

Commercial Strata Benchmark Report 2018 Annual Review



Bramwell &
Associates
Realty Advisors

Informed Opinions - Trusted Values

Introduction

Thank you for your interest in the first Annual Review of the Commercial Strata Benchmark Report.

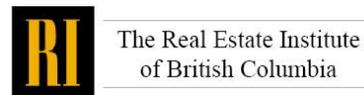
Periodically we are asked why we produce free research for our readers.

First, there is a need for unbiased clear data. Too many articles and publications talk about the market being great and the “new high price”. We solve this need by providing the information.

*The Commercial Strata Benchmark Report provides
monthly unbiased data without filters*

Second, we want you to benefit from our expertise in commercial strata valuation. Trends can be hard to identify, especially in the strata market. Some follow non-strata trends and incorrectly apply to strata titled property. We monitor the sales price, volume and capitalization rate trends in the strata market so our clients get clear and informed opinion, which lead to trusted valuations.

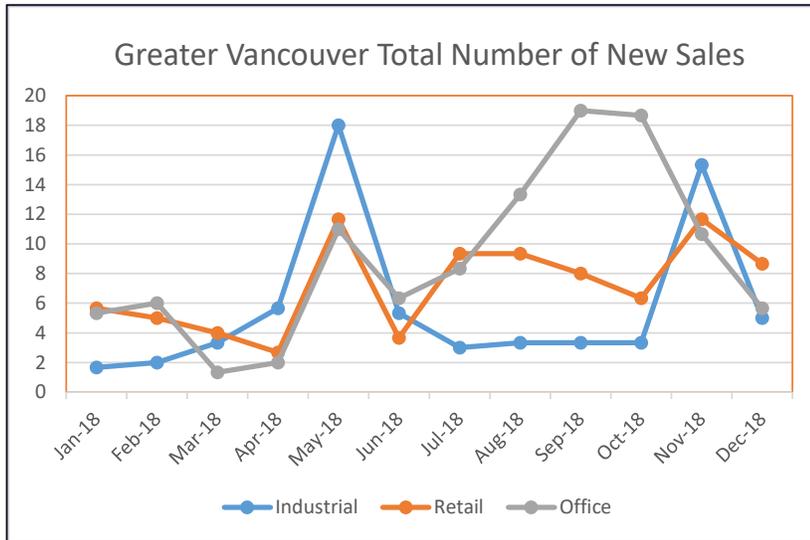
If you would like to get an idea of some of the types of commercial strata properties we have appraised, or would like to subscribe to the monthly newsletter, please see the rear portion of the review.



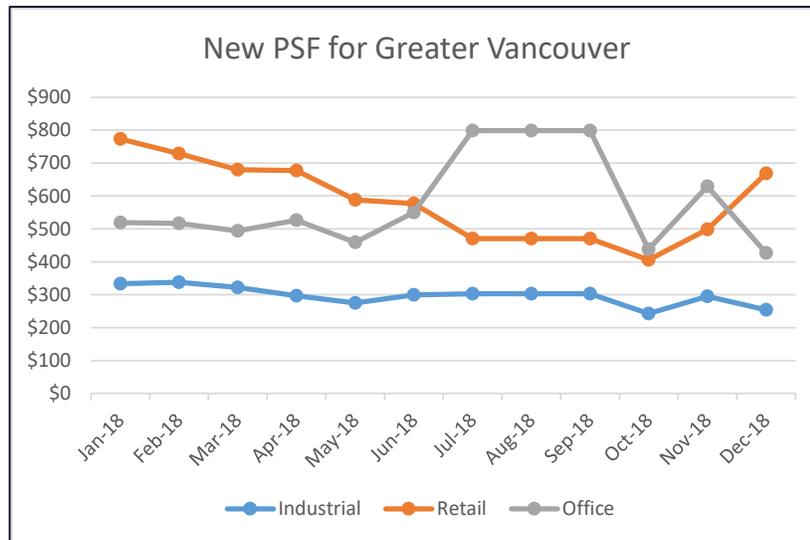
Appraisals * Litigation Support * Expropriation * Property Tax Consulting * Replacement Cost Valuations

New Construction

Trends in the New Construction market are confusing as can be seen in the graphs below. Please note that the chart is in aggregate and individual markets may not follow these trends.



Graph 1



Graph 2

In Graph 1, Surrey has had the highest number of new strata office sales, including the Arista, which we completed the development appraisal for. The next largest number of sales was on the North Shore. The prices, other than some higher sales in the summer, are declining. It should be noted that many units were sold in the past in the pre-sale stage and were registered when the sale closed.

The retail sector is sensitive to location. As the monthly sales volume declined in the Vancouver, Burnaby and Richmond markets, the overall price declined. But as sales increased in these 3 market, the prices increased.

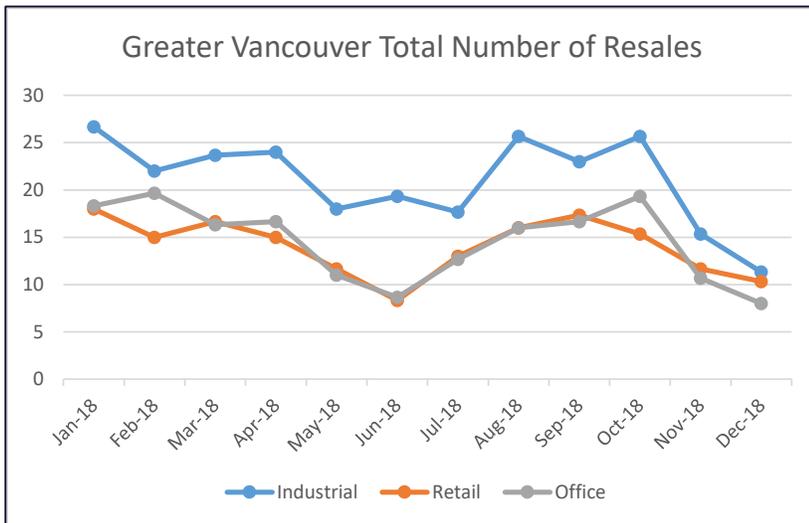
The industrial strata sector is acting in the same manner as the retail market, with the average price increasing when sales in Richmond-Delta and Burnaby close. Overall, most of the new inventory is outside these markets, resulting in the overall price declining, as shown in Graph 2.

NOTE: The sales activity for new construction is hard to measure with respect to units sold as the Greater Vancouver and Fraser Valley Real Estate Boards do not receive much data. As a result, the data is sporadic and conclusions are less reliable.

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Resales

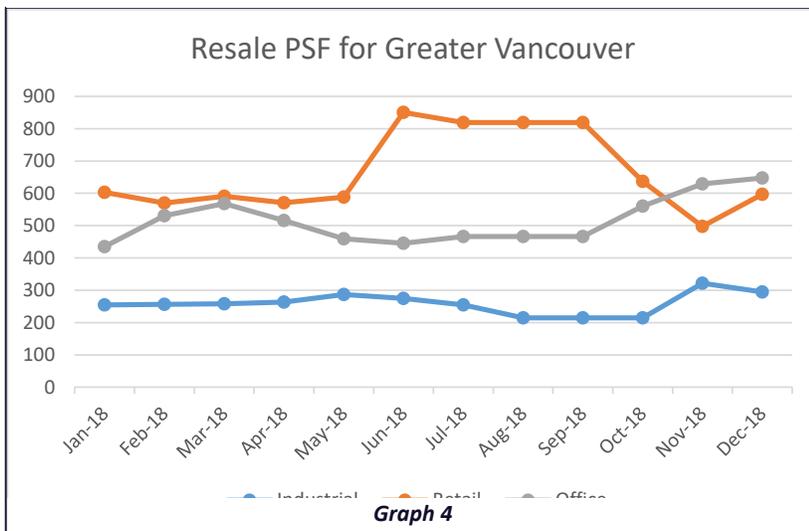
The sales activity for resales is much easier to measure with respect to units sold as the Greater Vancouver and Fraser Valley Real Estate Boards list most of these properties.



Graph 3

Graph 3 needs no interpretation. The strata market is declining in sales volume in all three sectors. This is because there is less product available for resale. But as can be seen in Graph 4, the values are increasing.

What is also interesting is that the number of capitalization rate comparables have increased over traditional levels, meaning that those who own strata units are using them as investment vehicles' if they do not need them.



Graph 4

Many assume that the strata office market is heavily influenced by Vancouver, but they are wrong. The Surrey office market had greater volume in 2018, and thus mitigated the pricing in Vancouver that topped \$800 per square foot on average. The average price in the last quarter of 2018 in Vancouver topped \$1,000 psf.

Where Vancouver sales did make the market was in strata retail properties, followed by Richmond. In these 2 markets, the average prices of strata retail was well above \$700 psf and in some cases nearing \$1200 psf for this asset class, by the end of 2018. As more sales occurred in Vancouver, Burnaby, the North Shore and Coquitlam communities, the retail market average price indicator in Graph 4 increased. It declined as the volume of sales in these markets declined.

In the strata industrial market, Surrey has had more sales than any other municipality, followed by Richmond-Delta. The average price in the Lower Mainland was \$256 per square foot (psf) at the beginning of 2018, ending the year in the \$292 psf range. This trend was heavily influenced by Surrey, Richmond-Delta, Abbotsford and the Tri-Cities, all of which have higher volumes and lower pricing. The result in Graph 4 is a slower decline than what would be evident in Vancouver, Burnaby and North Shore markets.

Strata Capitalization Rates

Commercial Strata Units are usually valued using the Direct Comparison Approach as 90% to 95% are owner occupiers. However, certain investors buy strata commercial properties based on its income-producing potential, creating market derived capitalization rates. This data is kept confidential as it is hard to obtain. In 2018, there were few capitalization rate (income based) comparables. Based on the first quarter data, 2019 volumes are looking to be similar.

Commercial Strata Depreciation Reports

Less than 50% of all Strata Corporations in BC have Depreciation Reports. For commercial strata corporations (not a section or phase of a mixed-use development), it is estimated that 5% to 10% of the developments have reports. We are expecting this to increase over time, but right now there is no impact on value. If the Strata Property Act changes, it will take a few years for the impact to be felt.

Conclusion

Every market is different and not all were not covered in this summary. Generally, there has been market growth, although not as much as some market literature would indicate. Bramwell & Associates believes that the industrial space shortage will continue, and industrial strata will continue to rise in all markets. Office and retail strata price increases will continue in complexes within 500 metres of SkyTrain stations or in high quality buildings. Strata lots in lesser quality developments or poorly located buildings, will increase at a slower rate due to less desirability. While some new development office presales are showing high numbers, one has to be aware that this may be a false indicator as completion rates may follow the current completion rates for new condos which have declined to less than 90%, and are reported to continue to fall.

I invite readers to subscribe to the Commercial Strata Benchmark Report to keep informed about trends in the commercial strata market.

More Information

Subscription to our free Newsletter: Subscribe to the monthly Commercial Strata Benchmark Report at <http://vancouverappraisal.com/signup-for-research-newsletter>

Read our Newsletter: The Strata Benchmark Report is available for viewing on our website at <http://vancouverappraisal.com/current-commercial-strata-benchmark-report>

Methodology: Each newsletter represents a 3 month average benchmark. It should be pointed out that the information provided only relates to the Real Estate Board of Greater Vancouver and Fraser Valley Real Estate Board data, which may not include the full market. Factors such as size, construction, access, clearance, leases in place, special motivation, zoning and finishing, all may play a part in the sales price. This is for statistical purposes only. An appraisal is the only method to determine market value.

Other Commercial Strata Services: The Commercial Strata Benchmark Report is a part of the Commercial Strata services we offer, in addition to Valuation; Depreciation Reports; Property Tax Consulting and Wind-up Consulting.

Lastly, we also provide Valuation; Insurance Appraisals; Property Tax Consulting and Consulting services to fee simple commercial property Owners and Tenants.

For information regarding our Services, please feel free to contact us at the number below.

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Sample of Commercial Strata Properties Appraised In 2018

INDUSTRIAL



Surrey

RETAIL



North Vancouver

OFFICE



New Westminster



Burnaby



Deep Cove



North Vancouver



Port Coquitlam



Coquitlam



Vancouver (Multiple in Building)



Surrey



Burnaby



Burnaby

Properties are identified by City only for privacy reasons.

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