MARKET SUMMARY

As we move into 2019, Canadian Real GDP growth is expected to grow at a modest level of approximately 1.7%, after a continued decline from 3.0% and 2.0% in 2017 and 2018, respectively. Pressure from Alberta's oil industry, as well as a slowdown in the housing market and geopolitical trade issues are primarily to blame. This in turn has led the Bank of Canada (BoC) to hold off on increasing interest rates in December 2018, after five rate hikes since mid-2017, and to take a more dovish tone in regards to future rate hikes. In contrast, the British Columbia (BC) economy is expected to lead all provinces with 2.6% GDP growth in 2019. Construction on a $40 billion Liquefied Natural Gas (LNG) project is expected to begin in early 2019 and will introduce 10,000 construction jobs to the province, thus maintaining the provincial unemployment rate at approximately 5.0%. This in turn will also place upward pressure on wages due to the lack of labour and will likely encourage interprovincial migration. The launch of the LNG project is also expected to make up for the softening housing market in Metro Vancouver.

Retail sales in BC are also expected to take a hit in 2019 with expected growth levels estimated at just 4.0%, compared to 7% and 9% in 2017 and 2018, respectively. Due to increased financial pressure on rental and mortgage rates, consumers are expected take a more conservative approach on spending through 2019. This is also reflected in disposable income growth declining from 6.4% in 2018 to an estimated 5.0% in 2019. The good news is that there is downward pressure on inflation as well, which is expected to be 2.7% in 2018 as a whole and 2.0% in 2019, which is in-line with the BoC's target inflation rate between 1% and 3%.

Although it has not been ratified, the new USMCA agreement, formerly NAFTA, is now signed, and as a result some of the tension and uncertainty has eased, specifically in regards to investment planning and exports to the U.S. Despite weak export data in November 2018, Canadian exports as a whole were up 7.4% in the first 10 months of 2018, with Pulp & Paper Products and Machinery & Equipment leading the pack with growth levels at 24.8% and 12.6%, respectively. Further growth of BC exports is expected in 2019, especially with the Canadian Dollar trading at approximately USD$0.75. Even with the attractive exchange rate for international buyers, the recent arrest of Huawei's Chief Financial Officer in Vancouver could threaten China's future imports from BC, which currently represents approximately 15% of all BC exports. Presently, Mainland China imports just under $7 billion worth of goods from BC, however retaliation from Chinese Officials could pose threats on Canada-Chinese relations and trade. With the announcement of a U.S. delegation expected to travel to China in the second week of January, there is a possibility to reduce trade tensions while also bringing back stability to North American markets in the New Year.

2018 was another strong year for all asset classes of the commercial real estate sector in Metro Vancouver. The office market vacancy rate continued to decline in 2018, down 200 basis points (bps) year-over-year from 6.2% at year-end 2017 to 4.2% at year-end 2018. This in turn has placed upward pressure on market rental rates, increasing by 4.89% over the same period to $39.69/sq. ft. per annum. Strong performance in the office sector is expected to hold in 2019 as only 200,000 square feet of net deliveries is expected in 2019. Changes in market performance are not expected until 2020 when an expected 1.5 million square feet of net deliveries is expected in Metro Vancouver, however it should be noted many potential tenants have already secured leasing in these new spaces coming to market, many of which are focused on the technology sector. With limited new supply expected in the short term, expect vacancy to remain tight and rental rates to continue increasing.

The Industrial segment in Metro Vancouver was also a strong performer as vacancy declined from 3.4% at year-end 2017 to 3.2% at year-end 2018, while rent growth increased by 10.2% over the same period. For those that are looking for Flex or Logistical space, vacancy rates finished even tighter in 2018 at 2.1% and 2.3%, respectively. As new industrial buildings come to market, tenants are quick to secure leases. Similar to the office market, new supply will be limited in 2019. With the tremendous amount of focus on the housing and multi-family sector in Metro Vancouver, further pressure on owners of existing industrial sites to sell their land to developers is expected to increase. Sites in Burnaby and Vancouver continue to be rezoned for residential uses, therefore pushing new industrial developments into the Fraser Valley, Delta and into land development partnerships with First Nations.

The retail segment was no different in Metro Vancouver with vacancy decreasing from 3.2% at year-end 2017 to 2.0% at year-end 2018. As mentioned earlier, Metro Vancouver residents continue to face pressure from increasing costs of living and thus it is expected that retail growth will not be as strong as in 2018. Despite this pressure, retail asking rents increased by 4.8% year-over year. Retailers are expected to bring a new shopping experience to consumers in the spring with the expected opening of the Amazing Brentwood in Burnaby. The development is expected to increase the mall's retail area from 500,000 square feet to 1.1 million. Shape Properties, the developer of the mall, has partnered with L Catterton Real Estate, a division of LVMH Moet Hennessy Louis Vuitton. Based on this, it is expected that the development will bring in a high calibre of clothing, dining and entertainment options to the Metro Vancouver market. Even with the increased presence of online shopping, the Metro Vancouver retail sector is expected to remain strong in 2019.

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 23,713 properties currently tracked in the Greater Vancouver Area, which include 732 properties for sale and 2,729 spaces for lease.

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