

COVER Suburban office developers struggle to turn around high vacancy rates

Going dark in the 'burbs

GLEN KORSTROM/WI STAFF

WESTERN INVESTOR

From Metro Vancouver to the Capital City region, suburban office landlords are struggling to fill an excess of space in a flat market.

In Surrey, B.C.'s fastest-growing city, the office vacancy rate shot up to its highest point in nearly nine years at the end of 2013 and is poised to remain at uncommonly high levels throughout 2014, according to an **Avison Young** Metro Vancouver office market report released January 29.

At 17.3 per cent, Surrey's office vacancy rate is higher than second-place Richmond, which has a 15.4 per cent vacancy rate. But unlike Richmond, the amount of Surrey's vacant space continues to increase.

Fuelling the 5.8 percentage point rise in Surrey office vacancy since year-end 2012 was the highest level of negative annual absorption since Avison Young began tracking that sprawling suburb in 1997.

Negative absorption is vacated office space that is not re-leased.

"Substantial large blocks of space were given back to the market without any tenants to backfill that space," said **Andrew Laurie**, a senior associate who specializes in suburban office space at **Cushman & Wakefield**.

The **RCMP** vacated 180,000 square feet of space in various Surrey locations to move to its new 819,800-square-foot E Division headquarters on Green Timbers Way in Surrey last January.

Coast Mountain Bus Co. then vacated about 60,000 square feet at Station Tower to move into a new 225,000-square-foot **TransLink** headquarters in New Westminster that also includes TransLink's transit police and other staff.

Lingering vacancy also stems from **Fraser Health Authority's** 2012 amalgamation that moved Surrey staff to Burnaby.

"There's also a number of newly constructed properties that are vacant," Laurie said. "Phase 2 of Centre of Newton is a LEED platinum building sitting vacant after it was built on spec by **Value Property Group**."

And, if an historic white elephant is included in the mix, the actual dark space would be even larger. This refers to 104th Avenue Centre, a 260,000-square-foot building that was originally built as a cultural centre and then sold for office space. It has been vacant since 2005 and, if counted, would nearly double Surrey's official office vacancy rate.

But new absorption is likely to brighten Surrey's dark offices in 2015 and beyond, according to **Josh Sookero**, Avison Young's office division vice-president.

"The fundamentals of Surrey are strong. There's so much population growth and a strong housing market as well as buy-in for Surrey City Centre and its revitalization."

Sookero added that if Mayor **Dianne Watts** gets her way and streetcar lines are built, the city will be even more desirable for office tenants. "For success at leasing buildings, you have to have a good location for transit," Sookero said.

New Westminster

Transit, however, has not proved a sure bet for the **City of New Westminster**, which is trying to unload an office tower it is building on spec next to a downtown Skytrain station.

The city took over ownership of the 137,000-square-foot Merchant Square building in 2012 after the original developer, **Uptown Property Group**, bailed out of the project, which includes the Anvil Centre civic community centre at its base.

Now nearing a spring completion, the tower still has no anchor tenant in a city with an office vacancy rate of 9.3 per cent, third highest of all Metro Vancouver suburban municipalities. If Merchant Square remains vacant, it would push the city's vacancy rate back into the 20 per cent range of 2010.

Colleen Ponzini, the city's manager of financial services, said the 2014 budget projects the sale of Merchant Square. "The plan is to have it sold, and we pay it back in this current year," she told council at its January 20 committee meeting.

"We have no leases signed yet," conceded Laurie, the commercial broker handling office leases in Merchant Square, though he quickly added, "We do have a lot of interest in the project. It is a fantastic building."

The tower, designed to LEED gold standards, is right next to the New Westminster Skytrain station and its Columbia Street location is in the heart of downtown, Laurie noted. It is scheduled to open by this May. "We believe we will have an anchor tenant in place by then," Laurie said. Lease rates in the tower are from \$27 to \$33 per square foot, net.

The tower was built for approximately \$33 million, but a portion of that money came



Merchant Square, being built on spec by the City of New Westminster, completes in May. It has no pre-leases in place.

from the **BC Lottery Corporation** under a payment to New Westminster for hosting the Starlight Casino. There was no indication at our press deadline of what price the tower would be listed at.

Richmond

Richmond is seeing some recovery in its office market for the first time since its vacancy rate spiked to nearly 25 per cent in 2010.

Last year, with leasing of 167,000 square feet, marked the strongest year for absorption since 2005, according to Avison Young. This

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has helped lower the vacancy rate to 15.4 per cent. Class A space, however, continues to suffer a vacancy rate of 19 per cent. Hardest space to lease in Richmond is in business parks without proximity to public transit.

Burnaby

The completion of the 411,000-square-foot Metrotower III is expected to further raise Burnaby's office vacancy rate, which is now pegged at 9.1 per cent, up from 7.8 per cent a year ago.

Ivanhoe Cambridge's 29-storey Metrotower III, close to the Metrotown Skytrain station, is about one-quarter leased with **Stantec Consulting Ltd.** booked in for 65,000 square feet on four floors and environmental consulting firm **Hemmera** taking 30,000 square feet.

In the Brentwood area, Phase II of the Solo

Project is under construction with 230,000 square feet of office space expected to open in mid-2015.

Burnaby experienced negative leasing in 2013 for the first time in three years, with most of the loss in Class A space. In all, there is about 831,500 square feet of vacant office space in Burnaby, with 500,000 square feet of that in Class A buildings.

Victoria suburbs

Greater Victoria is also seeing office vacancy rates nudging double digits, according to **Colliers International**.

At 9.9 per cent, Victoria's suburban vacancies are up from 9.4 per cent a year ago. Class A vacancy rates are at 11.5 per cent, because of three new office buildings coming to market late last year. Another 100,000 square feet of suburban offices is under construction. ♦