MARKET SUMMARY

With the first two months of 2019 behind us, there was no shortage of events fueling political and economic uncertainty in Canadian markets. From Jody Wilson-Raybould's recent response to allegations that she was pressured by the Prime Minister's Office to intervene in criminal proceeding against SNC-Lavalin to the ongoing extradition case of Huawei's CFO, all could pose major ramifications for the Canadian economy in terms of trade, employment and growth. Even with these potential challenges facing the federal government, there were some signs of progress. Firstly, Canadian financial markets surged as the S&P/TSX Composite Index rebounded by 11.7% over the past two months after plummeting by 5.8% in December alone. Moreover, the implementation of oil production cuts in Alberta has had a positive impact on oil prices, as the price differential between West Texas Intermediate (WTI) and Western Canadian Select (WCS) has narrowed to approximately $12.50/barrel. The surge in value of WCS since December to $44.25/barrel has also supported the appreciation of the Canadian dollar to $0.76 USD. Even with the recent increase in oil prices, the Bank of Canada will likely hold off on raising interest rates until the fall of 2019 due to slowing economic growth (both within Canada and globally), easing inflation, weak recent data on retail sales and the tumble that the housing market has taken due to the new mortgage rules and higher interest rates.

The latest GDP data for Canada, which was released on March 1st, shows that the Canadian economy only grew by 0.4% annualized in Q4 2018, reflecting the toll that weak oil pricing, the slow housing market and weak business investment is taking on the economy. Economic growth in Canada is predicted to decline from a lower than expected 1.8% in 2018 to a forecasted 1.5% in 2019. British Columbia (BC) is expected to lead economic growth in 2019 compared to its provincial counterparts, with forecasted 2.4% GDP growth. The NDP's latest budget announced the province's sixth consecutive surplus, of $374 million, however, the budget lacked any major changes, as no new tax hikes or cuts were introduced. BC has proven to hold its ground against its provincial counterparts as it led all provinces in terms of total investment in building construction to support Canada's overall 2.5% growth in 2018. BC particularly shined in non-residential construction investment, growing by 3.3% in December 2018 which was primarily fueled by industrial construction investment. The value of building permits issued was also up, by 39.1% in BC and 48.3% in Vancouver throughout 2018.

On the residential housing front, Metro Vancouver home sales recorded the lowest annual total since 2000. Specifically, the region witnessed a 31.6% drop in home sales in 2018 compared to 2017. This trend continued into January, with home sales declining by 39.3% compared to January 2018. With five interest rate hikes over the past 18 months, homeowners' mortgage rates are finally catching up to them. This combined with a 3% increase in the CPI Index for BC during 2018 will directly affect consumer spending in 2019. As consumption and residential housing were key contributors to economic growth in Canada and BC over the past several years, slowing demand in both sectors will shift the focus towards business investment and exports. It will be vital for BC to focus on expanding its technology sector via business investment and increase government infrastructure spending to make up for the downfall in consumer spending and residential housing development over the next several years.

With all the uncertainty looming around political events at the national and international level, the commercial real estate markets in Metro Vancouver have remained strong. In particular, the office market in Metro Vancouver has seen its vacancy rate decline by 30 basis points (bps) since the start of the year, and 260 bps year-over-year, to 3.6% in February 2019. The availability rate also dropped by 30 bps since the start of 2019 to 4.7%, indicating that very few spaces are expected to come to market in the near future. Further pressure on the office market is expected as co-working firms continue to demand more space, especially in the downtown core. International Workplace Group (IWG) has already announced that it cannot keep pace with the demand for growth, resulting in them tripling in size in Canada over the past four years. The company has already secured an additional 238,000 SF in Metro Vancouver and is likely to compete for more space as they plan to introduce their premium brands, No18 and Signature by Regus, in the near future. This will likely add to further pressures on vacancy in 4 & 5 Star Class A properties, which is now experiencing a vacancy rate of 2.4%. Combined with conventional domestic and international demand over the past year, Metro Vancouver office net asking rental rates have increased by 2.7% over the past 12 months to $24.33/SF per annum. Additionally, cap rates continue to move downward, averaging 5.5%, ultimately increasing average office prices up to $569/SF in Metro Vancouver.

The Metro Vancouver industrial sector is even tighter than the office market, with the overall vacancy rate at 2.4%, down 50 bps year-over-year. Flex and logistical spaces saw the largest decreases since the New Year, improving by 140 and 80 bps to 3.3% and 2.4%, respectively. Even with 2.9 million SF of industrial space currently under construction across 37 properties, 17 of them are fully leased to date, and therefore will have minimal impact on vacancy. In fact, over the past 12 months, net absorption topped 4.3 million SF, a 7.8% increase compared to the average 12-month net absorption during 2018. The insatiable demand for industrial space has led to average market rates to increase by 11.7% year-over-year to $11.46/SF per annum. The lack of industrial space has become so dire that a new Metro Vancouver Industrial Lands Strategy Task Force was appointed in December 2018. With a draft strategy expected in June 2019 and a final report presented in the fall of 2019. The Task Force aims to address the relationship to other industrial land outside of Metro Vancouver and its impacts on agricultural land, and to seek actions on the part of all stakeholders with an interest in industrial land in the region.

Despite the continuously evolving retail landscape across North America, and the retail sales within BC, overall retail vacancy dropped 120 bps year-over-year to 1.6% in February 2019, and is the lowest retail vacancy rate in Canada. Even with disappointing retail sales data in the fourth quarter of 2018, retail sales were up 2.7% in Canada overall in 2018. Shopping malls currently have the lowest vacancy in Metro Vancouver, at 0.5%, with four of Metro Vancouver's shopping malls landed in the top 10 most productive malls across Canada in 2018. Specifically, Pacific Centre ranked second, with sales of $1,905/SF, while Oakridge Mall rounded out the top three, with $1,690/SF. In terms of sales growth from the previous year, Richmond Centre grew by 13.1% to come in eighth place, with $1,060/SF, while Oakridge Centre and Metropolis @ Metrotown posted sales growth of less than 1.0%, however, Metrotown did rank third in terms of annual visitor count, with 27.7 million shoppers passing through its doors in 2018. This resurgence in the higher end retail segment is partially attributed to landlords making efforts to revitalize their properties and transforming them into urban villages, such as the massive renovation project at Park Royal in West Vancouver. Also, many landlords are focusing on adding food halls/markets as well as upscale full-service restaurants to the shopping experience. This concept will be present in The Post development at 349 West Georgia, where 25,000 SF will be dedicated to dining options. QuadReal, the developer, has partnered with one of the leading food hall experts, AvroKO, who have brought innovative concepts to market around the world. This surge of activity in the retail sphere has ultimately led to increased demand for retail space in Metro Vancouver causing rental rents to increase by 4.7% year-over-year to $30.52/SF per annum. On the retail investment side, average prices have surged to $679/SF, representing an 8.9% increase year-over-year.

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 23,943 properties currently tracked in the Greater Vancouver Area, which include 689 properties for sale and 2,534 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

23,943

OFFICE	INDUSTRIAL	RETAIL
2,119	6,082	8,045

PROPERTIES FOR SALE

TOTAL	LAST 30 DAYS
ALL PROPERTIES	NEW LISTINGS ADDED
689	65

OFFICE	INDUSTRIAL	RETAIL
232	184	189
AVG. SALE PRICE / SQ. FT	AVG. SALE PRICE / SQ. FT	AVG. SALE PRICE / SQ. FT
$569	$314	$679

SPACES FOR LEASE

TOTAL	LAST 30 DAYS
ALL SPACES	NEW LISTINGS ADDED

2,534

308

OFFICE	INDUSTRIAL	RETAIL
1,277	320	1,016
AVG. NET RENT / SQ. FT	AVG. NET RENT / SQ. FT	AVG. NET RENT / SQ. FT
$24.33	$11.46	$30.52