Media Release

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Editors/Reporters
· Please click on link to view and download Avison Young's Mid-Year 2018 Metro Vancouver Office Market Report:
https://www.avisonyoung.com/documents/95750/17687307/MetroVancouverOMR_MidYear2018final.pdf

Regional supply constraints exposed as downtown and suburban office leasing activity accelerates

Avison Young releases its Mid-Year 2018 Metro Vancouver Office Market Report

Vancouver, BC - Healthy demand for office space throughout Metro Vancouver in the first half of 2018 has rapidly highlighted shortfalls of new supply in multiple markets as regional vacancy tightened to its lowest point since 2012 and is likely to approach the record low vacancies of 2007-08 within 18 months. Vacancy in the 51.4-million-square-foot (msf) regional market slid to 7.2% at mid-year 2018 from 9.1% a year earlier and 10.4% just 24 months ago. First-half 2018 absorption of 764,911 sf was the second most first-half absorption recorded since mid-year 2006 and was only surpassed in recent memory at mid-year 2015 during the last wave of new development.

With vacancy set to tighten further by year-end due to a number of significant occupancies during the second half of 2018 in the Downtown, Vancouver-Broadway and New Westminster markets, annual absorption is expected to be among the strongest since the last development wave crested in 2015. Vacancy in Vancouver-Broadway will decline significantly by year-end as a number of new buildings were delivered vacant in the first half of 2018 and will be primarily occupied by year-end. A number of significant occupancies in the Downtown market will also exert further downward pressure on an already tight market that will likely approach record lows in the next 12 to 18 months. Sublease vacancy remains extremely limited in Metro Vancouver, particularly Downtown.

These are some of the key trends noted in **Avison Young's *Mid-Year 2018 Metro Vancouver Office Market Report***, released today. The semi-annual survey covers vacancy, absorption and new construction trends in the Downtown, Yaletown, Vancouver-Broadway, Burnaby, Richmond, Surrey, New Westminster and North Shore markets, which total 51.4 msf of office space.

According to Avison Young Principal **Glenn Gardner**, who specializes in Downtown office leasing, vacancy in the core will continue to tighten during the next 18 months, reducing the options for tenants seeking to relocate or expand.

“Vacancy is expected to drop significantly by year-end 2018 and, barring any substantial economic shifts, will likely approach record lows by mid-2019. Tenants seeking large blocks of space will likely have few options other than to prelease space in the next wave of development or to backfill the space that is to be vacated by those tenants who have preleased new space.”

Gardner continues: “Co-working firms such as WeWork and Regus/Spaces continue to make their presence felt and have rapidly become one of the largest tenant types in the Downtown core, while tech behemoth Amazon continues to prelease significant space in new developments.”

Overall suburban vacancy declined to 9.4% at mid-year 2018 from 11.6% a year earlier. The decline in suburban vacancy came in large part from the occupancy of space in Burnaby, Yaletown and the North Shore.

“While the development pipeline in Metro Vancouver has typically maintained a relatively steady stream of new supply, a gap in both new-product delivery and availability has formed in key suburban markets such as Burnaby and Richmond and, to a lesser extent, Surrey,” states Avison Young Principal **Bill Elliott**, who is based in the firm’s Vancouver office and specializes in suburban office leasing. “Strong leasing activity in Burnaby resulted in vacancy dropping to 7% at mid-year 2018 from 13.3% a year earlier. Virtually all of the activity was focused on the lease-up of existing inventory.”

Vacancy in Richmond has stabilized around 10% since mid-year 2016 and the delivery of new supply will likely be needed to stimulate additional leasing activity, he says.

“While vacancy in New Westminster has remained elevated to date, the previously vacant Anvil Centre office tower will be mostly occupied by year-end,” notes Elliott. “This will significantly impact the New Westminster market and boost absorption in 2018.”

He adds: “Vacancy in Surrey’s office market dropped from 13% a year ago to 9.6% at mid-year 2018 – the lowest in six years. Vacancy is expected to decline further in 2018, but with limited new supply in the pipeline for the next two years, deal velocity may start to slow and vacancy stabilize.”

The largest wave of new Downtown office development on record is shaping up with more than 4.3 msf of space for lease likely delivered by the end of 2022 – an astonishing 19% increase to the current total Downtown inventory of 22.9 msf. The issue is that virtually none of that new supply will be delivered before 2020, with substantial availabilities coming in 2021/22. In the suburban markets, almost 950,000 sf is under construction in the Vancouver-Broadway submarket alone, with the majority of development located in Mount Pleasant, False Creek Flats or the north end of the Cambie Corridor. Delivery of new supply in the next 18 months remains very limited in other suburban Metro Vancouver markets.

On page 15 of the report, Avison Young looks at the potential impact of rising construction costs on development activity in the region.

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