

OFFICE REPORT

**NEW
CONSTRUCTION**



VACANCY



**SOUTH PANDOSY
DISTRICT**



Lease Rates

**DOWNTOWN
CLASS A**



Lease Rates

**KELOWNA'S
OFFICE
MARKET**
Q3 2016

ABSORPTION



**DOWNTOWN
CLASS B**



Lease Rates

**OFFICE
INVESTMENT**



\$ PSF

LANDMARK CENTRE



Lease Rates

ABSORPTION OF EXCESS OFFICE SPACE - HOW MANY SQUARE FEET WILL WE HAVE?

Downtown Kelowna will boom this fall with the opening of the Okanagan Centre for Innovation ("OCI") and the new Interior Health Authority ("IHA") headquarters. These two buildings will drive +1,500 employees into the downtown. To complement the migration of new daytime traffic, Sole on St. Paul Street is complete and Sole Downtown is under construction (both are 6 storey mixed-use buildings); parkades are being completed / expanded with hundreds of added parking stalls and the redevelopment of the Paramount Theatre on Bernard Avenue and expanded Cultural District are all anticipating the influx of new daytime users.



Interior Health Authority

With the opening of the OCI and the new IHA headquarters in downtown Kelowna, we will continue to see a double digit vacancy rate which has been the norm since 2014.

This higher vacancy will open the door to new companies considering relocating by providing a considerable array of turn-key space, tech space, flex space and build-to-suit office space at competitive rates.

With an anticipated vacancy rate between 14% and 15%, we foresee the City of Kelowna - (taking into consideration a stabilized/normal vacancy rate of say, 8%), having enough office inventory to last the next 4 to 5 years. This estimate is based on the fact that average absorption has been approximately 50,000 square feet per year, for the past two years. We have considered the space that will be vacated by tech companies, moving into the OCI and the space that will be vacated by IHA.

It's important to note that Kelowna has three (3) distinct office markets each with its own functionality: Downtown, Landmark and South Pandosy.

As mentioned, the downtown office market will explode this fall with the opening of the OCI and IHA. Downtown has historically been predominantly financial with all major banks being represented along with the majority of law firms and general office use.

Landmark Business Centre has created its own campus style environment and doesn't necessarily need to compete with the rest of the office market because of such a vast selection of office configurations and amenities. Amenities include residential condos, parking, restaurants, state-of-the-art fitness centre, clothing retailers, hair salons and close proximity to Hwy 97, all of which make Landmark Business Centre very attractive. Office users cover the entire spectrum from legal, financial, accounting and, of course, tech.

The transformation of the South Pandosy office market over the past 5 years has been remarkable. Vacancy rates in this area are very low with office users purchasing strata units as quickly as they are built. SOPA Square and the Worman developments have created a niche atmosphere along with the main Pandosy retail pedestrian corridor. SOPA is 50% sold out and the Worman developments that offered strata office for sale are 100% sold out. However, Worman still

Note: a stabilized vacancy rate must be considered and we have used 8% (or 300,000 square feet) in our determination of the 4 to 5 year absorption projection.

The table below shows the overall office market representation as of January 2017.

PROJECTED INVENTORY AS OF JAN 2017

Projected Inventory	3,816,000 Sq. Ft.
Projected Vacancy	550,000 Sq. Ft.
Projected Occupied Space	3,266,800 Sq. Ft.
Projected Vacancy Rate	14.40%

has limited office inventory available for lease in the South Pandosy area. "The Shore" will introduce approximately 18,000 square feet of office space for 2018.

The growth of the 65+ demographic and demand for cosmetic surgery are currently two driving forces in the office market. Plastic surgery, cosmetic dentistry and general health care facilities are continuing to expand particularly in the Landmark and South Pandosy areas. Due to its proximity to the Kelowna General Hospital, approximately 60% of office space in the South Pandosy area is occupied by medical professionals.

The Okanagan's tech sector is easily on pace to become the Valley's biggest industry - it is growing faster than the provincial average with local revenues increasing by 30% with a \$1.3 billion economic impact since 2013. 38% of



Sole Downtown Rendering

the tech employees are between 25 and 34 years old with 27% falling into the 35 to 44 year old range.

We estimate that tech tenants occupy approximately 417,000 square feet within the City of Kelowna. This estimation does not include engineering, security / protection, medical or public sector offices but rather focuses on software and application development, data processing and management, mobile application development, IT consulting, graphic design, GIS Mapping and IT Training. Within the past 3 months, tech firms to lease space at 554 Leon Avenue include: Cradle Point, Two Hat, Community Sift, The Unite Project and Yeti Farm Creative. The OCI is currently at 90% pre-leased in advance of completion.

Many start up tech companies are home based and are not included in this total. We estimate that of the 355 tech companies in Kelowna, less than 150 (less than 45%), occupy commercial office space located in Kelowna. Concentrations of tech can be found in all three office districts and light industrial locations throughout the city. KF Aerospace falls into the tech category through their Aircraft Maintenance Engineer program

but is not included in the 417K square feet total above as airport hangers / airport buildings are not included in the overall office inventory.

During the past 18 months, approximately six new tech companies have relocated to Kelowna. Interestingly, we are seeing more office leases with longer terms, usually 5 - 10 years. Feedback from the companies is that they are looking for long term assurance when selecting lease space.

During summer 2016, Kelowna hosted the Metabridge Conference - which is Canada's only tech retreat that showcases growth stage tech companies and connects them with a curated group of Silicon Valley organizations to help take these companies to the next stage. Each year, 15 top tech start-ups are selected to take part. Metabridge hosts collaborative networking programs for the top 15 cohort, giving access over 48 hours to mentors, advisors and investors. Hosting of Metabridge is further assurance of Kelowna's continued tech growth and success.

LEASE RATES

AREA	LEASE RATE RANGE
South Pandosy	\$14 to \$22
Downtown Class A	\$16 to \$24
Downtown Class B	\$10 to \$15
Landmark Business Centre	\$14 to \$24



Okanagan Centre for Innovation

OFFICE

Q3 2016

Inventory	3,542,800
Vacant Space	366,021
Occupied Space	3,176,779
Vacancy Rate	10.33%
Under Construction	274,000