

# Post-pandemic: The current state of Vancouver's office market

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<https://dailyhive.com/vancouver/vancouver-office-market-conditions-state>



Amazon's office space in the South Tower of The Post in downtown Vancouver, September 2023. (Kenneth Chan/Daily Hive)

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There's much interest in the current state of the office market in Vancouver and its implications for downtown.

Office buildings provide accommodations for businesses and workers. The Metro Vancouver region has 78 million sq ft of office space in 1,338 buildings. That's according to a [comprehensive inventory](#) of office buildings completed by Metro Vancouver regional district.

That report was further informed through interviews with over forty experts, ranging from developers, landlords, brokers, municipal planners, and economic development staff to get a range of perspectives about the office market and development trends.

This work supports the [Metro 2050 regional growth strategy](#) and municipal plans, which direct office development and associated economic and employment activity to urban centres, so that they can be best served by transit, benefit from investments in infrastructure and amenities, and generally support complete compact communities.

Vancouver's Central Business District is unique compared to most other major North American cities in that a significant population -- over 120,000 people -- [lives in and near the downtown core](#). These residents generate street-front activity and vibrancy in addition to local workers. Plus, the area is a tourist destination, who also spend money at local shops and restaurants.

Beyond downtown Vancouver and the wider area called the "Metro Core," there are in total 26 urban centres in the Metro Vancouver region. About half of the region's office inventory is in Vancouver, most of that being in the Metro Core. Although the office markets outside of downtown Vancouver are often referred to as "suburban," there is more nuance to it than that. The 20 other municipalities each have varying attributes and dynamics, some having urban centres with opportunities to mature over time.

### **Vancouver has some of the lowest office vacancies**

In terms of measures of activity, [transit ridership levels](#) in the Vancouver region are up significantly since Spring 2020 and approaching pre-COVID levels, amongst the highest in Canada. About two-thirds (65%) of the office stock is within 800 metres of a SkyTrain station, although that [ratio varies greatly by sub-region](#).

Vancouver still has one of the [lowest office vacancy rates](#) in the continent. However, rented space is not the same thing as fully occupied or utilized space. Some businesses are optimizing or right-sizing their accommodations, with some of that extra space now on the sub-lease market.

In terms of other measures of activities, data is limited. For example, building property managers can track the number of employees coming and going through door fobs or elevator lifts, however much of that data collection was not in place before the COVID-19 pandemic, so the baseline is not known.

One exception is parking facility utilization data that has long been collected and thus can be more readily compared over time.

Employers continue to try to encourage employees to come to work in person. Sometimes this effort is called “earning the commute” of the employee by making the office environment more attractive through enhanced amenities, be it within the unit itself, the building complex, or surrounding features provided by an attractive downtown location.

Additionally, if people are going to work for the day, they may patron other destinations in the area, such as shops, restaurants, concerts, etc.

Ultimately, we want people to come downtown because they want to, not because they have to.

The changing office market has been well documented – absorption declining, vacancies rising, and rent flattening.

These are cyclical aspects of the office real estate market.

The longer-term question is about possible structural changes resulting from the experiences and lessons of COVID-19. (The future of co-working is yet another matter.)

It’s important to note that part of the increase in vacancy for downtown Vancouver is due to new supply coming to market over the past year or so. Many of these projects were initiated before the COVID-19 pandemic started.

In other parts of the region, there’s been little new supply and gradual absorption of existing stock.

Most of the attention is on big, new AAA Class buildings. We shouldn’t forget that there are also A, B, and C Class buildings, and some tenants who don’t seek nor can afford top-tier space, and are happy with standard accommodations.

### **More mixed uses are not always better**

An issue in some locations is municipalities wanting developers to build office space to contribute to the success of their urban centres and complement infrastructure and amenities.

However, developers may be reticent to build offices where the market is not strong. In some cases, this leads to mixed-use developments with an office component that provides space for local serving tenants, like medical offices.

That said, there are cases where mixed-use buildings may not be ideal — for example, large corporate tenants prefer accommodations in a stand-alone office building in a commercial district. Thus, some lands should be reserved for employment uses, and others for industrial uses, with restrictions on residential uses.

This needs to be addressed through sound land-use planning.

### **Work from home vs. return to office**

The debate about working from home versus returning to the office continues. It is increasingly accepted that the future will be somewhere in between those two extremes — a new hybrid arrangement.

There are still different views — as well as facts and opinions — about where employees are most productive, as well as how to even define or measure productivity, which varies by business sector and employee role. While it's true that it's more convenient to work from home, collaborative and engagement aspects of work that lend themselves to creativity and innovation are best done in person. Yet there are concerns about social isolation from always working at home, and changes in bargaining power as unemployment rates rise.

In terms of office space needs, it is important to recognize that if workers are still coming to the office most of the time, say at least three days per week, the full amount of office space is probably still required. Only if workers come in less often and have scheduled shared desks (e.g. hoteling/hot desking; a type of white collar hell, as some might experience it) that are fully scheduled, balancing out the distribution of attendance over the entire week — not just Tuesday, Wednesday, and Thursday — could significantly less office space be required per employee. Other space is still needed for common areas like meeting rooms.

The possible benefit of such efficiencies could be outweighed by negative impacts on workforce retention. As much as there is interest in the cost of office space, which is not to be dismissed, tenant accommodations are usually only about 5% of the business's total costs, with labour being three-quarters of their budget.

## Comparing Vancouver and Calgary

Some ask if Vancouver competes with other markets, such as Calgary.

The office tenant profiles vary in terms of types of businesses, with Calgary having a significant oil and gas sector. These tenants can occupy very large blocks of space when they need it, but also return it to the market when they don't need it, creating major swings in vacancy rates.

In Vancouver, there are **relatively fewer corporate headquarters**, both in terms of the number of businesses and jobs. Head offices tend to cluster near deep and wide labour markets to benefit from specialization and efficiencies through cross-fertilization of ideas across workers and companies, contributing to an innovation ecosystem.

Cities try to attract corporate headquarters because of the benefits they provide to the community: in addition to value-added activity and well-paid staff, there are associated support and supplier companies, and tax revenues, thereby further contributing to the economy through direct and indirect multiplier effects.

Some large tech/software sector tenants in Vancouver consume a significant amount of office space, although technically they aren't considered headquarters. They have lease commitments in place but haven't been hiring like they once were.

Instead, compared to other major markets, downtown Vancouver has many smaller businesses (62% of office tenant units are under 5,000 sq ft). This provides for diversification in terms of tenants, and fewer swings in demand. However, some say that a diversified market can also be a fragmented one.

## Fostering downtown vibrancy

In terms of supporting the success of downtown districts, governments at various levels can encourage a range of commercial uses, and associated business activity and workforce growth. These efforts can include enhancing the amenities and services for businesses and workers to improve the local environment.

In some cases, this may include addressing or easing the regulatory approval process to develop buildings and the permit process for tenants to occupy spaces, as well as

consideration of government costs, such as taxes and fees. Governments can focus institutional investments in centres to spur private sector interest.

Similar programs, appropriately scaled, can be beneficial in other downtowns in the region.

### **Converting office buildings to housing?**

There's been much attention on [Calgary's initiative](#) to facilitate the conversion of downtown office buildings to residential. But what about in Vancouver?

A viable conversion project would require a situation where an older office building has limited value in its current form, is largely vacant, in a location that is appropriate for residential use, has a building design and particularly floor plate size that could be readily adapted to another use, and manageable renovation costs to create residential units that have a high enough yield to make the project financially viable. Simply put, not many buildings in Vancouver are meeting all of those conditions.

Ultimately, office development is a large investment decision, with the main factors being land values, construction costs, and lease rates. The next office building will be in response to the eventual settling of the market.

From an urban planning perspective, the interest is not on precisely which building is going to advance in which year or what the vacancy rate is in the latest quarter.

Rather, that the new office buildings are constructed in the right location, such as downtowns and urban centres, to accommodate the associated workforce and complement transit, amenities, and other features to support long-term planning and economic goals.