TOP 10 REAL INSIGHTS

2019 Vancouver Real Estate Strategy & Leasing Conference

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ISSUE 34

TOP 10 | REAL INSIGHTS

2019 Vancouver RESL

ISSUE 34

INSIGHTS FROM INDUSTRY LEADERS DURING THE CONTENT FORMATION OF VANCOUVER RESL

1

OFFICE DEMAND CONTINUES TO BE FUELED BY TECH

Downtown Vacancy fell to 2.4% in Q2 2019 - 210 basis points lower than a year ago.

2

OVERALL INVESTMENT ACTIVITY FALTERS BUT OFFICE SECTOR A TARGET FOR INVESTORS

Transactions totalled $1.58 B in Q1 2019, half of what was transacted a year ago.

3

INDUSTRIAL VACANCY AT ALL-TIME LOW

Shortage of industrial space continues to push lease rates higher.

4

HOME SALES DOWN SIGNIFICANTLY IN H1 2019

The Metro Vancouver benchmark price dipped below $1 M for the first time in two years.

5

VANCOUVER REMAINS ONE OF THE MOST UNAFFORDABLE PLACES IN THE WORLD TO LIVE.

The Federal Government has made $55 B available to encourage the development of more reasonably priced housing options.

6

RETAIL OPTIMISM AMIDST SLUGGISH SALES

New retailers and new retail space descend on the city portraying confidence in the sector.

7

SPACE-AS-A-SERVICE GROWS BEYOND THE OFFICE SECTOR

Technology is revolutionizing the demand for space and high lease rates in both the commercial and residential sectors are speeding up the revolution.

8

BC'S SECONDARY MARKETS FLOURISHING

Attracted by strong local economies, cheaper land and shorter development processes, developers see opportunity in BC's secondary markets.

9

VANCOUVER HAS THE HIGHEST CONSTRUCTION COSTS IN CANADA

Despite high costs, development in the city is almost unprecedented.

10

BEVY OF NEW TAXES IMPACTING A SLOWING HOUSING MARKET

School Tax, Empty Homes Tax, Speculation Tax, Foreign Buyers Tax combined with the Mortgage Stress Test, dampening housing sales.

For further details on these top trends please visit the Vancouver RESL Forums Portal at realestateforums.com

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CANADIAN REAL ESTATE FORUMS

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1. OFFICE DEMAND CONTINUES TO BE FUELED BY TECH

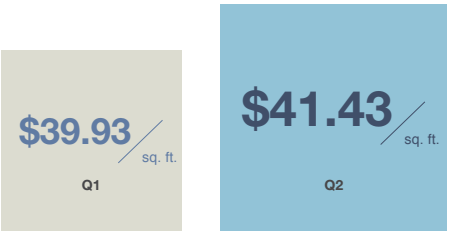
Downtown Vacancy fell to 2.4% in Q2 2019 - 210 basis points lower than a year ago.

Vacancy in Vancouver's office market fell to an overall level of 4.4% in the second quarter of 2019. Suburban office market has a bit more room at 7.0%, Altus Group reports.

In the first half of the year, there has been almost 700,000 sq. ft. of positive net absorption in the market.

Currently, there is more than 5.4 M sq. ft. under construction in Metro Vancouver. Of the 3.9 M of supply scheduled for completion by 2023 in the downtown corridor, 46% has either been leased or is under contract.

The largest single source of absorption has been Amazon, which is set to become the largest office tenant in downtown with at least 882,000 sq. ft. of office space leased by the company by 2022.



Vancouver's average Class A downtown office rents

Vancouver's average Class A downtown office rents increased to a record $41.43 per sq. ft. in Q2, up from $39.93 per sq. ft. in Q1.

"It will be difficult to find locations for businesses that need to expand and for new entrants to the market. Never before has the option to renew clause within a lease been so valuable," says Jason Kiselbach, VP with CBRE Vancouver.

The tech sector continues to drive the Metro Vancouver market with more than 50% of tenants actively looking for space being from that sector. Companies such as Amazon, Kabam, Apple, and Microsoft have all either expanded or committed to future space in the city, according to Cushman and Wakefield.

Recent lease transactions from major tech firms include:

- Allocadia Software leased 20,000 sq. ft. at 200 Granville St;
- PaybyPhone subleased 8,700 sq. ft. at 1128 Homer St;
- Fujitsu Intelligence leased 8,400 sq. ft. at 505 Burrard St;
- Mojio leased 7,400 sq. ft. at 808 West Hastings St ;
- Kabam has pre-leased 105,000 sq. ft. of office space at Vancouver Centre 2 (VC2), which is currently under construction by GWL Realty Advisors.

Tile, an American cloud-based platform which has developed devices helping users find and track their belongings, has announced that it is expanding to Canada and has selected the City of Vancouver for its new engineering hub.

BC's tech industry is the province's fastest-growing sector, generating more than $29 B in revenue, which is a greater share of the region's GDP than the forestry industry.

In 2018, Vancouver had the 15th largest startup ecosystem in the world, with the province as a whole getting its first "A" grade in KPMG's 2018 British Columbia Technology Report Card.

In its 2019 Tech Talent report released in July, CBRE ranked Vancouver 12th of the top 50 markets for tech talent in North America.

2. OVERALL INVESTMENT ACTIVITY FALTERS BUT OFFICE SECTOR A TARGET FOR INVESTORS

Transactions totalled $1.58 B in Q1 2019, half of what was transacted a year ago.

Q1 2019 registered a total of 322 property transactions over $1 M, representing a total value of $1.58 B, a decrease of 49% compared to a year ago, Altus reports.

Overall cap rates for the greater Vancouver area remained relatively stable in Q1, according to the Altus Group's Investment Trends Survey. Office, retail and industrial each settled at 4.0%, while the apartment market is expected to decompress slightly to an overall average of 3.5%.

A total of 26 office transactions occurred in the first quarter, double the number in the same period a year earlier. Two deals accounted for the majority of the aggregate value of $395 M, however— Fiera Properties acquired Airport Executive Park in Richmond for $208 M while Slate Asset Management LP paid $95 M for Metrotown Place 1 and 3 in Burnaby.

Still, by dollar volume, this was the strongest quarter for Vancouver's office market since Q1 2017.

In Q1, the industrial sector declined to $228 M, a 54% decrease from an all-time investment high in Q4 2018. Overall, 49 transactions took place, down from 70 in the previous quarter, and a 7.5% decrease from the same quarter last year.

The most notable transaction that occurred in Q1 in the industrial sector was 2323 Quebec Street acquired for $38 M by TPMG Capital.

A lack of available industrial product remains a significant contributor to the dearth of transactions within the sector, according to Altus. With vacancy rates at all-time lows, values remained strong as the average price per square foot increased by 5% over the quarter, to $399. Strata property sales made up 49% of the transactions in the industrial sector, and 20% of investment, representing $47.8 M in total.

The four-building Bentall complex in downtown Vancouver has been sold in what will be one of the largest sales of the year. It is under contract through a joint venture composed of Blackstone & Hudson Pacific Property partners for an undisclosed price. The properties last changed ownership in 2016, when Anbang Insurance group purchased them for $1.06 B. Following the arrest of Anbang's founder and chairman, the Chinese government seized all Anbang owned assets, including the Bentall complex. In addition to the four office towers and the underground shopping mall, the site offers a potential 500,000 sq. ft. of future development.

At the end of July, Allied REIT agreed to provide up to $185 M in financing for the 17-storey Westbank office development at 720 Beatty Street in Vancouver. Allied intends to become a 50% owner of the 620,000 sq. ft. development when it is completed.

Strong office and industrial fundamentals across greater Vancouver have created a significant backlog of demand for assets in both of these sectors, which has in turn resulted in continued downward pressure on cap rates according to CBRE.

3. INDUSTRIAL VACANCY AT ALL-TIME LOW

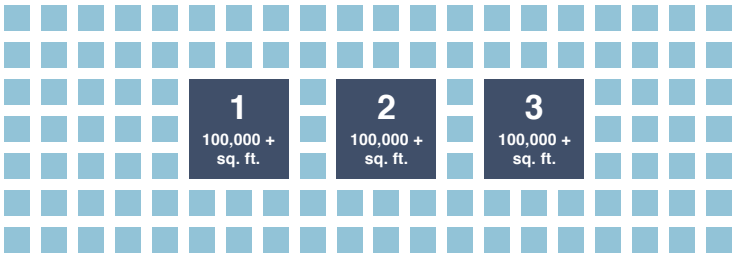
Shortage of industrial space continues to push lease rates higher.

Vacancy rates declined 200 basis points in the second quarter of 2019, tightening to 1.7%, marking the lowest vacancy Metro Vancouver has seen in over a decade, according to Cushman& Wakefield numbers.

Metro Vancouver's overall industrial market recorded close to 1.6 M sq. ft. of positive absorption in the second quarter of 2019, a result of strong leasing activity and construction completions in Richmond, Surrey and Vancouver.

The Metro Vancouver industrial market has a record 6.3 M sq. ft. of new supply under construction. Of this total, 2.2 M sq. ft. is under construction in Surrey. 78.6% of all space expected to be delivered in the remainder of 2019 is already pre-leased or sold, CBRE reports.

Metro Vancouver continues to have the highest rents across Canada despite marginal growth in average asking lease rates, which has increased the overall market rate to $12.62 per sq. ft. This represents a 1.3% increase from Q1, despite appreciating 15.8% since Q1 2018.



Large spaces over 100,000 sq. ft. are increasingly difficult for tenants to find as there are only three existing buildings currently on the market; one of those being new availability as the BC Liquor Distribution Branch vacates 292,000 sq. ft. on Broadway in Vancouver.

Moving into the second half of 2019, it is expected that 4 M of the over 6 M sq. ft. under construction is scheduled to be completed by the end of 2019. If the current rate of absorption continues, the new supply on the horizon may provide little to no relief for the tightening market.

One of the main issues that this market is facing is the lack of industrial land, which will continue to constrict supply. To address this problem, a new Metro Vancouver industrial lands strategy task force was formed last year. A final report should be presented this fall.

A recent report by Colliers suggested that the current industrial scarcity has increased the economic viability of constructing more expensive multi-storey buildings.

The current level of industrial supply does not only fail to meet existing demand but also the future demand, based on growing e-commerce trends. E-commerce sales in Canada are expected to reach $58 B this year.

“As a result of this shift [to e-commerce], there is growing demand for logistics and ‘last mile’ fulfillment centres able to cater to customer expectations around delivery timeframes,” the report states.

E-commerce supply chain requires up to three times more warehouse and logistics space than a traditional brick-and-mortar supply chain. This increased need for space along with faster delivery expectations and developments in urban centers has some developers moving to vertical warehouse design to increase the efficiency of the building footprint.

“As a population, we have increasingly high expectations of almost immediate delivery of e-commerce items,” Andrew Hitchcock, Senior Vice President of CBRE Seattle, said in a statement. “Densely populated cities with high land values will continue to see a fundamental shift towards multistory warehouses in an effort to develop modern facilities as close to the population as possible.”

4. HOME SALES DOWN SIGNIFICANTLY IN H1 2019

The Metro Vancouver benchmark price dipped below $1 M for the first time in two years.

New sales figures show the value of Lower Mainland real estate transactions for the first six months of this year plunged more than $22.5 B from the same period three years ago.

In Greater Vancouver and the Fraser Valley, the combined value of properties sold in the first half of 2019 was $15.6 B, less than half the total of $38.1 B recorded over the same period in 2016, at the market’s high point.

A report published in May by Vancouver’s Central 1 Credit Union stated that Vancouver is the epicentre of a real estate downturn where home sales dropped 40% since the end of last year as stricter policies deter potential buyers while sellers wait on the sidelines for a rebound.

The report says despite BC’s strong economy, real estate transactions will decline 11% in 2019 and home values will drop 4% before a mild market rebound.

The Real Estate Board of Greater Vancouver’s **June** monthly report showed its benchmark price for homes in Metro Vancouver fell below $1 million for the first time in two years, and reported the lowest June sales numbers in almost 20 years.

However, in **July**, housing sales picked back up, increasing by 23.5% from July 2018, according to the Real Estate Board of Greater Vancouver. Sales of apartments jumped 15.2%, while attached home sales increased by 33.6% in July compared with the year before.

“While home sale activity remains below long-term averages, we saw an increase in sales in July compared to the less active spring we experienced. Those looking to buy today continue to benefit from low-interest rates, increased selection, and reduced prices compared to the heated market a few years ago,” Ashley Smith, REBGV president stated.

The Vancouver real estate industry will be holding its first-ever Condo Expo at the end of September in a bid to boost flagging condo sales. The expo will offer homebuyers and investors a one-stop-shop for purchasing a new home.

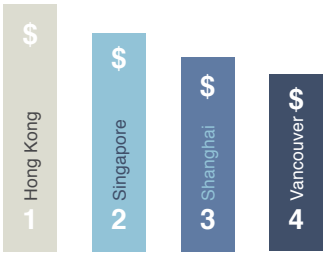
However real estate is still selling— just not at the frenetic pace that had become the norm.

Beedie sold 80% of its Storia development in Burnaby in two weeks after opening on July 13. The project has become the fastest-selling project in 2019.

5. VANCOUVER REMAINS ONE OF THE MOST UNAFFORDABLE PLACES IN THE WORLD TO LIVE.

The Federal Government has made $55 B available to encourage the development of more reasonably priced housing options.

For the second year in a row, Vancouver is the fourth most expensive place in the world to buy housing, according to CBRE’s 2019 Global Living Report. The top three cities on the list are Hong Kong (1), Singapore (2) and Shanghai (3).



In Canada, all levels of government are trying to combat this crisis with various policies initiatives. Furthermore, CMHC has pledged to provide every Canadian with affordable housing that meets their needs by 2030.

In November 2017, the federal government unveiled its 10-year, $40 B National Housing Strategy (NHS). Its goals include reducing homelessness by half, removing about 530,000 families from housing need, renovating and modernizing about 300,000 existing homes, and building more than 125,000 new units over the next decade. Two years in, the budget for the NHS has climbed to $55 B and consists of the following four components:

The Rental Construction Financing Initiative (RCFi) provides low-interest, 10-year fixed loans, which can be amortized up to 50 years for up to 100% of total construction costs. At least 20% of the project’s units must be affordable to be eligible. $3.75 B was originally given to the initiative and was topped up by $10 B over 9 years in the 2019 Budget.

With the help of this program, construction has started on a new 145 unit mixed-use building located at 188 East 6th Avenue. The project contains 120 homes earmarked at affordable rents lower than 30% of Vancouver's median household income. Affordability at the development will be held for at least a 60-year period.

Through CMHC's RCFi, the federal government is committing $48.5 M for construction of the 9-storey project. The City of Vancouver, through Vancouver Affordable Housing Agency (VAHA), has provided land for the 60-year lease of the site, estimated at $16.85 M.

RioCan plans to borrow about $200 M of CMHC-backed financing for their 36-storey rental tower at Yonge and Eglinton in Toronto, " eCentral".

"The cheapest debt in town is CMHC-guaranteed debt, which you can put on rental residential buildings, so we're quite hopeful that our first CMHC transaction will take place before the end of the summer," Ed Sonshine said in an interview with BNN Bloomberg.

The Federal Lands Initiative allows federal departments with surplus land to offer these assets for new affordable housing projects that are sustainable, accessible and socially inclusive. This $200 M fund supports the transfer of these lands at a discount, or even at no cost, to eligible proponents who will then turn them into affordable housing. So far, six federal properties have been listed for sale, located in Ottawa, St. John's, Montreal, Sherbrooke, Que., and Yellowknife, the Globe & Mail reports.

The Co-Investment Fund provides financing to create new affordable shelter, transitional and supportive housing, providing more than $13 B in low-interest loans and grants. WoodGreen's 35 unit seniors complex on Danforth Avenue in Toronto received about half of the $16 M required to construct the project from this fund.

The Affordable Housing Innovation Fund provides $200 M to create up to 4,000 affordable housing units. The goal of the Innovation Fund is to encourage new and creative approaches to affordable housing, from innovative funding models to new building techniques.

The HPC Housing Investment Corporation (HI-C) is one such innovative funding model. This financing vehicle helps affordable housing providers access low-cost, long-term financing available in the capital markets.

In February, HI-C announced that it had secured $33 M in private placement funding for two affordable housing projects: a 15-storey, 135-home building in Vancouver's former Olympic Village and 136 homes for low-to-moderate income families, seniors and individuals in Edmonton.

Vancouver's **Making Room** initiative, which was launched in 2018, focuses on adding a greater variety of housing types in single-family neighbourhoods, ranging from laneway houses and infill to townhouses, rowhouses to low-rise apartment buildings.

It added in a statement, "this directly supports the Housing Vancouver strategy, which targets the delivery of 10,000 units of 'missing middle' housing over the next 10 years, specifically 1,000 coach houses, 5,000 townhouses and 4,000 laneway houses."

As of last fall, Vancouver's rental vacancy rate was 0.8%, which means only eight out of every 1,000 markets were empty and available for rent. The lack of supply causes an upward shift in rental rates, severely contributing to the housing affordability issue.

The availability of housing is an overwhelming obstacle for the true potential of Vancouver's growing tech industry, according to Hootsuite VP Stefan Krepiakevich.

"It is very hard as a technology company to attract and keep top talent and grow a business in Vancouver… As a city, we need to be increasing the supply of rental units so that a city like ours can grow, foster, and build great companies that have high paying jobs that can support families," said Krepiakevich.

6. RETAIL OPTIMISM AMIDST SLUGGISH SALES

New retailers and new retail space descend on the city portraying confidence in the sector.

Canadian e-commerce sales were up 18.7% year-over-year for the 3 months ending May 2019. This was significantly higher than for location-based retail, which gained 2.5%.

Retail sales in Metro Vancouver declined in May 2019 by 0.6%, according to StatsCan. Although not a huge decrease, Toronto retail sales increased by 6% while Montréal's increased by 5.2%. This translates into retail sales of $3.35 B for Vancouver, $8.09 B for Toronto, and $5.48 B for Montréal.

A new report by Central 1 Credit Union suggests a correlation between slowing retail performance with British Columbia's depressed housing market.

"Ongoing sluggish BC retail sales suggests a slowdown in consumer demand despite what has been strong labour market conditions and employment growth. The sharp decline in housing sales volume has been a driving factor of spending declines in related sectors, while lower prices may also be leading to spending belts being tightened."

A significant amount of retail has been recently delivered or is currently under construction.

Retail supply in Metro Vancouver has increased with over 2.5 M sq. ft. of retail space that has or will be built out this year and another 3 M sq. ft. coming onto the market within three years, Lee & Associates reports. Most of this development has occurred outside of the downtown core. Downtown will see the largest infusion of additional purpose-built retail space in about two decades when the Canada Post redevelopment opens with its 200,000 sq. ft. of retail.

Vancouver-based Saje has been in expansion mode. The aromatherapy chain which has been around since 1998, has grown from 12 stores to 77 retail locations across North America.

On August 1st, one of the 11 approved cannabis retailers, Kiaro, opened its flagship store at 1316 Kingsway. The store has two locations open in Saskatchewan and is currently a contender in the second retail license lottery in Ontario.

International retailers are selecting Vancouver as their launchpad for North American operations in part because its multicultural mix and culture make it an ideal testing ground, particularly for companies from the Asia-Pacific region.

Australian furniture chain King Living has just opened its first store in North America. The 10,000 sq. ft. store located in South Granville opened in June.

Japanese retailers Oomomo, Muji and Uniqlo are all expanding their brands across Canada. While another discount retail chain from Japan, Thinka, recently opened a 4,300 sq. ft. location on the 1100 block of Robson Street and plans to expand to over 200 location within Metro Vancouver over the next five years.

Vancouver's first Apple flagship store on the site of the existing CF Pacific Centre rotunda will likely start soon. A 14,000 sq. ft. two-storey pavilion will replace its in-mall location, which has been one of the Apple's best-performing stores in North America since it opened in 2008.

New York City-based mattress brand Casper is expanding its Canadian operations. In July, it opened its first Vancouver location in Kitslano at 2294 West 4th Avenue in a 2,877 sq. ft. building.

Luxury brands continue to do well in the city as evidenced by the expanding Luxury Zone downtown. French conglomerate Richemont has secured space for three of its brands and has already opened standalone stores for its Van Cleef & Arpels, IWC Schaffhausen and Panerai brands. It will also open a combined Montblanc and Vacheron Constantin boutiques at 1055 Alberni Street.

Hermes is building a large two-level flagship space at the southwest corner of Burrard and West Georgia Street. Cartier will relocate to 755 Burrard Street when Hermes vacates it for the new space.

The 190,000 sq. ft. Holt Renfrew store in CF Pacific Centre generates approximately 40% of the sales volume of the entire company, Real Insider reports. The company will also launch an expansive e-commerce website between now and 2020.

The Nordstrom store in Vancouver, helped by an influx of tourists, is reported to be one of the strongest performers among the company's 122 full-line stores in North America, said Randy Harris, president of apparel market research firm Trendex North America.

Food halls are finally coming to Vancouver with three already confirmed. QuadReal will be opening two food halls in its buildings— The Post will be over 25,000 sq. ft. as part of the redevelopment of the former Canada Post building. Once the Oakridge Centre is overhauled, it will also include 'The Kitchen', which will be a "world-class" food hall spanning nearly 100,000 sq. ft. over two levels. Developer Shape will also include a chef-driven food hall in its The Amazing Brentwood project.

The food hall concept has been floating around for a few years but the untapped potential of this idea was one of the themes at the ICSC conference in May.

Developers around the country have a big appetite for food halls to anchor their office parks or luxury condos, said Warren Solochek, a food industry analyst at The NPD Group. And the brick and mortar retail downturn is fueling the trend. "You have large retail and office space that has become open," Solochek said. "And the owners of the buildings are looking to fill in those large spaces."

7. SPACE-AS-A-SERVICE GROWS BEYOND THE OFFICE SECTOR

Technology is revolutionizing the demand for space and high lease rates in both the commercial and residential sectors are speeding up the revolution.

The demand for space is being revolutionized by technology and these five factors have been identified as the reasons for changing the demand for space.

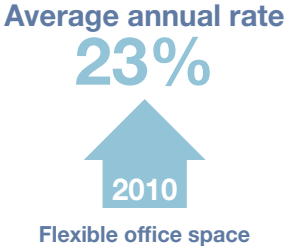
- High-speed, high-band internet connectivity is almost everywhere.
- Software as a service and cloud computing reduces the importance of where work is done.
- Mobile devices such as laptops, tablets, and smartphones go where the worker goes.
- IoT sensors can connect almost anything to the internet.
- Rising use of AI and robotics.

Together, these technologies are re-shaping the way in which we use and occupy space.

The common definition of space as a service is the change in the real estate model from asset ownership to monetization of access and services that include physical space.

Companies like Airbnb, Clutter, WeWork and Common do not own physical space but have found ways to monetize it.

Flexible office space has grown at an average annual rate of 23% since 2010, according to JLL, and has exploded in Vancouver. Over 650,000 sq. ft. of coworking space has been created in the last few years and has contributed to the high office absorption rates in the city.



A new report by Coworking Resources tracked all coworking office openings from June 2018 to April 2019 and found that a new coworking space opens up every 40.7 days in the GVA.

Toronto-based iQ Office Suites announced that it is expanding in Canada's major markets. Their plans include a new space at 550 Robson Street. The new space will occupy the entire third floor and have private ground-floor lobby space and a large landscaped outdoor terrace.

In June, WeWork announced that the location of its newest Vancouver space will be 1045 Howe Street. The site spans four floors of the building, with more than 1,200 desks. The 54,300 sq. ft. space is slated to open in December 2019.

Five co-working spaces have opened recently in the area between Broadway and the Olympic Village in the tech hub of Mount Pleasant.

Pavilion, a new subsidiary of residential real estate developer Alabaster Group, opens its Mount Pleasant co-working location this summer.

"Mount Pleasant, just given its location and proximity to downtown and services and amenities, [is] a really logical alterative to the users who would otherwise locate downtown," said Pavilion Cowork managing director Yosh Kasahara.

Deloitte Canada will move 700 workers into Spaces' five-storey, 78,000 sq. ft. site on the Granville strip this fall and Amazon is filling up multiple floors at WeWork's Bentall Centre location as the company waits for its new offices at the Canada Post building on Georgia Street to be completed.

Knight Frank surveyed senior executives at 120 global companies who collectively employ over 3.5 M people and who occupy a combined total of over 233 M sq. ft. of office space. The growing demand for flexible coworking space was one of the main themes.

"While coworking and serviced office operators have grown rapidly over the past five years, driven largely by startups and the freelance economy, this is only the tip of the iceberg with latent demand from global companies set to emerge over the next three years," said Lee Elliott, Knight Frank Global Head of Occupier Research.

Space-as-a-Service has evolved beyond the coworking phenomena into the storage and retail sectors.

PropTech startups **Fourpost** and **BrandBox** are transforming the traditional retail model by adapting the SPaaS model to retail through "brandboxing."

Brandboxing is a full-service approach that enables smaller online brands to open and operate stores in malls. Prefabricated spaces available for shorter lease terms and lower rents make it easier for online merchants to scale and test the success of the brick and mortar stores without having to obtain a permanent location.

Fourpost has already launched studio shops in the Mall of America and West Edmonton Mall. Macerich announced the launch of Brandbox in Tysons Corner Center in Virginia this last November.

Clutter moves and stores your belonging as a service. Its storage facilities are located in remote areas, which means they can store items at a far lower rate than traditional storage facilities based in inner-city locations. And because they rent the buildings in which they store, they do not own any physical assets. They are a real estate platform with a service, but they don't own any real estate.

Meanwhile, co-living startups such as **Common**, **Ollie** and **WeLive** are making strong headway into multi-family residential markets, and investment in the sector has been increasing at a dramatic rate.

- Medici Living Group raised US $300 M in January 2019 as part of a joint venture with investment firm W5 Group to develop 1,500 units across the US under its co-living brand, Quarters, according to *The Real Deal*.
- Ollie has raised US $15 M in financing from Aviva Investors Real Estate Capital Global Co-Investment Fund, according to *TechCrunch*.
- Homeshare has raised US $5.7 M led by Lightspeed Venture Partners in 2018, according to Axios.
- Roam, which has raised US $3.4 M in seed funding, is poised to open more locations this year in New York City and London. It already has spaces operating in Miami, San Francisco and Tokyo.

Co-living firm Node Living UK Ltd. announced its first Canadian location in June in tech hub Kitchener-Waterloo, Ontario. The company said that it will provide housing for about 50 people in 38 apartments where rents will start at about $1,000 per month.

Dream Unlimited Corp. has partnered with Common Living Inc., the largest co-living operator in the US to operate a 24-storey residential building that it is constructing in Ottawa. They will be fully furnished, come with cleaning services and share common areas such as kitchens. Monthly rents will start at about $1,225, approximately 30% less than similar one-bedrooms in the area. Regular units in Dream's building will start at about $2,065 per month. About 25% of the tower will be communal units.

Common has plans to expand their operations to other cities in Canada and is currently negotiating a pipeline of more than 500 bedrooms with developers in Toronto, according to BNN Bloomberg.

Propmodo estimates that SpaaS represents a trillion-dollar opportunity and states that the most important factor in this model is User Experience. Superior user experience is critical to achieving maximum revenue.

"You don't need to own real estate assets anymore to build huge real estate companies," according to Fifth Wall VC.

8. BC'S SECONDARY MARKETS FLOURISHING

Attracted by strong local economies, cheaper land and shorter development processes, developers see opportunity in BC's secondary markets.

Numbers in the Statistics Canada report, released earlier this week, divulge a distinct pattern: People are leaving Metro Vancouver in the thousands to settle in surrounding regions, with the Fraser Valley and the Okanagan as top destinations.

The Okanagan

Central Okanagan is the fastest-growing metropolitan area in Canada. Numbers from the 2016 census shows that population growth for Metro Kelowna has outpaced the national average of 5.0%. Growing at an annual rate of 8.4%, Kelowna is the sixth-fastest growing city in the country.

According to Royal LePage, the aggregate home price in Kelowna rose 2.7% year-over-year to $643,787 in the first quarter of 2019. During the same time frame, the condo market grew 13.6% to an average price of $435,823.

The overall office vacancy rate in the Thompson-Okanagan region, which includes Kelowna and Vernon, fell to 4.5% at the end of 2018, down from 6.7% a year earlier. There is 61,000 sq. ft. of new space under construction and 315,000 sq. ft. planned for development.

The biggest new build in the pipeline is Landmark 7 by **Al Stober Construction**, which would add to the six Landmark towers already built and nearly fully leased.

Landmark 7 is planned to come to the market in early 2022, delivering a 23-storey tower, the tallest in the city, with 224,000 sq. ft. of commercial space.

Accelerate Okanagan's latest report on the Okanagan Tech Industry states that there are 693 tech businesses in the Okanagan, up 24% since 2013. From an economic standpoint, the industry pumps $1.67 B into the economy and employs 12,474 people (up 90% since 2013).

Rental construction has also been strong in Kelowna, where **Mission Group** is set to launch its seventh and final U-series building at the **University of British Columbia**'s Okanagan campus.

U-Eight, as the building's known, will offer 90 units to investors. The intention for the units is that they'll be rented to students seeking accommodation adjacent to campus. The campus itself has just 1,700 student beds for nearly 10,000 students. Completion is set for fall 2020.

At the beginning of the year, Mission Group submitted an updated plan for its Bernard Block master-planned community adding a 13 storey, Class A office tower to accompany a second residential condo building. The downtown complex will contain 80,000 sq. ft. of office space, supported by over 18,000 sq. ft. of Bernard Avenue storefront retail. Construction of the office tower is planned for early 2020, with completion and tenant possession projected for late 2021.

Kelowna's current office lease rates average $16.65 per sq. ft., up from $16.35 per sq. ft. a year ago, according to Colliers.

Kitimat

Kitimat is Western Investor's No.1 pick of western Canadian cities for real estate investors. It is the epicentre of the $40 B liquefied natural gas (LNG) terminus and pipeline network that represents the biggest private investment in Canadian history.

The Kitimat facility will employ up to 10,000 workers and will result in approximately 500 full-time direct permanent positions once construction is complete in 2025.

This unprecedented project has created a huge demand for housing.

Riverbrook Estates will be the first and largest new housing development to open in Kitimat. While up to 350 homes are planned, the first phase of 47 town homes broke ground this spring and opens early in 2020, to coincide with the arrival of the first wave of 1,100 construction workers.

Squamish

Less than one hour north of Vancouver the town of Squamish had a population of less than 15,000 people a decade ago, but now it is more than 20,000. Its recently passed Official Community Plan says that population could double in the next 20 years. The town has attracted Vancouverites searching for more affordable housing.

The town has had a near-zero vacancy rate since 2015.

In 2018, the district issued 576 permits for multi-family residential units of all types. As of June 2019, they had issued 241 permits, which is a slight decline but still steady. There are hundreds of units coming online by next year just in the downtown area.

Developer Lorne Segal has partnered with Bosa, to build a master-planned, 54-acre, multiphase waterfront development of nearly 1,000 housing units called Sea and Sky. The first 88-unit phase sold out, and they're about to launch the second phase of 125 townhouses, starting in the low $700,000s. The project is being built on an old mill site on the Mamquam River, outside of downtown. It will include affordable rental, market condos and townhouses, as well as five acres of park, cycling paths, boardwalk and pedestrian bridge over the river.

Anthem Properties is proposing a mixed-use development for a former campground which would encompass three sites.

- 1701 Centennial Way would have 32 market townhouses, 79 market condos, 12,250 sq. ft. of commercial space and 5,800 sq. ft. of office space. There would also be 14,730 sq. ft. of open space.
- 1940 Centennial, would have 75 market units and a 28,630 sq. ft. of open space.
- Also at 1940 Centennial, the site would have 80 rental apartments, 24 of which would be affordable housing units.

In addition, the plan calls for 19,328 sq. ft. of light industrial space, a 7,675 sq. ft. mezzanine, 13,217 sq. ft. of office space, 2,400 sq. ft. for childcare and 10,000 sq. ft. of open space.

9. VANCOUVER HAS THE HIGHEST CONSTRUCTION COSTS IN CANADA

Despite high costs, development in the city is almost unprecedented.

According to an international construction market survey by UK professional services company Turner & Townsend, Vancouver is the most expensive place to build in Canada, and the 14th priciest location globally, with an average construction cost of $3,591 per square meter.

Vancouver also has the highest labour costs of the Canadian markets, as a squeezed supply of skilled labour pushed costs to $65.20 per hour.

Mega-projects in B.C. like Site C and Kitimat LNG, combined with retiring skilled workers, are having a massive strain on the region's labour.

"When you look at the volume of the construction activity, the impact of available resources really starts to have an impact on construction costs," said Gerard McCabe, Turner & Townsend's managing director of Canada.

"We have a limited labour pool in the Lower Mainland and that pool is being stretched to the maximum," stated Wayne Procter, a director at BTY Group. "We have instances where trades just won't bid on jobs, or if they do bid on jobs, they will put a significant markup on the job."

McCabe adds that there is a lack of innovation in the construction industry. "We are still doing things the same way since forever. The industry is still nowhere near as sophisticated as it needs to get. As things have changed globally in other industries, and other industries have adopted technology, the same impact hasn't happened in construction. We are a bit behind the curve there."

McCabe added that procurement, contracts, construction methods, manufacturing and all other aspects of the construction industry are ripe for innovation.

Despite high construction costs, Metro Vancouver has approximately 5.1 M sq. ft. of office space under construction and more in the development phase. As well, there is a record 6.3 M sq. ft. of new industrial supply under construction and 3 M sq. ft. of retail space coming to market within the next three years.

Here are some of the projects currently under construction.

- Vancouver Centre II- the 33-storey HOOPP/GWLRA venture will add 371,000 sq. ft. when it is complete in summer 2021.
- Construction on The Stack began in June. The 36-storey CPPIB-Oxford JV will be the tallest office building in the city once it is complete in early 2022.
- One Burrard Place- 54 storeys will be complete in the second half of 2020. It will contain 444 condo units already sold out, 60,000 sq. ft. of office space and retail.
- The Amazing Brentwood Towers- Tower One which will contain 300 rental units will be complete this year with other towers in the development also under construction.
- The Offices at Burrard Place, by Reliance Properties, will open in early 2020 and will be 13 storeys in height, comprising 150,000 sq. ft.
- The $350 M, 170 acre Richmond Industrial Centre by Montrose Properties is being built. Phase 1 will contain 1 M sq. ft.

Another phase of Onni Group's Pearson Dogwood redevelopment on Vancouver's Cambie Corridor has advanced to the development permit stage. At 720,000 sq. ft., it is the most significant phase of the 25-acre project to date.

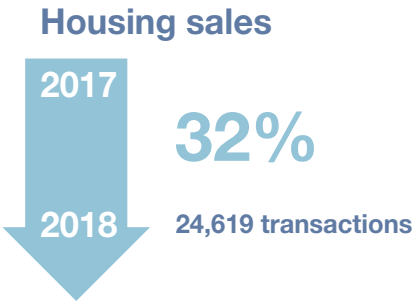
Plans for the southwest corner of the intersection of Cambie Street and West 57th Avenue entail three mixed-use buildings, with two 28-storey towers and one 24 storeys tall. This phase includes a total of 741 homes, including 488 market ownership units, 223 secured non-market rental units, and 30 supportive units as well as 85,000 sq. ft. of retail and restaurant space.

Once built out there will be a total of 3.2 M sq. ft. of floor area in the entire redevelopment, which includes dozens of buildings, close to 3,000 homes and over 200,000 sq. ft. of health-related facilities operated by Vancouver Coastal Health.

10. BEVY OF NEW TAXES IMPACTING A SLOWING HOUSING MARKET

School Tax, Empty Homes Tax, Speculation Tax, Foreign Buyers Tax combined with the Mortgage Stress Test, dampening housing sales.

Housing sales for 2018 decreased from 2017 by 32% to 24,619 transactions— the lowest levels in 18 years. In the first half of 2019, sales are down 40%.



"There was the addition of taxes and policies targeted at the demand side of the market," said Michael Ferreira, managing partner at Urban Analytics said. "It wasn't anything really tangible, but they impacted buyer psyche and sentiment about the government doing more to slow the market, to bring prices down."

The mortgage stress test rules which came into effect in January 2018 resulted in many first-time buyers qualifying to borrow about 20% less than what was available to them before. This had an impact on Metro Vancouver presale condo sales in February and March according to Urban Analytics.

Royal LePage and PricewaterhouseCoopers predict the stress test will continue to weigh on the markets in 2019.

In February 2018 the provincial government released its budget which included an increase in the foreign buyers tax from 15 to 20%.

A province-wide Speculation Tax also came into effect in 2019. Charged on empty homes rather than flipping properties, it is a kind of vacancy tax that every homeowner has to pay unless they fill out an exemption form.

This year, the Speculation Tax is 0.5% for Canadian citizens and permanent residents who are not members of a "satellite family". Satellite families and foreign owners will pay 2%. The "satellite" designation applies to families who earn 50% or more of their income from foreign sources.

The province introduced The School tax last year. The tax, which adds about $2,000 to the property taxes on a $4 M home, will fund education investments and other government initiatives, the government says. The levy is 0.2% on the assessed value of homes between $3 M and $4 M and 0.4% on the portion assessed above $4 M. It also came into effect in this year.

In West Vancouver, this tax will affect about one-third of the homes and will result in an additional $29.8M in taxes from this municipality. At the end of Q1, prices in West Vancouver were down 17% from their 2016 peak.

In December Vancouver's new city council voted in favour of sending a letter to the provincial government demanding it repeals the tax.

Vancouver Mayor Kennedy Stewart promised to raise the city's Empty Homes Tax to 3% as part of his housing platform. A motion was introduced in January directing staff to come up with a plan to "review and improve the fairness and effectiveness" of the levy. Staff is expected to report back to Council on the progress of the rate review in this fall.

Vancouver's Empty Homes Tax took effect in 2017, and applies a penalty of 1% of a home's assessed value to properties that are left empty more than six months a year.

Since they were elected, the provincial NDPs have levied $5.5 B of new and additional taxes.