

StreetWise

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

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Challenges of Selling Your Property After Covid-19

October is here, and as the third quarter ends there's a new season beginning. Unfortunately, for many property owners, it seems like the state of suspended animation continues. The normalization of restrictions designed to limit the spread of COVID-19 make overall economic health tough to gauge. While the industrial market has proven the most resilient during the pandemic, thanks in part to strong demand for logistics space, the future is less certain for office and retail space. The multifamily rental market has seen further government intervention to protect renters, limiting turnover, but new construction faces challenges as municipal processes slowed down.

The questions facing property owners are top of mind for Macdonald Commercial. Despite strong demand for strategically located industrial buildings, many smaller industrial properties have experienced rising vacancies and softer asset prices. While many aspects of the sales process have gone digital, Zoom meetings and video tours take time to feel natural for buyers used to conducting site visits. Tenants may also have concerns about buyer groups touring properties during working hours even when precautions such as masks and physical distancing are taken.

Similarly, having inspectors, appraisers and other industry professionals visit the property during the sale process remains a major concern for tenants and owners alike. The result is due diligence periods that are often double the usual length, creating uncertainties and delaying when sellers receive the proceeds. Higher cleaning costs associated with public health protocols may reassure occupants and visitors but constitutes another cost that limits returns.

Both buyers and sellers want to know they're getting the best value from a property, something that's tough to gauge this year given the low number of sales. One approach Macdonald Commercial uses to determine an appropriate value on behalf of both buyers and sellers is examining a property's cash flow and tenancies. Properties that haven't lost income or tenants during the pandemic should continue to maintain their value, especially as economic activity recovers. Buildings with tenants that have deferred lease payments or nearing the end of their tenancies pose a greater risk as government supports for business are scaled back. Owners should be ready to provide buyers with clear documentation of an asset's financial performance and the strength of remaining covenants. These documents will also support financing requirements, especially as lenders tighten loan terms to mitigate perceived risks.

The good news is that interest rates have dipped to historic lows, and are set to remain there for the foreseeable future. Canada Mortgage and Housing Corp. is offering 10-year mortgages at less than 2%, making now an ideal time to buy. This could further push down cap rates for multifamily rental properties, making now a good time to buy lest asset prices for these scarce but reliable properties increase. While bank financing has become tighter, it still remains available for stable assets such as multifamily rental and industrial properties.

Macdonald Commercial's experience across all property types, gives us the expertise needed to present your property to the market. With our skills in multimedia marketing, online tours and knowledge of financing sources, we can help owners and investors come to terms even in challenging markets.

Want to know more? Let's connect!

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