

StreetWise

Observations on the Greater Vancouver Commercial Real Estate Investment Market by Sam Emam

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Inflation Pressures Boost Commercial Real Estate

Real estate is an effective hedge against inflation, in most cases retaining its value far better than cash and other relatively liquid assets. With forecasts calling for higher inflation as the economy emerges from the drama of the COVID-19 pandemic, stable commercial assets are set to shine. But how much they'll shine will depend on how strong inflation is, and savvy investors will need to account for several variables to get a solid read on the market. Despite the billions in support governments pumped into the economy last year, allowing consumer savings rates to soar, inflation may not be heading where we think it is.

Data from Statistics Canada and the Bank of Canada indicate a 3.4% increase in the Consumer Price Index, the representative goods and services used to determine the headline inflation rate. This is slightly above the range of 1% to 3% that the Bank of Canada likes to maintain. But the core inflation rate, which weeds out seasonal influences and short-term factors – say, a pandemic – was just 1.7% in April. This reflects the fact that inflation slowed last year when prices for items such as fuel and services dropped during the initial weeks of the pandemic. While prices have since strengthened, it doesn't necessarily signal a dangerous shift.

The fact the economy is strengthening is good news, increasing demand for commercial space. The financial stimulus unleashed last year seems to have kept activity moving along. With interest

rates set to remain low for at least another year, according to the latest policy statements from the Bank of Canada, investors will still have access to financing for fresh purchases. While lending criteria are more stringent, solid assets continue to be in favour.

Moreover, the prospect of inflation means that investing in real estate makes more sense than ever. While inflation is unlikely to reach the levels seen in the early 1980s, many basic commodities such as lumber and grain have seen significant price increases. Upward pressure on consumer prices was being felt before the pandemic as employers sought to attract workers in a tight market; now, the reset offered by the pandemic is allowing some companies to be price-setters as the economy – and consumer wallets – reopen.

When cash loses its purchasing power, a flight to hard assets such as commercial real estate is wise. Whether you're looking to add to your portfolio, or preparing a property for sale, Macdonald Commercial is able to provide insights into the best strategy to achieve your goals. We review properties in detail, gather market data, and match owners with opportunities that deliver the best return. Allow our expertise to achieve your success.

Macdonald Commercial is here for you to answer any questions you have regarding the current state of the market and the opportunities for your property.

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