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Olympics Projects Buffer Downturn Impact

By Bob Howard

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Vancouver

VANCOUVER, CA-Office sublease space has risen significantly here, but industry experts say that the building projects associated with the 2010 Olympics appear to be softening the blow of the slowing economy on Metro Vancouver. Reports from Avison Young (Canada) Inc. and other firms suggest that the Olympics-related construction is providing some relief from the general economic conditions and credit crunch.

Darrell Hurst, principal with Avison Young Canada-Vancouver, comments that "We're a branch-office town and infrastructure projects, some of which are related to the 2010 Olympics, have softened the impact of the global credit malaise." A report from CB Richard Ellis makes the same point, stating: "Ongoing construction for the 2010 Olympics and other public infrastructure projects continue to sustain development throughout Metro Vancouver. As such, the Metro Vancouver office market has not suffered as much as other markets despite an increase in overall vacancy."

Sublease space rose in the Metro Vancouver market, particularly the Downtown core, in the second half of 2008, according to a year-end Avison Young report. As of year-end 2008, 516,627 square feet of vacant sublease space was available in the region, up 70% from 304,395 square feet at mid-year 2008 and up 52% from 339, 871 square feet at year-end 2007.

"The increase in sublease space is representative of corporate downsizing, companies right-sizing and businesses focusing on maintaining their bottom line," Hurst explains. "Many companies are scrutinizing their budgets and putting major decisions on hold while awaiting economic clarity. Tenants are looking for savings in their real estate, and some companies have had to reduce staff, and the result is that space is being brought back to the marketplace."

Avison-Young expects that, going forward, deal volume will continue to decline in 2009 because of a slowdown in executive decision-making as many firms opt to stay put while riding out the economic downturn.

CBRE's report notes that the Metro Vancouver office market has not suffered as much as other markets despite an increase in overall vacancy. Like Avison-Young, CBRE says that the big story in the second half of 2008 was the amount of sublease space that came back to the market, primarily in the Downtown submarket.

Avison-Young, in its report, says that the Downtown core "currently affords little room for movement," with only 2.5% or 481,581 square feet of its 19.4 million square feet of inventory vacant. No major Downtown office tower is anticipated to come on stream before 2013. However, when the occupied space that is available for lease or sublease is added to the Downtown core's space availability, the total available space rises to more than 800,000 square feet Downtown.

The tenant response to the increase in sublease space has been lukewarm at best. "There is a definite lack of demand, and that will likely continue for the first one or two quarters of 2009," confirms Hurst. As for the effect of the rise in sublease space on rents, there is little evidence to date that tenants have more negotiating leverage.

However, the lack of evidence may be from lack of bids. Explains Bill Elliott, principal at Avison Young: "There has been some softening in rents from landlords, and they may increase inducements over time, but in general, they're trying to hold their rents. There has not been a lot of rental rate erosion."

Overall, Avison-Young says that sublease space is expected to increase in the region through 2009. "By conservative estimates, this trend will likely continue for the next 12 to 18 months," points out Avison Young Downtown leasing specialist Brian Pearson. "A potential benefit is that tenants considering moving Downtown may have more options. Having said that, tenants must be cognizant of the risks associated with a sublease," he says.

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