Top 10 Real

INSIGHTS

Vancouver Real Estate Strategy & Leasing Conference 2022

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ISSUE 85

TOP 10 | REAL INSIGHTS | Vancouver Real Estate Strategy & Leasing Conference | ISSUE 85

INSIGHTS FROM INDUSTRY LEADERS DURING THE CONTENT FORMATION OF THE VANCOUVER REAL ESTATE STRATEGY & LEASING CONFERENCE

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1. WHAT ARE THE DEMOGRAPHIC TRENDS IMPACTING THE REGION AND HOW CAN BC MAINTAIN ITS COMPETITIVE ADVANTAGE?

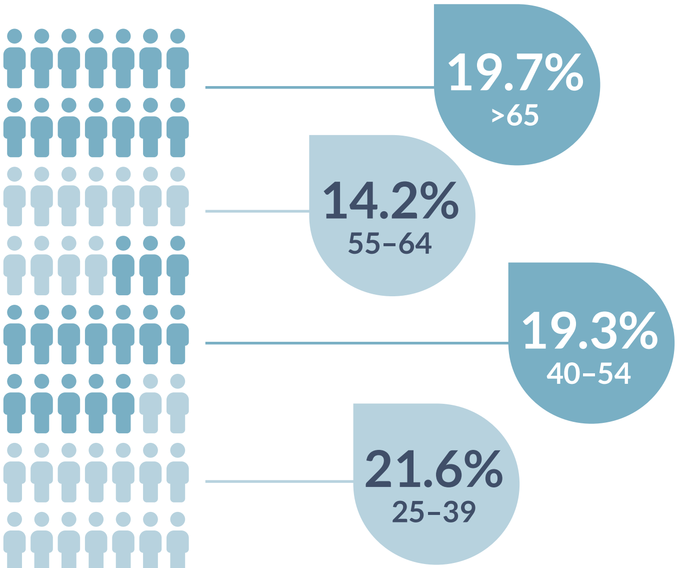
As of April 1, 2022, B.C.'s population was estimated to have grown 22,043 from Q4 2021, to 5,286,528. Year-over-year population growth was 1.9 percent.

The latest figures from Statistics Canada indicate that one demographic trend affecting British Columbia won't change much. Canada's largest cities will continue to see the largest concentration of immigrants, and this trend will continue till 2041, with Toronto, Vancouver, and Montreal remaining the three primary areas in which newcomers to Canada settle.

The "obvious housing market and the contrast between the country's urban and rural regions is reminiscent of some of the current challenges arising from their specific demographic dynamic, including not only pressures on the development of urban infrastructure, but also the loss of the demographic weight of the country's rural regions," according to Stats Can.

As of April 1, 2022, B.C.'s population was estimated to have grown 22,043 from Q4 2021, to 5,286,528. Year-over-year population growth was 1.9 percent. Net in-migration from other provinces was 3,051 in Q1 2021, while net international migration was 20,838, "with international migration driving much more of the growth comparatively." B.C. benefited from 18 percent of Canada's total immigrants. (BC Stats, "Quarterly Population Highlights: April 1, 2022")

By 2021, B.C.'s average age was 42.8, up from 40.8 in 2011, with **people over 65 comprising the second largest and fastest growing cohort, almost 20 percent of the population (19.7%), an increase of 4.4 percent over the 10-year period. Those aged 25-39 made up 21.6 percent of B.C.'s total residents, 40-54 made up 19.3 percent, and 55-64 made up 14.2 percent.** (Chartered Professional Accountants British Columbia, "BC Check-Up 2022 LIVE")



The increase in B.C.'s population growth, a total of 7.6 percent between 2016 and 2021, was not confined to Metro Vancouver, however, with four of the province's smaller Census Metropolitan Areas (CMAs) seeing increases in excess of 10 percent: Kelowna, Chilliwack, Kamloops, and Nanaimo.

B.C. is now the third largest Canadian province by population, after Ontario and Quebec. Kelowna is Canada's fastest growing CMA, with growth of 14 percent (2016-2021), while Chilliwack saw 12.1 percent growth, and both Nanaimo and Kamloops grew 10 percent. On the Island, Langford (Greater Victoria area), and Tofino grew 32 and 28 percent respectively.

Within the Vancouver CMA, the City of Vancouver grew five percent during the five-year period, while Surrey grew 9.7 percent, Langley Township 13 percent, and Abbotsford 8.6 percent. However, Statistics Canada data published in mid-September 2022 indicated that "B.C. is leading the country as the province with the highest rate of unaffordable homes … due largely to the number of people paying high rents to live in downtown Vancouver." With many British Columbians spending at least 50 percent of their income on housing alone, the province leads the country in renter households. In Kelowna, the percentage of renters increased more than 54 percent between 2011 and 2021, while home ownership in the province overall declined 3.2 percent in the same time period.

Obviously there is both correlation and causation between the increase in home sale prices and rental prices and the decline in homeownership figures: with sky-high rents, younger cohorts are unable to save for down payments on homes and must continue to rent, while older cohorts have taken advantage of record-high valuations to cash out and are either downsizing to smaller homes or condos or becoming renters once again. (CBC News, "The fastest growing population centres in Canada are in B.C. – but they're not in Metro Vancouver")

2. ECONOMIC OUTLOOK FOR THE LOWER MAINLAND: WHAT WILL RECOVERY LOOK LIKE?

BoC rate hikes have exacerbated B.C.'s economic slowdown. B.C. consumers lead the country in household debt, which will make the effects of a mild recession more extreme as purchasing power is eroded.

RBC Economics' Provincial Outlook ("Hot provincial momentum to lose steam") forecasts the Bank of Canada's monetary policy will "slow momentum to a crawl in 2023" and expects a mild recession in the middle of next year, whose effects will be felt nationwide. 2022, however, has been a year of solid growth for most Canadian provinces as they recover from pandemic lockdowns and other disruptions.

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Written by Ruth Seeley of No Spin PR

For the first half of 2022, most provincial economies were in expansion mode, and B.C. was no exception. While real GDP growth in B.C. was only 3 percent, down from 2021's 5.9 percent, it was only slightly below the Canadian average of 3.3 percent. By 2023, however, B.C.'s real GDP growth will slip to 0.4 percent, while the country's is 0.5 percent, making B.C. the province with the second lowest real GDP growth rate in the country (Ontario's 2023 real GDP is forecast at 0.3 percent).

The large and steady Bank of Canada rate hikes have made B.C. and Ontario the epicentres of the economic slowdown, with home resales down 40 percent compared with the national average of 18 percent, due in part to the fact that "earlier gains were extreme and … buyers are especially sensitive to higher interest rates." B.C. consumers lead the country in household debt, and this will make the effects of even a mild recession more extreme as purchasing power is eroded not only by continued rising prices but also by increased debt servicing requirements.

While tourism, the province's major industry, rebounded in 2022, "B.C. is likely to be hit harder by the housing market correction than most other provinces as residential investment represents a larger share of its economy. The negative wealth effect from falling property values will further amplify the weakness by slowing consumption."

RBC forecasts the B.C. unemployment rate will remain relatively low compared with pre-lockdown levels, 4.9 percent for the remainder of 2022 and 5.4 percent in 2023, down from 2020's 8.9 percent. Housing starts are already starting to decline, however. In 2021, there were 476,000 housing starts; 422,000 anticipated for 2022, and by 2023, that number will decrease to 360,000.

Further rate increases by the Bank of Canada will exacerbate the rise in unemployment and decreased consumer confidence, and since the U.S. Federal Reserve has signaled it will follow its 75 bps overnight rate hike September 9, 2022, with two more rate hikes of 75 bps and 50 bps in November, it is likely the Bank of Canada will follow suit.

Central 1, the central financial facility and trade association for the B.C. credit union system, forecasts the provincial economy will slow not only in 2023 but the following year as well, although the province "remains in a relatively solid economic position, having weathered much of the [pandemic] challenges better than its provincial peers." The credit union notes that despite numerous adverse weather effects that have caused both flooding and landslides, B.C.'s economy has maintained some momentum in 2022, "owed in large part to a lighter touch by provincial health authorities in B.C. during the Omicron wave," and that the remote working pandemic phenomenon has fueled growth in the tech sector and professional services (an increase of 10 percent) and, more significantly, has spread this employment more evenly throughout the province than usual, with Vancouver's employment growth in these sectors becoming an anchor rather than remaining the epicentre. (Central 1 Economics, "Economic Analysis of British Columbia, Volume 41, Issue 1") In-migration from other provinces also tended to benefit regions other than the Lower Mainland, primarily Vancouver Island and the Okanagan.

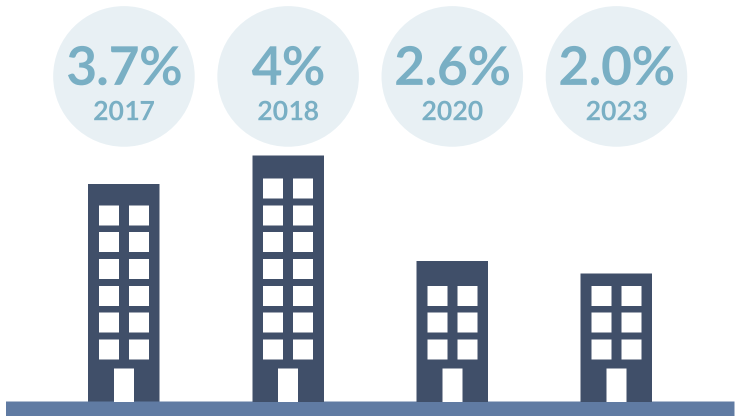
B.C. has benefited greatly from stronger international goods exports, especially in the resource sector, and saw a 40 percent increase in forestry and a 70 percent increase in energy exports. This reflects the surging prices for both these commodities, however, which have since moderated.

3. LANDLORD & TENANT RIGHTS AND REMEDIES IN TODAY'S MARKET

Major changes were made to residential tenancy laws due to B.C.'s affordability crisis.

As of January 1, 2022, the moratorium on rental increases in B.C. was lifted and landlords were allowed to impose annual rent increases of 1.5 percent. The 2023 increase is 2 percent, well below 2020's pre-pandemic 2.6 percent, and significantly lower than 2017's 3.7 percent or 2018's 4 percent. This reflects several economic realities: both B.C. rents and real estate are unaffordable for most, and inflation and rising interest rates are taking a huge bite out of consumers' budgets.

Annual Rent Increases



Changes to residential tenancy laws were enacted in July 2021, based on Rental Housing Task Force recommendations. They included imposing the rent freeze, creating a more hostile climate for renovictions and putting the onus on landlords to prove they have all permits and approvals for their planned renovations before being granted eviction orders. Owners must also convince the Residential Tenancy Branch (RTB) that vacant occupancy is necessary to perform the renovations and are now required to give tenants four months' notice. Landlords can apply for rent increases in excess of the annual allowable amount when the renovations have been completed.

Other changes involve increased compensation for tenants evicted for landlord's use of the premises and increased responsibility for the landlord to not only make use of the premises promptly and for a period of at least six months but also to prove the eviction was indeed for the use of the landlord or a close relative. If either of those conditions are not met, the tenant is eligible for 12 months' rent as compensation.

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Written by Ruth Seeley of No Spin PR

Also announced in 2021 as forthcoming changes:

- a plan to grant the right of review to the RTB when an error has been made, rather than the case being automatically sent for judicial review;
- increased authority for compliance and enforcement to compel the production of records from contractors, even if they themselves are not under investigation; and
- greater protection for tenants of manufactured homes, since the current act does not protect tenants against park rules that cannot only be changed frequently, but can also currently override existing tenancy agreements.

4. HOW IMPORTANT IS QUALITY OF OFFICE SPACE IN THIS COMPETITIVE ENVIRONMENT?

Across Vancouver's major market areas, tenants are looking for higher quality spaces that meet ESG criteria.

Downtown

Class AAA space saw the largest increase in vacancy rates in the 12 months between H2 2021 and 2022, a total of 276,873 sf, while Class A space also increased (by 110,007 sf) over the same period. Class B and C office spaces in downtown Vancouver saw a combined decrease of 85,488 sf. The "widely accepted theme of flight-to-quality" as an office trend paired with the decrease in vacancy rates of Classes B and C are not actually contradictory, Avison Young points out in its "Metro Vancouver Mid-Year 2022 Office Market Report." More than half a million sf of new Class AAA space was delivered at the end of 2021, and this new supply has been absorbed, with Class AAA vacancy decreasing to 8.4 percent by H2 2022, down from 9.5 percent at the end of 2021. The flight-to-quality will filter down to Class A office space next, as Class AAA becomes increasingly rare.

Burnaby

No new supply delivered in H1 2022 and positive absorption of Class B space led to a slightly lower office vacancy rate in Burnaby by the middle of 2022, 6.9 percent. While down only 0.1 percent over year-end 2021, it was the lowest office vacancy rate recorded since the middle of 2022. There were both several new lease deals and significant renewals in the first half of 2022, while three large subleases accounted for one third of the overall vacancy rate for Burnaby, 70 percent of whose inventory is Class A space. There was an increase in Class B space (22 percent of Burnaby's office inventory) in H2 2022, and deal velocity remained "steady."

New supply in the form of 42,478 sf (phase six of Beedie and Anthem's Station Square development) and 50,715 sf in phase three of Kingswood's 3555 Gilmore Way will become available in H2 2022, although 67% of Gilmore Way is preleased. Avison Young forecasts "rental rates are expected to remain relatively steady through 2022."

Richmond

Richmond saw steady increases in office vacancy rates during the pandemic, hitting a high of 10.2 percent by year-end 2021. The market is beginning to rebound, with the vacancy rate falling to 7.8 percent by the end of June 2022. Class A Richmond office space had an 8.3 percent vacancy rate overall, while Class C's vacancy rate was 7.4 percent at the end of H2 2022. Lack of new supply and the return to office, even in hybrid form, should, however, lead to continued higher absorption of Class A space.

Surrey

"The third tightest market in Metro Vancouver with only the North Shore and New Westminster having lower vacancy rates," Surrey's office vacancy rate was 5.7 percent at the end of H2 2022, down significantly from 8.5 percent a year earlier. With very little new supply in the works and the only new supply added in H2 2022 by the Professional Centre at 3231 152 Street, which was 65 percent pre-leased, Avison Young forecasts rental rates should increase modestly over the next year and vacancy "is expected to remain tight for the remainder of the year."

The application of ESG criteria to the office market in particular is a trend that is now being driven by employees, government, developers, and owners. "[C]onsidering ESG in designing an office can boost productivity and morale for employees, reduce energy consumption, meet modern standards for emissions expectations, and bolster trust among stakeholders," according to Avison Young.

Long-term savings in energy costs goes hand-in-hand with meeting new government regulations such as the City of Vancouver's plan for office and retail spaces to reach zero emissions by 2040 and achieve a 40 percent reduction by 2030, with all new builds having a zero emission mandate as early as 2025.

5. NEGOTIATING STRATEGIES IN A TURBULENT ECONOMIC ENVIRONMENT: UNDERSTAND THE DEAL, RESOLVE KEY ISSUES AND CLOSE THE TRANSACTION.

Motivated sellers should recalibrate their pricing while buyers focus on strategic purchases and think longer term.

In the video "What the 5th Fed Rate Increase Means for Investors," Marcus & Millichap's Senior Vice President John Chang identifies a growing "expectation gap between buyers and sellers" as interest rates continue to rise. He says sellers have so far proved slow to adapt to a cooling market, and this will ultimately end up chasing market prices down, since buyer behaviour has already changed, with buyers taking a long, hard look at their underwriting assumptions and revising them, since rates are now running between five and seven percent, up from three to five percent over the last few years.

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His strategy for surviving and thriving in this market: Motivated sellers should recalibrate their pricing while buyers focus on strategic purchases and think longer term about where they want to be three to five years from now when making acquisitions. While supply chain woes seem to be resolving themselves on the shipping front, with containers no longer stuck in ports for weeks at a time due to lockdown measures, China's new "zero-COVID" policy has the potential to shut down manufacturing on very little notice, which could lead to further supply chain disruptions.

Adaptive reuse and the willingness to re-examine existing spaces both in terms of different kinds of tenants (for instance, more service-oriented tenants that offer in-person services in strip malls, not just salons, but health-oriented service providers such as walk-in MRIs, COVID testing clinics, and medical providers) may help reduce vacancy rates. Class B and C malls can also be adapted to both market rate and affordable housing, given their legacy parking assets. Some can also be converted to warehouse and other industrial space to meet increasing demand for fulfillment centres.

With both a labour shortage and a reluctance to return to the office full time, "[c]ompanies are hoping to entice new workers with office amenities like outdoor space, daycare and catering. Although the best amenities vary from office to office, they're critical to finding and keeping top talent. … If employees are only in the office a few times a week, are cubicles, open offices or a different setup the best way for them to collaborate in-person?" asks J.P. Morgan's Al Brooks ("2022 midyear commercial real estate outlook").

The multifamily market will remain strong as interest rates continue to rise, while the need for affordable housing increases. Workforce housing in particular is an investment worth considering if the industry can develop public-private partnerships or take advantage of government incentive programs. Tech and healthcare employers could work with local governments to develop workforce housing in close proximity to workplaces, while industrial properties can be adapted to include offices, showrooms, and increased amenities for non-warehouse employees, including gyms, cafes or cafeterias as opposed to just employee lunch rooms, and even daycare facilities.

6. THE FACTS & FALLACIES ABOUT THE MARKET IN COMMUNITIES SURROUNDING VANCOUVER: ARE THEY STRONGER THAN YOU THINK?

High demand for industrial space bolster secondary and tertiary markets.

With the redesignation of 400 acres in Surrey's South Campbell Heights land for industrial and other commercial business use (see Section 8), it is anticipated there will be up to 8.5 million sf of new building floor area, with the potential to employ 20,000 people in 150 businesses. The existing Campbell Heights industrial lands just north of the newly designated area consists of 1,900 acres, which will be fully developed by the end of this decade. When the City of Surrey originally requested redesignation of this land in 2018, it was seeking to develop the land for residential use. That request was denied.

With Metro Vancouver the country's most expensive industrial market and, for the last year and a half, also the tightest market in Canada, "some Metro Vancouver users have taken up space in secondary and tertiary markets on Vancouver Island, in the Okanagan Valley, and elsewhere in British Columbia. While these tend to be smaller buildings with at-grade loading capabilities, … developers are now showing more desire to acquire land and building mid-sized and large product for distribution purposes." However, between geographic restrictions of mountains and oceans, rising interest rates, and continually increasing demand, "[s]ome groups will likely be pushed out of the market completely and look to other parts of Canada to fulfill their requirements." (Avison Young, "Metro Vancouver Industrial Report/Spring 2022")

The Metro Vancouver Regional District forecasts the area "will run out of industrial land supply sometime between 2028 and 2035," while CBRE's Q3 2021 report states that this has already happened, "with overall availability dipping to a record low of 0.9%, which is also pushing up rents." **Of the 6.3 million sf of industrial space under construction, 74 percent was pre-leased and half the remainder is under negotiation.** Businesses in need of industrial space have few options except to secure design-build facilities for their space needs.

This level of pre-leasing, along with limited suitable industrial land supply, has left large format industrial spaces in short supply; there are no existing or available opportunities for lease over 50,000 sq ft. More new supply construction is needed to fulfill short- and long-term demand.

Industrial Space Under Construction

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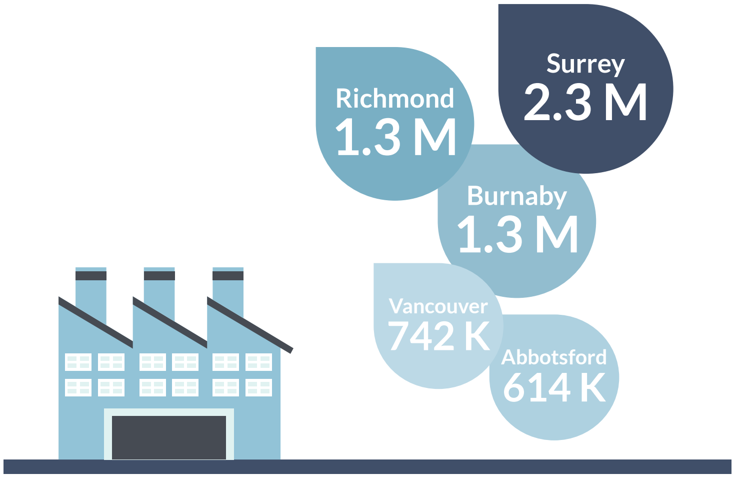
7. OFFERS TO LEASE FROM BOTH THE LANDLORD & TENANT PERSPECTIVES: WHAT TO WATCH OUT FOR

Multiple offers to lease are becoming more common not just in multi-res, but in industrial spaces.

Just as the overheated residential property market of 2021 and early 2022 saw owners receive multiple offers and dictate absurd terms such as absolutely no conditions on offers, including no property inspections, in the overheated Vancouver industrial market in particular, multiple offers to lease are now becoming more and more common, while "[e]ven buildings that are not state-of-the-art facilities are still seeing achieved rents climb to over $20 per square foot." Most of the 7 million sf of industrial under construction is pre-leased.

In this situation, tenants should naturally seek to extend existing leases for as long as possible, while owners and developers can confidently offer shorter-term leases or leases with built-in rent escalations that will reflect steadily climbing psf rates. Businesses will have to resign themselves to looking outside the City of Vancouver proper for suitable industrial properties to lease, particularly if they seek larger spaces (in excess of 30,000 sf). By the end of Q2 2022, Burnaby had almost 90,000 sf of industrial available for lease; Richmond 60,000 sf, and Vancouver 50,000 sf. In multiple offer situations, businesses will have to move quickly and demonstrate both agility and flexibility in terms of location if they want to secure leases. Within the regional district, **Surrey has the most industrial supply under construction as of the end of Q2 2022 (2.3 million sf), Richmond 1.3 million sf, Burnaby 1.3 million sf, Vancouver ~742,000 sf and Abbotsford ~614,000 sf.** Richmond and Vancouver were the only municipalities within the district that had sublease vacancy availability by the end of June 2022, while Richmond (43, 383 sf), Burnaby (88,052 sf), Delta (25,495 sf), and Abbotsford (46,570 sf) had the highest vacancies by square footage. Maple Ridge-Pitt Meadows, Chilliwack, New Westminster, Port Moody, and the TFN Lands had neither direct nor sublease industrial availability. (Colliers, "Vancouver Industrial Market Report Q2 2022")

Industrial Supply Under Construction (square feet)



Despite 1.8 million sf of large bay distribution supply to be delivered by the end of 2022, none is actually available, and slightly more than half the supply to be delivered in 2023 is also already pre-leased, according to CBRE. Prospective tenants need, therefore, to be planning their space requirements years in advance of their actual need for new facilities and should be prepared to look farther afield, to Chilliwack and Abbotsford, which "can offer occupancy cost savings of 15%-25% in comparison to the Metro Vancouver average. For big box tenants seeking large amounts of space, the savings can offset the slightly higher transportation costs associated with longer commuting times." Occupiers of industrial space "are now filling their warehouses with just-in-case inventories, a drastic change from just-in-time inventories of the Brick and Mortar era. This has brought a heightened demand for logistics, cross dock, and warehouse space and caused a further tightening of space, not just within existing inventories, but also the development pipeline as occupiers have identified this to be a lasting and permanent change." (CBRE, "Growth projected to sustain through economic uncertainty") Developers should, therefore, focus on creating these larger spaces suitable for lease to meet logistics and e-commerce firms' warehousing requirements.

8. THE STRENGTH OF THE INDUSTRIAL LEASING MARKET: IS THE CURRENT RENT GROWTH RATE SUSTAINABLE?

Interest rates will slow the warp speed growth of the market, but not by much.

While there was record-setting investment (more than half a billion dollars) in industrial real estate during the first quarter of 2022, Avison Young predicts "Metro Vancouver's red-hot industrial real estate market may start to normalize and return to pre-pandemic levels" as interest rates continue to rise. That Q1 half a billion dollars represents a 25 percent increase year-over-year over 2021.

However, "there is still an extremely high need for industrial space across the region, and traditional market pressures – ongoing strong demand, lack of new and existing supply, and perpetually tight vacancy – will prevail for years to come." (Avison Young, "Metro Vancouver Industrial Overview Report/Spring 2022") The forecast for the next few years at least is that "[d]emand, sale prices and lease rates will likely continue to escalate rapidly – but not at the warp speed prevalent in recent months and years."

The higher cost of capital will have the greatest effect on developers, investors, and owners leveraging their acquisitions, and with very little new supply in the pipeline, prices will hold their own in the near future anyway, while interest rates shouldn't stay high for long if the Bank of Canada's interest rate policy is effective. Of the 2.8 million sf of new industrial supply in the Lower Mainland due for delivery before the end of 2022, 85 percent is either preleased or presold. Asking lease rates have steadily increased from around the $10.00 psf rate in 2015 to a high of $19.19 psf in 2022. (Colliers, "Vancouver Industrial Market Report Q2 2022") However, of the 18 notable industrial land sales in Metro Vancouver since fall 2021, only five were for sites in excess of 10 acres, while the vast majority were for parcels of land under five acres.

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Written by Ruth Seeley of No Spin PR

Only one notable lease transaction occurred in the City of Vancouver between fall 2021 and Q1 2022, with Bureau Veritas/Commodities Canada's lease renewal of its 138,844 sf at 9050 Shaughnessy Street. Of 14 notable lease transactions since the fall of 2021, (80,000 sf+), three were in Richmond, three in Surrey, two in Delta, and one in each of Abbotsford and Coquitlam.

Tenants will, however, "continue to line up for limited new and existing availabilities, due to years-long supply constraints brought on by rapidly increasing demand and an impending industrial land shortage that local and provincial governments continue to sidestep."

In a close vote in February 2022, Metro Vancouver Regional District councillors approved the redesignation of Surrey's South Campbell Heights land for industrial and other commercial business use. This will extend the region's urban containment boundary by 552 acres, 400 of which will be designated as mixed employment, with the remainder being reserved for conservation, recreation, and agricultural uses.

With industrial vacancy rates of 0.5 percent, "this low vacancy is not expected to change in the near term. As tenants continue to display strong appetite for small and mid-sized spaces, several market entrants are also leasing large-format warehousing and distribution space. As a result of the overall prevailing pressures, some existing tenants may need to relocate, and new tenants may have to choose different areas within the region. Tenants who have secured spaces will be well-advised to lock them up for as long as possible." (Avison Young)

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9. WHAT DOES THE FUTURE OF LEASING LOOK LIKE OVER THE NEXT 12 MONTHS?

Office, industrial and multi-family experience supply issues in the Vancouver CMA, while retail heats up.

Supply is not meeting demand in many sectors. "The low volume of office sales" which Avison Young described as "quite muted" in the first half of 2022 was "largely due to a lack of supply of new office space rather than a lack of demand from investors." Multi-family properties also experienced a downward trend during H2 2022, as interest rate hikes caused investors to enter a holding pattern, despite low vacancy rates.

Retail, however, has had "strong momentum" since H1 2021 and "this asset class continues to experience strong investor interest and activity" through the end of H2 2022. There were 79 industrial deals valued at $1.26 billion during the first half of 2022. "[K]ey lenders in Canada are looking at where to safely deploy mortgage funds and investment, and industrial is where many are greenlighting projects. For this reason, funding for, and interest in, industrial projects remains strong despite changing tides in the market." Land deals, including those for potential redevelopment, are strong, "particularly in the suburbs and Fraser Valley where more land is available for development." The trend to the ex-urbs can be seen across office and retail, with almost a third of H2 office transactions occurring in non-traditional secondary markets and retail seeking the same kind of market where more land is available. (Avison Young, "Mid-Year 2022 Investment Review 2022")

Avison Young also points out that the cost of construction and supply chain issues were factors in the deal slowdown witnessed in Q2 2022. Increased interest in non-secondary markets, fueled by the acceptance of hybrid work models rather than full-time returns to office spaces, the shortage of land within the Vancouver CMA, and a higher volume of smaller deals done primarily by private versus industrial investors were trends throughout H2 2022. The firm forecasts larger institutional transactions will emerge in the second half of the year/early in 2023.

Meanwhile, in the retail sector, "The trend to move in remains stronger than the trend to move out." The sector saw "moderate" rent growth levels even during the pandemic, and with the B.C. government adopting a less stringent approach to lockdowns during the Omicron waves and employees returning to work in their offices even a few days a week, retail space availability should become tighter as "[t]enants are more comfortable occupying space now, as they realize they can still thrive while living with COVID-19." (JLL, "Vancouver: With most mandates eliminated and employees returning to the office, the Vancouver retail market is continuing to blossom")

Two huge retail trends to watch: EV car makers seeking large, prominent, and high traffic areas to display their new-to-market models as they seek to eliminate Tesla's first-mover advantage, and grocery chain adoption of e-commerce models, from delivery to meal preparation services and 24/7 contact-less grocery shopping experiences. "Retailers and shopping centres are now having to put greater emphasis on their physical spaces to recapture the market share that online shopping has disrupted." (JLL)

10. HOW IS THE LACK OF LAND INVENTORY IMPACTING PRICES? HOW HIGH WILL LEASE RATES GO?

Rising interest rates, labour and supply chain shortages will affect rates as well.

With the sale value of properties in B.C. determined primarily by the redevelopment value of the land rather than the business asset's income, there has always been keen interest in land deals. "However, with rising interest rates in 2022, land acquisitions have begun to slow and become more challenging to finance. Some investors are beginning to try to offload land as they may feel they have reached peak value." The slowdown in land sales activity in the first half of 2022 could mean lower land prices during the second half of the year.

Colliers' "Vancouver Industrial Market Report Q2 2022" opens with a warning about the lack of land available within Metro Vancouver, particularly that designated industrial. The CMA's most recent survey indicated 3,126 acres of developable industrial was available, but with the average parcel size less than five acres and supply consisting of small pockets spread out throughout the CMA, industrial development in particular will be limited, especially for those seeking large bays (e-commerce, fulfillment, and distribution enterprises).

As the Metro Vancouver Regional Industrial Lands Strategy report put it in June 2020,

"New forms of intense industrial development such as mega-distribution facilities and e-commerce logistics facilities have become dominant features of the major industrial real estate markets in the world. The availability of a sufficient number of large-sized land parcels to support this activity, along with labour availability, influences site selection for these activities worldwide. In certain cases, the shortage of large parcels of industrially zoned land may be an obstacle to attracting such developments of a certain size."

With rising energy costs, supply chain shortages still negatively impacting the import of large quantities of raw materials and the ensuing domestic price inflation, as well as labour shortages that, in combination with inflation, are leading to wage increases required to both attract and retain employees, "Rising labour, land, and raw material costs are causing developers to favour speculative projects over costly build-to-suit options." (CBRE)

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Written by Ruth Seeley of No Spin PR

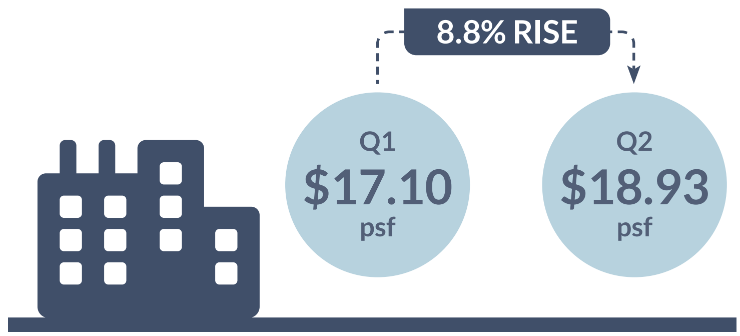
During the second quarter of 2022, there were five significant industrial land transactions. These include:

- 3.21 acres at 2870 Lake City Way in Burnaby sold by Shindler Enterprises to Austeville Properties for $29.5 million
- 3.48 acres at 2660 Barnett Highway in Coquitlam sold by Alumet MFG to PC Urban & Nicola Wealth for $24.1 million
- 2.0 acres at 9274 194th St. in Surrey sold by Pairus Holdings to a private investor for $22 million
- 50,659 sf (or 1.16 acres) in Vancouver at 3454 Bridgeway St. sold by AT Storrs to Bosa Properties for $20.7 million, and
- 4.91 acres at 1812 Foy Street in Abbotsford sold by Ross Power Properties to U-Haul for $20.5 million.

From these figures, it's clear that land prices outside the City of Vancouver proper are significantly higher than in any other area in the Lower Mainland.

As for asking lease rates, **Q2 2022 saw Metro Vancouver industrial lease rates rise 8.8 percent quarter over quarter to an average of $18.93 psf from $17.40 psf in Q1 2022.** The largest percentage increase in lease sales was recorded in Burnaby (16.5 percent quarter over quarter and 43.6 percent year over year), reaching a high of $21.02 psf. (CBRE, "Vancouver Industrial Q2 2022")

Metro Vancouver Industrial Lease Rates 2022



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