Top 10 Real
INSIGHTS
2019 Calgary Real Estate Forum

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ISSUE 35

TOP 10 | REAL INSIGHTS | 2019 Calgary Real Estate Forum | ISSUE 35

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1. ECONOMY SLOWLY GAINING TRACTION

A weak start to the year is giving way to an improved performance in H2 2019 and into 2020.

The Alberta economy has begun to grow again, based on stats showing rising oil exports by pipe and rail, stronger wholesale and manufacturing shipments and a jump in small business confidence, says a report from TD Economics released in June.

The mandated oil output curtailment has secured a sustained improvement in heavy oil prices which has helped to improve the economy.

"Despite concern around pipelines and other global pressures, Alberta continues to hold its own among the provinces. Retail activity, manufacturing, wholesale trade and other economic indicators are hovering around pre-recession levels while sectors including agriculture, tourism and the tech sector have seen growth," ATB Financial reported in Q1.

In addition, the City of Calgary's local economic engine appears to be outperforming the provincial economy. The Calgary and Region Economic Outlook for 2019 to 2024, released in Q2, predicts Calgary's GDP growth will be 1.9% for 2019. This figure is higher than both the provincial average of 1.5% and the national rate of 1.7%.

Total employment in the Calgary Economic Region is expected to grow by an annual rate of 1.6% in 2019.

Calgary's population is expected to grow by 131,400 in five years with net migration being the primary driver. "The City of Calgary is expected to remain a more attractive destination for migrants relative to other Alberta jurisdictions," the report states.

> **The regional economy is expected to add 108,500 jobs over the six years from 2018 to 2023.**
>
> **As a result, the unemployment rate is expected to fall to 5.9% in 2024,**
>
> **– according to the Economic Outlook.**

More than 20 infrastructure projects will be completed in 2019, including improvement work to both 17th Avenue S.W. and Crowchild Trail. Ten more projects will break ground this year including a year-long replacement of the 9th Avenue S.E. bridge.

The city said that all projects completed in 2019 and 2020 account for nearly $400 M and more than 3,100 jobs.

The 2018 index of global livability compiled by The Economist Intelligence Unit ranked Calgary fourth among 140 cities. The placement is slightly improved from the 2017 report, when Calgary ranked fifth.

The rankings are determined based on 30 factors across five categories. This year, Calgary scored 97.5 out of 100, earning top marks in stability, health-care, education and infrastructure. Vancouver was ranked in sixth place with a score of 97.3 and Toronto in seventh at 97.2 in the 2018 report.

Calgary has the highest proportion of graduates in science, technology, engineering and math among major cities in Canada, as well as the highest number of engineers and geoscientists per capita.

Calgary Economic Development has implemented several programs in an effort to entice corporations to expand or relocate to Calgary, driving greater market diversity via incentives and corporate tax cuts.

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2. POLITICAL UNCERTAINTIES POSE POTENTIAL CHALLENGES FOR ALBERTA

From the pipeline approval to trade uncertainty in the wake of CUSMA & Brexit, Alberta faces both challenges and opportunities on different fronts.

UCP

At the end of June, the newly elected UCP government announced the size of the deficit for the year ending last March hit $6.7 B which was $2.1 B below initial expectations from the Spring budget of 2018.

The UCP government cut the corporate tax rate by one percent to 11% on July 1. The rate will drop again to 10% next January and eventually fall to 8%.

Premier Jason Kenney has linked economic diversification with his pledge to cut corporate taxes over the next four years. He has said the tax cut will entice companies outside the province to relocate, as will chopping other costs, regulatory timelines and bureaucratic red tape.

TRANS MOUNTAIN PIPELINE

The commercial real estate industry is cautiously optimistic about the approval of the Trans Mountain Pipeline which occurred in June.

The pipeline's approval was tempered by the Senate's passing of Bills C-69 and C-48. Bill C-69 changes Canada's environmental assessment process while Bill C-48 bans tanker traffic from a stretch of BC's north coast. Experts say these regulations could cripple the oilpatch.

"I think the Trans Mountain decision will have zero impact (on the downtown office market) until the pipeline is actually built," said Greg Kwong, Regional Managing Director of CBRE in Calgary.

Greg Guatto, President and CEO of Aspen Properties, said that Trans Mountain approval eliminates some uncertainty, but he doesn't think investors or lenders will suddenly return to Calgary until it actually happens.

CUSMA

The C.D. Howe Institute says that negatives will outweigh the positives for all three parties to the new Canada-United States-Mexico free trade agreement, but it will hit Mexico hardest and the US the lightest.

In a new analysis released on July 25, it says Canada's real gross domestic product is expected to shrink by 0.4% and its "economic welfare"— a measure of the value of household consumption— will decline by more than US $10 B.

Report co-author Dan Ciuriak says most of the negative effects of the trade deal result from the US quest to protect its manufacturing sector and, as a result, hurt Canada and Mexico more because trade within North America is a bigger part of their economies.

BREXIT

Deal or no deal, unless a further extension is granted, Britain will exit the EU on October 31.

Britain is Canada's third-largest export market, with exports of $16 B annually. But more importantly, Canadian firms have invested in Britain as a platform for sales into the EU and broader European markets, Conference Board of Canada reports.

Trade is forecast to grow as a direct result of the Canada-European Union Comprehensive Economic and Trade Agreement (CETA), Canada's recently-signed free trade agreement with the EU that removed 98% of tariffs. As Europe's second-largest economy, the UK is a significant stakeholder in CETA. Canadian and British officials are working to ensure the Canada-UK trade relationship continues as seamlessly as possible in the event of a no-deal Brexit.

3. OFFICE VACANCY RATE SLOWLY COMING DOWN

Can co-working become one of the primary drivers of office demand in Calgary?

Calgary's downtown office vacancy rate was 23.0% in the second quarter of 2019, down from 25.2% in the same quarter last year, according to Altus Group. The overall vacancy for the Calgary Market Area in Q2 2019 was 21.8%.

Absorption for Calgary's downtown office market for the first half of 2019 was 446,000 sq. ft. This was higher than all of 2018 during which a total of 400,000 sq. ft. of positive absorption occurred, Avison Young reported.

Approximately 144,000 sq. ft. of new office space, in three projects, remains under construction across Calgary, all in the Suburban South office market, with 75% pre-leasing in place, at the end of Q2. The completion of the 430,000 sq. ft. Telus Sky building in the downtown core has put additional pressure on the vacancy rate.

Cushman & Wakefield reports that premium assets continued to garner tenants' attention, accounting for the majority of the leasing activity from both direct and subleases. However, in order to compete with Class AA product, some landlords of older-generation buildings are turning to renovations, repositionings, and in some cases, office-to-residential conversations.

"As the demand for modern technological infrastructure increases, the current wave of flight-to-quality will pose a challenge for landlords of lower-class product," CBRE states.

Oxford Properties Group has invested about $40 M to redevelop its flagship four-tower Bow Valley Square office property. The multi-million-dollar initiative has added a number of amenities including a tenant lounge, bocce ball lanes, ping pong tables and beehives, as well as modern co-working spaces in an effort to build a community and attract tenants. The 1.4 M sq. ft. complex is now at 85% occupancy.

"We've done 160,000 sq. ft. of leasing year-to-date this year and about 85,000 feet of that is new tenants to the project," said David Routledge, Vice President of Real Estate Management West at Oxford Properties, at the end of July.

CBRE wrote in a report that co-working is one of the primary drivers of office demand right now. As tenants consolidate their real estate footprint and explore alternative work environments such as co-working, the pressure is on landlords to provide the kind of amenities that are in demand in the new economy, the report said.

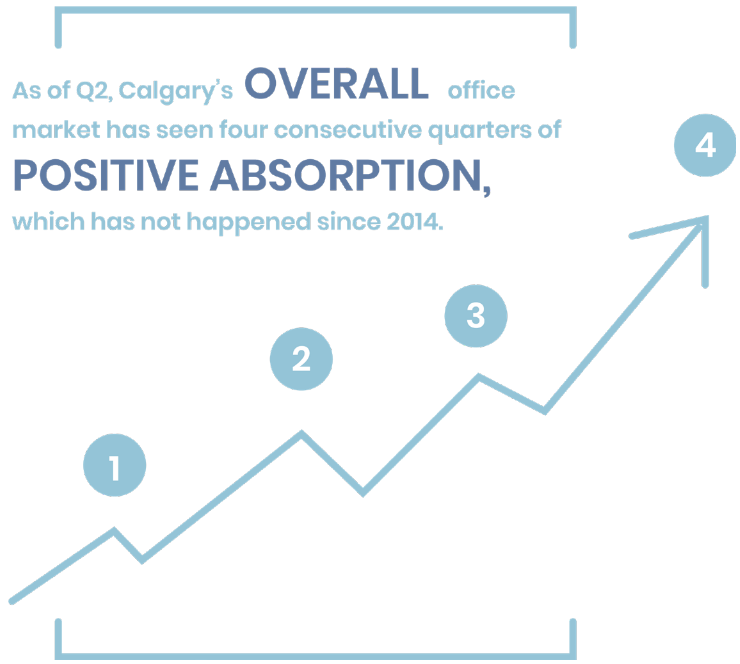
IQ Suites announced that it is adding 100,000 sq. ft. to its portfolio. The Toronto-based company will be expanding into the Calgary market this fall taking space in the new Telus Sky building.

Calgary's office market fluctuates quickly so flexible, on-demand space that can be expanded or contracted easily provides a "huge advantage" to office tenants in Southern Alberta, said Kane Willmott, iQ's Co-Founder and CEO.

"There is a lot of business happening in Calgary," he said, "and there is a demand for quality co-working space."

Two WeWork locations are planned for Alberta's largest city, with the first opening its doors at The Edison building this December.

A total of 1,300 desks across five floors will become available for both individuals and companies, with membership plans spanning from hot-desking to private office spaces.



The second space will open sometime in early 2020 at Stephen Avenue Space, featuring an additional 1,260 desks.

"Typically when WeWork enters a new market, we start with one location to build the foundation and then scale. When it came to Calgary, however, we saw an epicentre of innovation and knew we not only had to be here, but enter in a big way," WeWork's Community Director of Western Canada Brianna Iverson explained in the release.

4. KEY INFRASTRUCTURE PROJECTS CATALYST TO REVITALIZATION OF THE RIVERS DISTRICT

CMLC's $1.5 Billion Rivers District Revitalization plan set to invigorate the Calgary landscape.

The Rivers District lies at the junction of the Bow and Elbow rivers and is located close to downtown Calgary. It is a 504-acre district that includes several distinct areas such as East Village, Fort Calgary and east Victoria Park.

The district is at the centre of Calgary's culture and entertainment scene and encompasses some of the Calgary's most notable landmarks including the Calgary Stampede, BMO Centre and the Saddledome. The area draws over 3 M visitors each year.

The East Village portion of the Rivers District has seen a significant level of development through nearly $400 M in infrastructure investment that has attracted approximately $3 B of planned, private investment. The east Victoria Park portion of the Rivers District, however, is underutilized and development has remained stagnant.

CMLC's Rivers District Revitalization (RDR) is a comprehensive plan consisting of three major projects that work in concert with each other, as well as an overall master planning document (Rivers District Master Plan, "RDMP") to redevelop and revitalize the Rivers District. The master plan outlines the development of 4 M sq. ft. of mixed-use space, with the intention of attracting over 8,000 new residents to the area.

The overall timeframe for completion of the proposed RDR projects is from 2019 to 2026, and the projects require significant operational and capital expenditures over this period. Total capital construction and development costs for the three projects are estimated to be around $1.5 B, Ernst & Young estimated in their Economic Impact report released in January.

Three key infrastructure projects have been identified as being catalysts to revitalization: an expansion of Arts Commons; an expansion to the BMO Centre and the construction of a new Event Centre.

The BMO Centre expansion project calls for the expansion of the BMO Convention Centre to become a Tier 1 facility that can compete with Toronto, Montreal and Vancouver for large meetings and conventions. By adding over 500,000 sq. ft., the BMO Centre will almost double in size. In addition to the expansion, it is also expected that there will be construction of a new hotel in the vicinity to accommodate the new visitors.

The expansion and renovation of Arts Commons will be carried out in two phases. The first phase will convert approximately 440,000 sq. ft. of land into cultural space designed to house three mixed-use venues: a 1,200-seat proscenium theatre; a 350-seat black box theatre; and a smaller 100-seat black box theatre. The second phase of the project will involve renovating the existing 33-year-old AC structure into a modern space for arts and community events.

The third major project includes the construction of a new event centre to replace the Scotiabank Saddledome. The event centre would have the capacity to seat approximately 18,000 people, and would cover approximately 600,000 sq. ft. The event centre would be used for sporting events, concerts, and other forms of entertainment. It would also support an active Festival Street, retail at street level and dynamic programming around it to become part of the new culture and entertainment district.

In March, City councillors approved a draft proposal for a new arena and funding for three other major capital projects totalling more than $1.5 B.

In addition to the major projects outlined above, the RDMP also calls for other notable developments, including:

- **150,000 sq. ft. of new retail/commercial space**
- **4 M sq. ft. of residential space to accommodate up to 8,000 residents**
- **Stampede Trail & 17th Avenue promenade**
- **Public space development**
- **5th Street underpass**

The federal, provincial and municipal governments have each committed $166.6M for the BMO Centre expansion. An additional $3.9 M will come from the Calgary Exhibition and Stampede Ltd. Construction has already begun on the project.

The city and Flames owner Calgary Sports and Entertainment announced at the end of July, a tentative agreement that would equally split the cost of a $550 M sports and entertainment centre.

The RDR has the potential to transform an underutilized portion of the City of Calgary as well as have impacts on the surrounding areas.

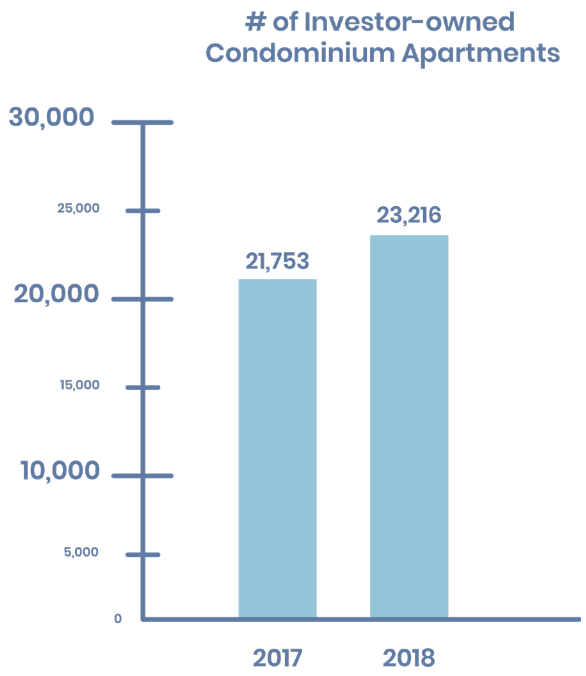
5. RENTAL HOUSING VACANCY PLUMMETS EVEN AS HOUSING MARKET BEGINS TO SHOW SIGNS OF NORMALIZING

Demand for rental housing propelled by mortgage stress test and solid migration numbers.

The apartment vacancy rate significantly decreased for the second consecutive year to 3.9% in 2018 from 6.3% in 2017, according to CMHC figures.

The dramatic decline in vacancy came despite an increase of 1,407 purpose-built apartment units. CMHC reports that a key component that is driving this demand is stronger migration in 2018 relative to the year prior. Calgary's 2018 Civic Census reported a 1.7% increase in population.

Significantly, 35.3% of condominium apartments were rented out in Calgary.



The supply of investor-owned condominium apartment rental units grew by a substantial 6.7% from 21,753 units in October 2017 to 23,216 units in October 2018.

And the demand for condominium rental units continued to grow as the number of vacant units to 2.7%. The average rent for a two-bedroom condominium apartment was $1,533 compared to $1,272 in the purpose-built rental market.

Calgary-based Strategic Group is capitalizing on this tight residential rental market and has been converting office buildings in Calgary (and Edmonton) into residential buildings.

This spring, it completed the $25 M conversion of the former office of Alberta Health Services into an apartment containing 65 one- and two-bedroom units on the west end of the City Centre.

The apartments, which start at around $1,300 per month, feature white quartz countertops, floor-to-ceiling windows, built-in safes, high ceilings and stainless steel appliances, along with wall USB charging ports and a rooftop firepit with mountain views.

The building was about half full in June even though some construction had yet to be completed.

It is currently redeveloping the Barron Building, which had been vacant for over 10 years. The company, which is spending about $100 M to transition into 93 residential units, anticipates the completion of the conversion by mid-2020. It will be the first residential building connected to downtown's Plus 15 indoor walking system.

Strategic Group has two further projects in the design stages in Calgary.

The month that the mortgage stress test came into effect— requiring purchasers to prove that they could afford their mortgage if rates went up 200 basis points— Strategic Group said that it was their single highest month of absorption.

Strategic Group has 1,625 units in Western Canada and with a 97% occupancy rate. It will deliver about a thousand apartments during the next year.

In the meantime, home sales are improving and inventory declined for the fourth month in a row in July.

"So far, the housing market has generally behaved as expected this year. Sales activity remains just below last year's levels, prices have eased and supply is starting to adjust to the lower level of sales," said Calgary Real Estate Board (CREB) Chief Economist Ann-Marie Lurie.

Detached benchmark prices were at $488,400 for July, as the buyer's market conditions continue, which is more than three percent less than levels last year.

New listings numbers continue to lessen, causing reductions in oversupply and decreasing inventory and hindering any substantial changes in prices according to CREB.

Graywood continues to build in the Calgary market with three projects in various stages of development.

Development has begun on Phase 2 of Fish Creek Exchange. Graywood can build up to 1,000 units of mid-rise condos and townhouses. The first condo is occupied and sales and construction are continuing on the second building.

Eau Claire Residences, located in Calgary's Eau Claire area, are still going through the planning process at time of writing. The project is expected to have approximately 140 suites on six storeys and it anticipates that sales will launch in the spring.

Sales recently launched for The Theodore Condominiums. This mid-rise condo in Calgary's Kensington community will feature 115 one, two and three bedroom suites, with prices beginning in the $290,000 range.

"There's been a decline in optimism in the marketplace, but I do believe we're starting to see improvements there, particularly for good sites Graywood President and CEO Stephen Price told RENX. "We anticipate slower sales programs for our Calgary projects, but we have absolutely fantastic locations."

Total housing starts in Alberta in 2018 were 26,085. Altus predicts starts to reach 27,525 in 2019 and 33,250 in 2020.

"Continued economic recovery, affordability of key markets and surging in-migration in 2018 will support housing demand (in Alberta) and boost starts in 2019 and 2020," says Altus.

6. RETAIL VACANCY INCREASES SLIGHTLY

Despite economic challenges and disruption to the sector, retailers remain bullish on the Calgary market.

The overall retail vacancy rate increased from 5.6% in the first half of 2018 to 5.9% in the first half of 2019, CBRE reports.

In the first few months of 2019, five big retailers— Rona, Payless Shoes, Town Shoes, Home Outfitters and Gymboree— closed a total of 23 locations in Calgary malls.

In the downtown submarket, the Sport Chek on Stephen Avenue closed in February.

According to CBRE, recent retail closures have left behind an estimated 325,000 sq. ft. of space in the city, pushing vacancy rates higher.

However, Michael Kehoe of Fairfield Commercial Real Estate said there's been competition for some of the space left vacant by recent bankruptcies, including Payless Shoes locations.

Beakerhead Creative Society opened a shop in the former Sony space at 4th & 14th. Rhythm Ride took the final space in Landmark Centre. Juul Labs took the former Roots space in 399-17th Avenue SW, Barclay reported.

Despite store closures and an increase in vacancy, significant new retail developments are currently under construction.

Construction began this summer on Phase One of Royop Development Corporation's Township development. The retail component will contain 300,000 sq. ft. adding supply to a tight market. CBRE reported late last year that the vacancy rate for the area of the south Calgary had fallen to 1.1%.

The initial phase will include grocery, regional and local retailers, services, childcare, and food and beverage options. The $125 M development is set to be completed by April 2021.

The first half of Phase II of Seton regional shopping centre located on the west side of Seton along Deerfoot Trail opened this year. The 450,000 sq. ft. development's anchor tenants include Real Canadian Superstore, Cineplex VIP and MEC. The remaining part of the phase is to open in 2020.

University District will have more than 300,000 sq. ft. of retail development once completed. Six new retailers have been announced for the project including Freshii and Scotiabank. They will join major anchor tenants Save-On-Foods and the Alt Hotel along a nine-block retail main street on University Avenue. The retailers are expected to open for business in 2020.

Asian-inspired New Horizon Mall located in Balzac opened in 2018 to a slow start. However, it has recently secured two anchor tenants— Chinese discounter, The Best Shop, and the 23,000 sq. ft. Prairie Horizon Fresh Market. These tenants bring the total number of stores in New Horizon Mall to 86, with 22 more stores and two new food court additions set to open soon.

Retailers are both expanding and entering into the Calgary market for the first time.

Montreal-based outerwear company, Mackage, opened a 1,900 sq. ft. Calgary Flagship store at CF Chinook Centre in August. The brand has stores in Montreal, Toronto, Vancouver, New York and New Jersey. An Edmonton location is scheduled to open later in August and plans are also underway to expand in the United States, Europe and Asia.

Canadian clothing retailer Mark's has launched a new mall concept store in Calgary's CF Market Mall in July that it plans to roll out to other Canadian cities.

Toronto-based Myodetox lifestyle physiotherapy clinic wants to grow its number of locations to between 60 and 70 over the next five years. The company currently has 11 locations— five in Toronto, five in Vancouver and one in Los Angeles and plans to enter the Calgary and Ottawa markets. Locations are about 2,000 sq. ft. and are typically in higher-end commercial retail areas.

Calgary-based Landmark Cinemas plans to open a five-screen, 25,000 sq. ft. premium movie theatre at CF Market Mall in Calgary by the Spring of 2019 in the space formerly occupied by Staples.

In the past few years, Cadillac Fairview has invested about $177 M into CF Market Mall and CF Chinook Centre.

Of that, $101 M was spent to upgrade the Chinook Centre. A pedestrian bridge was built over Macleod Trail connecting the mall to an LRT station. A $17 M renovation to the food court area has just been completed. Also, Cadillac Fairview put $65 M into redeveloping the space left behind by Target to accommodate a new Saks Fifth Avenue store.

Just recently Chinook also saw the opening of a new Louis Vuitton store.

Cadillac Fairview has city approval for over 1 M sq. ft. of extra density on the CF Chinook Centre site, which the company will use for a mixed-use development at a later date.

At the same time, Cadillac Fairview has invested about $76 M in CF Market Mall, which includes the redevelopment of the former Target space for $40 M to accommodate a new Sporting Life store, an expanded Zara store and a new HomeSense store.

The company invested $18 M for the expansion of the Sport Chek store. The former Staples space was redeveloped for Saks OFF 5TH and a Landmark Theatre coming at a cost of $17.3 M.

Property tax increases are threatening street-front retail in Calgary. Vacant downtown offices have created a gaping revenue hole where some partially vacant downtown buildings are seeing their taxes fall by 75%. As a result, taxes have gone up on other properties to try to make up the revenue gap.

About 8,000 businesses have been hit with a 10% property tax increase. Some have had their taxes increased by as much as 30%. According toColliers, these tax hikes were directly linked to a record-breaking vacancy rate of nearly 9% for street-front retailers in late 2018.

At the end of February, there were 75 retail cannabis stores operating in Alberta, 24 of which are in Calgary. The province's stores had combined sales of $33 M worth of legal marijuana in the first four months of legalization.

The Alberta Gaming, Liquor and Cannabis Commission (AGLC) placed a moratorium on new cannabis permits for up to as much as 18 months to address the shortages of legal cannabis.

At the end of February, 633 licence applications are awaiting approval from the AGLC and the organization has stopped accepting applications until the backlog is addressed.

And while e-commerce is having a definite impact on the retail landscape, digitally native brands are making their mark on the brick-and-mortar landscape. Collectively they are set to open 850 stores in the next five years, according to an Online Retailers Report by JLL.

JLL cites plans for mattress retailer Casper to open 200 stores in North America (including a 2,200 sq. ft. showroom at CF Chinook Centre) within three years, lingerie startup Adore Me for up to 300 in five years, and footwear company Allbirds for stores in four cities in the next year.

"The clicks-to-bricks retailers' expansion plans demonstrate the value these brands place on having a physical presence with which to engage shoppers," JLL said.

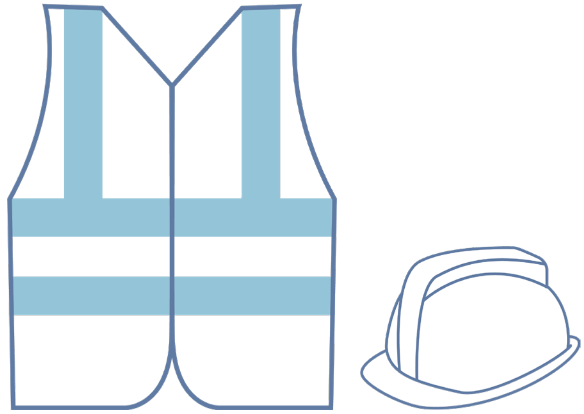
7. INDUSTRIAL VACANCY RISES IN THE WAKE OF NEW PRODUCT DELIVERY

The completion of 2.2 M sq. ft. of new product in the second quarter pushes overall industrial vacancy to 6.5%.

Vacancy rose 40 basis points from 6.6% to 7.0% quarter over quarter due to new products coming to market, according to Altus. There was 319,018 sq. ft. of positive net absorption in Q2, totalling 815,334 sq. ft. year-to-date and the 5th straight quarter of positive net absorption.

The Calgary industrial market continues to expand as a regional distribution hub evidenced by development investment in large, institutional grade distribution parks.

Major developers such as Hopewell, Beedie, Oxford, QuadReal, One Properties all have projects under construction in Calgary.



Calgary's industrial construction completions totalled 2.2 M sq. ft. in Q2, 4.0 M sq. ft. year-to-date, with another 6.4 M sq. ft. in the planning stages, Cushman & Wakefield reports.

The Calgary industrial market has seen a rise in transaction volume as a result of local expansion, and from a surge of new entrants into the Calgary market, Colliers reports.Many of these new entrants have experienced limited availabilities and increasing costs in markets such as Vancouver, Montreal, and Toronto, which has helped bolster market activity in Calgary.

As industrial land becomes increasingly scarce in Vancouver, Calgary is well-positioned to benefit as major owner/occupiers pivot inland instead, Colliers states.
Riocan REIT and CPPIB sold McCall Landing, a 127.3-acre site adjacent to the Calgary International Airport. The property, which is currently slated for retail development, was bought by BentallGreenOak for just over $25 M. The company is looking to re-position the land for industrial use.

"The Calgary industrial market is increasingly seen as a regional distribution hub. The regional Western Canadian marketplace is benefiting from sustained population growth and economic growth," said Michael Hungerford of Hungerford Properties, which has significant industrial properties in Calgary.

"In Calgary, there is supply of land, experienced developers, and quality infrastructure to support this growth. Moreover, the relative cost of living and available workforce is a compelling reason to locate in Calgary, rather than other regional cities," he said.

8. SECONDARY MARKETS THRIVING

Attracted by lower tax rates and developer-friendly policies, commercial development has been 'proceeding at an impressive rate' in Calgary's outlying areas.

Balzac represents one of Rocky View County's main commercial and industrial areas.

"For 10 years, Rocky View County has been pursuing a strategy to attract business and commercial development to the east Balzac area, with great success," said Grant Kaiser, Director of Marketing and Communications for Rocky View County.

East Balzac is fast becoming a warehouse distribution power centre with Amazon's new 660,000 sq. ft. fulfillment centre, Sobey's 1.3 M sq. ft. distribution centre, as well as Walmart's two facilities, Gordon Foods and Smucker's, positioning this region as a premier logistical hub.

Most recently, Genesis Land Development Corp. has received approval to develop a 185-acre site in Rocky View County. The development group is finalizing plans for the project, titled The Omni by Genesis. The master-planned, multi-use project would add approximately 1 M sq. ft. of commercial space to the market including: 600,000 sq. ft. of showcase retail space; 325,000 sq. ft. of outlet centre space; 60,000 sq. ft. of restaurants and cafes; a 27,000 sq. ft. children's creativity zone; 250 senior active living units; 500,000 sq. ft. of office campus space; and 4,000 parking stalls.

Hopewell Development LP has plans to construct 724,600 sq. ft. on 38 acres over two buildings on a speculative basis within Crosspointe Industrial Park. Construction of Building 1 is complete. The 524,490 sq. ft. cross-dock facility features 36' clear ceiling heights, LED light, ample dock loading and trailer parking.

In Airdrie, there was a total of 304 commercial and industrial permits issued in 2018 at a value of $67 M, which has more than doubled from $28 M in 2017.

Kent Rupert, Team Leader of the Economic Development department stated that "while the industrial market has flattened out over the last two years, we continue to see our commercial market grow with new development in Airdrie Crossing, Cooper's Town Promenade, Sierra Springs, and Kingsview Market."

The total residential construction value for the city was $162 M, which was down from $216 M in 2017."The Calgary-to-Airdrie corridor is experiencing a robust commercial development phase driven by demand for commercial space and a developer-friendly environment in Rocky View County," said Michael Kehoe, Broker/Owner of Fairfield Commercial Real Estate in Calgary.

"From the upper northeast sector of Calgary northward through Balzac up to the City of Airdrie, new industrial and retail development in the planning stages or under construction— mostly in Rocky View County— is proceeding at an impressive rate."

Research indicates that opening a retail business in Rocky View County is almost four times less expensive than Calgary, Calgary Business reports. The total tax burden of operating a business in Calgary with a retail space assessed at $100,000 is $3,888.64. Operating in one of Calgary's Business Improvement Areas will add between $198.00 and $2,070 to the cost of doing business in the City.

With no business tax, no business revitalization zone levies, no business licence fee, the same business would pay $1,112.81 in Rocky View County.

And while Rocky View Country has been attracting commercial investment, Okotoks is a growing suburb with no residential vacancy.

Okotoks is one of the fastest-growing cities in Alberta, with a population of 28,881 posting a growth rate of 17.8% from 2011 to 2016, and a 43% growth rate from 2006 to 2011. It is emerging as an in-demand destination for commuters, Western Investor reports.

Rental demand in the city is at a record high, with vacancy dropping to 0 percent for one-bedrooms, according to CMHC and the average rent increasing 4.5% from a year earlier. Okotoks has only 115 purpose-built rental apartments in its entire inventory, which would imply an opportunity for multi-family developers.

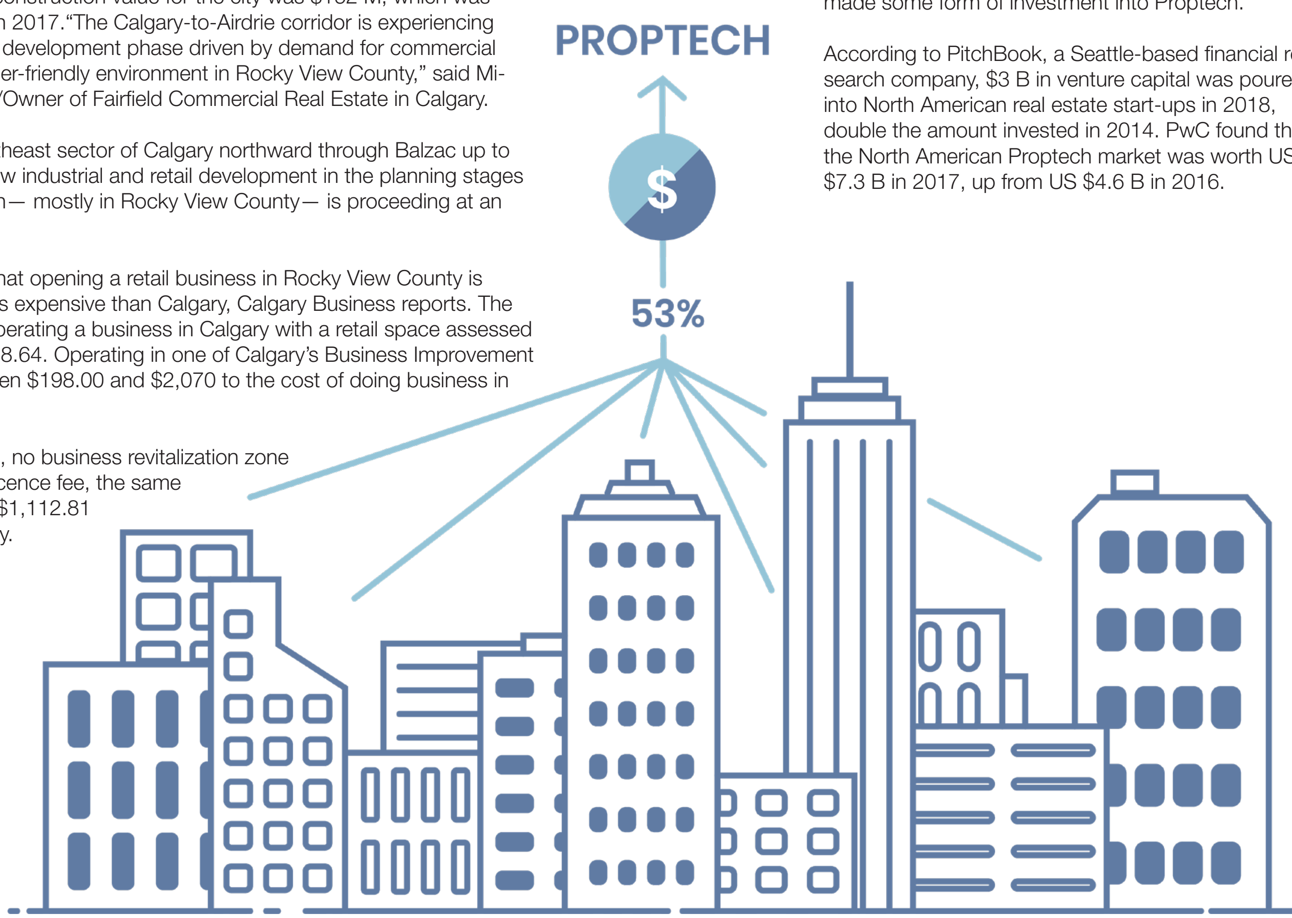
The city has one of Alberta's highest median family incomes, with a yearover-year increase of 5.16%. Okotoks' benchmark home price is around $435,00, which is $100,000 higher than the Foothills region's benchmark price. This is another reason why rental demand will remain high in an extremely tight market.

9. CANADIAN PROPTECH COMPANIES TAKING CRE BY STORM

As our tech ecosystem expands and matures, Canadian Proptech companies are making a significant impact on CRE.

A recent Altus survey found that 53% of commercial real estate firms with at least $250 M in assets have made some form of investment into Proptech.

According to PitchBook, a Seattle-based financial research company, $3 B in venture capital was poured into North American real estate start-ups in 2018, double the amount invested in 2014. PwC found that the North American Proptech market was worth US $7.3 B in 2017, up from US $4.6 B in 2016.



Brookfield has created a fund that will invest $200 M to $300 M into disruptive real estate technology.

Brookfield Ventures' first deal was a $15 M investment in BuildingConnected. The company is a networking and preconstruction management site for owners, general contractors and subcontractors.

JLL Spark, an independent division of JLL launched in 2017. It operates a US $100 M global venture fund to invest in Proptech companies transforming commercial real estate. Its first acquisition was Stessa in 2018. Stessa is a Software-as-a-Service real estate technology company that allows income property investors to track, manage and communicate portfolio performance.

Colliers launched a real estate accelerator with Techstars last year. The program intends to identify and mentor startups around the globe that are developing industry-disrupting technologies in the property and real estate industry.

One of the alumni companies of Colliers' accelerator include MapYourProperty, a Toronto-based business that helps land developers, urban planners and others conduct feasibility studies, identify zoning issues and conduct environmental assessments.

RXR Realty partnered with CBRE Group Inc and Cushman & Wakefield to back MetaProp Ventures II LP, a $40 M venture capital fund that will invest in early-stage real estate technology firms alongside more traditional real estate companies. New technologies that the fund is reported to be investing in include augmented reality, 3D printing, co-working and the blockchain.

At the end of 2018, Alate Partners has launched a $40 M fund focused on the Proptech market backed by DREAM and Relay Ventures.

Founded in 2014 and based in Toronto, Lane is a SaaS software that creates a smart workplace, improves tenant engagement and reportedlyreduces tenant turnover. Its technology is in 35 M sq. ft. of space across North America.

Lane was one of 10 companies chosen to participate in Colliers International's first Proptech accelerator and has also received funding from Alate Partners.

In May, Canadian Proptech company ParityGo raised $5 M in Series A funding from ArcTern Ventures, a North American cleantech venture fund. ParityGo controls existing HVAC equipment with cloud-based artificial intelligence (AI) to deliver 30% - 40% energy savings. The system claims to be cash-flow positive from day one and requires no up-front capital.

HonestDoor.com, the first website in Canada featuring the sold price of homes and condos, launched in May. A daily updated price estimate appears for each property using a proprietary machine learning valuation model called HonestDoor Price. Based in Edmonton, HonestDoor plans to expand to Calgary, Winnipeg, Vancouver, Toronto and other cities across Canada.

Real estate tech company NestReady has raised $5.7 M in VC. NestReady is a Montreal-based real estate technology company that partners with mortgage lenders to offer a seamless homebuying experience. Among investors include the National Bank of Canada and former CEO of Tangerine and ING Direct, Peter Aceto.

1VALET, is a company founded by Devcore president Jean-Pierre Poulin. It is a platform that synthesizes various building services into a single app for residents, managers and concierges. The firm says it raised an initial $3.85 M in January 2018 and secured top-up financing of $1.3 M in May.

Automated parcel locker firm Snaile is collaborating with 1VALET to simplify the process of receiving packages. This partnership between the two Canadian companies allows parcels to be safely deposited at recipients' multi-family building and delivery notifications integrated with the 1VALET platform.

In August, Properly, a Toronto-based proptech startup, closed a $22 M Series A financing round, consisting of $12 M in equity and an initial $10 M debt facility.

Founded in 2018, the Properly platform uses machine learning to help homeowners determine what their home would sell for on the open market, with the option to sell directly to Properly and close quickly. The company offers its users a price match guarantee, meaning if the home sells for more than Properly's offer, 50% of the difference is refunded to the customer.

Properly said this investment will accelerate the startup's expansion within Calgary and to other Canadian cities, as well as be used to further develop its technology, and expand its team.

10. GOOD SUPPLY OF DEBT & EQUITY FLOWING INTO CALGARY MARKET

Calgary investment market appears to be driven by the industrial sector as well as the quest for yield, driving up transaction volume.

The first half of 2019 registered a total of 220 sales transactions over $1 M, representing a total value of $1.2 B. This was a 26% decrease in sales compared to the period a year ago Altus reports.

Investors remain cautious in the industrial sector, which was evident with a record-setting first quarter for transactional volume, resulting in an increase in volume by 24% in the first half of 2019 compared to the same period last year, Altus states. Overall, 20 industrial transactions representing $85 M in value traded hands in Q2. Industrial has been on an upward trajectory for the past four quarters, and historically has only surpassed the $250 million-mark two other times in the past 10 years.

According to the Altus Group Investment Trends Survey, investment activity in Calgary appears to be driven by investors searching for higher yields in an environment of depressed prices.

The average value of commercial property in Calgary's core plunged from $50 M to $18 M in the five years before 2019, a 64% decline, according to data analyzed by The Globe and Mail.

Stuart Barron, Cushman & Wakefield's National Research Director, has never observed building values drop by as much as they have in Calgary in recent years.

Artis REIT sold the Britannia Building at the end of Q2 for $10,650,000. The building located on 6th Avenue SW, sold for $80 per sq. ft. to a private investor. Also in Q2, MRS Investments sold 738 11th Avenue S.W., a 31,000 sq. ft. office building for $394 per sq. ft. The property was utilized by Royop Development Corporation, an affiliate of the purchaser, Altus reported.

Melcor REIT acquired a retail building occupied by Staples at 3310 29th Street N.E. for $12,450,000, representing a going-in cap rate of 7%.

Mainstreet Equity picked up a multi-res building located in Cedarbrae, on the southwest corner of Oakfield Drive and 24th Street S.W. with 126 units for $18,221,000.

Two industrial properties sold on Frontier Road in Rocky View County.

- 285062 Frontier Road sold to the Guardian Capital Group for $17.4 M
- 285188 Frontier Road sold to RCG group for $61 M

Plaza Retail REIT announced in early July that it had sold its single-tenant portfolio of properties located in Calgary, Airdrie and Sherwood Park for $12.15 M. The portfolio totals 18,275 sq. ft. and has a capitalization rate of 5.3%. Plaza acquired the eight properties when it purchased KeyREIT in 2013.

410-610 Big Rock Lane in Okotoks, a 41,844 sq. ft. retail property anchored by Safeway was sold in Q2 by Crombie REIT as part of a portfolio of mainly grocery-anchored properties.

The REIT sold an 89%, non-managing interest in 26 retail properties across Canada to an undisclosed US private equity group. The sale price for the interest in the portfolio is $161.6 M.

Alternative lenders are playing a growing role in Canada's real estate market as the industry searches for new sources of financing, risk-averse banks become more picky, and investors look for yield.

In 2019, the greatest growth in originations is expected from alternative lenders such as mortgage REITs and debt funds (49% anticipate growth greater than 5%) according to the commercial real estate finance outlook survey.

A recent study conducted by Altus Group found that more than 82% of the 400 development executives surveyed are using at least one alternative lending vehicle to fill their capital stack. These debt funds have created competition for traditional banks. Debt funds are not subject to the same strict restrictions as banks, making them more appealing to borrowers in need of quick and more creative financing options.

"… (T)he debt portion of the capital stack is actually very attractive for several reasons— one, returns are still good at this point, and two is it actually provides a little more protection [and] a little lower risk, because they are lower on the capital stack," Altus Group Senior Executive Vice President of Advisory Rick Kalvoda said. "Any drop in [property] value first comes away from the equity, then goes down to mezzanine financing, bridge loans, then goes down to senior loans— which is where a lot of these debt funds operate in the lending space."

The results of REALPAC's Q1 2019 Canadian Real Estate Sentiment Survey states that debt capital is available and accessible, particularly for high-quality product; resulting in an increasingly competitive lending market. One person who was surveyed stated:

"[Debt capital] is super plentiful for high-quality real estate. For a value-add play, lots of credit. Spreads are still very strong for both types of real estate."

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