

INVESTMENT & DEVELOPMENT

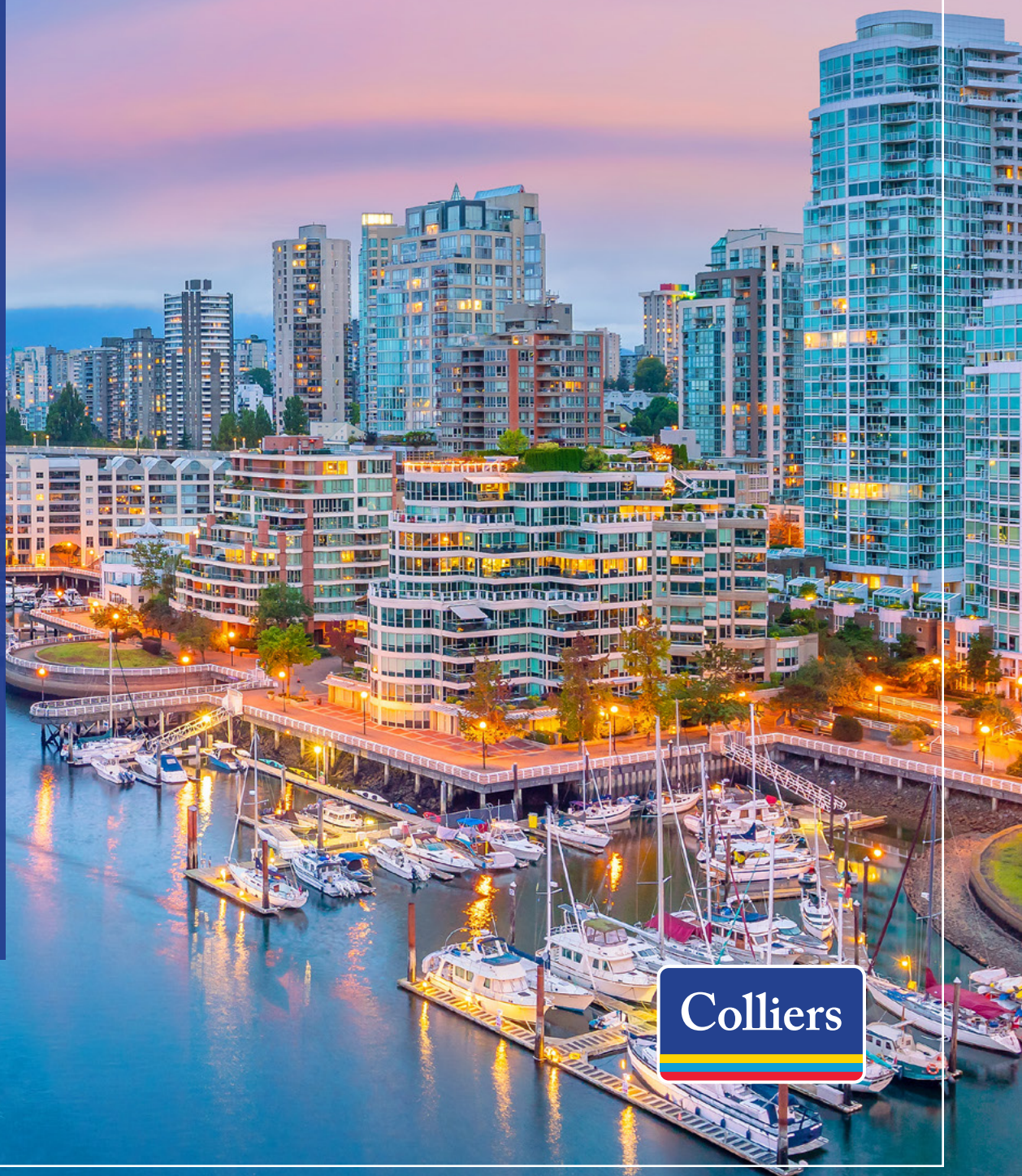
BUZZ

Casey Weeks and Morgan Iannone

Capital Markets *Update*

Q2 2023

Colliers



National *Investment Trends*

Q2 2023

Rate hikes continued to dominate the commercial real estate headlines in Q2, as rates reached a 20-year high, and the overnight rate crested five percent. Continued raises have further dampened the investment market, as uncertainty continues in the lending market. Recent data from REALPAC indicate lenders are no longer offering longer-term loans, which creates further difficulty for office investment and development.

Some larger deals returned to the office market in Q2, including a ~\$200M transaction in Ottawa. Overall investment volume remains muted due to the uncertainty regarding return-to-office, and lender hesitancy to participate in the office market. Suburban office has outperformed in terms of leasing in many Canadian markets, and the risk of suburban markets is more “priced in” than downtown. Additionally, the lower cost of suburban office creates a more liquid market, as private investors can participate when deals are below nine figures. Downtown office was the favoured asset for many years, and still commands significantly higher rents and prices. But the unwillingness of many institutions to participate on the buy side means minimal office transactions downtown. Overall, additional risk from return-to-office concerns weighed on office cap rates in Q2.

Assets more tied to fundamentals, such as population growth and the job market, continue to perform well. Multi-family cap rates remain extremely low – below four percent in strong markets – based off expectations of double-digit rent growth and strong investor demand. Canada’s record-breaking population growth post-pandemic, combined with severely unaffordable home ownership, has buoyed the investment market for apartments even in a high-rate environment.

Industrial yields have dropped significantly in the past decade (formerly the highest of any asset) but are showing some retrenchment. Yields for B assets are now ~7% in several markets, as higher construction and labour costs impact the attractiveness of this asset. Industrial leasing remains strong and still a “landlord’s market.” But the unprecedented leasing boom of the last few years (>50% year-over-year rent growth in some markets) has tapered off.

Yields are expected to level off for many assets, with the outlook for Q3 cap rates flat for hotels, many industrial markets, secondary apartment markets and stronger retail assets. Downtown B office remains a weak spot as most markets are expected see increased cap rates.

Basic retail continues to perform extremely well despite inflationary pressures and rate hikes, with grocery anchored retail attracting investors. Grocery and community assets commanded cap rates in line with traditionally more profitable and prestigious “regional” enclosed malls. Retail spending has defied predictions of a recession, continuing to grow due to a rising population, declining gas prices and less positive factors such as higher food prices.

Redevelopment potential is becoming an increasingly important consideration for investors. Intense pressure for more housing combined with government decisions to loosen zoning in major markets may introduce extra value for low-density assets such as suburban retail in the near future.

Items to watch in Q3:

- The expected slowing of inflation may give the bond market optimism, leading to lower rates and borrowing costs.
- Distress sales have not yet appeared on the market but may materialize in the second half of 2023.
- Conversion of office to new uses (apartment, accommodation, agriculture) remains a hot topic that may affect valuations and the investment market.

What's Trending?

Q2 2023 Vancouver

- Notable sales for the second quarter of 2023 include 5491 Parkwood Way in Richmond, an auto dealership acquired by the GO Auto Group out of Edmonton for \$24.0 million, Rosemary Heights Centre in South Surrey, a retail/office complex for \$16.125 million with below market financing, and Clayton Crossing Annex at Fraser Highway and 188th Street, which sold for \$10.73 million. Panorama Village Shopping Centre, a grocery and pharmacy anchored complex at Highway 10 and 152nd Street in Surrey has been offered for sale by IG Financial and represents one of the largest retail assets offered so far in 2023. All eyes are on the eventual capitalization rate.
- A newer industrial warehouse in Campbell Heights sold for \$25.0 million, or approximately \$461 per square foot, while 1615 Industrial Avenue in Port Coquitlam traded for \$14.5 million, or approximately \$616 per square foot. Both properties sold to private investors. The largest industrial oriented transaction of the second quarter of 2023 was SmartStop Self Storage's acquisition of a newly built, seven-storey self storage facility at 1615 Franklin Street in Vancouver for \$43.75 million.
- The office sale market was quiet for properties over \$10.0 million during the second quarter of 2023. Owner-user (primarily strata) buyers and small investors remain active. After twelve months of relative quiet, a larger office complex in Downtown Vancouver has been offered for sale. Oxford Properties and CPPIB are inviting bids on 401 West Georgia and 402 Dunsmuir Street, two Class A office towers totalling over 416,000 square feet and occupying a full city block of approximately 1.38 acres. Many large investors are watching to see where the capitalization rate will land.
- The largest single asset sale during the second quarter of 2023 was Parque on Park, a new, purpose-built rental development in the Langley City Centre area, which was acquired by CAPREIT for \$53.7 million, or approximately \$577k/door. 1450 West 12th Avenue in Vancouver, a 12-storey former senior-assisted living facility was acquired by the provincial government for conversion into supportive housing. The price \$40.5 million, and additional \$14.1 million is expected to be spent to renovate the property. Overall, investor interest remains strong in apartment buildings, although at cap rates continue to move upward on some deals.

Courtesy of James Glen - Vice President Valuations and Tax

Downtown Office					
Class A		Class B		Q3 Prediction	
Low	High	Low	High	A	B
4.25%	5.25%	4.50%	5.50%	▲	▲

Suburban Office					
Class A		Class B		Q3 Prediction	
Low	High	Low	High	A	B
5.00%	6.00%	5.50%	6.50%	◀▶	◀▶

Industrial					
Class A		Class B		Q3 Prediction	
Low	High	Low	High	A	B
4.00%	4.75%	4.25%	5.00%	▲	▲

Retail								
Regional/ Power		Grocery/ Community		Neighbourhood/ Strip		Q3 Prediction		
Low	High	Low	High	Low	High	R	G	N
4.75%	6.50%	4.50%	5.75%	4.25%	5.50%	▲	◀▶	◀▶

Multi-Family Apartment					
High-Rise		Low-Rise		Q3 Prediction	
Low	High	Low	High	H	L
3.50%	4.25%	3.25%	4.25%	▲	▲

Recent Listing Activity

Our team is actively working on a number of on and off market development & investment opportunities in various municipalities throughout Metro Vancouver.

If you are interested in discussing, please feel free to reach out.

Sold



2121 E Broadway Multi-Family Building | Vancouver, BC

- Site Size: 4,208 SF
- 4 suite apartment building plus laneway home
- Steps from the Commercial-Broadway Station

Sold



St Johns St, St. Georges St & Buller St Wood Frame Condo Site | Port Moody, BC

- Site Size: 58,784 SF
- Benefit of 3rd reading approval for the development
- Rare scale with 173,501 SF of gross buildable density in a multi-building wood frame development with 187 market units

Under Contract



8507 120 Street 6- Storey Development Site | Delta, BC

- 6 Storey development site with plans for 281,692 Buildable SF and 350 residential units
- 100% market condo & market rental
- Rezoning & development permit application Approvals estimated for Q1 2024

For Sale



328-332 Seymour River Place 6-Storey Development Site | North Vancouver, BC

- Site Size: 12,325 SF
- 4-6 Storey woodframe development site
- 30,813 SF gross buildable area

For Sale



45th & Granville 5-Storey Development Site | Vancouver, BC

- Site Size: 24,463 SF
- Market rental development site with rezoning approved
- Development submitted

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For Sale



1316-1336 W 14 Avenue

Rental Tower Development Site | **Vancouver, BC**

- Site Size: 18,750 SF
- 610 metres from South Granville Station under construction at Broadway and Granville
- 20-storey tower/4-storey podium form under the approved Broadway Plan

For Sale



1013 & 1025 Brunette Avenue

6- Storey Development Site | **Coquitlam, BC**

- 49,342 SF 6-storey wood frame development site
- Rare scale within the Maillardville Neighbourhood Plan

For Sale



6702 - 6762 Kneale Place

Mixed-Use Development Site | **Burnaby, BC**

- 2.33 Acre redevelopment site
- Approved land use for a high density mixed use residential and commercial/employment
- Located directly across the street from Sperling-Burnaby Lake Skytrain Station

For Sale



3824 William Street

Industrial Building | **Burnaby, BC**

- Free-standing industrial building offering vacant possession
- Easy access throughout Metro Vancouver via the Highway 1
- Immediate proximity to shops, eateries and everyday services



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