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AVISON YOUNG (CANADA) INC.

## Media Release

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· **Click here to view Avison Young (Canada)'s Metro Vancouver Year-End 2008 Office Market Report:**  
[http://www.avisonyoung.com/library/pdf/Van\\_Research/Office\\_Market\\_Report\\_Year\\_End\\_2008.pdf](http://www.avisonyoung.com/library/pdf/Van_Research/Office_Market_Report_Year_End_2008.pdf)

### **Economic downturn breeds office sublease space**

***Avison Young (Canada) releases its Metro Vancouver Year-End 2008 Office Market Report, reveals vacant sublease space in Metro Vancouver up 70% from mid-year 2008***

**Vancouver, BC**— The Metro Vancouver office leasing market witnessed a significant rise in sublease space in the latter half of 2008, particularly in the Downtown core as businesses restructured themselves, shed unneeded space, and tried to generate additional income in response to the changed economic environment.

As of year-end 2008, 516,627 square feet (sq. ft.) of vacant sublease space was available in the region, up 70% from 304,395 sq. ft. at mid-year 2008 and 52% from 339,871 sq. ft. at year-end 2007. Downtown, total vacant sublease space at year-end 2008 amounted to 188,472 sq. ft.— doubling the amount recorded at mid-year 2008 and at year-end 2007. The current sublease vacancy also represents nearly 40% of total vacancy in the Downtown core compared to 17% (92,188 sq. ft.) in 2007.

These are some of the key trends noted in **Avison Young (Canada) Inc.'s Metro Vancouver Year-End 2008 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 markets.

“The increase in sublease space is representative of corporate downsizing, companies rightsizing and businesses focusing on maintaining their bottom line,” comments **Darrell Hurst**, Principal, **Avison Young (Canada)-Vancouver**. “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 space being brought back to the marketplace.”

The Downtown core currently affords little room for movement, with only 2.5% (or 481,581 sq. ft. of its 19.4 million sq. ft. in inventory) vacant. No major Downtown office tower is anticipated to come on stream before 2013. However, when the Downtown core's space availability factor or SAF (which refers to head lease or sublease space that is being marketed but is not physically vacant, or new supply that is nearing completion and available for lease) is added to the equation, another 386,702 sq. ft. is piled on to the available space stock. Given that there is little new construction activity Downtown, virtually all of the current SAF space is attributed to occupied space that is available for lease or sublease. This brings total available (occupied and vacant) space to more than 800,000 sq. ft. Downtown.

Commercial real estate leasing transaction volumes across the country are anticipated to decline in 2009 due to a slowdown in executive decision-making as many firms elect to stay put while the economy recovers. In major markets, the addition of new inventory and a spike in sublease space may cause vacancy levels to rise through 2009, and tenants may see some relief with regard to rental rates. Metro Vancouver's overall vacancy rate nudged up to 5.4% at year-end 2008 from 5.0% at mid-year 2008 and 4.8% at year-end 2007.

While there is no one particular sector that is returning the bulk of the space to the market in BC, the financial sector, resource-based industries and engineering companies have been participants in the current sublease movement.

"Unlike the dotcom crash of 2000-2002, whereby the technology industry was specifically hit hard, this is a much broader problem that has affected industries across the board," says Hurst. He adds, however, that Western Canada/BC have fared better than other markets. "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."

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. The hike in sublease space has had little effect on landlords to-date as most landlords have little head lease exposure or vacancy issues.

A problem for landlords will likely arise, however, if and when sub-landlords cannot find sub-tenants. "If some of these companies (that are subleasing space) go under, thereby converting their sublease to head lease space, then it becomes a landlord's problem because that space will compete with other sublease opportunities," explains Hurst. "But right now, it's not a landlord's issue."

In the suburbs, the Richmond submarket posted the largest amount of vacant sublease space available at year-end 2008, at 82,867 sq. ft. (or 2.4% of total Richmond inventory). However, overall, there have been minimal suburban sublease listings offered to the market.

As for the effect the rise in sublease space has had on overall rental rates in the market, there is little evidence to-date that this trend has provided tenants seeking head lease space with more negotiating leverage. (However, the lack of evidence may be due to the lack of bids.) "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," says **Bill Elliott**, Principal, Avison Young (Canada)-Vancouver.

Any vacant suites that are not built-out or improved will likely stand the biggest test as improvements are still costly to be made. "To reduce costs, tenants will likely gravitate to improved sublease space first and improved head lease space second," notes Elliott, who says rental rates for sublease space are currently being offered at up to a 50% discount over what the tenants' contractual rents are, and that could increase over time.

Overall, the region expects to see a continual increase in sublease space 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. "Subleases typically trade at a discount because subtenants generally don't enjoy the same rights as tenants do, and the sublease is only valid so long as the tenant remains current with its lease commitment."

Nonetheless, a softening in the Metro Vancouver office leasing market is expected to be less severe than in other parts of Canada due to Metro Vancouver's relatively healthy vacancy levels and the fact that BC's economy is well supported by major private and public investment spending, according to the Avison Young report.

Although the credit turmoil will continue to challenge developers and tenants this year, lending markets are forecast to return to some level of normalcy later in 2009. "Hesitant decision-making is at the root of the deal volume slowdown, and it is anticipated that once perception returns to meet reality, deal activity will return to higher levels in 2010," says Hurst.

*Founded in 1996, Avison Young is a full-service commercial real estate company and the only national, Canadian-owned, principal-managed real estate brokerage firm in the country. With offices in Vancouver, Edmonton, Calgary, Regina, Winnipeg, Mississauga, Toronto, Ottawa, Montreal, Quebec City, Halifax and Chicago, Avison Young ranks among Canada's leading national commercial real estate organizations. The firm provides value-added, client-centric investment sales, leasing, advisory, management and financial services to owners and users of commercial, industrial and multi-residential real estate properties.*

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