CBRE is forecasting a “once in a generation” moment for CRE

by Steve Randall
27 Feb 2019

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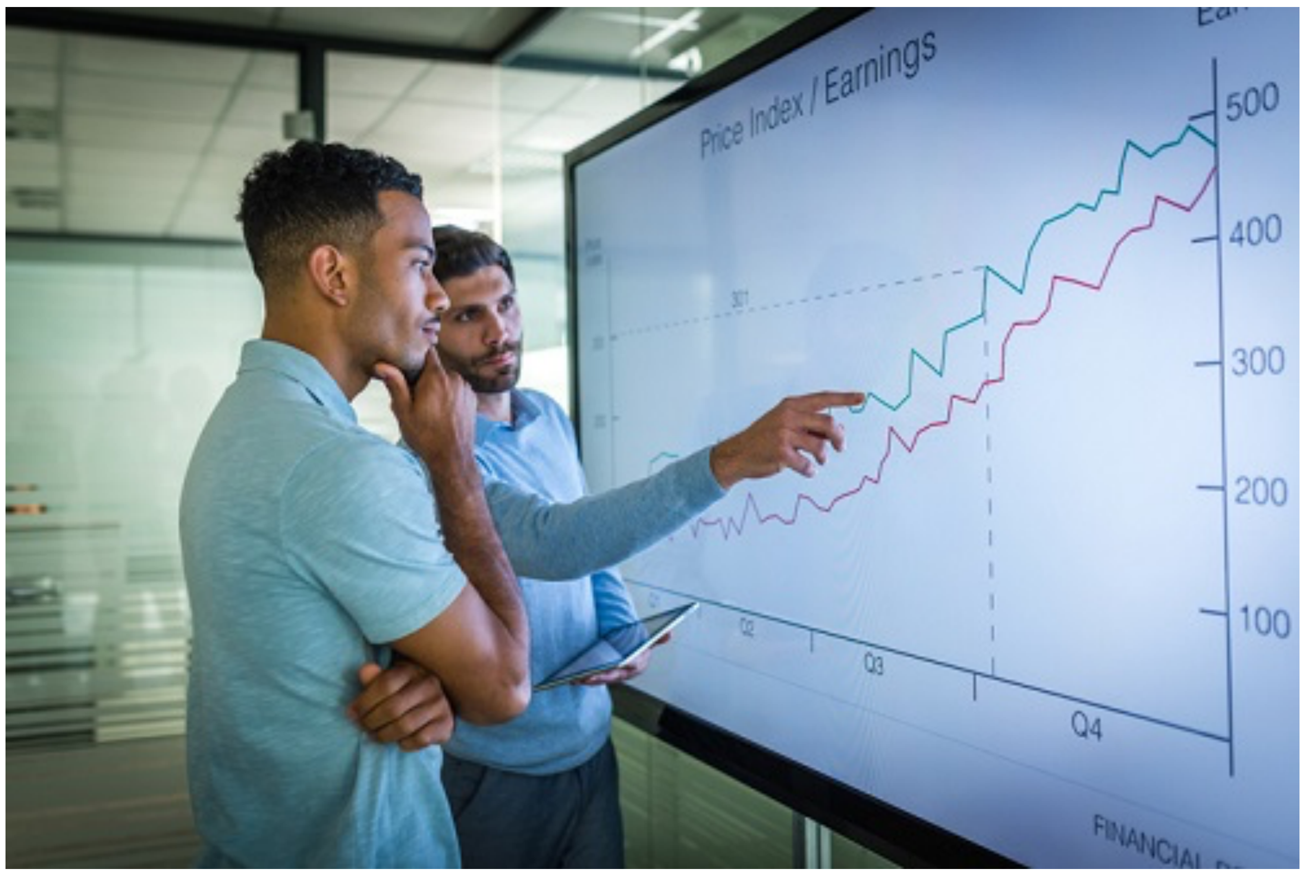

Market conditions for Canada’s commercial real estate sector are lining up a “once in a generation” moment according to a new outlook.

CBRE makes its forecast based on record low vacancy rates, rising rents, waves of new construction, and an unprecedented bargaining position for landlords.

Canadian property market fundamentals remain incredibly strong, and technological change, tech business growth, and tech talent are the dominant factors driving demand across all commercial real estate sectors," commented Paul Morassutti, Vice Chairman for CBRE Canada. "Growth is often synonymous with discomfort. In many Canadian cities, real estate will remain at the forefront in both regards."

All sectors in demand

The office market – especially in Toronto – is one of the CRE highlights with the downtown vacancy rate remaining the lowest in North America since Q2 2016, currently at 2.7%. That means 10-year lease terms with top pricing are becoming standard.

Businesses are being forced to plan ahead and think about how they can make smarter use of existing workspaces.

Warehouse and distribution space is also in high demand, enabling landlords to increase prices and push for 15-year leases. Vancouver's availability rate for this sector fell to 2.3% in 2018 and the region leads the world for rental growth rate.

For multi-family rentals, inventory remains tight in many markets including Vancouver, Toronto, Ottawa, Montreal, and Halifax which have overall apartment vacancy rates below 2.0%.

Construction rises, challenged by costs and red tape

Fears of overbuilding are being eased by high demand, leading to a surge in construction nationwide with 14.6 million sq. ft. of office and 18.5 million sq. ft. of industrial product under construction in 2019, most of it in Toronto and Vancouver.

However, CBRE says that developers are being constrained by record land prices, increasing development charges, rising material and labour costs, plus a prolonged and more involved planning and approval process.

"Approval delays are the most problematic factor limiting much needed new construction," commented Morassutti. "There is already a shortage of almost all types of quality commercial property, and rising costs and red tape threaten to create an even greater imbalance. Commercial developers are now facing similar bottlenecks to those experienced by the residential market, where the effects of demand outstripping supply over a prolonged period have been detrimental. Government and business interests need to align to ensure that the Canadian economy has the physical space required to grow and our cities can continue to prosper."

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