

Research &
Forecast Report

GREATER VICTORIA OFFICE MARKET

Second Quarter 2018

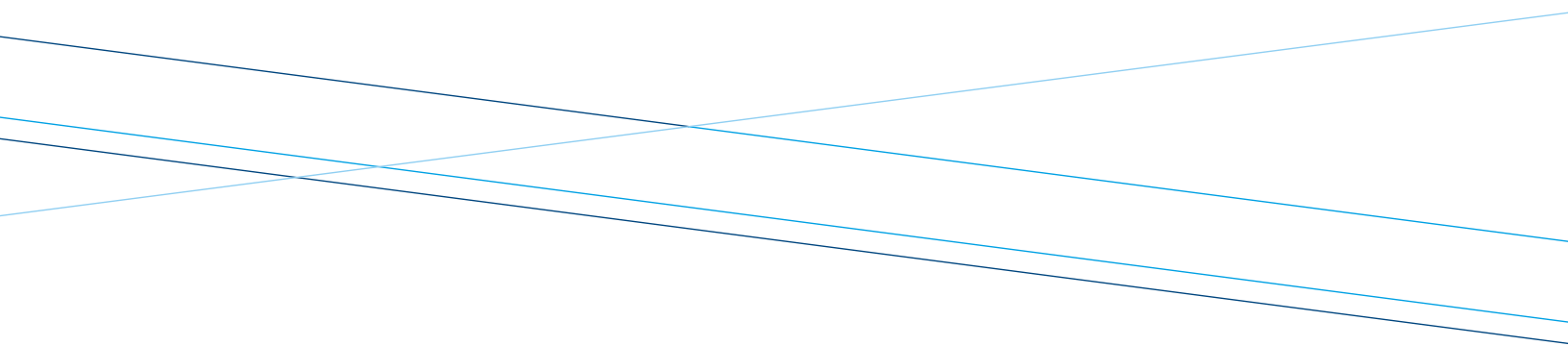


Accelerating success.



750 Pandora Street
JawI Properties







Greater Victoria

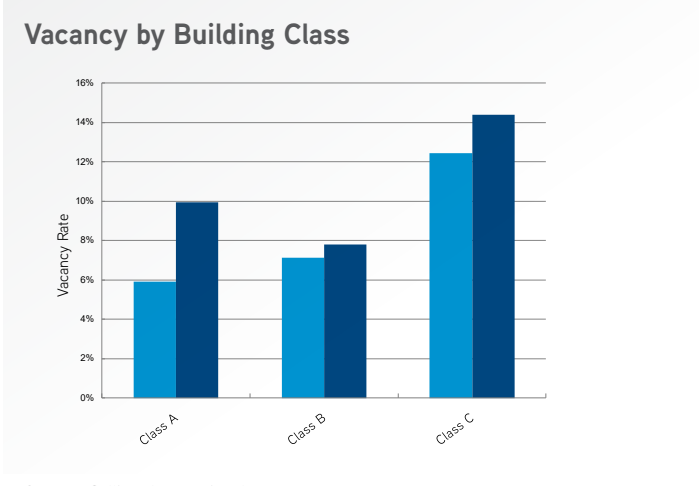
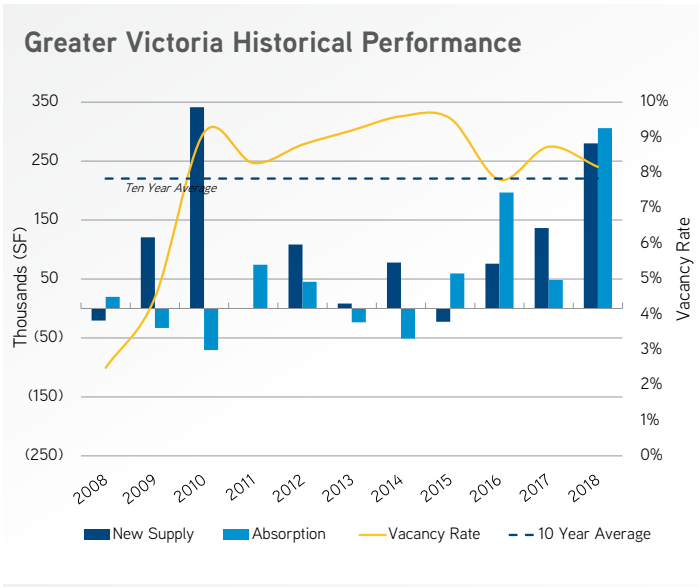
Office Market Overview

The Greater Victoria office market outperformed forecasts, resulting in an overall decrease in vacancy from 8.74% at the end of 2017 to 8.17% as of June 30th, 2018. Vacancy was originally forecast to increase due to 280,000 square feet of new supply added to the downtown inventory in the first half of 2018, but vacancy rates decreased due to aggressive demand from both the provincial government and the private sector. While downtown vacancy increased slightly from 7.16% to 7.56%, the suburban vacancy decreased from 10.59% as of Q4 2017 to 8.93%. Downtown Class A office buildings had the largest increase in vacancy from 1.17% to 5.91%, due to 1515 Douglas Street and 750 Pandora Avenue added as new supply. Approximately 30,000 square feet of space in 1515 Douglas Street remains available for lease.

Suburban class A inventory experienced the largest decrease in vacancy from 19.87% to 9.94%. Uptown, 3645 Tillicum Road, 740 Hillside Avenue, and Eagle Creek Village all experienced positive absorption. Demand for large floor plate options and move-in ready space have been the primary drivers of the decrease in vacancy. Of note, in Q1 2018 Babcock Engineering leased approximately 37,000 square feet and Regus leased approximately 25,000 square feet in Uptown, and the Province leased approximately 26,000 square feet in Upper Harbour Place. There are now fewer large floor plate options for tenants seeking suburban locations.

Market Indicators Relative to prior period	Victoria Q4 2017	Victoria Q2 2018	Victoria 2018* Trend
VACANCY	8.74%	8.17%	↓
NET ABSORPTION	48,383	305,909	↑
CONSTRUCTION (SF)	380,000	151,000	↓
RENTAL RATE**	\$25.50	\$25.50	↔

Note: Construction is the change in Under Construction.
 *Projected
 **Rental rates for current quarter are for CBD. Rent forecast is for Class A rents.



Source: Colliers International

Investment Market

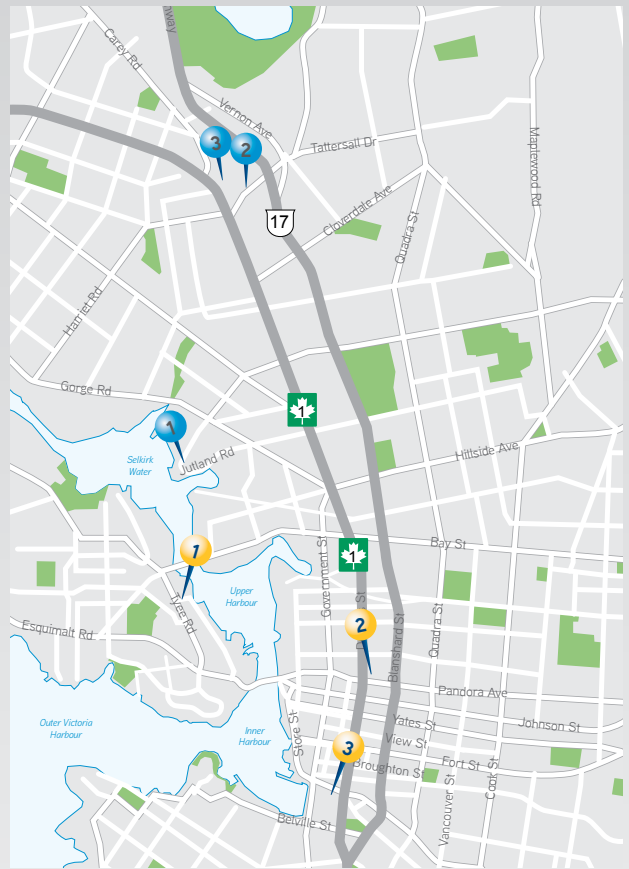
Greater Victoria office investment sales exceeding \$1 million totaled \$22.9 million during the first two quarters of 2018, which is a significant decrease from the same period in 2017. There are five transactions that account for the \$22.9 million total. The most notable sale in the first two quarters was 3795 Carey Road, which sold for \$16.7 million and is fully occupied by the private sector. Cap rates for the office investment sales from the first two quarters of 2018 ranged from 4.75% to 5.50%.

Forecast

Overall vacancy is expected to decrease further, driven by continued demand from both the provincial government and the private sector. Looking further into 2019, Phase II Capital Park will add 123,000 square feet of new office space in the downtown core in the fall of 2019, and 1235 Esquimalt Road will add approximately 28,000 square feet in the suburban market. The provincial government will occupy a major portion of Capital Park with the option to potentially occupy the entire building. With the growth of project funding under the NDP, we expect the province will take advantage of this opportunity.



3795 Carey Road - Sold by Colliers International



● Downtown Notable Lease
 ● Suburban Notable Lease

Downtown Notable Lease Transactions

TENANT NAME - ADDRESS	TYPE	APPROXIMATE SIZE (SF)
1. Provincial Government-645 Tye Road	Headlease	26,000
2. Provincial Government -1401 Douglas Street	Headlease	15,000
3. Provincial Government -808 Douglas Street	Sublease	10,000

Suburban Notable Lease Transactions

TENANT NAME - ADDRESS	TYPE	APPROXIMATE SIZE (SF)
1. Provincial Government - 395 Waterfront Crescent	Renewal	40,000
2. Babcock Canada Inc-3531 Uptown Boulevard	Headlease	27,627
3. Regus - Uptown Boulevard	Headlease	26,000

Source: Colliers International

Downtown

Downtown vacancy had a slight increase from 7.16% as of year-end 2017 to 7.56% at the end of Q2 2018. Downtown Class A office space is still the lowest vacancy segment, even with an increase from 1.17% to 5.91%. This increase is the direct result of the new supply of Class A office space provided by 1515 Douglas and 750 Pandora, with approximately 80% of this new supply already occupied. Total downtown absorption for Q2 2018 was 244,078, which is eight times larger than the 10-year average.

Trends

- › The NDP has opted for move-in ready office space allowing for quick occupancy. The provincial government was a major source of demand in the first two quarters
- › New Class A construction achieved \$30.00 per square foot base rent level
- › Noticeable increase in the number of tenants looking for large blocks of space (20,000 square feet to 40,000 square feet) with limited options available parking downtown is becoming very difficult to secure, which is deterring some tenants and focusing their attention towards suburban options.
- › With the rise of construction costs, there has also been an increase in tenant allowances as a result a greater push towards move-in ready space across the Victoria office leasing market.

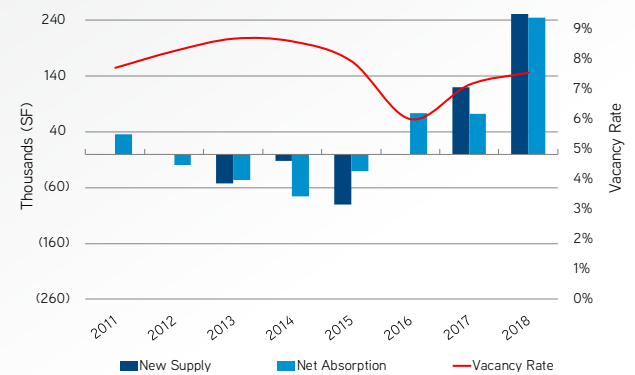
Supply

100,000 square feet added by the completion of 1515 Douglas Street in Q2

180,000 square feet added by the completion of 750 Pandora Avenue in Q1, which is fully leased to British Columbia Investment Management Corporation

- Total new supply of 280,000 square feet.

Downtown Historical Performance



Downtown	Q4 2017	Q2 2018	Trend
Office Inventory	4,636,236	4,916,504	↑
Net Absorption	72,536	244,078	↑
Vacancy Rate	7.16%	7.56%	↑
New Supply	120,000	280,000	↑
Under Construction	380,000	123,000	↓

Downtown Market Indicators

CLASS	TOTAL INVENTORY (SF)	VACANT (SF)	VACANCY RATE	NET ABSORPTION	NET NEW SUPPLY
A	913,808	53,964	5.91%	233,420	280,000
B	3,398,408	242,557	7.14%	13,548	0
C	604,288	75,113	12.43%	(2,890)	0
Region Total	4,916,504	371,364	7.56%	244,078	280,000

Suburban

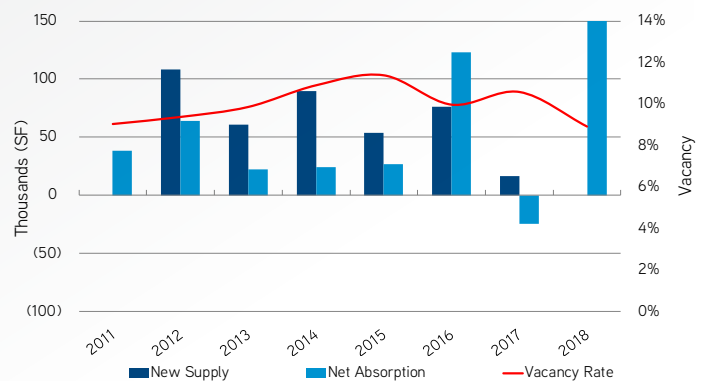
Activity in the suburban market has increased in the first two quarters of 2018 with a drop in vacancy from 10.59% to 8.93%. This reflects increased demand from tenants looking for large floor plates in the suburban markets. The most notable segment change was in the Class A suburban market where the vacancy drastically decreased from 19.87% to 9.94%. This decrease was primarily due to tenants requiring large floor plate options in buildings like Upper Harbour Place, and Uptown.

Trends

- Similar to the downtown market, there has been an increase in the number of tenants looking for large blocks of space (20,000 square feet to 40,000 square feet) with limited options that can provide that size range
- Move-in ready space throughout the region is in demand due to the high costs of tenant improvement work
- Large floor plates in the suburban market are now difficult to find since existing supply has been absorbed



Suburban Historical Performance



Supply

- No new supply added in the first two quarters of 2018
- 1235 Esquimalt Road is currently under construction, bringing approximately 28,000 square feet of new suburban supply in Q4 2019

Suburban	Q4 2017	Q2 2018	Trend
Office Inventory	3,837,315	3,952,315	↑
Net Absorption	(24,153)	353,004	↑
Vacancy Rate	10.91%	8.93%	↓
New Supply	16,500	0	↓
Under Construction	0	28,000	↑

Suburban Market Indicators

CLASS	TOTAL INVENTORY (SF)	VACANT (SF)	VACANCY RATE	NET ABSORPTION	NET NEW SUPPLY
A	1,044,344	103,856	9.94%	101,949	0
B	2,572,548	200,891	7.81%	(38,500)	0
C	335,423	482,57	14.39%	(1,618)	0
Region Total	3,952,315	353,004	8.93%	61,831	0
MARKET TOTALS	8,868,819	724,638	8.17%	48,383	280,000

Glossary

Class A Building - 22.1% percent of the Victoria Market

Prestigious buildings competing for premier office users with rents above average for the area. Buildings that have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence. Characterized by: prime central location; first-class tenant improvements; on-site parking; state-of-the-art elevators and HVAC systems; concrete and steel construction; contemporary design and architecture; high quality of upkeep and maintenance.

Class B Building - 67.3% percent of the Victoria Market

Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area and systems are adequate, but the building does not compete with Class A at the same prices. Characterized by new buildings in non-prime locations and older buildings (including rehabilitated structures in prime locations); good-quality tenant improvements; may have on-site parking; elevators and HVAC served; built using a variety of construction methods; upkeep and maintenance is generally good.

Class C Building - 10.6% percent of the Victoria Market

Buildings competing for tenants requiring functional space at rents below the average for the area. Characterized by older structures, may or may not have been renovated; poor-to-average quality of tenant improvements; may not have elevators and air conditioning systems; generally no parking facilities; lower quality of upkeep and maintenance. May also include renovated heritage buildings with good-quality tenant improvements and upgraded building systems.

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

About Colliers International Group Inc.

Colliers International Group Inc. is an industry leading global real estate services company with more than 15,400 skilled professionals operating in 69 countries. With an enterprising culture and significant employee ownership, Colliers professionals provide a full range of services to real estate occupiers, owners and investors worldwide. Services include strategic advice and execution for property sales, leasing and finance; global corporate solutions; property, facility and project management; workplace solutions; appraisal, valuation and tax consulting; customized research; and thought leadership consulting.

Colliers professionals think differently, share great ideas and offer thoughtful and innovative advice that help clients accelerate their success. Colliers has been ranked among the top 100 outsourcing firms by the International Association of Outsourcing Professionals' Global Outsourcing for 11 consecutive years, more than any other real estate services firm.

colliers.com

Copyright © 2018 Colliers International.

The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

MARKET CONTACT:

Andrew Rojek
Manager, Market Intelligence | Vancouver
+1 604 661 0849
andrew.rojek@colliers.com

REGIONAL AUTHORS:

Tyler Dolan
Managing Director | Vancouver Island
+1 250 414 8391
tristan.spark@colliers.com

Tristan Spark
Vice President | Victoria
+1 250 414 8391
tristan.spark@colliers.com

Jaideep Pannu
Market Intelligence Coordinator | Victoria
+1 250 414 8445
jaideep.pannu@colliers.com

Colliers International | Victoria
1175 Douglas Street, Suite 1110
Vancouver, BC | Canada

+1 250 388 6454



AoW®
BESTEMPLOYER
PLATINUM | CANADA | 2018



Accelerating success.