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HOME PARKS | 14

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PREMIUM ACCESS | 18

FIRST NATIONS TAKE CHARGE IN VANCOUVER REAL ESTATE

A trio of First Nations have a lock on $5 billion worth of land in Vancouver and Burnaby and first dibs on Crown real estate released by government in most of Metro Vancouver

CONTENTS

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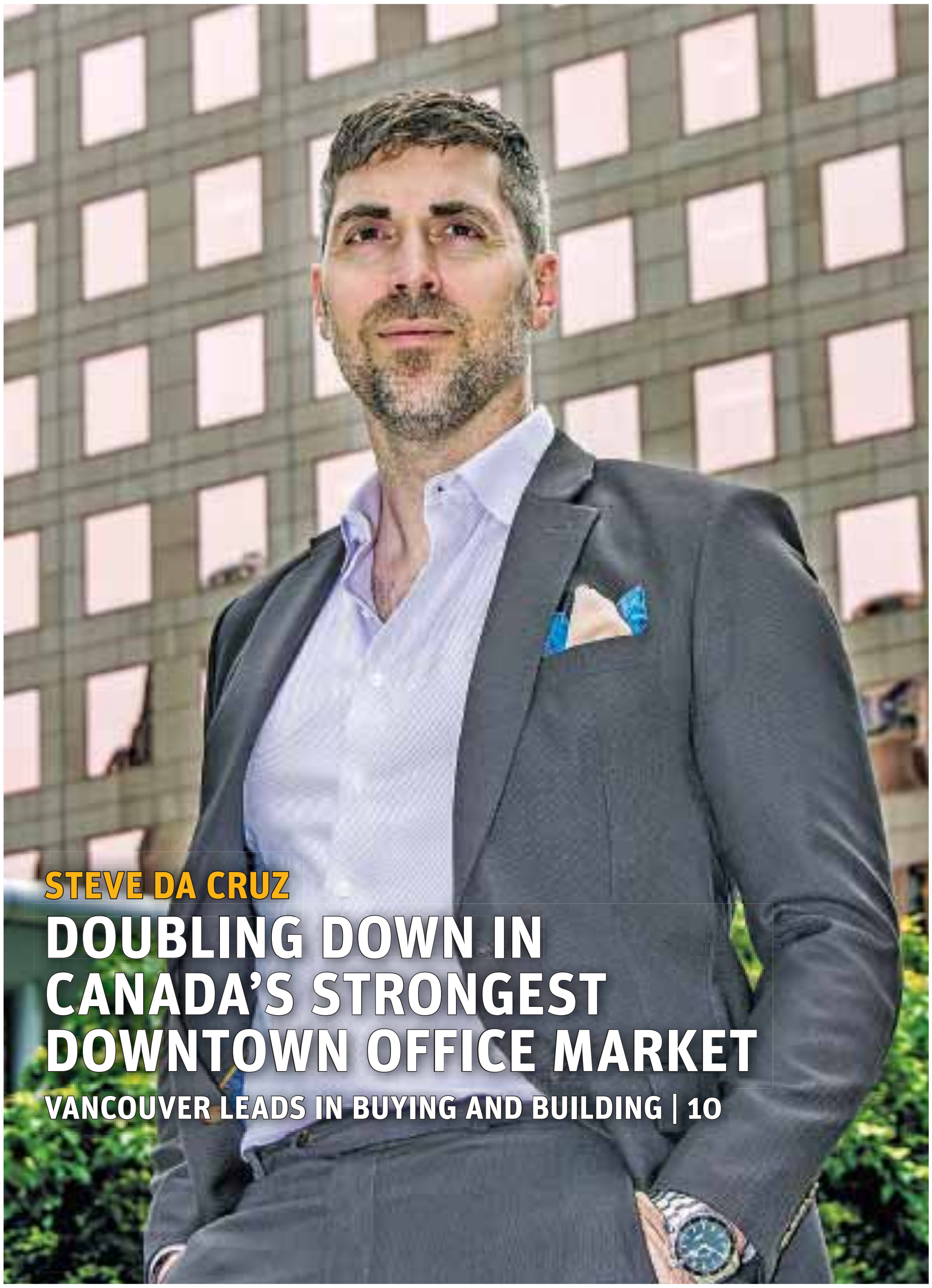

STEVE DA CRUZ

DOUBLING DOWN IN CANADA'S STRONGEST DOWNTOWN OFFICE MARKET

VANCOUVER LEADS IN BUYING AND BUILDING | 10

Vancouver office market seen as strongest in the country

COVER | Space commitments from major tenants hold steady, even expand, despite gathering headwinds

By PETER MITHAM
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Demand for downtown office space continues to lag in many parts of Canada but Vancouver is bucking the trend as the tech sector sets the pace for leasing activity.

"Vancouver's office market is the strongest in Canada at present," Re/Max Commercial reported in its annual commercial real estate report, released May 30.

Re/Max reported that Metro Vancouver vacancy rates are trending down, sitting at 9.6 per cent in the first quarter of 2022, compared to 10 per cent during the same period in 2021. Suburban markets – those outside the core, including the Broadway corridor, Richmond, Burnaby and Surrey – also saw strong demand, outpacing activity in other western Canadian markets.

But the downtown market is clearly where the action is. Vacancies are sitting between 6 and 8 per cent, said Steve Da Cruz, vice-president, land and investment sales, with Re/Max Commercial Advantage in Vancouver. This is exceptional, he said, especially given that downtown foot traffic, according to the Avison Young Vitality Index, remained just 43 per cent of pre-pandemic levels as of May 30.

This points to a post-pandemic shift in office life, with hybrid work arrangements requiring fewer people to return to the office on a daily basis and some companies finding that they can employ a larger number of people without increasing overhead costs.

"We can keep our footprint, and by having people use the office at different points in the week we may actually increase our workforce and keep our overhead the same," Da Cruz said some companies are telling him.

With hybrid work arrangements having the greatest traction in the tech sector, which accounts for half of overall office demand, Da Cruz said other companies may take action when reviewing their own space requirements, especially as downtown office vacancies tighten.

Many observers are calling out the potential for a shortage of space as demand picks up, given that no new office towers are scheduled to open after 2025. This has prompted Reliance Properties Ltd. and Hines to begin construction on 344,000 square feet at 1166 West Pender. Reliance is also planning a 440,000-square-foot tower at 601 West Pender.

While recent gyrations in the stock markets have made some companies cautious, Da Cruz again points to the significant commitment tech companies such as Amazon, Microsoft and a host of smaller players have made to the city.

Vancouver's downtown office vacancy rate is in the 7 per cent range and is considered "the strongest in Canada," according to a Re/Max Commercial report. | CHUNG CHOW

"All these Fortune 500 companies have doubled down and increased since the advent of COVID," he said. "If we're sitting in a 6 to 8 per cent balanced market territory in the office market, I would take that as renewed optimism."\

Office assets selling

The confidence is playing out in the investment market, too.

According to Altus Group, 47 office assets traded across Greater Vancouver in the first quarter, up from 35 a year earlier. Aggregate deal value totalled $290.6 million, up 15 per cent from a year ago.

The single largest transaction was 1185 West Georgia Street, a 165,855-square-foot office block that sold for $135 million on March 31. The runner-up was 3600 Lysander Lane, which traded for $43.9 million on February 15.

Steve Da Cruz, vice-president, Re/Max Commercial Advantage: tech companies have doubled down on space requirements since COVID-19. | CHUNG CHOW

More recently, Concert Properties' CREC Commercial Fund LP paid $112.5 million in May for a three-storey office building in Burnaby's Brentwood neighbourhood fully leased to the Provincial Health Services Authority. The price was the highest paid for a regional office property in the past year and reflects the site's strong fundamentals and future redevelopment potential.

The one damper on new investment is rising interest rates. Designed to rein in consumer spending, recent rate hikes also make commercial loans more expensive.

But strong investor appetite and a backlog of capital should mean investors will be focused on the assets themselves, which in the Vancouver market are hard to come by.

"Cap rates are holding across all sectors," reported Tony Quattrin, vice-chair of the national investment team with CBRE Ltd., in the brokerage's quarterly cap rate report at the end of April. "While there is little doubt that rising interest rates will eventually impact valuations, the significant backlog of capital currently earmarked for real estate will buoy demand through the balance of the year."

On the leasing front, Da Cruz doesn't see activity slowing down in the near term.

Pre-leasing activity is holding steady, and the major tech companies are sticking with their space commitments, he noted.

"There's just nothing to support that there is a trepidation," Da Cruz said. "Amazon isn't expanding because they're hopeful."■