

FEATURE Metro recovery still limited to the central core as suburbs struggle with double-digit vacancies

Office market update

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The slow recovery in Metro Vancouver's office sector is very much a tale of two cities: the rebounding downtown and the still-struggling suburbs.

Yet, when compared with other cities, Vancouver remains among the strongest office markets in North America.

In the downtown, Yaletown and Broadway Corridor the office vacancy rate is 4.5 per cent, but it balloons to historical highs in Burnaby and Richmond, according to reports from **Avison Young** and **Cushman & Wakefield**.

"Suburban landlords competing for tenants may have to offer higher-than typical inducements," Avison Young intoned.

The renewed strength is welcomed in a downtown market where vacancies rose significantly through the recession and sublease space became a significant factor. Today the market awaits news that the **Aquilini Group** and **Bentall Capital LP** are proceeding with office towers in the downtown core (Aquilini Group dusted off its plans for a 230,000-square-foot office tower adjacent to **Rogers Arena** earlier this year).

"There's certainly reason to believe that for the remainder of this year vacancies are going to remain tight downtown," said **Jeff Rank**, managing director of Cushman & Wakefield in Vancouver, noting that lease rates in the core are starting to rise.

On the other hand, double-digit vacancies are common in the suburbs, with a 19.4 per cent rate in **Richmond** and 12.3 per cent in **Burnaby**.

"There are certain markets or types of business that do need space and are expanding, but it's not as widespread to suggest that we're bucking the trend altogether from the rest of North America," Rank said.



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DiscoveryGreen offices in Burnaby, where vacancy rates are now more than 12 per cent.

On the plus side, vacancies in downtown and the Broadway Corridor are already lower than the 4.8 per cent rate that Cushman & Wakefield previously projected for the area by 2011.

Whether vacancies continue to fall depends on pent-up demand, Rank said.

The launch of a new office tower may provide an answer.

"It'll have a big impact on where vacancy rates will go, where rental rates will go. It will certainly test whether there's a lot of pent-up demand," he said.

Despite the encouraging signs, the region's overall vacancy rate continued its upward trek during the first half of 2010, reaching 8.3 per cent from 7.4 per cent at mid-year 2009, Avison Young notes.

This is mainly attributed to the recent addition of three new buildings in Burnaby. Once the market has time to absorb the new inventory, overall vacancy is expected to trend downward.

Suburban vacancies have risen to 11.1 per cent from 9.1 per cent a year ago. Overall absorption was positive during the first six months of 2010 at 85,206 square feet, which is very favourable when compared with the negative 674,349 square feet experienced in the first

Downtown office vacancy rates mid-2010

City	Vacancy rate
Vancouver	4.5 per cent
Calgary	10 per cent
Edmonton	8 per cent
Toronto	10.3 per cent
Chicago	15.9 per cent
Houston	10 per cent
New York	14 per cent

Source: Avison Young mid-2010 office report/Bloomberg

half of last year, the study found.

New product

After delivering 400,000 square feet of new product in 2009, developers will add 600,000 square feet to the office stock in 2010. No new downtown office tower is expected to grace the skyline until at least 2013.

"Overall, the [Metro Vancouver] outlook is positive for the region's office market," Avison Young concludes.

Calgary

The same can't be said for Calgary, Western

Canada's second-largest office market.

Calgary's overall office vacancy rate saw the biggest jump in the country in the second quarter, rising to 15.7 per cent from 10.2 per cent a year earlier. The city also has the highest amount of new construction added to the market in the country of just over 1.2 million square feet. Avison Young forecasts that vacancies rates will remain close to 15 per cent into 2012.

With an inventory of 62.7 million square feet, Calgary now has 3.3 million square feet of head lease office space available to tenants. Sublease space totals a further 2.3 million square feet.

Overall absorption for the city in the first half of 2010 was 2.2 million square feet, and absorption is expected to remain in positive territory until year-end. This is in stark contrast to the negative 864,000 square feet of absorption recorded in the first half of 2009.

In the downtown market, the vacancy rate is 10 per cent, up slightly from 9.7 per cent in the first quarter of 2010 and up noticeably from 7.8 per cent one year earlier.

The high levels of available space in both the head lease and sublease markets have created a situation whereby landlords are offering "aggressive lease rates, extensive inducement packages and large tenant improvement allowances," Avison Young noted.

North America

Across Canada, the overall downtown office vacancy rate is now 9.9 per cent, overshadowed by still-high sublease space and new construction in both Calgary and Toronto, Avison Young reports. Canadian suburban markets are posting average vacancy rates in the 12 per cent range.

The amount of sublease space on the market decreased to 19.4 per cent of vacant space in the second quarter from 21.8 per cent in the first quarter.

The lowest downtown office vacancy rate in the country is in Regina, at 2.9 per cent.

In the United States, a national survey found average downtown vacancy rates of 15 per cent, up from 14 per cent at mid-2000, and spiking even higher in some cities. ♦