

CITY OF VANCOUVER EYES CAC POTENTIAL OF OFFICE STRATA

BRADY FLEGUEL | City negotiates community amenity contributions on commercial strata that is exempt from B.C.'s foreign-buyer and speculation taxes



I expect strata office to dominate the office landscape in Vancouver in coming years

As a lead-in to my annual report, I always review articles from the past years. It is quite interesting that this year's instalment could easily be Part 2 of my article from 2016. In 2016 I wrote about how strata office space could be the next big thing – with a focus on the Broadway Uptown Office District. For 2018 I will continue the conversation about strata office space, with a focus on downtown Vancouver.

I would identify low supply, special taxes and relative affordability as key factors fuelling the strata office market. On the supply side, only 320 Granville Street, Burrard Place and 999 Seymour have brought noteworthy strata office supply to the downtown market in the past five years. Much of this space was quickly absorbed with 320 Granville Street selling roughly half of its space in a week last November.

With regard to special taxes, the foreign-entity tax (FET) recently increased to 20 per cent while the B.C. speculation tax steps to two per cent annually in 2019 for foreign investors and satellite families. Strata office is exempt from both the FET and the speculation tax, and groups who historically invested in the residential market have shifted their focus to commercial assets to avoid these taxes.

Lastly, the smaller size and lower price point of strata space allow market entry for small to medium-sized businesses as an alternative to leasing.

Counteracting the appeal of strata office space in Vancouver is the city's community amenity contribution (CAC) policy update "simplifying community amenity contributions on new rental housing and commercial development" (effective November 29, 2017). This

policy removes CAC negotiations for commercial-only rezoning applications in the downtown and metro core and instead creates interim commercial linkage targets at fixed rates (\$15 per square foot downtown, \$10 per square foot in the metro core).

This sounds like a progressive idea, as predictable CACs have proven to be a catalyst to the supply of new development (i.e., Cambie corridor). However, the new policy excludes all commercial-only rezoning applications proposing stratified commercial space and large site developments. These sites will continue to be processed under the negotiated CAC approach.

Why would strata office be excluded from fixed CACs? Clearly the city plans to "participate" in this sector. To give perspective, 320 Granville and Burrard Gateway have sold strata office space for more than double the price of similar leased office space (on a per-square-foot basis). The proposed commercial linkage targets are expected to result in only \$3 million per year. This is nominal relative to the negotiated CAC approach using 75 per cent of the resultant "land lift" from rezoning. For the reader's reference, the last notable negotiated rezoning in downtown Vancouver (the First Baptist Church site at Burrard and Nelson) netted the city a CAC package of over \$91 million (primarily a residential project). The new CAC policy shows that the city wants jobs within its borders but has its hand out in case the numbers look too good.

OUTLOOK ■ My thoughts for the future are optimistic for both the strata and leasing components of the office market. Broadly, the downtown and surrounding areas

offer limited sites for office use. Sites considering a shift to strata office space will limit the supply of new projects for lease, bolstering new projects that have commenced construction with limited or no pre-leasing (Vancouver Centre 2, 601 West Hastings and 400 West Georgia).

Additionally, older C-class office buildings in the core could see demolition or possibly conversion to strata. Both could be achieved without rezoning. Tenants in these buildings are currently in place at relatively affordable rents and could struggle to replicate existing rental costs without sacrificing location. This demand could be met by projects in Raintown, Mount Pleasant, Burrard Slopes and most notably the False Creek Flats as a source of new office supply, a good portion of which could be strata office.

Finally, the Broadway Uptown Office District is reaching peak desirability since the TransLink Mayors' Council reached an agreement in March 2018 for the remaining funding of the Broadway subway. The University of British Columbia is even offering to contribute funds to extend the Broadway subway to its campus. Expect more strata office supply here albeit at discount pricing to downtown projects.

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