Top 10 Real INSIGHTS

Edmonton Real Estate Forum 2021

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ISSUE 60

TOP 10 | REAL INSIGHTS | Edmonton Real Estate Forum 2021 | ISSUE 60

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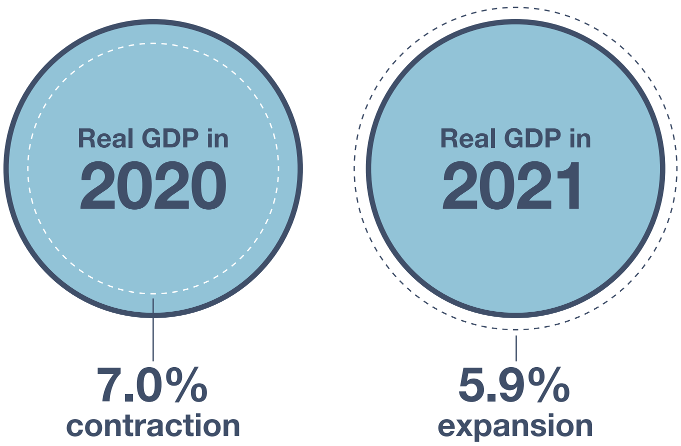
1. ALBERTA MAY LEAD THE COUNTRY IN ECONOMIC RECOVERY

Optimism has begun to return to the market with a rise in commodity and oil prices

The Alberta energy sector was further weakened due to a global drop in oil demand seen in 2020. At the time of writing, oil had regained momentum and has returned to pre-pandemic prices. OPEC+ is forecasted to maintain production restraint in the near term, which should support oil prices.

Commodity prices have increased by 17% since the pandemic began — another promising figure for the province.

TD has forecasted that Real GDP is expected to expand by 5.9% in 2021 after a 7.0% contraction in 2020.



"We've gone through such a harsh year but we'll see a big rebound in 2021," said Dr. Jack Mintz, the chair of Alberta's Economic Recovery Council. According to Mintz, this rebound will be due to several factors already in play. Among those are a rebound in oil price in the $50 to $60 per barrel range, a robust real estate market, the return of investors, and booming lumber and agricultural sectors.

"We're having one of the best years for wheat prices, and the cattle market is back...and we're also seeing a boom in high-tech," said Mintz.

Alberta doubled its previous venture capital record in 2020, leading to job creation in the sector.

Alberta added 37,000 jobs in March, bringing the province's unemployment rate to 9.1%. Despite the increase, the province lags behind the national rate of 7.5%.

Edmonton added 17,800 jobs in March, the largest increase since August, dropping the city's unemployment rate slightly to 11.2%. The city's employment numbers have consistently increased since July.

According to Edmonton's Acting Chief Economist Felicia Mutheardy, Edmonton is about 6,200 jobs short of February 2020 employment levels.

However, the province has moved back into stricter lockdown measures which might erode some of the employment gains recorded in March.

With energy demand and production rebounding, TD expects that exports should be a meaningful contributor to Alberta's growth this year. Capital investment is forecasted to increase to $17 B for the mining, oil and gas industry in 2021. However, this is significantly lower than the $25 B in investments made before the pandemic, the bank observes.

Alberta was the first province to table a budget for the 2021-2022 fiscal year. Its deficit for the year is expected to drop to $18.2 B from the deficit of $20.2 B in the previous fiscal year. This represents 5.4% of GDP.

The budget's conservative assumption for WTI (U. S. $46) for the current fiscal year leaves room for upside, but some observe that even if oil trades at U. S. $55 a barrel, it will only bring the deficit down to $15 B.

To support the expected economic recovery, the budget provides $3.1 B this year on a technology and innovation strategy, a tourism recovery plan, an aviation and aerospace strategy and strategies for the agriculture, pharmaceutical and energy industries.

The province has set aside a $1.25 B contingency for health care and other initiatives to help fight the pandemic. It has also allocated $2.2 B over the next three years for healthcare infrastructure projects.

As part of previous commitments, the budget earmarked $485 M for light rail public transit in Edmonton and Calgary.

Alberta has one of the youngest populations in Canada, with an average age of 37.5 years. The provincial population continues to grow. According to Statistics Canada, the provincial population has increased more than anywhere else in North America, up by 18.5% since 2010.

According to Global Entrepreneurship Monitor, Alberta has the highest rate of entrepreneurship in the country.

Bob Singh Dhillon, Founder and CEO of Mainstreet Equity, said the province has an open entrepreneurial field that can be accessed by anyone looking for work, regardless of their background. "The engine of Alberta is not oil, it is risk-taking entrepreneurs," said Dhillon.

2. EDMONTON DOUBLES DOWN ON DIVERSIFICATION EFFORTS

Diversification essential to building a more resilient and sustainable post-pandemic economy

Last fall, the United Conservative Party handed out $75 million to support its efforts to diversify the economy. The money is being channelled through the Investment and Growth Strategy (IGS). A significant portion will be going toward growing the province's burgeoning tech sector.

"Alberta is coming to play in the tech and innovation space. We're putting the rest of Canada on notice that we are going to beat provinces like Ontario and B.C. to the punch by moving policy at the speed of business."

Honourable Doug Schweitzer, Minister of Jobs, Economy & Innovation, Government of Alberta

The IGS builds on the Alberta Recovery Plan. The critical components of the recovery plan include a reduction of the corporate income tax rate to 8% and a $10 billion investment into infrastructure.

On a more local level, the city is imbuing new efforts into diversifying its economy with the creation of Edmonton Global. This new entity will be a regional group comprised of 15 municipalities and will be responsible for expanding foreign investment and trade.

Life sciences is a significant contributor to the Edmonton economy, generating 7.5% of the total GDP. The GEA is home to more than a dozen pharmaceutical and medicine manufacturing firms and institutions.

The city has a high concentration of state-of-the-art facilities, R&D institutions, government-backed initiatives, and strong AI capabilities that attract some of the world's leading researchers.

The Edmonton region is the headquarters of Alberta Health Services (AHS). AHS is Canada's first and largest province-wide, fully integrated health system, responsible for delivering health services to more than 4 million Albertans. Its annual operating budget exceeds $15 billion.

Last December, Western Economic Diversification Canada announced $5.5 million in new funding for Alberta's health and life sciences cluster. It is part of the Government of Canada's focus on creating high-value jobs that support economic recovery in the West. Edmonton's Health City received $200,000 of this money. With these funds, the organization said that it would fund a program to help tech companies "integrate their products into regional healthcare information technology systems."

The city aims to complete the southeast portion of the Valley Line LRT later in 2021, with construction also set to begin soon on the Valley Line West and the Metro Line to Blatchford.

Edmonton has chosen the Marigold Infrastructure Partners consortium to take on the second half of the new Valley Line light rail transit project.

The consortium will design, build, and partially finance the 14-kilometre Valley Line West. The team consists of Colas Canada, Parsons Corp., Standard General Inc., Francl Architecture, Fast & Epp and Stantec Inc.

The 14-kilometre Valley Line West is estimated to cost $2.6 billion, with construction starting this year and continuing until 2026 or 2027. The line includes 14 street-level stops, as well as two elevated stations.

Edmonton Mayor Don Iveson states that the Valley Line West LRT project will create 8,800 jobs in Alberta and create a more sustainable city.

3. PANDEMIC CREATES HOUSING DEMAND

Aided by affordability, residential home sales are expected to outperform this year

The average price of a home in Edmonton increased by 5% year-over-year to $379,461 in the first quarter of 2021.

Royal LePage estimates that the aggregate price of a home in Edmonton will continue to increase this year and will rise by another 4% by the end of the 2021.

First-time home buyers have been the most active purchaser group and have been taking advantage of ultra low interest rates and savings accumulated during the pandemic.

Tom Shearer, Owner and Broker of Royal LePage Noralta Real Estate stated, "Young professionals with employment stability continue to drive the market while the ability to work and study remotely have created an opportunity to move to more affordable suburbs. Their willingness to expand their geographical searches gives them great buying power."

Shearer noted the supply shortage had created a sense of scarcity in the market, with multiple-offer scenarios taking place on approximately 40% of transactions.

In answer to this shortage, new home construction is rising. According to Statistics Canada, provincial housing construction hit 24,200 in 2020. TD Economics expects this number to rise to 28,500 in 2021.

In Q4 2020 alone, construction began on 3,381 housing units, up 74% year-over-year. A large proportion of these (1,031) were rental apartments. This was the most robust quarterly performance on record.

According to Altus Group, Apartment transaction volume in Edmonton reached $684 million in 2020, up 69% compared to volume recorded in 2019.

CMHC reports that rental apartment completions in the Edmonton CMA more than doubled in 2020 from the previous year with 2,223 completions. This likely contributed to the growth in apartment vacancy to the highest level since 1997.

As apartment vacancy increased to 7.2% last year, vacancy for condo units decreased from 2.5% in 2019 to 2.0% in 2020.

The increase in demand for condos was despite rents that averaged 11.3% higher than those for purpose-built rental apartments. In 2020, 38.3% of the condominium in Edmonton were used as rental units.

Overall average rent in Edmonton remained stable at $1,153 in October 2020, compared to $1,144 in October 2019 despite the increase in vacancy. A significant reason for this is the use of incentives that do not impact average rental rates. Property owners use non-price measures to compete for tenants, such as free utilities, lower deposit fees, cash bonuses and one (or in some cases two) months of free rent.

Urban Analytics expects that incentives will continue to be used in the near term. The market research company forecasts rental rates to hold steady until the third quarter of this year.

4. LRT UPGRADES ATTRACTING MAJOR MIXED-USE DEVELOPMENT PROJECTS

Thousands of multifamily residential units are planned for the Greater Edmonton Area

Currently, Urban Analytics is tracking 201 new purpose-built rental projects with 16,167 units in Edmonton.

Their research indicates 67 existing projects in the early planning stages across the city, totalling 14,259 units. Twenty-five projects are under construction containing a total of 4,328 units.

In addition to rental developments, there are also many condominium projects underway within the Greater Edmonton Area.

A two-tower apartment complex is under construction on the former Edmonton Motors site in Oliver, on the southeast corner of Jasper Avenue and 115th Street. The developers behind the project are Pangman Development Corp. and John Day Developments, who plan to build 825 units on the site.

Another two-tower development is in the pre-development phase in downtown Edmonton at 102nd Avenue and 106th Street. On the 37,340 square foot site, Edgar Development is planning to build 730 luxury rental units within two buildings – 36 and 40 storeys. The buildings will sit above a four-storey podium.

Within Procura's 32-acre Century Park in Edmonton, The Louvre is currently under construction. The six-storey apartment building will contain 358 rental units. Rents will be around $1,250 for a one-bedroom, and the building will include live-work units. The first phase of the construction will be ready for occupancy this year. Amenities will include an art school, handicraft room, fitness facility and golf simulator and the complex will include a seven-storey atrium. There is also 8,800 square feet of retail space in the Louvre, including restaurant space.

Westrich Pacific Corp. and Stature Properties are planning to build a 33-storey residential building with a retail component. The rental apartment building, called The Hudson, will contain 330 units.

ONE Properties and Rivera began construction on the 290-unit, 23-storey Glenora Park retirement residence. The project will be aiming for LEED Silver certification.

The city's LRT is attracting significant mixed-use developments along its routes.

Rohit Land Development, Brookfield Residential and the City of Edmonton have embarked on a Joint Venture to redevelop the former Muttart Lands, rebranding the seven-acre space "Stadium Yards."

The site, which the Stadium LRT station will service, will eventually include more than 720 residential units, with a commercial main street and parks. The first phase, which includes 247 units of high-end rental housing, was completed in 2020. Units range from $1,050 to over $1,815, and sizes range from 500 to 939 square feet.

The Stadium Transit station is being redeveloped with new connections to the multi-use trails on both sides of the Capital Line LRT track, bike parking, added pedestrian track crossings and enhanced lighting.

Morguard is planning to transform the 30-acre Bonnie Doon Mall site into a sustainable, mixed-use district that will feature over 4,000 energy-efficient residential units, senior housing, retail, and public spaces. The Valley Line southeast LRT will stop at Bonnie Doon on its way to 102nd Avenue downtown.

"We think sustainability is one of the platforms of our reimagining of Bonnie Doon," Margaret Knowles, Senior Vice President of Development said. "Obviously having transit right at our door is a big check mark on the sustainability scorecard."

Further down the Valley Line, RioCan REIT plans to build a single-level shopping centre at Millwoods Town Centre. This site encompasses 62 acres and will eventually house retail, restaurants, and nearly 2,000 housing units.

5. PRIVATE INVESTORS MAKING OPPORTUNISTIC ACQUISITIONS

First-quarter of 2021 shows signs of renewed investment activity after a slow 2020

Commercial real estate investment volume dropped by almost one-third in 2020. According to Altus Group, the Edmonton market saw $2.2 billion in investment activity across 384 transactions in 2020. Fourth quarter activity improved by 59% from the third quarter, with several high-profile assets trading.

The Edmonton industrial market had a very slow year in terms of investment volume. According to Altus Group, total industrial sales reached $473 million, down by 44% from a year ago. The retail and office sectors were similarly impacted, with investment down 51% and 69%, respectively.

The apartment sector continues to display its resilience, with investment volumes increasing by 68% from 2019, as reported by Altus group. There were 46 apartment investment transactions totalling $684 million in value.

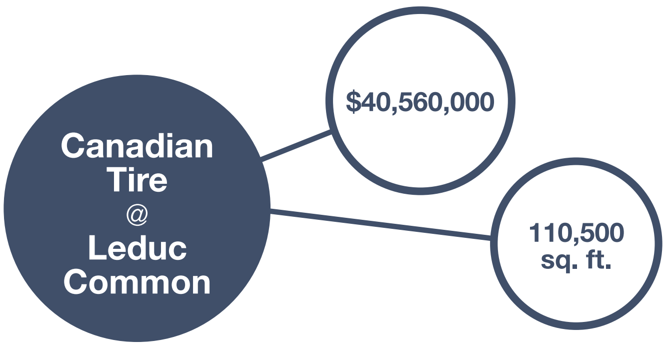
In the fourth quarter of 2020, the most active purchaser group was the private Canadian investor, accounting for $184.3 million of investment volume. According to CBRE, private groups have continued to be very active throughout the pandemic, and their fourth-quarter investment levellers were well above their three-year trailing quarterly average.

One of the largest acquisitions by a private investor was Redstone's purchase of The Canadian Western Bank office tower has closed. The 30-storey, 408,983 square foot Class A office building was sold for $96.4 million in an off-market transaction by BentallGreenOak.

Current anchor tenants are the Canadian Western Bank, Witten LLP, Ogilvie LLP and CGI Information Systems. At the date of sale, the vacancy rate in the building was 8%, well below the overall downtown market vacancy rate of 17%.

The Silhouette at Carlton was bought and sold by private investors for $27,925,400, representing a price per unit of $234,667. The four-storey multi-family apartment building contains 119 units.

Canadian Tire Properties acquired their retail location at the Leduc Common retail power centre from CREIT. The price was $40,560,000, and the property contains an estimated 110,500 square feet.



Dream Centre Tamarack is a six-building retail centre located at 3735 17th Street NW. The 95,895 square foot complex is anchored by a Sport Check and Michael's. The developer DREAM sold it to Lansdowne Equity Ventures, a Calgary-based private investment group, for $37 million.

Firm Capital Property Trust acquired a two-building, 128-unit multi-family complex from an institutional investor for $25 million. The building, constructed in 2012, was 98% occupied at the time of sale.

Crestpoint Real Estate Investments bought the Northport Business Park from Oxford in Q1 2021. The property consists of five buildings totalling 846,000 square feet. It includes 16.5 acres of outdoor storage yard and an extra 42.8 acres of land. The Class A, new generation warehousing and distribution complex was 94% occupied at the time of sale.

Nexus REIT has purchased two industrial buildings in Edmonton with 108,156 square feet of gross leasable area for $14 million.

6. EDMONTON IS A GROWING TECHNOLOGY HUB

Edmonton startups raised over $168 million in 2020 with funding momentum carrying into 2021

The last twelve months saw significant fundraising for the technology sector in the Edmonton region, with 39 deals totalling more than $168 million in capital raised. This is a substantial increase from previous years, and this momentum is expected to continue throughout 2021.

In January, Edmonton-based Jobber, a software company that helps home-service firms manage their business has raised $76 million in a growth equity round led by U.S. investment firm Summit Partners. The start-up had a very successful 2020 during which it hired 100 employees and increased its recurring revenue by 90%.

In April, Alberta Enterprise Corporation released its 2021 Alberta Technology Deal Flow Study findings, revealing that Alberta is now home to 3,083 technology companies, a 233% increase since the inaugural study in 2012. The majority (58%) are in Calgary, with 30% in Edmonton and almost 13% in other provinces.

The study found that 43% of Alberta's technology start-ups are at the pre-seed or seed-stage, and 43% have raised at least U.S. $1 million to date.

The number of companies with 25 or more employees has increased by 12%, percentage points up to 25%, between 2018 and 2020.

Many of Alberta's startups deliver positive ESG impacts in their product or service offerings: 39% had an environmental benefit, 45% had a social advantage, and 18% had a governance benefit.

Alberta tech generated $15.6 billion in GDP and employed approximately 68,500 people.

Over 1,000 post-secondary tech degrees are awarded every year in Edmonton. The city was ranked at number 13 in the Canadian Tech Talent report released by CBRE in November 2020. The city's quality of labour, however, outperformed many other Canadian centres.

The University of Alberta ranks among the top five in the world for artificial intelligence and machine learning, according to CSRankings, and the federal government has recognized Edmonton as one of three national hubs for the AI sector in its Pan-Canadian Artificial Intelligence Strategy. The University of Alberta's Faculty of Science and the Alberta Machine Intelligence Institute are among the driving forces behind this success.

Supporting the city's growing tech ecosystem is Startup Edmonton, a tech incubator formed in 2009. Its mission is to support tech companies launch and scale by providing programs, mentorship, community.

Startup Edmonton is managed by Innovate Edmonton, which provides mentorship, structured educational programs, and other resources for tech workers in the city. Through its efforts, more tech talent is staying within the city's borders than ever before, according to the organization.

To bolster the efforts of the technology sector within the province, The Alberta Innovation Corridor has been established and one of its short-term goals is to secure an artificial intelligence accelerator program.

"In order to develop a robust ecosystem of scaled-up tech companies in Alberta, we need to create the conditions where it's really easy to start up and be supported in growth ambitions. The Alberta Innovation Corridor will focus on supporting our entrepreneurs and technology commercializers to give as many of them as possible a chance to make meaningful impact," says Cheryll Watson, Vice President of Innovate Edmonton.

7. OFFICE LEASING ACTIVITY STARTS TO PICKUP IN Q1

Sublease space starts to get absorbed, but flight to quality remains a theme

According to Altus Group, Edmonton office availability reached 19% in Q1 2021, an increase from the 15.2% recorded in the same quarter last year.

Edmonton Office Availability

In the first quarter of 2021, there was 75,621 square feet of negative absorption in the Edmonton office market, CBRE reports.

Most of the negative absorption occurred in the suburban market where the Service Alberta and Go Auto Insurance vacated their buildings resulting in 116,000 square feet being returned to the market.

Downtown posted 63,104 square feet of positive absorption. This activity was concentrated in the Financial submarket. One of the most significant lease transactions to occur in the first quarter was the relocation of Bitcoin Well from the suburbs to the Financial submarket, where the company leased 35,000 square feet of Class A space in Cecil Place.

CBRE reports that sublease space decreased for the first time in four quarters and is currently posted at 776,608 square feet. It is anticipated that sublease space will continue to get absorbed throughout the rest of the year.

"Landlords that offer creative inducements and/or attractive rent rates will continue to appeal to occupiers on the market for space or looking to relocate," Cushman & Wakefield reports. Asking rents averaged $17.55 per square foot in the first quarter of 2021 – 3.3% lower compared to the same period last year, the company reported.

Flight to quality continues to be a dominant theme in the Edmonton market. The downtown and suburban Class A markets ended the year with positive net absorption, while the Class B market accounted for 92% of net occupancy losses for the year, according to JLL.

It remains unclear how much of the workforce will continue to work from home post-pandemic. All of the surveys and studies agree only on this: 100% of the workforce will not return to the office 100% of the week. Many companies will adopt a back-to-work policy that continues to support a degree of remote working and, by doing so, will ensure that each worker has more space when they are in the office.

As organizations adopt new work styles, one of the trends that has re-emerged is flexible office space. Before the pandemic, flexible office space grew an average of 25% per year between 2014 and 2019. In 2019 it accounted for as much as 20% of leasing activity in New York and London. However, by the second quarter last year, flexible space leasing activity was down 92% from a year earlier, according to JLL.

JLL predicts that the pandemic will re-ignite demand for flexible space given the need to de-densify workplaces. The company forecasts that 30% of all office space will be flexible in some form by 2030—and that large corporate occupiers will be driving much of the demand.

Flexible office supplier IWG signed a one-year trial deal with financial services company Standard Chartered, reports RENX. Based in the UK, Standard Chartered has established a work-from-anywhere policy for its 95,000 employees. Through this deal, they can work in any IWG location worldwide, taking advantage of the services they provide.

“This downturn has sparked flex office to become a strong alternative to traditional leases for many office-using companies,” said Julie Whelan, CBRE Global Head of Occupier Research. “That is in large part because flex space can provide companies the agility to accommodate a workforce that values more choice over where and how they work.”

8. E-COMMERCE TAILWINDS DRIVE EDMONTON’S INDUSTRIAL SECTOR

Millions of square feet of logistics space under construction in Greater Edmonton

Driven by the acceleration of e-commerce and the accompanying demand for logistics space, industrial absorption in Edmonton reached 984,000 square feet in Q4 2020, according to JLL.

The company reported that there were nearly 2.7 million square feet of new supply added to the market in 2020, and over half of this space was leased by distribution and e-commerce tenants.

Despite rising demand, industrial availability in Edmonton rose to 7.3% in Q1 2021, up from the 6.3% recorded in Q1 2020, Altus Group reports.

According to Statistics Canada, e-commerce retail sales soared by 70.5%, reaching a record $3.6 billion in 2020 as consumers conducted most of their shopping online due to stay-at-home orders.

CBRE estimates that Canada will require approximately 40 million square feet of additional warehouse space over the next five years. This is to accommodate this surge in online sales which has prompted companies to embrace an e-commerce-based business model.

Average asking rents contracted by 3.4% year-over-year, from $9.75 per square foot in 2019 to $9.42 at the end of 2020.

Major transactions were reported by Colliers in Q1, leading to 1 million square feet of positive absorption. Some of these transactions included Automann Canada’s lease of 115,983 square feet at Apex Business Park. Hello Fresh leased approximately 200,000 square feet at Monarch 5, and Canada Cartage (DLP) took over ONE Properties 219,380 square feet Building P at Border Business Park.

According to Altus Group, capitalization rates for Edmonton industrial investment properties remained stable in Q4 2020, averaging 5.9% for single-tenant properties.

As of Q1 2020, Colliers reports that there were 4.6 million square feet of new supply under construction in the Greater Edmonton Area. The largest project underway is a five-storey, 2.9 million square foot sorting facility for Amazon in Acheson.

There are also several speculative projects under construction in Edmonton’s business parks – Horizon Business Park, Anthony Henday Business Park in Southport Crossing.

According to provincial numbers, the transportation and warehousing sector contributes $12.3 billion annually to the Alberta economy and employs nearly 140,000 people. The city has over 1,000 acres of zoned industrial land ready for immediate development, making it an attractive location for logistics companies.

9. RETAIL OFF TO A STRONG START IN 2021

Vaccine rollout imbues a sense of optimism to the sector

ATB Economics reports that seasonally adjusted sales in the province were up by 2.5% ($179 million) in January 2021 compared to the month prior, and by 6.5% ($444 million) compared to January 2020.

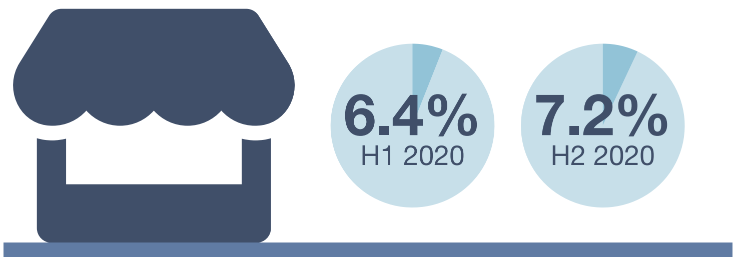
In Edmonton, retail sales were up by 9.3% ($179 million) in January 2021 compared to the previous year.

According to Statistics Canada, retail sales in Alberta through the first 11 months of 2020 were down nearly three percent from the prior year.

"That is not great news but given the level of economic disruption we've been experiencing, it could have been a lot worse," says ATB in its assessment released this week. "It's also encouraging that sales in 2020 were consistently higher than in 2019 from June through November."

CBRE reports that Edmonton's retail vacancy rate is up from H1 2020's rate of 6.4% to 7.2% in H2 2020. Again, the fallout has not been as extensive as it could have been considering the many tailwinds the sector has had to withstand.

Edmonton Retail Vacancy Rate



There was 336,776 square feet of new supply added to Edmonton's retail market in 2020 with one million square feet currently under construction. New stores to be opened this spring include a 100,000 square foot Superstore in Harvest Hills Market and a 127,000 square foot Costco Business Centre in the city's northwest.

West Edmonton Mall continues to attract Uniqlo and Canada Goose retailers, and Aurora Cannabis has opened a 11,000 square foot flagship store. LEGO also opened a new, 6,500 square foot flagship experience store in West Edmonton Mall late last year, its second Edmonton location.

Holt Renfrew closed its Manulife Place location in January. According to Retail Insider, West Edmonton Mall's leasing team targets brands within Holt Renfrew to open standalone units at their centre. Gucci opened its first standalone store in Alberta at the mega mall in March 2021.

After losing its anchor tenant, Manulife Investments Management has announced that it will invest $30 million to overhaul the Manulife Place retail podium. Construction is forecasted to be complete by the end of 2021.

"The City of Edmonton is undergoing a renaissance that will breathe life into its downtown service and amenity offerings," said Ted Willcocks, Manulife Investment Management's global head of asset management, real estate.

Hudson's Bay has decided to close their location in Edmonton City Centre as they look to restructure their brick-and-mortar footprint.

Albertan grocery retailer, Freson Bros., opened its first store in Edmonton in March. Located in southwest Edmonton, the new 42,000 square foot store is in the Rabbit Hill Crossing shopping centre. The chain has 17 stores across the province.

Meanwhile, FreshCo continues to expand its operations in the city. Four former Safeway locations will rebrand under the FreshCo label, and new stores will open in Heritage Village and Tamarack Commons.

Edmonton City Council has voted to remove minimum parking requirements becoming the first major city in Canada to do this.

Since July 2020, developers, homeowners, and businesses can now decide how much on-site parking to provide on their properties. This is to address the oversupply of parking in the city. Data collected by the city indicates that parking use is at 40%, and most sites are underused.

Removing the requirements will enable Edmonton to become a more walkable and active city, according to Kim Petrin, Development Services Branch Manager for the City of Edmonton.

10. CANNABIS INDUSTRY EXPERIENCES GROWING PAINS

Despite supply imbalances, the cannabis industry has a long growth runway

In the first six months of recreational pot legalization, the Alberta government collected $30 million in cannabis taxes – $4 million over expectations.

Between April 1, 2019, and March 31, 2020, Alberta Gambling, Liquor and Cannabis (AGLC) generated revenues of $265.7 M from cannabis. But because of a high overhead which experts say is mainly due to the AGLC's model of purchasing from licensed cannabis producers, the province recorded a loss of about $14.2 million from the business, though that is far less than the expected loss of $31.4 million.

Industry experts say that high taxes are also hindering the industry in Alberta. The province has the country's second-highest cannabis excise taxes and municipal property tax increases were put on growers.

Despite the loss, many retailers and analysts are bullish on the province's cannabis market. The AGLC has issued permits for 536 stores as of November 2020 and an increase in the variety and quality of products that are offered is taking market share away from the black market.

Statistics Canada said that in August 2020, the legal side of the market had overtaken the black market in revenue generation for the first time. However, the method in which Statistics Canada measures black market revenues remains unknown.

According to Spirit Leaf CEO Darren Bondar, Alberta's quick pick-up in the cannabis market can be attributed to the province's regulator. AGLC's experience with private liquor stores prepared the way for the opening of 275 private cannabis vendors.

"Alberta and the AGLC have done the best job of any province in the country," Bondar said.

Recently, the industry has been faced with oversupply, which has led to consolidation within the sector.

As part of the plan to streamline its operations, Aurora announced closures of five of its facilities across the country in June 2020. The move would reduce staff by 30% and consolidate production in its larger facilities. In December, they laid off another 214 workers and cut operations at their flagship marijuana greenhouse near the Edmonton International Airport by 75%.

The Edmonton-based company was not the only company to trim operations. Canopy Growth has moved to close two BC greenhouses. Hexo Corp sold a cultivation facility in Ontario it acquired as part of a $263 million deal to buy Newstrike Brands. Tilray has also closed its greenhouse in Leamington, Ontario.

“There has been too much cultivation in Canada,” Rahul Sarugaser, Managing Director of Equity Research at Raymond James, told BNN Bloomberg. “But that is secondary to the fact that there have been too many players and as a result, there’s too much competition in the market.”

Health Canada has licenced 507 producers to grow cannabis legally. Approximately 60 of them sell to the recreational market.

Canadian licensed producers added a record 220,461 kilograms of marijuana to their inventories in October 2020. According to Health Canada, Canada had amassed 1.06 million kilograms of cannabis as of January 2021.

“With oversupply looking to persist, expect to see more facility closures, more bankruptcies, and more consolidation,” Jefferies Group Analyst Owen Bennett wrote.

Despite the supply imbalances, total sales have risen steadily each month, and Statistics Canada reported that cannabis sales in 2020 reached $2.6 billion, which were double the 2019 volumes.

Canadian Office, Retail and Industrial Tenant Preference Survey

CANADIAN MULTI-RES TENANT RENTAL SURVEY

Interested in purchasing the 2021 data or getting involved with 2022?
Contact Sarah Segal by email sarah.segal@informa.com