

StreetWise

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

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Rising Capital Costs Notable for Buyers – and Sellers

Short, sharp and shocking – that’s one way to describe the Bank of Canada’s ongoing adjustment to interest rates this year.

Within the space of few weeks, the central bank effectively declared the pandemic over by doubling its overnight lending rate not once but twice. With the pandemic intensifying in March 2020, the bank quickly lowered the overnight rate by 1.5 percentage points, from 1.75% as the month opened to 0.25% on March 27. Now, it’s backtracking – doubling the rate on March 3, and again on April 13. The latest increase on June 1 boosted the rate to 1.5% and further increases are expected on July 13 and this fall that could push the overnight rate towards 3%.

While the rapid drop in interest rates in March 2020 initially had minimal impact as the market adjusted to public health restrictions, the latest increases are a shock to a system that’s keen to do business. The effects are starting to be felt among homebuyers, where the Real Estate Board of Greater Vancouver’s benchmark residential price fell in May for the first time in two years.

The impact of interest rate increases is also making itself felt in the industrial, commercial and investment markets. Buyers in need of financing will find debt more expensive, forcing them to reconsider what they’re willing to pay. Sellers will need to take this into account when evaluating offers, as asset values will come under pressure as buyers reassess what they’re willing to pay. While economic fundamentals to date remain strong, buyers are becoming more cautious.

The strong price gains as the economy reopened will moderate, although significant price reductions are unlikely at this point. Those of us who serve as investment advisors face the challenging task of helping sellers understand what constitutes a reasonable offer. Pricing to current market conditions is equally important to avoid frustration and disappointment on the part of both buyers and sellers.

Buyers will also need a clear understanding of a property’s long-term value in order to get deals done with sellers who may be unwilling to concede on price. Qualified buyers who understand market conditions and are serious about doing deals are a seller’s best friend in shifting markets like the one we’re facing.

The good news is the Vancouver market remains stable, with low vacancies in the industrial market and rising demand for commercial space. High house prices also mean multifamily rental properties are in demand as immigration resumes.

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Block to Block 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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