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Spike in sublease space bumps up Metro Vancouver vacancy levels

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Avison Young releases its Metro Vancouver Mid-Year 2009 Office Market Report: region's vacancy rate rises to 7.4% as all eight submarkets witness increase in sublease space
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VANCOUVER, July 21 /CNW/ - The economic downturn continued to stifle demand for office space in Metro Vancouver during the first half of 2009, with vacant sublease space rising in all eight submarkets. This helped drive up the region's overall vacancy rate to 7.4% from 5.4% at year-end 2008 and 5.0% at mid-year 2008.

These are some of the key trends noted in Avison Young's Metro Vancouver Mid-Year 2009 Office Market Report, released today. The semi-annual survey covers vacancy, absorption and new construction trends in the Downtown, Yaletown, Broadway, Burnaby, Richmond, Surrey, New Westminster and North Shore submarkets, which total 45.8 million square feet (msf) in office space.

"Deal velocity was minimal during the first six months of 2009 as firms continued to downsize, consolidate, delay expansion plans, and cut costs by subleasing some of their excess office space," comments Darrell Hurst, Principal, Avison Young-Vancouver. "This pause in leasing demand and crisis of confidence, which began in the latter half of 2008 when the global credit crunch intensified, pushed up vacancy levels in nearly every submarket during the first half of 2009."

With an office space inventory of 19.4 msf, the downtown core witnessed its vacancy rate double from 2.5% at year-end 2008 to 5.0% at mid-year 2009. The actual amount of space available in the downtown core is closer to 6.5% or 1.26 msf if the space availability factor (which refers to space that is being marketed but is not physically vacant) is taken into account. Meanwhile, the overall suburban vacancy rate notched up to 9.1% from 7.7% at year-end 2008.

Vacant sublease space in Metro Vancouver totaled 948,872 sf at mid-year 2009 - up 84% from 516,627 sf at year-end 2008 and triple the 304,395 sf recorded at mid-year 2008. The current amount of vacant sublease space also represents 28% of the region's total vacancy, which is the highest percentage of sublease vacancy in more than a decade. (This compares to 21% at year-end 2008 and 14% at mid-year 2008.) The downtown core, with 460,158 sf in vacant sublease premises, accounts for half of the region's current vacant sublease inventory.

"While the sublease market has grown, most of the opportunities are smaller pockets, which underscores the fact that the economic slowdown has affected industries across the board and not any one particular sector. Tenants seeking larger blocks of space downtown still have limited choices," says Hurst.

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After experiencing positive absorption levels of 467,755 sf at year-end 2008 and 293,962 sf at mid-year 2008, the region witnessed a net change in occupied office space of - 674,349 sf between January 1 and June 30, 2009. "This is a far cry from the five-year annual absorption average of 1.1 msf," notes Avison Young broker Matthew Craig.

All submarkets registered negative absorption at mid-year 2009, except for Burnaby and New Westminster. Most of the current negative absorption occurred in the downtown core. "Downsizing and departures from the downtown core resulted in tenants leaving behind - 487,775 sf more space than they took up during the first six months of 2009. This amount of space is roughly equivalent to the size of a new office tower," says Craig. All classes of downtown office space posted negative absorption at mid-year 2009.

Craig adds: "Worth noting is that there are no notable large-sized tenant defaults to-date despite the global credit turmoil of the past year. Moreover, despite the increase in overall vacancy, institutional owners (primarily of class AAA and A buildings) are relatively well-positioned with vacancy rates at or below prevailing market rates."

"Overall, while not completely immune from the current economic tailspin, the Metro Vancouver office leasing market continues to rank among the tightest in North America with new speculative construction in check and no major downtown office tower expected to come on stream before 2013," points out Hurst. "Although vacancy levels have risen, the increased availability of space is providing tenants with more options. This has put downward pressure on rental rates. Competing with attractively-priced sublease opportunities, some landlords are now more aggressive in securing quality tenants and maintain existing ones."

After bringing on a respectable 600,000 sf of new product in 2008 (mostly in the suburbs), developers are anticipated to deliver approximately 500,000 sf of new office space to the region in 2009, with a similar amount slated for 2010. The Burnaby submarket is currently witnessing the majority of the new development activity.

"Vacancy levels are expected to tick up by year-end 2009 as companies continue to restructure. Ongoing infrastructure projects, some of which are related to the 2010 Olympics, coupled with the fact that Metro Vancouver is not a head office town, will continue to soften the impact of the global economic recession," says Hurst.

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- [Click here to view Avison Young's Metro Vancouver Mid-Year 2009 Office Market Report:](#)

http://www.avisonyoung.com/library/pdf/Van_Research/OMR_MID_2009.pdf

Note: If you are unable to open the link, please contact Sherry Quan for pdf version, thank you.

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