

# Appraisal in the Time of COVID-19

## How are the Markets Reacting?

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# Introduction

- Reviewed limited market data for all real estate sectors around the Province.
- Surveyed appraisers and market participants across the Province for anecdotal evidence of the impacts the COVID-19 pandemic.
- Will provide a general overview of new trends resulting from the pandemic and their impact on the market.

# How did the Real Estate Markets React in BC?

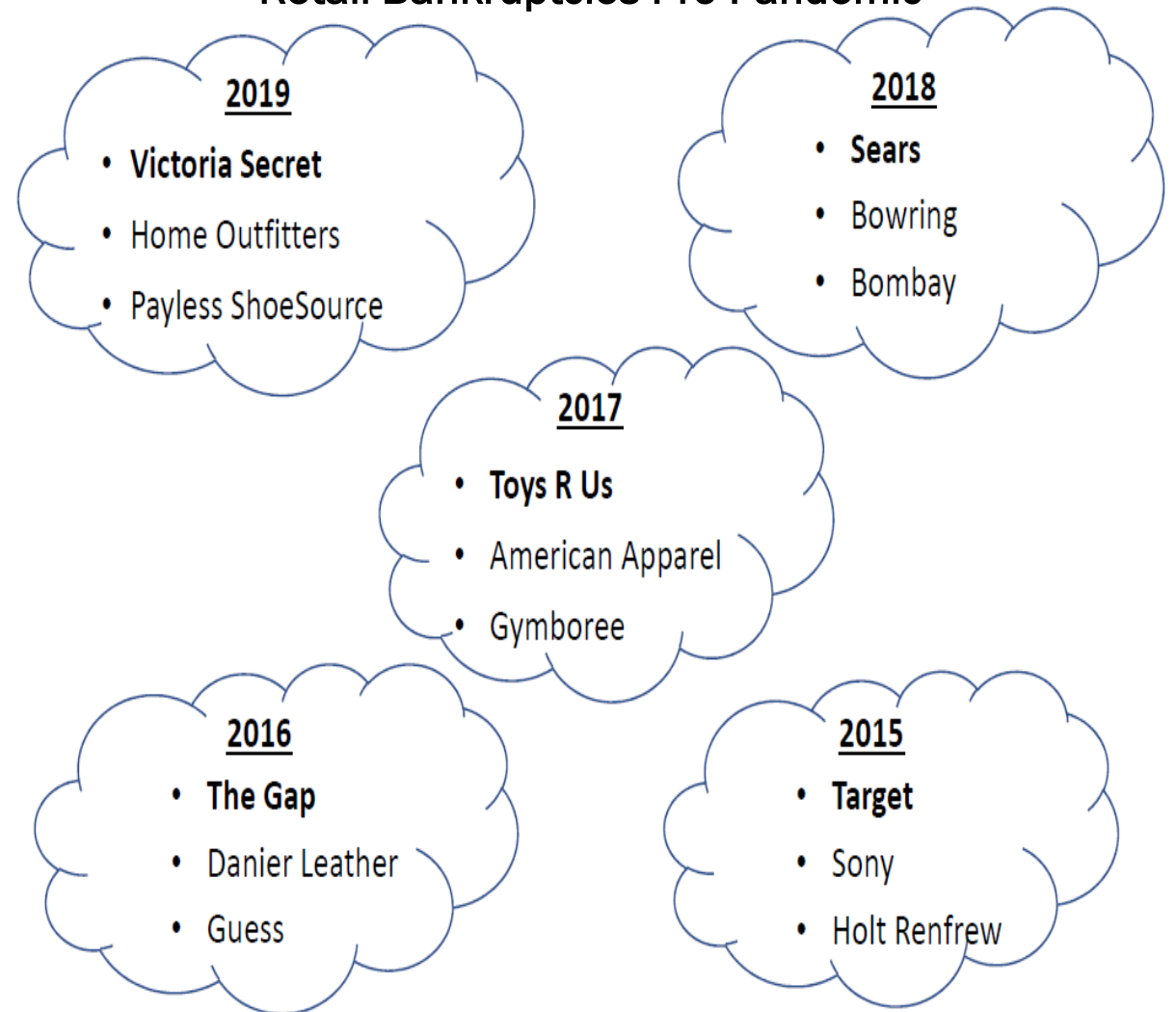
- At the onset, market took a 'Wait & See' Approach.
- Most markets eventually picked back up in late Spring.
- Not the 'Doom & Gloom' scenario we were anticipating... except for the Retail market.
- Residential sector 'Surviving & Thriving'.
- Office market sublease space pilling up.
- Industrial market continues to climb.
- Recreational properties experiencing a resurgence.

# Retail Market – Pre-Pandemic

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- Prior to the pandemic, chain retailers were downsizing, winding down operations or closing entirely.
- Online sales continued to grow at the expense of spending at Canadian shopping malls and department stores.
- Shift to online shopping accelerated due to pandemic.

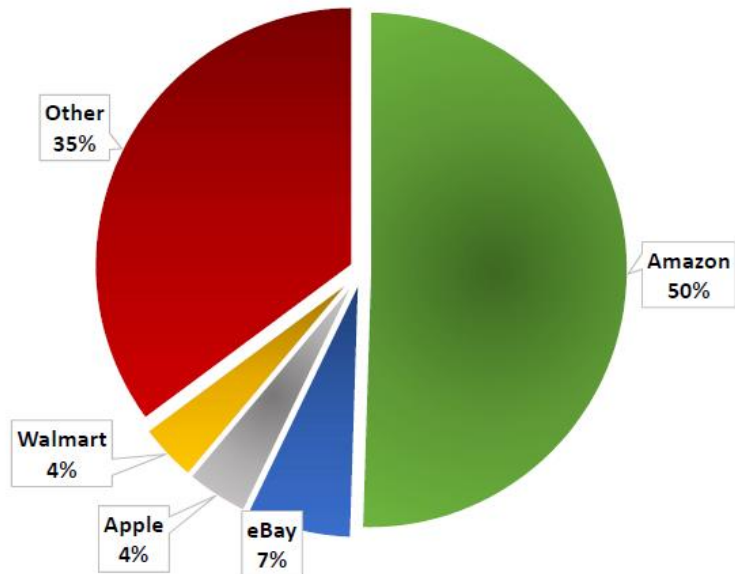
## Retail Bankruptcies Pre-Pandemic



# Retail Market – Pre-Pandemic

- 2020 Amazon market cap growth at \$570 billion since pandemic, total market cap at **\$1.49 trillion**.

E-commerce Market Share in US



Company	Market Capitalization		
	2006 Value (\$B)	2018 Value (\$B)	'06 – '18 % Change
Sears	\$14.3	\$0.3	-98%
JC Penney	\$18.1	\$1.2	-94%
Macy's	\$24.2	\$9.3	-62%
Kohl's	\$24.2	\$11.2	-54%
Best Buy	\$28.4	\$17.6	-38%
Target	\$51.3	\$36.5	-29%
Nordstrom	\$12.4	\$8.9	-28%
Walmart	\$214.0	\$274.4	+28%
eBay	\$17.5	\$26.9	+54%
Costco	\$23.7	\$100.2	+323%
Amazon	\$17.50	\$726.3	+4050%



# Retail Market – Post-Pandemic

- The pandemic has ushered in a wave of bankruptcies (ex. David's Tea, GNC, etc.)
- 2020 retail casualties continue...from small to large retailers.
- In BC, all regions have experienced this decline.
  - Some relief with gov't assistance programs (CECRA, EPA etc.)
- Generally two segments of the Retail Market in BC:
  - Downtown/Main Street – local tenants, 'mom & pop' shops
  - Highway Stripmall/Big Box – national tenants (i.e. Canadian Tire)
- Successful retailers have pivoted to online sales/services.

# Retail Market – Post-Pandemic

- **BC Northern**
  - ‘Mom & Pop’ stores hit the hardest.
  - Strip mall with all local tenants under contract prior to March 2020 for \$3m, with financing in place and purchaser down payment at \$1m.
  - Last minute, bank pulled out wanting a 60% (\$1.8m) down payment, killing the deal.
- **Vancouver Island**
  - ‘Mom & Pop’ stores hit the hardest.
  - Downtown shoppers deterred by homeless population.
  - Strip malls with national chains doing well. Newer product still leasing.

# Retail Market – Post-Pandemic

- **Okanagan**
  - New Downtown product surprisingly buoyant.
  - Uncertainty associated with big box tenants, but generally a strong long term outlook given forecasted population growth.
- **Lower Mainland**
  - Both local and national tenants facing similar challenges, with new, foreign brands taking advantage of the opportunity and entering the market.



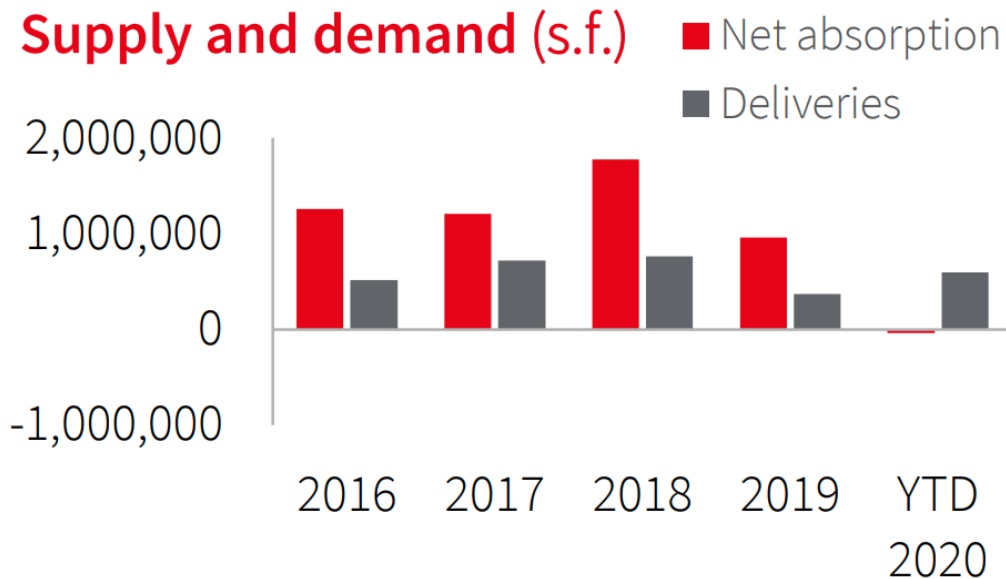
# Office Market

- Office sector experiencing significantly lower demand.
- Landlords and tenants still taking a 'Wait & See' approach.
- Starting mid-March, sublease availability dramatically increased.
- Reduced capacity at offices generally between 25% to 50%.
- Some groups requesting more office space to accommodate physical distancing requirements.

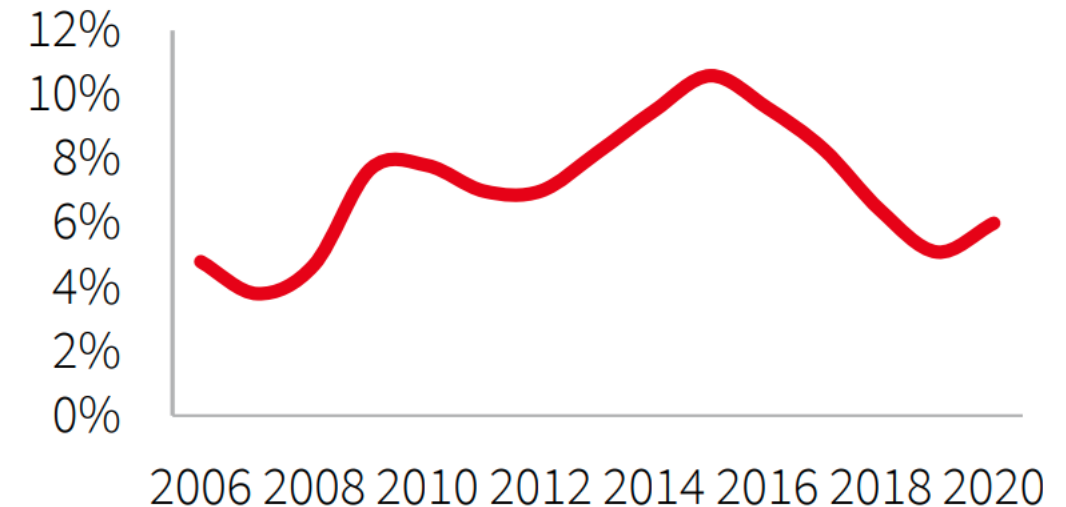
# Office Market

- Lower Mainland

- Inactivity more pronounced for Downtown office space.
- Sublease availability skyrockets by 98% YTD in Metro Vancouver, +347% in Downtown Vancouver!
- Vacancy up by 1.2%, now at 6.0% for Metro Vancouver.



**Total vacancy (%)**



# Office Market

- Lower Mainland
  - Still favouring landlords as asking rates hold strong, institutional landlords not reducing rates.
  - Tenants looking for reduced rates, leading to stalled deals.
  - Tenants looking for short term space to benefit.
  - Activity in the suburban markets remain steady with some markets demonstrating positive absorption.
  - Co-working space demand in suburban areas increases.


# Office Market

- **Okanagan**

- No clear indications of impact, lack of transactions.
- In Kelowna, supply tight prior to the pandemic, with 300,000 sq.ft. of space entering the market in the next 3 years.
- Small group of 5 landlords own majority of office space, no major rent concessions in lease rates provided.

- **BC Northern, BC Interior & Vancouver Island**

- Soft office market conditions prior to pandemic.
- Most supply is in downtown cores, older supply and usually government tenants.
- Vacancy increasing.
- New product in greater demand, lower vacancy rates relative to older supply.

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- Consistent with the overall RE market, slight pause but it's back to business as usual.
  - Market stabilized given the strong market fundamentals.
  - Landlords willing to defer payments, working with tenants to find solutions.



## Industrial Market

# Lower Mainland

## Vacancy

This Quarter

1.3%

Quarter-over-Quarter

↓ 40 bps

## Asking Net Rent

This Quarter (Avg.)

\$13.26 PSF

Year-over-Year

↑ 13.4%

- Constrained land base & strong demand continue to place upward pressure on land values & lease rates, despite COVID-19:
  - Rise of e-commerce (Ex. Amazon), population growth & rapid delivery expectations are increasing pressure.
  - More recently, goal to increase space to build resiliency in supply chain.
  - Low vacancy rates.
  - Limited options.
- Tenants/purchasers looking for a discount, landlords/sellers unwilling to accept.
- Modest slowdown in deal velocity, but in Q3 2020, higher \$/sq.ft. rates given the lack of product available.
- Industrial inventory largely owned by well capitalized groups, less urgency to fill space.
- Small bay product decreased in vacancy, a testament to the resiliency of this asset class given this space is typically tenanted by more vulnerable smaller businesses.

# Okanagan

## Asking Net Rent

This Quarter (avg.)

↑ \$12.55 PSF

Year-over-Year

↑ 8.14%

Availability

Year-over-Year

↓ 0.9%

Vacancy

Weighted Average

↓ 0.57%

- Industrial market in Kelowna supports residential development via trades.
- In contrast, Kamloops focused on manufacturing and distribution & pipeline projects.
- Lease rates continue to escalate, downward pressure on capitalization rates continues.

# Vancouver Island

## Vacancy

This Quarter (Avg.)

0.73%

Semi-Annual

↓ 8 bps

## Asking Net Rent

This Quarter (Avg.)

\$15.00 PSF

Year-over-Year

↑ 15.4%

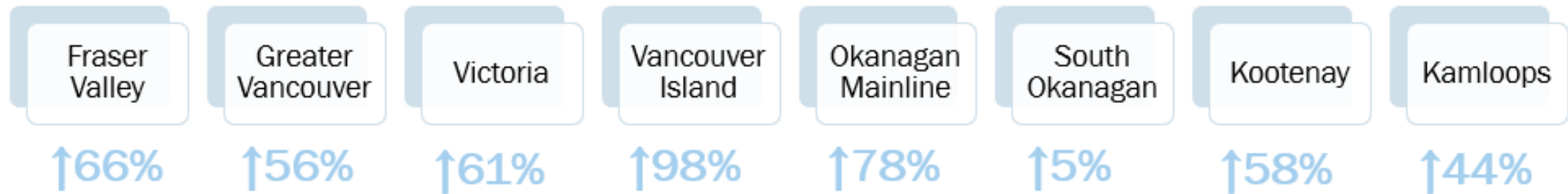
- Historical undersupply of industrial RE.
- Demand strong following initial pause in the market.
- Industrial market reliant on the strength of new residential construction.
- Heavy industrial and waterfront marine uses active as forestry products in demand.
- Self storage driving light industrial market values as boomers migrate and need storage.



# BC Northern

- Industrial sector drives the overall RE market, specifically pipeline projects.
- Pandemic paused market activity, however now its business as usual.
- No evidence of decline in industrial values, although this region doesn't experience large swings in values.

# Residential Market Conditions



Residential Sale Volumes relative to September 2019

- Increase in sales volumes & low inventory = increase in average sale prices.
- Reports of multiple offers throughout the Province.
- Driven by end users looking for more space, NOT investors.
  - Condo market inventory high as investors selling and consumer preferences changing.
  - Low interest rates.
- Exodus to more affordable, suburban markets.
- Purchasers on the fence about moving to more affordable areas decided to jump in earlier than anticipated.
- Recreational properties in high demand. Multiple offers reported in Vancouver Island, Okanagan, BC Northern and BC Interior.

# Residential Market Conditions

- Apartment sector strong going into pandemic and coming out...
  - Increase in purpose built rental development prior to pandemic.
  - Low vacancy rates, old supply and forecasted population growth favourable to rental development.
  - Institutional players driving this market – not only buying, now developing.
  - Prince George – Cap rates down (4.75%!), rental rates up (\$2.00/sq.ft.!), benchmark apartment price at \$80,000-\$100,000/unit up from \$50,000-\$70,000/unit 5 years ago.
  - Exodus from the Lower Mainland stabilizing Vancouver Island rental rates, tenant demographic different.
  - Okanagan rental rates holding strong, strong absorption for new product.
  - Limited new development in BC Interior as costs to develop these projects are too high.
- In the Lower Mainland, other than Downtown Vancouver, rental rates appear to be holding steady.

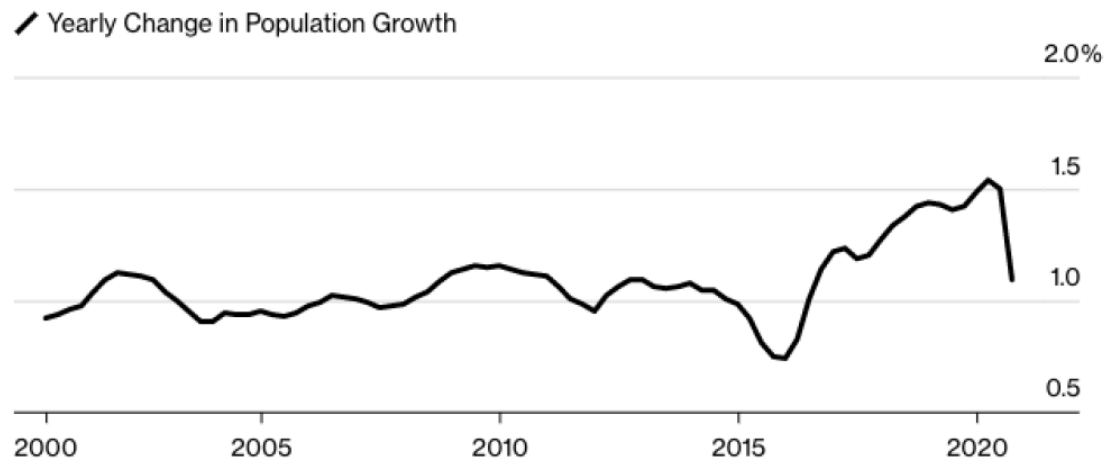
# Residential Market Conditions

- Moving forwards, Landlords may be facing more uncertainty with upcoming election promises and lower than expected population growth due to lack of immigration.
  - Canada just posted the second lowest nominal quarterly population growth since 1946.
  - Rent freeze promises, 1.4% rent increase permitted under *Residential Tenancy Act* in 2021, lowest increase in the past 5 years, which were between 2.5% and 4.0%.

## Population Growth Decelerates

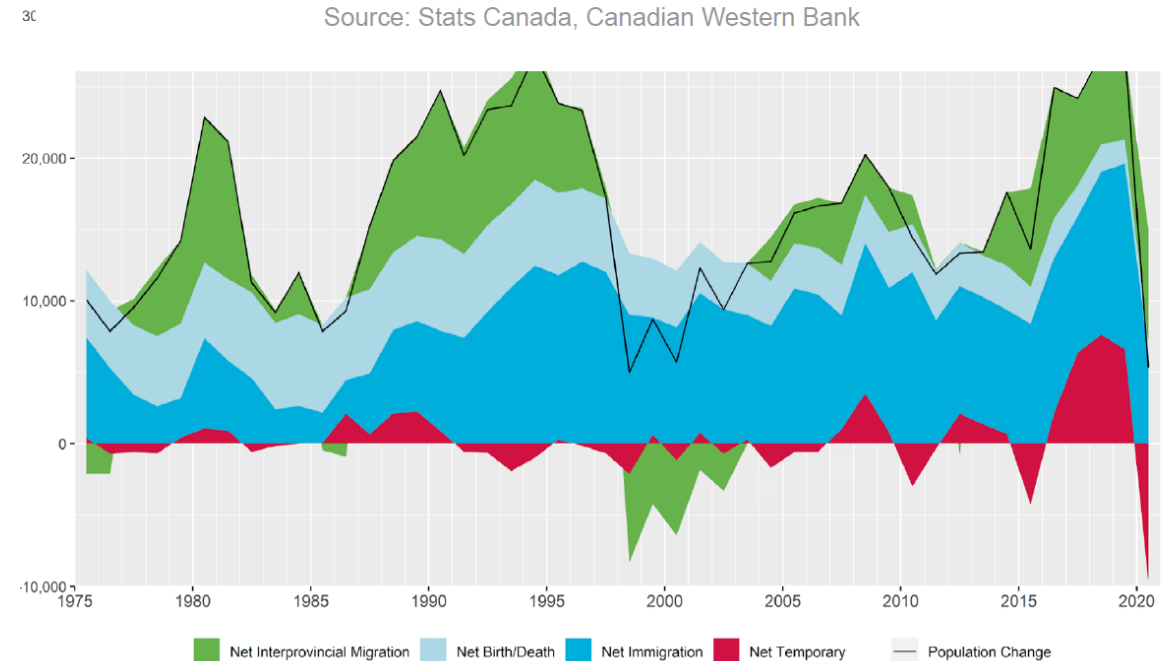
Fewer immigrants during pandemic slows Canada's population goals

Source: Statistics Canada



## Quarterly Population Change in Q2, British Columbia

Source: Stats Canada, Canadian Western Bank



# Conclusion



The Retail landscape is changing, with the pandemic accelerating this shift, forcing retailers to re-assess their strategies.



Long-term demand in the Office market uncertain.



Industrial market continues to be the most resilient asset class, with values climbing.



Residential market surprising everyone with strong demand as the migration from the City to the Suburbs continues.

- Sean Cranston AACI, P.App,  
Godfrey, Cranston & Hopson Appraisals
- Jason Mikes, AACI, P.App,  
Cunningham and Rivard Appraisals Ltd.
- Sean Hughes, AACI, P. App,  
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**Thank you!**