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# The Suburban Flight and Future of Office Demand

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# Will The Rise in Suburban Living Result in a Surge in Suburban Working?

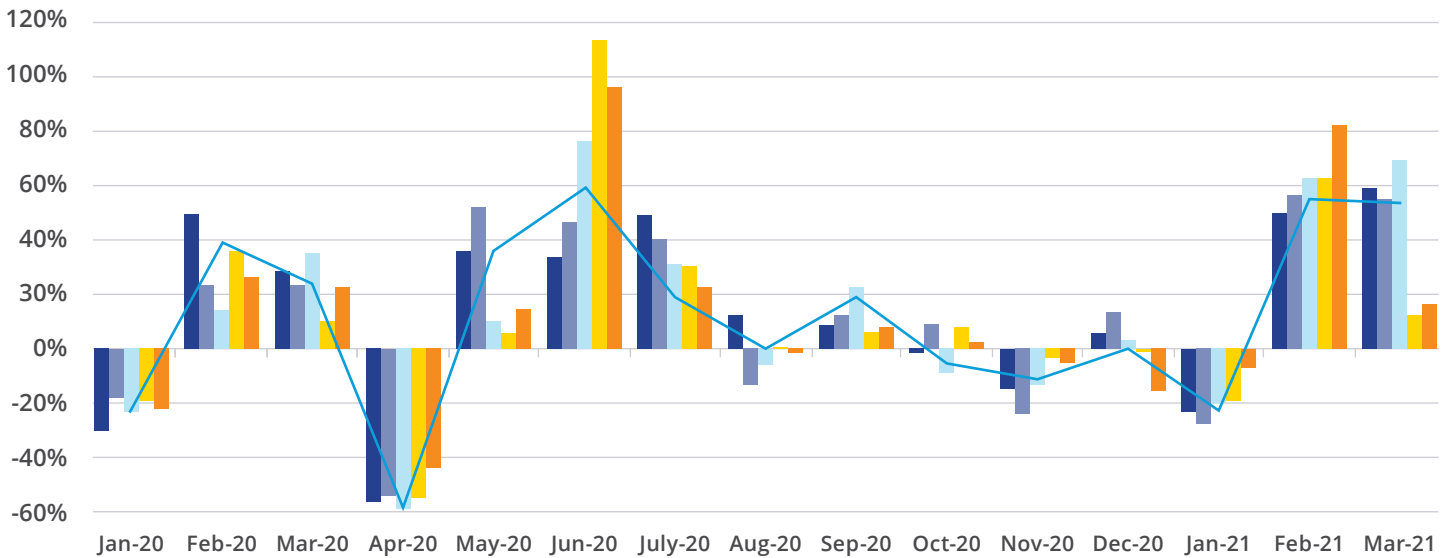
Despite the potential impact of the suburban and exurban housing sales boom, macroeconomic forces will continue to drive long-term demand for downtown office space.

The unseasonably high residential sales volumes in the suburban markets of Metro Vancouver throughout the pandemic have implications for the future of demand for downtown office space. The high residential sales volumes in the suburban markets during the COVID-19 pandemic appear to be attributable to multiple factors, chief among them being low interest rates. The Bank of Canada lowered its target for the overnight rate from 1.75% in February 2020 to 0.75% in mid-March 2020 and again to 0.25% by the end of March 2020, holding it constant since then.

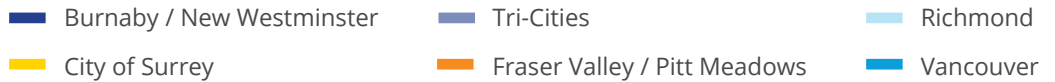
Despite the initial pandemic freeze, that saw suburban Metro Vancouver residential sales plummet 51% in April 2020, there was a corresponding 27.9% increase in sales volume in May 2020. Due to forced quarantine, work from home practices and limited access to downtown amenities, many people were drawn to the idea of larger homes in the suburbs. This combined with competitive pricing and a low cost of borrowing aided the decision to purchase housing in the suburban regions of Metro Vancouver for many Vancouverites.



## Housing Sales Growth



Source: REBGV



Fraser Valley saw record high sales in March 2021 – an increase of 131% compared to March 2020.



The graph illustrates the trend for housing sales volume growth following the onset of the pandemic. A huge spike in sales volume hit the suburban regions in May 2020, as compared to April 2020, increasing further in June 2020, with the City of Surrey seeing the highest growth of 113.7%, followed by Fraser Valley / Pitt Meadows (96%) and then Richmond (76%) as compared to Vancouver where sales also rose, but by a relatively meagre 58.7%, further slowing down to 19.4% in July 2020. The trend slowed through the rest of 2020 and spiked again in February 2021 as new listings came on the market with the highest spike recorded in Fraser Valley and Pitt Meadows, up at an average of 82.7% whilst Vancouver sales grew at a steady rate of 54.6%.

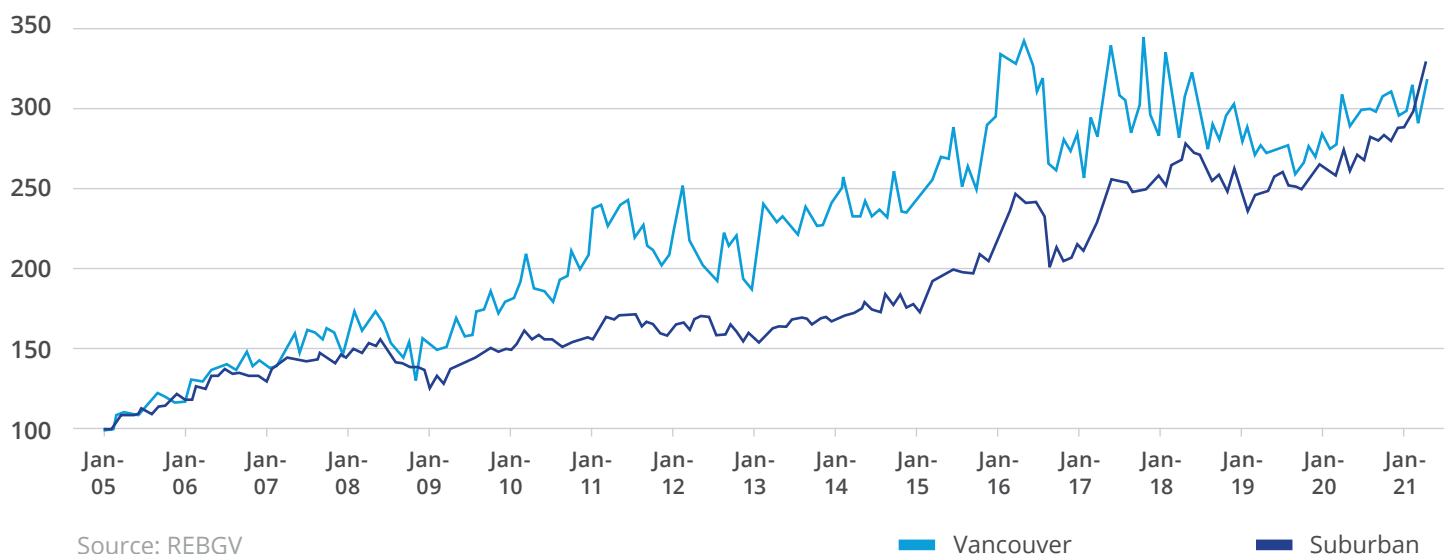
Additionally, according to the FVREB Market Statistics, Fraser Valley saw record high sales in March 2021– an increase of 131% compared to March 2020. The FVREB also conducts monthly surveys of members. They discovered that between December 2019 and February 2020, 9.3% of buyers said they were from Vancouver, rising to 12.4% between December 2020 and February 2021. Statistics Canada data shows that a total of 87,444 people left Toronto, Vancouver, and Montreal, between July 2019 and July 2020, up from an average annual outflow of 72,686 in the previous three years. Vancouver and Toronto were in line with the previous year, whereas Montreal contributed to most of this increase.

# The Brain-Drain Argument

It is true that the start of the pandemic caused havoc and speculation around a drop in housing prices; the Canada Mortgage Housing Corporation (CMHC) estimated this drop to be between 9% and 18%.

Housing prices moved in the opposite direction as the cost of borrowing lowered and savings surged with the Canada Emergency Response Benefit (CERB) in effect. While Vancouver housing prices rose at a faster rate than the suburban market since 2009, this growth rate converged at the beginning of 2021.

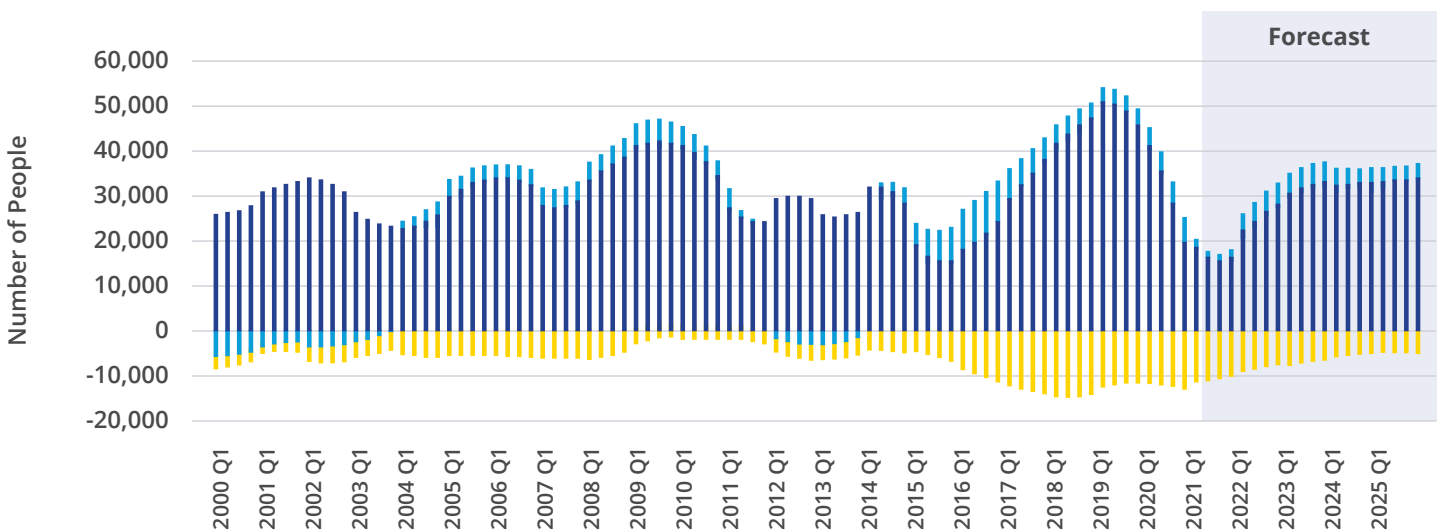
**Housing Sales Price Indexed Growth**



Amid the ambiguity of remote work and uncertainty of the future of office space, it is important to ask: Is top talent leaving the downtown core for a lower cost of living in the suburbs and beyond? What implications does this have on tenants? According to Bloomberg News, nearly one-third of the people leaving Toronto, Vancouver, and Montreal are between the ages of 15-29 and 82% were under 45. It is true that many first-home buyers, aged 20-35 are leaving the city for nearby areas, but it is also true that a huge inflow of internationals is expected to occur in the next few years. CIBC economists have also noted that the suburban flight will subside post pandemic as people would not want to miss out on opportunities in the city even if they are working from home full time. They believe that returning to the office is not a question of “if” but rather “when”.

Many people also view home buying as an investment to build equity. Hence, an increase in suburban sales does not necessarily warrant the outflow of people from Vancouver. Additionally, the Government of Canada is planning to increase immigration numbers, through multiple new pathways opened for foreign workers and international students. It is important to note that population demographics will shift moving forward in the downtown core of Vancouver. The overall net migration statistics are shown below, and the net intercity migration from Vancouver is expected to slow down over the next five years. Ultimately, Vancouver went through recent period of high intercity outflows, and this is likely attributable to the echo boom, or the millennial generation, who are having children and require additional space, and for some, the pandemic gave them a perfect reason to finally make that move.

### Vancouver Migration



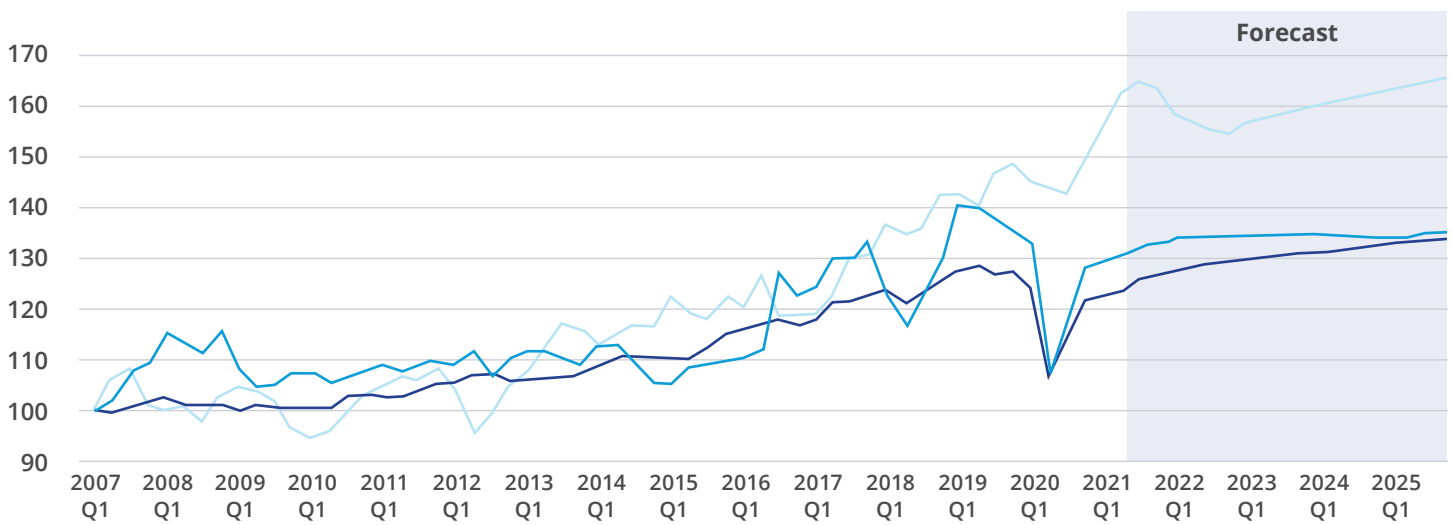
Source: The Conference Board of Canada

■ Net International Migration

■ Net Interprovincial Migration

■ Net Intercity Migration

## Indexed Employment Growth | Vancouver



Source: The Conference Board of Canada

■ Total Employment     
 ■ Finance and Insurance, Real Estate and Other Services     
 ■ Professional, Scientific and Technical Services

The graph above shows historical data for employment from 2007 and forecasted until 2025 by the Conference Board of Canada. The dip in total employment falls between Q1 of 2020 and 2021. As per Statistics Canada, unemployment rate in Vancouver stood at its peak in June 2020 at 14.2%, improving to 8.9% in January 2021. Recent statistics show that in April 2021, unemployment rate was 6.9%. Although a steady rise in employment is positive, some industries were significantly impacted by lockdowns, hence recovery remains fragile. This includes retail, recreation, accommodation, and food services. According to a report by Great West Life Realty Advisors (GWLRA), growth in STEM (Science, Technology, Engineering and Mathematics) roles will increase moving forward, with the structural shift in consumer habits due to COVID-19. Software, e-commerce, and digital media startups continue to hire due to the elevated demand for cloud technology, streaming services, e-commerce, and the digitization of work in general.

Companies are becoming more informed on ESG (Environment, Sustainability and Governance) risks, the 'green' economy as well as environmentally friendly practices; attributed to the rising global importance on these topics along with pandemic risk-management. Life-science and ESG compliance sectors will see long-term growth post-pandemic. Many of these companies cluster in and around downtown Vancouver and the Broadway Corridor, which further leads to long-term demand for office space in these areas of the City.

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Through Q1 of 2021, suburban office markets continue to be resilient, the vacancy rate for Surrey is at **3.6%**, followed by Langley at **3.1%** and a meagre **0.4%** for Tri-Cities.



## What's The **Verdict?**

Migration and employment statistics predict the need and growth of office demand in the downtowns, but the final decision is driven by each companies' individual model around remote work practices and employee satisfaction.

Quality of life, remote work practices and pricing play a huge part in the motivation for many employees to explore suburban neighbourhoods of Metro Vancouver. They provide access to the vibrant outdoors, including dense suburban hubs, and enjoy greater indoor space compared to the limited space afforded in the Downtown core at a higher price point. When we say downtown, we are talking about urban office space, and Broadway Corridor, which are in high demand even before people started moving to the suburbs, as it is very much urban and exceptionally close to downtown.

Although some trendsetting tech companies are paving the way for permanent work from home or hybrid work practices, such as Shopify, Twitter, and Spotify, these alternative work accommodations are not being offered to all employees on a full-time basis, and many still expect employees to live within commuting distance of the office and spend some time there.

Google expects its employees to live within commuting distance of the offices and is bringing forward its timeline for employees to return to the office. Although there is a rise in housing sales in suburban regions, for instance: Fraser Valley, Pitt Meadows, Richmond, and Surrey – these areas are still within commuting distance of Vancouver's downtown core via car or the SkyTrain; with no fundamental impact on the office demand side. Along with this, amidst the current circumstances caused by the pandemic, a typical five-day work from the office is no longer the norm and hence employees will find the longer commute, fewer days a week more palatable. Whether or not the tenant will follow is also a product of vacancy rates in the suburban markets which may be saturated with home-grown office demand in the future. Through Q1 of 2021, suburban office markets continue to be resilient, the vacancy rate for Surrey is at 3.6%, followed by Langley at 3.1% and a meagre 0.4% for Tri-Cities.

Many people are reluctant to relinquish the control they now feel they have on their work-life balance, and it will be difficult for many to transition back to working in the office. Despite this, many companies are experiencing drop-offs in productivity due to digital friction and virtual meeting overload. Some employers are skeptical about learning, engagement, and development opportunities for the employees on a remote-basis and as a result, are preparing to return to the office.

It is not always about the real estate cost, which might only be 6-10% of a company's total cost, it is about employee engagement and satisfaction, because that leads to productivity, and HR makes up +60% of company costs. If a company finds out that majority of their employees live in Burnaby, for instance, and they do not need to be downtown to meet with clients, then cheaper rents and being closer to employees makes sense. There are few things that employers should consider whether they continue remote work practices, introduce a hybrid, or ask people to come back to the office. Employee engagement and feedback will play an important role in the eventual decision.



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## Remote Work: Autonomy and Empowerment

Companies may decide they need less office space and work towards a model of remote working as the foundation. To build a viable model of remote work for the future, it is important for management to address top concerns: engagement, learning and advancement. Hence it is vital to have an agenda for systematic collaboration and development. Virtual meetings,

seminars and regular check-ins can help employees stay focused and productive. As companies have adapted to remote working, they are now using outcome-focused metrics, making performance management easier. Ongoing reviews instead of quarterly or annual reviews can increase productivity and enforce structure.

## Back to Office: Structure and Teamwork

Employers who choose to implement the traditional 9am to 5pm day, five days a week at the office might find it hardest to cope. They will not only need to carefully plan the transition but will likely need more space resulting in possible relocations within existing submarket or even to suburban areas. The office will become extremely important to attract top talent or companies may risk losing talent to other firms that are allowing for more flexible working opportunities. The offices' layout would need to be remodelled to make it more appealing for the employees and help them ease

back into the office. Modern office spaces are being created to empower employees through a creative, inspiring and positive work environment with designs that reflect the firm's culture and values. Another important consideration that companies should be considering is using sustainability sourced materials that minimize the impact on the environment. This is likely the most capital intensive of the approaches, and these companies could find themselves out of sync with other companies in their industry.

## Hybrid Workspace: Flexibility and Collaboration

They could also choose a hybrid model which offers the "best of both worlds". For employees experiencing burnout from staying home, this could have its advantages. Some people also believe that the sense of direction and teamwork in a physical space cannot be matched by remote work. A hybrid model delivers opportunities for structure and collaboration as well as autonomy.

This would instigate newer office layout designs with more distant workspaces. Implications of this model include decision-making in terms of co-working spaces, hoteling or even staff rotations. This hybrid solution is the most likely outcome, but will require reconfiguration of space and new furniture, which will take both time and capital.



# Key Takeaways

## People Have Moved Out of Downtown Because:

- During COVID-19, people were unable to take advantage of the benefits of living in downtown: being closer to work and having access to downtown amenities, which outweighs the higher cost and less living space.
- As a result, many people, specifically renters, decided to move out of the downtowns for more space at a lower cost, either taking advantage of cheaper rent or transitioning to ownership due to lower prices in the suburbs.
- It is important to note that as people go through the life cycle, they eventually get married and have kids and naturally decide to move out of downtowns due to the need for more space and the affordability of that space.
- The dramatic shift in demand for suburban real estate seems to be the fast tracking and concentration of this ongoing trend. Essentially, for the group of households that would have normally put off that decision for another year or two, they are making them now accelerated by COVID-19. We have essentially taken future demand and concentrated it into a shorter time period.

## So, What Does This Mean for Office Demand Across Metropolitan Vancouver?

### The big question is whether tenants will move to the suburbs to chase talent.

- It is not conclusive, and it partially depends on if renters move back downtown post-COVID-19 and what work from home looks like.
- Right now, it is still too soon to tell, as there have been no major decisions or deals or data to back that up, and it is possible that some of the talent returns downtown, followed by future growth downtown post-COVID-19.

### The other question surrounds work from home and commuting.

- If we are assuming people are going to come into the office five days a week, then a long commute downtown each day can be seen as onerous. However, if your time in the office is only three days a week, then that long commute is a lot more palatable.
- Therefore, if renters return downtown and work from home two days a week, we may not see an immediate need for tenants to relocate to the suburbs.

Having said all of this, real estate decisions take time, and are different for each company, based heavily on factors such as cost structures, work conditions moving forward, as well as employee satisfaction, engagement, and performance.

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