

Research &
Forecast Report

THOMPSON OKANAGAN OFFICE MARKET

Fourth Quarter 2018



Accelerating success.



Table of Contents

Market Summaries

Thompson Okanagan Office Market Overview.....	3
Kelowna.....	4
Vernon.....	5

Thompson Okanagan Office Market

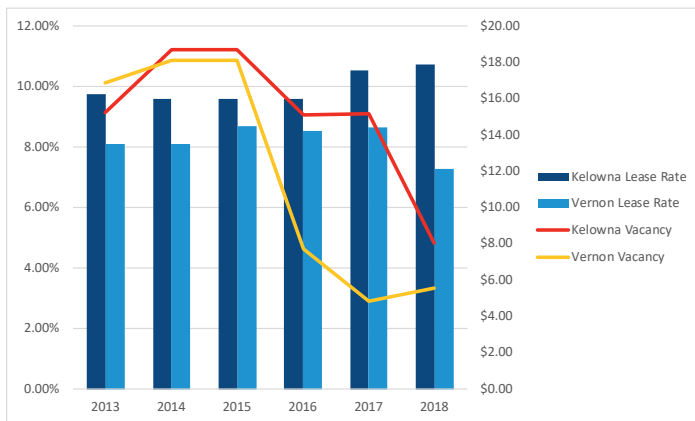
Overview

The Thompson Okanagan office market experienced another drop in the vacancy rate for the third consecutive quarter reaching 4.5% in the fourth quarter of 2018 from 6.1% in the second quarter of 2018 as a result of significant leasing activity in the Kelowna marketplace. In response to the drop in the vacancy rate, the average net asking rent for the region has increased slightly this quarter, reaching \$16.65 in Q4 2018 from \$16.35 in Q2 2018.

New Construction

While no new product was delivered to the Kelowna marketplace during the last six months, nearly 61,000 square feet of new office space is currently under construction, most of which will be delivered in the South Pandosy neighbourhood. In addition, there is just over 315,000 square feet planned for development, including a new office development at 1955 Enterprise Way, which will feature 2,690 square feet of ground floor retail space and 29,900 square feet of office space. New office construction in Vernon continues to be focused on owner-user and build-to-suit developments, including the recently completed office building for VSL Computers (1,900 square feet), new facilities currently under construction for the Healing Garden (3,154 square feet) and a proposed development for Pleasant Valley Dental Clinic (4,359 square feet).

Historical Office Vacancy & Average Lease Rates



Rendering of 1955 Enterprise Way

Vacancy

It was an active year for leasing activity in Kelowna, with nearly 180,000 square feet of inventory absorbed in the market. A significant amount of this had been long-standing vacancies in the Landmark Centre, McIntosh Centre, Innovation Centre and former Interior Health space on Kirschner Road. As a result, we have seen the vacancy rate drop 2.0% since Q2 2018 and 4.3% since the end of 2017, reaching 4.8% in the fourth quarter of 2018. In Vernon, the vacancy rate is now sitting below its 2-year average of 3.6%, reaching 3.3% at the end of 2018 from 4.0% in the second quarter of 2018 as a result of few smaller lease deals completed during the previous six months.

Investment Market

The office investment market in the Thompson Okanagan remains slow but steady with a few transactions occurring in Kelowna during the last six months. Notably, Maple Reinders completed the disposition of their office building on Loughheed Road in November 2018 at a price of \$2.3 million. The property, which is currently underutilized, features a 7,860 square-foot office building on 1.04 acres with plans for an additional 18,200 square-foot office building. It is reported that the deal would include a 5-year leaseback with Maple Reinders, representing a 5.5% rate of return.

Kelowna Office Market

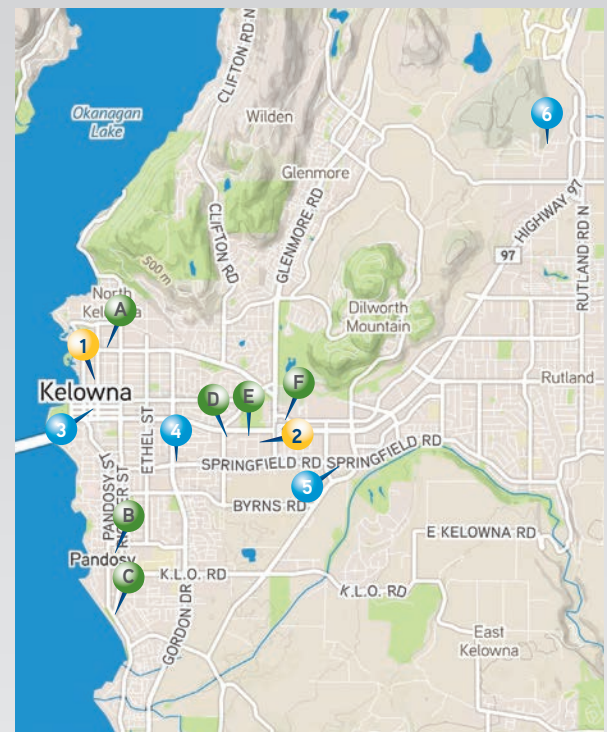
The Kelowna office market experienced another drop in the vacancy rate for the third consecutive quarter, reaching 4.8% in the fourth quarter of 2018 from 6.8% in the second quarter of 2018. This drop can be mostly attributed to the lease up of a few larger Class A and B office vacancies in the market during the last six months, including the sublease of nearly 24,000 square feet in the former Interior Health space on Kirschner Road and just over 22,000 square feet by Spaces at the Innovation Centre in downtown Kelowna.

Highlights

- > The largest sale transaction during the second half of 2018 was the purchase of 1629-1649 Pandosy Street by Welbec Properties for \$3.825 million. While the existing tenant, Vancouver Career College, continues to occupy the space, an application has been submitted to Kelowna City Council for this property to be considered as a potential retail store location for Original FARM Ltd., a licensed cannabis dispensary based out of Victoria, BC.
- > It is reported that Landmark Centre's vacancy rate is currently sitting just above 5%, which has triggered the launch of the much-anticipated Landmark 7. In late 2018, Al Stober Construction unveiled plans for its seventh office tower in the Landmark district which will feature 224,000 square feet of commercial space including ground floor retail and an 11,000 square-foot fifth-floor events centre.
- > The average lease rate increased to \$17.85 per square-foot at the end of 2018, reflecting a 2.5% increase over Q2 2018 and a 1.6% increase compared to one year ago. This increase primarily reflects the quality of office space being marketed for lease, with Class A office space commanding asking rates between \$18 and \$26 per square-foot.

Summary Statistics

Q4 2018 Kelowna Office Market	2018 Q2	2018 Q4	Trend
Office Inventory (SF)	3,830,295	3,830,295	↔
Net Absorption (SF)	103,729	76,114	+
Vacant Space (SF)	261,411	185,297	↓
Vacancy Rate	6.8%	4.8%	↓
Net Rent (Regional)	\$10-\$26	\$12-\$26	↑
Net Rent (Downtown)	\$12-\$26	\$12-\$26	↔
Net Rent (Suburban)	\$10-\$25	\$12-\$26	↑
Under Construction (SF)	57,482	57,482	↔
New Supply (SF)	17,778	0	↓



● Notable Lease
 ● Notable Sale
 ● Upcoming Supply

Notable Lease Transactions

TENANT NAME - ADDRESS	APPROXIMATE SIZE (SF)
1. Spaces - 460 Doyle Avenue	22,091
2. Undisclosed - 1815 Kirschner Road	23,914

Notable Sale Transactions

ADDRESS	PRICE	APPROXIMATE SIZE (SF)
3. 1629 Pandosy Street	\$3,825,000	11,053
4. 2033 Gordon Drive	\$1,506,000	6,951
5. 2149 Springfield Road	\$1,215,000	3,400
6. 225 Lougheed Road	\$2,300,000	7,860

Notable Upcoming Supply

ADDRESS	SIZE (SF)	COMPLETION
A. 1193 St. Paul Street ^{1,2}	26,330	TBA
B. 2755 Tutt Street ¹	33,988	Q3 2019
C. The Shore (3461 Lakeshore Road) ¹	21,000	Q3 2019
D. 1502 Sutherland Avenue ¹	5,994	2019
E. Landmark 7 (1640-1710 Dickson Avenue) ^{1,2}	224,000	Q2 2022
F. 1955 Enterprise Way ²	28,560	TBA

¹ Part of a new mixed-use building

² Planned for development

Vernon Office Market

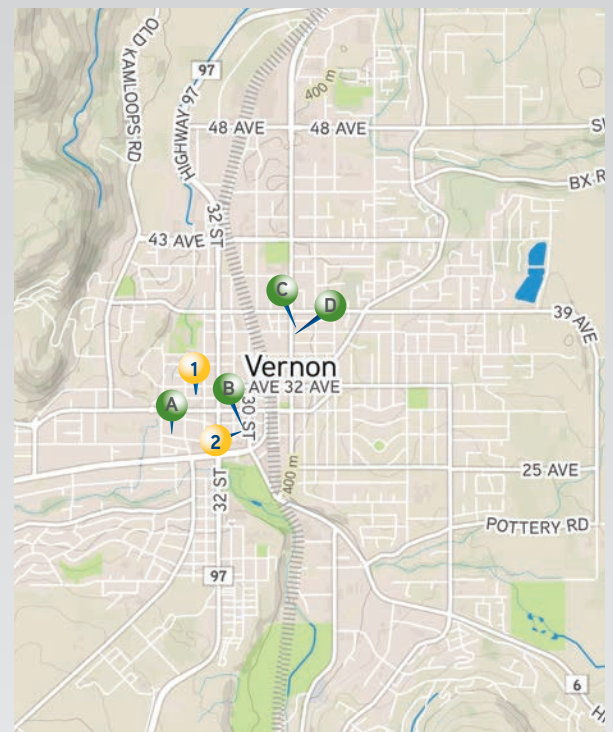
The Vernon office vacancy rate has consistently hovered between three and five percent for the past two years, with steady but slow activity in the market. The fourth quarter of 2018 saw a slight decrease in the vacancy rate to 3.3% from 4.0% in the second quarter of 2018, as just over 10,000 square feet of office space was absorbed by the market in the past six months.

Highlights

- > A small amount of office space (7,973 square feet) is currently under construction in Vernon, including four ground floor strata units at The Hub, a mixed-use development that will also feature 57 residential units, and a new two-storey commercial building for the Healing Garden, a health and wellness spa. Both projects are expected to be delivered in early 2019.
- > The average net asking rent fell slightly this quarter reaching \$12.10 per square-foot from \$12.19 per square-foot in the second quarter of 2018. This drop 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.

Summary Statistics

Q4 2018 Vernon Office Market	2018 Q2	2018 Q4	Trend
Office Inventory (SF)	1,247,507	1,249,440	↑
Net Absorption (SF)	(13,713)	10,238	+
Vacant Space (SF)	49,960	41,655	↓
Vacancy Rate	4.0%	3.3%	↓
Net Rent (Regional)	\$8.75-\$21	\$8-\$21	↔
Under Construction (SF)	6,752	7,973	↑
New Supply (SF)	0	1,933	↑



● Notable Lease
 ● Notable Sale
 ● Upcoming Supply

Notable Lease Transactions

TENANT NAME - ADDRESS	APPROXIMATE SIZE (SF)
1. Ecora Engineering - 3309 31 Avenue	2,500
2. Monashee Health Collective - 2802 30 Street	2,111

Notable Sale Transactions

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

Notable Upcoming Supply

ADDRESS	SIZE (SF)	COMPLETION
A. The Hub (3409 28 Avenue) ¹	4,819	Q1 2019
B. The Hamlets (3050 29 Avenue) ^{1,2}	11,550	TBA
C. The Healing Garden (3701 27 Street) ²	3,154	Q1 2019
D. 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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