% at mid-year 2020 from 2.2% 12 months previous, due again primarily to tenants taking occupancy in class B and C properties. Deal velocity had been ramping up until the second quarter of 2020 when activity came to a grinding halt as a result of COVID-19. Sublease vacancy was a non-factor in the market, increasing only slightly to 44,839 sf at mid-year 2020 from 36,026 sf at year-end 2019.

## ABSORPTION TRENDS

First-half absorption of 42,342 sf at mid-year 2020 marked the ninth year in a row (since mid-year 2012) that the Vancouver-Broadway market recorded positive absorption in the first six months of the year. Absorption primarily occurred in class B buildings, including **GHD Engineering** occupying 15,240 sf at 138 East 7th Avenue, which offset the slight negative absorption recorded in class A and C buildings. Mid-sized sublease offerings arose in 7 West 6th Avenue (6,000 sf) and 2052 West 41st Avenue (8,840 sf). The vast majority of occupancies or vacancies that occurred in the first half of 2020 were for less than 5,000 sf.

## NEW CONSTRUCTION

Construction schedules for the majority of new developments were either not impacted by COVID-19 containment measures or slightly delayed by up to six months. Most new construction in the Vancouver-Broadway market is located in five nodes: Mount Pleasant, the emerging City Hall District, Railtown, False Creek Flats and Oakridge. New office development in the former industrial areas of Mount Pleasant, False Creek Flats and Railtown includes light industrial/creative manufacturing space as required by zoning regulations. Developments in Mount Pleasant including **The Yukon**, 2131 Manitoba Street, **Main Alley**, **HOUSS**, **The Workshop**, 150-170 West 4th Avenue, 205 West 5th Avenue and 151 West 5th Avenue all include a combination of office and light industrial flex space. While Mount Pleasant has typically been home to most of the recent strata office development in the market, new strata offerings are increasingly common with projects such as 1308 Adanac Street, **Archetype**, 220 Prior Street and Oakridge proposed outside of Mount Pleasant. Developments in the City Hall District, including 510 West Broadway (fully leased to the **City of Vancouver**), **CityLink** (largely leased to **Spaces**) and 425 West 6th Avenue on the western edge of Mount Pleasant are all primarily office use. Railtown and its I-4 zoning has attracted four developments, including the recently completed **Bench**, as well as **Maker Exchange** at 488 Railway and projects at 411 Railway and 58 Jackson Avenue. Projects located on or near the False Creek Flats include 220 Prior Street, 339 and 375 East 1st Avenue, 2102 Keith Drive, **The Onyx** and the Archetype. Oakridge's emergence as a new office node includes strata office and medical space offered at **Oakridge** along with three new nearby mixed-use developments at 5740 Cambie, 5812-5844 Cambie and 6409, 6434, 6459 & 7487 Cambie Street that include office space for lease.

**VACANCY TO ACHIEVE RECORD-LOW RATE IN 2020**

## MARKET FORECAST

Rental rates remained stable during the first half of 2020 and will likely remain so through the year as landlords continue to enjoy favourable conditions despite a likely increase in sublease space. It is anticipated that deal velocity will improve in the back half of 2020 after slowing substantially in the second quarter of the year. A resumption of more normalized leasing activity remains contingent on the success of COVID-19 containment measures. Vacancy is forecasted to increase slightly in the short term due primarily to the likely return of more sublease space to the market, but should tighten again by the end of 2020/early 2021 as demand remains strong and new supply limited. Absorption in the back half of 2020 will likely be tempered by tenants delaying when they occupy space and/or reducing the amount of space they subsequently lease based on lessons learned from work-from-home protocols instituted in the second quarter of 2020.

## NOTABLE LEASE DEALS - MID-YEAR 2020

| TENANT | BUILDING | SF |
|---|---|---|
| Worley (renewal) | 2930 Virtual Way | 55,100 |
| BC Emergency Health Services (renewal) | 2955 Virtual Way | 49,500 |
| GHD Engineering | 138 East 7th Avenue | 15,240 |
| Westport Power (renewal) | 1750 West 75th Avenue | 10,000 |
| BTY Group | 30 East 6th Avenue | 8,870 |
| Vivreau | 139 East 8th Avenue | 6,635 |
| AbCellera Biologics | 7 East 6th Avenue | 6,270 |
| Powerland | 112 East 6th Avenue | 5,610 |

## Mount Pleasant Employment Area (I-1, I-1A Zoning)

Office vacancy was 4.1% at mid-year 2020 in Mount Pleasant – up slightly from 3% at mid-year 2019, but down substantially from 7.2% at year-end 2019. Three of the larger lease deals concluded in Mount Pleasant in the first half of 2020 included GHD Engineering at 138 East 7th Avenue, **BTY Group** at 30 East 6th Avenue and **Vivreau** at 139 East 8th Avenue. Leasing activity had been already limited due to a lack of availabilities and with recently delivered new supply largely catering to strata opportunities. Much of the upcoming new space for lease is in buildings that have not been delivered yet. COVID-19 containment measures further restricted deal flow in the second quarter of 2020; those transactions that did occur were largely initiated in the first quarter. Sublease vacancy did not arise in Mount Pleasant in the first half of 2020, but that could change in the back half of the year. Touring activity had resumed in earnest by June 2020, which indicates the potential for positive momentum to build in terms of increased leasing activity in the second half. Rental rates remained largely unchanged from year-end 2019 with existing good-quality space leasing in the mid-$30s psf on a NER basis. That trend is expected to continue through 2020 unless vacancy begins to increase, which may trigger a slight softening in rates. With building heights largely limited to four storeys and the prevalence of decks in many buildings, a level of social distancing related to elevator use and outdoor space is possible in Mount Pleasant that is unfeasible in most large downtown office towers.

| DEVELOPER | BUILDING | SF | PRELEASE % | COMPLETION |
|---|---|---|---|---|
| Chard Development | The Yukon, 2238 Yukon Street | 45,403 (office/light industrial) | Strata: 56% sold | Q4 2020 |
| Pacific Crown Management Ltd. | 510 West Broadway | 41,260 (office) | 100% | Q1 2021 |
| Vanlux Development | CityLink, 525 West 8th Avenue | 62,657 (office) | 64% | Q1 2021 |
| Wesgroup Properties | 2131 Manitoba Street | 48,030 (office/light industrial) | 100% | Q1 2021 |
| Westbank / Hootsuite | Main Alley (M2), 114 East 4th Avenue | 170,543 (office/light industrial) | 87% | Q1 2021 |
| Conwest Group | HOUSS, 63 West 6th Avenue | 47,165 (office/light industrial) | Strata: 29% sold | Q2 2021 |
| Cressey Development | 425 West 6th Avenue | 140,700 (office) | 0% | Q3 2021 |
| Union Allied Capital Corp. | 1308 Adanac Street | 46,255 (office/light industrial) | Strata: 18% sold | Q4 2021 |
| Niels Bendtsen | 411 Railway Street (I-4 zoning) | 111,930 (office/creative industrial) | 9% | Q4 2021 |
| Mondivan | The Workshop, 161 East 4th Avenue | 55,011 (office/light industrial) | 10% | Q1 2022 |
| Dayhu Group | 150-170 West 4th Avenue & 2004 Columbia Street | 128,000 (office/light industrial) | 0% | Q3 2022 |
| Rendition Developments | 205 West 5th Avenue | 24,585 (office/light industrial) | Strata: 0% | Q3 2022 |
| Westbank / Hootsuite | Main Alley (M4), 110 East 5th Avenue | 167,013 (office/light industrial) | 0% | Q3 2022 |
| BentallGreenOak | 2102 Keith Drive | 168,000 | ~33% | Q4 2022 |
| Triovest | 339 East 1st Avenue | 144,000 | 0% | Q4 2022 |
| Onni Group | 375 East 1st Avenue | 129,207 (office/high-tech industrial) | 0% | Q2 2023 |
| QuadReal Property Group/Hungerford Properties | Archetype, 220 East 1st Avenue | 121,445 (office/creative industrial) | Strata: 0% | Q2 2023 |
| PCI Group | 1477 West Broadway | 65,000 (office) | 0% | Q3 2023 |
| Rize Alliance | The Onyx, 1296 Station Street | 271,500 (office) | 0% | Q2 2024 |
| QuadReal Property Group / Westbank | 660 & 668 West 41st Avenue (phase one of Oakridge Centre redevelopment) | 175,440 (office/medical) | Strata: 80% sold | Q2 2024 |
| *QuadReal Property Group* | *Broadway Tech Centre, 3030 East Broadway (five buildings)* | *962,300* | *0%* | *Awaiting prelease* |
| *Champion Development Group* | *151 West 5th Avenue* | *53,877 (office/light industrial)* | *0%* | *Awaiting prelease* |
| *Omicron/Rendition Developments* | *Maker Exchange, 488 Railway Street (I-4 zoning)* | *152,000 (office/creative industrial)* | *0%* | *Awaiting prelease* |
| *Keltic Canada Development* | *220 Prior Street* | *102,000 (medical office/light industrial)* | *Strata* | *Proposed* |
| *Formwerks Boutique Properties* | *234 West 3rd Avenue* | *55,116 (office/light industrial)* | *Strata* | *Proposed* |
| *Wave Developments* | *315-319 East 2nd Avenue* | *26,321 (office)* | *-* | *Proposed* |
| *Strand Development* | *302, 328 & 336 West 2nd Avenue* | *56,317* | *-* | *Proposed* |
| *The Molnar Group* | *2710 Kaslo Street* | *125,717* | *-* | *Proposed* |
| *Kask Ventures* | *58 Jackson Avenue (I-4 zoning)* | *52,500 (office/creative industrial)* | *-* | *Proposed* |
| *Polygon Homes* | *5740 Cambie Street* | *66,800 (office)* | *-* | *Proposed* |
| *Gryphon Development* | *6409, 6434, 6459 & 7487 Cambie Street* | *27,286 (office)* | *-* | *Proposed* |
| *Vivagrand Developments* | *5812-5844 Cambie Street* | *100,000 (office)* | *-* | *Proposed* |
| *CRS Group of Companies* | *2395 Cambie Street* | *TBD* | *-* | *Proposed* |

**NEW PROJECTS BY 2022** 15

NEW SF BY 2022 **1,400,552**

**CURRENTLY PRELEASED** 24%

**CORE**

| CLASS | INVENTORY | HEAD LEASE VACANCY (SF) | SUBLEASE VACANCY (SF) | TOTAL VACANCY (SF) | TOTAL VACANCY (%) | 6-MONTH ABSORPTION (SF) | AVERAGE NET RENTAL RATE (PSF) | GROSS OCCUPANCY COST (PSF) |
|---|---|---|---|---|---|---|---|---|
| A | 2,233,551 | 48,619 | 18,398 | 67,017 | 3.0% | -11,250 | $24 - $48** | $40 - $67** |
| B | 1,453,968 | 104,935 | 13,923 | 118,858 | 8.2% | 41,020 | $20 - $39** | $29 - $53** |
| C | 538,132 | 15,082 | 1,200 | 16,282 | 3.0% | 5,027 | $16 - $23** | $35 - $43** |
| **Total** | **4,225,651** | **168,636** | **33,521** | **202,157** | **4.8%** | **34,797** | **-** | **-** |

**PERIPHERY**

| CLASS | INVENTORY | HEAD LEASE VACANCY (SF) | SUBLEASE VACANCY (SF) | TOTAL VACANCY (SF) | TOTAL VACANCY (%) | 6-MONTH ABSORPTION (SF) | AVERAGE NET RENTAL RATE (PSF) | GROSS OCCUPANCY COST (PSF) |
|---|---|---|---|---|---|---|---|---|
| A | 2,360,726 | 11,473 | 0 | 11,473 | 0.5% | 2,540 | $24 - $38** | $46 - $62** |
| B | 668,564 | 19,327 | 8,840 | 28,167 | 4.2% | 13,240 | $16 - $35** | $25 - $50** |
| C | 542,245 | 21,353 | 2,478 | 23,831 | 4.4% | -8,235 | $15 - $24** | $28 - $39** |
| **Total** | **3,571,535** | **52,153** | **11,318** | **63,471** | **1.8%** | **7,545** | **-** | **-** |

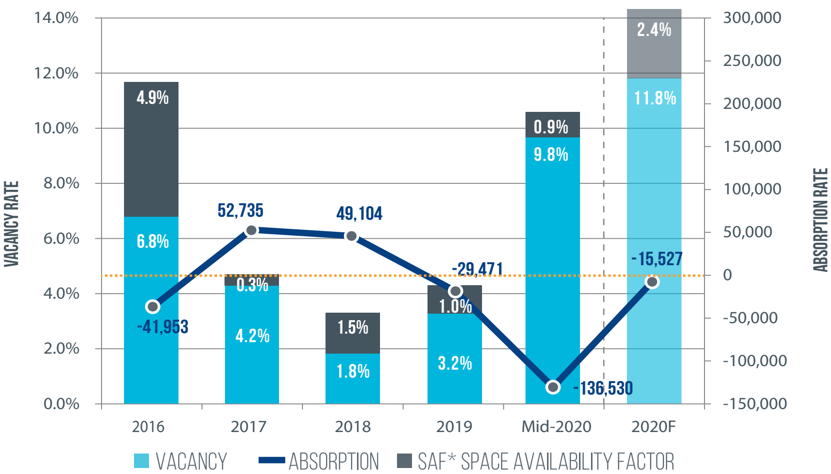
**OVERALL**

| CLASS | INVENTORY | HEAD LEASE VACANCY (SF) | SUBLEASE VACANCY (SF) | TOTAL VACANCY (SF) | TOTAL VACANCY (%) | 6-MONTH ABSORPTION (SF) | AVERAGE NET RENTAL RATE (PSF) | GROSS OCCUPANCY COST (PSF) |
|---|---|---|---|---|---|---|---|---|
| A | 4,627,398 | 93,213 | 18,398 | 111,611 | 2.4% | -8,710 | $24 - $48** | $40 - $67** |
| B | 2,122,532 | 124,262 | 22,763 | 147,025 | 6.9% | 54,260 | $16 - $39** | $25 - $53** |
| C | 1,080,377 | 36,435 | 3,678 | 40,113 | 3.7% | -3,208 | $15- $24** | $28 - $43** |
| **Total** | **7,830,307** | **253,910** | **44,839** | **298,749** | **3.8%** | **42,342** | **-** | **-** |

***Due to a lack of available lease comparables resulting from severely constrained deal velocity, rental rate ranges and gross occupancy costs at mid-year 2020 are unable to be updated and remain unchanged from year-end 2019.*

# Business closures spike vacancy to highest point since 2009

## VACANCY AND ABSORPTION




*12-month projection based on 10-year average absorption and 10-year average SAF*

## VACANCY TRENDS

Vacancy jumped to 9.8% at mid-year 2020 from 0.4% just 12 months earlier and represented the highest vacancy recorded in Yaletown since the height of the Great Recession at year-end 2009 (12.1%). While COVID-19 was certainly an aggravating factor in the rapid rise in vacancy, other factors were also at play. The sudden departure of a VFX and animation studio at 1132 Hamilton in December 2019 was largely responsible for vacancy being pushed up to 3.2% at year-end 2019. That vacancy, which consists of the entire building, had remained unleased and was subsequently joined by the former spaces of two educational providers: **The Westside School** at 101 Smithe Street and **Global Village English Centre** at 888 Cambie Street, both of which vacated their buildings in the first half of 2020. Additionally, a number of smaller tenants vacated their spaces altogether while other Yaletown businesses offered to sublease a portion of their existing premises. Further compounding the increase in vacancy in the first half of 2020 was the start of extensive renovations at 1290 Homer Street, which meant that the building had to be temporarily vacated. In light of all these rapid shifts in occupancy (and with deal velocity reduced to a trickle from March through June due to COVID-19), vacancy spiked accordingly.

## ABSORPTION TRENDS

First-half 2020 absorption of negative 136,530 sf was the most negative first-half absorption recorded in Yaletown since Avison Young started tracking the market in 2001 – even surpassing the first half of 2009. The combination of factors that disrupted the Yaletown office market in the first half of 2020 were unprecedented and subsequently resulted in a substantial but temporary reversal of fortunes in the region's perennially popular office market.

## SPACE AVAILABILITY FACTOR

The space availability factor (SAF) refers to head lease and/or sublease space that is being marketed, but is not physically vacant. The SAF remained unchanged at 0.9% (18,304 sf) at mid-year 2020 from 1% (21,101 sf) six months earlier. Hence, the amount of available space currently being marketed at mid-year 2020 (occupied and vacant) in Yaletown is 10.7%, or approximately 221,332 sf . The lowest SAF on record, 3,742 sf or 0.2%, occurred at mid-year 2018.


**1132 HAMILTON IS ONE OF THREE BUILDINGS THAT ARE AVAILABLE FOR LEASE**

## MARKET FORECAST

A pronounced lack of deal activity and an absence of completed lease transactions during the past six months has made discussion of current rental rates in Yaletown problematic. While asking rates may have softened slightly since year-end 2019 with recent offers appearing to reflect a belief that rates have come off somewhat, those expectations had not been proven out at mid-year 2020. Yaletown, which counts many small tech firms and creative industries among its tenant mix (many of which were subject to work-from-home orders early on or forced to pause operations altogether), is a historically popular office market and its recovery will likely be linked to how long the impact of COVID-19 lingers in the economy. The longer the impact hampers a return to a more traditional office environment, the slower the recovery and a higher probability that rental rates will in fact start to decline. However, increased availabilities and lower rental rates would likely be enticing for many tenants who previously wanted to locate in Yaletown, but had been unable to do so.

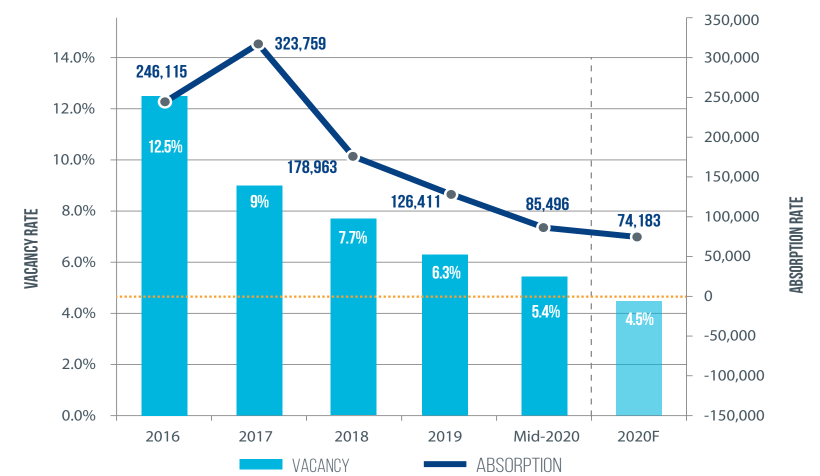
## NOTABLE LEASE DEALS - MID-YEAR 2020

| TENANT | BUILDING | SF |
|---|---|---|
| Zenabis | 1152 Mainland Street | 4,330 |
| Rocketplace | 1152 Mainland Street | 3,170 |

| DEVELOPER | BUILDING | SF | PRELEASE SF | PRELEASE % | COMPLETION |
|---|---|---|---|---|---|
| Boffo Developments | The Smithe, 225 Smithe Street | 31,000 | 0 | 0% | Q4 2020 |
| Private developer | Homer@Drake, 1290 Homer Street (renovation & 3-storey addition) | 22,863 (office); 8,331 (office/retail) | 0 | 0% | Q1 2021 |

| CLASS | INVENTORY | HEAD LEASE VACANCY (SF) | SUBLEASE VACANCY (SF) | TOTAL VACANCY (SF) | TOTAL VACANCY (%) | 6-MONTH ABSORPTION (SF) | SAF (SF) | SAF (%) | AVERAGE NET RENTAL RATE (PSF) | GROSS OCCUPANCY COST (PSF) |
|---|---|---|---|---|---|---|---|---|---|---|
| A | 576,938 | 43,964 | 3,978 | 47,942 | 8.3% | -5,942 | 0 | 0.0% | \$36.75 - \$40 | \$55 - \$58.50 |
| B | 1,025,357 | 62,740 | 17,547 | 80,287 | 7.8% | -69,868 | 6,716 | 0.7% | \$30 - \$33.50 | \$46.50 - \$50 |
| C | 472,077 | 57,293 | 17,506 | 74,799 | 15.8% | -60,720 | 11,588 | 2.5% | \$24 - \$27.50 | \$40.75 - \$43.75 |
| **Total** | **2,074,372** | **163,997** | **39,031** | **203,028** | **9.8%** | **-136,530** | **18,304** | **0.9%** | - | - |

## VACANCY AND ABSORPTION




*12-month projection based on 10-year average absorption and known net absorption in new inventory*

## VACANCY TRENDS

Vacancy slipped to 5.4% at mid-year 2020, down slightly from 5.7% a year earlier, but still at its lowest point since mid-year 2008. The decline in vacancy is mainly attributed to robust leasing activity in the form of multiple full-floor deals and sizeable expansions in class A buildings. Larger companies continued to relocate to Burnaby due to the availability of full-floor lease opportunities, net rental rates that are more economical than what is typically found in Vancouver and the presence of two rapid transit lines. Sublease availability at 3777 Kingsway – the single largest source of sublease space in Metro Vancouver until the second quarter of 2020 – was also a big draw for companies that require flexibility. Unlike the downtown Vancouver and Vancouver-Broadway office markets, sublease vacancy actually declined in Burnaby between year-end 2019 and mid-year 2020, particularly in class A space. Deal velocity had been strong in the first quarter of 2020, but tapered off through the second quarter. However, while some lease transactions were completed in the second quarter, most of those tours and negotiations had started earlier in 2020.

## ABSORPTION TRENDS

Burnaby's first-half 2020 absorption of 85,496 sf was the most absorption recorded in Metro Vancouver at mid-year 2020, leading all suburban office markets and helping offset the regional impact of the negative absorption recorded in the downtown Vancouver and Yaletown markets. Burnaby's 9.3-msf office market is the second largest in Metro Vancouver. **SNC-Lavalin**, **Themis Solutions**, **Traction Guest**, **DP World** and **ISL Engineering** were primary drivers of absorption in the market.

## NEW CONSTRUCTION

New supply remains highly constrained in Burnaby with no substantial amount of new office space likely arriving until 2024 in the second phase of **The Amazing Brentwood**. While there may be potential for a proposed project or two to be delivered prior to 2024, there is virtually no possibility for new space in those currently proposed projects to be ready before 2022.

ABSORPTION SET TO MODERATE THROUGH REST OF 2020

## MARKET FORECAST

While rental rates remained relatively stable during the first half of 2020, some landlords started providing slight discounts or increased inducements to tenants with strong covenants late in the second quarter of 2020 in response to the impacts of COVID-19. Rental rates will likely remain relatively stable for 2020, but may start to soften by year-end if the pandemic persists. However, many landlords would likely start to get creative with incentives and inducement packages before discounting rents. The lack of new supply will also assist in keeping rates stable even if vacancy starts to rise. Burnaby remains a strong contender outside the core and organic growth within the market is expected to continue, but, ultimately, market fundamentals will be subject to how long impacts from the pandemic continue to linger.

## NOTABLE LEASE DEALS - MID-YEAR 2020

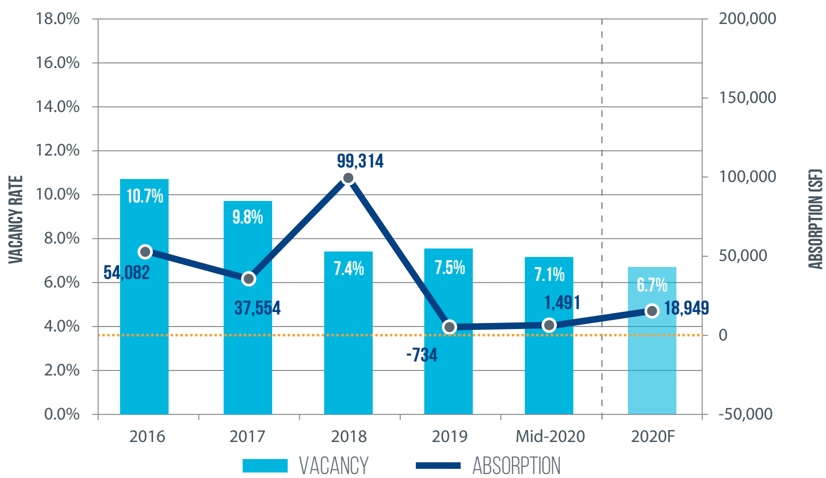
| TENANT | BUILDING | SF |
|---|---|---|
| Traction on Demand (renewal) | 2700 Production Way | 49,540 |
| SNC-Lavalin | 3777 Kingsway | 37,110 |
| Delta-Q Technologies | 3555 Gilmore Way | 36,000 |
| Bank of Montreal (renewal/expansion) | 4710 Kingsway | 25,140 |
| Themis Solutions | 4621 Canada Way | 19,660 |
| Traction Guest | 3292 Production Way | 17,460 |
| DP World | 4720 Kingsway | 13,600 |
| ISL Engineering | 3999 Henning Drive | 12,500 |
| Peter Kiewit Sons ULC (expansion) | 4350 Still Creek Drive | 9,780 |
| Paladin Security (sublease) | 4601 Canada Way | 9,100 |
| Inphi Corp. | 4333 Still Creek Drive | 4,340 |

| DEVELOPER | BUILDING | SF | PRELEASE SF | PRELEASE % | COMPLETION |
|---|---|---|---|---|---|
| Belford Properties | The Centre at Sun Towers, 4458 Beresford Street | 67,000 (office) | Strata | NA | Under construction |
| Shape Properties | The Amazing Brentwood (phase 1) | 77,000 (office) | 77,000 | 100% | Q4 2020 |
| Anthem/Beedie | Station Square (phase 5), 6051 Silver Drive | 45,280 (office) | 0 | 0% | Q1 2021 |
| Shape Properties | The City of Lougheed (phase 1) | 21,000 (office) | 7,000 | 33% | Q2 2022 |
| Onni Group | Gilmore Place (phase 1) | 80,500 (office) | 0 | 0% | Q2 2024 |
| Shape Properties | The Amazing Brentwood (phase 2) | 300,000 (office) | 0 | 0% | Q4 2024 |
| Kingswood Capital | 3555 Gilmore Way (phase 3) | 50,000 | 36,000 | 72% | Proceeding |
| *Onni Group* | *Gilmore Place (phase 2)* | *695,614 (office)* | - | - | *Proposed* |
| *Blackwood Partners* | *3100 Production Way (two office towers)* | *340,777 (office)* | - | - | *Proposed* |
| *Beedie* | *3133 Sumner Avenue* | *111,779 (office/light industrial)* | - | - | *Proposed* |

| CLASS | INVENTORY | HEAD LEASE VACANCY (SF) | SUBLEASE VACANCY (SF) | TOTAL VACANCY (SF) | TOTAL VACANCY (%) | 6-MONTH ABSORPTION (SF) | AVERAGE NET RENTAL RATE (PSF) | GROSS OCCUPANCY COST (PSF) |
|---|---|---|---|---|---|---|---|---|
| A | 6,368,081 | 187,283 | 136,077 | 323,360 | 5.1% | 106,339 | \$24 - \$27 | \$40.30 - \$43.30 |
| B | 2,081,671 | 143,117 | 6,680 | 149,797 | 7.2% | -14,456 | \$19 - \$21 | \$34.50 - \$36.60 |
| C | 869,038 | 21,064 | 7,089 | 28,153 | 3.2% | -6,387 | \$19 - \$21 | \$33.75 - \$35.75 |
| **Total** | **9,318,790** | **351,464** | **149,846** | **501,310** | **5.4%** | **85,496** | - | - |

# Vacancy falls to lowest point since 1998

## VACANCY AND ABSORPTION




*12-month projection based on 10-year average absorption and known net absorption in new inventory*

## OFFICE VACANCY DECLINES TO ALL-TIME RECORD LOW

## VACANCY TRENDS

Vacancy in Richmond fell to 7.1% at mid-year 2020 from 8.5% a year earlier, and set a new record for the lowest vacancy recorded in Richmond since Avison Young started tracking the market in 1997. While COVID-19 containment measures impacted deal flow and slowed transactional velocity in the first half of 2020, a number of smaller deals did complete in early 2020 prior to the onset of the pandemic. While sublease vacancy remained limited at mid-year 2020, an increase in sublease space is anticipated later this year in a few larger sublease premises that were not vacant at mid-year 2020. Despite vacancy setting a new record low, large and small blocks of space remain available for new tenants to enter the market or for existing tenants to expand.

## ABSORPTION TRENDS

Minimal first-half positive absorption of 1,491 sf was an indicator of slowing leasing activity, particularly in the second quarter of 2020. While **Sierra Wireless** occupied 17,320 sf at **Crestwood Corporate Centre** and **Lucid Vision Labs** absorbed 8,460 sf at 4600 Jacombs Road, other firms such as **InComm Canada** reduced their footprints while other businesses vacated their premises altogether. A considerable number of small tenants vacated office space in the first half of 2020, which largely offset the positive absorption resulting from a handful of larger occupancies.

## NEW CONSTRUCTION

Current new office construction in Richmond remains largely limited to strata space with both **The Paramount** by **Keltic Canada Development** and phase one of **Bridgeport Business Centre**, which is under construction and scheduled to complete in the first half of 2021. The 11-storey office tower at **Atmosphere** by **South Street Development Group** represents the only confirmed new office space for lease currently under construction and will be home to **GEC Richmond** when it completes in the second half of 2022. A substantial number of large mixed-use developments that include office space remain in the permitting process.

## MARKET FORECAST

Rental rates were stable in the first half of 2020 and are expected to remain flat through 2020. However, some flexibility and creativity in regard to deal structure may emerge in Richmond's two major business parks, which could affect face rates. Leasing activity in Richmond was healthy in the first quarter of 2020, but more sublease opportunities started emerging at mid-year 2020 that could result in vacancy rising into 2021. Office space along No. 3 Road continues to drive slightly higher lease rates because of access to rapid transit and a lower vacancy within the submarket when compared with the rest of Richmond, which remains an attractive option for tenants due to its cost effectiveness when compared with other Metro Vancouver office markets and range of availabilities.

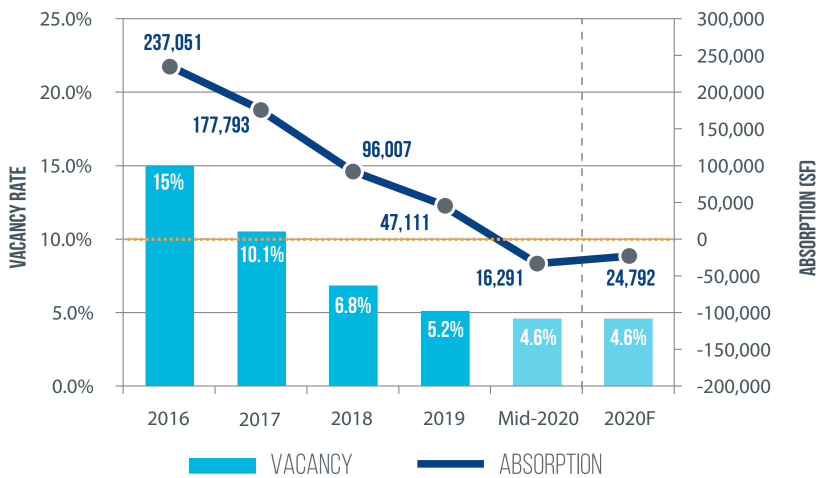
## NOTABLE LEASE DEALS - MID-YEAR 2020

| TENANT | BUILDING | SF |
|---|---|---|
| WhiteWater West (sublease) | 6651 Fraserwood Place | 44,080 |
| Shearwater Research | 10200 Shellbridge Way | 33,000 |
| Star Solutions International (renewal) | 4600 Jacombs Road | 20,400 |
| Sierra Wireless | 13551 Commerce Parkway | 17,320 |
| Benchmark Botanics | 3600 Lysander Lane | 10,000 |
| Lucid Vision Labs | 4600 Jacombs Road | 8,460 |
| China National Forest Products Group | 13700 International Place | 3,000 |
| Swiftlink Technologies | 13575 Commerce Parkway | 2,580 |

| DEVELOPER | BUILDING | SF | PRELEASE SF | PRELEASE % | COMPLETION |
|---|---|---|---|---|---|
| Yuanheng Seaview Developments | ViewStar, 3031-3351 No. 3 Road, 8151 Capstan Way & 8051/8100 River Road | 205,141 (office - second phase) | NA | NA | Under Construction |
| Chunghwa Investments | Bridgeport Business Centre (phase 1), 9466 Beckwith Road | 128,600 (office) | Strata | NA | Q2 2021 |
| Keltic Canada Development | The Paramount, 6340 No. 3 Road | 103,560 (office) | Strata | NA | Q2 2022 |
| South Street Development Group | Atmosphere, 7960 Alderbridge Way (GEC Richmond) | 132,900 (office) | 10,000 | 7.5% | Q3 2022 |
| Bene Group | Times Square Richmond, 6560-6700 No. 3 Road | 33,000 (office) | Strata | NA | Q3 2022 |
| *Bene Group* | *4700 No. 3 Road* | *66,213 (office)* | - | - | *Approved* |
| *Park Village Investments & Grand Long Holdings Canada* | *8071 & 8091 Park Road* | *58,780 (office)* | - | - | *Approved* |
| *Townline* | *5591, 5631, 5651 and 5671 No. 3 Road* | *78,275 (office)* | - | - | *Proposed* |
| *iKOR Group* | *Glitz, 8051 Anderson Road* | *105,420 (office)* | - | - | *Proposed* |
| *Thind Properties* | *5740-5800 Minoru Boulevard* | *161,800 (office)* | - | - | *Proposed* |
| *Vanhome Properties Inc.* | *9080, 9086, 9100 & 9180 Odlin Road and 4420 & 4440 Garden City Road* | *51,020 (office)* | - | - | *Proposed* |
| *New Continental Developments* | *8320, 8340 & 8440 Bridgeport Road and 8311 & 8351 Sea Island Way* | *98,952 (office)* | - | - | *Proposed* |
| *CIBT Education Group Inc.* | *GEC CyberCity, 7760, 7780, 7800, 7810, 7820 and 7840 River Road (two towers)* | *132,432 (office)* | - | - | *Proposed* |
| *Vanprop Investments* | *Lansdowne Centre (redevelopment)* | *TBD* | - | - | *Proposed* |

| CLASS | INVENTORY | HEAD LEASE VACANCY (SF) | SUBLEASE VACANCY (SF) | TOTAL VACANCY (SF) | TOTAL VACANCY (%) | 6-MONTH ABSORPTION (SF) | AVERAGE NET RENTAL RATE (PSF) | GROSS OCCUPANCY COST (PSF) |
|---|---|---|---|---|---|---|---|---|
| A | 2,895,256 | 233,953 | 11,228 | 245,181 | 8.5% | 16,871 | $18 - $20 | $31 - $33 |
| B | 972,346 | 44,718 | 4,216 | 48,934 | 5.0% | -15,755 | $15 - $16 | $29 - $30 |
| C | 348,198 | 5,522 | 0 | 5,522 | 1.6% | 375 | $14 - $16 | $22.50 - $24.50 |
| **Total** | **4,215,800** | **284,193** | **15,444** | **299,637** | **7.1%** | **1,491** | - | - |

## VACANCY AND ABSORPTION




*12-month projection based on 10-year average absorption and known net absorption in new inventory*

## VACANCY TRENDS

Office vacancy in Surrey slipped to 4.6% at mid-year 2020 from 7.1% just 12 months earlier and also marked the second lowest vacancy on record since Avison Young started tracking the market in 1998. Vacancy has been in steady decline since mid-year 2016 after years of elevated vacancy, which peaked at 23.2% at mid-year 2014. **Transport Canada** occupying approximately 25,000 sf in **Surrey Central Business Park**, along with a number of smaller tenants moving into their premises throughout the market, helped push vacancy to near record-low levels at mid-year 2020. Deal velocity had been largely muted through much of the first half of 2020 due to the increasingly limited number of options for tenants, but that pace slowed further during the second quarter due to COVID-19 containment measures. Sublease space is a non-factor in this market at this time and remains very limited.

## ABSORPTION TRENDS

Positive first-half absorption of 16,291 sf was largely the result of Transport Canada and several smaller tenants moving into their new spaces. These tenancies were able to offset a number of small- to mid-sized vacancies that emerged throughout the market.

Absorption will likely moderate in the second half of 2020 due to the lack of new leasing activity in the first half, which will result in fewer tenants occupying office space later in the year.

## NEW CONSTRUCTION

Construction continues at **The Professional Centre @ South Point**, which is 59% preleased and scheduled for delivery in the back half of 2020. **CityCentre3**, which secured **Public Services and Procurement Canada** (formerly the PWGSC) as a tenant, remains under construction and is expected to complete by mid-2021. Construction of the second phase of **King George HUB at the Stations** is well underway with the office portion already 84% preleased to **Spaces** and **Westland Insurance**. The largest proposed office development in Surrey, **Blackwood Partners' Tower 2 at Central City**, is likely moving forward (ideally with a prelease commitment) and targeting completion in early 2024.

RENTAL RATES STABLE AS VACANCY REMAINS TIGHT

## MARKET FORECAST

The upward pressure on rates that had started to manifest in the Surrey office market as a result of limited new supply and tightening vacancy has subsided due to negligible leasing activity in the market since March 2020. Rates are expected to remain flat through 2020 due to ongoing COVID-19 containment measures, but limited availability and a lack of new supply should help keep rates stable and prevent any meaningful erosion in rates. Sublease space remains very limited and is unlikely to have a substantial impact on the market through 2020. Vacancy is expected to remain stable, but transactional activity is expected to be stifled through the remainder of the year due to limited availability and the ongoing impact of the current global pandemic on economic activity.

## NOTABLE LEASE DEALS - MID-YEAR 2020

| TENANT | BUILDING | SF |
|---|---|---|
| Westland Insurance | King George HUB (phase B) | 82,000 |
| AFL (renewal) | 7485 130th Street | 22,710 |
| Vancouver Career College (renewal) | 13401 108th Avenue | 14,970 |
| CopperTree Analytics | 5455 152nd Street | 8,900 |
| Undisclosed tenant | 5455 152nd Street | 3,200 |

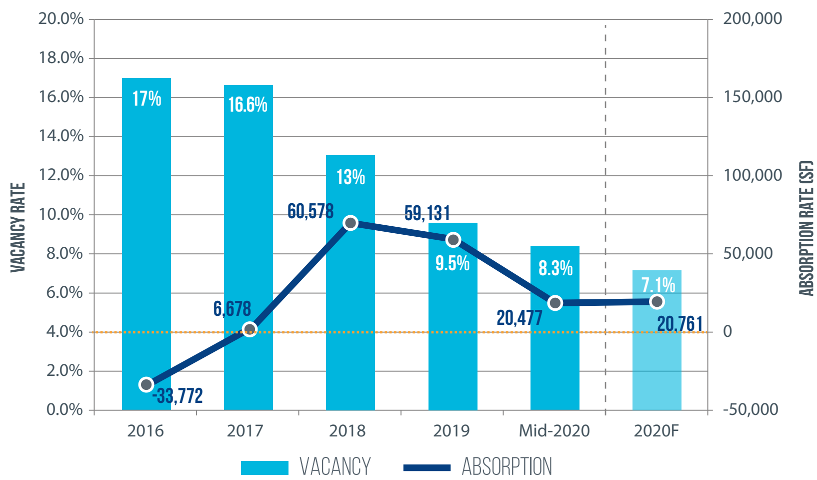
| DEVELOPER | BUILDING | SF | PRELEASE SF | PRELEASE % | COMPLETION |
|---|---|---|---|---|---|
| Avondale Development / Monark Group | The Professional Centre @ South Point, 3231 152nd Street | 71,780 | 42,521 | 59% | Q3 2020 |
| Lark Group | CityCentre3, 13761 96th Avenue | 119,500 (office) | Strata/Lease | 50% | Q2 2021 |
| PCI Group | King George HUB at the Stations (phase B), 9900 King George Boulevard (office/retail) | 160,000 (office) | 134,000 | 84% | Q4 2021 |
| Maple Leaf Homes / Kooner Construction | Cambridge Business Centre, 15315 66th Avenue | 60,000 (office) | Strata | 50% sold | Q1 2022 |
| *Blackwood Partners* | *Tower 2 at Central City, 10145 King George Boulevard* | *514,000 (office)* | - | - | *Proposed* |
| *Landview Construction* | *GTC Professional Building, 10189 153rd Street* | *100,550* | - | - | *Proposed* |
| *Century Group* | *Holland Parkside, 9905 King George Boulevard* | *170,635* | - | - | *Proposed* |
| *Guildford Brook Estates Development* | *10731 King George Boulevard* | *47,780 (office)* | - | - | *Proposed* |
| *Private developer* | *9711 137 Street* | *88,300 (office)* | - | - | *Proposed* |

| CLASS | INVENTORY | HEAD LEASE VACANCY (SF) | SUBLEASE VACANCY (SF) | TOTAL VACANCY (SF) | TOTAL VACANCY (%) | 6-MONTH ABSORPTION (SF) | AVERAGE NET RENTAL RATE (PSF) | GROSS OCCUPANCY COST (PSF) |
|---|---|---|---|---|---|---|---|---|
| A | 2,074,968 | 60,551 | 4,775 | 65,326 | 3.1% | 1,756 | $28 - $38 | $45 - $55 |
| B | 626,010 | 55,185 | 1,133 | 56,318 | 9.0% | 11,421 | $20 - $25 | $34 - $39 |
| C | 205,629 | 12,332 | 0 | 12,332 | 6.0% | 3,114 | $14 - $18 | $27 - $31 |
| **Total** | **2,906,607** | **128,068** | **5,908** | **133,976** | **4.6%** | **16,291** | - | - |

# NEW WESTMINSTER

## Office vacancy approaches record-low levels

### VACANCY AND ABSORPTION




*12-month projection based on 10-year average absorption and known net absorption in new inventory*

### VACANCY TRENDS

Office vacancy fell to a near record-low of 8.3% at mid-year 2020 – down from 12.6% a year earlier and substantially lower than the record high of 18.1% at mid-year 2018 – representing a remarkable reversal of fortune and a drop in vacancy of 980 basis points in just 24 months. While larger tenants have been occupying space consistently since 2018, the ongoing decline in vacancy in the first half of 2020 was largely attributable to a number of smaller tenants taking occupancy throughout the market. While deal velocity in the first half of 2020 was minimal, particularly in April and May, vacancy is likely to continue to tighten and achieve a new record-low as occupants such as **CDI College** and **YMCA**, which purchased their respective buildings, as well as tenants such as the **Fraser Health Authority** occupy space in the back half of 2020. Vacant sublease space remains minimal currently, but a 32,000-sf sublease opportunity coming available in mid-2021 may change that.

### ABSORPTION TRENDS

First-half absorption of 20,477 sf marked the second year in a row that the New Westminster office leasing market registered positive absorption in the first half after three consecutive years of recording negative absorption in the first six months of the year. A number of smaller tenants taking occupancy is what generated positive absorption in the first half of 2020 and that trend is expected to continue through 2020 as tenants are scheduled to continue to occupy space.

### NEW CONSTRUCTION

With no new supply on the books until 2023, New Westminster's office market is likely to remain highly constrained with fewer options available to tenants. **Wesgroup's** Building 7 at the **Brewery District** will have 31,000 sf of office space on floors 2 and 3 in the podium of the mixed-use building when it delivers in the back half of 2023. Phase one of **QuadReal Property Group's Sapperton Green** master-planned community includes a 200,000-sf office building; however, QuadReal continues to work through the rezoning process for phase one and a prelease commitment would be required to launch construction of the office building once the rezoning for phase one is approved. A completion date has not been indicated.

### MARKET FORECAST

Rental rates remained flat in the first half of 2020 and that trend is expected to continue through 2020 despite tightening vacancy as deal velocity is likely to remain constrained for the balance of the year. Vacancy will likely fall to a new record-low by year-end 2020 based on the occupancies of several tenants that are scheduled in the back half of 2020. However, due to the nature of New Westminster's office market, which typically includes more small, locally based office users than other Metro Vancouver office markets, vacancy may start to rise in 2021 if COVID-19 containment measures continue to weigh on business operations and consumer spending.

**ONE OF THE FEW REMAINING LARGE BLOCKS** OF SPACE IN NEW WESTMINSTER AT **625 AGNES**

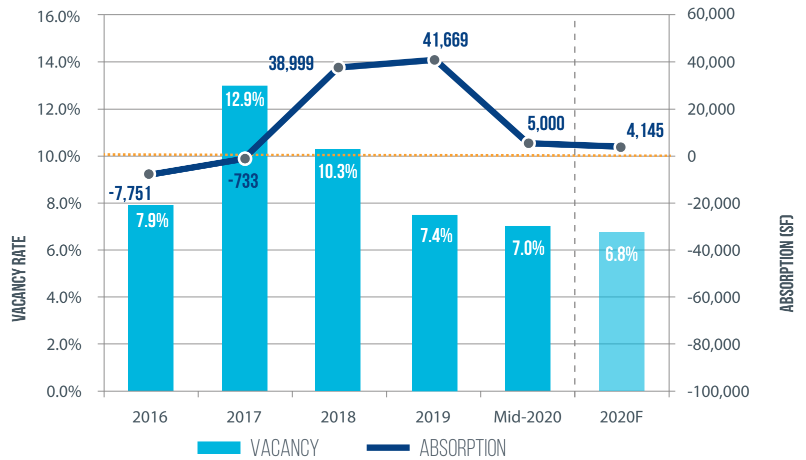
### NOTABLE LEASE DEALS - MID-YEAR 2020

| TENANT | BUILDING | SF |
|---|---|---|
| Undisclosed educational tenant | Royal Bank Building | 10,130 |
| Fraser Health Authority | 601 6th Street | 6,670 |
| CNIB | 610 6th Street | 4,550 |

| DEVELOPER | BUILDING | SF | PRELEASE SF | PRELEASE % | COMPLETION |
|---|---|---|---|---|---|
| Wesgroup Properties | Building 7 @ Brewery District, 268 Nelson's Court | 31,000 | 0 | 0% | Q3 2023 |
| *QuadReal Property Group* | *97 Braid Street (near Braid Street SkyTrain station) part of Sapperton Green mixed-use redevelopment site* | *200,000* | - | - | *Proposed* |

| CLASS | INVENTORY | HEAD LEASE VACANCY (SF) | SUBLEASE VACANCY (SF) | TOTAL VACANCY (SF) | TOTAL VACANCY (%) | 6-MONTH ABSORPTION (SF) | AVERAGE NET RENTAL RATE (PSF) | GROSS OCCUPANCY COST PSF) |
|---|---|---|---|---|---|---|---|---|
| A | 780,114 | 69,050 | 0 | 69,050 | 8.9% | 5,577 | \$24 - \$34 | \$39 - \$49 |
| B | 700,684 | 52,639 | 4,400 | 57,039 | 8.1% | 14,900 | \$15 - \$20 | \$28 - \$34 |
| C | 207,774 | 14,501 | 0 | 14,501 | 7.0% | 0 | \$12 - \$15 | \$25 - \$31 |
| **Total** | **1,688,572** | **136,190** | **4,400** | **140,590** | **8.3%** | **20,477** | - | - |

VACANCY AND ABSORPTION




*12-month projection based on 10-year average absorption and known net absorption in new inventory*

## VACANCY TRENDS

Vacancy slipped to 7% at mid-year 2020 from 7.7% a year earlier, representing its lowest point since mid-year 2015. A combination of positive leasing activity in early 2020 and almost no new supply contributed to the decline in vacancy during the first half of 2020. Although tenants occupied the remaining space at **CentreView**, a sharper dip in vacancy was offset by the departure of tenants vacating the Northmount medical buildings, which are no longer being marketed for lease due to pending demolition but remain in inventory as some tenants still remain in occupancy. Strong leasing activity from January to March helped offset a complete drop-off in activity in April and May with signs of improvement in June. Sublease space is not (yet) a factor in the North Shore office market.

## ABSORPTION TRENDS

First-half absorption of 5,000 sf was largely the result of tenants occupying approximately 11,000 sf at CentreView as well as **Dakeryn Industries** taking possession of its space at 224 West Esplanade. However, tenants vacated almost 12,400 sf at the Northmount medical buildings, which largely offset the positive absorption at CentreView. Positive first-half absorption has been recorded on the North Shore annually since 2018.

## NEW CONSTRUCTION

New supply remains highly constrained on the North Shore with only **Millennium Central Lonsdale** set to deliver new office space in 2023. With the proposed **The Offices at Lonsdale Square** project cancelled, there are no other office projects currently underway. **Concert Properties** continues to work through the permitting process for its proposed Harbourside development. The **North Shore Innovation District** proposed by **Darwin Properties** and the **Tsleil-Waututh First Nation** remains on hold as the Tsleil-Waututh awaits the outcome of its addition-of-land-to-reserve filing with the federal government.

## MARKET FORECAST

Rental rates had shown signs of an upward trend prior to the introduction of COVID-19 containment measures. However, rates have since levelled off and are expected to be flat through the third quarter, with perhaps a slight increase in late 2020 if leasing activity continues to improve as confidence that pandemic containment measures are effective grows. With no new supply slated for the next 36 months and vacancy almost at its lowest point since 2009, relatively steady leasing activity is anticipated to continue although tenants will have fewer options, which may result in less movement within the market. Vacancy is likely to remain stable through 2020; however, sublease opportunities may start to emerge, which could provide tenants with additional options but may result in small fluctuations in vacancy during the next six to 12 months.

**HOLLYBURN'S THE LONSDALE** WAS **90% PRELEASED IN THE OFFICE PORTION** UPON COMPLETION IN JUNE 2020

## NOTABLE LEASE DEALS - MID-YEAR 2020

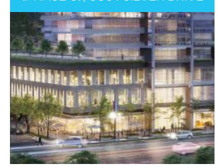
| TENANT | BUILDING | SF |
|---|---|---|
| David Nairne & Associates Ltd. (renewal) | 171 West Esplanade | 8,950 |
| North Star Montessori (renewal) | 1325 East Keith Road | 8,340 |
| Maths No Problem (expansion/renewal) | 221 West Esplanade | 4,985 |
| RBC Wealth Management | 1300 Marine Drive | 4,650 |
| Aurora Solar Technologies (Canada) Inc. | 788 Harbourside Drive | 3,890 |
| Business Development Bank of Canada | 1333 Lonsdale Avenue | 3,170 |
| Dr. Shahin Nabi Inc. | 1333 Lonsdale Avenue | 2,930 |

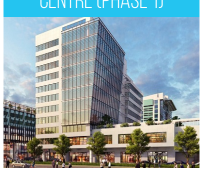
| DEVELOPER | BUILDING | SF | PRELEASE SF | PRELEASE % | COMPLETION |
|---|---|---|---|---|---|
| Millennium Development | Millennium Central Lonsdale, 123-145 East 13th Street | 34,000 (office) | 0 | 0% | Q4 2023 |
| *Concert Properties* | *801, 889 & 925 Harbourside Drive and 18 Fell Avenue* | *TBD* | - | - | *Proposed* |
| *The Tsleil-Waututh Nation & Darwin Properties* | *North Shore Innovation District, 2420 Dollarton Highway* | *TBD* | - | - | *Proposed* |

| CLASS | INVENTORY | HEAD LEASE VACANCY (SF) | SUBLEASE VACANCY (SF) | TOTAL VACANCY (SF) | TOTAL VACANCY (%) | 6-MONTH ABSORPTION (SF) | AVERAGE NET RENTAL RATE (PSF) | GROSS OCCUPANCY COST (PSF) |
|---|---|---|---|---|---|---|---|---|
| A | 871,813 | 27,125 | 1,300 | 28,425 | 3.3% | 18,742 | $24 - $35 | $40 - $50 |
| B | 481,395 | 60,600 | 5,110 | 65,710 | 13.6% | -13,902 | $17 - $23 | $26 - $38 |
| C | 97,690 | 8,061 | 0 | 8,061 | 8.3% | 160 | $15 - $19 | $24 - $33 |
| **Total** | **1,450,898** | **95,786** | **6,410** | **102,196** | **7.0%** | **5,000** | - | - |

# SUBURBAN DEVELOPMENT TIMELINE (TO Q4 2021)

| | TPC@SOUTHPOINT 3231 152ND STREET | THE SMITHE, 225 SMITHE STREET | THE YUKON, 2238 YUKON STREET | THE AMAZING BRENTWOOD (PHASE 1) | VIEWSTAR, 3031-3351 NO. 3 ROAD | CITYLINK, 525 WEST 8TH AVENUE |
|---|---|---|---|---|---|---|
| |  |  |  |  |  |  |
| | Q3 2020 | Q4 2020 | Q4 2020 | Q4 2020 | Q4 2020 | Q1 2021 |
| CITY | Surrey | Yaletown | Vancouver-Broadway | Burnaby | Richmond | Vancouver-Broadway |
| DEVELOPER | Avondale Development/ Monark Group | Boffo Developments | Chard Development | Shape Properties | Yuanheng Seaview Developments | Vanlux Development |
| STOREYS | 4 | 3 floors (podium) | 4 | Podium (tower 3) | 11 | 8 |
| OFFICE SF | 71,780 | 31,000 | 45,403 | 77,000 | 205,141 | 62,657 |
| OFFICE TENANTS | 24,822 sf - Five undisclosed office tenants<br>10,496 sf - Sideways Holding Inc.<br>7,203 sf - Medical tenant | No tenants at this time | Strata | 77,000 sf - WeWork | No tenants at this time | 40,015 sf - Spaces |
| OCCUPANCY | 59% | 0% | 56% sold | 100% | 0% | 64% |

| | 2131 MANITOBA STREET | 510 WEST BROADWAY | MAIN ALLEY (M2) 114 EAST 4TH AVENUE | HOMER@DRAKE, 1290 HOMER STREET | STATION SQUARE (PHASE 5), 6051 SILVER DRIVE | HOUSS, 63 WEST 6TH AVENUE |
|---|---|---|---|---|---|---|
| |  |  |  |  |  |  |
| | Q1 2021 | Q1 2021 | Q1 2021 | Q1 2021 | Q1 2021 | Q2 2021 |
| CITY | Vancouver-Broadway | Vancouver-Broadway | Vancouver-Broadway | Yaletown | Burnaby | Vancouver-Broadway |
| DEVELOPER | Wesgroup Properties | Pacific Crown Management | Westbank / Hootsuite | Private developer | Anthem / Beedie | Conwest Properties |
| STOREYS | 4 | 7 | 8 | 3 floors (addition) | 2 floors in podium | 5 |
| OFFICE SF | 48,030 | 41,262 | 170,543 | 17,115 | 45,280 | 47,165 |
| OFFICE TENANTS | 48,030 sf - AbCellera Biologics | 41,262 sf - City of Vancouver | 78,300 sf - Zymeworks<br>70,000 sf - WeWork | No tenants at this time | No tenants at this time | Strata |
| OCCUPANCY | 100% | 100% | 87% | 0% | 0% | 29% sold |

| | BRIDGEPORT BUSINESS CENTRE (PHASE 1) | CITYCENTRE 3, 13775 96TH AVENUE | 425 WEST 6TH AVENUE | 1308 ADANAC STREET | 411 RAILWAY STREET | KING GEORGE HUB (PHASE 2), 9850 KING GEORGE BOULEVARD |
|---|---|---|---|---|---|---|
| |  |  |  |  |  |  |
| | Q2 2021 | Q2 2021 | Q3 2021 | Q4 2021 | Q4 2021 | Q4 2021 |
| CITY | Richmond | Surrey | Vancouver-Broadway | Vancouver-Broadway | Vancouver-Broadway | Surrey |
| DEVELOPER | Chunghwa Investments | Lark Group | Cressey Development | Union Allied Capital Corp. | Niels Bendtsen | PCI Group |
| STOREYS | 11 | 10 | 10 | 5 | 6 | 15 |
| OFFICE SF | 130,000 | 119,500 | 140,700 | 46,255 | 111,934 | 160,000 |
| OFFICE TENANTS | Strata | Strata | No tenants at this time | Strata | 10,000 sf - Bensen Manufacturing | 82,000 sf - Westland Insurance<br>52,000 sf - Spaces |
| OCCUPANCY | NA | 50% sold | 0% | 18% sold | 9% | 84% |

SPECIAL FEATURE

Initial impacts of COVID-19 and the various containment measures and work-from-home protocols the pandemic has inspired will ripple across all commercial real estate asset classes for the foreseeable future. While the development of a COVID-19 vaccine will ameliorate some of the immediate effects and concerns, developers, institutional landlords and tenants of all sizes are coming to understand what a global pandemic can mean in today's world in terms of business continuity planning, physical operations and employee health and safety.

Office workplaces of the future will be designed and built to new standards to ensure they are considered 'safe spaces' by tenants and their employees. Institutional landlords will likely seek to gain a better understanding of tenants' needs by surveying their tenants' employees to try to comprehend new behaviours that have emerged during these pandemic times. Technology and IoT-enabled smart buildings will likely form much of the response to ensure the safety of building occupants and a rapid response should an outbreak occur.

Large national firms will likely also start to take into consideration how a jurisdiction or municipality responded to the COVID-19 pandemic in regard to the measures taken (legal and otherwise) to prevent further transmission of the virus when it comes to deciding where to locate new operations. How the citizenry responded to measures implemented by government to reduce the spread of disease will also be a future consideration for many businesses when it comes to deciding where to open/expand offices and/or hire new workers. Business continuity planning and employee health and safety will be a more significant factor in these decisions than they were previously.

**Avison Young spoke to many of Vancouver's largest institutional landlords to understand what business lessons they learned in the first three months following the outbreak of COVID-19 in March 2020.**

**Some of their responses follow:**

• The positive impact of strong public health and political leadership likely resulted in better prospects for a faster economic recovery in BC compared with the U.S. and even other parts of Canada.

• Transitioning to and adopting work-from-home (WFH) strategies was seamless for many businesses and was generally accomplished very quickly.

• The importance of a strong IT team and investment in flexible IT infrastructure to ensure a functional and secure network that supports WFH initiatives was key.

• How financially tenuous some companies' balance sheets were and their inability to withstand even a slight business disruption.

• How resilient other companies were to the impact the pandemic had on operations without threatening their financial ability to remain an ongoing concern.

**Landlords also shared their thoughts on how COVID-19 has changed their approach to business and what the fallout might be for Vancouver's office market:**

• It will likely be similar to 2009/10 when there was a sudden surge in sublease space, but just like 2009/10, the sublease space will be absorbed and the market will recover after a brief lull. As normalcy resumes, demand and interest will as well.

• Reduced space requirements for businesses that need less space due to WFH strategies will be offset by tenants who need more space to increase the average square footage per worker to accommodate social distancing measures.

• 'No-touch' buildings with better HVAC systems and various technologies in place to reduce physical contact with high-touch points will likely attract more attention from potential tenants.

• Tenants may potentially become more interested in lower floors (or cross-over floors) so employees can avoid elevators by using the stairs as well as a renewed interest in parking availability/cost as employees avoid public transit.

• A renewed focus on the importance of professional and experienced property management to ensure office spaces are cleaned properly and any tenant concerns addressed promptly.

• A fundamental shift in when and how office space is used due to staggered employee shifts, rotating days of in-office work and the impact of WFH on flows of people entering/exiting a building.

• Trendsetter companies will get back to the office faster than others and the result of improvements in collaboration, culture and performance will allow the firm to flourish, which will encourage others to start bringing people back to the office. But it has not all been about the operational side of office leasing. Human relationships remain paramount. "I've been more understanding of people's situation, more likely to give people the benefit of the doubt, and also become more charitable through this disruption." ■

**ECONOMIC OUTLOOK**
FOR BRITISH COLUMBIA*

**2018**
**3.8%**

**2019**
**2.8%**

**2020F**
**-7.8%**

**2021F**
**4.8%**

*Real GDP growth

Source: Business Council of British Columbia (June 18, 2020)

continued from page 1

After five years of strong first-half absorption registered in Metro Vancouver (averaging almost 630,000 sf), first-half absorption swung to negative 26,019 sf during first-half 2020, the lowest first-half since 2014 (-83,689 sf). The swing to negative absorption for the region was primarily due to the downtown and Yaletown markets, which managed to offset the positive absorption recorded in the suburbs. While absorption in the suburbs was likely impacted by COVID-19 containment measures, a lack of new supply and record-low vacancy also played roles in constraining leasing activity and reducing occupancy.

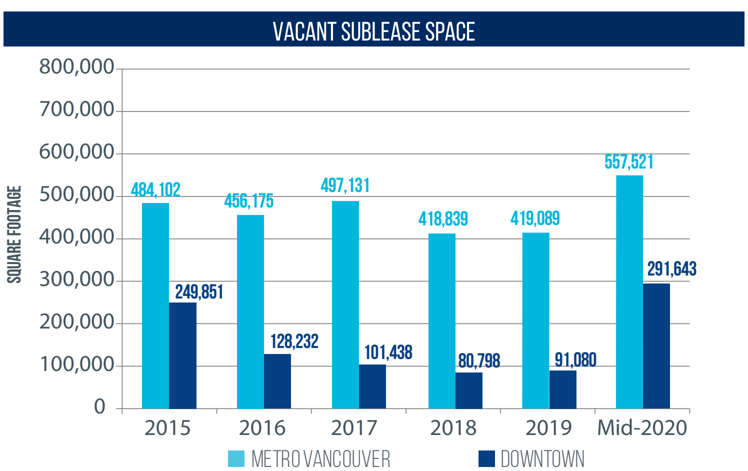
Vacancy in downtown Vancouver remained tight (3.5%) at mid-year 2020 despite the initial impact of work-from-home protocols related to the pandemic that arose in March 2020. Similarly, tight conditions exist in Vancouver-Broadway (3.8%), Burnaby (5.4%), Surrey (4.6%) and the North Shore (7%). Even Richmond (7.1%) and New Westminster (8.3%) were at or approaching record-low vacancy rates. Only Yaletown (9.8%) registered a significant spike in vacancy that was aggravated by COVID-19, although that was not the only factor at work in the popular office market.

In order to fully capture the scale of the impact of COVID-19 containment measures on the downtown and Yaletown markets, it is important to consider the space availability factor (SAF). The SAF refers to head lease space or sublease space that is being marketed but is not physically vacant (as well as new supply that is near completion and available for lease). While Avison Young has tracked this metric since 1997, it is particularly notable at mid-year 2020. While there is no new available supply to speak of downtown, the amount of head lease or sublease space being marketed that is not captured as vacant space is critical. Downtown's SAF was 1.9% at mid-year 2020, which means that the amount of space being marketed for lease in the downtown core is 5.4%. This figure is a more true reflection of downtown office availability. For Yaletown, the SAF was 0.9% at mid-year 2020, which means the amount of space being marketed for lease in Yaletown is 10.7%.

At mid-year 2020, there was 226,847 sf of vacant sublease space outside of downtown Vancouver, while vacant downtown sublease space (including Yaletown) totalled 330,674 sf for a total of 557,521 sf or 22.4% of the overall vacancy region-wide – up from18.4% at year-end 2019 and 12.4% a year earlier. The increase in vacant sublease space since year-end 2019 was almost entirely attributed to the downtown core (+200,563 sf) with the amount of vacant sublease space remaining largely stable (or declining) in Vancouver-Broadway (+8,813 sf), Yaletown (+4,488), Burnaby (-59,407 sf), Surrey (+5,908 sf), New Westminster (+4,400 sf) and the North Shore (+1,300 sf).

While it is challenging to predict what COVID-19's impact on Metro Vancouver's office market will ultimately be in 2021 and beyond, the region's strong fundamentals have provided us with some breathing room to adapt and evolve our workplaces in order to help mitigate the longer-term implications of the pandemic on the health of the regional economy. ■

*The spread of COVID-19 and the containment policies being introduced are changing rapidly. While information is current as of the date written or otherwise noted, the views expressed herein are subject to change and may not reflect the latest opinion of Avison Young. Avison Young relies on government and related sources for information on the COVID-19 outbreak. The content provided herein is not intended as investment, tax, financial or legal advice and should not be relied on as such.*

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