FEATURE Class AAA space is going dark in Vancouver, Calgary and Edmonton – but subleases can be tricky

Corner office caution

Prime offices in some of Vancouver's top towers, such as this luxury space at Canada Place, are now available as discounted sublease space. Not all deals are ideal, though.

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Ever wanted to have the type of high-end office space usually reserved for titans of the oil, forestry or real estate industry? These are the prestige offices claimed by well-heeled companies that took first pick of the downtown markets of Western Canada when top towers were completed and space was at premium.

Well, now is your chance to swoop in, perhaps for a killing, with typical sublease rates reduced 20 per cent to 30 per cent below market rates. But there are serious pitfalls to sublease space leases that tenants must be aware of, tempting as some of the properties area.

"We have a lot of high-quality space in the sublease market," said **Shawna Rogowski**, director of research with **Colliers Internatonal** in Vancouver.

That is an understatement, and it is not restricted to just downtown Vancouver.

Studies show that sublease office space is becoming an elephant in Calgary and Edmonton – in fact across the country – as the economic downturn forces companies to halt expansion plans and cut back on expenses and employees.

In Vancouver, sublease space in the downtown core hit an unprecedented 800,000 square feet in February, four times higher than it was in September of last year. Subleases now account for half of all the office space vacancies downtown, according to Colliers. Put in perspective, it is the equivalent of three new Shaw towers in the downtown core.

In Calgary, sublease space accounted for 40 per cent of downtown office vacancies by year-end 2008, and all signs are that it will mushroom this spring.

At last count, Calgary had nearly 565,000 square feet of sublease space on the market, up more than 10 per cent from the third quarter of 2008. There are also more than 1.1 million square feet of conventional space available and, unlike Vancouver, a rush of new construction with more than five million square feet of new offices underway.

Edmonton, stung by the collapse in oil prices and a corresponding cratering of oil upgrader projects, has nearly 95,000 square feet of sublease space downtown, representing 11.5 per cent of all vacancies, according to survey by **CB Richard Ellis** (CBRE).

Sublease space equal to three new towers

Across Canada, CBRE found that sublease space accounted for 18.7 per cent all vacant office space at the end of 2008, up from 14.7 per cent a year earlier.

Class A space

What this all translates into is glut of prime space, and downtown Vancouver – which has no new office projects in the pipeline – appears to offer a glittering opportunity for those seeking Class AAA space. But not all that glitters is gold.

A *Western Investor* survey of local listings show what is available. **Avison Young**, for example, has a sublease space listed at 555 West Hastings Street, boasting 3,600 square feet with "unobstructed panoramic views of Vancouver Harbour, North Shore Mountains and Mount Baker."

Intrawest is marketing 48,000 square feet for sublease as part of its plan to reduce and consolidate its downtown office space. **Electronic Arts** (EA) is offering one and a half floors for sublease at its EA Black Box studio at 250 Howe Street. EA plans to return its entire 85,000-square-foot space to the market by the end of 2009.

There are also subleases coming up in the suburban markets.

Ritchie Bros is moving from its Richmond space on Wireless Way to Burnaby when Glenlyon Business Park is complete. **Microsoft** is subleasing 55,935 square feet of space in Richmond that it never occupied, and Nokia is leaving its space at Richmond's Fraserwood Corporate Centre in mid-2009. According to the Colliers survey, Richmond had 145,281 square feet of vacant sublease space as of February 2009, and Burnaby had more than 120,000 square feet available. There is another 84,000 square feet in the Broadway corridor.

Caution

But leasing sublease space has unique challenges, cautions Colliers vice-president **Brian MacKenzie**, a 22-year veteran of the Vancouver office leasing industry.

First of all, MacKenzie notes, the sublease space is only available under the initial lease terms, which could be seven months or 17 months, for example, rather than standard five-year terms. There will be no renewal options, because the existing tenant wants out of the commitment.

Second, the lease deal is only as solid as the former tenant. For example, if a tenant leases sublease space worth $10,000 a month at a discount to $7,500 per month, the former tenant has to make up that shortfall to the landlord. If it can't, or won't, the landlord may suddenly lock the sublease tenant out of the offices until the difference is paid.

"Sublease space is attractive to entrepreneurial clients," MacKenzie said, "not for major companies, or government, which require certainty in their office lease requirements."

Also, MacKenzie adds, some sublease space is already in a default position with the landlord, perhaps two or even three months behind in lease payments. In these cases, it is virtually impossible to sublease without hefty catch-up payments, and most agents would simply not recommend it to client.

Finally, there are no improvement allowances with sublease space, because the tenant is dealing with a former tenant, not the landlord. In other words, tenants have to take what they get, or spend money to customize the space.◆

Lower Mainland