StreetWise

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

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Industrial is the Asset of Choice for Today's Investors

Global accounting firm Deloitte recently released its 2024 global outlook for real estate. The report identified the cost and availability of capital among the top concerns of investors, followed by vacancies. All are expected to worsen, according to respondents in the Americas, Europe and Asia.

But in response to these concerns, income-producing properties have come into the spotlight, with what Deloitte calls "the most attractive risk-adjusted opportunity for real estate owners and investors over the next 12 to 18 months." While digital infrastructure like cell towers and data centres as well as residential rental top the wish list, industrial real estate is close behind, rising in favour as cash flow becomes king.

The fundamentals shine especially brightly in Vancouver, thanks both to challenges facing the sector's expansion as well as basic economics.

Metro Vancouver requires 250 to 300 acres for new industrial development annually, according to a Sept. 13 report for the Greater Vancouver Board of Trade and commercial real estate association NAIOP. But a long-term shortfall in available space has resulted in an estimated 5.1 million square feet being developed and leased in Calgary rather than Metro Vancouver since 2018.

Calgary is not an option for everyone, however, and strong demand has kept Lower Mainland lease rates rising. This has been good news for landlords, who have seen lease rates rise above $20 a square foot, something unheard of just a few years ago. And there still seems to be room for growth. Small wonder a recent survey of active real estate investors by CoStar Group identified industrial as their preferred asset class.

According to CoStar, transportation is the single biggest expense in the supply chain. Trucking is approximately half the cost of moving goods to market. By contrast, inventory and carrying costs account for just 22%, while space costs are a mere 4%. While there's a competitive advantage to keeping costs down throughout the supply chain, lease rates remain manageable and are nowhere near the expense of greatest concern.

This means landlords have some leeway to raise rents and generate cash flow. There's also no lack of candidates if tenants say rates are too high and move on. Simply put, there's few other places for them to go. Developing new space takes time, and entitled sites of three-plus acres aren't easy to find.

This means landlords with well-maintained, well-located industrial properties have desireable assets. They're not only generating cash flow, but are in demand by investors. Those with undeveloped yard area could see demand not just from tenants but developers, too.

Despite the headwinds facing the economy, industrial space remains in demand. It's largely free from government intervention, making it a safe haven with good long-term prospects. Whether you're looking to buy, or ready to sell an existing property, Block to Block Commercial can connect you with opportunities that will help you achieve your goals.

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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