

Vancouver Retail, H2 2016

Metro Vancouver market adapts to evolving trends

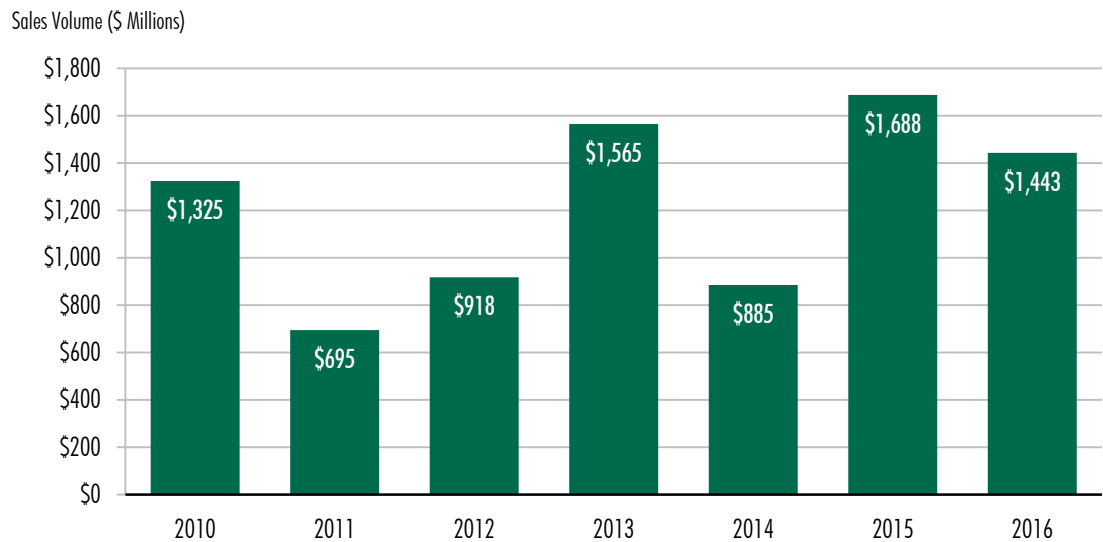
▲ Investment Volume (2016)
\$1.443 Billion

▲ Mall Vacancy
5.1%

▼ Downtown Vacancy
2.4%

Figure 1: Greater Vancouver Area Retail Investment Volume

*Arrows indicate change from previous six months



Source: RealNet & CBRE Research, H2 2016.

OVERVIEW

In Downtown Vancouver, rental rates remained stable in the second half of 2016, while the vacancy rate declined by 40 basis points to 2.4%. An influx of high-end retailers and international brands continue to enter the Downtown Vancouver market.

Alberni and West Georgia Streets have added significant retailers, contributing to Vancouver’s growing luxury zone, while Robson Street continues to redesign itself in an effort to attract prominent international brands to the market.

Tsawwassen Mills opened in October, offering a number of high-profile retailers, adding 1.2 million sq.ft. to the Suburban market.

Over 3million sq.ft. of new supply is expected to be added to the Suburban market by 2020. This includes the ongoing rejuvenation of Park Royal in West Vancouver, which is slated to be completed in 2017 and expand the total retail size to 1.4 million sq.ft. In Burnaby, The Amazing Brentwood by Shape Properties is expected to double in size with the addition of 550,000 sq.ft. of new retail space. The City of Lougheed will also be redeveloped and expanded to 1.4 million sq.ft. The first phase of both developments are expected to be completed in 2018 and 2020, respectively.

Retail investment activity climbed in the second half of 2016, as sales volume in Metro Vancouver exceeded \$900 million, which is an 83% increase in comparison to the first half of the year.

DOWNTOWN VANCOUVER

The Downtown Vancouver market continues to adapt to both domestic and foreign consumer demands, as a growing number of international brands enter the Vancouver market.

This includes the opening of U.S.-based Equinox Fitness’s first Vancouver location at 1131 West Georgia Street. The 35,000 sq.ft. facility, which brands itself as a luxury fitness club, has been well received by Vancouverites. Stefano Ricci, a high-end fashion brand originating from Florence, opened its first Canadian location (2,600 sq.ft.) in 1139 West Georgia Street. Across the street at 1070 West Georgia Street, Urban Tea Merchant’s former location was backfilled by Singapore based TWG Tea. The 3,000 sq.ft. location is TWG Tea’s first location in North America, having primarily operated in Asia since it was founded in 2008.

All three aforementioned high-end retailers are prime examples of the continuous influx of new entrants into the Downtown Vancouver market.

Within the Alberni luxury zone, Rolex officially opened their largest North American location at 1119 Alberni Street (2,500 sq.ft.), adding to a growing number of high-end retailers. Demand from luxury retailers for space within the Alberni submarket continues to outpace supply.

Following Ladurée’s (1141 Robson Street) lead, Paris-based bakery and sweets retailer L’Éclair de Génie will open its first North American location on the 1200 block of Robson Street. The opening of L’Éclair de Génie along with Tokyo-based retailer, Muji, in 2017 is expected to attract further traffic to the Robson submarket. The aforementioned new entrants to the Robson submarket serve as an indicator that Robson Street continues to be a gateway for international brands.

In the last six months, Downtown Vancouver has witnessed its share of redevelopments and expansions.

This includes Holt Renfrew’s 40,000 sq.ft. expansion in Pacific Centre, which brings the total size of the retailer to 187,000 sq.ft. On Alberni Street, the construction of Tiffany & Co.’s Vancouver flagship is projected to be completed in 2017, which will see the luxury jeweler nearly triple in size.

Cadillac Fairview submitted a development application to transform the existing rotunda located on West Georgia and Howe into a three storey commercial building. The proposed redevelopment is expected to provide 31,603 sq.ft. of retail space. 855 Granville Street, formerly the Empire Theater complex will be revitalized and transformed into a mixed-use building providing opportunity for a large tenant with over 40,000 sq.ft. of retail space on three levels.

Figure 2: Urban Street Front Rental Rates

Street	Net Rental Rate Range (\$ per sq. ft.)	Trend
Robson St. (Cambie St. to Howe St.)	80 - 130	▲
Robson St. (Hornby St. to Bute St.)	100 - 200	▼
Robson St. (Bute St. to Denman St.)	60 - 85	▶
Granville St. (Downtown)	55- 120	▶
Alberni St. & Burrard St. (West Georgia St. to Robson St.)	160 – 250	▶
Granville St. (West Broadway to West 15 th Ave.)	60 – 85	▶
Denman St.	55 – 65	▶
Davie St.	30 – 55	▶
West 4 th Ave. (Burrard St. to Balsam St.)	45 – 85	▶
West 41 st Ave. (Maple St. to Balsam St.)	40 – 55	▶
West Broadway (Cambie St. to Alma St.)	40 – 65	▶
Main St. (South of Broadway)	35 - 60	▶

Source: CBRE Research, H2 2016.

Figure 3: Downtown Vancouver Retail Market Statistics*

Retail Corridor	Inventory (linear ft.)	Available Frontage (linear ft.)	Available (sq. ft.)	Number of Listings	Linear Availability Rate (%)
Robson St. (Cambie St. to Howe St.)	2,575	0	0	0	0.0
Robson St. (Hornby St. to Bute St.)	3,052	184	28,903	9	6.0
Robson St. (Bute St. to Denman St.)	3,795	19	1,600	1	0.5
Denman St.	3,532	94	4,844	4	2.7
Granville St. (Hastings St. to Robson St.)	3,253	40	10,971	1	1.2
Granville St. (Robson St. to Drake St.)	4,596	391	81,173	9	8.5
Alberni St. & Burrard St (W. Georgia to Robson St.)	3,107	0	0	0	0.0
Davie St.	6,995	0	0	0	0.0
Market Totals	30,905	728	127,491	24	2.4

Source: CBRE Research, H2 2016.

*Based on analysis of linear street-front inventory.

SUBURBAN

Construction activity in the suburbs remained strong during the second half of 2016. Ivanhoe Cambridge's Tsawwassen Mills opened in October, anchored by Bass Pro Shop (180,000 sq.ft.). The new 1.2 million sq.ft. development offers over 180 stores, including Saks Off 5th, Harry Rosen, Nike, Sport Chek and Winners. Adjacent to Tsawwassen Mills is the Tsawwassen Commons, which is set to open in 2017, and is anchored by Walmart, Canadian Tire and Rona. SmartREIT's Central at Garden City added 359,900 sq.ft. to the Richmond retail market with Walmart as the anchor tenant.

McArthur Glen Designer Outlet located at Vancouver International Airport is currently in the midst of preparing for Phase 2 (200,000 sq.ft.), which will nearly double the existing size of the shopping center to 400,000 sq.ft., and is slated to be completed in 2018. Negotiations are currently underway with strong interest from both domestic and international retailers looking to become part of the impressive lineup from Phase 1. In Park Royal North, Saks Off 5th announced it will be opening its second retail location, which will be 33,000 sq.ft. Other additions to the Park Royal North roster include the recently opened Loblaws City Market, while Chipotle and Steve Nash Sports Club are expected to open next year. The completion of Park Royal North in 2017 will increase the total retail size of Park Royal to 1.4 million sq.ft.

Construction is underway on Shape Properties' The Amazing Brentwood, which will expand the existing 550,000 sq.ft. of retail space to approximately 1.1 million sq.ft., with the first phase projected to be completed in 2018. With the residential portion sold out, the transit-orientated development has potential to attract many international and domestic retailers. Other planned significant Burnaby developments include Gilmore Station (500,000 sq.ft.) by Onni Group, and The City of Lougheed by Shape Properties, which will add 785,000 sq.ft. of new retail space, bringing the total retail size to 1.4 million sq.ft.

Figure 5: Select 2016 Retail Investment Sale Transactions

Market	Address	Price (\$)	Size (sq. ft.)	Purchaser
Vancouver	Granville at 70th	\$35,952,027	47,000	Crombie REIT (Crombie Property Holdings Limited)
White Rock	Central Plaza Shopping Centre	\$29,000,000	50,000	Landmark Premiere Properties Ltd.
Burnaby	4440-4452 Hastings Street	\$27,355,141	62,000	Crombie REIT (Crombie Property Holdings Limited)
Vancouver	The Shops at Robson	\$27,023,515	42,000	Crombie REIT (Crombie Property Holdings Limited)
Vancouver	2590 Granville Street	\$17,850,000	24,622	2590 Granville Holdings Ltd.
Vancouver	3695 Lougheed Highway	\$13,300,000	8,914	3695 Lougheed Highway Ltd.
Burnaby	3965 & 3971-3975 North Road	\$9,824,338	24,750	7-Eleven Canada

Source: RealNet, H2 2016.

The Tri-Cities have witnessed significant growth in multi-family and mixed use developments in anticipation of the Evergreen Line, which opened in December, connecting the Tri-Cities and Lougheed Town Centre.

In Port Coquitlam, the final phase of Fremont Village is currently under construction and is expected to add 700,000 sq.ft. of retail space to the market.

Figure 4: Metro Vancouver Shopping Centre Statistics

Region	Inventory (sq. ft.)	H2 2016	H2 2016
		Vacant Space	Vacancy Rate (%)
Abbotsford	2,560,224	99,946	3.9
Burnaby	3,965,889	296,948	7.5
Chilliwack	1,442,500	99,180	6.9
Coquitlam	1,876,028	40,540	2.2
Delta	2,236,704	154,307	6.9
Langley	2,786,368	32,646	1.2
Maple Ridge	616,908	11,965	1.9
Mission	539,063	16,328	3.0
New Westminster	1,195,776	43,730	3.7
North Vancouver	1,410,025	16,426	1.2
Pitt Meadows	527,586	25,031	4.7
Port Coquitlam	812,567	152,522	18.8
Port Moody	136,344	4,600	3.4
Richmond	2,907,449	268,419	9.2
Surrey	5,594,971	300,607	5.4
Vancouver	2,115,800	58,694	2.8
West Vancouver	1,379,329	11,812	0.9
Overall	32,103,531	1,633,701	5.1

Source: CBRE Research, H2 2016.

INVESTMENT

Retail investment volume in Metro Vancouver exceeded \$900 million in the second half of the year, bringing the total retail investment sales for 2016 to over \$1.4 billion. The majority of investment activity in the second half occurred in the Vancouver and Burnaby markets. The Vancouver market alone witnessed 77 transactions totaling over \$400 million, while the Burnaby market recorded 16 transactions for a total of \$97 million. Notable transactions in Metro Vancouver include Imperial Oil (Esso), which sold 36 retail properties to 7-Eleven Canada, totaling \$200 million. A total of nine transactions related to the Imperial Oil (Esso) portfolio occurred in the Vancouver market for approximately \$77.6 million, while Burnaby transactions totaled \$28.8 million.

Cap rates for all retail subtypes declined in the second half of 2016, ranging between 4.0% - 5.5% with Regional Shopping Centre being the lowest, and Neighborhood & Strip (non-anchored) properties on the higher end of the range.

Strata sales remained strong and accounted for 83 transactions worth over \$79.6 million. The Vancouver market accounted for over \$33.9 million with 32 transactions, followed by Surrey with 14 transactions worth approximately \$16.3 million, and North Shore with 13 transaction totaling \$9.6 million.

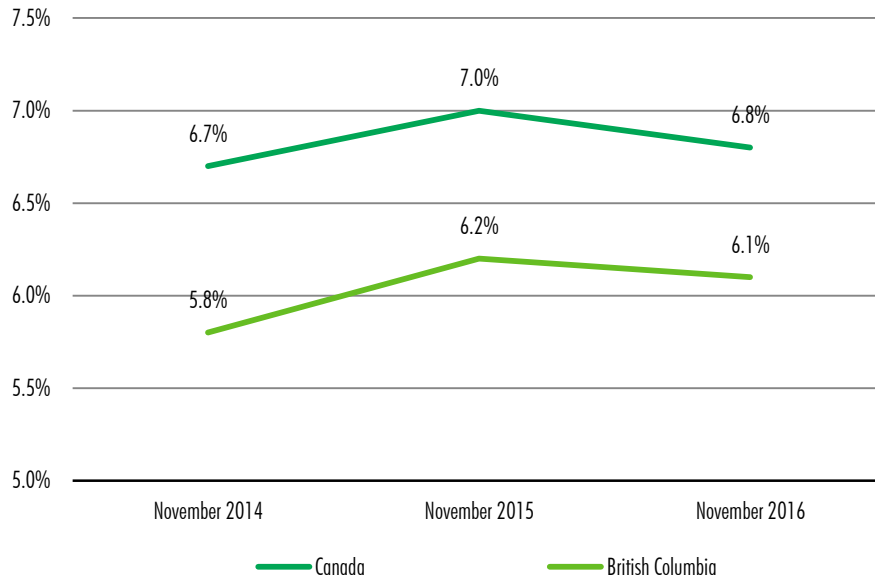
ECONOMY

In the second half of the year, British Columbia continues to exhibit signs of a healthy economy. According to Statistics Canada, in November, the unemployment rate in British Columbia was 6.1%, below the 6.8% national average, and the lowest across the country. Average weekly earnings for October also grew by 0.5% year over year, while retail sales for the same month increased by 6.6% compared to 2015.

This positive momentum is expected to continue in 2017, as Conference Board of Canada forecasts the unemployment rate in B.C. to decrease further to 5.7%, while Metro Vancouver is projected to increase slightly to 5.2%.

The provincial government enacted a 15% foreign buyer's tax to alleviate rapidly rising housing prices. The Real Estate Board of Greater Vancouver reports prices in November 2016 were still up 20.5% compared to November 2015, although month-over-month prices have been stagnant for attached properties while prices of detached properties have seen small declines. Sales are also down 37.2% compared to last year. If the cost of living is curbed, greater disposable incomes can be expected to boost consumer spending.

Figure 6: Unemployment Rate: British Columbia vs Canada



Source: Statistics Canada, H2 2016.



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