Top 10 Real INSIGHTS

Vancouver Real Estate Forum 2022

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ISSUE 70

TOP 10 | REAL INSIGHTS | Vancouver Real Estate Forum 2022 | ISSUE 70

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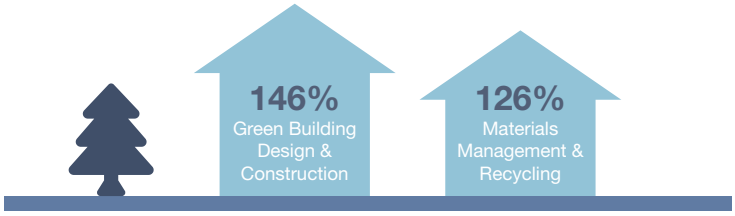
1. VANCOUVER ECONOMY RECOVERS FROM THE PANDEMIC

Employment and the provincial GDP has been steadily increasing, business opening and closing volatility has decreased, and economic growth continues.

By October of 2021, employment in Metro Vancouver was considered to be "fully recovered" from the COVID-19 pandemic, according to the Vancouver Economic Commission's Fall 2021 report. While there was considerable sector migration, from retail and hospitality to construction and tech, every job lost had been countered by a job gain, and employment has been steadily increasing since June 2020. Vancouver's employment rate exceeded pre-pandemic levels in September 2021 and is the highest national employment rate at 101.3.

Green job growth has increased dramatically over the last 10 years, particularly in the Green Building Design & Construction (146%) and Materials Management & Recycling (126%) sectors.

Green Job Growth 2012 – 2022



Metro Vancouver's cleantech cluster represents 75% of British Columbia's companies in this sector, while B.C.'s sector share is almost a third of Canada's total (300/1000), according to Invest in Canada. Half of these companies are based in the City of Vancouver, according to a KPMG study. Cleantech solution providers include those focusing on energy generation and storage, water treatment and remediation, waste management, transportation, green buildings and agriculture.

As Canada's leader in VFX and animation, with more than 150 businesses and 8,000 employees in Metro Vancouver, this key sector was able to easily transition to remote working models during the height of the COVID-19 pandemic, fuelled by increased content consumption and growing demand from a number of streaming services, including Netflix, Amazon, Hulu, Apple, and Disney+.

There is also less business opening and closing volatility, with the number of businesses opening increasing by 11.5% and those closing decreasing by 3.8%. Metro Vancouver's real GDP is forecast to increase 4.1% in 2022, with the region's economy predicted to rebound faster than both the provincial and national GDP this year, whose growth rates are projected to be 5.8% and 5.1% respectively.

2021 was the strongest first half for investment in Vancouver's history, with a total of $8.3 billion invested. Activity in first half 2021 doubled the second half of 2020. This resulted from 45 deals worth $808 million, including Tulioo's exit ($476 million) and edtech Thinkific Labs' TXS listing at $232 million. While Vancouver is still the "tightest major downtown office market" in North America, its office vacancy rate increased to 7.2% in Q1 2022. However, its 7.2% office vacancy rate is still far lower than downtown Calgary's 26.7% rate for the same period, downtown Montreal's 12.0% or downtown Toronto's 8.0%.

RBC's December 2021 Provincial Economic Forecast anticipated British Columbia would be one of the provinces shown to have recovered fastest from the pandemic downturn, having experienced both a smaller economic contraction as well as a stronger rebound, forecasting real GDP growth of 4.2% versus 2021's 5.6%.

Early easing of restrictions in British Columbia, high vaccination rates, aggressive capital spending by the provincial government ($13.7 billion in fiscal year 2022-2023, up from $13.5 billion the previous year), and high housing starts forecast at 35,000 units in 2022 have all led to a strong provincial recovery and continued economic growth.

2. VANCOUVER ISLAND AND B.C. INTERIOR BECOME MORE ATTRACTIVE TO DEVELOPERS

Pandemic-inspired resettlement to smaller BC markets has led to aggressive investor expansion and a development boom where land is more affordable.

According to Colliers' "Q4 2021 Victoria Office Market Report," in the fourth quarter Greater Victoria's overall vacancy rate decreased to 6.8% from the previous quarter's rate of 7.3%, making it significantly lower than Vancouver's 7.6%. Vacancy decreased in both downtown and suburban Victoria during the quarter, to 6.6% and 7.1% respectively. The provincial government's renewal of 26,259 square feet at 1675 Douglas Street was a factor in the vacancy rate decline, but office buildings in the Greater Victoria market with long-term government tenants also became targets for institutional investors, who purchased 645 and 655 Tyee Road ($70 million) and 1112 Fort Street ($22 million).

With 216,000 square feet of office space under construction and 300,000 square feet planned or approved for Greater Victoria, the vacancy rate is expected to continue to decline in 2022 with new supply being easily absorbed and average asking rates continuing to increase. **Of the 216,000 square feet under construction, 8% was downtown and 92% in suburban Victoria.**

Office Space Under Construction in Greater Victoria

Written by Ruth Seeley from No Spin PR

Institutional investors and REITs, who represent 15% of all multi-family property buyers according to Avison Young's "British Columbia Multi-Family Investment Report/Fall 2021," acquired assets in what are considered less traditional markets, including Esquimalt, Langford, Campbell River, Parksville, and Kelowna, including a Starlight Investments deal for a property in Victoria/Esquimalt. A private investor acquired Whistler's Rainbow Plaza for $41 million, while secondary markets in Vernon, Chetwynd, and Penticton also attracted investors, who are "recalibrating their portfolios as a result of COVID-19" while disposing of class B/C office buildings and looking for industrial properties and multi-family assets in less traditional markets.

The motivation for these acquisitions in the last quarter of 2021 was a combination of record low capital costs and anticipated rental rate appreciation as inflation continues to rise. Higher fuel and housing costs mean rental rates should increase in both existing multi-family and new purpose-built rental buildings.

Pandemic-inspired resettlement to smaller BC markets has led to aggressive investor expansion in newer construction that accompanied a development boom in these areas, where land is more affordable. Future interest rate hikes or direct government intervention could, however, put a damper on this trend.

Higher yields, new construction, and municipalities that are more open to multi-family investment are attracting both large private investors and institutional buyers throughout the province, including Victoria and the Capital Regional District, Vancouver Island communities, the Okanagan Valley, and the BC Interior.

After stalling in both 2016 and 2018, in the first half of 2021 alone there were four major multi-family transactions in Victoria, Esquimalt, and Langford, with the sale of the Starlight Victoria Portfolio and its nine multi-family buildings considered the largest multi-family transaction in Vancouver Island's history (in dollar terms).

With their rising populations and more business-friendly municipal governments, BC's Okanagan Valley has become very attractive to investors, as has Kamloops in the central interior of the province. Kelowna's Carrington View sold in Kelowna in February 2021 for $54.05 million, while properties in Penticton and Vernon both sold for more than $5 million in spring 2021. "Investment activity in these communities is expected to continue to rise," according to Avison Young.

However, according to an October Canada Mortgage and Housing Corp. report in October 2021, BC housing's seasonally adjusted annual start rate (SAAR) declined 25%, with a 37% drop in Metro Vancouver month-over-month (August to September 2021). The report indicated that SAAR starts were significantly lower in urban markets, while housing starts remain at historic high levels. A decline in the multi-family segment meant Vancouver did not register SAAR growth.

3. LAST MILE DELIVERY CONTINUES TO BE A CHALLENGE FOR INDUSTRIAL USERS

Low vacancy rates and high demand are causing users to go farther afield to find industrial real estate.

Vancouver's industrial space shortage poses a host of problems for industrial users. Vacancy rates are extremely low, they remained below 1% for 2021 and were 0.4% in Q1 2022 according to Altus Group. Price per square foot continues to rise as a result and creating new warehouse space in a region that has both geographic and political barriers to make land available for new industrial development is often a contentious issue.

That means going farther and farther afield to find industrial real estate, while consumers demand timely delivery of the goods they increasingly purchase online. Last mile delivery will continue to be a challenge for industrial users in Metro Vancouver throughout 2022.

At the end of October 2021, in a vote of 134-82, Metro Vancouver directors approved the redesignation of South Campbell Heights land for industrial use. According to Gary Pooni, a planning consultant for real estate developer Beedie, the majority of the support for rezoning came from Metro Vancouver cities east and south of Vancouver, namely Burnaby, Coquitlam, Port Coquitlam, Delta, Surrey, Langley Township, Maple Ridge and Anmore, while Vancouver representatives were split 4:3 in favour of redesignation. Richmond representative Harold Steves was opposed on both food security and environmental sustainability fronts, and stated he believes "Metro Vancouver has sufficient industrial land, and that owners need to densify their land with multi-storey warehouses."

Business in Vancouver's Glenn Korstrom said at the time, "Industry insiders and supporters say that the region is in a crisis, with insufficient industrial land for local companies to expand, and for foreign companies to be able to locate regional distribution centres." The shortage of industrial land inhibits economic growth by costing the region jobs and inhibiting tax base growth for governments.

While manufacturers look to the Fraser Valley for industrial real estate solutions, CBRE's Chris MacCauley points out that this means more time in transit, increased greenhouse gas emissions, and higher consumer costs for goods.

Just as there was a corporate flight from Vancouver to Calgary at the turn of the century, there is now an industrial real estate flight to Alberta, with Lowe's, Canadian Tire, Walmart, and FedEx choosing Calgary as their western Canadian distribution hubs rather than Vancouver. "By our calculations, we've lost over three million square feet of potential new tenants to Calgary, simply because of availability," MacCauley told Business in Vancouver. "We are the major port, so it would make sense for a lot of these companies if they could set up closer to the port" rather than trucking from the Port of Vancouver to Alberta, unpacking the goods, and then returning them to Vancouver.

Written by Ruth Seeley from No Spin PR

Regional government approval for redesignation is a cumbersome process in which municipalities can propose rezoning. This begins a dialogue with the Metro Vancouver Board to ensure proposals are consistent with Metro 2040, the area's regional growth strategy. There is no statutory time limit for this dialogue, which can be protracted, before the board eventually votes on the proposal. In the decade between 2011 and 2020, only 79 hectares of land in Metro Vancouver was redesignated industrial, while mixed employment (also considered an industrial designation) lost 21 hectares according to Metro Vancouver.

Colliers' Executive Vice President Gord Cook said, "It can take developers three to seven years to get a site properly zoned and serviced, assuming it's already designated, and then another nine to twelve months to get through the site plan application process." The solution, already underway in South Vancouver's Marine Landing, is stacked industrial and office complexes. With oversized parking spaces, freight elevators and wide corridors in an area only 20 minutes from downtown Vancouver, "Developing larger, mixed-use buildings in areas where people already work and live can help alleviate some of the challenges we are facing when it comes to industrial space in major markets," Cook said.

CBRE's "Vancouver Industrial Figures Q3 2021" report notes that demand for industrial space is driven primarily by e-commerce, warehousing, distribution, and logistics users.

4. UNDERSTANDING ESG INVESTING BECOMES INCREASINGLY IMPORTANT

As noted in the Altus Sustainability report, disruptions due to climate change and the pandemic, combined with a growing awareness of social inequity, has led to increased ESG importance to the way organizations do business.

Incorporating environmental, social, and governance considerations when investing (ESG Investing) acknowledges that financial performance is increasingly impacted by these factors, with organizations that have committed to sustainable investment benefiting from having done so.

CBRE's October 2021 report "ESG and Real Estate: The Top 10 Things Investors Need to Know" pegged 2020 as a watershed year for ESG Investing in the industry. Disruptions due to climate change and the pandemic, combined with a growing awareness of social inequity, has led to increased ESG importance to the way organizations do business, with investors "embedding ESG considerations into every stage of the property lifecycle, from due diligence to acquisitions and from leasing to asset management." ESG criteria had been adopted by 60% of respondents who completed CBRE's 2021 Global Investor Intentions Survey.

Canada's commitment to reduce carbon emissions to net-zero by 2050 means that in environmental terms, carbon reduction efforts "will play a prominent role in preserving asset value as occupiers increasingly shy away from properties with subpar environmental performance." The more sustainable the property, the more its value will increase.

While LEED, BREEAM and NABERS certifications will continue to be important contributors to asset valuations, CBRE's study indicates the emphasis is shifting to the World Green Building Council's (WGBC) Net Zero Carbon Buildings Commitment for all buildings to have net-zero carbon emissions by 2050.

The United Nations' Race to Zero campaign for companies to halve global emissions by 2030 is a challenge to all organizations and industries, and is gaining traction, with signatories already received from municipalities, regions, and corporations that represent half of global GDP.

Canada's Brookfield Properties, with 375 million square feet managed globally and an additional 50 million square feet in active development, has committed to net-zero carbon emissions by 2050. "The income implications for investors are clear: Green buildings will command higher rents and higher capital values, while incurring lower monthly operating and maintenance costs," says the CBRE. The higher the rating, whether it is LEED Platinum, Energy Star-certification, BREEAM, or NABERS, the higher the anticipated rent growth. A LEED Platinum-certified building is anticipated to see 0.51% rent growth annually vs 0.22% for a LEED-certified building, according to the U.S. Green Building Council.

The use of green construction materials for new builds will increasingly become a factor in achieving net-zero, and the use of timber, with its carbon-sequestration capacity, rather than concrete and steel, may mean slightly higher upfront materials costs (5%-10%) that are allayed by reduced construction time due to prefabrication, which means net construction costs are ultimately equal.

Climate risk is another factor in the ESG investment equation, with the U.K. Task Force on Climate-related Financial Disclosures becoming mandatory for all fund managers by 2025. Canada is considering adopting this standard, and it will be of particular importance in coastal areas. In addition, BC of course faces seismic threats as well as those posed by climate-change induced rising sea levels and fires.

"As climate-change risks increase, costs are rising. Global property insurance premiums have grown by a double-digit percentage in each of the past seven quarters as real estate portfolios sustain physical damage from natural disasters."

Written by Ruth Seeley from No Spin PR

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The social aspect of ESG Investing becomes more important as housing affordability continues to decline, and housing affordability has become an increasingly huge issue in Vancouver and across all of BC since the turn of the century. **By 2016 the average price of a Greater Vancouver home was close to 12 times the average local income, according to data from the Canadian Real Estate Association (CREA) and Statistics Canada.** While that number dipped slightly between 2016 and 2018, it began to rise again during the pandemic. As the price of single-family homes increases, so do the prices of rental housing.

"Value-add multifamily asset investments that involve significant property upgrades generally provide returns in the low- to mid-teens, offer stable income and hold their value, often outperforming other real estate sectors during periods of economic instability," according to CBRE.

Health and wellness considerations are another aspect of the social in ESG Investing, and "properties with sustainability and wellness features, particularly those related to indoor air quality, ventilation systems and other indoor environmental features to improve employee comfort, will attract stronger demand in the long term…," says CBRE. Obviously this is a huge factor after we have lived through an airborne viral pandemic that has not yet become endemic, and will be top of mind for those seeking to lease industrial and office space and in valuation terms for multi-family residential units.

Governance, which includes corporate social responsibility and transparency, is the third pillar of ESG investing. "Equity, diversity and inclusion are key components of governance, as is enhancing the transparency of procedures and decision-making, particularly regarding progress toward ESG goals. Policies such as employee childcare, vendor selection and treatment, and tenant engagement and relations also fall under this subcategory of governance, which prioritizes the wellbeing of employees and aims to enhance their workplace experience.

"By creating a strong ethical and social platform, companies can strengthen operational resilience and be better positioned to withstand any crises, such as periods of economic volatility, climate- and health-related risks, and disruptive competition," according to CBRE.

In most markets, public REITS are already providing annual ESG reports, and both benchmarking and reporting ESG performance will become increasingly important.

5. HOUSING AFFORDABILITY CONTINUES TO BE TOP OF MIND

In the Greater Vancouver marketplace the average price of a detached home increased 25% in the last year alone, leading to "toxic demand" in the housing market.

The release of Statistics Canada's census data in early February 2022 confirms what observers of the real estate market have known for many years now: housing affordability has been steadily declining for decades in Canada generally and particularly in British Columbia and its two largest urban areas, Metro Vancouver and Greater Victoria.

The pandemic exodus to smaller urban areas, low housing supply, and an overheated residential market has led to double-digit growth, making BC home to four of the five fastest growing metropolitan areas in the country: Kelowna (including West Kelowna, Lake Country and Peachland): 14% population growth since 2016; Nanaimo (including Parksville and Qualicum Beach): 10%; Kamloops 10%; and Chilliwack 12.1% over the same five-year period. Salmon Arm and Vernon grew 10% and 9.3% respectively; Penticton 8.8%; Greater Victoria 8%, and Courtenay 9.2%. The Thompson-Okanagan region grew 10.7% overall. Vancouver Island and Sunshine Coast region's population grew by 8.2% while the Kootenays' increased 6.7%. Canada's overall population grew 5.2% between 2016 and 2021. The only BC region that did not exceed overall Canadian population growth rates was northern BC, where Prince George, Terrace, and Fort St. John saw smaller than average increases of 3.3%, 2.3%, and 1.2%, while Prince Rupert and Quesnel saw small population losses of less than 0.2%.

JLL's "Growth Opportunities in Living" report of October 2021 identified supply-demand imbalances and housing affordability challenges in many markets, along with demographic shifts such as delayed marriage and childbirth, "prolonging the tenancies in rental accommodations of renters by necessity as well as those by choice." The lack of affordable housing for purchase "is a determinant of for-rent housing demand. Over the past decade, for-sale accommodations have become increasingly unaffordable to much of the population across the globe, a function of tight lending conditions and constrained for-sale housing inventories. Across the 24 markets analyzed, the median home price is more than 12 times the median household income. Single-family housing development has not kept pace with population growth…."

Nowhere is this more true than in the Greater Vancouver market-place, where the average price of a detached home increased 25% in the last year alone, and a whopping 52% in the Fraser Valley, according to the Real Estate Board of Greater Vancouver.

Written by Ruth Seeley from No Spin PR

BC Minister of Housing David Eby used the term "toxic demand" to describe the housing market, and indicated the 2022 fall legislative session will include a full suite of measures to address the housing crisis. In order for them to be effective, these measures will have to try to correct the extremely low housing supply, which has led to bidding wars that have reached unprecedented levels, with record numbers of offers and homes selling for as much as 39% over asking price.

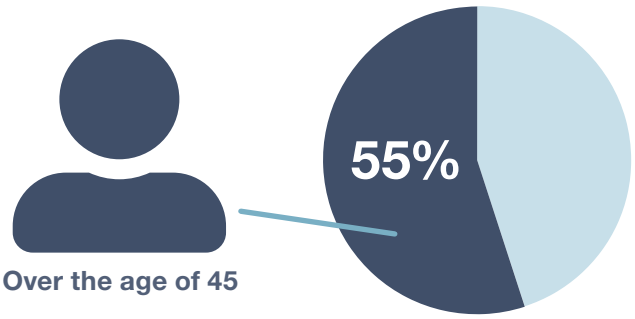
6. LABOUR SHORTAGES, CONSTRUCTION COSTS, AND MUNICIPAL APPROVAL PROCESS PROVE CHALLENGING

An aging workforce, and technological change are contributing to a talent shortage, while the cost of construction and municipal barriers stall new development.

BC's latest Employment Market Outlook, released in early February 2022, anticipates there will be more than 1 million job openings in the province by 2031. Of that figure, 63% are openings created by people permanently leaving the workforce. Over the next 10 years, the province anticipates construction jobs will be the fourth-largest opportunity for job seekers.

This reinforces the findings of Deloitte's 2017 "Labour Market Information Research Study - BC Commercial Real Estate Industry Commissioned by the Building Owners & Managers Association of BC (BOMA BC)," which stated, **"More than half (55%) of the real estate workforce is over the age of 45….** This threatens to significantly limit future workforce growth and talent supply if the sector fails to attract younger talent. Additionally, critical industry knowledge and skills could be lost if knowledge transfer between an aging workforce and incoming workforce does not keep up with the pace of retirement." The Deloitte report noted that only 4% of the real estate workforce in BC was in the 15-24 demographic.

BC Real Estate Workforce in 2017



The Building Owners Managers Association of British Columbia (BOMA), in its publication "Have You Considered a Career in Commercial Property Management or Building Operations?" points out that the 6500 people working in BC in key commercial property management and building operations represent more than a third of the country's real estate workforce, and anticipates the talent shortage will intensify by 2025, citing an aging workforce, not enough replacement workers, and technological change to explain this shortfall. "Technological change is also disrupting employment patterns. 'Smart' buildings, artificial intelligence, and automation, coupled with evolving standards of sustainability and environmental responsibility, have altered consumer expectations of properties and revolutionized how services are delivered to owners and tenants. Currently there is a widening gap in skills related to building systems and controls, compounded by a lower-than-average number of younger employees taking up employment in the sector. There is intense competition from other industries for tech-savvy employees who are also customer service oriented and strong on interpersonal skills."

Data from Altus Group's 2021 Cost Guide indicates that the private sector price per square foot for construction of almost all commercial buildings was higher overall in Vancouver than anywhere else in the country, including the Greater Toronto Area, including condominiums, seniors' housing, office buildings, retail, hotels, and industrial facilities.

The report of the June 2021 Canada-British Columbia Expert Panel on the Future of Housing Supply and Affordability ("Opening doors: unlocking housing supply for affordability") identified many municipal government barriers to increasing housing supply and improving affordability throughout the province, but particularly in Metro Vancouver. Among its recommendations:

- Enact statutory time limits for all types of developments and all stages of the property development process as other provinces (Ontario and Alberta) have done
- Develop a provincial digital permitting system to process proposals to streamline, shorten timeframes, and decrease costs
- Reform housing development fees and link to infrastructure and amenity needs while phasing out "negotiated and unpredictable" community amenity contributions (CACs) while expanding fees for infrastructure and amenities, which are defined in legislation rather than negotiated.
- Create a planning framework that proactively encourages housing by speeding up the approval process, including rezoning and development applications and reform the system governing urban growth in B.C. to ensure greater reliance on housing needs' estimates and citywide official plans that guide community growth rather than continuing with "overly complex or unclear" frameworks. Currently, these frameworks include "site-by-site public hearings and council approvals that delay homebuilding and amplify the voices of groups opposing new housing at the expense of citywide objectives and affordability."

Written by Ruth Seeley from No Spin PR

7. POLITICS AND GOVERNMENT POLICIES IMPACT THE MULTI-RESIDENTIAL MARKET

Several policy changes made by the City of Vancouver have cut down on application times, but studies look for change in zoning laws to keep up with demand.

Metro Vancouver's regulatory environment comprises 23 jurisdictions (30 including the Fraser Valley), all of which have a say in development approvals.

The December 2021 progress report of the "Development Application and Permitting Modernization Task Force" created by the City of Vancouver at the end of March 2021 indicated that "several policy changes approved by Council and operational changes made by staff have now been implemented for several months, benefiting the processing of low-density housing permits, and small commercial renovation permits."

In a recent industry engagement session, several City of Vancouver customers noted an improvement in the overall turnaround times for low-density housing reviews, along with commercial renovation processing times. The permit backlog has been cleared, and the Moderate Income Rental Housing Pilot Program has reduced construction time by five months. Design reviews have been relaxed on simple projects, allowing city staff to focus on more complicated projects. Arborist reports are less arduous, and site drawing submission requirements have been simplified, reducing application review times for some renovations.

By increasing the small suite definition from 60 to 100 occupants, Vancouver anticipates a reduction of 17 weeks per application, and the change of use relaxations should result in 20 weeks' less time per application for more than 100 current applications.

The City of Vancouver has also implemented ePlans for seven different permit types, including development permits, and will add building permits to the digital permitting process in 2022.

The federal-provincial report on housing affordability and supply (see Section 6) stated, "Because zoning-based revenue tools such as CACs discourage local governments from updating zoning codes to better reflect Regional Growth Strategy and Official Community Plan (OCP) priorities [they] … risk undermining the participatory planning process." CACs for rezonings within the West End and Cambie Corridor plans, for instance "are very much determined on a case-by-case basis, resulting in years-long review and negotiation processes for applications."

While Burnaby also has a CAC negotiation process, there is a time limit on negotiations, while Surrey bases CACs on area-specific fixed rates per square foot for apartments.

Written by Ruth Seeley from No Spin PR

The report also said, "Long approval timelines, uncertainty and conflicting program criteria all add costs, in both time and money, to program applicants. Such costs can restrict the pool of potential applicants, as those without the budgets or staff to navigate approvals are prevented from participating in the program altogether."

Another report recommendation was that municipalities be required to change zoning bylaws, OCPs and local policies to permit increased density and multi-family housing in exchange for federal and provincial infrastructure investment, as has been done with the Broadway Corridor in Vancouver and the Fleetwood Plan in Surrey. Otherwise "even areas relatively close to the region's primary business district (downtown Vancouver) have relatively low densities. Further out, meanwhile, density increases with distance to a level that is higher than predicted." Meanwhile, "Single-detached housing covers areas where the unrestricted price of land is very high, suggesting it could support much higher density."

One bright spot cited in the federal-provincial report is the Squamish First Nation's Senakw redevelopment, "an example of the housing potential near downtown Vancouver, when housing plans align with market demand rather than the City of Vancouver's regulations and permitting process." Senakw will house twice as many people (up to 9,000) on an area only 7% the size of the False Creek South development.

8. INDUSTRIAL MARKETS REMAIN UNDER INTENSE PRESSURE BETWEEN LOW VACANCY AND GROWING DEMAND

Metro Vancouver's industrial vacancy rate is the lowest in North America as demand increases.

Between 2016 and 2021, asking rate for industrial space in Greater Vancouver increased 31%, according to Altus Group. The area's industrial vacancy rate – 0.4% in Q1 2022– is the lowest in North America. Richmond, Burnaby, Langley, Port Coquitlam, Abbotsford, and North Vancouver have vacancy rates of half that – 0.2%, while New Westminster and Tsawwassen have 0.0% industrial vacancy rates. Only the City of Vancouver bucks the trend, with a 1.2% vacancy rate in the third quarter of 2021. While 6.2 million square feet of new industrial space is under construction, most of this space has already been allocated with over 5 million square feet leased. Industrial lease rates are $12.45 per square foot as of Q1 2022. The industrial land shortage, lack of political will to regulate land-use on a regional rather than municipal basis, low interest rates, and the pandemic-induced rise in e-commerce have caused both industrial assets and lands to appreciate rapidly.

Amazon alone has leased over 2 million square feet in 2021, in Pitt Meadows, Burnaby, and Richmond, while Lululemon expanded its lease holdings by 373,073 square feet in Delta and Eddi's Wholesale Garden Supplies leased more than a quarter of a million square feet in Surrey (256,480 square feet).

Escalating lease rates have led to the phenomenon of industrial strata space, with architects, engineers, designers, and small distributors snapping up smaller (less than 5,000 square feet) light industrial strata space.

Industrial strata units are also seeing huge price increases. Western Investor reported that one industrial strata unit in North Vancouver sold for $570 per square foot in March 2021. Two months later, strata units were selling for $630 per square foot as the project neared completion, with other industrial strata space in the same municipality selling for $800-$900 per square foot.

Demand for industrial space is so high space is being sold or leased before construction is finished. Denciti Development and Nicola Wealth Real Estates' Langley Gateway, a 90,000- square foot, two building light industrial project, is seeing huge demand. It's the first strata industry project in the area in the last 15 years, and prices are in excess of $400 per square foot. The premises are near Highway 1 and the 200th Street interchange. "Industrial businesses are banging down the door for real estate. Buyers are motivated to secure ownership in a tightening industrial market," according to Frontline Real Estate Services Todd Bohn, with sales to both investors and owner-occupiers.

In Abbotsford, light industrial strata space that leases for $11.58 per square foot is selling for $315 to $330 per square foot, according to Klein Group-Royal LePage Sussex commercial agent Dymtro Chernysh.

9. HOW WILL INFLATION AND RISING INTEREST RATES IMPACT FINANCING?

The cost of housing, food and more continues to rise in Canada: look for an increase in the cost of borrowing.

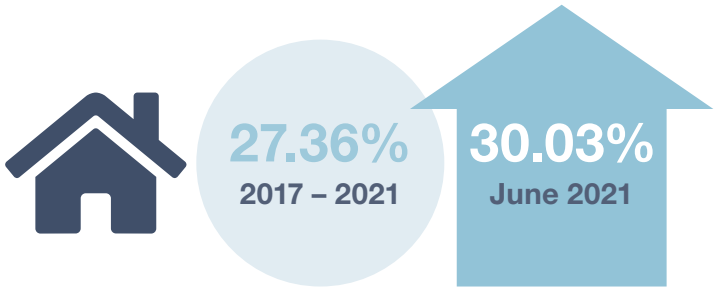
By August 2021, Canada's annual inflation rate had increased to 4.1%—the biggest increase since March 2003—according to Statistics Canada. By December 2021, that rate had increased to 4.8%, representing the sharpest rise since 1991. Grocery prices alone increased by 5.7% in 2021, the highest percentage increase in a decade. Shelter costs had also increased by 5.4% over 2021, with Canada's housing market inflation continuing to rise to unprecedented levels. However, the anticipated interest rate hike from historic lows of 0.25% did not materialize in late January. The next Bank of Canada interest rate hike was announced on March 2, 2022 to 0.5%, leaving home buyers a little longer to set up pre-arranged mortgages with guaranteed low rates for those two months.

Home prices could fall as much as 20% in some markets due to the raise in interest rates, according to Peter Routledge, Superintendent of Financial Institutions, pointing to historic readjustments in selling prices in Vancouver in 2015 and 2016 and in Toronto in 2016 and 2017, with declines between 10% and 20%.

Written by Ruth Seeley from No Spin PR

With inflation rates higher than 2%-3% and Bank of Canada interest rate adjustments spanning six to eight quarters before effectively reducing inflation, look for the cost of borrowing to increase steadily for both individual and corporate investors over the course of 2022. Additionally, **Statistics Canada's Consumer Price Index basket weights were adjusted in June 2021, with shelter costs increasing to 30.03% of the total weight, up from 27.36% rate between 2017 and 2021**.

Shelter Costs — % of CPI Basket Weight



At the end of November 2021, the BCREA announced its Commercial Leading Indicator (CLI) had fallen to 150.9 in the third quarter of 2021, down from 155.4. While the index was up by 9% year-over-year, it was the first decline since the pandemic recovery began.

The drop in the CLI was due to a decline in the index's economic activity component. This resulted from lower manufacturing sales as lumber prices began to drop from historic pandemic-induced highs. An 8.3% decrease in wholesale trade and retail sales that were 1.5% lower (motor vehicle sales were down 5.5% due to a worsening semiconductor chip supply shortage) also contributed to the CLI being lower.

While employment in finance, insurance and real estate rose by 2000 in the third quarter of 2021 and hit a record high, remote work continued and it was unclear whether this employment growth would increase demand for office space. Manufacturing employment neither increased nor decreased in Q3 2021.

10. PROPTECH INNOVATIONS IMPACT NEW DEVELOPMENT AND THE BUILT ENVIRONMENT

Investments in PropTech have increased exponentially, and will continue to change transactions and service capabilities.

PropTech improves both the real estate experience and its function at both the transactional and service/support levels.

By identifying inefficiencies in the property market and providing technological solutions, PropTech affects purchasing, leasing, management, evaluation, financing, and construction. According to business law firm McMillan, PropTech investments "have increased exponentially in the past few years.… PropTech startups in Canada, such as Sonder and ecobee[,] have raised $698M and $203M, respectively, from various funding sources."

Written by Ruth Seeley from No Spin PR

Examples of PropTech firms include Poppy, which provides virus-monitoring services to building management; Fundever, a digital platform connecting commercial lenders and mortgage brokers; and Locomobi, which integrates parking, tolling, transit, and storage smart technologies for developments that increase both security and ease of use. Smart home technologies licensed using the SaaS model let condo corporations and commercial landlords control building functionality, from temperature control to leak detection and security access. They can also help in the property management functions of both commercial and residential properties by automating and digitizing invoicing, assessments, and common area bookings, while automatically generating reports.

PropTech-enabled digitalization also makes data collection and analysis an automated process and can help both residential and commercial tenants save money through smart thermostats to improve energy efficiency, monitoring construction fleets through driver, fleet, and subcontractor dispatch software, and enabling ESG initiatives through smart lighting, as well as providing data required to help commercial owners achieve, maintain, and upgrade WELL and LEED certifications.

The PropTech Collective's "PropTech in Canada 2021 Report" cites four key trends that will affect real estate companies and investors:

- Location data capture: Providing internal analytics from data collected forms the basis of innovation strategies
- One-stop "platform as a service" solutions: Single PropTech and/or integrated platforms rather than several different, potentially incompatible bits and pieces of smart technology to monitor and enable security, leasing, and energy efficiencies.
- Creating ancillary revenue streams: PropTech-equipped buildings can create additional revenue/increase lease rates by helping tenants meet their security and energy efficiency goals.
- Measuring and enabling ESG so both real estate firms and their tenants can track ESG milestones.

This report on the Top 10 Trends in Vancouver Real Estate 2022 was prepared by Informa Connect and summarizes discussions held at the Vancouver Real Estate Forum held on April 12, 2022.

Written by Ruth Seeley from No Spin PR