

2019 COMMERCIAL PROPERTY REPORT WESTERN CANADA

MARKET SUMMARY



Greater Vancouver

- One year into the legalization of cannabis and Greater Vancouver's retail landlords have found it difficult to get traditional commercial financing due to concerns over high risk. While attitudes towards cannabis have relaxed, cannabis retail locations still carry some stigma in the mainstream commercial market.
- Co-working space has experienced a surge in popularity with up to 1.5 million square footage in Vancouver being either occupied or under construction – a 250 per cent increase since 2014.

Okanagan

- Okanagan has one cannabis retailer, with six more seeking provincial approval before they can open their doors.
- Okanagan has become an attractive alternative to buyers who find themselves priced out of the Vancouver market. These buyers typically include local investors, owner-occupiers and larger institutional buyers. The speculation tax has affected interest from offshore and foreign buyers.

Saskatoon

- The Saskatoon commercial real estate market has weathered the tough economic conditions over the past year, including manufacturing, agricultural, construction and service sectors. Demand for commercial properties continues to be driven by a mix of out-of-province investors and Institutional investment taking advantage of lower prices.
- The city's retail sector has cooled from 2018 as a result of new retail developments creating more inventory than demand. Vacancy rates are moderate at almost five per cent.

Edmonton

- The cannabis industry initially took off in Edmonton, spurring industrial building as well as retail and office leasing activity. The retail market has since dialed back as producers concentrate on providing adequate supply and achieve sustainable cash flow.
- Co-working spaces account for approximately five per cent of the overall commercial market. This business model is expected to grow to 10 to 15 per cent by 2030. Newer office towers in the downtown core are sought by global pension funds. Well-located retail and mixed-use projects are also seeing strong interest.

Calgary

- Calgary is still being impaired by the ongoing downturn of the oil and gas industry. Demand that was initially seen in 2018 for retail cannabis locations has fallen. The industrial market continues to be strong and relatively stable with the increase in demand for more affordable logistic supply management.
- Buyer types have shifted to more sophisticated commercial buyers with the staying power to weather the remainder of Calgary's downturn, knowing that they are getting a great asset at a discounted price.

Winnipeg

- Co-working spaces in Winnipeg, particularly those offered by Regus, are becoming more popular. Winnipeg's office market continues to struggle as vacancy rates have notched up since the development of True North Square. Inducements have increased and landlords are reinvesting in their properties to make them more attractive. There has been significant investment activity in the apartments sector as investors continue to look for stable income sources.
- Buyer types include REITs, pension funds, private equity players and private individuals. As cap rates continue to see pressure move down in the primary Canadian markets, Winnipeg is expected to see robust interest as it features higher cap rates and stable market conditions.

Regina

- Regina is seeing low activity and decreasing prices and rates, which, when combined with more business closures and a higher-than-normal foreclosure rate, leads to some uncertainty in the commercial market. Vacancy rates have increased year-over-year from two to five per cent and it is even higher in some areas. Demand is limited.
- Interest in cannabis retail stores was originally quite high, but limited licensing didn't create the big market that was anticipated. Economic factors, including the falling oil and gas industry and the sub-par performance of the farm industry due to poor weather conditions and trade tensions with China, are taking its toll.

2020 OUTLOOK

- The commercial market in Greater Vancouver is expected to remain steady
- Wait continues for new supply across all commercial sectors in Kelowna, developers are looking at bigger mixed-use complexes with higher densities to maximize the potential of each property; developers pushing limits for commercial towers, wanting high buildings with more floors
- Winnipeg will continue to enjoy strong demand for its commercial property due to its diversified economy and the stable steady growth in the Capital region.
- In Edmonton, overall sales are expected to be slightly down from the 2018 levels, with tenants in the oil and gas sectors hoping for increased recovery and leasing expansion in 2020.