

Victoria

Population
360,000

Office vacancy
3%

Industrial inventory
7.6 million sq ft

Office inventory
8 million sq ft

CBD Class A vacancy
0.3%

Industrial vacancy
0.3%

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Market overview

Victoria's healthy and stable real estate market is bolstered by the combination of solid economic fundamentals including steady job growth, record low unemployment rates (3%), strong consumer confidence and positive in-migration. The economy is in the midst of a robust growth phase, expanding by 2.8% in 2007 and forecast to average 2.6% growth in the period 2008-11.

The construction boom reached record levels in 2007 with building permits valued at \$1 billion, up more than 18% from 2006. The number of cranes seen in the market are an indication of the strength of the economy. Leading industries include the advanced technology sector with annual revenues approaching \$1.67 billion, rivaled by tourism, which generates \$1.19 billion annually.

Office market

Office vacancy continues to trend downwards, thanks to sustained strong demand and nominal new supply. At the end of 2007, office vacancy hovered at just over 3% and remained tight across all classes and markets. Few viable space options are available downtown, particularly for medium and larger size tenants, while suburban vacancy dropped nearly 200 basis points to 4% over the year. Vacancy is expected to continue to decline over the next two years, causing rental rates to increase to record levels.

Strong demand led to a net absorption of approximately 150,000 square feet in the first half of 2007. The current lack of availability will limit absorption greatly until new supply comes on stream.

Upper Harbour Place represents the only Class A building completed within the last eight years, adding roughly 160,000 square feet in its two phases. New additions to the market in the future include The Radius (185,000 square feet), with construction underway for 2009 occupancy and Gateway Green (150,000 square feet) still in the pre-construction stage.

Industrial market

Demand for industrial space has increased over the past three years in a market with virtually no available product. At the end of 2007 overall industrial vacancy was in the 0.3% range. With industrial real estate expected to remain highly sought after in the coming years, an extreme shortage of available industrial land, rising land values and escalating construction costs will pose a challenge for development in the future.

Absorption levels tend to match new supply levels on an annual basis with over 60,000 square feet of positive absorption recorded for 2007. Rapid appreciation in overall property values, coupled with limited supply, has caused escalating rental rates. However, there will be some relief with a number of new business parks to be constructed over the next year or

two. These developments tend to be isolated to the Westshore and beyond.

Investment market

Investment activity in 2007 mirrored that of 2006, and this high level of activity is expected to continue over the medium term. Cap rates are at record lows and prices continue to rise, but at a measured pace. Prime retail and office properties are selling at cap rates as low as 5% with the majority ranging between 7%-8%. Development sites are being sold at values ranging from \$25-\$50 per buildable square foot, depending on their location and permitted density.

Demand for investment product continues to far exceed supply. Apartment buildings and hotels are in greatest demand. Apartment properties have been selling at record levels, with 2007 recording the most significant transactions in the last 20 years.

Retail market

A strong economic climate and rapid growth have provided for a healthy retail market. There is limited supply resulting in low vacancy and upward pressure on rental rates. In response to increased demand, many redevelopments and expansions have been proposed or are underway. Specifically, Town and Country Shopping Centre, Hillside Shopping Centre, Tillicum Shopping Centre and Westshore Town Centre have all pursued increased density to their lands. The rapid growth within the Westshore has led to significant retail development in Langford, evidenced by Bear Mountain, Millstream Centre and the Westshore Town Centre (formerly Canwest Mall).

Although the last couple of years have not provided any significant new supply of retail space in the downtown core, recently approved projects will add to supply. The 'Juliet' and 'Falls' will both contain retail components, as will the LeFevre development of lower Yates buildings (formerly the CRD buildings). Looking ahead, expect continued demand with upward pressure on rental rates.

