

VICTORIA OFFICE

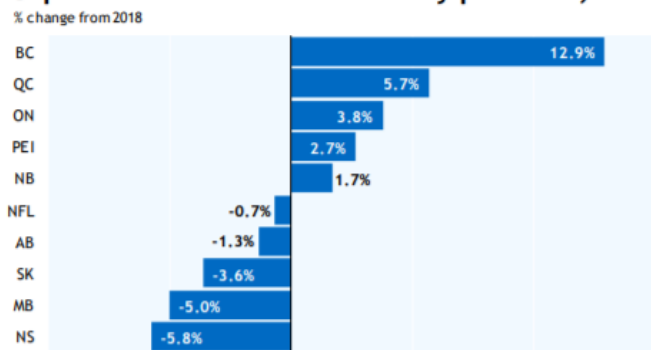
Economic Indicators

	Q1 18	Q1 19	12-Month Forecast
Victoria Employment	192k	189k	▲
Victoria Unemployment	4.4%	3.2%	▲
Canadian Unemployment	5.8%	5.8%	■

Economy

The prolonged correction in British Columbia’s housing sector continued through the latter part of 2018. Home sales fell almost 25% in 2018, and signs do not yet point to the end of the correction. While the economy is moving away from relying on the housing market to support growth, the LNG Canada project provides good reason for residents to feel optimistic. Nowhere else in Canada will see as big a capital spending boost this year as B.C., where expenditures will rise 12.9%. It is projected the province will see real GDP growth of 2.5% in 2019 and 2020.

Capital investment intentions by province, 2019



Source: RBC Economics

Office rental rates are currently estimated as follows:

Class	Rates – Downtown	Rates – Suburban
Class AAA	\$30 - \$35 psf net	\$26 - \$29 psf net
Class A	\$24 - \$29 psf net	\$22 - \$26 psf net
Class B	\$18 - \$23 psf net	\$16 - \$22 psf net
Class C	\$14 - \$17 psf net	\$12 - \$16 psf net

Market Overview

The office market in the Capital Region will remain a landlord’s market through the first half of 2019; the result of strong demand for space combined with limited supply. Large scale tenants in technology, finance, and accounting have focused on early lease renewals to take advantage of lease rates now before they trend higher. Coworking tenants are having a significant impact on occupancy levels, with Spaces/Regus opening two locations this quarter for a combined square footage of 38,500 square feet (sf), and local operator Klub Kwench planning to open a 25,000-sf facility in a re-purposed warehouse in Victoria’s design district. This model has traction as tenants, particularly from Victoria’s strong technology sector, look for flexible ‘plug and play’ solutions that will suit their evolving requirements for space.

Victoria’s office market vacancy continued its downward trend in the first quarter of 2019, marking a 123-basis point year-over-year decrease to 6.4%. Growing private sector demand has facilitated the absorption of new Class AAA inventory, indicating a market shift away from public sector dominance. This shift has brought the Downtown Core into a strong landlord’s market with vacancy sitting at 6.2%; placing upward pressure on lease rates in Class A and AAA inventory where vacancy remains the lowest at 2.8%. Downtown Class B and C buildings had vacancy at 7.5% and 9.2% respectively with a combined net absorption of 35,274 sf; resulting in tenants who have historically experienced leeway in these markets suddenly facing fewer options. Downtown market factors have pushed some demand into the Suburban market, resulting in a decrease in vacancy to 6.8%. This number may be somewhat skewed due to the removal of two buildings’ availability in advance of redevelopment.

Outlook

Victoria’s office market will remain strong through 2019. The lack of incoming inventory, combined with stable forecasted demand, will sustain a landlord’s market. Nowhere will this be felt stronger than downtown, where landlords will continue to benefit from increased rent expectations in both Class A and AAA assets. With little office inventory under construction, vacancy is expected to decline; rental rate appreciation will cause vacancy to stabilize within two years. Moving forward, tenants in the market for high quality or large block space may be faced with limited options and will have to consider alternative options.

# MARKETBEAT

## Victoria, BC

Office Q1 2019



### Key Lease Transactions Q1 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
545 Superior Street	58,000	Provincial Government	Lease	James Bay
535 Yates Street	13,000	Regus	Lease	Downtown
4420 Chatterton Way	10,000	Unit 4 Business Systems	Renewal	Saanich
711 Broughton Street	5,000	Ministry of Attorney General	Sub-Lease	Downtown
747 Fort Street	5,000	Vancouver Coastal Health Authority	Lease	Downtown

### Key Sale Transactions Q1 2019

PROPERTY	SF	Type	PRICE / \$PSF	SUBMARKET
910 Government Street	164,974	Office Building	\$60,000,000 / \$364	Downtown
850 Douglas Street	64,606	Office Building	\$23,600,000 / \$365	Downtown
914 Yates Street	26,822	Office Building	\$8,300,000 / \$309	Downtown
990 Fort Street	14,239	Office Building	\$3,850,000 / \$270	Downtown

### 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
Victoria Press Building 2621 Douglas Street	88,200	Merchant House Capital	Saanich	2020
Esquimalt Town Square	40,000	Aragon Properties	Esquimalt	2019

Cushman & Wakefield  
340 – 730 View Street  
Victoria, B.C. V8W 3Y7  
[cushmanwakefield.com](http://cushmanwakefield.com)

For more information, contact:  
Cordell Lloyd  
Research Analyst  
Tel: 250 410 3011  
[Cordell.Lloyd@cushwake.com](mailto:Cordell.Lloyd@cushwake.com)

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