



CoStar™

Market Report October 2018

MARKET SUMMARY

Regardless of the details -- even though the devil is in the details --, the USMCA (NAFTA 2.0) agreement is welcomed news, as it has lifted the general uncertainty clouding the economic horizon over the last year, however, this does not change the fact that the overall Canadian economy continues to slow compared to previous years, with GDP growth expected to come in at approximately 2.1% in 2018. The British Columbia (BC) economy is expected to pull ahead with a GDP forecast of 2.4% and an unemployment figure of 4.9% by the end of 2018. The fact that a labour shortage is placing a damper on job growth certainly accentuates BC's impressive low unemployment rate. Despite strong employment growth in the Greater Vancouver Area (GVA) over the last two months, year-to-date (up to Sept. 2018) employment growth is negative, at -0.5%. Employment is expected to continue growing for the remainder of 2018 and over the next few years, with high-tech and construction employment leading the charge. The GVA economy is expected to outperform most other major Canadian cities, with GDP growth of 2.3% in 2018.

Minimal overall wage growth (despite minimum wage increasing), relatively high inflation and rising interest rates continue to wreak havoc on debt servicing costs for households. Ultimately this is weakening consumer confidence and forcing households to start making tougher decisions on how they spend. Much of retail sales growth lately has been fueled by inflation, and as the prices of energy, food and other necessities continue to rise, it is the discretionary items that will become even more discretionary. With more certainty in the economy, expect the Bank of Canada to continue raising interest rates, which will further compound the debt servicing cost issue for households. This has already started weighing on retail sales, in fact GVA's retail sales have declined by 2.2% year-over-year, the weakest performing major market in Canada, and the impact of increasing debt servicing

costs on retail sales is expected to intensify as interest rates continue to increase. Watch for this to start impacting mid-level retailers going forward in 2019.

Given this economic backdrop, the office, industrial and retail commercial real estate markets in the GVA remain deeply embedded in favour of landlords. The office market vacancy rate decreased by 110 basis points (bps) year-over-year to end Q3 2018 at 5.2%. The market continues to experience strong demand from high-tech companies, such as Amazon, and co-working companies, such as WeWork and International Workplace Group (IWG – Regus), continuing to announce new and expanded operations in the Vancouver market. IWG recently agreed to lease 120,393 SF at 400 West Georgia when it opens in 2021. As a result of this dynamic of low vacancy and strong demand, the net asking rental rates are on the rise, however, the average net asking rental rate, at \$23.57/sq. ft. per annum at the end of Q3 2018, was down 2.1% year-over-year due the mix of available space and most of the highest quality space being leased up. It is important to note that downtown vacancy is even lower, at 3.4%, down 200 bps year-over-year, whereas suburban vacancy is only down 70 bps over the same period to end Q3 2018 at 6.3%. For a tenant looking for 100,000 SF of space today, there are no current options in the market, so these tenants will need to wait until the next supply wave is delivered. Due to the limited options currently available, construction activity has picked up, particularly downtown, with current and expected construction projects now representing approximately 10% of the current GVA market office inventory, compared to just 1.7% in Q3 2017. Much of this space will not be available for several years, and as a result demand continues to spill over into the suburban markets. With limited new supply expected in the short term, expect vacancy to remain tight and rental rates to continue increasing.

The industrial market vacancy rate is virtually unchanged year-over-year to end Q3 2018 at 3.2%, however, this is up 40 bps from Q2 2018, as a result of approximately 3.5 million SF of new supply delivered over the previous 12 months. The GVA industrial market remains exceptionally tight, and even though there is 3.4 million SF of space currently under construction, representing 1.5% of existing inventory, it is not enough to meet the demand from tenants and users. As a result the average net asking rental rate continued to increase, up 7.4% year-over-year to \$10.80/sq. ft. per annum. Employment in Vancouver has been sliding for much of 2018, and combined with higher interest rates and high debt levels, consumer confidence and retail sales are beginning to suffer, and this is starting to reflect in the retail market.

Although the retail market vacancy was down 50 bps year-over-year to end Q3 2018 at 2.8%, it is up 10 bps from the end of Q2 2018, however, there has also been approximately 600,000 SF of new retail supply delivered year-to-date. The average net asking rental rate continues to perform well, up 12.5% year-over-year to \$30.61/sq. ft. per annum.

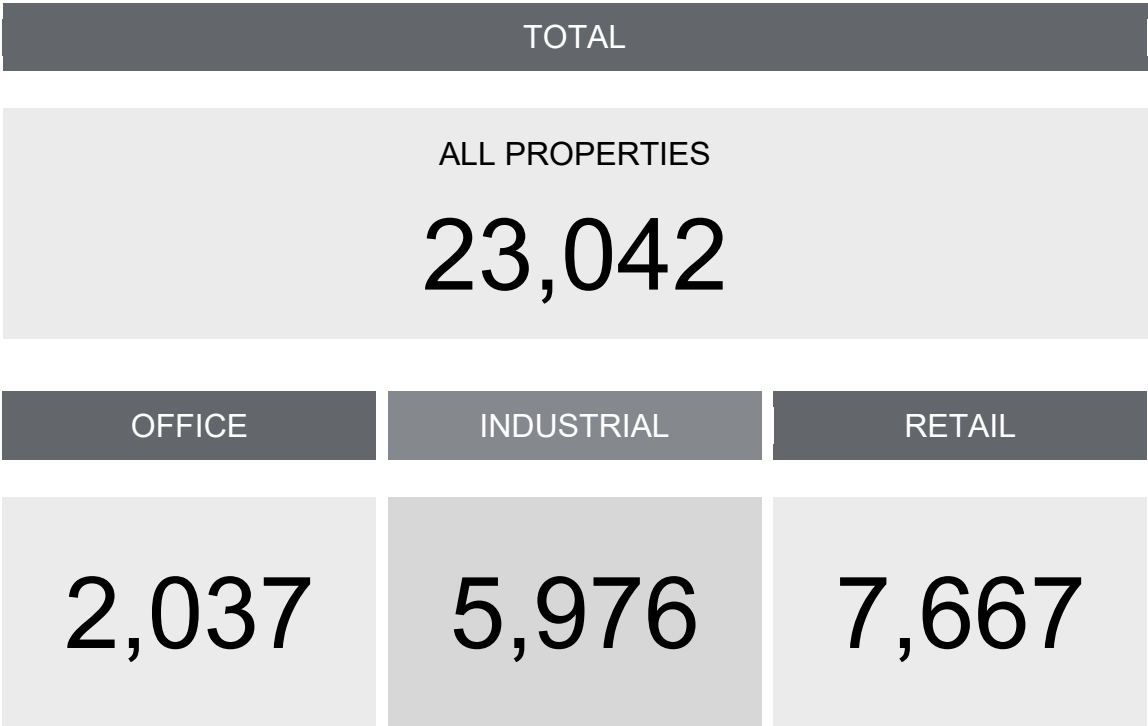
These insights are made possible through CoStar, the largest commercial real estate source for property listings for sale or lease in Canada. CoStar enables users to gain insight into over 22,939 properties currently tracked in the Greater Vancouver Area, which include 973 properties for sale and 3,323 spaces for lease.

CoStar conducts constant, proactive research with a team of 60+ researchers making over 12,000 database updates each day.

Learn how CoStar can help accelerate your business. [Request a Demo.](#)

OVERALL MARKET ACTIVITY

PROPERTIES TRACKED



PROPERTIES FOR SALE

TOTAL LAST 30 DAYS

ALL PROPERTIES 952 NEW LISTINGS ADDED 94

OFFICE INDUSTRIAL RETAIL

315
AVG. SALE PRICE / SQ. FT
\$453

233
AVG. SALE PRICE / SQ. FT
\$335

283
AVG. SALE PRICE / SQ. FT
\$702

SPACES FOR LEASE

TOTAL LAST 30 DAYS

ALL SPACES 3,269 NEW LISTINGS ADDED 309

OFFICE INDUSTRIAL RETAIL

1,655

AVG. NET RENT / SQ. FT

\$23.57

466

AVG. NET RENT / SQ. FT

\$10.80

1,302

AVG. NET RENT / SQ. FT

\$30.61