MARKET SUMMARY

With the federal election around the corner, British Columbian's have a lot on their mind. From the troubled forestry industry putting thousands of workers out of work to the ongoing issues related to housing affordability and even the environment, political leaders will have to bring their "A" game to the table to win voter support. The Conservatives have responded by announcing that they plan to eliminate the mortgage stress test while also increasing the amortization periods on insured mortgages to 30 years for first-time homebuyers, which will ultimately lower monthly payments. The Liberals have announced their owns plans whereby they plan to expand the First-Time Home Buyer Incentive to cover homes valued up to $789,000 compared to the current $480,000, which effectively provided no support for Metro Vancouver residents.

Despite the challenges faced by the province, British Columbia is on track to perform better than its counterparts. Additionally, with the Trans Mountain Pipeline construction underway along with several major infrastructure projects about to begin, 2020 will likely provide a better outlook for the province. Furthermore, building permits in July were up 10.5% in the province compared to the previous month, indicating that additional construction activity will soon be underway. This increase represented over one-third of the national increase, with much of the increase derived from the multifamily and office segments.

Although increased construction activity is expected within the multifamily segment, listings of multifamily rental buildings have been on the rise, partially due to landlord frustrations with provincial legislation and caps on rent increases of 2.5% in 2019 and 2.6% in 2020. This combined with soaring property taxes across the region have made it extremely difficult for landlords to maintain their properties. If a landlord decides to “renovict” their tenants they are also now required under the Tenant Relocation and Protection Policy to pay one full year of rent to those tenants who have resided in the unit for over 20 years or more. For those that have rented for up to five years, tenants are now entitled to four months of rent for their troubles. Although there remains demand for these assets, the new legislation is making it even harder to make sense of these deals, and as a result sales have been on the decline since the second quarter of 2018 when sales reached over $547 million. Results from the third quarter indicate that sales volume only reached $124 million. Expect listings of older buildings to increase over time and will likely be acquired by larger institutional buyers who have the ability to redevelop the sites at higher densities while also having the cash flow to compensate existing tenants to vacate their units.

With the third quarter of 2019 behind us, the Metro Vancouver office market closed the quarter with a vacancy rate of 3.1% and is expected to decline by an additional 30 bps by the end of the year to 2.8%. Much of the decline can be attributed to continued demand in the downtown core as vacancy in this submarket dropped an additional 50 bps quarter-over-quarter to 1.9% at the end of the third quarter. The suburban market also remains tight, but vacancy remained at 3.8%. Much of the demand for office space in suburban markets has been concentrated in Burnaby and Surrey where gross rents can be as much as $15 per square foot lower than in the downtown core. However, this has not stopped rents from increasing by 3.8% over the past 12 months. Construction activity has picked up during the third quarter with 1.3 million square feet of office space breaking ground, bringing the total level of construction activity across Metro Vancouver to 6.2 million square feet. Expect rents to remain high for these new builds as 67% of this construction activity will be located in the downtown core where average gross rents closed the quarter at $52.26 per square foot.

In contrast, construction starts in the industrial sector have been limited during the third quarter with only 367,300 square feet breaking ground, when the last four quarters have averaged 594,700 square feet of construction starts per quarter. An influx of a new deliveries are expected by the end of year with 2.4 million square feet arriving on the market, however as expected the majority of this space is already pre-leased. This will include the opening of the new 500,000 square foot Amazon Fulfilment Centre in Tsawwassen where hiring is already underway. Since construction cannot keep pace and many firms deciding to pre-lease, those existing industrial spaces on the market have now seen rents increase by 9.1% year-over-year, while rents for distribution and logistics facilities have increased by a whopping 10.3% over the same time frame.

Although retail sales were down in July by 0.8% in the province and 1.0% in Metro Vancouver compared to July 2018, the retail sector is still holding strong. In fact, retail e-commerce sales have increased by 32.8% compared to the same time last year and now represent 3.2% of total retail trade across the country. Demand for retail space remains strong in Metro Vancouver as third quarter sales volume topped $243 million, similar to sales results in the third quarter of 2018. This included the portfolio sale of Cottonwood Mall, where Nicola Wealth Management in partnership with PCI Developments purchased the 263,000 square foot property for $78.4 million. Luxury retailers also continue to open or expand operations in the downtown core, which include the newly opened 6,000 square foot flagship Hermès store on the corner of Burrard and Georgia. Despite weakness in retail sales, rents within Metro Vancouver were up by 5.5% year-over-year in the third quarter, and rents within malls in the Lower Mainland increased by 7.8% over the same period.

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