VANCOUVER

EXECUTIVE SUMMARY

- Government intervention slowed investment decision-making in 2019 but activity likely to stabilize in 2020.
- Office vacancy to remain at record lows as rental rates achieve record highs with new supply at least two years out.
- Demand for industrial space to keep vacancy at record low with no relief on the horizon while boosting sales of strata units.
- Red tape and changes to residential tenancy acts in core municipalities pushing multi-family investors to secondary markets.
- Residential land prices stabilized at a lower threshold in 2019 than achieved in 2017/18, led to renewed investment activity but delays in new condo starts.

Strong market fundamentals in Vancouver kept the metro area in good stead despite market headwinds that could have seriously imperilled the region's positive commercial real estate (CRE) investment climate. As investors acclimatize to this new environment, sales activity is expected to resume in 2020 while those seeking to lease office or industrial space will have very limited options until at least 2022.

An ongoing low-interest-rate environment and a currency discount available to U.S. and European buyers has helped support Metro Vancouver's investment market despite the government intervention that moderated investment activity in 2019. The sale of the Bentall Centre in Downtown Vancouver for approximately C$1.05 billion to U.S.-based Blackstone Group and Hudson Pacific Properties marked the largest investment transaction of 2019 and substantially boosted total office dollar volume – a total that is unlikely to be repeated in 2020. Vacancy in Downtown Vancouver's office market achieved a record low of 2% in 2019 with no relief in terms of new supply until at least 2022 and a rapid appreciation in office rental rates. A wave of new office towers targeting large technology tenants is under construction and will be delivered with new building systems that lower operating costs, reduce emissions and allow tenants to benchmark a range of sustainability measures. The rise of co-working, which grew rapidly from 2017 to 2019, will likely slow in 2020.

Regional industrial vacancy achieved a new record low of 1.2% in first-half 2019, a figure that is unlikely to rise in 2020 despite substantial new construction that is largely preleased/presold. Industrial investment dollar volume in 2019 remained similar to 2018; however, deal volume rose – largely due to the completion of numerous strata industrial developments that included dozens of new units. Low finance costs, high industrial land costs combined with rising industrial lease rates and very limited opportunities to lease industrial space have led to the prevalence of industrial strata units, a trend expected to accelerate in 2020. E-commerce and related logistics operations remain a large and growing component of the regional industrial market due to the presence of the Port of Vancouver and this is expected to continue in 2020 and beyond. In late 2019, Amazon opened a new 450,000-sf fulfilment centre where they had spent months beforehand installing advanced automation systems.

Investment in retail was muted in 2019 in terms of total deal and dollar volume compared with previous years with the largest transactions of the year involving enclosed malls in secondary markets. For much of the past five years, large enclosed malls in core metro markets have transacted and are being redeveloped into more complex mixed-use communities that typically include office, retail, residential and municipal amenities along with rapid transit access. More than a dozen of these massive redevelopments – which typically include considerations for automated vehicles and utilize sustainable building technologies – are underway throughout Metro Vancouver.

With low unemployment, robust in-migration and a likely decrease in government intervention combined with ongoing strong demand for housing along with office and industrial space, CRE investment activity in Metro Vancouver is anticipated to resume its upward trajectory in 2020.

Strong market fundamentals in Vancouver kept the metro area in good stead despite market headwinds in 2019 that could have seriously imperilled the region's positive investment climate.

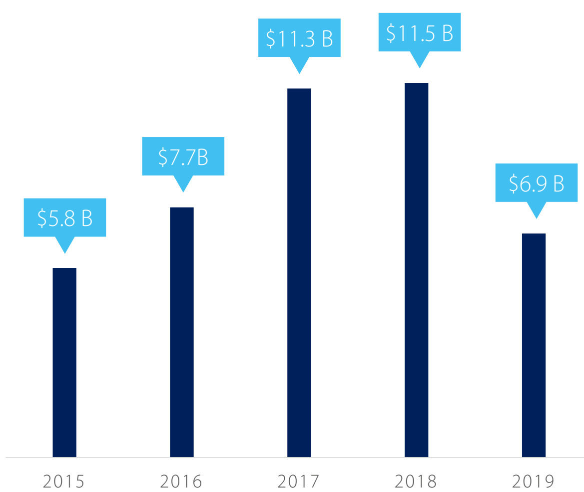
KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	↑	↑↑	↑↑
Vacant Space	↑	→	↓↓↓
Construction Levels	↑↑↑	↑↑	↓↓↓
Leasing Volume	↑↑↑	→	↑
Investment Volume	↓↓↓	↑↑↑	↓

HISTORICAL INVESTMENT VOLUME

Vancouver Metro Area Total Annual Volume ($Billion)



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