



Top 10 Real
INSIGHTS

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INDUSTRY LEADERS
DURING THE CONTENT
FORMATION OF THE
LAND & DEVELOPMENT
CONFERENCE

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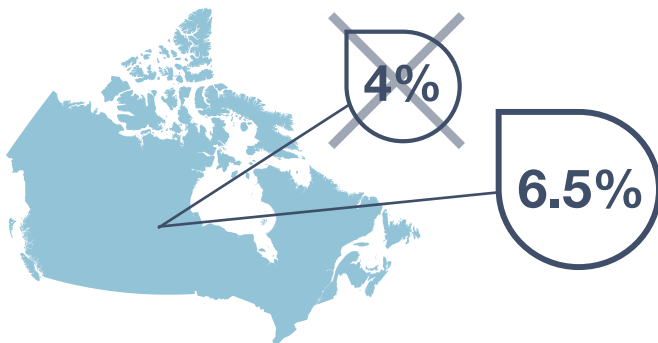
1. CANADIAN ECONOMIC RECOVERY BLOWS PAST FORECASTS

Strong first quarter has BoC increasing its GDP growth estimate to 6.5%

In its April update, the Bank of Canada announced that it would be winding down its emergency stimulus. The central bank will be reducing quantitative easing from \$4 billion to \$3 billion in weekly Government of Canada bond purchases. It is the first central bank of an industrialized country to make adopt this policy change.

This follows the central bank's revised economic growth forecast. In January, BOC predicted that the Canadian economy would grow by 4% in 2021. Due to a strong first quarter, they have increased their projection to 6.5%.

Predicted 2021 Canadian Economic Growth



The federal government's budget is forecasts an increase of 5.8% – in line with the Conference Board of Canada's forecast. "Deficits will start to decline as financial support eases, but the federal government will remain in the red throughout the medium term," the Board reports.

The deficit will hit \$354.2 billion in 2020-2021 and \$154.7 billion in 2021-2022. After that, it is expected to gradually decline to \$30.7 billion between 2025 and 2026.

The 2021-2022 budget provides \$101.4 billion in new spending over three years to fuel the recovery and kick-start the transition to a green economy. However, this spending has been criticized for not doing enough to rev up the economy. According to former Bank of Canada governor David Dodge, of the \$100 billion that has been put toward growth initiatives in the budget, only \$25 billion actually adds to public or private investment. The remainder just increases consumption.

The budget has made provisions to extend business and income support initiatives such as wage and rent subsidies throughout Fall 2021.

An extra \$2.5 billion is set aside for CMHC for various initiatives, including affordable housing construction. It will also provide \$1.3 billion to support the conversion of office buildings to housing.

Homeowners who are not Canadian citizens or permanent residents will have to pay an annual tax of 1% of the residential real estate value of any property that is considered to be vacant or underused. The tax is expected to bring in \$700 million over four years starting in 2022-2023, which will be funnelled into affordable housing.

The Bank of Canada has signaled that it will keep interest rate hikes on hold until the early part of 2023.

Inflation, which rose to 2.2% in March, will be allowed to run a bit higher than the bank's 2.0% target as the pace of recovery picks up. In the quarterly Monetary Policy Report published in April, the BOC forecasts 2.3% inflation in 2021, 1.9% in 2022 and 2.3% in 2023.

The Canadian economy added 303,000 jobs in March, outpacing expectations and bringing the unemployment rate down to 7.5%.

"I think the main message is clearly the economy can recover quickly and jobs can recovery quickly when things do open up again," Doug Porter, Chief Economist at Bank of Montreal, told BNN Bloomberg.

The March increase puts overall employment 296,000 below the pre-COVID level in February 2020 – a difference of 1.5%.

2. COOLING CANADA'S HOUSING MARKET

Return of B-20 will attempt to remove some froth from the market

The national average selling price of an existing home in March was 31.6% higher than it was 12 months ago, according to the Canadian Real Estate Association (CREA). The average price of a Canadian home has risen at its fastest annual pace ever, and currently sits at \$716,828.

More than 70,000 homes were sold in March, CREA reported, significantly surpassing the previous monthly record by 22,000 transactions.

Home prices have risen in smaller cities and towns across the country where before the pandemic, price increases were primarily most dramatic in Vancouver, Toronto and Montreal. Between March 2020 and March 2021, average resale prices in Kingston rose 36% to \$577,974, prices in Halifax grew by over \$120,000, and in Chilliwack, prices rose by over \$160,000.

There have been many Canadians whose income has not decreased during the pandemic. This group has been saving money that would otherwise have been used for travel and entertainment. According to Dave McKay, CEO of RBC, Canadians currently have an estimated \$200 billion in savings, where this figure is historically closer to \$40 billion. Record stock market gains and ultra low-interest rates have added to enlarged savings accounts to create a growing pool of potential home buyers.

However, there has been mounting pressure from the banks to implement a policy aimed at cooling down the heated marketplace.

In response, the Office of the Superintendent of Financial Institutions (OSFI) is proposing to raise the mortgage stress test level to 5.25% or two percentage points above the market rate, whichever is higher. This move to increase the stress test comes into effect on June 1, 2021, and there is concern that this announcement will create even more froth in the market before the hike comes into effect.

National Bank of Canada CEO, Louis Vachon, said that Canada should consider ending blind bidding in an effort to cool the housing market. This would increase price transparency and make it more difficult for buyers to waive certain rights in their purchase offers, Vachon said.

Under the current blind bidding system, buyers make offers without knowing what offers have already been made, which contributes to information asymmetry between buyers and sellers. Buyers regularly make bids on resale homes that are over the asking price, which pushes home price averages higher.

Housing starts beat expectations in March, which may help to address some of the supply-demand imbalance moving forward.

CMHC reported that Canadian housing starts rose 21.6% in March compared to the previous month. The seasonally adjusted annualized rate of housing starts rose to 335,200 units in March, well ahead of analyst expectations for 250,000 units. This marks a new high for all months on record.

Multiple urban starts jumped 33.8% to 222,358 units. Single-detached urban starts rose 3.6% to 78,615 units.

3. LAND ATTRACTING VAST AMOUNT OF CAPITAL

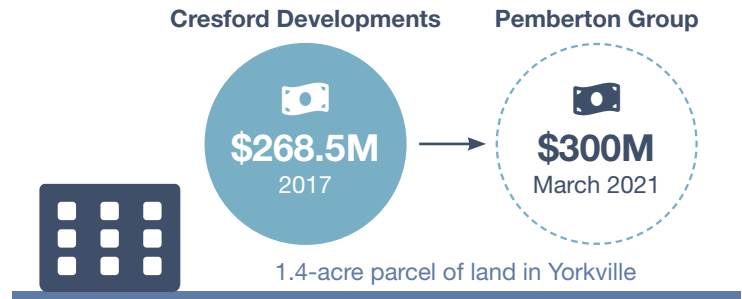
In addition to high density downtown acquisitions, developers looking to the exurbs for opportunity

In the Greater Toronto Area, investment volumes for the first quarter of 2021 were the largest on record totalling \$6.3 billion. This number represents a 56% increase compared with the first quarter of 2020, according to Altus Group. Investment in the land sectors comprised half of the total amount at \$3.2 billion.

The first quarter was notable not only for its high priced, high density residential transactions, but also for low-density land acquisitions outside of the GTA.

The following are some of the most notable recent residential land transactions which will eventually add thousands of new homes to the market:

A 1.4-acre parcel of land in Yorkville was sold for \$300 million on March 29 in a distress sale from the Ontario Superior Court of Justice to Pemberton Group. Altus Group reports that Cresford Developments acquired the property in 2017 for \$268.5 million.



There is a 2016 site plan in place on the property that proposed developing two residential towers of 64 and 41 storeys containing 1,079 units. The buildings would sit atop a retail podium.

Also, in Yorkville, Greybrook Realty Partners and Tribute have partnered on a 0.486-acre parcel of land. The five properties in the assembly were purchased for a total of \$84 million. Plans are underway for a luxury condominium development, including at least 380 units and 6,000 square feet of street-level retail.

RGF (Mississauga) Developments Inc. has purchased the Mississauga YMCA for \$90 million. The 4.5-acre property sits adjacent to the Square One Shopping Centre. The company is developing plans for the site that will include multiple mixed-use towers and a retail component.

Early in Q2, ARGO Development Corporation acquired 95.4 acres of low-density land in Oakville for \$180 million, while Treasure Hill Homes bought 174.4 acres in Cambridge for \$111.5 million. North of the GTA, Country Wide Homes secured 66.1 acres in Innisfil for \$44.2 million.

High-priced land transactions were not confined to southern Ontario. In Ottawa, Brigil bought 2.56 acres of high-density land for \$24 million, and in Kanata, Thomas Cavanaugh Construction acquired almost 100 acres of land for \$49 million.

Construction Jadco Inc purchased 0.372 acres of land on Montfort Street in Ville-Marie for \$19 million. Groupe Brivia bought 0.133 acres on Peel Street, also in Ville-Marie, for \$13.4 million as part of a portfolio transaction.

At the end of 2020, Chard Development acquired 1.53 acres on Marine Drive in Vancouver for \$68.1 million. There is a proposal submitted for the development of two 32- and 28-storey purpose-built rental buildings over a six-storey podium. The development will contain a total of 573 dwellings, including 89 affordable rental units and 28 social housing units to be operated by the YWCA.



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There have also been several significant ICI land transactions that have occurred in Canada's major markets recently.

Bonnis Properties acquired 0.138 acres of commercial land on Granville Street for \$40 million. They plan to redevelop the property with a 17-storey mixed-use complex, including 400,000 square foot office space, Altus Group reports.

Vancouver-based Nicola Wealth Real Estate acquired a 21-acre parcel of land in Scarborough on which it plans to build a 350,000 square foot new generation warehouse distribution facility.

Also in Q2, Microsoft acquired 28.2 acres of commercial land in Vaughan for \$95,740,000. Hopewell and PIRET bought 30 acres of land on Hurontario Street in Brampton for \$72,500,000.

In Montreal, Rosefellow bought 26.2 acres of land in Dorval for \$34,250,000. The company also bought 13.7 acres of land in Pointe-Claire for \$20 million.

By far, the most significant transaction to occur during the pandemic was Concord Pacific's acquisition of the St. Paul's Hospital property located on Burrard Street for \$1 billion. The 6.6-acre site will be redeveloped into a multi-use community. St. Paul's will continue to operate on the site for the next few years until the new hospital on Station Street is operational.

4. RESIDENTIAL DEVELOPMENT SHOWS NO SIGN OF SLOWING

Across the country, massive multi-residential projects will add much needed supply to the housing market

In their March survey, RLB reported that Toronto continues to be home to the most cranes North America. The city had 125 cranes actively working on multi-residential towers in March, accounting for 43% of the total number of cranes across the continent. Falling far behind in a tie for second place were Los Angeles (9%), Seattle (9%), and Washington D.C. (9%).

Urbanation reports that, "COVID-19 failed to slow down the GTA construction industry in 2020. Construction starts for new condominium apartments reached their second-highest level on record in 2020 at 26,662 units, increasing 9% from 2019. At the same time, a record high of 22,473 new condominiums reached completion. At the end of 2020, 81,029 condominiums were under construction across the GTA – another record high level.

Contributing to the unprecedented number of condos under construction is Pinnacle International, which continues to develop the former location of the Toronto Star at 1 Yonge Street. Eventually, the site will contain three residential buildings of 65, 80 and 95 storeys and a total of about 2,838 units. The development will also feature 80,000 square feet of indoor and outdoor amenity space.

KingSett Capital has applied to build a 59-storey apartment condominium on Yonge Street just south of Wellesley Street. The development would include 500 units. This year, KingSett Capital is behind a handful of other major project proposals in Toronto, including a 30-storey tower at 1801 Eglinton Avenue West and a 61-storey rental complex at 700 University Avenue.

Arya Corporation has proposed a high-density development in Scarborough that will consist of three towers, 19, 34 and 36 storeys. The project would contain 1,040 units on the 2.8-acre site.

Oxford Properties Group and CT REIT have submitted a development master plan for the southwest corner of Yonge and Eglinton that would contain five buildings ranging in height from 45 to 70 storeys, containing 2,701 residential units and retail and commercial uses.

In other parts of the country, residential development continues at a similar pace.

Bosa Properties has plans to build two 34-storey rental buildings containing 575 secured purpose-built rental homes, including 113 below-market rental homes on the site. The property was initially slated for condominiums, but Vancouver's City Council granted developers along Thurlow Street the permission to build market and below-market rental housing instead of a mix of condominiums and social housing, Daily Hive reports.

Starlight Developments has submitted plans to the City of Burnaby for rental development. The proposal includes the retention of four concrete rental towers with 528 units and the addition of three high-rise concrete towers and 1,200 new rental homes for a total of 1,728 suites when the development is completed.

The Starlight property is within the City of Burnaby's Lougheed Town Centre Plan, which calls for the transformation of the area into a dense, mixed-use community supported by rapid transit.

Nicola Wealth has applied to build 407 purpose-built rental units in the Saanich area of Victoria. The company purchased the 2-acre property in 2019. Nicola Wealth owns about 1,100 apartment units in Victoria already, but this will be the first new apartment development in the area in over 20 years.

In Kelowna, approval was granted for a major downtown development plan that would include three buildings 24, 28 and 42 storeys containing 650 condominium units. The development will contain 45,000 square feet of retail and restaurant space and feature indoor and outdoor "resort style" amenities. The newly formed Orchard Park Properties are leading the project.

In downtown Calgary, the West Village Towers are presently under construction. The buildings will include 554 rental units and a commercial component. Two of the buildings in Cidex's development will be 41 storeys, and one will be 29 storeys.

A 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 of 36 and 40 storeys. The buildings will sit above a four-storey podium.

Rachel Julien has proposed a residential project near Montreal's Olympic Stadium on the 5.5-acre site that the company acquired in 2016 for \$16 million. The proposal includes just over 1,000 new residences composed of 650 condos, 200 rental units and 158 social housing units, and a retail component.

Taggart Realty Management has a two-tower development planned for Centretown in Ottawa. The project would have 541 units in the 28- and 30-storey buildings and is set to include a small retail component.

A large scale development has been approved for the north end of Halifax. Westwood Developments has proposed five towers ranging in height from 10 to 30 storeys. The towers will contain a mix of commercial and residential space and be connected by a 550-space underground parking garage. There will be a total of 620 residential units and at least 50,000 square feet of retail space.

5. REITS AND RECOS DENSIFYING RETAIL ASSETS

Thousands of acres of excess retail are in the process of being recreated to include a range of uses

In a trend that predates the pandemic, Canadian retail landlords are following large U.S. firms like Simon Property Group in taking underperforming assets and adding new uses to them.

One of Canada's largest REITs, RioCan is turning transit-oriented retail assets it owns into mixed-use projects with a substantial mix of residential.

In Calgary, RioCan has joined with residential developers in a \$70 million mixed-use retail and residential redevelopment at its Brentwood Village Shopping Centre, which is served by Calgary's light-rail transit.

In the Montreal suburbs, RioCan and Broccolini are planning a 2.8 million square foot redevelopment of Centre Kirkland near the site of the future Kirkland REM station. The multi-phased, mixed-use development will contain approximately 240,000 square feet of office space and 135,000 square feet of commercial space, including a residential component.

Along Edmonton's Valley Line LRT, RioCan plans to add 2,000 low- and high-density residential units to the 62-acre site encompassed by Mill Woods Town Centre.

A mixed-use development will be added to Lincoln Fields in Ottawa. RioCan plans to move the existing Metro it to make way for multiple residential towers.

"Given the proximity of a new LRT and a lot of old-stock residential rental in the area that's been quite successful, we determined that a mall was not the highest and best use for that site any longer," said Andrew Duncan, Chief Investment Officer at RioCan REIT in an interview with REXN.

“ Given the proximity of a new LRT and a lot of old-stock residential rental in the area that's been quite successful, we determined that a mall was not the highest and best use for that site any longer...”

**Andrew Duncan, Chief Investment Officer,
RioCan REIT**

Choice Properties REIT also has several densification projects underway. "Right now we probably have more potential development sites than anybody," Mario Barrafato, CFO of Choice, said in an interview.

In Toronto's east end, plans are underway to transform the 19-acre site of the Golden Mile Shopping Centre into an 11-building development that will add 2,500 residential units – stacked townhouses, mid-rise apartments and towers – as well as 260,000 square feet of additional retail, green space, private and public community amenity space and links to two Crosstown LRT stations.

Choice Properties' development pipeline includes four other mixed-use projects, 15 projects on vacant land, six projects dedicated solely to residential use, and 17 sites that will expand current retail uses, the Financial Post reports.

SmartCentres REIT is another landlord looking at intensification and mixed-use opportunities throughout its portfolio. A \$12.1 billion development program announced in 2019 is now underway and will see 94 of the 165 SmartCentres' properties undergo intensification.

The REIT has plans to redevelop its 50-acre site in Pickering, which is anchored a number of high-profile tenants. The first phase of the comprehensive multi-phase master plan will see the northeast corner redeveloped into a two-tower residential project. The 33- and 34-storey towers will contain 377 and 360 units and sit atop a multi-storey podium. The remaining blocks within the 50-acre property will be developed in phases.

At its Vaughan Metropolitan Centre, a new 140,000 square-foot Walmart opened late last year. The old store closed, which freed up about 15.5 acres of land for a mixed-use development. Once complete, it will include approximately 11 million square feet of mixed-use space at the northern end of the GTA subway network. Construction of the first five sold-out phases of Transit City Condominiums, which will eventually contain 2,789 residential units, is ongoing.

In Cambridge, SmartCentres has received approval to redevelop its 73-acre shopping centre in an 11 million square foot mixed-use neighbourhood that will eventually provide up to 10,000 new residential units. Its current plans include a total of 40 buildings encompassing a range of uses. The site will incorporate a transit hub.

Morguard plans to transform the 30-acre Bonnie Doon Mall in Edmonton 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 LRT will stop at Bonnie Doon on its way to 102nd Avenue downtown.

Coquitlam Centre shopping mall, also owned by Morguard, is located on a 60-acre site that will be redeveloped to include up to 11 residential towers and contains office, retail, hotels, parks space.

In Vancouver, Oakridge Centre is being redeveloped to include a massive residential component. QuadReal Property Group and Westbank have partnered on the project that, once complete, will consist of 10 towers ranging in height to a maximum of 44 storeys. Plans include 2,000 market unit condos, 290 market rental units and 290 affordable rental units. It will also feature a community centre, seniors' home, arts space and a daycare. Construction of the new Oakridge will occur in two phases, with the first phase of retail, housing and public amenities opening in 2024 and the entire project slated to complete by 2027.

In the GTA, QuadReal has similar projects underway at its Cloverdale Mall site in Etobicoke and at Bayview Village in North York.

6. BUILDING COSTS RISE DUE TO INTERRUPTED SUPPLY CHAINS AND INCREASED DEMAND

Rising costs and supply uncertainty are causing some builders to limit presales

Supply chain disruptions, combined with a surge in home building projects, have caused a shortage of building supplies. As a result, prices have increased dramatically.

According to Joe Vaccaro, CEO of the Ontario Home Builders Association, the building industry has never faced supply chain issues like this before, with shortages are causing project delays. "We're not just talking about lumber; doors, windows – it's across the entire spectrum."

Lumber prices have more than doubled in the past year. According to the government's weekly lumber price tracking report, a basic two-by-four cost a record high of \$1,132 per thousand board feet at the beginning of April. This compares to an average of \$532 last year, and \$372 in 2019.

Lumber prices are now at all-time highs in both Canada and the U.S., and builders estimate the rising wood costs add an extra \$10,000 to \$20,000 onto the price of a new house.

The Canadian Home Builders Association expects prices to remain high for the next while.

In addition to lumber, drywall prices have also gone up due to the low supply of latex as well as the shortage of synthetic gypsum.

The ice storms in Texas this winter significantly damaged production facilities for latex, a necessary joint compound for drywall. Drywall is now in very short supply, and vendors are experiencing extended lead times.

Even items such as windows and doors have become scarce as home builders in Canada and the United States attempt to keep up with strong demand across North America.

Rapidly rising costs make it difficult to calculate the final cost of a home, especially when presales happen many months in advance. As a result, this is causing some builders to limit their presales.

"We're not selling as many presale homes as we normally would because we have no guarantees on material supply," says Sue Wastell, President of Wastell Homes.

"Home builders are constructing a few less houses at a time so they can be sure they get the prices on those materials and then release another block later," Canadian Home Builders Association CEO Kevin Lee reports. "It's very difficult to price your projects if the price of your input costs keeps going up."

According to research from Altus Group, overall costs associated with construction in the GTA are projected to rise by 5% by the end of 2021. Meanwhile, other Canadian markets will see slightly lower cost increases ranging from 1% to 4%.

"Even in the best of times, managing construction cost is a challenge and cost escalation an ever-present concern," David Schoonjans, Senior Director, Cost & Project Management at Altus Group says. "With the addition of pandemic-fuelled cost escalation, the challenge of managing construction cost has become even more difficult and much less predictable. This is likely to continue to be the case until the pandemic is under control, disruptions to supply chains have passed, and supply and demand imbalances have been negated."

The British Columbia Energy Step Code comes into effect this summer in all North Shore municipalities. This will also add to the cost of new homes in parts of the province. The code was introduced in 2017 by the British Columbia government and provides five steps towards creating 'net-zero' energy-use homes by 2023 and reduce greenhouse gas emissions. It is the toughest code in Canada.

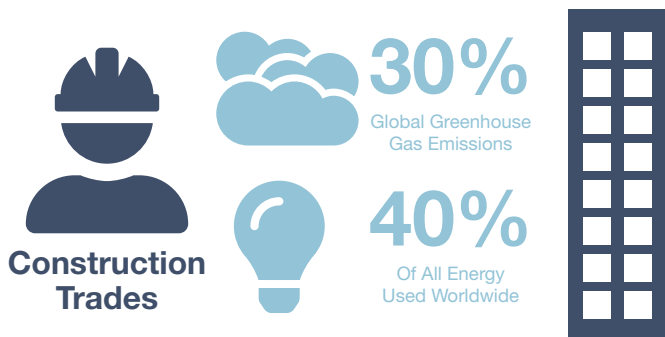
To meet the specifications as set out in the BC Energy Step Code, \$48,220 will be added to the cost of building a new home, according to the Homebuilders Association of Vancouver. The extra cost is due to additional insulation requirements, more complex mechanical systems, and higher-performance windows. The City of West Vancouver, the District of North Vancouver and the City of North Vancouver will all require new homes to be built to Step Code as of July 1, 2021.

7. ARCHITECTURE ADAPTS TO A POST PANDEMIC WORLD

The pandemic demonstrates that creating resiliency in the built form has become imperative

As the world emerges from the pandemic, many jurisdictions are mandating a 'green' economic recovery. As mentioned, the proposed federal budget commits \$101.4 billion in new spending over three years to fuel the recovery and kick-start the transition to a green economy.

The United Nations Environmental Program (UNEP) Sustainable Buildings and Climate Initiative estimates that the construction trades contribute as much as 30% of all global greenhouse gas emissions and consume up to 40% of all energy used worldwide.



As such, the building industry is a critical player in a climate emergency that impacts the health and viability of cities and communities around the world, according to Susan Gushe and Kathy Wardle of architectural firm, Perkins + Will.

The company is designing the Canada Earth Tower in Vancouver, which is being developed by Delta Land Development. If the building goes ahead, it will be the world's tallest hybrid wood tower. It is part of the Zero Carbon Building Pilot Program – a Canada Green Building Council initiative. The proposed building would stand as high as 40 storeys. It is designed for 136 condominium apartments and 34 purpose-built rentals over four to six storeys, and totally about 130,000 square feet of office and street-level retail.

Mass timber buildings have been gaining traction over the last few years. As announced in April, the City of Vancouver has committed over \$4 million to 12 new wood building projects. This initiative includes Westbank's new 21-storey rental tower in Mount Pleasant.

While the use of renewable building materials such as wood can help mitigate the speed of global warming, the surge in lumber prices might put the implementation of this nascent building technology at risk.

With global temperatures on the rise, this change is disrupting the weather patterns in regions across the world. Certain areas are getting higher amounts of precipitation while other regions are recording longer and more frequent heatwaves. Additionally, so-called 100-year storms are occurring at an increased frequency. Not only must new buildings be designed with sustainability in mind, but they also need to be resilient to extreme weather.

“Good, sustainable building design starts with a clear understanding of the climate of the building site. Building Information Modelling (BIM) allows for data to be captured and displayed through visualization tools that can help to consider factors such as temperature, humidity, wind conditions, and sky conditions in a design,” Marius Esterhuyze of Autodesk stated. “The achievement of a net zero energy build should always be the end goal.”

In 2019, Grosvenor, one of the largest privately-owned property companies, committed to achieving net-zero carbon operational emissions from all of their directly managed buildings globally by 2030. The company aims to have all facilities across their portfolio, directly and indirectly managed, 'net-zero' by 2050.

Grosvenor is joined by three of the world's largest asset managers, BlackRock, Vanguard and State Street Global Advisors, which have all made similar commitments.

Modular construction has been touted as a more sustainable method of building than traditional methods. According to Construction Global, because modular buildings are prefabricated in a controlled environment, there is less waste of construction materials and energy. Modular construction can reduce energy consumption during the building process by as high as 67%.

Modular buildings are installed with energy saving systems such as solar panels and geothermal systems, thereby resulting in less expensive operating costs for the buildings and greater efficiency.

During the pandemic, there has been an acceleration of this form of construction.

“COVID, as bad as it was, turned out in specific sectors to be somewhat of a turning point and made it more busy for us,” said Andy Berube, vice-president of Stack Modular, a manufacturer of large-scale, steel frame modular construction projects across North America which works in partnership with Bird to deliver projects.

“It highlighted the importance of housing and affordability. Canada Mortgage and Housing Corporation (CMHC) put on the rapid housing initiative, and that strongly highlighted modular construction as a method for rapid deployment of affordable homes.”

Stack Modular and Bird are pursuing several long-term care projects in Ontario and across Canada.

According to a recently released report, the global modular and prefabricated non-residential building construction market is expected to grow from \$43.61 billion in 2020 to \$58.19 billion in 2021 at a compound annual growth rate (CAGR) of 33.4%.

8. CAN'T BUILD INDUSTRIAL PRODUCT FAST ENOUGH

Growth of ecommerce fuels demand for industrial space in a market that is running out of room

At the end of the first quarter of this year, national industrial availability has further compressed to 2.7% at the end of Q1 2021, according to Altus Group. Vancouver and Ottawa availability saw the most substantial drop compared to Q4 2020, down to 1.5% and 2.6%, respectively.

Over 23 million square feet of industrial space was added to the market in 2020 and another 26 million square feet is currently under construction. As a good portion has been pre-leased, it is unlikely that this new supply will significantly impact vacancy rates.

The rise of e-commerce has been the main factor accelerating the rapid growth of industrial space, and Amazon is leading the charge. According to Colliers, the company increased its logistics footprint by nearly 12 million square feet across nine major Canadian markets since the end of 2019.

That includes expanding its footprint tenfold in Montreal and quadrupling it in Ottawa. The demand generated by Amazon helped also to push up the rental rates by 25% in Toronto.

On an unadjusted basis, Statistics Canada said retail e-commerce sales were up 110.7% year over year to \$3.5 billion in January. As a result, retailers and logistics companies are swallowing up warehouse space to manage their supply chains.

CBRE has predicted that Canada could run out of industrial space altogether by the end of 2021 and estimates that 40 million square feet are needed to keep up with the surge in e-commerce. In an interview with Bloomberg, CBRE Canada Vice-Chair Paul Morassutti said, "Last year not everyone would have been an e-commerce consumer. Now everyone is. Every retailer knows they have to have a digital presence to survive, and so now they are building out their supply chain."

Because warehouse space is in such short supply, tenants are starting to get creative, CBRE observes. For example, Altus Group reports that Amazon acquired the Pickering Flea Market this year, which sits on 40-acres of land for \$40 million.

Prologis, which is the world's largest owner of industrial space, estimates that e-commerce retailers require about three times the warehouse space to generate comparable revenues relative to brick-and-mortar sales.

"To generate \$1 billion of revenue, a brick and mortar retailer needs about 350,000 to 400,000 square feet of warehouse/distribution space, while an e-commerce retailer needs about 1.2 million square feet," Victor Calanog, Chief CRE Economist at Moody's Analytics REIS, wrote in a research note.

Last mile delivery is considered to be the most challenging component of the logistics process. According to Mordor Intelligence, it is also the most costly, comprising 53% of the total cost of shipping. A great deal of research is being poured into this area and into the use of robots, drones and self-driving vehicles to get packages to customers.

McKinsey reports that deliveries done in autonomous vehicles could save between 10% and 40% of delivery costs. Companies are marking headway when it comes to using drones to deliver packages, but most believe that it will be a while before they are widely used.

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Amazon, UPS and Wings (a subsidiary of Google's parent company, Alphabet) have all received approval from the U.S. Federal Aviation Administration to develop a fleet of delivery drones. The Globe and Mail reports that they are all limited to small-scale pilot projects at this point. On this side of the border, Drone Delivery Canada (DDC) is working with Transport Canada to sort out the regulatory issues related to delivery of packages by air.

Michael Zahra, DDC's CEO, told the Globe that he believes drone deliveries will start with health care supplies. "When people see that it's bringing a benefit to themselves and then to their neighbours, I don't think drones are going to be an issue," he said.

9. WORKPLACES IN FLUX

Leaders grapple with creating a post pandemic office model

At the start of the pandemic, companies were forced to move their workforces to remote settings. This shift was enabled by technology. Over the last 14 months, some of the benefits and the constraints of a remote workforce are becoming more apparent. As the economy reopens and leaders are grappling with how to proceed, many experts believe that we have a once-in-a-life time opportunity to change the workplace model.

Change has been brewing for several years already, and the pandemic has essentially provided a pilot project for the remote work model.

According to an extensive study done by PwC, younger generations tend to prioritize flexibility and a forward-thinking nature over salary. They are less likely to look at job openings at firms with traditional workplace setups.

Many companies are preparing for a hybrid office arrangement that grants employees more flexibility for the worker as to where and when they work. To do hybrid right, four aspects need to be considered, according to Lynda Gratton, who leads the Future of Work Consortium.

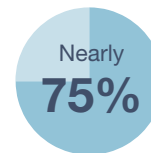
1. Jobs and tasks
2. Employee preferences
3. Projects and workflows
4. Inclusion and fairness

If companies get the hybrid model right, it will allow work lives to become more "purposeful, productive, agile and flexible," according to Gratton.

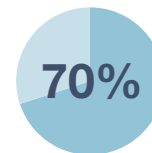
Fujitsu's 80,000 employees who are based in Japan, were working from home during the pandemic. Hiroki Hiramatsu, Head of Global HR recognized that a significant shift had occurred. "We are not going back," he said in September. "The two hours many people spend commuting is wasted – we can use that time for education, training, time with our family. We need many ideas about how to make remote work effective. We are embarking on a work-life shift."

A recent JLL survey shows that while work will change, it does not diminish the need for offices. Nearly three-quarters of respondents still want the ability to come into an office, while 70 percent consider the office as the best place for team building and connecting with management. Almost half of employees expect offices to offer spaces to socialize.

Offices



want the ability to come into an office



say the office is best place for team building & connecting with management



expect offices to offer spaces to socialize

Architectural firm Gensler suggests that in order to leverage the physical office to support collaboration and innovation while still allowing for flexibility, density needs to be reconsidered. The new way to gauge the value of the office is whether people find value in the time they spend in it.

Put another way, McKinsey has said that not only do cubicle farms need to be eradicated, but "offices must be places of magic."

While companies are taking different approaches to bring back their staff to the office, it needs to have evolved from what it was before the pandemic.

"The worst thing an organization can do now is close your eyes, cover your ears and imagine you can try to go back to how it was before, because if you do that you're going to go backwards," Peggy Rothe stated. Rothe is the Chief Insights & Research Manager at workplace experience Leesman.

10. PANDEMIC PROPELS HEALTHY BUILDING MOVEMENT

Companies are embracing health and wellness strategies as a way to support employees as they return to the office

One of the fallouts from the pandemic will be an increased vigilance among companies concerning the health and well-being of their employees. Employees, in turn, will feel safer returning to the office if their companies have gone out of their way to implement strategies that create a safer work environment.

"While there was some focus on health and wellbeing before the pandemic, employee wellness is now on the roadmap of every company. It has become as important as the financial health of the organization," says Flore Pradère, Research Director of Global Corporate Solutions Research at JLL.

The last Office Tenant Survey by Canadian Real Estate Conferences identified that one of the key improvements occupants desired was an upgraded HVAC system. It is understood that the COVID-19 virus spreads in airborne droplets, which is why people are required to practise social distancing. Upgraded HVAC systems can improve air quality, leaving people less vulnerable to COVID-19 and other illnesses that are spread similarly. The importance of ventilation and air quality will continue beyond COVID-19. More and more studies show a correlation between fresh air and the reduction in the spread of viruses in general.

“Modifications to heating, ventilation, and air-conditioning systems might help reduce the spread of the novel coronavirus by purifying air, improving ventilation, and managing airflows,” McKinsey reports.

Biophilic design will become a part of the office fabric to help clean the air, lower stress and boost cognitive function. A 2015 Human Spaces report, which studied 7,600 office workers in 16 countries, determined that more than 50% of people did not have living plants in their workspaces. Offices that did incorporate natural elements reported a 15% higher well-being score and a 6% higher productivity score.

Self-cleaning surfaces will be utilized to remove debris or bacteria from their surfaces. One company, NanoSeptic, uses skins and mats to turn dirty high traffic public touch-points like elevator buttons and door handles into continuously self-cleaning surfaces.

Since the pandemic, the International WELL Building Institute has been registering more than one million square feet of real estate each day in its verification program. Over the last two decades, the program has morphed into a trillion-dollar industry. More than 20% of Fortune 500 companies are now participating in the certification programs.

“The post-pandemic future is a chance to fight for the things that really make people and communities healthy,” says Rachel Hodgdon, President and CEO of the International WELL Building Institute.

Massachusetts Institute of Technology (MIT) has attempted to quantify the value of healthy building certifications. MIT researchers found that, between 2016 and 2020, buildings with healthy building certifications commanded rental premiums of 4.4% to 7%, while 46% of owners/managers reported certified spaces leased up more quickly than non-certified premises.

Canadian Office, Retail and Industrial Tenant Preference Survey



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