StreetWise

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

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The Good, the Bad and the Ugly

This year has been a remarkable ride for property owners, investors and brokers as the post-pandemic recovery dealt with the realities into war, inflation and rising interest rates. Strong performance in 2021 spilled over into 2022, with transaction and leasing activity holding the course through the second quarter. Record demand for industrial real estate saw vacancies plummet to all-time lows while leases and prices soared.

Business confidence was supported by a return to something approaching normal as vaccines gave businesses confidence to reopen offices and governments began to loosen public health restrictions. Consumer sending shifted from at-home purchases to social events, services, and open borders saw domestic and international travel surge. Passenger traffic through YVR has strengthened to 86% of what it was three years ago.

It wasn't just leisure travel that picked up, immigration resumed, followed this fall by ambitious new federal targets for immigration that could see B.C. receive between 75,000 and 85,000 new immigrants a year by 2025. This is good for the province's competitive labour markets, not to mention multifamily landlords, who typically provide new households with their first homes.

But the positive outlook soon darkened. Russia's invasion of Ukraine on February 24 added fuel to strengthening inflation, catching central bankers unawares. Pent-up consumer spending combined with supply chain disruptions and rising costs for fuel, fertilizer and food to drive inflation to 40-year highs. This was bad, but then the Bank of Canada launched a series of sharp interest rate hikes. Transaction activity dropped off in the third quarter, creating a gap between buyers and sellers with no easy way to establish the fair market value of properties.

The uncertainties made the return normal seem anything but, adding to the distress triggered by the pandemic. People were coming together again, but the mental wellness issues that had accumulated through two years of isolation were made worse by the new uncertainties.

The bad now risks becoming even uglier. Capital flows have tightened as fear stalls investment and the potential for a recession grow. Consumer spending remains strong, and the fundamental reasons for investing in Vancouver remain sound, but investors are running scared. Equity markets are volatile, flirting with the bear, and an uncertain outlook for 2023 isn't generating confidence. Russia's ongoing war in Ukraine has cut energy supplies to Europe and continues to drive food costs higher, and consumers are nervous. Growing layoffs of highly paid workers in the tech sector are jeopardizing the recovery and stalled construction projects are impacting skilled trades.

This could get ugly. But savvy investors can use market information to address the challenges and position their properties for success. These may not be the best of times, but they're not the worst of times, either. Demand remains strong for properties that can give owners certainty in uncertain times.

To discuss how to make the most of your property, contact us today.

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