

Costs driving offices to suburbs

Lack of space and soaring rents lead to an exodus of firms from downtown to Burnaby and Richmond

Gillian Shaw

Vancouver Sun

Wednesday, June 21, 2006

Downtown Vancouver is facing an exodus of corporate tenants as rent increases and a falling vacancy rate force companies to move to the suburbs.

Burnaby is already benefiting from the space squeeze with an office vacancy rate of 7.6 per cent compared to two years ago when one-quarter of all Burnaby's office space sat empty. Burnaby's newest developments are commanding record rents.

Richmond, soon to benefit from the arrival of rapid transit with the Canada Line, is the next most popular suburban office destination. While its office vacancy rate is hovering around 15 per cent, it's on a downward trend from 23 per cent two years ago.

"It is totally possible the vacancy rate could be two per cent in downtown Vancouver by 2010, which is nuts," said Chris Clibbon, senior research analyst with CB Richard Ellis. "For the office market that is very, very low; it is market-leading in North America.

"It would mean further increases in rents and tenants relocating to the suburbs.

"Companies that don't need to be downtown will relocate. It will just become too expensive and too complicated to find space downtown."

Clibbon said tenants such as banks and law firms will likely "ante up to pay what they have to pay" to be downtown but other businesses will migrate to the suburbs.

"Consulting companies, high-tech firms, any start up companies and tenants in lower class buildings -- eventually those buildings are going to see significant rent increases so they will be pushed out as well."

Clibbon said tenants will face rent increases ranging from 25 per cent to 40 per cent in downtown Vancouver and Vancouver's Broadway corridor as leases come up for renewal.

It reverses a trend that followed the tech meltdown and general economic malaise in the province earlier this decade. Tenants vacated 1.1 million square feet of office space in Greater Vancouver in 2001 and another one million square feet in 2002.

Clibbon said the top rents in what are considered downtown's "trophy buildings," such as the Bentall 5 building at 550 Burrard St. can be as high as \$35 to \$38 a square foot. Typical class



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A space downtown is \$25 to \$30 a square foot. By comparison, suburban rates for class A space range from \$17.50 to \$25 a square foot.

"The problem with downtown is that land prices are so expensive and construction costs are so high," said Clibbon. "It is expensive to build, they have to excavate and build huge underground parking lots, which are very expensive."

While downtown Calgary has the lowest office vacancy rate in North America at 0.6 per cent, Clibbon said there are projects underway in that city, as in Toronto, that will add new space. Greater Calgary has 3.8 million square feet of office space under construction and greater Toronto has just over two million square feet under construction.

Greater Vancouver has just 500,000 square feet of office space under construction, including 238,000 square feet in the second phase of Bentall 5 downtown.

"In downtown Vancouver, the problem is there are no sites, there are no empty parking lots or sites that developers have been holding and can build on," said Clibbon. "The only way you can create a new supply is to look at assembling older sites and building a larger building, which is complex and difficult."

Clibbon said Bentall's Broadway Tech centre near the Renfrew street Skytrain station and close to the Vancouver-Burnaby border, is already 30-per-cent pre-leased at rents around \$27 a square foot which he said leads the market for Burnaby office space .

"It is supply and demand and now the landlords have control of the office market," he said. "For the past three or four years, tenants have benefited from the great deals.

"Now the tables have turned, the rents are back up to where landlords want them to be."

Vancouver's Broadway corridor, that stretches from Cambie Street as far west as Macdonald Street in Kitsilano, is also facing increased pressure for office space with the vacancy rate there at four per cent and rents up 25 per cent from two years ago.

gshaw@png.canwest.com