# StreetWise

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

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## Government Policies or Market Fundamentals: Which Impact Commercial Real Estate More?

This year is set to be one for the record books. The recessionary influence of COVID-19 appears set to be with us through 2021 as social distancing becomes more entrenched. Meanwhile, a dramatic U.S. election takes place early this month that has many observers that will have a direct effect on the economic well-being of Canada's largest trading partner.

Closer to home, a snap election in BC has given the government of John Horgan a stronger mandate than it had three years ago. The intervening years have been good ones for the B.C. economy but government intervention in the economy has also increased. The foreign buyer's tax was expanded, a speculation and vacancy tax was introduced, and residential rental rules were tweaked in favour of tenants. The next four years could see even more interventions given NDP plans to use taxes to reduce inequality by redistributing wealth. With the RBC Economics suggesting the B.C. economy could contract 5.6% this year as a result of the COVID-19 pandemic, it's hardly welcome news. This raises a key question: Could commercial real estate suffer?

Yes and no. There is no doubt that we are living in a time when there has never been a more closely tied relationship between real estate, economics and politics. These days, the unprecedented level of government intervention has profound implications for our real estate fundamentals, both commercial markets as well as residential real estate market.

Yet according to the PricewaterhouseCoopers/Urban Land Institute report Emerging Trends in Real Estate 2021, the top three concerns for Canada's real estate industry right now are economic growth, COVID-19 and construction and labour costs – in that order. Government regulations fall well down on the list as a mid-range concern, while taxes are even lower. Municipal service reductions, which affect processing and approval times, are near the bottom of the list. Of course, a national survey can mask regional variations, and all those issues are traditionally seen as a high priority in B.C. We often hear from clients that the province has inserted too far into the market, micromanaging transactions to a degree not seen elsewhere. With so many larger issues challenging the market, the province needs to stand back and look realistically at the issues where it can make a positive difference to B.C.'s economic recovery prospects.

Any attempt to introduce new taxes without taking into account what neighbouring jurisdictions charge could discourage investment, making properties less attractive and ultimately depressing asset values. This in turn would reduce make it harder for owners to secure loans to undertake upgrades.

The best thing for government to do is focus on job creation, investing in infrastructure projects such as the Massey bridge, green jobs including Site C, and an attractive tax policy that make people want to do business in BC.

BC is still a great place to live, work and play on global level. We need politicians to work with the real estate sector to identify and implement new innovative ways to create a more prosperous and sustainable real estate market. This could include supports for landlords, not just tenants, suffering financial hardship from COVID-19. A review of the property regime to ensure a balance between market conditions and the funding needs of municipalities is another possibility. While advancing a vision of a more equitable society is laudable, it will only work if the needs of everyone are met. Just as we work to help clients find the right property or secure the best deal, government needs to work with industry to develop the right solutions.

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