

Research &
Forecast Report



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THOMPSON OKANAGAN OFFICE MARKET

Second Quarter 2018



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Thompson Okanagan Office Market

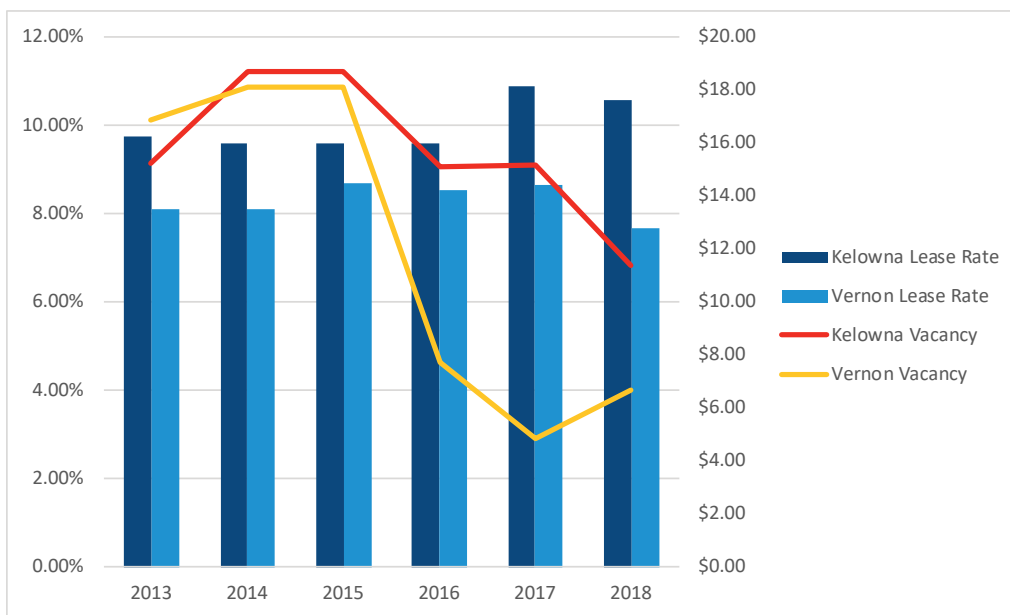
Overview

Following six consecutive quarters of relatively static activity in the Thompson Okanagan, the overall vacancy rate for the region dropped below 7% this quarter as a result of significant leasing activity in the Kelowna marketplace. The average net asking rent has also dropped this quarter from \$17.60 to \$16.35, which primarily reflects a shift in the quality of office space being marketed for lease. Increases in Class B and C space available on the market have shifted average asking rents down, with tenant demand remaining primarily for Class A office space.

Vacancy

Significant leasing activity at the McIntosh Centre and Landmark Centre have helped contribute to the drop in the office vacancy rate in Kelowna this quarter to 6.82% from 9.11% at the end of 2017. Conversely, for the first time since Q4 2014, the Vernon office vacancy rate increased reaching 4.00% in the second quarter of 2018 from 2.91% at the end of 2017. This increase can be mostly attributed to larger vacancies (in size) on the market relative to the previous six months.

Historical Office Vacancy & Average Lease Rates



Recently completed office/retail building at 1810 Gordon Drive in Kelowna

New Construction

Less than 20,000 square feet of new supply was added to the Thompson Okanagan market during the first half of 2018, but approximately 68,000 square feet of new office space is currently under construction and is expected to be completed by Q3 2019. In Kelowna, higher tenant demand for Class A office space continues to drive new development in the city, with just over 107,000 square feet currently planned for development. In Vernon, new office construction continues to be focused on owner-user and build-to-suit developments, including new facilities currently under construction for VSL Computers and a proposed development for Pleasant Valley Dental Clinic.

Kelowna Office Market

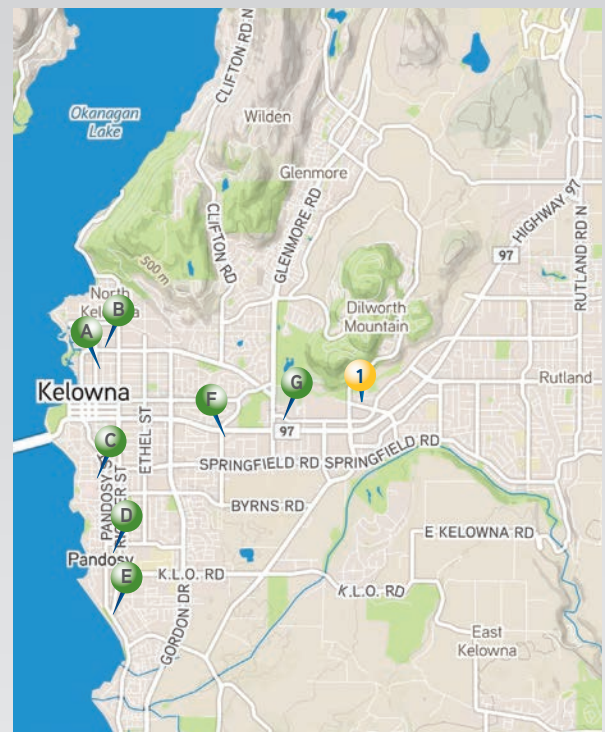
The Kelowna office market saw a significant drop in the vacancy rate of nearly 2.3%, reaching 6.82% in the second quarter of 2018. A significant lease deal of nearly 42,000 square feet at the McIntosh Centre on Leckie Road, which has been sitting vacant since its completion in 2015, has most notably contributed to this drop. It's reported that WorkSafeBC has secured the office space for fall occupancy, which marks a significant expansion from its current 10,000 square foot footprint in Kelowna.

Highlights

- Strong leasing activity at Landmark Centre has also contributed to the drop in the vacancy rate this quarter. It's reported that nearly 48,000 square feet was absorbed throughout their six office towers during the first half of 2018, bringing the Centre's vacancy rate to just above 7%.
- Construction has started on two new projects in South Pandosy, 2755 Tutt Street and The Shore, which will add nearly 61,000 square feet of new office space inside mixed-use buildings. The office space is already 50% pre-leased at 2755 Tutt Street and 100% pre-leased at The Shore.
- Net rent ranges for office space have remained unchanged since the second quarter of 2017, with downtown continuing to yield slightly higher rents than the city's suburban markets. Looking ahead, we expect future lease rates to remain stable with the chance to increase, particularly in the downtown and South Pandosy submarkets depending on land and construction prices for new buildings.

Summary Statistics

Q2 2018 Kelowna Office Market	2017 Q4	2018 Q2	Trend
Office Inventory (SF)	3,812,517	3,830,295	↑
Net Absorption (SF)	1,986	103,729	+
Vacant Space (SF)	347,362	261,411	↓
Vacancy Rate	9.11%	6.82%	↓
Net Rent (Regional)	\$10-\$26	\$10-\$26	↔
Net Rent (Downtown)	\$12-\$26	\$12-\$26	↔
Net Rent (Suburban)	\$10-\$25	\$10-\$25	↔
Under Construction (SF)	17,768	60,982	↑
New Supply (SF)	13,494	17,778	↑



● Notable Lease
 ● Notable Sale
 ● Upcoming Supply

Notable Lease Transactions

TENANT NAME - ADDRESS	APPROXIMATE SIZE (SF)
1. WorkSafeBC - 2300 Leckie Road	41,784

Notable Sale Transactions

ADDRESS	PRICE	APPROXIMATE SIZE (SF)
<i>There were no significant sale transactions over the last six months in the Kelowna market.</i>		

Notable Upcoming Supply

ADDRESS	SIZE (SF)	COMPLETION
A. 1330 St. Paul Street ^{1,2}	18,231	Q4 2018
B. 1193 St. Paul Street ^{1,2}	26,330	TBA
C. Collett Manor (2169 Pandosy Street) ^{1,2}	34,000	Q2 2019
D. 2755 Tutt Street ¹	33,988	Q1 2019
E. The Shore (3461 Lakeshore Road) ¹	21,000	Q3 2019
F. 1502 Sutherland Avenue ¹	5,994	N/A
G. 1955 Enterprise Way ²	28,560	TBA

¹ Part of a new mixed-use building

² Planned for development

Vernon Office Market

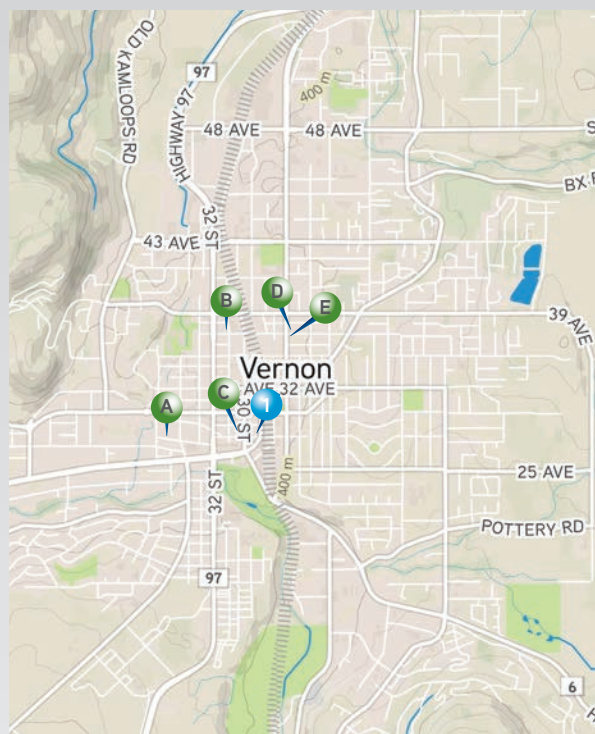
The Vernon office market saw an increase in the vacancy rate in the second quarter of 2018 reaching 4.00% from 2.91% at the end of 2017, reflecting a few larger vacancies on the market relative to the previous six months.

Highlights

- At the end of March 2018, Palasyo Properties completed the disposition of Plaza 95, a 12,633 office/retail building located in downtown Vernon, at a price of \$1.9 million (\$150 per square foot) representing a 7.7% capitalization rate on in-place income. At the time of the sale, 2,789 square feet (22%) was vacant, offering potential upside for income for the buyer.
- A small amount of office space (approximately 6,750 square feet) is currently under construction in Vernon, including a new facility for VSL Computers and four ground floor strata units at The Hub, a mixed-use development that will also feature 57 residential units. Both projects are expected to be delivered sometime during the third quarter of 2018.
- Lease rates continue to remain stable with no fluctuation in the last six months and only minimal changes during the last two years. Along with a stable vacancy rate, we expect lease rates to continue to remain relatively unchanged for the foreseeable future.

Summary Statistics

Q2 2018 Vernon Office Market	2017 Q4	2018 Q2	Trend
Office Inventory (SF)	1,247,507	1,247,507	↔
Net Absorption (SF)	11,331	(13,713)	▬
Vacant Space (SF)	36,247	49,960	↑
Vacancy Rate	2.91%	4.00%	↑
Net Rent	\$8.75-\$21	\$8.75-\$21	↔
Under Construction (SF)	6,752	6,752	↔
New Supply (SF)	9,500	0	↓



● Notable Lease
 ● Notable Sale
 ● Upcoming Supply

Notable Lease Transactions

TENANT NAME - ADDRESS	APPROXIMATE SIZE (SF)
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There were no significant lease transactions over the last six months in the Vernon market.

Notable Sale Transactions

ADDRESS	PRICE	APPROXIMATE SIZE (SF)
1. Plaza 95 (2800 29 Street)	\$1,900,000	12,633

Notable Upcoming Supply

ADDRESS	SIZE (SF)	COMPLETION
A. The Hub (3409 28 Avenue) ¹	4,819	Q3 2018
B. VSL Computers (3101 37 Avenue)	1,933	Q3 2018
C. The Hamlets (3050 29 Avenue) ^{1,2}	11,550	TBA
D. The Healing Garden (3701 27 Street) ²	3,154	TBA
E. Pleasant Valley Dental Clinic (3607 27 Street) ²	4,359	TBA

¹ Part of a new mixed-use building

² Planned for development

413 offices in 69 countries on 6 continents

United States: **145**

Canada: **28**

Latin America: **23**

Asia Pacific: **86**

EMEA: **131**

\$2.7B

US* in
annual revenue

2B

square feet
under management

15,400

professionals
and staff

*Based on 2017 results

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