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Editors/Reporters
· Please click here to view and download Avison Young's Mid-Year 2015 Metro Vancouver Office Market Report:
http://www.avisonyoung.com/fileDownloader.php?file=files/content-files/Offices/Vancouver/Research/2015/Vancouver_OMR_MY2015.pdf

Delivery of new inventory inflates Metro Vancouver office market vacancy as done deals power positive absorption

Avison Young releases Mid-Year 2015 Metro Vancouver Office Market Report

Vancouver, BC – Vacancy rose in Metro Vancouver's office market at mid-year 2015 as anticipated with the addition of almost 1.4-million-square-feet (msf) of new office space in the Downtown core and an accompanying surge of positive absorption. The historical correlation between positive absorption and declining vacancy was disrupted in the first half of 2015, but will return as the delivery of new supply slows and traditional market fundamentals reassert themselves. Regional vacancy increased to 10.3% – the highest since year-end 2004 – and was accompanied by first-half absorption of nearly 880,000 sf, the most since mid-year 2006. This also marked the first time that regional positive absorption was recorded in the first six months of a year since 2012.

While positive absorption in the Downtown core was the primary regional contributor, almost all other submarkets also registered positive absorption, led by Surrey, Richmond and Vancouver-Broadway. Only Yaletown and Burnaby registered negative absorption during the first half. Vacancy rose year-over-year in notable submarkets such as Downtown, Yaletown and Burnaby, but declined in Vancouver-Broadway, Richmond, Surrey and the North Shore. Vacancy in New Westminster remained stable but elevated due to supply overhang.

These are some of the key trends noted in **Avison Young's *Mid-Year 2015 Metro Vancouver 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** submarkets, which total 50.3 million square feet (msf) of office space.

Sublease vacancy in the Metro Vancouver office market remained stable year-over-year at 9.4% (of total vacancy), the lowest point since mid-year 2012. Downtown sublease vacancy dropped to 10.1% (of total vacancy) at mid-year 2015 from 16.3% 12 months earlier, the lowest level since year-end 2003, but remained virtually unchanged year-over-year in terms of total square footage.

Tenants relocating Downtown have not left an excess of sublease space in their wake as the total square footage has remained stable, while the percentage of sublease vacancy actually declined due to the expansion of Downtown's building inventory. Sublease vacancy as a percentage of total vacancy increased year-over-year in Yaletown, Broadway, Burnaby and New Westminster and decreased in Richmond, Surrey and the North Shore.

Following the delivery of new office product in suburban submarkets throughout 2013 and 2014, almost 1.4 msf was added to the Downtown core in the first half of 2015. Another 420,000 sf is scheduled for delivery Downtown by the end of the year, while 250,000 sf will be delivered in the Vancouver-Broadway submarket and 164,000 sf will be added to Surrey's inventory by the end of 2015. Both suburban projects are substantially preleased and will likely contribute to positive absorption in the second half of 2015.

Almost 650,000 sf of absorption Downtown from January 1 to June 30, 2015 represented the most absorption recorded in the first six months of a year since Avison Young began tracking absorption in the submarket in 2000. Richmond and Surrey both recorded more than 100,000 sf of absorption in the same six-month period with Vancouver-Broadway registering almost 90,000 sf of absorption.

According to Avison Young Principal **Brian Pearson**, who specializes in Downtown office leasing, options in the Downtown submarket are increasing and landlords are more willing to work with quality tenants to get a deal done.

"Deal velocity was reasonably robust in the first half of the year as tenants took advantage of aggressive sublease offerings and a slight softening in rental rates. Tenants reviewing numerous head lease and sublease options before making a decision served as a drag on deal flow," he says. "Tenants active in the market are incrementally downsizing to reduce costs and seeking to improve efficiencies within a smaller footprint, while demand from traditional core tenants remained weak."

He adds: "Energy and mining firms continued to contract, which had ramifications for related professional services such as engineering, accounting and legal firms. Well-improved and unique sublease offerings continued to perform well in the Downtown submarket."

Downward pressure on head lease rates will continue throughout 2015 as inducements rise to attract and retain tenants in the face of increasing availability in existing inventory. That softening will continue as the market recalibrates to a more balanced condition after almost a decade of sub 5% vacancy in the Downtown core. Vacancy will likely stabilize in 2015 with a slight decrease possible in the second half as tenants continue to occupy new buildings before rising again in early 2016 as more traditional market fundamentals reassert themselves.

Overall suburban vacancy decreased to 10.9% at mid-year 2015 from 12.6% at mid-year 2014. Suburban vacancy was strongly influenced by an uptick in leasing activity in Richmond and Vancouver-Broadway, while also being affected by a one-time absorption event in Surrey. Vacancy on the North Shore also fell as businesses displaced by the demolition of the Esplanade Centre relocated.

"Strong levels of absorption recorded in suburban markets such as Surrey, Richmond and Vancouver-Broadway bode well for the overall health of the region," states **Josh Sookero**, a Vice-President in Avison Young's Vancouver office who specializes in suburban office leasing. "With the exception of Burnaby – which registered a slight amount of negative absorption – all suburban submarkets registered positive absorption in the first half of 2015, and that trend is expected to continue."

He adds: "Suburban rates will likely remain stable during 2015, but with four suburban submarkets registering double-digit vacancy, an opportunity remains for tenants to secure space on favourable terms."

Downtown's development pipeline remains active with 745 Thurlow and 501 Robson scheduled to come online by the end of the year. Ormidale Block and FiveTen Seymour will follow in 2016, the Exchange in 2017 and the first phase of Burrard Place following in 2018. These developments will add 1 msf to Downtown inventory by the start of 2018 (of which 450,000 sf is preleased). In the suburbs, Marine Gateway, Renfrew Centre, Fifth, Containers (phase two), Broadway Commercial, Solo District, Gateway Place and the HUB will add another 1.16 msf by 2017, of which 528,000 sf is preleased. New development is set to reshape Metro Vancouver's office market for years to come.

Green wave of new office development washing over Downtown Vancouver

Tenant requirements for office space in more environmentally sensitive 'green' buildings are not the only driver contributing to the wave of LEED-certified and ASHRAE 90.1-compliant projects recently constructed or under construction in the City of Vancouver. The municipal government has made LEED Gold certification a condition of approving the rezoning applications of new office construction as part of the city's green building strategy, which forms part of its Greenest City 2020 Action Plan.

On page 15 of the report, Avison Young reviews the environmental requirements facing developers working in the City of Vancouver and learns about the impact these regulations could have on construction. A short summary of the green credentials of five new office towers seeking LEED accreditation is also included.

Avison Young is the world's fastest-growing commercial real estate services firm. Headquartered in Toronto, Canada, Avison Young is a collaborative, global firm owned and operated by its principals. Founded in 1978, the company comprises 1,900 real estate professionals in 67 offices, providing value-added, client-centric investment sales, leasing, advisory, management, financing and mortgage placement services to owners and occupiers of office, retail, industrial and multi-family properties.

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