

YoY Chg 12-Mo. Forecast

9.3%

Overall Vacancy Rate



482K

EOY Net Absorption, SF



\$52.46

Asking Rent, PSF



(Direct Gross Rent, All Property Classes)

ECONOMIC INDICATORS Q4 2022

YoY Chg 12-Mo. Forecast

1.55M

Vancouver Employment



4.6%

Vancouver Unemployment Rate



5.0%

Canada Unemployment Rate



Source: Statistics Canada

ECONOMIC OVERVIEW

More recently, B.C. has exhibited stronger inflation patterns, is among the tightest labour markets in the country, which is contributing to wage growth, and substantial deterioration in the housing market and technology sector. Moreover, greater exposure of export markets to a slower Chinese economy may also have weighed on expectations. The latest data suggests more firms are looking to shed labour and pause hiring in coming months. A period of weaker activity is expected during the first half of 2023 as higher interest rates curb economic activity and revenue.

Source: Central 1

SUPPLY AND DEMAND

Downtown Vancouver's overall vacancy increased to 12.0% in the fourth quarter of 2022 from 9.4% last quarter. This increase was driven by the addition of newly built Vancouver Centre II - 66% of which was pre-leased with the balance remaining available and vacant - and was further fueled by a significant surge of sublease activity. For the first time in years, there are now numerous options of direct Class A & AAA space available in the Downtown Core (greater than 15,000 square feet (sf)). As projected earlier, it is expected overall downtown Vancouver vacancy will increase in 2023 due to new inventory coming online, staggered tenant occupancy and "shadow" vacancy (space left behind as tenants move to new premises). On the other hand, Broadway Corridor/Periphery and overall Suburban vacancy remained unchanged quarter-over-quarter (QOQ) at 7.0% and 7.3%, respectively.

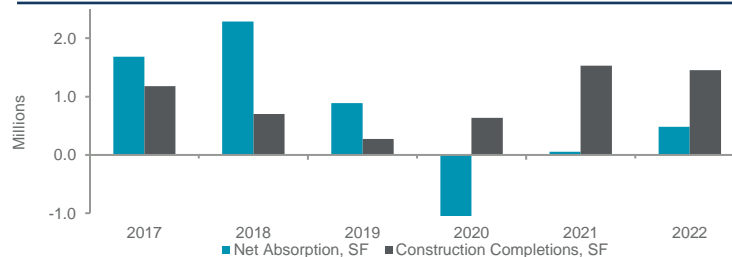
Following strong positive absorption in Downtown Vancouver in the third quarter, absorption decreased significantly this quarter, registering negative 365,957 sf. Increased sublease activity (at its highest point since mid-2021) and an overall slowdown in leasing activity (a 50% decrease QOQ) were the main drivers of this decreased absorption. The market was further impacted by a drop in tech industry demand which has represented 40% of the office leasing demand for the past 10 years. The Downtown market historically relies upon very few industries to produce new tenant demand with tech being one of the most significant. In addition, several tenant mandates/requirements have been put on hold due to ongoing economic uncertainty, both global and local, and a surprisingly persistent post-pandemic hybrid work model. On a positive note, several notable tenants leased space in the fourth quarter: Klei Entertainment (23,172 sf, expansion) at 855 Homer Street, Osler (35,732 sf) at Bentall IV and GeoComply (20,089 sf) at 545 Robson Street. In addition, throughout 2022 Vancouver's overall vacancy has remained the lowest in Canada further proving itself as a historically resilient market which benefits from a robust immigration policy, a favoured location on the Pacific Rim and stable provincial and local governments.

In contrast to Downtown Vancouver, the Broadway Corridor/Periphery and Suburban markets had positive 2022 absorption totals of 266,066 sf and 401,272 sf respectively. The more significant tenants were Fortinet (175,546 sf, expansion) at 2910 Virtual Way and BMO Bank of Montreal at Station Square (42,478 sf).

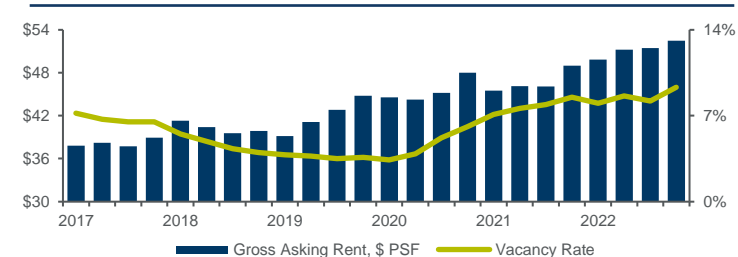
PRICING: Asking Rates Remain Resilient...

Following a long-standing pattern, the newly built VCII (Class AAA building) resulted in an increase in Downtown Core Class A & AAA average direct gross asking rates of 2.7% QOQ, climbing to \$70.32 per square foot (psf) in the fourth quarter. Going forward, increasing vacancy in the Downtown Core will likely put downward pressure on asking rates which thus far have been resilient. Competition from quality sublease opportunities may also impact rates. Broadway Corridor/Periphery asking rates remained flat QOQ, recording \$51.88 psf. Suburban markets saw a slight increase in asking rates by 1% to \$41.18 psf also mostly driven by the addition of higher quality inventory in Burnaby and Richmond.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & DIRECT GROSS ASKING RENT



SUPPLY PRESSURE: 2022 New Supply Near Record Levels

There was 617,152 sf of new construction completed this quarter in Metro Vancouver; the highest amount completed in any quarter this year. In 2022, 1.4 million square feet (msf) was completed, the third highest total of annual construction completions in the past 20 years, trailing behind 2015 (2.2 msf) and 2021 (1.5 msf). As expected, the Downtown Core had the highest 2022 completion total at 804,305 sf, followed by Broadway Corridor/Periphery with 265,741 sf and Richmond with 226,094 sf. The Downtown Core also has the highest amount of office space currently under construction, with 3 msf in the pipeline set to be delivered through 2026. In 2023, nearly 2 msf will be added to the Downtown Core, 85.5% of which is pre-leased/pre-sold.

In the suburban markets, City Centre 4 (332,446 sf, lease/strata) broke ground in Surrey this quarter, with an estimated delivery in early 2026. This will bring much needed office space to the tight Surrey market - currently at 5.4% vacancy. In the long term, the Surrey-Langley Skytrain extension will likely increase tenant demand in this area and put upward pressure on asking rates/pricing particularly at transit-oriented development projects.

SUPPLY PRESSURE: Downtown Core Sublease Availability Continues to Increase

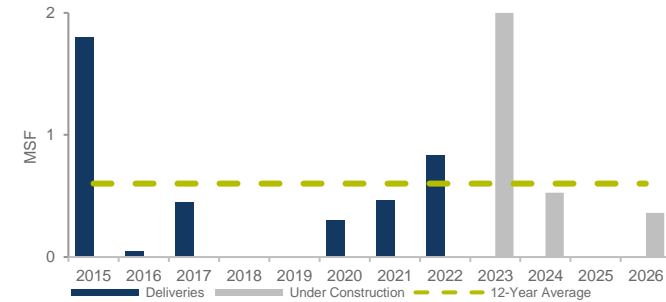
Following the steady decline in sublease activity in the Downtown Core from the second quarter of 2021 to the second quarter of 2022, a surge of sublease availabilities has been added to the market over the past two quarters. Over 930,000 sf of sublease space was added since the start of the third quarter of 2022. Class AAA buildings accounted for the highest proportion of added sublease space (492,000 sf), followed by Class A (215,000 sf), Class B (206,000 sf) and Class C (17,300 sf). In the fourth quarter, vacant sublease space in the Downtown Core represented 29% of all available and vacant space. Sublease supply is on the rise and is approaching levels observed during the early stages of the pandemic. During this current wave of increased sublease supply, the highest amount of sublease space is attributable to the tech industry, which is arguably more accommodating to the hybrid work model than other sectors. Some notable examples include SAP Canada (910 Mainland Street, 96,409 sf), Microsoft (725 Granville Street (47,771 sf), 375 Water Street (17,132 sf)) and Galvanize (980 Howe Street, 36,428 sf). Although sublease activity increased throughout Metro Vancouver in the fourth quarter, the Downtown Core accounted for 57% of the total vacant sublease space.

The highest amount of sublease space in the suburban markets is in Burnaby. However, sublease vacancy in Burnaby declined 40% QOQ, representing 26% of all available and vacant space in the Burnaby market. This decrease is due mainly to the previously available sublease spaces being absorbed - most significantly the HSBC's sublease at 2910 Virtual Way (direct lease to Fortinet) and Traction on Demand's sublease at 3292 Production Way (to Securiguard Services Ltd). Apart from Burnaby, other suburban markets are not recording as significant subleasing activity. The Vancouver rental and housing market remains cost prohibitive. Consequently, it is surmised that offices in suburban markets have become more attractive to tenants wanting to locate closer to where employees may reside. This may also contribute to the increasing subleasing supply in the Downtown Core due to the difficulty of attracting employees willing to make often long commutes from the suburban markets.

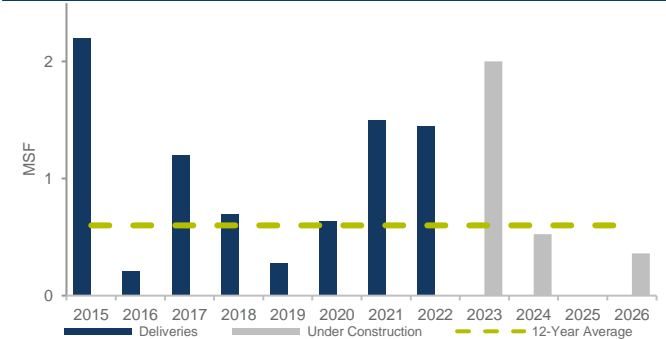
Outlook

- Following near record construction completions in 2022, 8.4 msf is under construction. Almost 60% of this incoming inventory is pre-leased/pre-sold; however, due to the current state of the market, it is uncertain whether these spaces will be occupied upon completion or will instead impact the sublease market.
- Amid a shift in office tenant demand, sublease vacancy is expected to continue rising as companies re-evaluate their real estate footprints.

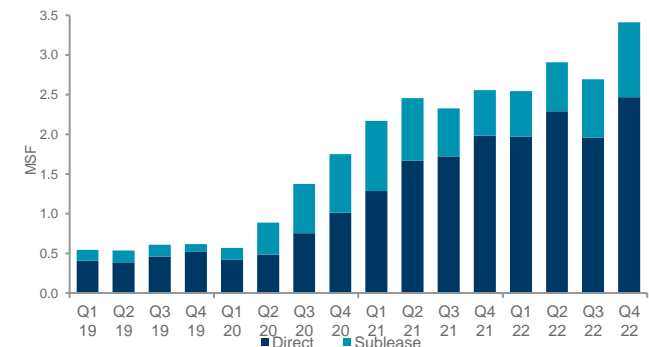
DOWNTOWN NEW SUPPLY



METRO VANCOUVER NEW SUPPLY



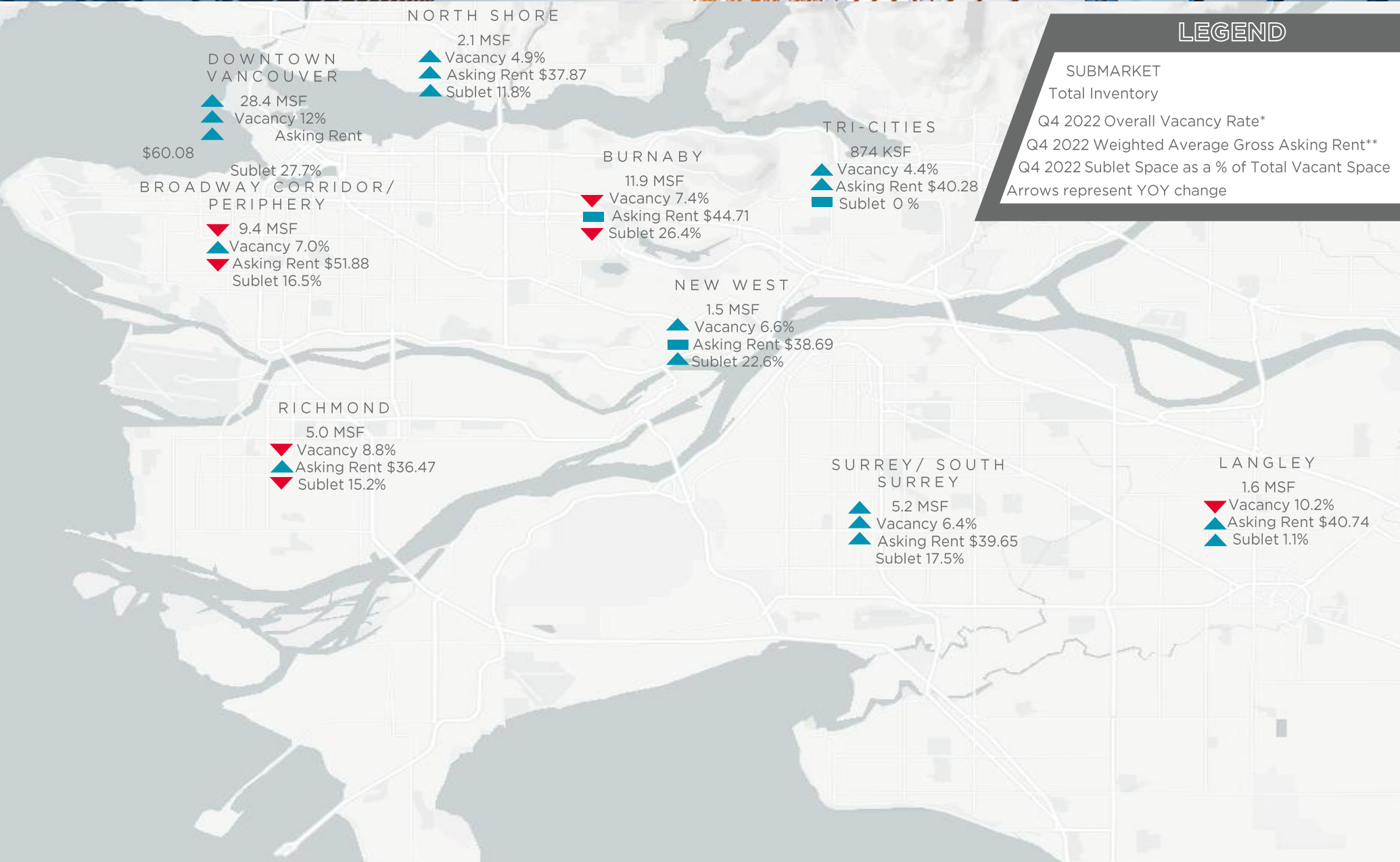
DOWNTOWN DIRECT VS. SUBLEASE SPACE AVAILABLE (VACANT)



VANCOUVER AREA



Office Q4 2022



LEGEND

SUBMARKET

- Total Inventory
- Q4 2022 Overall Vacancy Rate*
- Q4 2022 Weighted Average Gross Asking Rent**
- Q4 2022 Sublet Space as a % of Total Vacant Space
- Arrows represent YOY change

*Direct and sublease; includes leased but not yet occupied space

**Asking rental rates do not take into account tenant inducements; based on all available direct and vacant space

Office Q4 2022

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)*	UNDER CNSTR (SF)	AVG DIRECT GROSS ASKING RENT (ALL CLASSES)	AVG DIRECT GROSS ASKING RENT (CLASS A)
Downtown Core	24,159,343	825,376	2,042,529	11.9%	-266,033	-160,588	2,500,583	2,997,191	\$61.71	\$70.32
Yaletown	2,342,834	38,678	233,417	10.0%	-49,462	-14,283	223,273	0	\$54.53	\$64.00
Gastown/Railtown	1,848,873	78,629	227,754	16.6%	-50,462	-10,839	208,991	88,442	\$43.67	\$52.11
Downtown Vancouver	28,351,050	942,683	2,465,022	12.0%	-365,957	-185,710	2,932,847	3,085,633	\$60.08	\$69.00
Broadway Corridor	6,057,268	50,557	313,117	6.0%	-9,401	94,496	374,813	667,319	\$50.39	\$55.11
Mt. Pleasant	2,041,445	28,492	205,293	11.5%	607	115,743	328,020	716,980	\$58.96	\$62.33
False Creek Flats	1,346,711	30,221	36,422	4.9%	77,677	55,827	122,169	1,141,719	\$42.01	N/A
Broadway Corr./Vancouver Periphery	9,445,424	109,270	554,832	7.0%	68,883	266,066	825,002	2,526,018	\$51.88	\$57.24
Burnaby	11,907,586	232,548	649,384	7.4%	61,448	115,175	652,771	1,458,118	\$44.71	\$46.62
Richmond	5,042,955	67,271	376,461	8.8%	118,120	230,134	476,131	518,375	\$36.47	\$35.76
North Shore	2,090,889	12,087	90,591	4.9%	17,360	-21,507	112,035	31,700	\$37.87	\$40.92
New Westminister	1,551,896	23,023	78,965	6.6%	-13,369	-34,070	61,810	134,527	\$38.69	\$39.44
Langley	1,627,907	1,829	164,069	10.2%	-69	48,301	58,526	291,307	\$40.74	\$41.87
Surrey	3,777,859	47,094	158,354	5.4%	-7,931	12,827	111,200	332,446	\$39.44	\$45.53
South Surrey	1,465,117	11,698	119,576	9.0%	-41,494	61,708	89,533	0	\$38.23	\$38.22
Surrey/South Surrey	5,242,976	58,792	277,930	6.4%	-49,425	74,535	200,733	332,446	\$39.65	\$41.85
Tri Cities	874,339	0	38,114	4.4%	-14,250	-11,296	50,839	54,995	\$40.28	\$43.37
METRO VANCOUVER	66,135,022	1,447,503	4,695,368	9.3%	-177,259	481,628	5,370,694	8,433,119	\$52.46	\$57.63

*Renewals not included in leasing statistics

KEY LEASE TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	TENANT	LEASED SF	TYPE
2910 Virtual Way	Burnaby	Fortinet	175,546	Headlease
400 West Georgia	Downtown Core	Spaces/Regus	75,000	Headlease
6023 Silver Drive	Burnaby	Bank of Montreal	42,478	Headlease
855 Homer Street	Yaletown	Klei Entertainment Inc (expansion)	23,172	Headlease
501-545 Robson Street	Downtown Core	Geocomply Global Inc	20,892	Sublease
11 Eighth Street	New Westminister	Evolution Malta Ltd	16,240	Renewal
1055 West Hastings Street	Downtown Core	Skeena Resources Ltd	12,396	Sublease

KEY SALES TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/ \$ PSF
301-309 6 th Street	New Westminister	366008 B.C Ltd / 5185666 Investments Ltd.	34,600	\$22.0M / \$637
95 Schooner Street	Tri Cities	Great Canadian Gaming Corporation / Aspen Enterprises	16,616	\$10.2M / \$617

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