

THE SOFTWARE INDUSTRY AND THE OFFICE LEASING MARKET

Introduction - BC's Fastest Growing Industry

Software publishing is BC's fastest growing industry. Primarily based in the Lower Mainland, this economic sector has grown into a major occupant of Greater Vancouver office space, today filling approximately 2 million square feet.

Software tenants can be found in all leasing districts. During the 1990s, many technology companies -- including software publishers -- became suburban tenants, however, the stereotype of software being almost exclusively a suburban office park dweller is not accurate. Many chose the suburbs because of the tight and costly leasing market downtown or to utilize larger floorplates.

The software industry's presence downtown has grown in recent years. In the late 1990s Yaletown became a popular software neighbourhood, which has stuck. Business Objects (formerly Crystal Decisions) has its largest worldwide facility in Yaletown, leasing over 300,000 square feet across three buildings. Most market watchers noticed when video game giant Electronic Arts leased four floors in the new AAA class high rise at 250 Howe Street, downtown. Other notable downtown peninsula software tenants include: Active State / Sophos, Relic Entertainment, Idelix Software, Intrinsic, Layer 7 Technologies, Blast Radius, Pivotal Corporation and Radical Entertainment (nearby).

The Study

To understand and forecast the office location decisions of software tenants, Avison Young interviewed Vancouver-area software companies located both in suburban and downtown buildings. We inquired about the reasoning behind their location decisions as well as about their satisfaction levels with their office space. Preliminary results are reported here.

General Findings

Employee-centric companies in the urban core

Companies that preferred urban core locations (including downtown, Yaletown, Gastown, and parts of the West Broadway corridor) tended to explain their location preferences first in terms of employee needs or a concern with attracting and retaining talent, and ensuring those workers had their desired multi-faceted urban atmosphere. They believed employees would be happier and more efficient in this environment.

As one executive explained it, "We hire hip, creative people who are original thinkers. They want to work in a hip, inspiring neighbourhood." This executive commented that his company (currently outgrowing their space) would

Software Publishing Industry* ** Fact Sheet

- **From 1997 - 2003 the software publishing industry in BC grew at an average annual rate of 22%.**
- In 2005, the BC Business Council estimates that software will grow at an 8% annual rate.
- Estimated Greater Vancouver employment 2005: 8,600
- Projected Greater Vancouver software publishing employment 2015: 16,600
- **Estimated office space used by software publishing companies 2005: 2,000,000 square feet**
- **Projected office space requirements for software publishing companies 2015: 4,000,000 square feet**
- Many software companies report a shortage of skilled, experienced workers, making attracting and retaining employees crucial.

*The classification "Software Publishing" does not include companies in other sectors -- such as telecommunications or aerospace engineering that nonetheless employ hundreds of programmers.

**Software publishing includes production of all types of software from video games to business applications.

prefer a location in downtown, Yaletown, or near the Broadway and Granville area, but they were struggling to find suitable and affordable space.

Smaller companies in the urban core

Many smaller companies face tough competition for experienced and talented workers, such that keeping employees contented, inspired and productive is essential for corporate success.

Being downtown helps them to compete for talent with larger, established companies in the suburbs, expressed more than one company executive. The combination of good transit access from throughout Greater Vancouver along with access to the myriad amenities in an urban environment attracts a particular type of creative employee that many of these firms covet.

Client-focused companies in the suburbs

Suburban based companies tended to prioritize proximity to clients, or being accessible to clients from across BC or worldwide for training purposes. They believed that the need for clients to visit necessitated having adequate parking. Real estate costs were also a large factor for client-focused companies, especially if they need to maintain a training facility for clients (which required leasing extra space).

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When asked the question about employee preferences, suburban companies interviewed typically stated that it was not a significant factor in location decisions. Some clearly stated that client needs took precedence as well as costs; others expressed it as the job is here, and it's an employee's choice to work for them in this location.

Inertia: larger and older companies in suburbs

It's also important to note here that many suburban-based companies have been in business for longer than those in the urban core, and inertia plays a role-- both clients and employees have adapted and planned accordingly. Long-time executives and employees have built aspects of their lives around their work location such as purchasing houses nearby. One company reported having recruited talent internationally and these employees subsequently settled in the suburb of their workplace. As the market tightens for skilled software developers, it may be that employees who prefer a suburban lifestyle will seek a suburban employer, and vice versa with the urban core.

The few big software tenants in the urban core

The urban core is also home to some larger software companies -- Business Objects, Radical Entertainment, and the satellite office of Burnaby-based Electronic Arts. In order to expand and develop their downtown area facilities, these companies took advantage of slack times in the leasing market or other unique opportunities that presented themselves. Such options are not always available. Therefore, larger companies will always tend to be suburban tenants, regardless of whether they would have preferred a downtown location.

Electronic Arts (EA)

EA is primarily a suburban tenant because of their need to accommodate complex production studios and large teams of game developers, programmers, and testers. Their Burnaby campus encompasses the world's largest video game production studios along with cafeterias, bars, a soccer pitch and many other amenities not typically available in suburban business parks. Their location appears to be based on a combination of what's best for producing games and keeping employees happy and productive.

Compromising around costs

Costs are of course also key factors for most firms, and final location decisions were often lamented as a compromise between HR needs and occupancy costs.

Compromising on design and layout.

Software companies (like many tenants) compromise when selecting locations and buildings. In deciding between a downtown and suburban building, software companies face several dilemmas. Leaving costs aside momentarily, if they prefer an urban core location for its amenities and atmosphere, they must sacrifice office lay-

out efficiencies and even productivity because of the design nature of office towers. Or if they prioritize the best layout, they need the larger floor plates and flexibility more commonly found in suburban buildings.

Office towers and software company layouts

Most software companies have their programmers divided into teams who work in open concept environments that require large amounts of squarish space. Typical office towers tend to be donut shaped with elevators and washrooms clogging up the middle. This forces work-spaces into long, linear rows of people, rather than into groups -- inefficient for many software companies.

Conclusions: Predictions 2005-2009

- **Because of the distinct advantages offered in the urban core versus the suburbs, no one district will dominate as a software industry hub.**
- Smaller, newer companies requiring 8,000 square feet or less will tend to select urban core locations. Larger ones will increasingly have only suburban options because of the tightening office market downtown.
- Many software companies are growing fast. In the next few years, some will suddenly need to grow their space requirements, resulting in their splitting operations between urban core and suburban, or relocating their entire operation to a suburb.
- Start-up software companies (that rely on venture capital or angel investors rather than their own revenues) will seek lower cost "incubator" space. Initially, this will likely be in B and C class space on the downtown peninsula. By 2007, this space may be too pricey or full, causing start up software firms to seek alternative incubators. **Older warehouses near 2nd avenue and Main Street, or off Clark Drive may become the new "Silicon Alley" (as Yaletown was once known).**

A different, multi-faceted office space vision?

Developers, landlords and planners could envision office space differently to create appropriate space for software tenants.

If new urban core buildings offered larger floor plates across the first few floors topped by traditional high rise office, this might better serve many software tenants.

In another example, to preserve a commercial-residential balance in many areas, older industrial buildings could be retrofitted as creative economy office space rather than demolished in favour of residential towers. A prime example of such a use is the former Showmart building in Yaletown that now houses Business Objects, one of the larger employers downtown and an anchor for the 24-hour vibrancy of Yaletown.