MARKET REPORT

Multifamily

Vancouver Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS
A DIVISION OF MARCUS & MILLICHAP, BROKERAGE

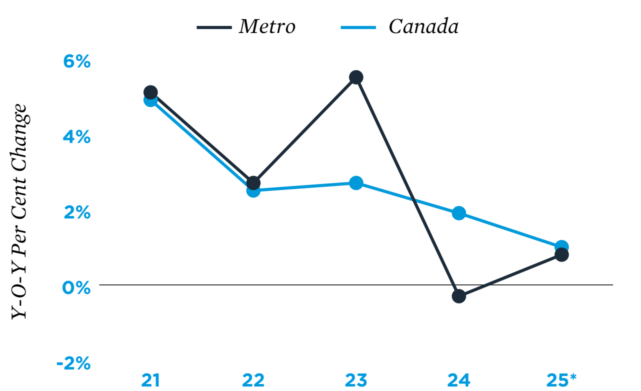
2Q/25

Higher Costs Influencing Retail Property Performance and Participants' Decisions

Intensification or redevelopment strategy is ongoing. Given Vancouver's geographical surroundings, the metro faces supply-side challenges – especially in Vancouver's residential sector, which has resulted in widespread affordability hurdles. The metro's average home price sat nearly 160 per cent above the national average to end 2024, while apartment rents were also 38 per cent higher than the countrywide rate. The consequent push for residential construction has caused mixed-use developments to surge in popularity. Meanwhile, these types of projects often replace older retail buildings, resulting in an overall smaller retail footprint. This lack of inventory growth is one reason why underlying retail property fundamentals are showing robust performance. There are, however, some residential intensification projects that will increase retail inventory– such as Oakridge Park, Richmond Centre and Coquitlam Centre – leading to some much-needed supply growth that could unlock expansion efforts.

Redirected spending makes select retail attractive. While luxury and high-street retail in Vancouver's major shopping nodes like Alberni and Robson, as well as West Fourth, continue to attract robust tenant demand amid ongoing uncertainties, some consumers are more focused on essential and health-based goods and services. With the metro's higher cost of living influencing buyer decisions, discount retail, grocery, and health and fitness options are capturing a growing share of spending. These retail segments have played an evolving role in driving absorption in recent years, while also sparking positive investor interest in neighbourhood, grocery-anchored centres.

Employment Trends



** Forecast*

Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

Retail 2025 Outlook

14,000 JOBS *will be created*

EMPLOYMENT:

Employment growth is likely to return in 2025 after a slight contraction last year. Although looming trade uncertainties pose a major risk, a diversified economy could aid job growth, led by hiring in the metro's technology sector amid lower interest rates.

850,000 SQ. FT. *will be completed*

CONSTRUCTION:

Completions will increase this year, as the first phase of Oakridge Park is set to open this summer, bringing roughly 650,000 square feet of indoor mall space to the metro. Other developments are primarily mixed-use projects with retail at ground level.

30 BASIS POINT *increase in vacancy*

VACANCY:

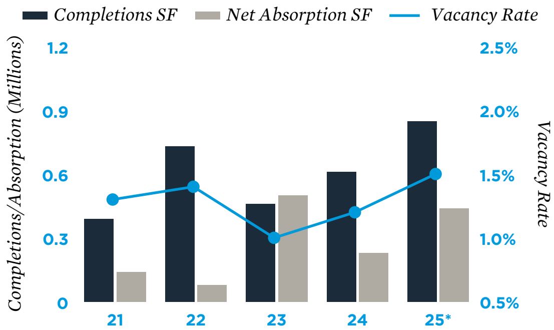
Lower interest rates will provide some relief to consumers and help maintain a low vacancy rate below 2.0 per cent. Spending will likely be capped, however, by tariff uncertainties and mortgage renewals at higher rates, putting slight upwards pressure on vacancy.

2.1% INCREASE *in asking rent*

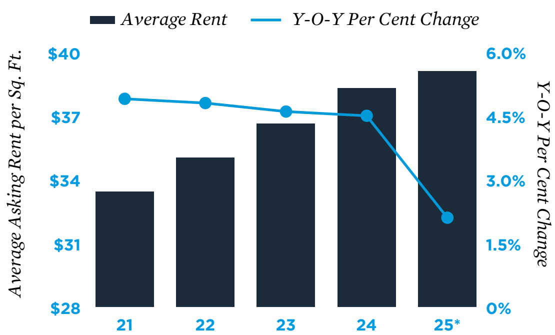
RENT:

With Vancouver maintaining a sub-2.0 per cent vacancy rate, this low level of space availability will result in annual rent growth around the pace of inflation. Even so, growth will soften compared with last year, as consumers and retailers face some uncertainties.

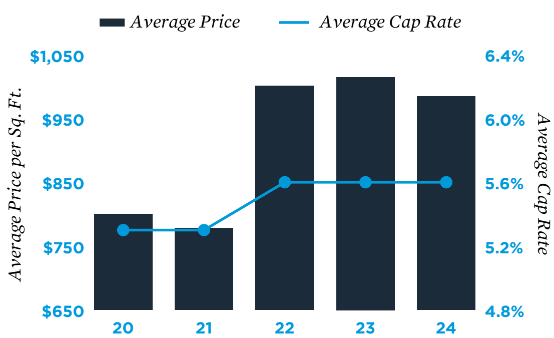
Supply and Demand



Rent Trends



Sales Trends



* Forecast

Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

4Q 2024: Trailing 12-Month Period

CONSTRUCTION

609,000 sq. ft. completed

- Deliveries rose 30 per cent in 2024, but were 55 per cent below the pre-pandemic level. Starts have trended down since 2016, while Vancouver's housing affordability challenges has resulted in more mixed-use developments.
- Surrey, the Tri-Cities and Burnaby are seeing robust residential construction. Given the push for mixed-use, the three also hold large retail pipelines.

VACANCY

20 basis point increase in vacancy Y-O-Y

- Vacancy inched up slightly across most submarkets. The metrowide rate ended 2024 at 1.2 per cent – the lowest among major Canadian cities.
- More expensive rents in downtown and Burnaby have resulted in higher vacancy rates, albeit still low at roughly 2.0 per cent. E-commerce growth, as well as less office foot traffic, also make it harder for businesses to compete.

RENT

4.5% increase in the average asking rent Y-O-Y

- As vacancy has largely trended down since the pandemic amid strong leasing and curbed supply gains, annual rent growth has held above 4.0 per cent since 2021. While slowing slightly from 2023, this trend continued last year.
- Downtown maintained the highest asking rents across Canada. High streets, such as Robson and Alberni, command rents around $200 per square foot.

Investment Highlights

- Retail was a preferred investment in 2024, accounting for the second-largest share of total sales among major commercial property types at 27 per cent. This was also true for dollar volume, which represented a 25 per cent share. On an annual basis, while the number of sales held largely unchanged, dollar volume rose 25 per cent amid a jump in $20 million-plus sales.
- Vancouver's average retail cap rate ended 2024 around 5.5 per cent, which has held stable since 2022 and only trails office properties. Given the restrictive interest rate environment over the past two years, this higher rate of return has allowed for a greater spread on the cost of capital. Combined with a sub-2.0 per cent vacancy rate and healthy annual rent growth, retail property investment fundamentals were more attractive to investors. This was especially true for essential-based, grocery-anchored retail, as the segment captures a greater share of consumer spending in times of uncertainty.
- Looking ahead, retail investment activity will likely continue to focus around sites with redevelopment potential. Not only will these opportunities provide investors healthy income-producing properties while going through entitlement processes, but they also offer upside potential for residential intensification amid widespread housing affordability concerns.

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