

FEATURE Glut of sublease space skews office sector – and puts speculative construction plans on hold

Office markets

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The economic downturn has driven office vacancy rates higher in the largest Western Canadian markets, but centres with a strong government sector – such as Victoria and Regina – are seeing tighter markets and even rising lease rates.

The following is a snapshot of the western office market as we head into the final quarter of a volatile year.

Vancouver

An unprecedented amount of sublease space is blamed for doubling the downtown office vacancy rate and pushing absorption into negative territory for the first time in five years.

As of this fall, there was nearly 950,000 square feet of vacant sublease space across Metro Vancouver – three times as high as a year earlier – and half of that is downtown, much of it smaller offices that pockmark downtown towers and extend into Yaletown.

“This amount of [sublease] space is similar to that of a new office tower,” said Bill Elliott, a principal with Avison Young, Vancouver, adding that landlords are getting “aggressive in securing tenants and maintaining existing ones” to compete with the often cheaper sublease space.

In the short term, the outlook is for even higher vacancy rates. However, with speculative construction frozen, no major new office towers will be built for at least four years. An upturn in the B.C. economy in 2010 could stabilize the leasing action, especially if, as expected, leasing rates soften.

Sublease space is also rising in each of the eight submarkets of Metro Vancouver, which has driven the suburban office vacancy rate to 9.1 per cent, up from 5 per cent in mid-2008. Downtown, office vacancies are now at 5 per cent, with little demand. In fact, overall office

take-up across the region was negative 674,000 square feet during the first six months of this year as downtown tenants walked away from 487,000 square feet of unwanted space.

In Burnaby, reports Cushman Wakefield LePage (CWL), 1.16 million square feet of new office space will complete by 2011, warning that a glut of space could be emerging in the region's number 2 office market. The departure of eBay will free up a further 100,000 square feet in the Still Creek area, the report adds.

The Richmond overall office vacancy rate is now 12.1 per cent, CWL reports, with Class A space at a regional high of 17.4 per cent.

Calgary

Calgary's office market, once the darling of North America, is in the grip of one the slowest periods in its history. The downtown vacancy rate is flirting with a 10 per cent level – it was 9.3 per cent in August with no relief in sight – and sublease space – more than 1.6 million square feet – is at record highs, representing 54 per cent of all the vacant offices. In some downtown towers, 75 per cent of the offices have gone dark.

Worse, the absorption level has gone negative in a big way. The 10-year average for lease-up in Calgary's downtown is 534,000 square feet, but this year it will fall to minus 1.5 million square feet, a record.

What agents are calling a “perfect storm” has created a tenant's market in oil town. Lease rates have dropped at least 30 per cent across the board, with even new Class AA space falling to the \$34 per square foot range, and Class A sublease space in downtown towers being pitched as low as \$22 per square foot. Two years ago, as a comparison, the average rent for Class AA space in the core was \$64 per square foot.

The Calgary office vacancy rate could hit as high as 15.7 per cent by next year, according to Avison Young, as there are eight buildings,



Western Canada's downtown office markets

City	Vacancy rate	Sublease space
Vancouver	5 per cent	460,000 square feet
Calgary	9.3 per cent	1.6 million square feet
Edmonton	7.5 per cent	109,000 square feet
Regina	2.4 per cent	near zero
Winnipeg	4.7 per cent	25,000 square feet
Victoria	2.7 per cent	34,000 square feet

Source: Avison Young/Colliers International/Western Investor

Best in the West: Regina is the only western Canadian office market reporting falling vacancies and rising lease rates.

from large tenants taking advantage of lower lease rates to secure space. This includes Enbridge, which leased up 63,000 square feet this year; ATB Financial that has taken up 27,000 square feet; and Sobeys, which locked up 97,000 square feet.

with 5.8 million square feet of space in total under construction.

An ominous sign is that Bankers Court, one of three office towers completed this year, already has three of its seven floors on the sublease market.

Edmonton

Alberta's capital city, as with most centres with a strong public sector and a low level of speculative construction, has maintained relative stability. The current vacancy rate is 7.5 per cent and vacant sublease space accounts for less than 1 per cent of the market.

Edmonton landlords have also benefited

The vacancy rate could increase as 109,000 square feet comes onto the market from Telus House and Sun Life Place. Telus reportedly plans to put 70,000 square feet of its office space on the sublease market. Another 39,000 square feet of sublease is expected from Sun Life.

This is expected to increase the downtown vacancy rate by about 0.7 per cent.

When the Epcor Tower is completed, another 400,000 to 500,000 square feet will become available downtown.

Regina

Regina is now the hot spot in the western office market. Please see *Government* page A10

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