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MARKET SUMMARY

Looking forward to the second half of 2019 British Columbia's (BC) economy is expected to perform better than initial forecasts announced at the beginning of the year, and is now expected to grow by 1.8% in 2019 compared to only 1.2% for the Canadian economy as a whole. The relatively optimistic outlook can be partially attributed to tourism, improving retail sales and the approval of the Trans Mountain Pipeline by the federal government back in June. The pipeline is expected to triple the existing capacity of the existing pipeline while helping to facilitate trade of crude oil to new Asian markets. The project is also expected to create the equivalent of 15,000 construction jobs per year throughout the construction phase, albeit heavily concentrated in Alberta. As construction is already underway it will have an immediate impact on job creation along with already announced projects including the $9.1 billion Vancouver International Airport expansion and the upcoming $3.3 billion extension of the Millennium SkyTrain line.

This comes at a time when the BC government recently announced that it completed its fiscal year with an operating surplus of $1.5 billion while eliminating its operating debt for the first time in four decades. Much of the surplus was concentrated on increased revenue from personal and corporate income taxes, however, the BC government did see a significant drop in property transfer taxes, down $315 million. This was mainly due to declining residential prices and sales as a result of multiple government interventions at the municipal, provincial and federal levels.

Even with declining residential home prices, Metro Vancouver residents are still facing prices that are out of reach for the average resident who continue to face higher debt-service costs relative to previous years and high personal debt. The BC government has responded with a 9.5% increase in the minimum wage, however, at a new rate of $13.85/hour, it will only provide workers with limited life support. On the brighter side, more people are working in the province as the unemployment rate at an extremely strong at 4.3%. This is also expected to support consumer spending levels, which are estimated to grow by 2.3% in 2019. Additionally, office-based employment is expected to grow by 9.3% in 2019, placing further demand on the office market in Metro Vancouver. In fact, the Metro Vancouver office market continues to show signs of strength as the vacancy rate has continued to decline from 4.0% at the beginning of 2019 to 3.0% to close out the month of July. Strong net absorption levels of 2.5 million SF over the past year have contributed to this decline along with the lack of new office space coming to market as of late.

Developers are actively working to alleviate this shortage as there are now 26 office projects totalling 4.9 million SF currently under construction. With that being said, much of this new stock will not be delivered to the market until late 2021 and 2022. Additionally, many of the new flagship office projects that will be coming to market are heavily pre-leased, thus leaving prospective tenants with little options if they did not secure space well in advance. While Metro Vancouver waits for new supply to hit the market, average net asking rents have continued to increase, up 2.5% year-over-year, to $24.04/SF in July 2019. With demand for office space on the rise, investors have maintained their insatiable appetite to acquire office assets. This was evident with the flagship acquisition of the Bentall Complex by Blackstone Property Partners and Hudson Pacific at the end of June for a value well over $1 billion. The new owners plan to renovate the 1.45 million SF complex to maintain its competitive positioning in the downtown core, especially when those new flagship office projects arrive on the market.

On the industrial front, there are no signs of demand slowing as Metro Vancouver continues to face shortages of available space. In fact, the industrial vacancy declined by a further 130 bps year-over-year to 1.6% at the end of July 2019. Net absorptions levels have also increased over the past year reaching a whopping 5.8 million SF. In particular, the region faces extreme shortages of specialized industrial space as the vacancy rate in this segment is at a mere 0.7%. This has caused prospective tenants to look at the build-to-suit option as the only viable alternative to meet their needs. The extremely tight market has caused net average asking rents to increase by 12.7% year-over-year to $12.17/SF. Even with 3.3 million SF currently under construction, many of the new spaces coming to market will be in the form of industrial strata units, allowing future owners to take control of rapidly increasing rental rates and the possibility of eviction due to redevelopment. A clearer picture of the future of the industrial landscape will likely arrive in the fall when the Industrial Lands Task Force releases their report to guide future industrial development across Metro Vancouver.

Metro Vancouver’s true gem of the commercial real estate market belongs to the retail sector, as the overall vacancy rate has declined by a further 110 bps year-over-year to a record low of 1.3% at the end of July 2019. The surge of demand has been the result of international and luxury brands continuing to increase their presence in Metro Vancouver, and as a result, net absorption topped 2.1 million SF. Major malls across the region, including Pacific Centre, Oakridge Mall and Metropolis @ Metrotown, are all fully occupied with multiple retailers vying to secure space if and when they become available. With the upcoming arrival of the Amazing Brentwood and with construction underway at Gilmore Place, stand alone stores will soon be a thing of the past. Going forward, expect to see most retail development integrated into mixed-use developments.

With a hot retail market, average net asking rental rates have been on an upward trend, growing by 13.0% year-over-year to $34.44/SF. Retailers will now have to make more efficient use of spaces to overcome rising rental costs and continued upward pressure on wages. Finally, international tourism spending has played a major role in the development of the retail sector with retail spending accounting for 25.7% of total tourism revenue in BC or $4.72 billion in 2017.

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 25,046 properties currently tracked in the Greater Vancouver Area, which include 770 properties for sale and 2,499 spaces for lease.

CoStar conducts constant, proactive research with a team of 70+ researchers making over 12,000 database updates each day.

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OVERALL MARKET ACTIVITY

PROPERTIES TRACKED

TOTAL
ALL PROPERTIES
25,046

OFFICE	INDUSTRIAL	RETAIL
2,259	6,331	8,494

PROPERTIES FOR SALE

TOTAL	LAST 30 DAYS
ALL PROPERTIES	NEW LISTINGS ADDED
770	208

OFFICE	INDUSTRIAL	RETAIL
268	230	223
AVG. SALE PRICE / SQ. FT	AVG. SALE PRICE / SQ. FT	AVG. SALE PRICE / SQ. FT
$755	$270	$627

SPACES FOR LEASE

TOTAL	LAST 30 DAYS
ALL SPACES	NEW LISTINGS ADDED
2,499	323

OFFICE	INDUSTRIAL	RETAIL
1,303	347	932
AVG. NET RENT / SQ. FT	AVG. NET RENT / SQ. FT	AVG. NET RENT / SQ. FT
$24.04	$12.17	$34.44