



Vancouver April Market Report Now Available

by Canada Market Analytics Team | Mar 28, 2020



The CoStar Canada Market Analytics Team recently released its April newsletter update focused on Vancouver. Check out the team's assessment of performance across all Vancouver market segments, and its forecast for the days and months ahead, below.

As the world comes to terms with a new way of life, the Canadian government has announced over \$200 billion in emergency response benefits to help workers and businesses cope with the massive economic impact caused by the spread of the coronavirus. An array of programs have been introduced, designed to support Canadians and businesses, as well as provide liquidity during this difficult time. As the economy comes to a grinding halt, Canadians directly impacted by the coronavirus will see immediate support in the form of a taxable benefit of \$2,000 per month for up to four months.

Canadian businesses will be supported by deferring income tax payments to August 31st and by introducing the Business Credit Availability Program which will allow the Business Development Bank of Canada and Export Development Canada to provide more than \$10 billion to help small-to-medium sized businesses obtain financing and remain resilient over the coming months.

Even with the robust aid package, there is no doubt that the coronavirus pandemic will cause the largest detrimental impact on the Canadian economy in modern history, ultimately leading us into an official recession by the start of the third quarter. The Federal government estimates that nearly four million Canadians could apply for unemployment benefits throughout this downturn, and early estimates indicate that the Canadian unemployment rate could jump from 5.6% at the end of February 2020 to approximately 10% in the second quarter of 2020, before falling back down to 7.5% at year-end 2020. It is clearly evident that this will have a major impact on retail sales, tourism, and businesses in general, with landlords of all assets types clearly concerned that tenants may not be able to make rental payments in the coming months. Correspondingly, GDP forecasts have seen rapid downgrades, with the current average among major Canadian banks estimating that Q1 2020 GDP will contract by 2.9%, followed by an incomprehensible contraction 21.6% in the second quarter, before rebounding to positive 13.7% and 7.0% GDP growth in the third and fourth quarters of 2020, respectively.

The provincial government is also stepping in to support British Columbians during this difficult time with a \$5 billion aid package which includes a one-time \$1,000 payment to people who lost income due to the coronavirus while businesses will have their tax payments deferred until September 30th. One key area of concern for BC residents is the issue related to meeting monthly rental payments as over 36% of households are renters in the province. The provincial government has responded by initiating a new rental supplement of \$500 per month, halting evictions and freezing rent increases during the state of emergency, while landlords in the City of Vancouver will be able to defer property taxes for 60 days. This combined with federal initiatives should provide most residents with temporary relief over the next four months, however, further injections will likely be required as health officials try to combat the spread of the virus.

As we all stay home to contain the spread, activity in the commercial real estate market has been adversely affected to varying degrees. Property showings have come to halt, however, for the office sector, much of the leasing activity over the past few months has been primarily concentrated in pre-leasing activity and thus prospective tenants have relied heavily on floorplans and renderings of the finished product to make leasing decisions. With the office vacancy entering this downturn at historic lows, current available space represents a very small percentage of the overall leasing volume in Metro Vancouver.

One area where the impact will be felt to a greater degree will be within the co-working domain, where many small businesses, freelancers, and independent contractors typically lease space on much shorter terms than a traditional lease. For those with cash-flow, they should be able to weather the storm, however, for those that don't, expect to see leases not being renewed. Despite the current situation, acquisitions still continued in March with Allied Properties REIT agreeing to acquire The Landing, a historic office building at the entrance of Gastown. Once finalized, the acquisition will add to their growing portfolio of 11 existing properties across Metro Vancouver.

The industrial sector will play a key role during these unprecedented times as demand for e-commerce logistics and distribution space is expected to significantly increase due to consumers transitioning to online deliveries. Now more than ever, firms will need to increase warehouse capacity to meet the surge in consumer demand for various household and medical necessities. Flex spaces are also expected to see increased activity as their versatile nature can temporarily serve as warehouse space before transitioning back to other uses once the coronavirus pandemic resides.

The current situation is also likely to fuel further demand for manufacturing facilities across the Lower Mainland as the country shifts to a "Made in Canada" approach to combat shortages of critical medical supplies. For those manufacturing businesses that have been adversely affected by the pandemic, expect to see these businesses transition to produce other vital goods in the short-term. For example, BC distilleries have now been permitted to manufacture hand sanitizer to aid in the fight against the spread of the virus and fill the need for critical supplies for our front-line workers. Furthermore, expect many companies to at least rethink their supply chains, by geographically diversifying and potentially moving away from the globalization idea, even if just partially, in efforts to secure local production.

There is no doubt that the coronavirus has had the greatest immediate impact on the retail sector. Thousands of retailers across Metro Vancouver, and Canada, have closed their doors, while only essential services such as grocery stores, pharmacies, take-out restaurants, and gas stations remain open. With retail trade activity accounting for over \$37 billion and employing over 230,000 people in Metro Vancouver, it will truly impact many livelihoods. Although the federal government has announced that it will provide business owners with wage subsidies to avoid layoffs, the 10% remuneration provides little to no impact as the majority of businesses have seen all revenues wiped out.

Luckily, other segments of the retail sector have picked up due to increased demand including Walmart Canada announcing 10,000 new jobs across the country along with increases in demand for employment in warehousing, security and delivery services. These newly created positions will not replace those that were lost, but will at least ease the blow as people come to terms with the reality of the situation during this historic time. Do not be mistaken, this could very well be a mass extinction event for smaller retailers and restaurants, which will have repercussions for the businesses that support them. Furthermore, tourism will be heavily impacted for the year, which will severely impact Vancouver, which saw over 1.5 million cruise passengers pass through the city in 2019. Landlords that can offer rent deferrals will be well placed to benefit when the economy returns, as they will have tenants that hopefully can resume operations. Unfortunately most landlords are unable to offer rent deferrals, and these landlords risk having properties with tenants that have gone dark.

OVERALL MARKET ACTIVITY

PROPERTIES TRACKED

ALL PROPERTIES		
26,883		
OFFICE	INDUSTRIAL	RETAIL
2,326	6,466	8,748

PROPERTIES FOR SALE

TOTAL	LAST 30 DAYS
ALL PROPERTIES 1,150	NEW LISTINGS ADDED 101

OFFICE	INDUSTRIAL	RETAIL
335 AVG. SALE PRICE / SQ. FT \$802	363 AVG. SALE PRICE / SQ. FT \$390	346 AVG. SALE PRICE / SQ. FT \$750

SPACES FOR LEASE

TOTAL	LAST 30 DAYS
ALL SPACES 2,882	NEW LISTINGS ADDED 297

OFFICE	INDUSTRIAL	RETAIL
1,406 AVG. NET RENT / SQ. FT \$24.76	492 AVG. NET RENT / SQ. FT \$13.01	1,061 AVG. NET RENT / SQ. FT \$33.95