MARKET SUMMARY

The latest GDP data shows that the Canadian economy continues to slow, and despite the NAFTA/USMCA renegotiations effectively behind us, there remains a tremendous amount of economic and geopolitical uncertainty due to the U.S. vs China trade war, the oil sector and the impact of rising interest rates. As such, even though the Bank of Canada held their Overnight Rate at 1.75% on Dec. 5th, they have now highlighted their concerns about the “oil price shock” and the impact of rising interest rates on debt servicing costs and retail sales. The Greater Vancouver Area (GVA) economy is expected to continue to slow, from 4.5% in 2017 to 2.6% in 2018, and to 2.4% in 2019, however, the GTA will see economic growth remain above both the British Columbia and Canadian trend rates.

Despite efforts, by several levels of government, to slowdown the housing market, Vancouver continues to experience affordability issues. However, with the housing market slowing, construction activity and the Finance, Insurance and Real Estate (FIRE) sector have experienced pullbacks, resulting in weak employment growth. The Vancouver area saw a 3.5% decrease in employment between February 2018 and July 2018, which was due to the slowdown in the residential real estate market and construction activity. However, since then there has been a 1.5% rebound in employment to October 2018, and year-over-year employment is up 1.2%. Employment growth is forecasted to come in at approximately 2.0% in 2019, and although this is up from the approximate 1.0% expected in 2018, it is down dramatically from the 4.8% growth experienced in 2017. However, the unemployment rate is expected to end 2018 at 4.7%, well below the current national average of 5.9%.

The impact of higher interest rates on household budgets cannot be understated. Although income growth has started to pick up, rising interest rates are increasing debt servicing costs, which in-turn is impacting consumer confidence and retail sales. The Bank of Canada (BoC) has acknowledged, due to their efforts to normalize interest rates, that retail sales per capita is slowing and by virtue households are experiencing stress due to higher interests rates. However, due to the uncertainty in the economy as a result of the “oil price shock” and following on the U.S. Federal Reserve becoming more dovish on interest rate hikes, there is some expectation that the Bank of Canada will not continue hiking as fast or as high as originally expected. Although this may provide some relief for households in regards to debt servicing costs, this does raise questions about the economic outlook.

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 150 basis points (bps) year-over-year to end November 2018 at 4.7%. The market continues to experience strong demand from high-tech companies, such as Amazon, and co-working companies, such as WeWork, International Workplace Group (IWG – Regus) and Spaces, continuing to announce new and expanded operations in the Vancouver market. It should be noted that there are potential concerns associated with the recent pullback in high-tech stock prices and how this might impact future expansion plans, but at this point there is no evidence that this will be an issue. As a result of the low vacancy and strong demand dynamic, net asking rental rates are on the rise, however, the average net asking rental rate, at $23.70/sq. ft. per annum at the end of November 2018, is up only 0.7% year-over-year due the mix of available space and most of the highest quality space getting leased up. It is important to note the difference between the downtown and suburban markets. Downtown vacancy, at 2.9%, is down 240 bps year-over-year, whereas suburban vacancy is down only 80 bps over the same period to end November 2018 at 5.9%. As for rents, the downtown net average asking rate is at $27.95/sq. ft. per annum, and is down 2.9% year-over-year, versus the suburban average, at $22.14/sq. ft. per annum, which is up 4.3%. For a tenant looking for over 50,000 Sf of contiguous space today, there are only three options, whereas if this same tenant was looking for 100,000 SF of contiguous space today, there are no current options in the market and they 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 downtown GVA market office inventory. 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 down 40 bps year-over-year to end November 2018 at 2.9%, even though there was over 3.5 million SF of new supply delivered over the same period. The GVA industrial market remains exceptionally tight, and the 3.0 million SF of space currently under construction, representing 1.5% of existing inventory, is not enough to meet demand. As a result the average net asking rental rate continues to increase, up 12.1% year-over-year to $10.90/sq. ft. per annum. Higher interest rates, high debt levels and a housing market that is considerable slower than last year are all impacting consumer confidence and retail sales. Despite this, the retail market continues to perform well, with vacancy down 70 bps year-over-year to end November 2018 at 2.5%, despite the 1.8 million SF of new supply delivered over the same period. The average net asking rental rate continues to perform well, up 9.6% year-over-year to end November 2018 at $29.74/sq. ft. per annum. Even with an additional 2.2 million SF of retail space currently under construction, due to low vacancy and relatively consistent demand, rental rates are expected to continue rising, however, as retail sales levels off, retailer performance might impact their ability to absorb higher rents.

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 23,664 properties currently tracked in the Greater Vancouver Area, which include 787 properties for sale and 2,828 spaces for lease.

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

OVERALL MARKET ACTIVITY

PROPERTIES TRACKED

TOTAL

ALL PROPERTIES
23,664

OFFICE	INDUSTRIAL	RETAIL
2,072	6,048	7,988

PROPERTIES FOR SALE

TOTAL	LAST 30 DAYS
ALL PROPERTIES 787	NEW LISTINGS ADDED 78

OFFICE	INDUSTRIAL	RETAIL
248	194	209
AVG. SALE PRICE / SQ. FT	AVG. SALE PRICE / SQ. FT	AVG. SALE PRICE / SQ. FT
$528	$307	$650

SPACES FOR LEASE

TOTAL	LAST 30 DAYS
ALL SPACES	NEW LISTINGS ADDED
2,828	238

OFFICE	INDUSTRIAL	RETAIL
1,378	407	1,132
AVG. NET RENT / SQ. FT	AVG. NET RENT / SQ. FT	AVG. NET RENT / SQ. FT
$23.70	$10.90	$29.74