Western Investor Newspaper
monthly commercial real estate publication
Vancouver, BC
January 2012

COVER Ivanhoe Cambridge speculates on Burnaby highrise beating downtown developers to the punch

Class AAA battle

PETER MITHAM/FRANK O'BRIEN
WESTERN INVESTOR

After a five-year hiatus the rush is back on to complete the first major office tower in Metro Vancouver – and the edge is apparently held by **Ivanhoe Cambridge**.

Last month, the Toronto-based development firm announced that its Metrotower III will be the first Class AAA office tower in Metro to be completed since 2007.

The $170 million building's completion is scheduled for April 2014. "We have a one-year lead on the downtown projects," said **Gordon Wylie**, development manager for Ivanhoe Cambridge.

Wylie is referring to triple-A towers by **Oxford Properties**, **Bentall Kennedy** and **Telus**, all of which are expected to complete by 2015 in the downtown core.

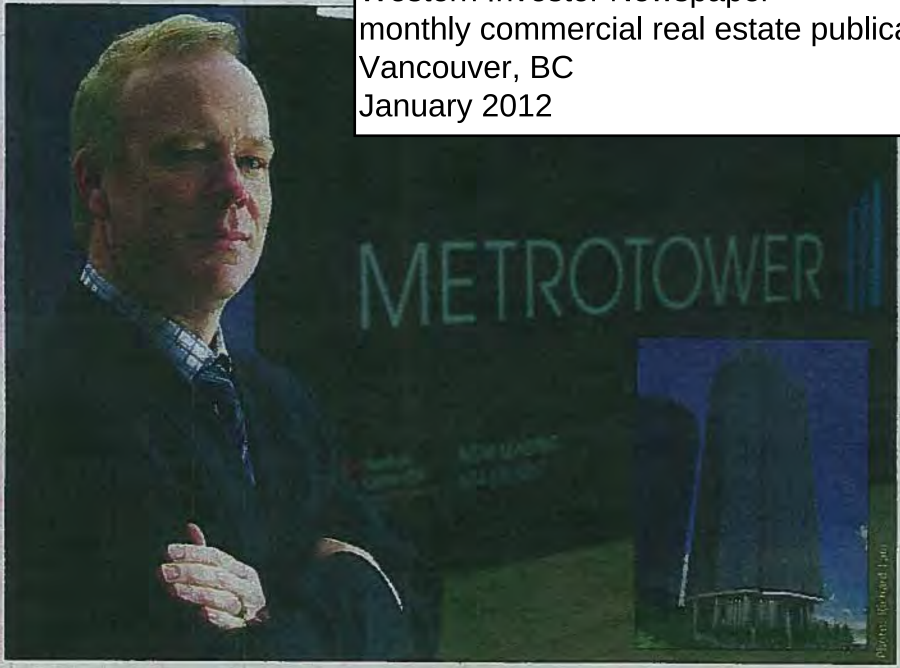
Wylie said Metrotower III, which was started and then stopped at the parking-level stage as the recession hit in 2008, is well placed to draw tenants, even from the downtown.

"There is a lot of lease rollovers coming up in the period before 2014 so we think we are well positioned," Wylie said. The tower is being built on spec, and Wylie said there has been interest for space that will come to market with pre-leases around $35 per square foot.

Metrotower III is being built to LEED platinum standards, which will help it attract high-end tenants, agrees **Bill Elliott**, a principal with **Avison Young**, Vancouver.

"This is the most dominant downtown-like development outside of downtown Vancouver," Elliott said, because of the existing office and retail infrastructure – the adjacent 1.2 million square foot Metropolis mall – and SkyTrain that surround the site.

"I see Metrotower III as offering a downtown presence in a suburban location," Elliott said. "Building office space on speculations is always a risk, but I think this is a good risk for Cambridge."



TOP: Gordon Wylie, senior director of development for Ivanhoe Cambridge: 29-storey Metrotower III in Burnaby will complete by 2014. (INSET) Metrotower III being built on spec. RIGHT: The 400,000-square-foot office tower at 745 Thurlow in downtown Vancouver is a project of Bentall Kennedy and British Columbia Investment Management Corp. It opens in 2015.

Transit

The importance of the proximity of the new Metrotower to SkyTrain cannot be overstated, according to **Jones Lang LaSalle**. "Office locations within 0.5 kilometres of rapid-transit stations have a vacancy rate almost one third [lower] than areas which are not served," the company noted in a research paper on office and transit links in Metro Vancouver.

The study found that the vacancy rate for offices within walking distance to the Metrotown SkyTrain station is only 3.3 per cent, compared with an overall Burnaby vacancy rate of 7.3 per cent.

"As downtown and Broadway corridor availability decreases and rents increase, our landlord and tenant clients are becoming more interested in transit-oriented suburban locations," said Jones Lang LaSalle executive vice-president **Ray Ahrens**. Some new developments such as Broadway Tech Centre are serving this growing demand and more are planned including the Brewery District and Merchant Square in New Westminster and Phase II of the Renfrew Business Centre in

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Burrard among most costly office streets

In a recent study of 40 office markets across North America, **Jones Lang LaSalle** reveals the most expensive streets for office space. Sand Hill Road in Menlo Park, CA, topped the list with average rents reaching $114 per square foot while Fifth Avenue in New York runs at $97 per square foot and Pennsylvania Avenue in Washington, D.C., fetches above $80 per square foot. Burrard Street in Vancouver lands in 11th place.

In Canada, the five most expensive streets for office space are as follows:
1. Bay Street in Toronto: $52.09 per square foot;
2. Albert Street in Ottawa: $49.94 per square foot;
3. Burrard Street in Vancouver: $48.88 per square foot;
4. Third Avenue in Calgary: $47.51 per square foot; and
5. McGill College Avenue in Montreal: $41.05 per square foot.

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Vancouver, he noted.

"We expect to see continued interest in these developments, particularly from employers with back-office operations that do not need to be located downtown," said Ahrens. "Office buildings located near SkyTrain or Canada Line stations also achieve higher rents than other locations."

According to the study, office rents close to major transit stations are 8 per cent higher than the Metro average, and the vacancy rate, on average, is 4.8 per cent for transit-friendly locations compared with 12.8 per cent for the overall office market.

Transit links are most important in Surrey. The Jones Lang LaSalle survey found that Surrey's vacancy rate for offices close to SkyTrain is 0.4 per cent, compared with 25 per cent for space further from transit, and the rental rates for transit-linked space are about 33 per cent higher.

Downtown giants

Vancouver's three new Class AAA downtown towers – all expected to complete within three years with LEED-rated space – share a common green theme, but their approach to the market is different as this new development cycle begins.

Telus, which will be leaving its landmark Burnaby tower on Kingsway, will take nearly 300,000 square feet of its 22-storey, 500,000-square-foot Telus Garden complex at Robson and Seymour.

Bentall Kennedy/British Columbia Investment Management Corp.'s new 25-storey office tower at 745 Thurlow is already seeing strong pre-leasing and, based on Bentall's reputation and existing client list, most observers expect it to be fully leased before completion.

Oxford Properties, the real estate arm of giant pension fund **OMERS**, represents the only new tower being built on pure speculation. The slender 35-storey tower at 1021 West Hastings is "seeing a lot of pre-leasing activity, some serious tire-kickers," according to Elliott.

Oxford's strategy to offer smaller floor plates within the tower's 270,000 square feet is seen as a smart move. The typical Vancouver office tenant takes up between 3,000 and 3,500 square feet, and the major demand in the city is being seen for such smaller offices.

The potential of about 750,000 square feet of new top-rated space is already stirring the downtown market, where the Class A vacancy rate is 2.9 per cent, among the lowest in Canada, according to global tenant representation firm **Newmark Knight Frank Devencore.**

Market churn

"As 2014 approaches, there may be a good deal of churn," the company stated in a recent report. "With the pending delivery of new space, landlords are also beginning to be more open to negotiating longer-term commitments with their key tenants."

Jon Bishop, vice-president and general manager of **Devencore Co. Ltd.**, the firm's local office, said the economics of leasing in one of the new towers for the long term is attractive versus renewing in many existing top-tier premises.

"I believe you're going to see a new flight to quality that we haven't seen for a few years," he said.

But exacerbating the churn is that no major new tenants are coming to town to take advantage of the space. While the city is popular with investors, the tenants are largely familiar faces. Law firms, for instance, are the biggest local tenants.

"All we're doing is getting companies that are displacing or relocating themselves to different inventory, different product types," Bishop said.

The good news is that as the churn picks up, this could change. Talent and tax incentives for new companies are spurring interest in companies keen to use Vancouver as a base in North America.

Bishop expects to see more foreign companies scouting space here in the next 12 to 24 months. Companies that want to re-evaluate their real estate needs in the meantime should make a move.

"This is a really good time to do an evaluation on where your business is going and how real estate is going to support that over the next five years," Bishop said. "The landscape for office inventory is going to be changing dramatically."◆