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Metro Vancouver retail assets prove to be hot buys while secondary markets attract investor interest

By Peter Mitham

Shopping around

The most recent breakfast of commercial real estate association NAIOP saw Shape Properties Corp. president John Horton, Chris Wood of retail brokerage Northwest Atlantic, and Anthem Properties Group vice-president Bob Tattle serve up an optimistic take on the Vancouver retail market.

Panellists noted that strong in-migration, relatively little retail space per capita and a constrained land supply make Vancouver attractive to investors.

Horton noted that while the U.S. boasts approximately 23.7 square feet of retail space per capita, B.C. has just approximately 13 to 14.

"We've certainly got room to move the needle," he said.

But with the six to seven million square feet of retail space he expects to be built over the next seven years, he doesn't anticipate the needle moving much. Provincial projections peg Metro Vancouver's population to grow by about 300,000 people, which would boost retail space to approximately 14.6 square feet per capita. The lack of new development will keep sales strong at existing properties, ensuring good cash flow at most retail properties.

"The Lower Mainland is a have-to-have market," Horton said, bluntly.

But the complexities of developing new product in Metro Vancouver mean investors need to take a long-term view on the opportunities.

"Vancouver's not another flat, lots of land kind of development [locale]," Wood said.

The time required to pursue and complete a development in Vancouver, complete with the mix of uses and density most developments now require, mean projects offer strategic opportunities rather than short-term gain.

Tattle confirmed that tight land supplies have made new developments harder to do, something retail consolidation in Canada hasn't helped. This has prompted developers to experiment with smaller spaces, both in urban centres as well as in traditional mall developments. But whether these adequately serve consumers' needs is another question.

"The acid test of whether any of us were visionary is five years out," he quipped.

Buying in

The strategic importance of Vancouver real estate is plain, given the strength of local deal-making and the eyes increasingly cast on properties in secondary markets from Nelson to Courtenay.

Bal Atwal, an associate broker handling investment properties at Avison Young in Vancouver, said investors have a strong appetite for well-located retail properties with redevelopment potential (and of course, a decent yield).

"It's a safe place to 'park' money given that most of these properties are acquired at close to today's market land value, albeit at going-in yields of less than 4%," he said.

Atwal recently handled the sale of 3411-3471 No. 3 Road in Richmond. The properties traded at $8 million this spring, up from the $5.3 million they fetched a year ago.

Atwal said the new pricing established a new high for land values in the area of $250 per square foot of land.

"But the property actually ended up in the hands of an investor, not a developer," he said. "This price was indicative of the property's corner location and rental upside."

Brady Fleguel, a principal at appraisal firm Burgess Cawley Sullivan & Associates Ltd. in Vancouver, sees a similar phenomenon playing out across the region and the province.

"We're now seeing a compression of cap rates such that secondary and tertiary assets are trading for yields that are almost on par with the good stuff," he said. "There's not a lot of [retail] being built right now. It's a scarcity combined with being a bit of a safe haven."

Cases in point: RioCan REIT's purchase of Chahko Mika Mall in Nelson for $31 million and a cap rate of 6.7% and Primaris REIT's acquisition of Driftwood Mall in Courtenay for $45.2 million. •

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