Vancouver July Market Report

by Canada Market Analytics Team | Jun 30, 2020

CoStar

MARKET SUMMARY

With the first half of 2020 behind us, Canada now looks to move forward with the gradual reopening of the economy across the nation. Although Canada overall is reopening at a much slower pace than our neighbours to the south, our reopening plans do not seem to be suffering from the same setbacks, lending credence to the old adage that slow and steady wins the race. Despite recording it's worst monthly GDP drop on record in April, at -11.6%, Canada's economy has so far avoided a major collapse so far due to the federal government injecting over $250 billion to keep the economy afloat during the pandemic lockdown, the nation is now paying the price as Fitch Ratings downgraded Canada's credit rating from AAA to AA+. Although Canada's government debt-to-GDP ratio increased from 88.3% in 2019 to 115.1% in 2020, Canada continues to be in a stronger financial position than many other G7 countries as global markets continue to invest in Canadian bonds. Going forward, the credit agency has confidence in Canada's economic recovery in 2021 because of the advanced, well-diversified and high-income nature of its national economy, however, expects that Canada's debt-to-GDP ratio will continue to increase before stabilizing at approximately 120% between 2022 and 2024.

On the provincial front, British Columbia has been seen as a model for the rest of Canada in terms of managing the pandemic. In fact, Deloitte's latest economic outlook indicates that British Columbia will outperform the rest of the nation, posting the mildest downturn while returning to pre-COVID levels the quickest among the major provinces, albeit after at least six quarters. The province may however face further trade challenges with China as the extradition case with Meng Wanzhou continues after the Prime Minister reiterated that the federal government will not intervene in the proceedings. Moreover, as the federal government has not made a decision as to whether Huawei will be allowed to supply 5G equipment within Canada, it has ultimately forced Telus and Bell to bypass Huawei in favour of Nokia and Ericsson for its 5G buildout, despite both carriers indicating their desire to work with the Chinese tech giant. Canada's indecisiveness on the decision will ultimately fuel further tensions between the countries especially after Huawei losing multiple extremely high valued contracts with two of Canada's key carriers.

For the most part, the commercial real estate sector in Metro Vancouver has avoided any massive shocks to the market so far, it has started to finally show signs of weakening. In fact, Vancouver's office market has seen vacancy increase by 40 bps since the end of the first quarter 2020 to 3.3%, yet office lease rates and market prices have remained stable. This may be due to the fact that the number of completed office sale transactions declined by 14.9% in June compared to May while the number of leases declined by 40.4% over the same time frame. Sales and leasing activity are expected to remain slow during the recovery stage but could see further interest from tech firms as a result of President Trump signing an executive order to temporarily halt the issuance of H-1B visas for highly skilled workers in the U.S. With ongoing tech talent shortages in the U.S., many tech executives have already voiced their displeasure with the ban and have indicated that they will continue to look to Canada and Vancouver to open offices to position foreign staff to accommodate their future growth plans.

The industrial sector in Metro Vancouver has also seen a slight upswing in vacancy, increasing by 20 bps since the end of the first quarter to 2.1%. Unlike the office sector, industrial leasing and sales activity has not seen any declines compared to May, but instead saw a slight uptick in market prices and lease rates. Even Martini Film Studios got in on the action in June, subleasing 21,000 square feet of warehouse space in northwest Langley after the space was on the market for only one month. For the time being, the industrial market continues to remain stable, but with the availability rate now at 3.9%, a figure not seen since the end of 2016, however, there may be a cool down for this segment in the months to come before picking up again in 2021. Further guidance in this sector is expected shortly as the Industrial Lands Task Force is now in the final stages of approving the revised Industrial Lands Strategy for the region.

As the retail sector was the most severely impacted sector from the pandemic it is no surprise that retail sales took a major hit. In fact, Canadian retail sales declined by 26.4% year-over-year in April. Surprisingly, British Columbia avoided massive declines compared to Ontario and Quebec, only seeing a drop of 22.1% while Metro Vancouver saw sales drop by 25.4% in April. The decline in sales has led many prospective tenants to hold off on leasing any retail space as the number of leasing transactions declined by 26.7% in June compared to May and a whopping 67.8% compared to June 2019. Even the number of sales transactions declined by 20% in June compared to May and 35.3% compared to June 2019. Despite the uncertainty surrounding the retail sector and how businesses will operate under social distancing measures, Cineplex moved ahead with the lease signing for its new Rec Room concept at 855 Granville Street in June and expects to move into the newly renovated 44,500 square foot facility by the end of November 2020.

OVERALL MARKET ACTIVITY

PROPERTIES TRACKED

TOTAL
ALL PROPERTIES
28,161

OFFICE	INDUSTRIAL	RETAIL
2,394	6,615	9,014

PROPERTIES FOR SALE

TOTAL	LAST 30 DAYS
ALL PROPERTIES	NEW LISTINGS ADDED
1,280	127

OFFICE	INDUSTRIAL	RETAIL
389	398	394
AVG. SALE PRICE / SQ. FT	AVG. SALE PRICE / SQ. FT	AVG. SALE PRICE / SQ. FT
$824	$385	$789

SPACES FOR LEASE

TOTAL	LAST 30 DAYS
ALL SPACES	NEW LISTINGS ADDED

3,314

425

OFFICE	INDUSTRIAL	RETAIL
1,619	583	1,190
NET RENT / SQ. FT	NET RENT / SQ. FT	NET RENT / SQ. FT
$24.91	$13.27	$33.71