

Vancouver

*Statistics refer to
Greater Vancouver Area

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Population*
2.2 million

Office vacancy
4.87%

Industrial inventory
164.3 million sq ft

Office inventory
39.4 million sq ft

CBD Class A vacancy
2.40%

Industrial vacancy
1.5%



Market overview

Construction, forestry, tourism, strong export/import trade with Asia Pacific nations are the big drivers of the local economy. In addition, activity surrounding the 2010 Winter Olympics is driving significant investment in infrastructure in and around the city including the creation of a new light rapid transit line from downtown to the airport; the expansion and improvement of the Sea to Sky highway; the redevelopment of the downtown waterfront, including an expanded cruise ship facility and convention centre; and venue construction for the games themselves.

Overall, the market has been performing very well, but pricing may have reached its peak in 2007. The economy expanded by 2.9%, a slower pace than last year. Vacancy is low in all sectors. High rental rates are deterring many potential tenants. Sales remain strong but product is in short supply. Most of the construction associated with the Olympics will reach completion within the next two years. However, relatively strong domestic demand and sound non-residential construction activity should result in 3.4% growth over the 2008-11 period.

Office market

Office vacancy continued to decline, ending the third quarter at 4.8%, down from 6% vacancy recorded at the start of the year. Expect this downward trend to continue in 2008. Downtown rental rates are increasing with AAA class office space reaching the \$40 per square foot range. Most of the office deals that are being done are renewals and expansions of existing downtown tenants. New tenants looking for space tend to look in the suburban markets due to limited options available in the downtown and the lower gross occupancy costs offered in the suburbs.

Currently there are several new downtown office building projects on the horizon that could alleviate the situation, including GM Place (160,000 square feet), Jameson House (400,000 square feet) and the recently completed Bentall Five (243,000 square feet).

Industrial market

Industrial vacancy remains one of the lowest in the country, a trend that is expected to continue over the medium term. Despite a small increase at the end of Q3 2007 to 1.5%, vacancy has been generally decreasing over the past year. Absorption for the first three quarters of 2007 was 3.2 million square feet. Significant new supply came to market in 2007, but not enough to satisfy demand. Expect to see more industrial development in the Greater Vancouver Area in 2008. However, industrial land supply constraints, rising construction costs and labor shortages will have a negative impact.

Rental rates have been increasing throughout the lower mainland. It is a landlord market. Due to a lack of available product, most completed transactions are in the 1,000-3,000 square foot small bay category.

Investment market

Investment activity in Vancouver remained strong throughout 2007. Activity levels should remain solid for 2008. Investors are experiencing difficulty with the current low cap rates, which are creating negative cash flows. Purchasers have to be counting on capital appreciation. The product class most in demand is ICI land sites with development potential.

The biggest challenge facing Vancouver's investment market is supply of quality product, which is the case in most Canadian markets.

Retail market

New retailers are eager to enter the market due to current high customer demand and spending levels. Retail space for sale is limited, while rent for leasehold space is higher than some retailers can justify. Luxury retailers continue to be attracted to Vancouver's Robson Street, which remains one of the most expensive locations for retail in the country. The construction of the Canada Line has been disruptive to retailers on Cambie Street and a number of stores have been forced to close their doors.

Construction of multi-use developments is common in Vancouver as a result of the municipal trend to eco-density. Up and coming projects include a SmartCentres development at the corner of 160th Street and 24th Avenue in Surrey, the Rise at 8th Avenue and Cambie Street in Vancouver and Crossroads at Broadway and Cambie Street in Vancouver.

