

Vancouver Office, Q1 2016

Demand from technology tenants triples in the last three years

 Vacancy Rate
11.6%

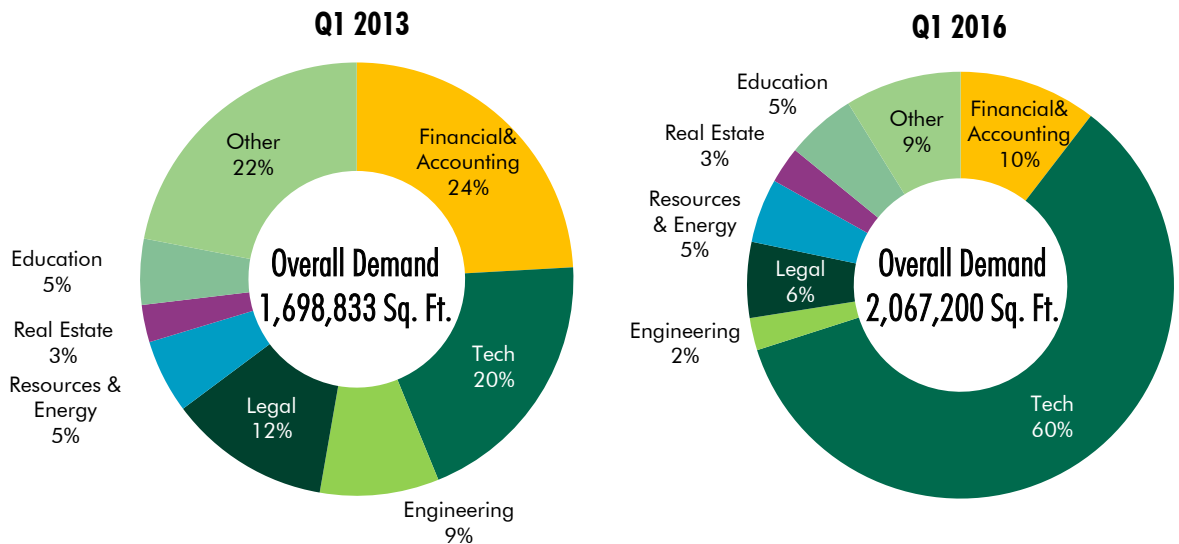
 New Supply
433,628 Sq. Ft.

 Net Absorption
147,925 Sq. Ft.

 Under Construction
1.2M Sq.Ft.

*Arrows indicate change from previous quarter.

Figure 1: Metro Vancouver Tenants in the Market (by industry type) Q1 2013 vs Q1 2016



Source: CBRE Research, Q1 2016.

METRO VANCOUVER

- Marine Gateway and Renfrew Centre completed construction with Westport to occupy 47% of Marine Gateway in Q3 2016
- ACL occupied 64,000 sq.ft. in 980 Howe Street while their previous premises at 1550 Alberni are slated for redevelopment
- The 1.7 million sq.ft. of new construction completed in 2015 for Downtown Vancouver currently sits at 88% leased
- AAA Class tower, Royal Centre was purchased by Kuehne Real Estate Canada Ltd. from Brookfield Properties

The Metro Vancouver downtown office market began 2016 with positive net absorption, which was partially offset by negative absorption in the suburban markets.

Technology tenants continue to lead the market in pursuit of office space in Metro Vancouver, currently contributing 60% of the tenant demand, while traditional users such as engineering, mining and professional services have scaled back their footprints.

Rising construction costs across the region and increased building permit timelines have also resulted in tenants leaning towards improved spaces over shell condition, and are being advised to begin their pursuit of space well ahead of their lease expiries.

DOWNTOWN VANCOUVER

In Q1 2016, the Downtown Vancouver office market witnessed a substantial drop in the vacancy rate from 10% to 8.8%, accompanied by 267,172 sq.ft. of net positive absorption. Occupancy growth was driven primarily by large tenants relocating to new supply including a large technology user occupying 143,000 sq.ft. in 725 Granville and ACL moving into the top four floors (64,000 sq.ft.) at 980 Howe. The occupancies of these two tenants alone accounted for 77% of the overall net absorption in Downtown Vancouver.

In 2015, 1.7 million sq.ft. of new supply was added to the downtown inventory. Demand for new office buildings continues as Mobify leased 25,000 sq.ft. in 725 Granville and Elastic Path subleased 17,560 sq.ft. from SNC Lavalin in 745 Thurlow. These deals bring the overall occupancy level of the 2015 new supply to an impressive 88%. Other significant leasing activities for Downtown Vancouver included McElhanney leasing 39,811 sq.ft. at 858 Beatty Street; a relocation and expansion from their previous Yaletown location and Abbarch Architecture leasing 8,379 sq.ft. in Bentall One. Both Class B and C vacancy rates decreased as First Nations Health Authority occupied 10,000 sq.ft. at 1166 Alberni, and Brenhill Development leased 7,136 sq.ft. at 1148-1150 Homer.

In Q1 2016, Royal Centre (1055 West Georgia) was purchased by Kuehne Real Estate Canada Ltd. for \$427.5 million.

The Class AAA, 433,000 sq.ft. office building, formerly owned by Brookfield Properties, is situated next to the Burrard Skytrain Station making it one of the prime locations in Downtown Vancouver.

SUBURBAN

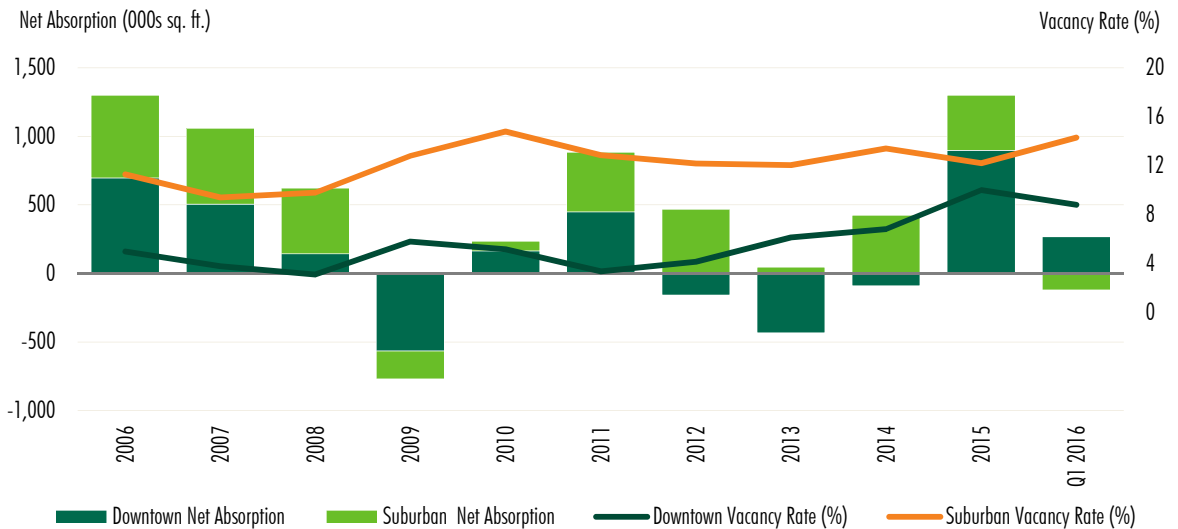
Suburban Vancouver started 2016 with 119,247 sq.ft. of negative absorption and an increase in the vacancy rate from 12.2% to 14.3% quarter over quarter.

Four out of the six suburban markets experienced positive net absorption with Broadway Corridor and Richmond leading the way, while Burnaby and Surrey both experienced negative absorption.

The Burnaby market continues to surpass Richmond in vacancy rate due to the influx of new space being built in Burnaby in recent years. We expect this trend to continue with the completion of future construction projects such as SOLO District (230,000 sq.ft.), which is slated for completion later this year in Burnaby, whereas no new construction is expected in Richmond.

Looking forward, the vacancies in the suburban markets are projected to continue rising with the anticipated completion of SOLO District (230,000 sq.ft.) in North Burnaby and Gateway Place (56,000 sq.ft) in Surrey. Overall, both buildings are less than 10% pre-leased as of this report.

Figure 2: Metro Vancouver Supply & Demand



Source: CBRE Research, Q1 2016.

BROADWAY CORRIDOR

The Broadway market continues to experience high demand and low supply. The vacancy rate edged up 30 basis points to 3.7% due to the redevelopment of the Alpha Building (106-112 East 6th Avenue), which added 22,300 sq.ft. in available space. We continue to see increased demand from office tenants, primarily tech firms for this market, which has led to an increase in rezoning and redevelopment of real estate in the area.

Several new projects have started construction such as 1541 West Broadway (24,000 sq. ft.) and the Lightworks Building (54,000 sq.ft.) at 22 East 5th Avenue. 565 Great Northern Way (160,000 sq.ft.) is now under construction and is 56% pre-leased and projected to be completed in 2018. Additionally, the first phase of the Westbank site located in the thriving Mount Pleasant area is planned to be transformed into 160,000 sq.ft. of office space slated for completion in 2019.

Although Broadway has traditionally been popular with the public sector, and health related users, technology tenants are also showing high interest in the Mount Pleasant neighborhood. For example Rovio Animation subleased 7,400 sq.ft. in City Square (555 West 12th Avenue), Aquinox Pharmaceuticals renewed and expanded their lease for 10,946 sq.ft. in 887 Great Northern Way, and Zymeworks leased 10,567 sq.ft. in 1770 West 7th Avenue.

BURNABY

With 98,144 sq.ft. of negative absorption, the vacancy rate in Burnaby increased from 14.0% to 16.8%. Contributing to this spike in vacancy was the fully vacant Renfrew Centre (161,611 sq.ft.). Although the building is located adjacent to Renfrew skytrain station and the highly successful Broadway Tech Centre, it has yet to attract a pre-lease tenant.

The majority of activity in the Burnaby market occurred in Class AAA and A, specifically in the Metrotowers and Willingdon Park. Notable transactions included Worley Parsons renewing 41,500 sq.ft. at 4321 Still Creek Drive, Konica Minolta leasing 17,382 sq.ft. at 4401 Still Creek Drive, and Infoblox leasing 10,947 sq.ft. at Metrotower I.

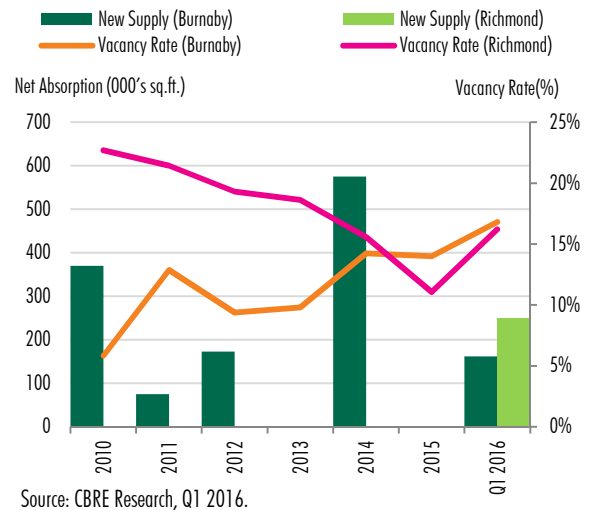
The Burnaby market will experience significant positive absorption of space towards the end of 2016 or early 2017 when Metro Vancouver occupies their new space in Metrotower III. The relocation is may result in pure occupancy growth for the Burnaby market as Metro Vancouver finalizes their plans for their existing premises.

RICHMOND

The Richmond market added new supply to its inventory for the first time since Q4 2008. Construction at Marine Gateway (249,817 sq.ft.) was completed with Westport slated to occupy nearly half the building, although 60,000 sq.ft. of their new space is available for sublease.

The vacancy rates within Airport Executive Park and No.3 Road Corridor submarkets remain low at 5.8% and 6.6% respectively whereas, majority of vacancy lies in the Crestwood business park at 21.4% vacant, featuring several large blocks of space. Tenants were focused on leasing space in quality Class AAA and A buildings. For example, Clevest Solutions occupied 27,342 sq.ft. at 13700 International Place, and GLG Life Tech leased 7,760 sq.ft. at 10271 Shellbridge Way. The Class B and C markets, representing only a small portion of the Richmond inventory remained stable.

Figure 3: Burnaby Vacancy Rate vs Richmond Vacancy Rate



NORTH SHORE

The vacancy rate in the North Shore fell 20 bps to 6.7% with 4,227 sq.ft. of positive net absorption. With less than 115,000 sq.ft. of total available space, options continue to be limited for tenants looking for large blocks of space. The completion of 1308 Lonsdale by Onni Group in 2017 will add 79,000 sq.ft. of Class A office space, and will hopefully help alleviate the supply bottleneck. In the face of low vacancy, average net rental rates have slowly crept up, increasing 7% in the last year.

NEW WESTMINSTER

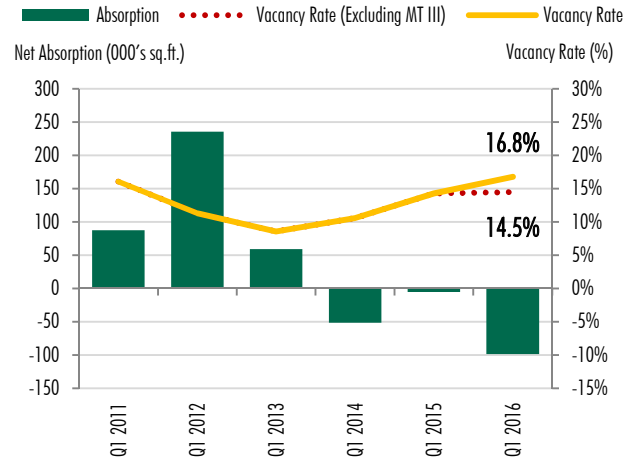
With 2,945 sq.ft. of positive net absorption, the vacancy rate in New Westminister for Q1 2016 decreased by 20 bps from 16.3% to 16.1%. The Anvil Centre (11 Eight Avenue) continues to impact the vacancy statistics, accounting for over 50% of vacant space in this market. The remaining office buildings in the New Westminister market sits at a healthy 7.5% vacancy rate in Q1 2016.

SURREY

In Q1 2016, the vacancy climbed 210 bps from 22.6% to 24.7% with 61,610 sq.ft. of negative absorption. The majority of negative absorpoin occurred from Coast Capital vacating 44,000 sq.ft. at 15117 101st Avenue Centre as they consolidated multiple premises into their new headquarters (the Hub @ King George Station). Construction of office product along the Skytrain line continues with Gateway Place (56,000 sq.ft.) slated for

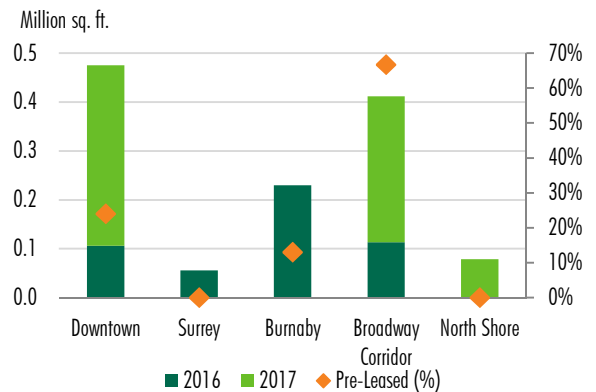
completion next quarter. Average net asking rates have increased 3 percent in the last year. The largest transaction of the quarter was S.U.C.C.E.S.S leasing 10,792 sq.ft. at 15117 101st Avenue.

Figure 4: Burnaby Vacancy Rate (With & Without Metrotower III)



Source: CBRE Research, Q1 2016.

Figure 5: Metro Vancouver Construction (by expected year of completion)



Source: CBRE Research, Q1 2016.

Figure 6: Q1 2016 Significant Transactions

Size (SF)	Tenant	Address	Submarket	Tenant Industry	Deal type
105,000	Pricewaterhouse Cooper	250 Howe Street	Downtown	Accounting	Direct
39,811	McElhanney	858 Beatty Street	Downtown	Engineering	Direct
25,494	Mobify	725 Granville Street	Downtown	Tech	Direct
17,382	Konica Minolta	4401 Still Creek Drive	Burnaby	Engineering	Direct
13,689	Fortinet	4190 Still Creek Drive	Burnaby	Tech	Direct
10,947	Infoblox	4170 Kingsway	Burnaby	Tech	Direct
10,871	Vancouver Coastal Health	1867 West Broadway	Broadway	Government	Direct
10,792	S.U.C.C.E.S.S	15117 101 st Avenue	Surrey	Social Services	Direct
10,567	Zymeworks	1770 West 7 th Avenue	Broadway	Biotechnology	Direct
9,144	Neil Squire Society	3999 Henning Drive	Burnaby	Association	Direct

Source: CBRE Research, Q1 2016.

Figure 7: Market Statistics

Submarket	Class	Total Buildings	Inventory (sq. ft.)	Vacancy Rate (%)	Q1 2016 Net Absorption (sq. ft.)	YTD 2016 Net Absorption (sq. ft.)	Q1 2016 Gross Leasing (sq. ft.)	Q1 2016 New Supply (sq. ft.)	Net Asking Rent (\$ per sq. ft.)	Additional Rate (\$ per sq. ft.)
Downtown Vancouver	AAA	13	5,234,348	10.3	134,747	134,747	152,644	-	34.53	20.67
	A	32	6,681,425	8.9	71,229	71,229	130,795	-	31.50	20.77
	B	64	7,768,813	8.2	56,228	56,228	134,497	-	26.42	19.00
	C	66	3,907,883	8.2	4,968	4,968	46,513	-	19.83	15.75
	TOTAL	175	23,592,419	8.8	267,172	267,172	464,449	-	27.96	19.16
Broadway Corridor	AAA	5	547,750	3.3	-4,673	-4,673	7,400	-	25.00	21.92
	A	21	1,373,151	1.7	-9,631	-9,631	0	-	28.76	17.85
	B	31	1,718,377	5.4	18,460	18,460	35,616	22,300	25.53	13.25
	C	37	826,286	3.7	4,179	4,179	9,081	-	20.22	13.23
	TOTAL	94	4,465,564	3.7	8,335	8,335	52,097	-	24.94	14.86
Burnaby	AAA	17	2,983,846	19.8	21,887	21,887	22,053	-	25.06	16.01
	A	36	3,333,530	16.8	-72,763	-72,763	23,217	161,611	23.06	14.20
	B	33	1,922,011	11.7	-8,714	-8,714	14,680	-	16.00	13.89
	C	10	311,474	18.7	-38,524	-38,524	1,031	-	15.06	9.85
	TOTAL	96	8,550,861	16.8	-98,114	-98,114	60,981	-	21.73	14.52
Richmond	AAA	21	1,702,060	24.2	28,712	28,712	41,124	249,817	24.46	13.25
	A	23	1,386,054	10.8	-7,164	-7,164	17,133	-	12.91	8.43
	B	19	526,886	1.0	2,918	2,918	9,137	-	13.32	12.16
	C	7	199,849	26.0	504	504	2,560	-	13.98	6.74
	TOTAL	70	3,814,849	16.2	24,970	24,970	69,954	-	19.95	11.15
North Shore	A	12	727,462	6.4	-2,891	-2,891	7,367	-	23.50	14.93
	B	17	752,877	7.4	7,118	7,118	16,038	-	19.19	11.02
	C	11	236,929	5.2	0	0	0	-	15.85	13.68
	TOTAL	40	1,717,268	6.7	4,227	4,227	23,405	-	20.08	12.57
Surrey	A	14	1,811,620	28.1	-9,727	-9,727	1,894	-	23.89	10.72
	B	21	807,730	24.5	-49,621	-49,621	1,409	-	15.55	11.40
	C	14	288,403	4.2	-2,262	-2,262	0	-	16.20	10.14
	TOTAL	49	2,907,753	24.7	-61,610	-61,610	3,303	-	21.18	10.92
New Westminster	A	7	600,622	28.8	5,876	5,876	8,012	-	24.82	13.41
	B	13	589,296	6.6	-3,889	-3,889	0	-	14.74	13.04
	C	10	275,766	8.9	958	958	958	-	12.49	9.69
	TOTAL	30	1,465,684	16.1	2,945	2,945	8,970	-	21.92	12.98
Suburban	AAA	43	5,233,656	19.5	45,926	45,926	70,577	249,817	24.83	15.09
	A	113	9,232,439	15.8	-96,300	-96,300	57,623	161,611	22.63	12.23
	B	134	6,317,177	9.8	-33,728	-33,728	76,880	22,300	17.46	12.67
	C	89	2,138,707	8.9	-35,145	-35,145	13,630	-	15.39	9.79
	TOTAL	379	22,921,979	14.3	-119,247	-119,247	218,710	433,728	21.57	12.97
Metro Vancouver	AAA	56	10,468,004	14.9	180,673	180,673	223,221	249,817	27.79	16.79
	A	145	15,913,864	12.9	-25,071	-25,071	188,418	161,611	25.27	14.77
	B	198	14,085,990	8.9	22,500	22,500	211,377	22,300	21.93	15.83
	C	155	6,046,540	8.5	-30,177	-30,177	60,143	-	18.08	13.40
	TOTAL	554	46,514,398	11.6	147,925	147,925	683,159	433,728	23.99	15.32

Source: CBRE Research, Q1 2016.



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