

**From:** "Mochrie, Paul" <Paul.Mochrie@vancouver.ca>

**To:** "Direct to Mayor and Council - DL"

**Date:** 5/3/2023 10:48:03 AM

**Subject:** Vancouver Office Market Conditions - Q1 2023

**Attachments:** Memo to Mayor & Council - Vancouver Office Market Q1 2023.pdf

---

Dear Mayor and Council,

Please find enclosed a memo from Theresa O'Donnell containing information and statistics on the City's office market, as of Q1 2023. The memo includes:

- Statistics relating to the city's office vacancy rate, which currently sits at a healthy 8.4% as of Q1 2023, up from 1.4% in Q1 2020
- Between Q1 2020 and Q1 2023, 2,446,975 ft<sup>2</sup> (7% of 33.8 million ft<sup>2</sup>) of the current office supply was added.
- There is currently about 3 million ft<sup>2</sup> of office space under construction in Downtown Vancouver.
- The notable increase in current supply and vacancy rates follows the completion of significant office developments, rising interest rates and a more-defined work-from-home culture
- There is also currently over 8.7 million sq.ft. of job space in active rezoning enquiries and applications, City wide.
- The memo also includes information on current office lease rates in the downtown as well as information on the demand pressures and opportunities, including from the tech industry

Should you have any questions, please don't hesitate to contact Theresa O'Donnell directly.

Best,  
Paul

**Paul Mochrie** (he/him)  
City Manager  
City of Vancouver  
[paul.mochrie@vancouver.ca](mailto:paul.mochrie@vancouver.ca)



The City of Vancouver acknowledges that it is situated on the unceded traditional territories of the x<sup>w</sup>məθk<sup>w</sup>əyəm (Musqueam), Skwxwú7mesh (Squamish), and səliłwətał (Tsleil-Waututh) Nations.

## MEMORANDUM

May 1, 2023

TO: Mayor and Council

CC: Paul Mochrie, City Manager  
Armin Amrolia, Deputy City Manager  
Karen Levitt, Deputy City Manager  
Maria Pontikis, Chief Communications Officer, CEC  
Rosemary Hagiwara, Acting City Clerk  
Teresa Jong, Administration Services Manager, City Manager's Office  
Mellisa Morphy, Acting Chief of Staff, Mayor's Office  
Trevor Ford, Director of Operations, Mayor's Office

FROM: Theresa O'Donnell  
General Manager, Planning, Urban Design and Sustainability

SUBJECT: Vancouver Office Market Conditions – Q1 2023 (City-wide & Regional Planning - Economic Development Planning)

RTS #: N/A

---

### **Purpose and Overview:**

Staff in PDS continue to monitor conditions in Vancouver's office market. This memo provides Council with an update on current conditions and long term outlook in Q1 2023.

### **The Vancouver Office Market is currently in a Healthy Position**

- Downtown Vancouver's office market is shifting from a record low vacancy of 1.4% in Q1 2020 to a healthier 8.4% in Q1 2023. Office vacancy downtown remains the lowest of North America's metro cores. Downtown Toronto's vacancy rate currently sits at 9.1%, San Francisco, Edmonton and Austin are at 20%, and Calgary is currently facing a 30% vacancy rate.
- The notable increase in current supply and vacancy rates follows the completion of significant office developments, rising interest rates and a more-defined work-from-home culture.
- Between Q1 2020 (record low vacancy rate) and Q1 2023, 2,446,975 ft<sup>2</sup> (7%) of the current office supply (33.8 million ft<sup>2</sup>) was added. Recent office developments include The Stack at 1133 Melville Street (532,000 ft<sup>2</sup>), and Bentall 6 at 1090 W Pender Street (534,000 ft<sup>2</sup>).

- The net absorption of occupied office supply for Q1 2023 was approximately +399,808, indicating that there was 399,808 square feet more office occupied in Q1 2023 than Q4 2022. The significant supply added in the central business district demonstrates continued demand for office space in the area and the need to continue to reserve development sites for office construction.
- The Central Business District (CBD) represents only 13% of the downtown peninsula, a very small portion where land use policy restricts residential development and stand-alone office continues to be viable.
- Office rental rates in Downtown Vancouver have increased slightly since the start of the pandemic (\$39.91 / ft<sup>2</sup> in Q1 2023 vs. \$36.75 / ft<sup>2</sup> in Q1 2020 (+9%)). Office rents in Vancouver are competitive compared to other major technology hub cities in North America.
- There is currently about 3 million ft<sup>2</sup> of office space under construction in Downtown Vancouver and there is over 8.7 million sq. ft. of job space in active rezoning enquiries and applications City wide.
- Staff expect applications for new office space to continue as development and design firms look to maintain a pipeline of projects through the City review process. However, in the current high cost and interest rate environment, recently approved projects may take longer to proceed to construction.

### **The Demand for Office Space in Vancouver is expected to Continue over the Long Term**

- As hybrid work gains traction, a complete return to traditional in-office working arrangements is unlikely. However, when taking into account all industries, 91% of the workforce expects to be working on-site (at their place of work) in some capacity during Q2 of 2023.
- There is growing demand for modern office spaces constructed after 2015. These offices typically offer enhanced space and amenities, including outdoor access, communal meeting rooms, child care facilities, gym space, end-of-trip cycling amenities, and conveniences such as on-site parking and electric vehicle charging stations. In Vancouver, these types of buildings are mostly located in the downtown core.
- The technology industry in Vancouver has been experiencing significant growth in recent years and is poised to continue this trajectory. The tech sector currently represents 30% of current leasing demand. Technology employers in Vancouver enjoy high labour productivity, comparatively lower salary costs and commercial rental rates, a strong talent pool due to the region's tech education system, and diversity in the industry because of Canada's relatively open immigration system.



Theresa O'Donnell  
 General Manager, Planning, Urban Design and Sustainability  
 604.673.8434 | [theresa.o.donnell@vancouver.ca](mailto:theresa.o.donnell@vancouver.ca)

# APPENDIX: Vancouver’s Office Market in Detail

## Historical Data, Current State and Outlook

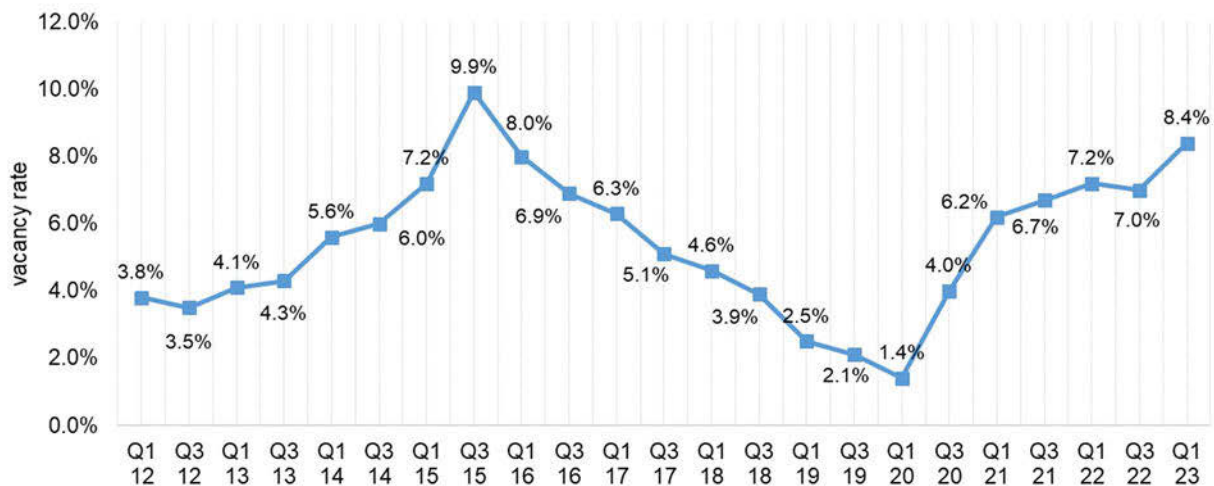
### Contents:

- Downtown Vancouver Vacancy Rate ..... 1
- Downtown Vancouver Availability Rate ..... 2
- Vancouver Development Pipeline ..... 3
- Hybrid Work Patterns ..... 4
- Vancouver's Thriving Tech Industry: A Hub of Talent and Innovation ..... 6
- Comparison of Office Rents ..... 7
- Notes ..... 7

### Downtown Vancouver Vacancy Rate

The Q1 2023 Downtown Vancouver office vacancy rate of 8.4% marked no change from Q4 2022. Year over year, the Downtown Vancouver vacancy rate is up 1.2% compared to the Q1 2022 vacancy rate of 7.2% and up 2.2% compared to the Q1 2021 vacancy rate of 6.2%. The vacancy rate is still below the peak observed of 9.9% observed in 2015 (see Figure 1).

Figure 1: Downtown Vancouver Office Vacancy Rate (Q1 2012 – Q1 2023)

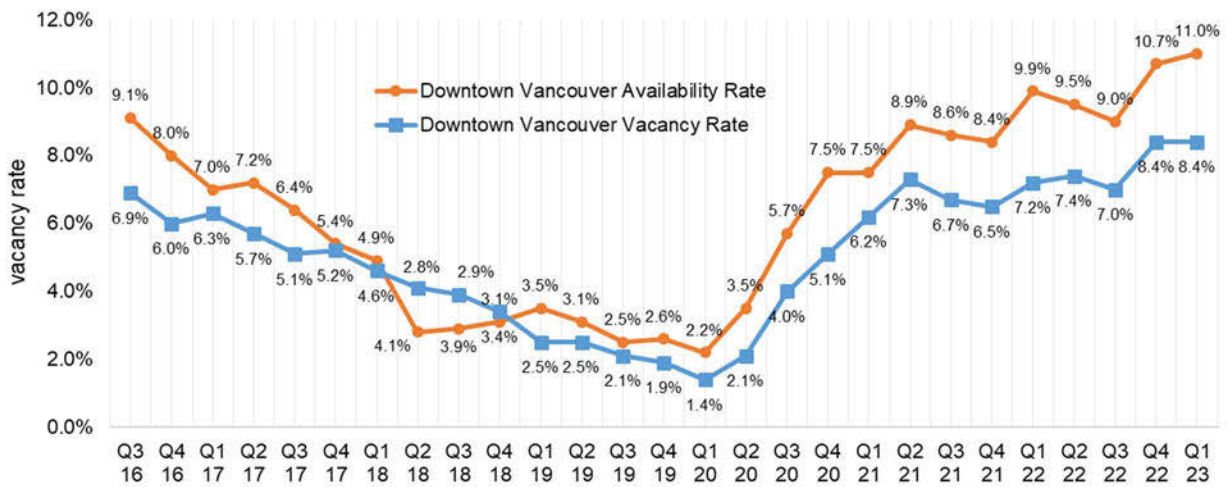


Source: Colliers International

### Downtown Vancouver Availability Rate

Unlike the vacancy rate which only measures the amount of space that is vacant and available for lease, the office availability rate also includes occupied space that is available as a sub-lease from the current tenant. Given recent interest by some tenants in sub-leasing their space, the downtown Vancouver availability rate has increased recently to 11.0% in Q1 2023. This is slightly higher than what has been the norm in previous office market construction cycles (see Figure 2). It is expected that both vacancy and availability will remain elevated for some time as new projects complete and office tenants right size their space needs. It is expected that demand for newer, flexible and healthier space will continue while older buildings will need to renovate to attract and retain tenants.

Figure 2: Downtown Vancouver Office Availability Rate and Vacancy Rate



Source: Colliers International

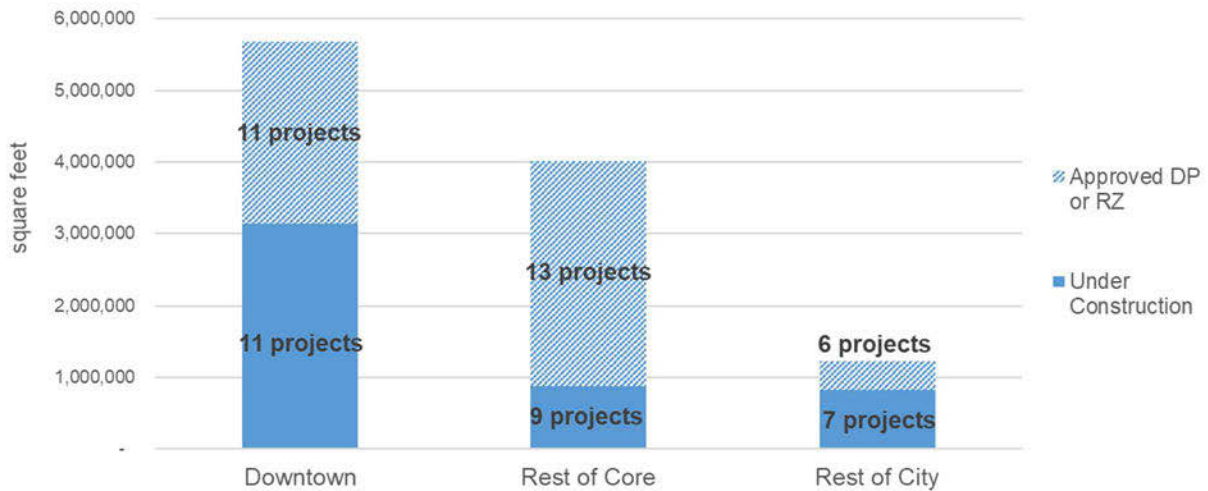
Local experts are advising that overall demand remains high relative to other cities. Although rates have been slowly but steadily rising since 2020, office vacancy in downtown Vancouver remains the lowest of North America’s metro cores in 2022. For example, downtown Toronto’s vacancy rate currently sits at 9.1%, San Francisco, Edmonton and Austin are at 20%, and Calgary is currently facing a 30% vacancy rate.

### Vancouver Development Pipeline

Vancouver is approaching the end of its most recent office development cycle, which resulted in an increase in overall vacancy as substantial new downtown space was delivered vacant in 2022<sup>1</sup>. Between Q1 2020 (record low vacancy rate) and Q1 2023, 2,446,975 square feet or 7% of the current office supply (33.8 million square feet) was added. In the last decade, 9,442,064 square feet of new office space has been added to the supply downtown accounting for 28% of the total supply.

At the end of 2022, the City's development pipeline tracking shows that most major office development is still concentrated in the Downtown core as presented in Figure 3 below.

Figure 3: Major Office Developments Under Construction, or with Approved Development Permit or Rezoning Applications



Major office developments are those that add at least 20,000 ft<sup>2</sup> of office space  
 Source: City of Vancouver development tracking, Costar and BC Assessment Data 2020. Extracted December 2022

The central business district (red-shaded area below) represents just 13% of the downtown land area. City policy restricts the ability to develop residential in this relatively small area, ensuring the economic viability of stand alone office and hotel projects.



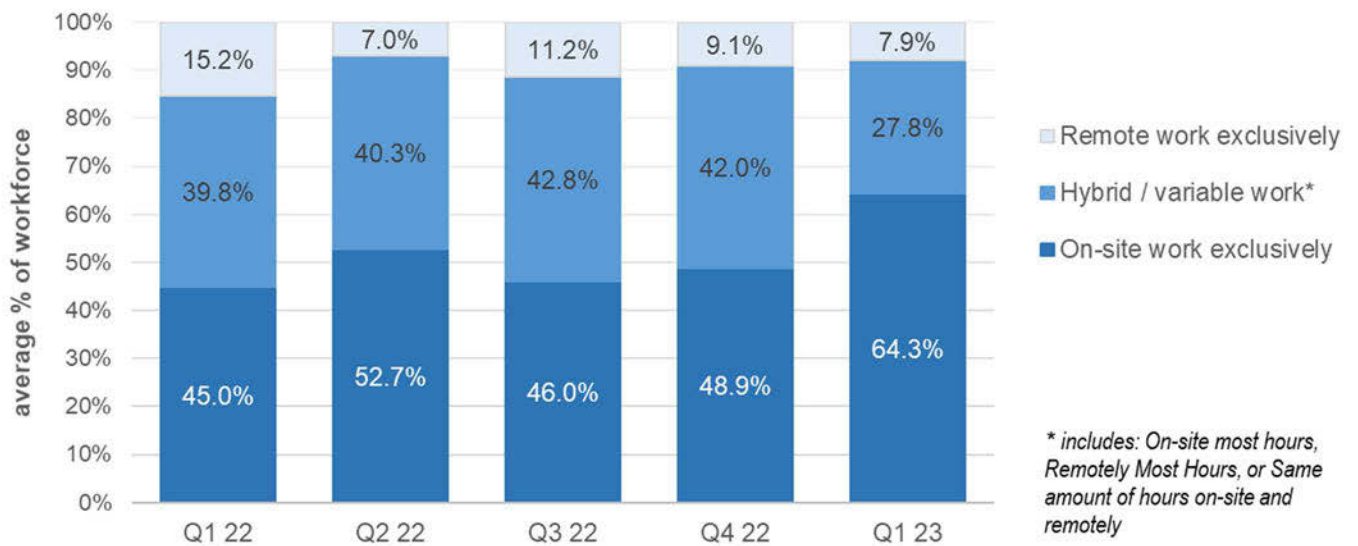
<sup>1</sup> The term, “delivered vacant” refers to space in newly completed buildings that has not yet been leased.

### Hybrid Work Patterns

While the push for a complete return to traditional office spaces has been limited, it is worth noting that the concept of hybrid work is gaining traction as the preferred working arrangement, which involves a combination of in-person and remote work. This new approach allows employees the flexibility to work from home while still having the opportunity to come into the office for a portion of their workweek.

According to Statistics Canada, at the end of 2022 only 9% of the average percentage of the workforce anticipated to work remotely exclusively in the next quarter, while 91% anticipated to work on-site in some capacity, when taking into account all industries. Further, recently published data shows that in Q1 of 2023, the average percentage of the workforce anticipated to work on-site exclusively increased by almost 16% (see Figure 4). Approximately 92.1% of the workforce still anticipate to be working on-site in some capacity during Q2 of 2023.

Figure 4: Average % of Workforce (All Industries) Anticipated to Work On-Site or Remotely Over the Next 3 Months (Q1 2022 – Q1 2023)



Source: Statistics Canada, Canadian Survey on Business Conditions

It is important to note that this analysis uses data from Statistics Canada which takes into account [all industries](#), some of which may not be able to conduct their work remotely. When observing the Q1 2023 data from the Professional, Scientific and Technical<sup>2</sup> sector only, approximately 89% of the workforce still anticipates to be working on-site in some capacity in Q2 of 2023, up 13% from Q4 of 2022 (See Figure 5).<sup>3</sup> This further reinforces the need for office space in downtown Vancouver.

In addition, government of Canada immigration policy is expected to result in increased immigration levels over the coming years. Many of these new workers will be employed in the Professional, Scientific and Technical sector, further strengthening the demand for office space over the long term.

<sup>2</sup> The Professional, Scientific, and Technical Services sector offers specialized expertise and training for clients across industries and households. Activities include legal advice, accounting, engineering, computer services, consulting, research, advertising, photography, translation, veterinary, and other professional and technical services.

<sup>3</sup> Due to the unreliable nature of available data on a sector basis, from other industries, further information is not being presented at this time, but will continue to be monitored by PDS as more data becomes available.

Figure 5: Average % of Workforce (Professional, Scientific and Technical Sector) Anticipated to Work On-Site or Remotely Over the Next 3 Months (Q1 2022 – Q1 2023)



Source: Statistics Canada, Canadian Survey on Business Conditions

Additionally, there has been a growing demand for modern office spaces constructed after 2015. Today, employees are not only seeking a comfortable work environment, but also outdoor access, communal meeting rooms, gym facilities, access to pet and child care facilities, end-of-trip amenities, and conveniences such as on-site parking and electric vehicle charging stations. In order to incentivize workers to return to the office and enhance employee retention, employers are also incorporating more service-oriented amenities, such as on-site dog daycare and grooming, bike repair services, and spaces that facilitate socializing and community building. Moreover, older office buildings will need to compete with newer developments in order to attract and retain tenants.



### ***Vancouver's Thriving Tech Industry: A Hub of Talent and Innovation***

The technology industry in Vancouver has been experiencing significant growth in recent years and is poised to continue its upward trajectory. In 2022, Vancouver became North America's fastest-growing tech market after ranking third behind Toronto and Seattle in 2021. Additionally, Vancouver added more tech jobs than it did tech degrees between 2017 and 2021. This means that not only is Vancouver producing top tech talent through University education, but Vancouver tech firms are drawing talent from elsewhere.

Technology Employers in Vancouver enjoy high labour productivity and comparatively low operating costs. Vancouver ranks fifth lowest out of the top 30 tech markets in one-year operating costs. This competitive advantage for Vancouver is due in part to the Canada/ U.S exchange rate which results in Canadian tech workers having lower average wages compared to US markets.

Vancouver also boasts a strong talent pool, thanks in part to the region's robust tech education system. This has allowed the city to attract and produce some of the top tech talent in the industry, making it a prime destination for companies seeking skilled workers.

Furthermore, Vancouver has taken proactive steps to promote diversity and inclusivity in the tech industry by expanding tech programs to underrepresented groups and providing training opportunities. The city's open immigration policy has also contributed to a diverse talent pool, further solidifying Vancouver's position as a top tech hub.

As a result of these factors, many large tech companies have established a presence in Vancouver, and the city is expected to remain a key player in the global technology industry for years to come. Moreover, prominent technology companies are continually drawn to Downtown Vancouver, bolstering the city's already robust technology industry. The recent leasing of The Post by Amazon and Microsoft's construction of a 20-storey office center in Bentall 6 are clear indications of Downtown Vancouver's attractiveness for both general office and tech tenants.

### Comparison of Office Rents

#### Office Rents in Vancouver are Competitive Compared to Other Technology Hub Cities

A 2021 analysis prepared by CBRE found that office rents in Seattle were about 4% higher than Vancouver. Compared to San Francisco, rents in Vancouver are about 70% lower. Vancouver can help reduce upward pressure on rents by ensuring that supply can continue to meet demand over the long term.

Annual Gross Direct Asking Rent Per Square Foot (US \$) – Q4 2021

Metro Area	Gross Rent	Comparison to Vancouver
San Francisco Bay Area	\$69.42	+ 70%
Seattle	\$42.59	+ 4%
Vancouver	\$41.05	--
Toronto	\$35.76	- 13%

Source: CBRE. Scoring Tech Talent 2022.

#### Office Rents in Downtown Vancouver have Increased Slightly since the Start of the Pandemic

Office rental rates in Downtown Vancouver have increased slightly since the start of the pandemic (\$39.91 / ft<sup>2</sup> in Q1 2023 vs. \$36.75 / ft<sup>2</sup> in Q1 2020 (+9%))

Net Asking Rent in Downtown Vancouver Office Space

	Net Rent
Q1 2020	\$36.75
Q1 2021	\$32.26
Q1 2022	\$39.42
Q1 2023	\$39.91

Source: Colliers International

### Notes

- 1) Buildings with less than 10,000 ft<sup>2</sup> of office space and buildings owned and occupied by the government have not been included in the office inventory.
- 2) The Vacancy Rate is the amount of vacant space divided by the existing building inventory. Vacant space is physically unoccupied, and it includes both headlease and sublease space.
- 3) The Availability Rate is the amount of available space divided by the building inventory base. Available space is space that is available for lease and can be occupied, vacant or unknown.
- 4) Absorption is the difference in occupied space from quarter to quarter or year-over-year.