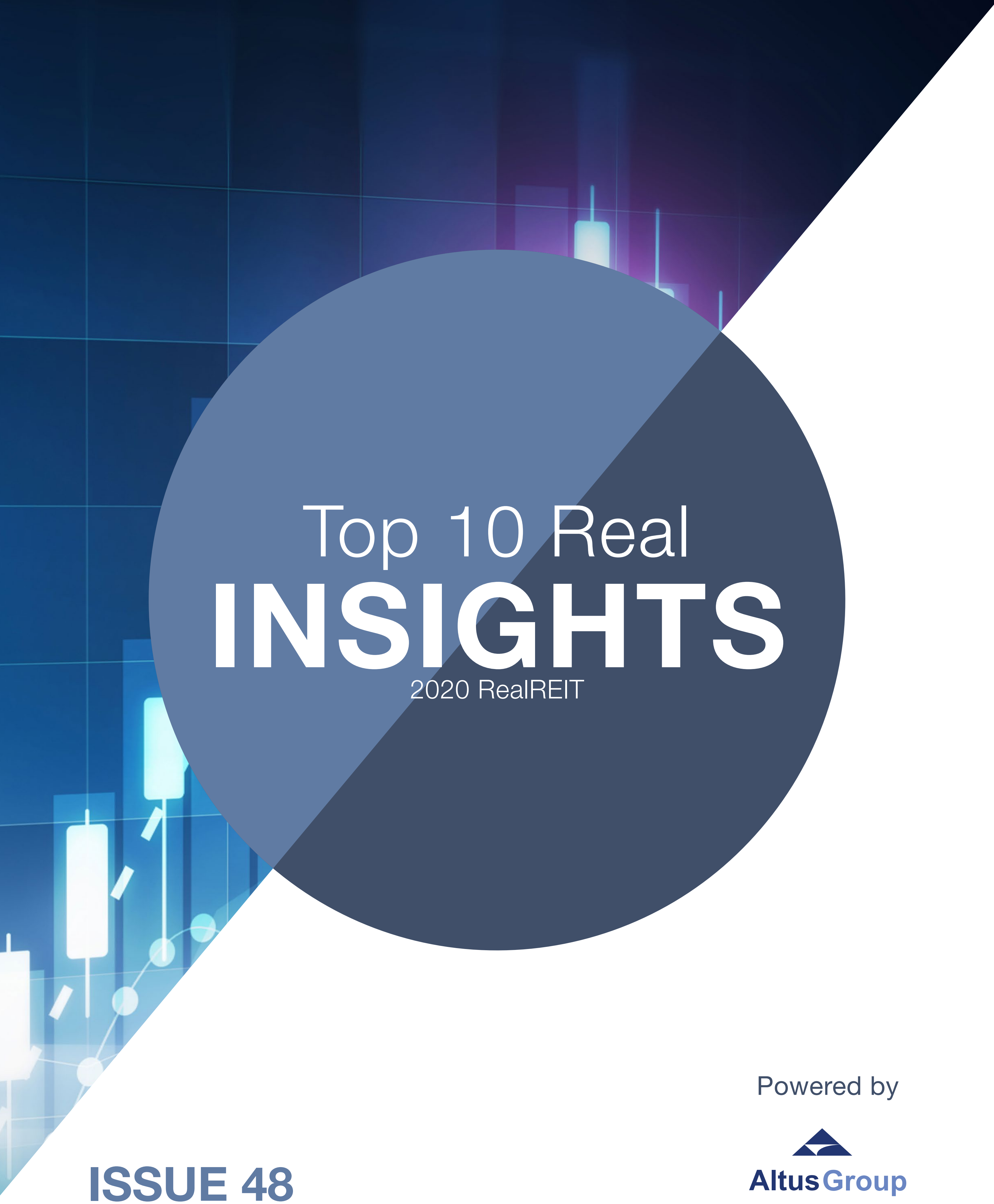

Top 10 Real INSIGHTS

2020 RealREIT

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TOP 10 | REAL INSIGHTS | 2020 RealREIT | ISSUE 48

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for further details on these top trends please visit the real estate forums portal at realestateforums.com

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1. RECOVERY IS GAINING MOMENTUM

Strong employment gains in June propel an economic recovery that is expected to be "bumpy."

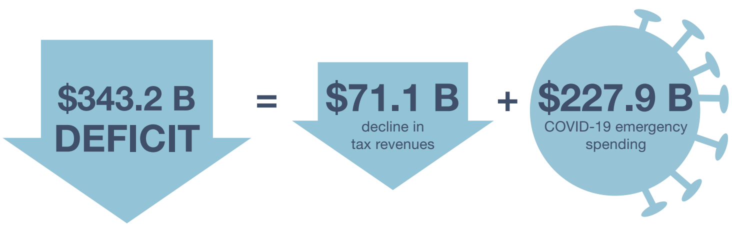
GDP will decline by 8.2% in 2020 as a result of the severe impact that COVID-19 has had on the economy, the Conference Board of Canada estimates – the result of mandated closures and a drop in consumer confidence. This is the worst annual decrease on record.

However, the Board states that the worst of the recession is likely over, and the outlook for 2021 is considerably brighter. It forecasts the economy to rebound by 6.7% in 2021 and 4.8% in 2022.

At its peak, roughly 3 million Canadians had lost their jobs due to the pandemic. Still, the worst does appear to have passed. According to Statistics Canada, as nearly 300,000 jobs were regained in May, and an additional 953,000 were regained in June. The June jobless rate dropped to 12.3% from May's 13.7%.

Despite the labour market recovering 40% of jobs that were lost, the Board predicts that recovery will be long, and employment will still be nearly 1.1 million lower in 2020 than it was in 2019.

In a July 8 fiscal update by the Trudeau government, a deficit of $343.2 B is forecasted due to a $71.1 B decline in tax revenues, combined with $227.9 B COVID-19 emergency spending.



The update states that the drop in federal revenues is the steepest since the Great Depression and is twice as large as the decline that occurred during the 2009-10 global financial crisis.

The bulk of the aid has gone to these initiatives: the $2,000 a month Canada Emergency Response Benefit (CERB); the 75% wage subsidy; and the Canada Emergency Business Account, which offers businesses loans of up to $40,000.

According to the federal government, $43.51 B was paid out from the CERB throughout less than a three-month period from mid-March to June 4.

By early June, the number of Canadians receiving Canada Emergency Response Benefit (CERB) payments had already dropped by 1.2 M from a peak of 8 M.

The federal government initially slated $74 B for the Canadian Emergency Wage Subsidy (CEWS), but that amount was reduced to $45 B, and now has gone up to $82 B in anticipation of future changes to the program.

The $343.2 B deficit figure represents 15.9% of GDP and brings the federal debt-to-GDP ratio to 49.1%.

The government notes that the cost to service the federal debt will be slightly lower this year than the previous year due to historically low interest rates. Ottawa intends to lock in these lower rates by increasing the percentage of debt that is issued through long-term bonds.

Bank of Canada Governor, Tiff Macklem, said the central bank expects to see growth in the third quarter of this year as people are called back to work and households resume some of their normal activities as restrictions ease.

However, he warned the short and sharp economic bounce-back expected over the coming months to last.

The combination of uneven re-openings across provinces and industries, the unknown course of consumer confidence, and unemployment rates will "likely inflict some lasting damage to demand and supply," Macklem said in a June speech.

"Some companies aren't going to make it to the other side of this. New companies will form, existing companies will seize new opportunities, but that takes some time, and that's going to be a slower, bumpier process that is going to require ongoing support."

2. LIQUIDITY THE KEY TO WEATHERING THIS STORM

Overall REITs in a better position to weather pandemic than during GFC.

In April, Moody's saw REITs shore up their liquidity positions amid immense economic uncertainty, writes Alice Chung, Vice President and Senior Analyst for REITs at Moody's Investors Service. REITs have secured cash to prevent any liquidity shortfalls, drawing down their credit lines to strengthen their liquidity positions.

"Unencumbered assets are another critical source for REITs as they can choose to monetize assets to raise capital," Chung writes. REITs also have the ability to adjust their dividend policies to shore up additional liquidity under extreme market pressure.

REITs have spent the last decade preparing for another downturn, with substantial improvement in capital adequacy and liquidity coverage ratios. Investment-grade REITs typically have modest leverage and are significantly less levered than they were in 2008. REITs have also de-risked their balance sheets by laddering their debt maturities.

In the US, the REIT sector entered this crisis with strong balance sheets and ample sources of liquidity. John Worth, Executive Vice President for Research and Investor Outreach at Nareit stated, echoing the sentiments of Moody's.

REITs raised US $440 B in equity capital from 2009 through 2019. REITs used these funds to finance acquisitions of additional properties, and they relied more heavily on equity capital than on debt. As a result, leverage ratios at the end of 2019 were at or near their lowest in more than two decades.

REITs also lengthened the maturities of their debts, from a weighted average of less than 60 months in 2008 to 83 months, or nearly seven years, at the end of 2019. Longer debt maturities and a laddering of maturities have reduced the need to refinance debts in the months ahead. Having a strong financial condition at the start of any crisis has improved the REIT sector's ability to manage the challenges posed by the COVID-19 crisis.

REITs have sources of financial liquidity, including holdings of both cash and securities, as well as substantial unused lines of credit. At the end of Q4 2019, REITs had over US $28 B in cash, and nearly US $120 B in untapped lines of credit.

"Our top financial priority in the near term is to maintain a strong liquidity position. This includes capital preservation and maximizing the amount to be drawn on our credit facilities," said Rael Diamond, President and CEO of Choice REIT.

"With that in mind, we are monitoring our capital expenditures and where we contemplated using our credit facilities, we are looking at alternate sources of financing."

Michael Cooper, President and Chief Responsible Officer said Dream has also had talks with its lenders and "the financing environment is amazing for existing borrowers on existing business."

"They are like the Four Seasons now; they are totally into service. They are going to take care of their existing clients and make sure they have the money they need," he noted.

"It's quite clear that between the central bank, OSFI and the financial institutions, the word is not to call loans, (but) to work with businesses, and it is coming through loud and clear."

Dream Industrial has agreed to rent deferral arrangements with 75 tenants totalling $2.3 M, approximately 3.5% of its gross rent for Q2 2020.

The pandemic is also presenting an opportunity for some investors.

Record-high dry powder is influencing investor attitudes, according to global management consulting firm McKinsey & Company. Many have already shifted their mindsets toward finding single assets at bargain prices, though the current difficulty in accessing capital markets has delayed action, and supply may remain constrained as potential sellers wait for valuations to return. These combined complications have caused many real estate leaders to focus on acquisitions of operating companies, large asset portfolios, and public real estate investment trusts.

3. REIT INVESTMENT ACTIVITY MOMENTUM IN 2019 CARRIES INTO 2020

REITs looking outside of Canada for accretive opportunities.

Continuum REIT's sale of 44 properties in Ontario to Starlight Investment for $1.7 B was the largest transaction in the country in 2019, closing last December. The portfolio contained a total of 6,271 residential units, representing an aggregate price per unit of $276,116. The projected net income for the portfolio was estimated to be $61.6 M, representing a going-in yield of 3.56%, according to Altus Group.

Minto Apartment REIT participated in the acquisition of over $600 M of multifamily product in 2019. Over a half a billion dollars was invested into the Montreal market, and just under $100 M was allocated to the Calgary market.

In Edmonton, $372 M worth of buildings were transacted in January alone, the bulk of which occurred in two transactions where Centurion Apartment REIT acted as the purchaser and included:

- a three-building, high-rise apartment portfolio with a total of 832 rental suites, plus 39,000 SF of commercial space, which sold for $205 M.
- The Mayfair, a mixed-use multifamily complex on Jasper Avenue with 24,901 SF of ground-floor retail, acquired for $100 M.

Centurion sold 3443 Bathurst Street in North York, Toronto for $14.5 M at the end of February.

In the first three months of 2020, CAPREIT acquired two buildings for a total of $47.8 M in Edmonton and Calgary, comprising a total of 188 units.

Artis REIT sold three office buildings in Calgary for a total consideration of $11.1 M. The building included Stampede Station, TransAlta Place and Trimac House.

Allied REIT acquired The Landing on Water Street in Vancouver for $225 M in April. The office building was acquired in a share sale, according to Altus Group. In January, Allied bought the World Trade Centre in Montreal from Ivanhoe Cambridge for $276 M, as well as 54 The Esplanade in Toronto for $25 M.

Skyline REIT purchased three shopping centres in the Greater Montreal Area from First Capital REIT for a total purchase price of $48.4 M. The portfolio contains a gross leasable area of approximately 226,317 SF. The portfolio was approximately 97% occupied at the time of sale and had a going-in yield of 6.3%.

Skyline also acquired two distribution centres in Calgary for $52.3 M, which contained 385,740 SF.

Summit Industrial REIT bought four Ontario properties in Q1, totalling almost 750,000 SF for $175.9 M, including the Cochrane Business Park, a six-building light industrial campus in Markham. The campus was bought from Kevric for $45.2 M, which the REIT says is well below replacement cost. The six buildings total 228,719 SF of gross leasable area.

Choice Properties REIT acquired a free-standing multitenant retail building in Coquitlam for $21.2 M. The 9,400 SF building is on 0.886 acres of land and is tenanted by Denny's and Scotiabank.

At the end of Q2, Dream Industrial REIT announced that it had acquired four properties – two in Germany for $56 M as well as one in the Netherlands and one in Montreal.

At the beginning of 2020, Dream Industrial REIT acquired $347 M in light industrial and logistics assets in the Netherlands and Germany. The Dutch and German portfolios have a weighted average going-in capitalization rate of 6.1%, a weighted average lease term of 5.3 years, and in-place rents below estimated market rents. Dream Industrial intends to fund the acquisitions with cash on hand.

Continuing its expansion, Dream Industrial REIT has acquired two German properties for $56 M, and a cap rate of approximately 6.1%, with closing expected in Q3 2020. The two German properties are comprised of 575,000 SF, with an average clear height of 29 feet and a cap rate of about 6.1%.They are 95% occupied by tenants primarily in the logistics and food and beverage industries and are located close to transportation corridors.

Dream also bought a portfolio of 12 industrial properties in Kitchener from Berkshire. The portfolio was purchased for $56.9 M and contains a gross leasable area of approximately 587,807 SF, with an aggregate price per square foot of $91.

While Dream Unlimited has been active in Europe since 1998, it sold all of Dream Global REIT's subsidiaries and assets — comprised of office and industrial properties in Western Europe, with a focus on Germany and the Netherlands — for $6.2 billion in cash. They were sold to affiliates of real estate funds managed by The Blackstone Group Inc. in December.

Granite REIT has acquired eight industrial properties in the US for $332 M. According to the REIT, the portfolio has a weighted average going-in yield of 5.5%.

$332 M
eight industrial properties

5.5%
weighted average going-in yield

The facilities, which comprise about 4 M SF, are fully leased and have an average remaining term of 5.1 years. The properties are located in Columbus and Cincinnati, Ohio, Indianapolis, Indiana and Memphis, Tennessee.

4. OFFICE SUBLEASE SPACE FLOODS MARKET AS TENANTS RE-EVALUATE THEIR REQUIREMENTS

Occupiers are evaluating their current and future space needs to support both an increasingly remote workforce and reduced office density – CBRE.

Statistics Canada found that 4.7 million Canadians who do not typically work from home have started to in response to the pandemic, based on a survey conducted the week of March 22.

According to another survey conducted by Vancouver-based polling firm Research Co., 73% of Canadians surveyed think the working from home trend will continue after the COVID-19 pandemic has ended.

Underscoring this idea, the CEOs of Morgan Stanley and Goldman Sachs have said that working from home for many employees could be the new normal.

Already, tech companies, including Facebook, Twitter, Microsoft and Shopify, for example, have said their employees can work remotely forever if they choose. Facebook CEO Mark Zuckerberg says that in five to 10 years, half of its workforce will have no connection to an office at all.

It is estimated that the additional space required to facilitate physical distancing will offset the reduced need for office space as more employees work from home. It is unknown if these new trends will balance out each other.

Speaking at a recent CBRE Canadian market outlook webinar, new OMERS CEO Blake Hutchison stated the following: "Rough math, there is probably 20% less demand for office space on a go-forward basis, but there's probably a 10% net demand for more additional elbow room because we over-served the market by jamming too many people in on a per-square-foot basis."

Colliers projects a potential reduction in tenant office space needs of 8.5% over the next eight years. In a recent report, Colliers stated that 47% of office tenants believe their space needs will decrease – 56% say it will be due to fewer employees, while 44% say it's because of employees working from home.

The company calculated that Toronto, Vancouver and Montreal have seen a combined 863,000 SF of new sublet space become available between March and May. Scott Addison, President of Canadian Brokerage Services for Colliers, believes there are two key reasons for the trend, RENX reports. First, increased economic pessimism, and second, the sudden spike in the number of people working from home.

According to Altus Group, the national office vacancy increased to 9.6% in Q2 this year from 9.5% in the previous quarter. The national sublet available rate increased by 20 basis points to 1.8%.

- Toronto's downtown office vacancy rate increased by 60 basis points to 3.1% in the second quarter this year. Over 70% is linked to an influx of sublease space.
- Downtown Vancouver vacancy jumped to 3.8% in Q2 from 3.1% in Q1. The sublet availability rate increased by 140 basis points to 2.2%, the highest it has been since 2014.
- In downtown Montreal, office vacancy increased slightly to 6.9%, with a 16.4% increase in sublet available area, Altus reports.

According to JLL, an increase in the number of employees working from home does not necessarily equal a decrease in demand for office space. "There are a myriad of other factors which need to be looked at, including density, financial returns, productivity and technology," the company states.

Industry speculation suggests that companies will move away from locating all of their employees in one centralized downtown building. Many are now talking about a "Hub and Spoke" model, which may consist of a main office in the urban core as well as various other sites.

A recent Cushman & Wakefield survey of 40,000 global occupiers revealed a trend towards decentralization.

"The effect of three months of working from home has been that there is now a high level of trust between employers and employees, and more trust and collaboration between them," Cushman & Wakefield International Partner Charles Dady said. "So, we'll see corporations adopt various mixes of remote working, urban, suburban and drop-in locations."

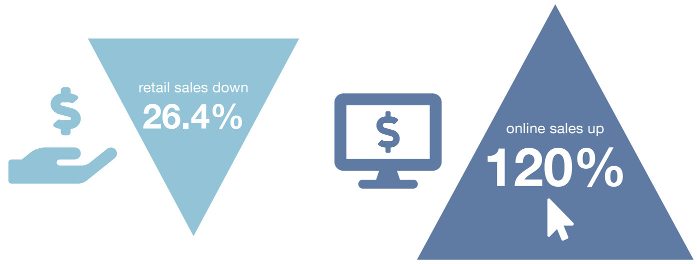
Cove Founder Adam Segal, whose coworking company started with the concept of creating satellite-style offices for remote workers, said he expects to see a shift in companies looking to spread out their footprints. He believes this trend will be permanent.

5. COVID-19 PROVES A TAILWIND FOR INDUSTRIAL SECTOR

Increase in e-commerce fuelling a spike in demand for distribution facilities.

The shift in retail from brick-and-mortar to online is fueling demand in the industrial sector for warehousing capacity. While this was evident prior to the pandemic, the onset of COVID-19 is exacerbating the demand.

In June, Statistics Canada reported that retail sales fell 26.4% to $34.7 B in April. Online sales, however, totalled $3.4 B during the month, an increase of 120% from April 2019.



This number does not include Amazon because StatsCan considers it to be 'foreign based.'

According to research from market data firm Statista, returns for online sales tend to be two to three times more frequent than returns for in-store sales, with 15% to 30 % of online purchases returned, compared to 8% to 9% of merchandise purchased in-store.

A reverse logistics supply chain requires approximately 15% to 20% more space than a traditional outbound supply chain, according to Optoro.

"The exponential growth of e-commerce has driven demand for industrial real estate for the last ten years, and the sudden spike in online activity since the crisis has accelerated that demand," says Rich Thompson, International Director of Supply Chain & Logistics Solutions at JLL.

Before the Covid-19 crisis, about 35% of its industrial leasing activity was related to e-commerce. JLL now says as much as 50% of that leasing activity has already been tied to the online retail industry in 2020.

US industrial leasing during Q1 2020 (which was in the early stages of the pandemic) was recorded at a three-year high. E-commerce as a percentage of overall industrial leasing is increasing as well. It represented 11.8% last year, while preliminary data for 2020 shows that figure nearly doubling to 20.8%, according to JLL research.

The pandemic has resulted in significant supply chain disruptions caused by border closures and labour shutdowns.

As businesses begin to slowly recover from coronavirus-related closures, many businesses will be restructuring supply chains to mitigate the future risk of similar disruption. This could mean reshoring operations and regionalizing suppliers—both of which could strongly benefit the industrial real estate sector, according to Frank P. Crivello, Chairman & Founder of US real estate firm Phoenix Investors.

There will likely be a move away from Just-in-Time inventory management systems. “Both retailers and manufacturers are now building redundancies into their supply chains and expanding capabilities to accommodate higher inventory levels of raw materials and in-demand consumer goods,” Crivello states.

In a new report, JLL has estimated that demand for industrial real estate could reach an additional 1 billion SF by 2025.

JLL is also projecting that the US needs another 100 M SF of cold-storage facilities to keep up with consumer demand and sales trends.

Prologis has estimated that e-commerce companies require 1.2 M SF of distribution space for each $1 billion in sales.

In the meantime, the firm eMarketer is predicting US e-commerce sales will make up about 14.5% of total retail sales, or US $709.8 B, in 2020. By the end of 2024, the believes that e-commerce sales will grow to 18.1% of all retail sales, surpassing US $1 trillion for the first time.

In order to keep up with the demand for space, defunct shopping centres and big box stores have been converted into industrial space. In Memphis, Tennessee, for instance, a shuttered Sam’s Club store is now home to a Sam’s Club e-commerce fulfillment center.

According to CBRE research, at least 24 retail-to-industrial projects have commenced since 2016. These projects have turned approximately 8 M SF of retail space into 10 M SF of new warehouse/industrial space, either by converting existing structures or by demolishing and replacing them with new buildings.

Patterns are emerging, such as increased demand for distribution space. Still, the future is unpredictable, Crivello reminds us. There may be additional waves of coronavirus to contend with, which could slow or halt the growth and the construction activities required to facilitate it, meaning that rents on existing space could quickly trend upward.

6. UPHEAVALS CONTINUE IN RETAIL SECTOR

Many more vulnerable retailers will close while necessity-based retail expected to perform well.

Prior to the pandemic, the retail industry was facing a significant hurdle. E-commerce was eroding the demand for brick and mortar outlets. Savvy brands were reinventing their stores into places where customers could experience what their products had to offer. Landlords were hurrying to metamorphose their properties into places that people wanted to spend time at, creating inviting spaces, and restructuring food courts into food halls. Employment numbers were strong, and so too was consumer spending.

By the end of the first quarter of this year, labour markets had been devastated, and household consumption dipped by 11.3%. The Conference Board of Canada expects a 57.5% drop in the second quarter. Spending is not forecast to return to its pre-pandemic level until the second half of 2021, the Board estimates.

In mid-April, Altus Group surveyed 115 Canadian commercial real estate executives from pension funds, life companies, REITs, RECOs, and brokerages, to gain insights on the short and long-term impacts of COVID-19 on the retail sector.

More than half of survey participants are expecting cap rates of retail properties to increase over the next 12 months. While 77% stated that rental rates for top-quality assets in core urban markets will decrease, 87% believed that rates will decrease in lower-quality assets among suburban markets – 48% of which said that rates would fall by over 10%.

For retail tenants, the probability of renewals is expected to be lower than before the pandemic, and market participants also anticipate longer lag vacancy periods.

Most owners and managers surveyed (80%) already had one or more rental relief program in place for their retail tenants in April, while 20% were reviewing options. Retail tenants were more likely to obtain rent abatement or reduction from their landlord (30%) than office tenants (19%) or industrial tenants (10%).

Colin Johnston, President of Research, Valuation & Advisory at Altus Group, said that retail will undergo some structural changes with many bankruptcies taking place there will be questions about malls going forward in terms of how they will be impacted by social distancing, as well as the impact on experiential retail.

Agility and resilience have become more critical than ever. said Carl Boutet, Chief Strategist and Board Advisor for Studio RX for retail strategies. “This stresses the importance of having a diversified business model.”

For the entire retail industry, Boutet said, recovering from the significant impacts of this pandemic will require major efforts in regaining confidence. “The next 12 months are going to have to be about building confidence,” he said. That includes not only retailers creating safe environments for customers and employees, but also ensuring strong relationships with business partners, such as landlords and suppliers.

The average retail business indicated their overhead costs would increase by around 25%, a survey by Colliers found. According to Statistics Canada, the retail average operating profit margin was 4.8% in 2018. Analysis by real estate services company indicated that change is imminent for most retail sectors, as even the most profitable retailers will be running on negligible operating profit margins. It reports that gyms, personal care, healthcare and medical tenants will be the hardest hit as these respondents indicated their overhead costs will increase the most, by 30%. These tenants also expressed the least satisfaction with government regulations. The financial impact of government regulations is already evident, with some businesses experiencing an increase in revenue combined with a decline in profit as a result of the additional costs.

The survey found that 10% of retail tenants are working on plans to permanently close their businesses, which will lead to a decrease in retail rent collections and retail vacancy.

However, the pandemic has strengthened the demand for grocery-anchored retail assets. Grocery-anchored retail was already an investor favourite in the last cycle—due to the increase in online shopping—but the pandemic has proven that grocery stores perform well not only during a downturn, but during a crisis. As a result, investors have continued to bet on these assets and to transact during the downturn.

“We have seen demand for grocery-anchored assets during the pandemic,” Gary Stache of CBRE said. “Grocery stores have been allowed to stay open during this time, and sales at these stores have increased by and large. The ability for grocery-anchored assets to survive during periods of crisis has strengthened investor confidence.”

A new DBRS Morningside report on the impact of the pandemic on Canadian and US REITs and CRE echoes this mixed message, according to Bisnow.

Necessity-based retail (grocery stores/drugstore-anchored retail) is viewed as relatively insensitive to the negative impact of the coronavirus. “We anticipate that real estate companies with a large proportion of exposure to necessity-based retailers will fare relatively well,” the report says. Not so for more discretionary retail, like fashion, electronics or entertainment. This investment sector “will likely be more sensitive to outbreaks of the coronavirus, given the non-essential nature of the retailers’ products.”

7. APARTMENT RENTAL DEMAND DECREASING

As demand drivers have stalled and units are being added to supply, vacancy rates are nudging upwards.

The national vacancy rate for rental apartment units declined in 2019 for a third consecutive year to 2.2%, its lowest level since 2002. Vancouver, Toronto, Montreal and Ottawa all had vacancy rates of less than 2% in 2019, according to data from CMHC, despite over 70,000 new rental units that the CMHC reported were under construction across Canada as of Q3 2019.

Prior to the pandemic, apartment buildings had near full occupancy in markets from coast to coast, and rent growth was accelerating quickly.

The average annual rent for a rental apartment in Canada rose by 5.7% from the year before, to reach $1,530 in 2019.

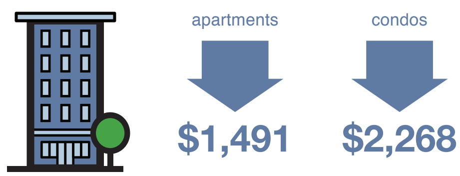
In 2019, asking rents for all property types in Toronto, Vancouver and Montreal increased annually by 9%, 11% and 25%, respectively.

In December 2019, the average one-bedroom rent for all property types in Toronto was $2,299, while two-bedroom rent was $2,914, according to the rental listing website Rentals.ca.

CMHC forecasted that the vacancy rate in Toronto would fall to 1.2% in 2020, a slight decrease from 2019’s 1.5%. However, these estimates predated the pandemic.

Fast forward a couple of months, and the national apartment rental situation looks quite different.

In April, the average asking price for apartments nationwide fell to $1,491. Condos rental rates fell 8.8% from $2,488 at the end of 2019 to $2,268.



Industry watchers expect vacancy and rental rates to fall further.

Closed borders have affected tourism, while immigration, temporary residents and weakened job prospects all have a negative impact on rental housing demand.

With vacation travel at a standstill, owners of Airbnb rental units are putting their properties on the apartment rental market, which is resulting in a rise in new rental listings, especially in certain neighbourhoods.

Some investors are likely scrambling to find long-term tenants for their short-term rentals, said RBC Economist Robert Hogue. “This could add some much-needed supply to tight rental markets,” he added.

“Because of COVID-19, Canada will have less immigration (and) fewer international students and, with the border closed, not nearly as many seasonal and part-time workers. All typically are renters,” wrote Ben Meyers, President of Bullpen Research, an affiliate of Rental.ca.

Stephen Brown, Senior Economist with Capital Economics, wrote that net immigration to the country has fallen from 30,000 monthly arrivals to close to zero. Vancouver and, Toronto is the destination for the highest number of immigrants to the country, most of whom rent upon their arrival.

CMHC Analyst Andrew Scott found that non-permanent residents have accounted for 46% of the growth in Metro Vancouver of people between the ages of 18 and 44, the group most likely to rent. Prior to the pandemic, there were at least 100,000 international students living and working in Metro Vancouver – many of whom returned home, Douglas Todd wrote in *The Province*.

"Reduced demand, and higher supply due to the conversion of short-term rental units to long-term rental units, will more than offset the reduced supply resulting from a lower completion rate (of new housing) … and weaker investment activity," CIBC Economists Benjamin Tal and Katherine Judge wrote in a May 1 report.

In the longer term, the demand for multifamily housing will resume.

Greg Romundt of Centurion Asset Management writes: "Apartments will be seen as one of the safest sectors not just of real estate, but of the economy in general, as a basic needs industry once COVID-19 is in the rear-view mirror. I expect that long-term flows to apartments will increase relative to other sectors."

"Multifamily real estate has historically been the most resilient asset class and we think that continues today," said Anna Kennedy, Chief Operating Officer of KingSett Capital, during an April 30 Real Estate Forums webinar moderated by Stephen Sender.

8. DEVELOPMENT PROJECTS HAVE PROLIFERATED AMONG REITS

Collectively REITs have tens of thousands of residential units and millions of square feet of commercial space under construction or in the pipeline.

RioCan REIT continues to grow its portfolio of residential and development properties. It currently has about 4,800 units under construction. While most of the development has been concentrated in Toronto, it has also been active in Calgary and Ottawa.

In an April business update, RioCan stated that while construction continues, although at a slower pace, it has put a temporary hold on development spend related to new or early-stage projects. This initiative is expected to reduce RioCan's development spend for 2020 by $100 M to $150 M to the $350 M to $400 M range.

RioCan acquired 2345 Yonge Street as part of a land assembly in Q1 for $70 M.

In March 2020, it also purchased a 4.04-acre property on Dufferin Street just north of Lawrence Avenue in North York for $54.7 M.

RioCan is continuing their partnership with Boardwalk REIT by JVing on the development of a 2.165-acre site in Mississauga. The plan calls for a 25 and a 16 storey apartment building on top of a retail podium. The development would contain 470 rental units and is adjacent to the new Hurontario LRT line.

RioCan and Boardwalk's first joint venture was BRIO, in Calgary – a 12 storey, 160-unit building in Brentwood.

This development will be Boardwalk's second in the Greater Toronto Area. In 2018, Boardwalk formalized a joint-venture arrangement with Redwood Properties in Brampton. The 365 unit, two-tower apartment building is anticipated to be completed in 2023.

Rael Diamond, President and CEO of Choice Properties REIT, said construction is continuing at the trust's two largest developments, 39 East Liberty Village and 390 Dufferin in downtown Toronto. So far, both remain on schedule, although he cautioned there could be delivery delays.

Choice has been putting together a 10-acre land assembly at Dundas & Bloor Avenue West. The plan is to construct five buildings with heights up to 42 storeys. The 2,606 unit residential condominium development will include purpose-built rental units, as well as retail and office uses. According to Altus Group, the development would have a total gross floor area of approximately 2,857,743 SF, including approximately 273,210 SF of retail space and 627,267 SF of office space.

Choice Properties has plans to transform the 19-acre site at 1880 Eglinton Avenue East, which sits on the North side of the street between Victoria Park and Pharmacy avenues.

The 11 building, multiphase project begins with a redevelopment of the supermarket. Choice Properties will add 2,500 residential units – stacked townhouses, mid-rise apartments and towers – as well as 260,000 SF of additional retail, green space, private and public community amenities, and links to the two LRT stations.

SmartCentres'® $12.1 B intensification program consists of rental apartments, condos, seniors' residences and hotels under the SmartLiving banner and retail, office, and storage facilities under the SmartCentres banner.

The intensifications will produce an additional 27.3 M SF of space within the next five years, of which 13.3 M SF is already underway, RENX reports.

SmartCentres® is planning to transform 1900 Eglinton Avenue East, a 28.4-acre site, into a 23-building development, which would include the construction of 5,529 residential units, over 200,000 SF of retail, and 74,000 SF of office space across 11 blocks.

Within the 400-acre Vaughan Metropolitan Centre (VMC), SmartCentres co-owns and manages the development of 100 acres. The SmartCentres® master plan is designed to accommodate up to 16 M SF of development, including 10 M SF of residential, 4 M SF of office and 2 M SF of retail. At full build-out, the SmartCentres® lands will be home to over 20,000 residents and 16,000 employees. Its first development within the VMC is the KPMG Tower – a 15-storey, 365,000 SF targeted LEED Gold office building. The first two condo towers remain on pace for unit closings in late 2020.

In September 2019, SmartCentres REIT and Greenwin announced that they have entered a 50/50 joint venture to develop a 7.8-acre lakefront property in the City of Barrie. The project is projected to be a multiphase rental apartment community consisting of over 2,000 residential units.

This is in addition to a joint venture they have entered into to develop a purpose-built apartment building on 1.15 acres in midtown Toronto. The partners will jointly build, own and manage the property.

SmartCentres®, Penguin Group of Companies, and Revera Inc. will also expand an existing partnership to build, own and operate four additional retirement living residences in and around the Greater Toronto Area.

The expansion of the partnership with Revera means the companies will now be investing a total of about $825 M to develop 1,565 units in seven locations.

The four new projects represent about 1,000 units and an investment of $525 M.

“We bought hundreds of millions of dollars of land in Ontario over the last few years, basically in downtown Toronto and Ottawa,” Dream President and Chief Responsible Officer Michael Cooper told RENX. “In Ottawa, we have 42 different development sites, and maybe four or five developments going on at all times.”

Dream’s biggest project is Zibi, a 34-acre mixed-use community on the Ottawa River that includes land in Ottawa and Gatineau, Quebec.

It consists of 4 M SF of density that is expected to include 1,800 residential units, more than 2 M SF of commercial space, and nearly eight acres of parks and plazas. Dream Unlimited has started Zibi site servicing so that individual blocks can be built as soon as the company is ready to move forward.

Kanaal is the first condo building on the Ontario lands. More than half of the 71-unit building was occupied at the end of the first quarter.

Cooper said Dream is advancing about 20 development sites in Toronto. This includes a three-building, 836 unit condo project, west of the Distillery District. Via the CMHC, the federal government is investing $357 M into the project, 36% of which will be affordable housing.

9. ESG PRIORITY REMAINS THROUGH COVID-19

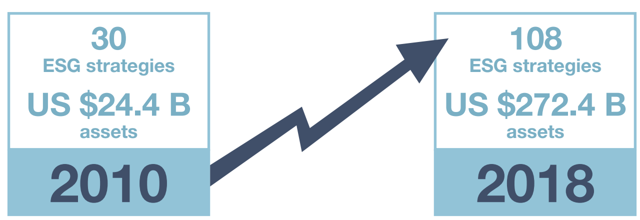
Focus shifts slightly to the SOCIAL element of ESG.

“The focus on ESG stewardship, if anything, has been heightened by this crisis, which is testing our humanity and the humanity of the companies that operate around us,” says Uma Pattarkine, Investment Strategy Analyst for CenterSquare Investment Management. “Socially responsible decisions, or lack thereof, from companies during this crisis will be in the minds of investors for a long time. This crisis is being monitored by investors and asset owners across the globe.”

This position is supported by Nathan Palmer, Managing Director and Principal at Wilshire Associates, who said that investors are showing more interest in ESG as a result of COVID-19.

“ESG investing has long been important to large public sector plans. That phenomenon is now playing out more broadly. This has become increasingly important to people. Stakeholders are seeing that what is good for the environment will likely be good for the company as well.” Palmer said.

The number of property funds and REITs that use ESG strategies climbed to 108 in 2018, with US $272.4 B in assets, according to US SIF: The Forum for Sustainable and Responsible Investment, which is an advocacy organization. That is up from 30 strategies and US $24.4 B in assets in 2010, Lorie Konish reports on CNBC.



Casey Clark, Global Head of ESG at Rockefeller Capital Management, has identified significant implications that COVID-19 will have on sustainable investing strategies.

The growth of ESG investment strategies is directly related to their ability to generate alpha. During the first quarter (Q1) 2020 downturn, we saw ESG passive and active strategies outperform noticeably, leading to record inflows. In Q1, 24 of 26 ESG index funds outperformed their conventional index benchmarks across the US, non-US, developed markets, and emerging markets, according to Morningstar.

Companies with superior human capital practices and policies may strengthen long-term competitive advantages via stronger employee morale, customer loyalty and brand value.

George Serafeim, Harvard Business School Professor, notes that "companies responding in a way that protects employees (avoiding lay-offs, paying sick leave), manages supply chain risk (safety to avoid disruptions) and re-purposing operations to provide solutions (producing masks, ventilators) had higher institutional money flows and less negative returns."

In their second REIT Industry ESG Report, Nareit reported that management and oversight of supply chains is a subject of growing interest among REITs, with more entities establishing ESG requirements in their procurement processes. Managing supply chain ESG efforts can be complex, as supply chains can extend through multiple tiers and across multiple continents. To improve global supply chain management and transparency, 58% of the top 100 REITs by equity market cap reported on their supplier screening policies, up from 22% in just the past year.

ESG issues continue to be important shareholder engagement topics for institutional investors. Data shows a noticeable upward trend in investors supporting environmental and social shareholder proposals.

Pollution levels fell dramatically during the first couple of months of the pandemic. Long-term green policies will continue to be enacted as the link between air pollution resulting from industrial activity and human health become more apparent.

Debates in Europe and South Korea are underway, with leaders working to include Green New Deal initiatives in post-pandemic recovery plans.

Chairman of Arabesque Georg Kell writes in Forbes that the post-pandemic era presents an opportunity to "recover better," especially as more investors and corporations embrace ESG as a strategic imperative. He writes, "there is no doubt that the market-led forces that propel the sustainability movement will continue to gain momentum. Technological change, environmental imperatives and long-term social norm changes will propel ESG investing and corporate sustainability forward. These trends are irreversible and global in scope. Governments can slow down or accelerate these trends, but they cannot stop them.

"In the short term, as COVID-19 turned into a pandemic and global crisis, there was perhaps a momentary distraction from certain elements of ESG, such as climate change, while it highlighted other elements, such as health and well-being," says Sasha Njagulj, Global Head of ESG for CBRE Global Investors. "Longer term, this crisis highlights the overarching need for asset resilience, and climate change is too large of a challenge looming ahead to be forgotten for long. So, rather than distract from it, the health issues are elevating the overall concern over ESG risk in the medium and long term."

A 2018 report published by climate analytics firm Four Twenty Seven found that 35% of REIT properties have geographic exposure to climate hazards, including inland flooding, typhoons or hurricanes, and coastal flooding and elevated sea levels. The research evaluated 73,500 properties owned by 321 REITs.

10. SEISMIC SHIFTS IN THE WORKPLACE

Landlords and employers are implementing new protocols as people return to the office.

As people return to their offices to work, the workplace is in the process of significant change that experts suggest is here to stay.

Lineups for elevators, one-way corridors, staggered start times, restricting occupancy in meeting rooms, and wearing masks in common areas are some of the new protocols that are being implemented.

Dream is recommending procedures for its tenants that include: daily temperature and symptom checks for employees coming to work, staggered start times to prevent crowding, no visitor policies, the removal of communal snack and beverage stations and signs reminding employees of physical distancing and handwashing.

Cadillac Fairview is working with tenants to also include staggered start and end times to avoid crowding in lobbies and other common areas. Elevators will be limited to four people at a time, and riders will find antimicrobial films over the elevator buttons. The company is looking to utilize a smartphone app so that people can schedule elevator rides in order to reduce crowding. Employees will have to wear face masks in elevators and will be "strongly encouraged" to do so in common areas.

Toronto Interior design firm Truspace recommends providing lockers for employee belongings, assigned seating, instituting maximum occupancies for meeting rooms, lunch rooms and other communal spaces, encouraging the use of technology rather than face-to-face conversations, controlling when employees take lunches and breaks, installing technology that allows for touchless and paperless offices, and an on-site testing room to take temperatures and monitor symptoms each day.

Commercial real estate company Cushman and Wakefield's suggestions include a clean desk policy, conversion of small rooms to single-occupant use only, and providing sanitizers, disinfectants, and wipes to allow DIY cleaning.

Global design and architecture firm Gensler has developed a physical distancing tool called ReRun. Using algorithms, ReRun can quickly generate many scenarios and identify the most optimized plan for a variety of physical distancing conditions, regardless of the size of the organization.

As workplaces begin to phase in more employees, ReRun can continue to generate scenarios that increase in density to help inform organizational return planning strategies, Gensler says.

In order to increase office capacity while maintaining physical distancing, Gensler suggests activating conference rooms, focus rooms, learning labs, and break out spaces as dedicated seating areas.

There will also be a need to track who sits where. Offices that had utilized hotdesking may need to revert to dedicated seating. The design firm supports this trend. “With clearly assigned desks, physical distancing can be maintained for those on the same shift, while making the office accessible to a larger number of employees overtime. It also allows for facilities to plan their cleaning schedule.”

Staff at Colliers Canada are given a choice to work from home, come back to the office, or do both, says Robyn Baxter, Vice-President of Workplace Strategy and Innovation. A survey of the company’s 2,200 employees found just over 50% wanted to come back in some capacity in the first phase of reopening, she says.

Prior to the onset of COVID-19, most of the more than 2,000 employees at Borden Ladner Gervais worked five days a week in the office, but their workplace survey during lockdown showed that a large percentage want to work from home from one to four days a week.

People have proven that they can work effectively from home. Therefore, the purpose of going to the office will change.

“People won’t go back to sit in the office and just work. They can do that at home. They will want more when they come back. They will want to learn and collaborate and connect in the office,” states the firm’s Chief Administrative Officer, Didhiti Bhoumik.