Altus Group

VANCOUVER FLASH REPORT **2019**

COMMERCIAL INVESTMENT & LAND MARKET

VANCOUVER MARKET AREA

Investment property sales volumes in the Vancouver Market Area totalled $12.88 billion in 2018, down from the record set in 2017, but still the second highest annual total recorded by Altus Group.

2018 Highlights

After reaching a new record in 2017, total investment property sales in the Vancouver Market Area declined by 13% in 2018 to $12.88 billion. However, there were mixed performances by sector.

The Industrial sector saw its seventh consecutive year-over-year increase in investment volumes, to a record level of $1.4 billion.

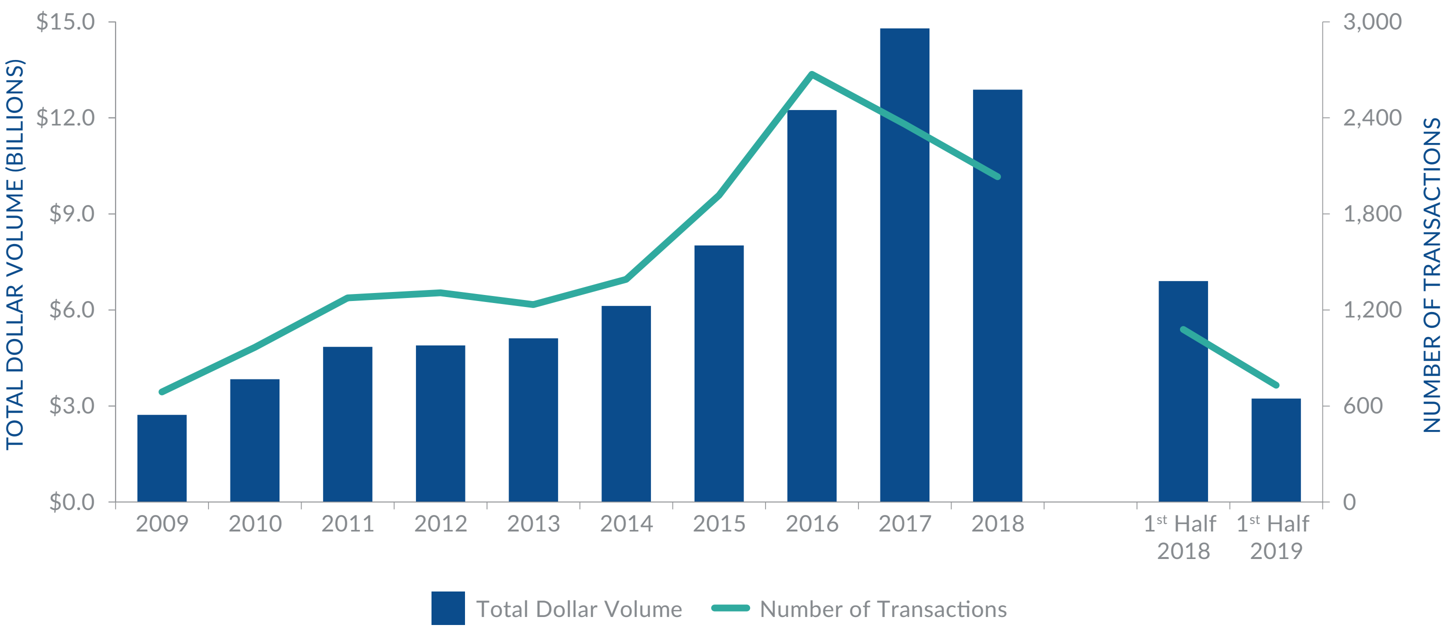
The Office sector posted the largest relative decrease year-over-year in 2018, down 51% to $642 million.

The total value of Land sales (ICI and Residential combined) dropped by 15%, with the ICI Land sector down by $240 million (-10%) and Residential Land down by $1.2 billion (-16%).

Retail property sales softened slightly in 2018 from the record set in 2017 (down 6%).

Annual Investment Property Sales Transactions

VANCOUVER MARKET AREA



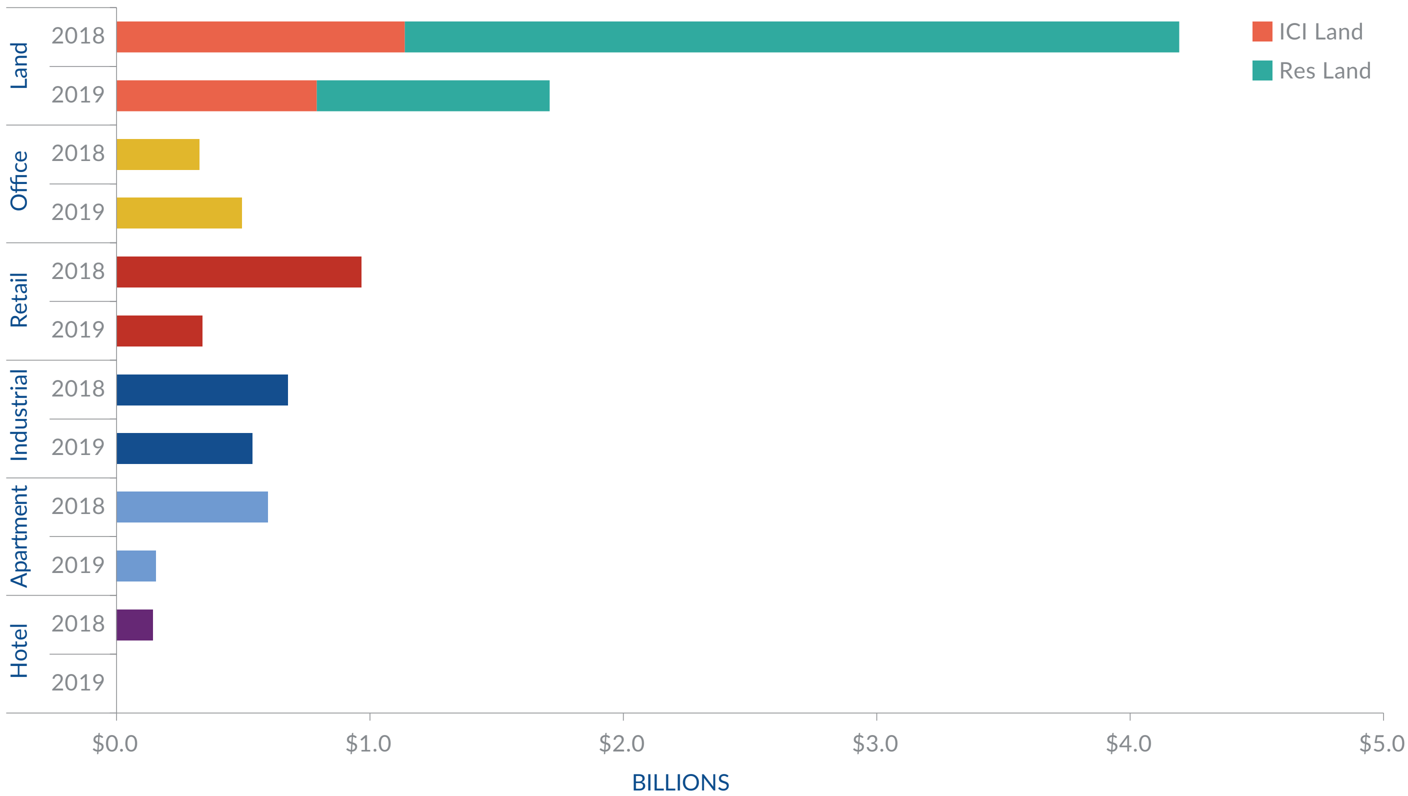
Source: Altus Group

COMMERCIAL INVESTMENT & LAND MARKET CONTINUED

VANCOUVER MARKET AREA

Investment Property Sales Transactions by Asset Class

VANCOUVER MARKET AREA, 1ST HALF 2018 VS. 1ST HALF 2019



Source: Altus Group

Investment property sales slowed significantly in the first half of 2019.

First Half 2019 Highlights

Investment property sales in the Vancouver Market Area slowed notably in the first half of 2019, with total investment volumes less than half of the level recorded in the first half of 2018.

Among the sectors, the lone bright spot was Office. Aided by two large suburban transactions in the first quarter, Office investment was up 51% in the first half of 2019 over the same period in 2018.

The strength in Office was not enough to offset significantly lower transaction volumes for each of the other sectors, which saw decreases ranging from 21% (Industrial) to 74% (Apartment).

While cap rates in the Vancouver Market Area are generally below other major markets in Canada, the declining trend in recent years appears to have come to a halt.

Residential Land sales plummet in the first half of 2019.

Notable Residential Land Themes

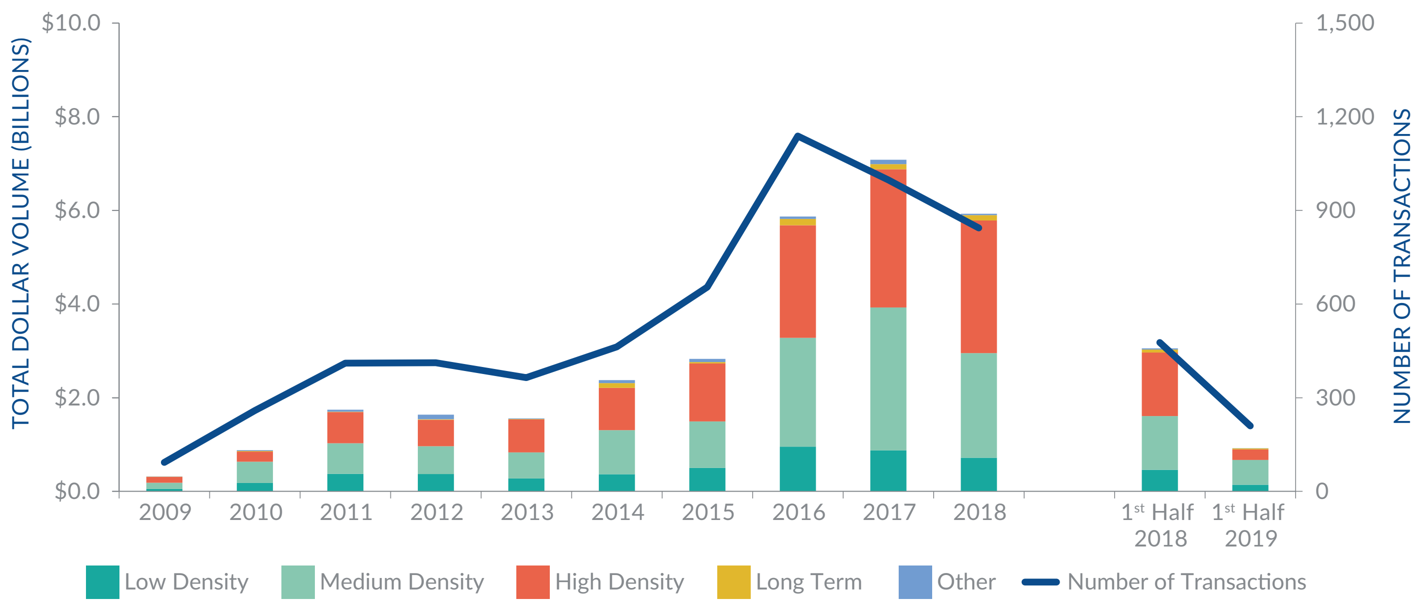
Residential Land investment slowed in 2018, decreasing 16% from 2017. Residential Land sales in 2018 continued to be focused in Medium Density and High Density land which has been typical of the Vancouver market for some time.

Medium Density Residential Land saw the biggest decrease in 2018 (by $819 million) and accounted for almost three-quarters of the overall decline in Residential Land investment. After the strong showing in 2017, High Density and Low Density Residential Land sales were also down in 2018, declining 4% and 18% respectively.

Residential Land had a very quiet start to 2019, with the first half investment totals down 70% from 2018 and lower volumes for all land use categories.

Residential Land Transactions by Land Use

VANCOUVER MARKET AREA



Source: Altus Group

COMMERCIAL INVESTMENT & LAND MARKET CONTINUED
VANCOUVER MARKET AREA

Starlight Investments' acquisition of Montecito Towers for $90 million will provide a boost to Apartment investment levels in the second half of 2019.

Featured Investment Transactions

While transactions slowed in the first half of 2019, several large transactions have occurred in the second half of the year.

The largest apartment deal so far in 2019 was Starlight Investment's acquisition of a two tower high rise apartment complex for $90 million – this transaction alone was almost equal to the total Apartment investment volume in Q2 2019.

The top ICI Land transaction to date in 2019 is a $44 million Industrial Land site acquisition by PIRET at $2.2 million per acre.

CanFirst Capital Management's acquisition of a 315,000 sq. ft. multi-tenant building at $210 per square foot is the largest Industrial transaction so far in 2019.

Featured Investment Transactions
VANCOUVER MARKET AREA

Date	Sector	Transaction Name	Purchaser(s)	Price
Sep-16-2019	Office	5890 & 5900 No. 3 Road	Dava Developments	$28,500,000
Sep-11-2019	Industrial	15050 54A Avenue	CanFirst Capital Management	$66,150,000
Aug-30-2019	Apartment	Montecito Towers	Starlight Investments	$90,000,000
Aug-29-2019	ICI Land	18930 & 18970 24th Avenue	PIRET	$44,215,000
Jul-8-2019	Residential Land	331 Riverside Drive, 340 Seymour River Place & 2171 Munster Avenue	Darwin Construction & QuadReal Property Group	$55,000,000

Source: Altus Group

INDUSTRIAL MARKET
VANCOUVER MARKET AREA

Demand for industrial space continues to outstrip new supply.

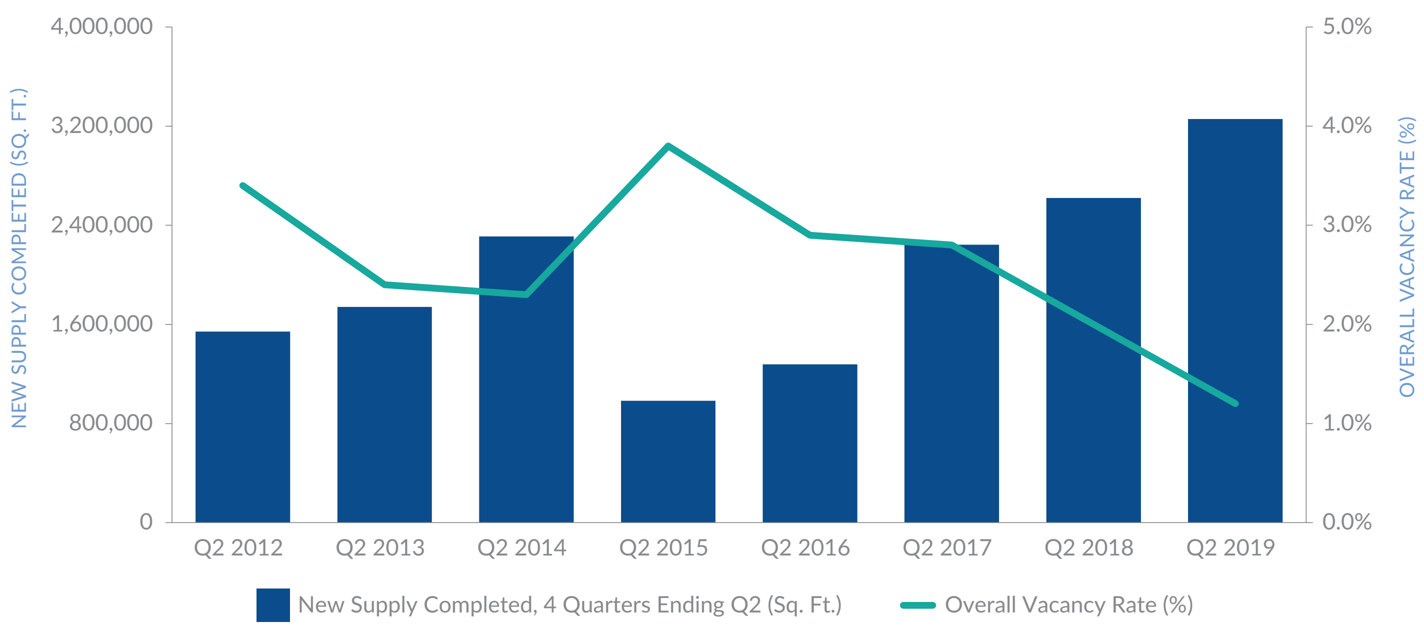
Industrial Market Highlights

Nearly 3.3 million sq. ft. of industrial space was added to the Vancouver Market Area in the 4 quarters ending Q2 2019. Although this was significantly above the annual average of about 1.8 million sq. ft. in the previous 7 years, it was less than the demand for additional space over the same period – as a result, the vacancy rate fell to only 1.2% in mid 2019.

There are currently 4.1 million sq. ft. of industrial space under construction. Based on the average annual pace of absorption over the past 3 years, this represents about 1½ years of supply, and should help to ease tight market conditions somewhat.

Vancouver industrial tenants typically face higher net rental rates for industrial space than other Canadian markets and with very low vacancy rates, it can be expected that upward pressure on rents will continue.

Industrial Market
VANCOUVER MARKET AREA



Source: Altus Group

OFFICE MARKET

VANCOUVER MARKET AREA

The office vacancy rate continues to fall as little new supply added.

Office Market Highlights

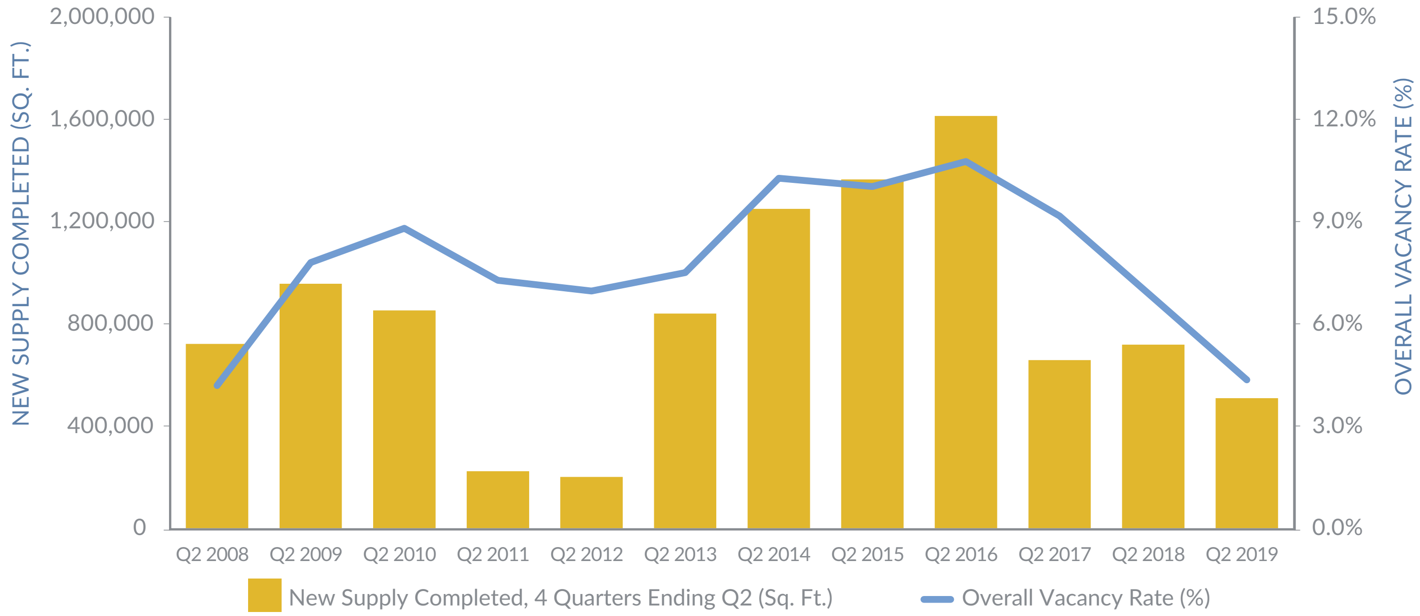
Only about 500,000 sq. ft. of office space was added to the Vancouver Market Area in the 4 quarters ending Q2 2019, one-third the amount of three years ago.

With the demand for office space remaining robust, the vacancy rate continued to fall from the peak of almost 11% reached in 2016. At 4.4%, the office vacancy rate at the end of Q2 2019 is at its lowest level since 2008.

The improved market conditions have spurred renewed interest in developing office space. At mid year 2019, there was about 6 million sq. ft. of office space under construction in the Vancouver Market Area, of which just over half is already leased.

Office Market

VANCOUVER MARKET AREA



Source: Altus Group

Most of the new office supply on the way is in the Downtown area.

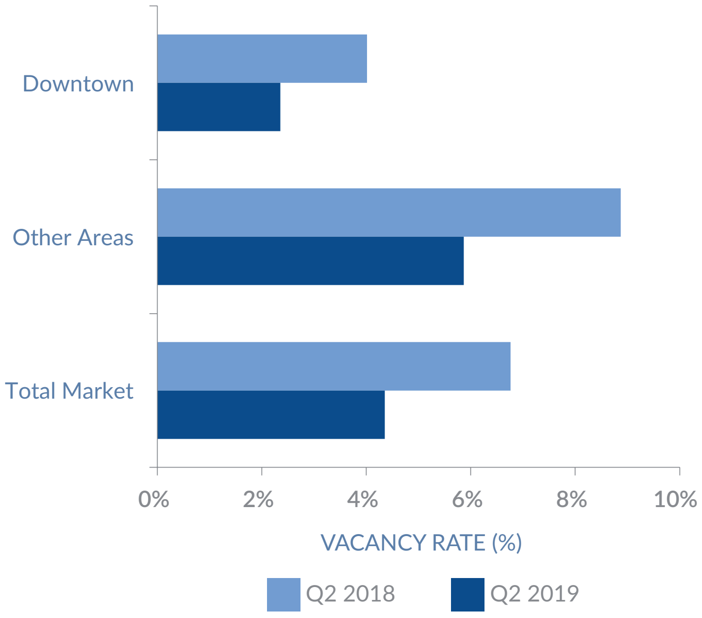
Office Market Highlights *Continued*

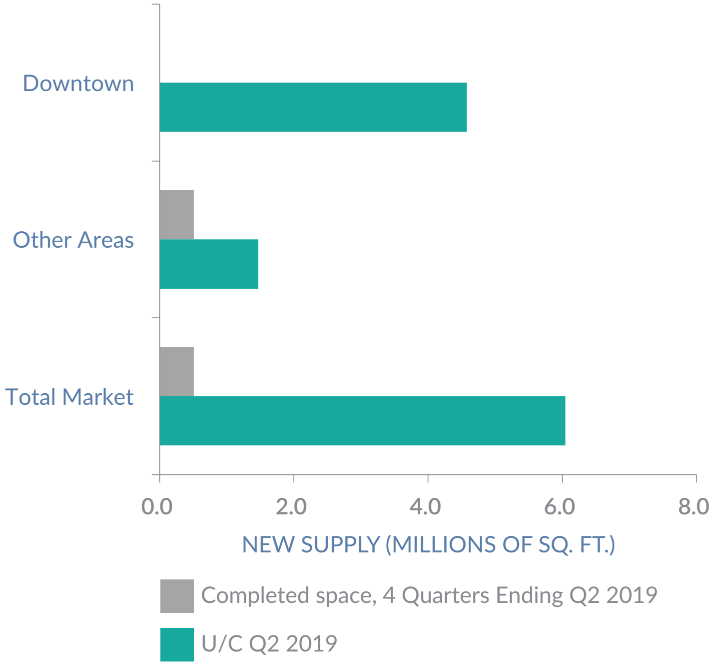
The Downtown area has not seen any completed space added in over a year which helped drive the vacancy rate below 3% in mid 2019. The remainder of the market has also experienced declining vacancy rates with little space added in the past year.

Of the 6 million sq. ft. of office space currently under construction in the Vancouver Market Area, three-quarters is in the Downtown area where additional space is most needed.

Office Market Highlights, Downtown vs. Other Areas

VANCOUVER MARKET AREA





Source: Altus Group

RESIDENTIAL DEVELOPMENT MARKET

VANCOUVER MARKET AREA

New condominium apartment sales in the first half of 2019 dropped to their lowest first half since 2009.

New Home Sales Highlights

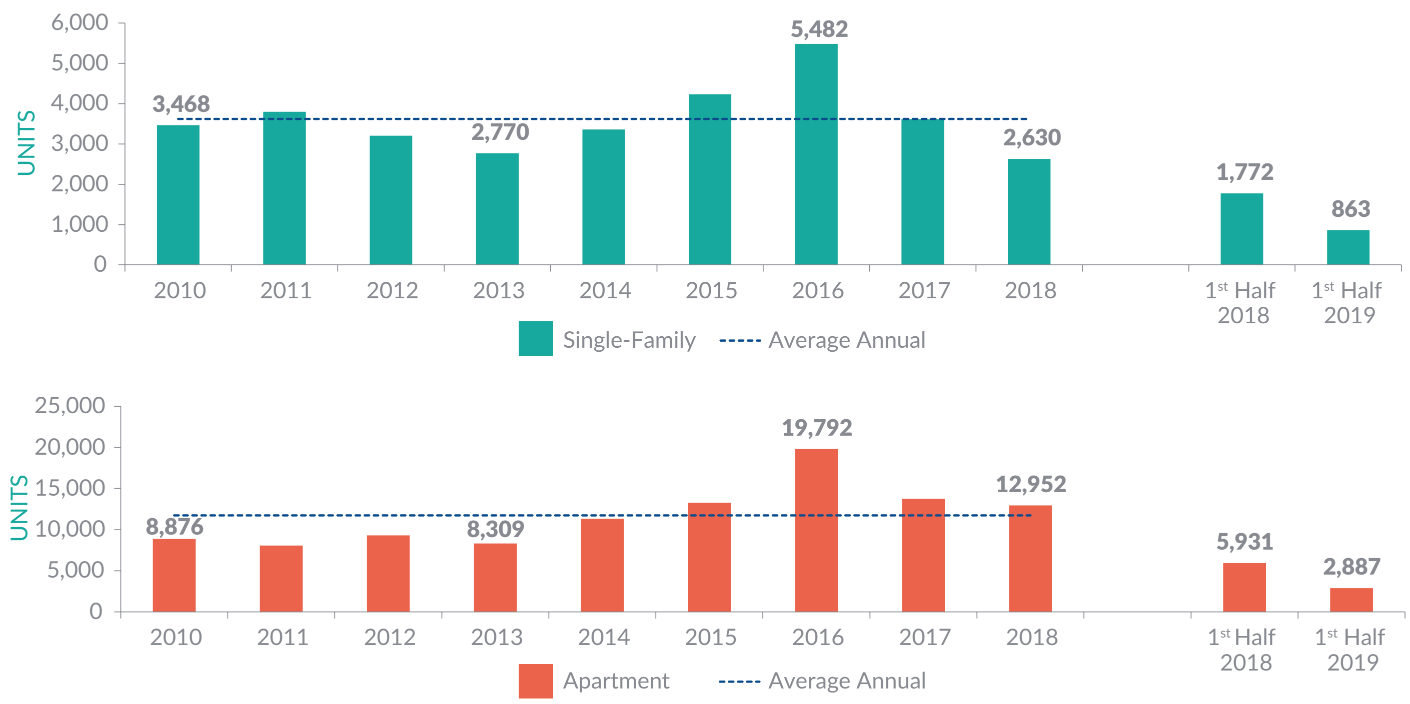
Total new home sales in the Vancouver Market Area were down for the second year in a row in 2018, after the record set in 2016. Sales in projects of 20 or more units totalled almost 15,600 units, a 10% decrease from 2017.

Both single-family and condominium apartment new home sales shared in the decline in 2018, with single-family reaching the lowest level yet recorded by Altus Group.

New home sales slowed further in the first half of 2019, with both single-family and condominium apartment sales only half the levels recorded in the first half of 2018.

New Home Sales

VANCOUVER MARKET AREA



Source: Altus Group

New home sales down in 2019 throughout most of the Vancouver Market Area.

New Home Highlights by Subarea

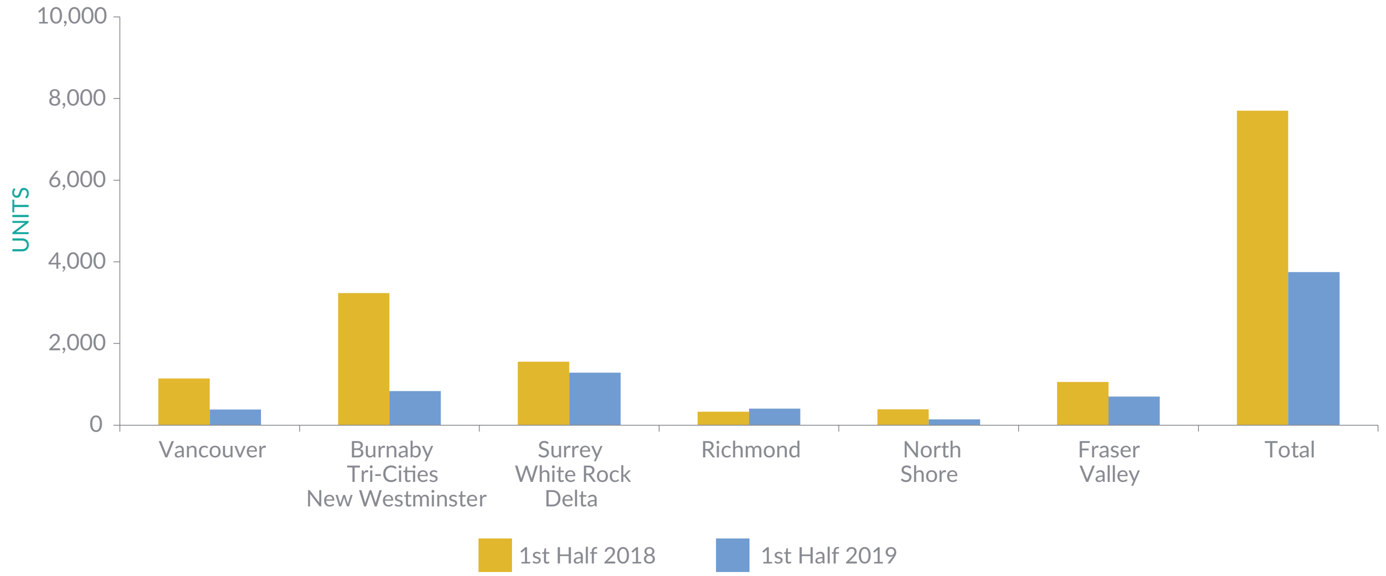
All subareas, with the exception of Richmond, contributed to the decline in total new home sales in the Vancouver Market Area in the first half of 2019 compared to a year earlier.

The Burnaby/Tri-Cities/New Westminster subarea saw a dramatic decrease in activity in the first half of 2019, coming off a strong 2018 that saw a number of high profile projects near the Skytrain come to market.

The Surrey/White Rock/Delta subarea has performed relatively well in the first half of 2019, increasing its share of total new home sales to about one-third from one-fifth a year earlier.

Total New Homes Sales by Subarea

VANCOUVER MARKET AREA



Source: Altus Group

New condominium apartment supply now in a more balanced situation.

New Condominium Apartment Inventory

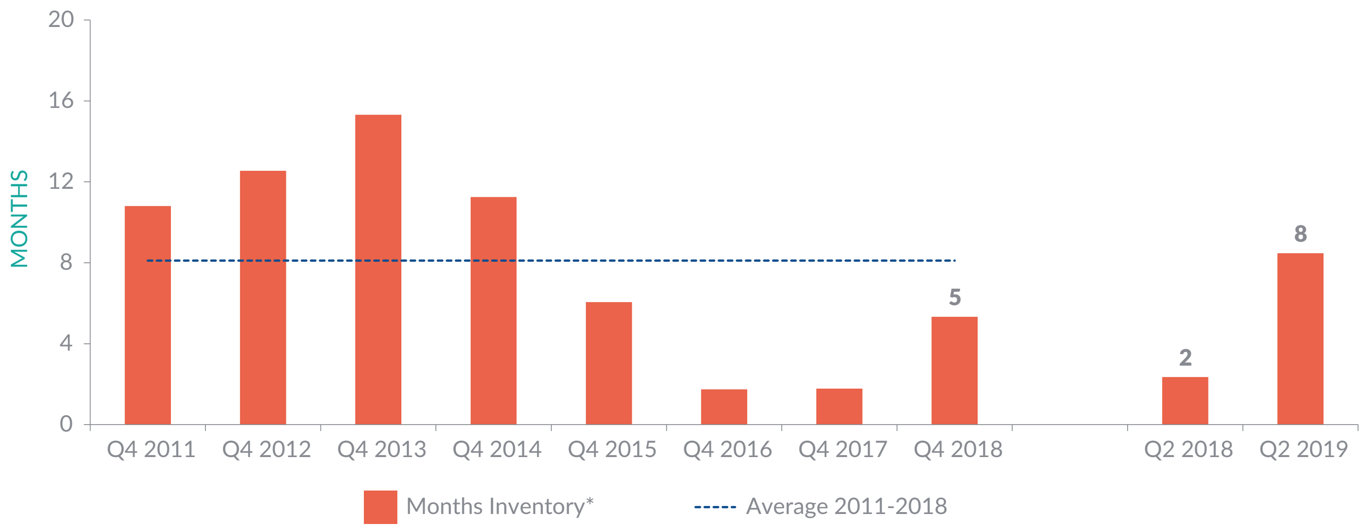
The new condominium apartment sector has seen extremely low levels of inventory in recent years but that pressure has now eased. At the end of Q2 2019, the approximately 7,000 unsold units in active new condominium apartment projects represented over 8 months of supply, based on the monthly pace of sales over the past year, putting it into a more balanced range.

Over half of the total inventory is in pre-construction projects, and most of the remainder is in projects under construction, with only about 170 units available in standing inventory (i.e. completed projects ready for immediate occupancy).

A total of 105 condominium apartment projects were launched in 2018, for a total of about 18,000 units (2 projects were subsequently canceled). Another 32 projects (1 later canceled) launched in the first half of 2019.

New Condominium Apartment Months of Remaining Inventory

VANCOUVER MARKET AREA



* Based on sales in previous 12 months

Source: Altus Group

HOMEBUYERS
VANCOUVER MARKET AREA

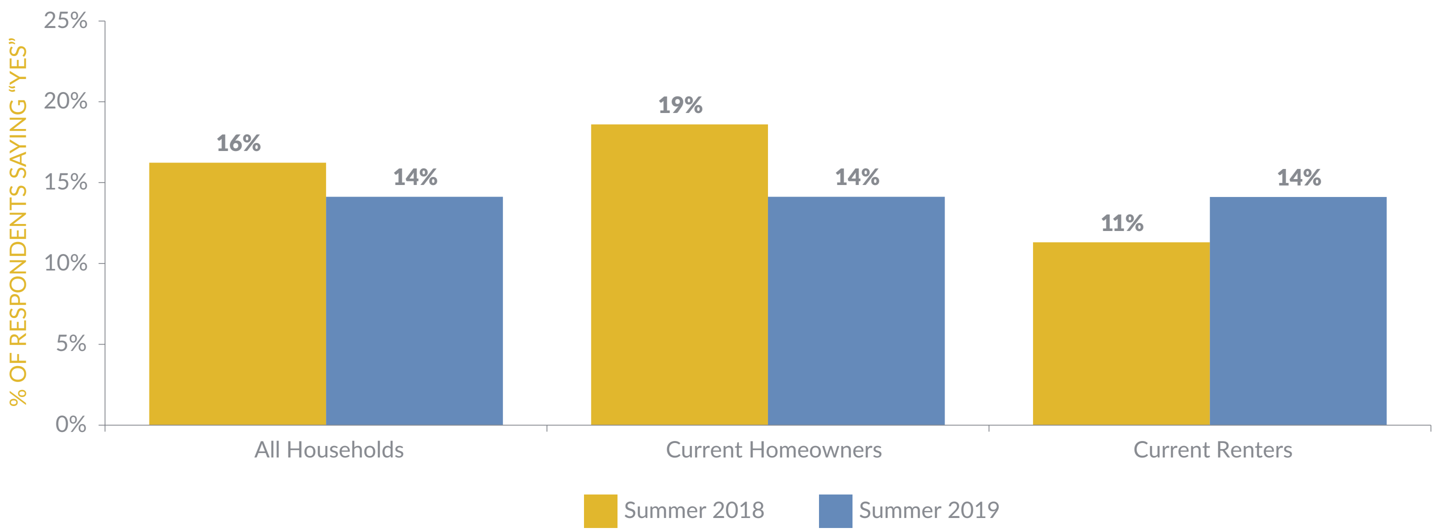
Homebuying intentions up this year among potential first-time buyers.

Homebuyer Highlights

Overall homebuying intentions in the Vancouver Market Area in Summer 2019 dipped compared to last year, according to Altus Group's FIRM Survey.

While homebuying intentions are down among current homeowners, this has been offset to some degree by stronger intentions among current renters – the latter being the primary pool for potential first-time buyers. However, affordability continues to be a challenge for first-time buyers in the Vancouver market which could constrain actual buying activity.

Planning to Buy a Home in the Next Year
VANCOUVER MARKET AREA



Source: Altus Group

Not all younger households are being priced out of the housing market.

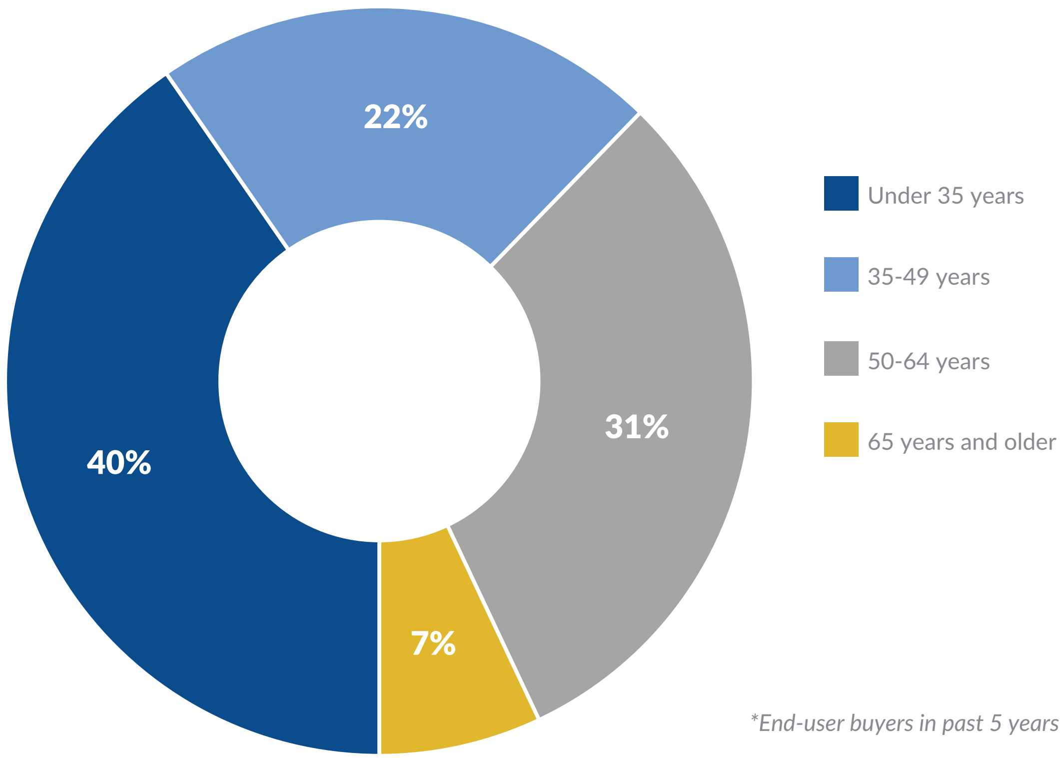
Homebuyer Highlights *Continued*

Despite affordability challenges, younger buyers do play a key role in the Vancouver Market Area. About 4 out of every 10 recent end-user homebuyers were under 35 years of age, according to data from Altus Group's FIRM Survey.

Most buyers aged under 35 years were first-time buyers. In Vancouver first-time buyers, on average, purchased homes that were 10% below the overall average purchase price, and that were priced at just over five times their annual incomes.

Homebuying intentions are up among Vancouver renters (the primary pool for future first-time buyers), and the new federal First-Time Home Buyer Incentive may provide some modest stimulus to actual first-time buyer activity.

Recent Homebuyers by Age Group*
VANCOUVER MARKET AREA



End-user buyers in past 5 years

Source: Altus Group

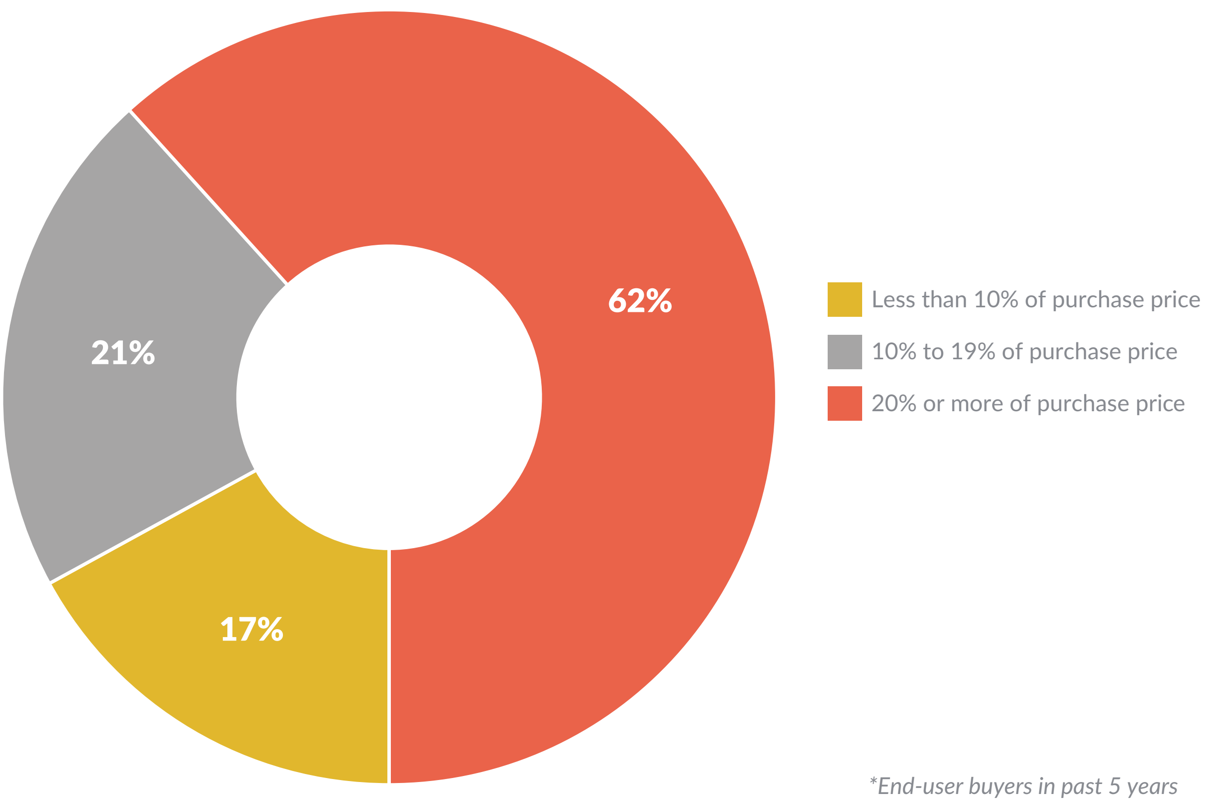
Most Vancouver first-time buyers do not have a high ratio mortgage.

Homebuyer Highlights *Continued*

Most recent first-time buyers in the Vancouver Market Area do not have high-ratio mortgages, with about two-thirds making downpayments of at least 20%. Only about 1 in 6 recent first-time buyers put down less than 10% of the purchase price.

Non-RRSP savings and investments are the primary source of downpayment for about half of recent first-time buyers in the Vancouver Market Area. For about 1 in 5 first-time buyers, the primary source of downpayent was RRSP funds and for 1 in 6 it was assistance from family (gifts, loans, inheritances).

Recent First-Time Buyers by Size of Downpayment*
VANCOUVER MARKET AREA



**End-user buyers in past 5 years*

Source: Altus Group

SUMMING UP AND LOOKING AHEAD

VANCOUVER MARKET AREA

Commercial investment and leasing markets expected to be relatively stable next year, with some upside potential for new home sales.

The new home sector is expected to pick up in 2020, as some pent-up demand is released. Stronger new home sales however are dependent on the availability of product that is affordable to a broader range of buyers.

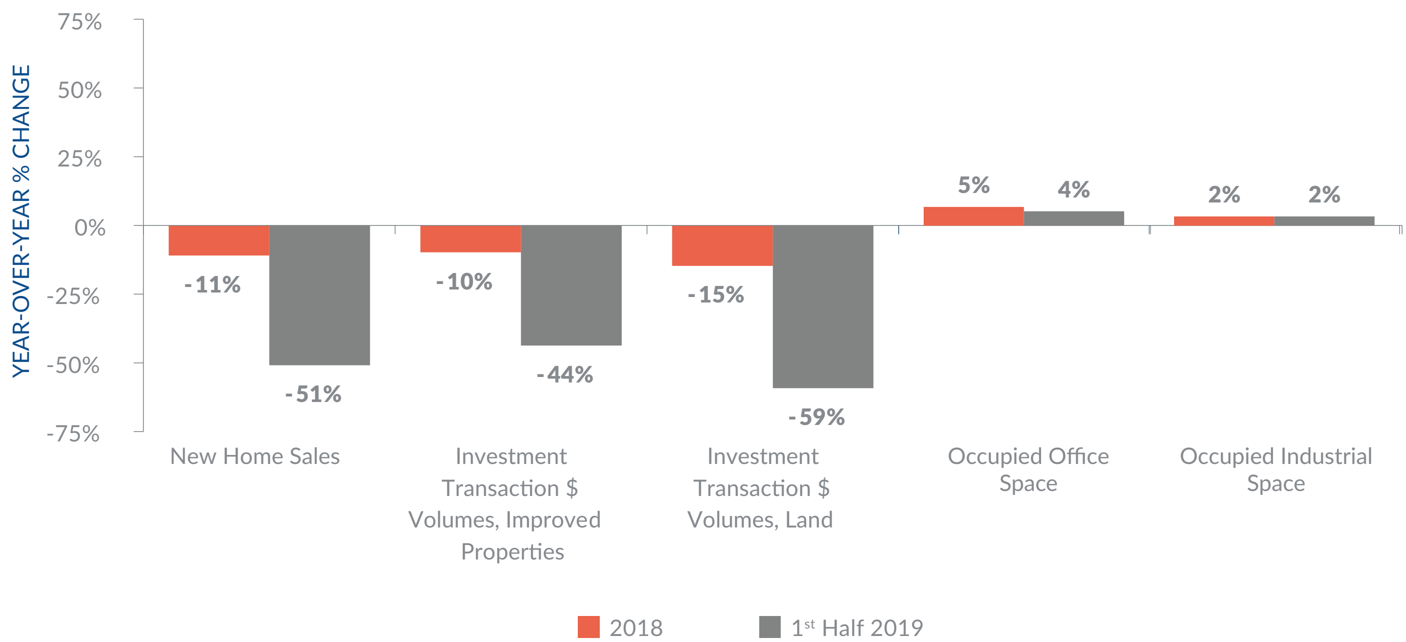
Office market fundamentals are expected to remain steady in 2020 with a low vacancy rate, limited new supply and continued strong tenant demand. Even with the new office supply of approximately 6 million sq. ft. coming on stream in the next few years, with pent up demand from tenants, the office vacancy rate is only expected to increase marginally.

Industrial vacancy rates are expected to remain low, especially with the lack of new supply and continued tenant demand. Based on the increasing costs for industrial, we expect strata industrial activity will continue to be active in 2020.

Vancouver investment activity in 2020 is expected to remain about the same as 2019, the challenge for Vancouver is the lack of product not purchasers. Core investment cap rates are expected to be relatively flat, but we will likely see at least a few record breaking low cap rates.

Performance by Market Activity

VANCOUVER MARKET AREA



Source: Altus Group

ABOUT THE FLASH REPORT

Produced by Altus Group, through our Data Solutions team. We have put together the following Flash Report which illustrates the expanded perspective our solutions provide in the Vancouver Market Area.

In this report, insights and perspectives are provided for the following areas:

- Commercial Investment & Land Market
- Industrial Market
- Office Market
- Residential Development Market
- Homebuyers

Altus Group is your single source for nationally researched real estate market data, backed by local expertise.

We hope you enjoy the report. Please let us know what you think by emailing *datasolutionsinfo@altusgroup.com*

About Altus Group Limited

Altus Group Limited is a leading provider of software, data solutions and independent advisory services to the global commercial real estate industry. Our businesses, Altus Analytics and Altus Expert Services, reflect decades of experience, a range of expertise, and technology-enabled capabilities. Our solutions empower clients to analyze, gain insight and recognize value on their real estate investments. Headquartered in Canada, we have approximately 2,500 employees around the world, with operations in North America, Europe and Asia Pacific. Our clients include some of the world's largest real estate industry participants. Altus Group pays a quarterly dividend of $0.15 per share and our shares are traded on the TSX under the symbol AIF.

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