

VICTORIA OFFICE

Economic Indicators

	Q3 17	Q3 18	12-Month Forecast
Victoria Employment	191k	197k	▲
Victoria Unemployment	4.6%	4.4%	▲
Canadian Unemployment	6.2%	6.0%	■

Economy

It is believed that the tight labour market is already restraining economic growth in several provinces this year. This is particularly true in British Columbia (BC) where one in every 24 jobs (4.2%) was vacant in the first quarter of 2018, which no doubt inhibits the ability of many businesses to pursue growth opportunities.

There are signs that BC employers are further challenged by accelerating wages (in part due to significant boosts to the minimum wage over the last year), although such pressure is more contained than what would be expected in the current circumstances. The absence of wage pressures in other provinces, as well as on a national level, is quite surprising. Still, it may just be a matter of time before faster wage growth emerges more broadly across the country.

Source: RBC Economics

Office rental rates are currently estimated as follows:

Class	Rates – Downtown	Rates – Suburban
Class AAA	\$29 - \$32 psf net	\$26 - \$29 psf net
Class A	\$23 - \$27 psf net	\$22 - \$26 psf net
Class B	\$18 - \$22 psf net	\$16 - \$22 psf net
Class C	\$14 - \$17 psf net	\$12 - \$16 psf net

Market Overview

The market continues to experience significant activity as it enters the final half of 2018. There is a notable squeeze on available quality office space, both in smaller format (ie. 1,000 to 4,000 square feet (sf) and larger full-floor vacancies. As there does not seem to be any strong interest from developers to build new office product, tenants will struggle for options as their businesses expand in Victoria's healthy economy. Good quality strata space is a popular solution for owner users looking to build equity for their businesses, rather than lease. Approximately 23,000 sf of office space was sold on Harbour Road, and a second building is being built by a law firm that will utilize the top floor for their own offices and lease out the remainder of the building.

There are a number of large-scale tenants renewing in the downtown core after exhaustive searches revealed few viable relocation options, or locations which lack enough 'up-side' to initiate a move. Despite the space crunch downtown, lease rates have experienced only modest increases. This may explain why developers may be reluctant to launch new office projects, as construction costs are significant and have rapidly escalated in this market.

The City of Victoria recorded historically low vacancy in the third quarter of 2018 at 7.2%, a 40 basis point semi-annual decrease. Notably, 1515 Douglas Street's arrival to the market created 80,000 sf of positive absorption with deals done at record high base rental rates in the mid-\$30 range. This property serves as a case for a market evolving towards private entities occupying top quality space. This appetite for quality is reflected by decreasing Class A vacancy rates across the city and significant absorption in the downtown core. In the areas surrounding the downtown core, vacancy significantly fluctuates between smaller submarkets. The Selkirk submarket recorded 0.7% vacancy compared to 22.48% in Midtown, indicating opportunities in select areas for tenants in an increasingly tight market.

Outlook

The office market in Victoria will continue to remain strong through 2019, as the booming economy is anticipated to continue. The tech community continues to grow and companies are expanding and emerging from co-working groups and incubators to lease or purchase their own office space. Amenity based businesses, paramedical, and professional services such as law, real estate, wealth management, and accounting will continue to compete for the most bright, superiorly located, best quality, move-in ready space. With a lack of supply slated for the downtown core, vacancy will continue to stay low until rental rates see an adjustment.

Key Lease Transactions Q3 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
2950 Jutland Road	11,000	BC Oil & Gas	Lease	Selkirk
300 & 400 – 645 Tyee Road	25,000	BC Government for Cannabis Regulation	Lease	Victoria West
Uptown Mall	25,000	Regus	Lease	Saanich
31 Bastion Square	8,000	Kixeye	Renewal	Downtown
2261 Keating Cross Road	6,500	CAMACC Systems	Renewal	Central Saanich
102 – 880 Douglas Street	4,300	Quartech Systems Ltd.	Lease	Downtown

Key Sale Transactions Q3 2018

PROPERTY	SF	Property Type	PRICE / \$PSF	SUBMARKET
818 Fort Street	16,740	Office Building	\$6,595,000 / \$394	Downtown
1124 Vancouver Street	4,182	Development	\$2,150,000 / \$514	Downtown
200 & 300 – 398 Harbour Road	13,600	Commercial Strata	\$4,650,000 / \$342	Victoria West
300 – 305 388 Harbour Road	5,134	Commercial Strata	\$1,537,500 / \$300	Victoria West
100 – 103 388 Harbour Road	4,300	Commercial Strata	\$1,487,000 / 346	Victoria West

Key Projects Under Construction

PROPERTY	SF	DEVELOPER / BUILDER	SUBMARKET	COMPLETION DATE (estimated)
Capital Park Phase 2 545 Superior Street	118,000	Jawl / Concert	Downtown	August 2019
376 Harbour Road	15,000	Owner / Occupier	Victoria West	December 2018
Esquimalt Town Centre	40,000	Aragon Properties	Esquimalt	2019

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