

# MARKET REPORT

OFFICE

Vancouver Metro Area

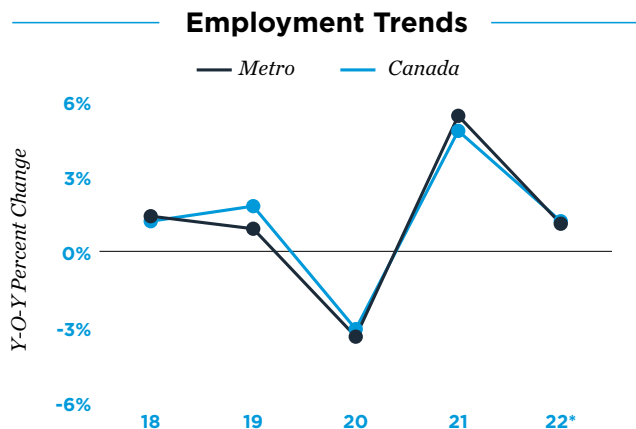
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3Q/22

## New Supply Hinderling Fundamentals, but Several Sizable Leases Signal a Recovery is Brewing

**Demand continues to hold in the face of economic headwinds.** Despite high inflation, rising interest rates, and a possible recession on the horizon, office demand remains elevated and is continuing to gain momentum. Throughout the first half of 2022, both the downtown and suburban markets experienced positive net absorption. This is highlighted by Microsoft adding more space to its existing lease at the CF Pacific Centre in downtown, plus the rumoured 400,000-square-foot expansion at the Vancouver B6 development. Additionally, Lululemon leased roughly 120,000 square feet in the downtown core, again emphasizing the strong office demand tailwinds in the Vancouver market. Strong leasing activity is keeping investment sentiment positive, as Vancouver is experiencing a return-to-office movement much faster than other major metros. Total office transactions in terms of dollar volume increased by 41 per cent year-over-year.

**Wave of new supply offsets steady demand.** Although Vancouver is experiencing an uptick in office demand, vacancy will rise by 70 basis points in 2022. This is a result of an influx of new, high-quality supply entering the market this year and last year that is not fully pre-leased, leaving some large blocks of available space. Nonetheless, due to robust demand, it is expected that this space will be leased in the near future. However, for the remainder of 2022, vacancy will continue to rise. At the same time, the delivery of high-quality assets and the general trend of flight-to-quality is allowing the average asking rent to grow by double-digit figures in 2022. These trends are supporting a positive investment outlook for the Vancouver office sector.



\* Forecast

Sources: Statistics Canada; CoStar Group, Inc.; Altus Data Solutions

## Office 2022 Outlook



16,900

**JOBS**

will be created

### EMPLOYMENT:

Employment has fully recovered to pre-health crisis levels and is expected to continue to grow. Although Vancouver will add fewer jobs than last year, employment is still expected to rise, due to robust job creation in the technology sector.



2,295,000

**SQ. FT.**

will be completed

### CONSTRUCTION:

A historic amount of new supply is projected to enter the market in 2022, with nearly half of all new deliveries being downtown. A significant amount of this new supply is pre-leased, however, there are still some large blocks available.



70

**BPS**

increase in vacancy

### VACANCY:

Underlying demand drivers are sturdy as the market should experience positive absorption this year. However, an ample amount of new supply is entering the market, and not all is fully pre-leased, causing vacancy to increase to 7.2 per cent.



10.4%

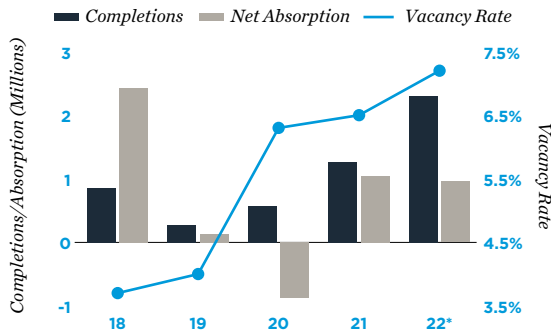
**INCREASE**

in asking rent

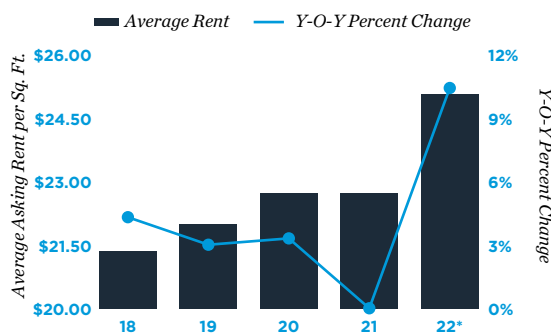
### RENT:

The delivery of high-quality assets, coupled with positive net absorption, is causing rents to grow at an elevated pace. The average asking rent for downtown assets will end the year around \$40.00 per square foot, while suburban properties in the surrounding GVA will be in the low \$20.00 per square foot range. Downtown experienced the strongest rent growth.

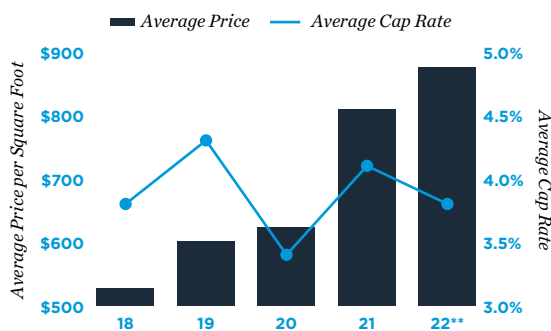
## Supply and Demand



## Rent Trends



## Sales Trends



\* Forecast \*\* Through 2Q

Sources: CoStar Group, Inc.; Altus Data Solutions

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The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: IPA Research Services; Statistics Canada; Altus Data Solutions; CoStar Group Inc.

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## 2Q 2022 - 12-Month Period



### CONSTRUCTION

**1,880,000 sq. ft. completed**

- The trailing-12-month period saw the most new supply added to the market since 2015, with nearly half being in the downtown core.
- In terms of office construction activity, the Vancouver metro has the second-highest level on a per cent of inventory basis across all major North American markets, only trailing Austin, Texas.



### VACANCY

**20 basis point increase in vacancy Y-O-Y**

- Although underlying demand drivers were robust over the trailing-12-month period, new supply entering the market was not fully absorbed, resulting in upward pressure on vacancy.
- Vacancy increased the most in the downtown core, whereas availability actually decreased by 90 basis points in the suburban markets.



### RENT

**9.6% increase in the average asking rent Y-O-Y**

- Rental rates rose at an elevated pace over the trailing-12-month period, due to new, high-quality supply entering the downtown market. The trend of flight-to-quality has resulted in strong leasing activity in Class A assets.
- Positive absorption and decreasing vacancy in the suburban markets were other factors pushing rent growth close to double-digit territory.

## Investment Highlights

- Transaction volume reached a new high in the first half of 2022, with more than 70 office transactions, a near 10 per cent increase from the first half of 2021 and a 12 per cent increase from 2019. Like many other major metros, Vancouver is seeing a switch in market dynamics, where the majority of purchases are by local private investors, as big institutional players are strategically disposing office properties. So far in 2022, nearly 65 per cent of total dollar volume has been by Canadian private investors.
- Sale prices have been on an upward trajectory over the past five years, increasing by approximately 66 per cent since 2018 on an average price per square foot basis. This price increase can be partially attributed to the higher frequency of sales in Vancouver, due to the popularity of strata units, especially in suburban markets like Burnaby, Coquitlam and Surrey. Additionally, even with rising prices, cap rates have remained relatively stable, remaining unchanged from 2018 at 3.8 per cent.
- The most significant office transaction so far in 2022 was Choice Properties' sale of a seven-property portfolio to Allied Properties REIT for \$794 million. Of the seven properties, two were located in Vancouver, and are estimated to have contributed \$250 million toward the overall volume.