# Top 10 Real INSIGHTS

Montréal Real Estate Forum 2021

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ISSUE 59

# TOP 10 | REAL INSIGHTS | Montréal Real Estate Forum 2021 | ISSUE 59

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## 1. QUÉBEC ECONOMIC RECOVERY SWIFT BUT UNEVEN

**Newly tabled 2021-2022 budget seeks to address inequities**

The pandemic has had a massive impact on economic systems worldwide, and Québec was not immune to the negative effects caused by this health crisis. Real GDP contracted by 5.1% in 2020 while unemployment reached as high as 18.2% last April. The Institute de la Statistique du Québec (INS) reported that nearly 400,000 Québecers were out of work at some point during 2020.

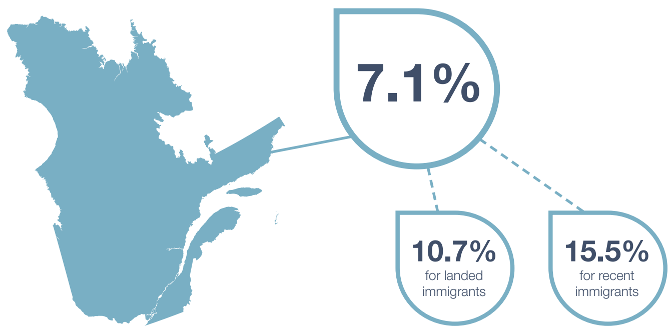
In an economic update last November, Finance Minister Eric Girard projected an $8.3 B deficit for the fiscal year 2021-2022. In the budget that was tabled in March, the deficit has been updated to $12.3 B. The province does not expect to return to a balanced budget until 2027-2028.

Since the early days of the pandemic, most of the lost jobs have been regained. The Québec unemployment rate continued to improve, falling to 6.4% in February 2021, and remaining stable in March 2021 – the lowest level since the pandemic started. In the meantime, employment in Québec rose to within 3.2% of its pre-COVID level, according to Statistics Canada.

However, recovery has been unevenly distributed. Unemployment remains high for some segments of the population, predominantly low-income workers and young people, while job growth among immigrants has stalled.

Citing Statistics Canada 2021 data, CBC reports: "For Canadian-born workers in Québec, the unemployment rate hit 7.1% in February. It was 10.7% for all landed immigrants and 15.5% for recent immigrants."

### Unemployment Rate February 2021




At the end of 2020, employment had decreased by 20% for people making less than $20 per hour.

Certain segments of the economy were also harder hit than others, specifically small businesses, rural communities and tourism.

The budget that was tabled in March has sought to address some of these inequalities. It included $246 M to integrate immigrants into the workforce. Half a billion dollars has been earmarked for economic development across the regions of Québec, and $204 M has been set aside for the tourism sector.

To address the gaps identified during the pandemic, the budget allocates $10.3 B to health care over the next five years. Much of this money will go towards improving care for seniors, which will continue to be a priority because it is projected that a quarter of Québec's population will be over 65 by 2030.

Girard estimates that COVID-19 will end up costing the province a total of $30 B. As a result, Québec will have spent the most of all the provinces as a share of GDP in combatting the effects of the pandemic.

Population growth in Québec has slowed during the pandemic. Total immigration to the province in 2020 was 25,000 people, compared to the 46,000 newcomers who moved to Québec in 2019.

In a report published in March, Institut de la statistique du Québec (ISQ) stated that the Québec population as of January 1, 2021, reached 8,576,000 and grew by 19,300 in 2020. In 2019, the province grew by 110,000 from the previous year.

Ottawa has increased its 2021-2023 immigration targets to the highest levels ever. It is aiming for 401,000 in 2021, 411,000 in 2022 and 421,000 in 2023. While historically immigration has boosted economic output, Scotiabank forecasts that the increase to national immigration targets will add up to $900 M to Québec's real GDP by 2023.

In addition to anticipated population growth for the province, there is even more reason for optimism as vaccination rollout becomes widespread. At the end of Q1, over 13% of the Québec population had received at least one vaccine dose, which is the highest percentage of all the provinces.

Québec's household savings rate has exceeded the national average. Once the economy reopens, TD anticipates that these savings will be unleashed and will "power robust consumption growth" through the remainder of 2021.

## 2. OVER 10,000 NEWLY COMPLETED APARTMENT UNITS ADDED TO THE MONTRÉAL RENTAL STOCK IN 2020

**Largest increase of new supply does little to budge ultra-low vacancy rates in the suburbs, while average rental rates soar**

The pandemic had a significant impact on the availability of rental units in 2020. Although overall vacancy rose to 2.7% from 1.5% in 2019, it actually declined in some parts of the CMA.

Vacancy remained stable in the suburbs at 1.2% while it doubled on the Island of Montréal to reach 3.2%, CMHC reports.

The increase in vacancy on the Island was a direct result of the pandemic. The cancellation of in-person post-secondary classes, the cessation of immigration, and the return of rental units to long-term rental stock due to the lack of tourism worked together to cause a softening of demand for multi-residential units, especially in Île-des-Soeurs.

Despite the overall uptick in vacancy, the average rent increased by 4.2% over the last year. According to CMHC this was the largest increase since 2003.

In the 12-month period from October 2019 to October 2020, 10,600 new purpose-built rental apartments were added to Montréal's rental inventory. This new supply was quickly absorbed. CMHC calculates that 80% of these new units were located in the suburbs where vacancy did not budge.

Condominium vacancy rates remained stable at 2.0% but went up by 200 bps in Montréal/Île-des-Soeurs. Approximately 20% of Montréal condos are used as rental units.

The operation of seniors housing came under intense scrutiny as operational weaknesses were revealed throughout the pandemic. During the Canadian Apartment Investment Conference, Minto Apartment REIT CEO George Van Noten stated of the sector:

"They're about to face a lot of regulatory oversight and some significant change and reform in that industry going forward."

Senior housing penetration in Québec is estimated at 18%, more than twice the rate for the rest of the country. On the Island of Montréal, the vacancy rate for seniors housing dropped from 8.2% in 2019 to 6.9% in 2020.

Lately, the industry has garnered attention through a series of significant transactions that underscored investor interest in this alternative asset class.

In 2020, Chartwell and Welltower each acquired a 42.5% interest in the 345-suite Le St. Gabriel retirement residence in Saint Hubert, at a cost of $37.9 M each, or nearly $260,000 per bed.

Another notable transaction was the 85% sale of Le Groupe Maurice's senior housing portfolio to Ventas REIT. The portfolio was sold for over CAD $2 B and consisted of 31 properties and four development sites, with 8,917 beds in total. The transaction was valued at a 5.52% capitalization rate.

Late in 2019, Maisons Vivalto, a consortium comprised of Groupe Vivalto, Crédit Mutuel Equity and Benoit Lellouche, acquired two seniors' facilities on the Island of Montréal for $80 M. The Floralies Lachine and Floralies LaSalle residences have more than 500 beds that offer a range of care options. According to the press release, the group plans to expand into the assisted-living and long-term care sector within Canada.

### 3. TOD / POD CONSTRUCTION PROJECTS DOT THE CITY

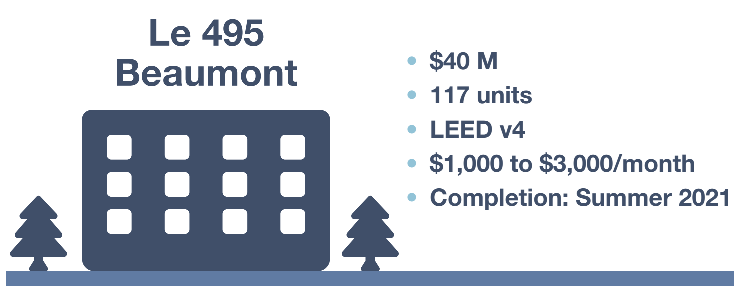
**Ambitious transit-oriented developments and pedestrian-oriented developments planned for both the downtown and the suburbs**

In Pointe-Claire, Cadillac Fairview has partnered with Ivanhoé Cambridge for the development of the 50 acres of vacant land Cadillac Fairview purchased in 2013. The site is next to CF Fairview Pointe Claire shopping centre. The mixed-use development that is planned for the property will include over 5,000 residential units, retail, a hotel, and seniors housing. The development will be adjacent to a Réseau express métropolitain (REM) light-rail station located along Fairview Avenue.

In Laval, construction has commenced on the $450 M Espace Montmorency – the largest ever mixed-use development in Laval. The project is a joint venture between Group Montoni, Groupe Sélection and the Fonds Immobilier de Solidarité FTQ and will contain a total of 1.36 million square feet and will be directly connected to the Montmorency metro station.

Espace Montmorency will include a 16-storey 350,000 square foot office building, a 180-room hotel and conference centre, 700 residential units in two towers, 150,000 square feet of commercial space, 1,400 underground parking spaces and 50,000 square feet of public green space.

Montoni Group had ventured into multi-residential development with a $40 M complex in the Park Extension area of Montreal. The 117-unit "Le 495 Beaumont" is in close proximity to the Acadie and Parc metro stations and is pursuing a LEED v4 certification. Rental rates will range from $1,000 to $3,000, and 40% of the units will be two or three bedrooms. The building is slated for completion this summer.




Rachel Julien has proposed a residential project near Olympic Stadium on the 5.5-acre site that the company acquired in 2016 for $16 M. The proposal includes just over 1,000 new residences composed of 650 condos, 200 rental units and 158 social housing units, as well as a retail component. Construction on the Canoë development could start this year.

Under construction right now is the 254-unit, 12-storeys rental housing development in Brossard. Developer Maître Carré's $70 M project Mellem is designed to foster healthier lifestyles, and most units will include corner spaces for home offices. The company has plans to expand the Mellem brand into the cities of Québec City and Gatineau.

Construction on the National Bank headquarters at 800 Saint-Jacques St. continues. The 1.1-million square foot building is aiming for LEED v4 Gold and WELL certifications and is scheduled for completion in 2023. The office tower will have a direct link to the 58- storey condo tower at 700 Saint-Jacques, and both with be connected to the Victoria Square metro station.

The Victoria sur le Parc will contain 400 units above a nine-storey podium and is also scheduled for completion in 2023. Rounding out the triumvirate of Broccolini projects in the Victoria Square neighbourhood is the 35-storey, 258-unit condo at 628 Saint-Jacques and is scheduled for completion this year. The value of these three buildings is almost $1 B.

Last summer, construction began on Phase One of Brivia's 1 Square Phillips. At 61 storeys, the luxury rental and condominium project will be the tallest residential development in the city. In March 2021, IPSO FACTO Real Estate Fund acquired an interest in the development, which is pegged at $560 M.

Continuing their partnership, RioCan REIT and HBC are redeveloping the downtown Hudson's Bay Centre in Montréal. The plan is expected to start construction in 2023 on a 25- storey office tower above the store. The building features existing connections to Montréal's Metro and the forthcoming REM McGill station.

In another joint venture, 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.

## 4. PANDEMIC DOES NOT AFFECT DEAL VOLUME

**Montréal continues to attract capital despite liquidity challenges over the last 12+ months**

Altus Group reports that there was a record 1,676 investment transactions that occurred in Greater Montréal in 2020. This number exceeded the previous record set in 2019 by 18%. However, total dollar volume decreased by 19% compared to the previous year and ended the year at $7.2 B. Compared with other major Canadian markets, Montréal fared very well.

Throughout 2020, the most prominent buyer group was the private investor. In the fourth quarter, this group accounted for investment volumes totalling $469.1 M.

The apartment sector attracted the largest amount of capital, accounting for $2.3 B of Montréal's total investment volume in 2020, as reported by Altus Group. Capital flows into the industrial sector also were also reported to grow in 2020, up from the previous year to total $1.43 B in investment volume.

In December 2020, Benvenuto Group acquired Le Cartier, a 182-unit, 30-storey luxury apartment building in Ville-Marie, for $107 M.

Also in Q4, Starlight and KingSett completed the $4.9 B acquisition of Northview Apartment REIT. The transaction included 10,900 multi-residential suites, including 2,065 units in Québec. This was the largest Canadian multifamily REIT transaction that has occurred to date.

Groupe Quint acquired the Holt Renfrew building on Sherbrooke West in 2020 for a total consideration of $25 M, but the deal did not close until February 2021. The company plans to spend an additional $20 M to transform the building into a mixed-use office and retail development.

Summit REIT continues its buying spree in Montréal. In March 2021, the REIT acquired a 765,145 square foot office and logistics facility on a 35-acre property in Saint-Laurent with future development potential. The property contains a 534,111 square foot logistics facility and a 231,035 square foot Class A office building, both of which are fully occupied by global tenants. The $183.3 M all-cash deal closed at a 4.5% capitalization rate.

In the last quarter of 2020, the REIT purchased 50% interest in an 11-building industrial portfolio from Groupe Montoni. The portfolio consisted of light industrial buildings and had a weighted average lease term of 8.7 years. The portfolio was acquired for $176 M on a 100% equivalent basis.

In February 2021, Concert Properties acquired a distribution facility in Saint-Laurent for $90,750,000. The 424,422 SF property is fully tenanted by L'Oreal Canada, Altus group reports

Dream Industrial REIT purchased a logistics facility in Vaudreuil-Dorion from Vista Properties, and Groupe Quint for $114 M. The 525,922 SF distribution centre has a 31- foot clear height and 48 truck level doors. There is about 200,000 square feet of extra development potential.

On the health of the Montréal Market, CBRE states: "Despite the pandemic, the investment outlook remains strong and is led by robust demand for industrial, multifamily, and land assets."

## 5. NO END IN SIGHT FOR INDUSTRIAL DEMAND

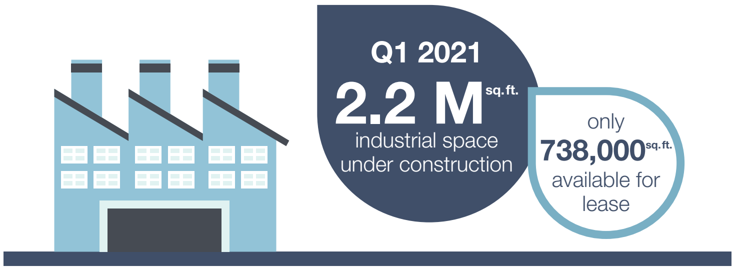
**Led by the surge in e-commerce, rents rose over 17% in 2020**

According to Altus Group, national industrial availability decreased from an already tight 3.0% in Q4 2020 to 2.7% in Q1 2021. Industrial availability in Montréal remained stable quarter-over-quarter, sitting at 2.7%.

The increase in demand came primarily from the e-commerce, logistics, food and 3PL sectors and contributed to the 1.5 million square feet of positive absorption that occurred in Q4 2020, according to CBRE.

The company reported that average asking net rental rates exceeded the $7.00 per square foot threshold for the first time in Q1 2020 and ended the year at $7.73 per square foot, a year-over-year increase of 17.4%.

At the end of Q1 2021, 2.2 million square feet of industrial space was under construction, of which only 738,000 square feet is available for lease.




RoseFellow will start on two spec projects in Spring 2021. Construction on a 325,000 square foot building at 151 Reverchon Avenue in Pointe-Claire was sped up by a year due to demand. They will also begin Phase One of a project in Montreal-Est – a 125,000 square foot building on the corner of Marlen Avenue and Highway 40.

Broccolini's 390,000 square foot spec building in the Quarente30 Business Park in Vaudreuil-Dorion is set to be completed this fall.

Vaudreuil-Dorion's industrial market totals more than 3 million square feet and is projected to grow considerably within the next few years. The area has recorded more than 735,000 square feet of positive net absorption since 2018. Rental rates for the area hit $7.50 in Q3 2020, and availability rates fell to 3.6% during that same time period.

As a result of its strategic location and strong leasing momentum, Vaudreuil-Dorion has seen a large influx of institutional investors placing capital in industrial assets over the past five years, according to CBRE.

CBRE has projected the absorption of 40 million square feet of industrial space across Canada in 2021 to keep up with e-commerce growth.

Statistics Canada reports that e-commerce retail sales in Canada expanded by 70.5% to a historic high of $3.6 B in 2020.

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.”

To underscore his point, Amazon has plans to expand its operations in Québec to include five additional facilities. They opened their first distribution centre in Lachine in June 2020. This year, a 520,000 square foot sorting centre will open in Coteau-du-Lac. Another centre will open in Longueuil. Three new sorting stations will open in 2021 and 2020 – two will be located in Laval and one in Lachine.

## 6. COVID-19 AMPLIFIES IMPORTANCE OF ESG

**Capital flows into ESG investments increased dramatically in the months following the COVID-19 outbreak**

The pandemic has demonstrated how vulnerable our economies and healthcare systems are when disaster strikes. The need for organizations to hedge against future disruption by becoming more sustainable and resilient has never been more evident.

“The COVID-19 pandemic has forced many to reconsider the link between environment, society, good governance and profit. That has sharpened minds on the need for greater focus on ESG criteria and investments,” KPMG states.

Investor demand for ESG funds has grown drastically during the pandemic. In Q3 2020, Morningstar reported that flows into European ESG funds reached an all-time high attracting €52.6 billion. During the same time period, 105 new ESG funds were launched.

By August 2020, the company reported that global investment into ESG funds exceeded U.S. $1 trillion for the first time.

A JPMorgan Asset Management poll of 50 global institutions, which oversee a total of U.S $12.9 trillion in assets, found that 71% said that an event like COVID-19 could lead to an increase in actions designed to tackle risks associated with climate change and biodiversity loss.

Morgan Stanley’s Institute for Sustainable Investing found that total returns for U. S sustainable and ESG equity funds outpaced traditional funds by 4.3% in 2020.

“Sustainable funds’ strong risk and return performance during an exceptionally turbulent year further erodes the persistent misconception that sustainable investing requires a performance sacrifice,” said Audrey Choi, Morgan Stanley’s Chief Sustainability Officer.

While the Environmental component of ESG has been the focal ingredient in the past, the pandemic may shift some of that spotlight to the Social and Governance elements. Analysts say investors will scrutinize a company’s response to the pandemic and its viability going forward.

A 2020 RBC Global Asset Management Responsible Investment Survey found that investors are looking for more company disclosures around “social” factors such as employee health care.

In fact, 53% of investors are looking for companies to disclose more details about worker safety, employee health benefits, workplace culture and other social factors due to the pandemic.

“It’s very simple, really – companies truly focused on the well-being of their workers and customers are able to make the right decisions more quickly in a major crisis like this one,” John Hale, Morningstar’s Director of Sustainability Research, told CNBC.

Last November, eight Canadian pension funds representing $1.6 trillion in assets issued a joint plea for Canadian companies to improve and standardize their ESG reporting. They have also committed to improving their own ESG disclosures.



"How companies identify and address issues such as diversity and inclusion, human capital, and climate change can significantly contribute to value creation or erosion," the pension fund CEOs wrote in a joint statement.

According to pension fund heads, the ongoing impact of the coronavirus pandemic has highlighted social inequity, systemic racism, environmental threats and board effectiveness.

"Having a good ESG profile is a significant focus for many investors, especially on the institutional side, since reputational risks and other ESG considerations have a growing impact on a property's attractiveness and competitiveness," writes PwC in its Emerging Trends report.

According to PwC, "A vast majority of institutional investors expect a convergence between ESG and non-ESG products by 2022, the same year that 77% of them plan to stop purchasing non-ESG products."

Canadian Real Estate Forums is privileged to have Natalie Voland chair this year's Montreal Real Estate Forum Chair. As Founder and President of real estate development company Quo Vadis, Natalie has been recognized for her outstanding contribution to sustainability and is one of this year's Clean50 honourees.


The Clean50 individual awards are selected from 16 diverse categories that transcend industries, academia, different levels of government, thought leaders and advocates, and are based on accomplishments delivered over the prior two years. Our congratulations to Natalie for this significant achievement!

## 7. WORKSPACES IN TRANSITION

**Pandemic is causing a shift in the way offices are utilized**

There is a growing demand to evolve the workplace into a better version than predates COVID-19.

In 2019, workplace experience firm Leesman interviewed 700,000 employees from 4,800 companies. The poll identified that 40% of tenants felt that their workplace did not enable them to work productively.

The pandemic has given companies the opportunity to keep the best part of the office culture while discarding inefficient processes, Stewart Butterfield, CEO and Co-founder of Slack, observed.

"We all know that work will never be the same, even if we do not yet know all the ways in which it will be different. What we can say with certainty is that the sudden shift to distribute work has provided a once-in-a-generation opportunity to reimagine everything about how we do our jobs and how we run our companies," he wrote.

What is clear is that office space design will undergo a transition. More space will be created between co-workers, and a more significant portion of the office floorplan will be dedicated to collaborative space.

According to Altus Group's Key Assumptions Survey from November 2020, 57% of respondents expect office tenants to downsize as a result of increased work from home, but 62% expect that downsize to be less than 20%, on average. As such, office footprints are likely to decrease, but square footage per employee may grow.

Julie Whelan, Head of Occupier Research for the Americas at CBRE predicts that future offices will have more common space than personal space. Traditional offices are about 80% cubicles and 20% common space. Whelan expects that there will be a reversal of this ratio.

However, more collaborative space does not mean more open space. Gensler has found that even though "mostly open" workplaces were associated with higher performance and greater experience, the advantages are lost when places become too noisy, lack privacy, and the ability to concentrate is compromised. These are three elements that some employees have become accustomed to while working from home.

Workstations will be spaced further apart, conference rooms depopulated and space-dividing partitions built to provide greater physical separation. "Densification will take a hiatus," said Janet Pogue-McLaurin, Gensler Global Workplace Practice Areas leader, told Vox.

In its operation across Asia, Salesforce has already de-densified its office space. Office floors have been redesigned to accommodate only 40% to 50% of the previous capacity.

Because many companies will be espousing some form of a "hybrid-model" where their workers will continue to work from home for part of the week, they are investing in digital collaboration technologies that will continue to be used post-pandemic. The technology will be built into every room, making the space easily transformed into a dynamic collaboration space regardless of the location of the employee.

Jed Walentas, the owner of U.S. investment company Two Trees Management, states that pre-COVID-19 expectations were impractical. "If you got two and a half million people in Brooklyn, why is it rational or efficient for all those people to schlep into Manhattan and work every day?" he asked in a New York Times interview. "That's how we used to do it yesterday. It's not rational now."

Touchless technology is being applied in the workplace to reduce the transmission of viruses. Nestlé added a feature to its coffee makers that lets employees select their choice by holding their hands over the menu options. Motion-activated faucets and soap dispensers, hands-free sanitizing, and automated entrances are other areas where this technology is being enabled.

According to a 2020 report by McKinsey, companies that adopt the highest degree of touchless technology gain a competitive edge by reducing the risk to their employees and their overall operations.

There is little doubt that the office will continue to play an important role within a company. It will be the place where onboarding, collaboration, training, mentoring, and team-building occurs. However, it will need to be a place where employees want to be, supporting "their individual and collective best work," as Pogue-McLaurin explained.

## 8. EMPTIED OF OFFICE WORKERS AND STUDENTS, DOWNTOWN RETAIL STRUGGLES

**Retailers who are able to outlast the pandemic will benefit from stockpiled household savings**

Doug Porter, Chief Economist at BMO Financial Group, estimates the amount of savings that Canadian households amassed in 2020 is $200 B.

According to Statistics Canada, the household savings rate hit a record high of 27.5% in Q2 2020. In Q3 it eased to 14.6%, and by Q4 it dropped slightly lower to about 13%. By comparison, in 2019, the average household saving rate of Canadians was just 1.4%.

This unprecedented pile of cash that Canadians are sitting on is a good thing for retailers.

"Natural consumer behavior has been tamped down throughout the pandemic, and typically when that is unleashed you see a significant consumer spend in the industries that have been repressed," says Naveen Jaggi, President of Retail Advisory Services at JLL. "And what has been repressed the most? People's ability to travel, dine out with loved ones, and, of course, shop, especially for clothing intended to be worn outside the home."

The challenge for brick-and-mortar retail is that intermittent lockdown orders continue. This is especially true for Montréal which, at the time of writing, is back on maximum alert and an 8:00 pm curfew.

COVID-19 has caused a large portion of Montréal's 400,000 downtown office workers and 127,000 students to stay home, increasing retail vacancy. According to the Urban Development Institute of Québec and the Montréal Centre-Ville Merchants Association, the vacancy on Ste-Catherine Street increased to 23% last fall, 32% of downtown fast-food locations were vacant in the fourth quarter, as well as 20% of full-service restaurants.

"Downtown is going through a rough patch, like all of the world's downtowns, but it's holding on," Glenn Castanheira, Head of Montréal Centre-Ville, said earlier this year in an online panel discussion.

One of the key reasons it is holding on is the number of people who reside in downtown Montréal. The borough of Ville-Marie's population, for instance, continues to grow and "once again has almost the same number of residents as it did in 1966 when 110,000 people lived in the city core," said Jean-François Grenier, Senior Director at Altus Group.

A survey conducted by the Urban Development Institute of Québec and the Montréal Centre-Ville downtown merchants association found that 51% of Montrealers believe that the ambience of downtown will be a motivation to return to the office.

In the face of significant disruption, some retail sectors have done well through the pandemic. Home improvement, fitness equipment and the pet sector, for example, have all beaten expectations.

Altus Group's Investment Trends Survey for Q1 2021 also points to food-anchored retail assets among the top five asset classes preferred by investors. In Q4 2020, food-anchored retail held the top spot in investor preference.

Many Canadians have added a furry member to their family during the pandemic, which has caused pet stores to boom. Québec-based pet store Chico Pet Shops is planning to add eight locations to reach 59 stores this year.

In February, Montréal-based restaurant franchisor Foodtastic acquired coffee-shop chain Second Cup for $14 M. Foodtastic plans to expand Second Cup from its current 190 locations to 300 in less than a year. Underperforming Second Cup locations may be converted into a different Foodtastic concept, and Foodtastic will begin serving Second Cup coffee in all of its establishments, according to JLL.

Francois Roberge is looking to expand his brands La Vie en Rose and Bikini Village. He plans to take advantage of vacated retail space across the country. Roberge told Retail-Insider that he believes brick-and-mortar stores mixed with a robust online presence could potentially be the future for retailers.

"The store is one of the keys for the future," he said. "People can't always stay at home and just wait and look at the computer. I think they like to go out. We're going to see an evolution of the mall in the future because malls cannot just be fashion. They need to revise the business plan and everybody is working very hard on that."

## 9. PANDEMIC CHANGES REAL ESTATE

**"The impact of COVID-19 on retail, office spaces, as well as suburbanization has accelerated the pace of change for developers, sellers and buyers." – PwC**

The pandemic has been a catalyst for change across the commercial real estate industry. Almost overnight, this massive disruption shut down systems, closed buildings and had everyone re-evaluating their relationship with space.

The retail sector had been in the throes of the seismic change before the pandemic outbreak. Stores and restaurant closures have increased over the last year speeding up a process that was already underway.

As we ease into a post-pandemic environment, retailers face the challenge of drawing people back into their brick-mortar stores and rebuilding brand loyalty which may have dimmed during the upheaval.


Restaurants will be creating spaces in which people will feel comfortable dining. According to Arlin Markowitz, Executive Vice-President of the Urban Retail Team at CBRE in Toronto, space allocations for restaurants will change.

"I think people are rethinking larger space and thinking about how to best include patio space into their potential retail restaurant space. Patios have never been so important and I think that will be a permanent change."

Retail landlords will also be looking at essential-needs tenants like banks, pharmacies, grocery stores and liquor stores to shore up their rent rolls. Unenclosed retail will be seen in a different light post-pandemic, and curbside pick-up options will likely stick around.

As a result of COVID-19, offices will be redesigned to ensure that individual workers have more space to move around. Open-office plans will be reconfigured, and flexibility will be built into the floor plans.

"The open-office plan concept, as we know it today, will be a trend of the past. Issues with noise, inability to concentrate and numerous distractions were already creating issues with productivity. Square footage per employee was shrinking to levels that, in some cases, were precariously close to violating codes. The move toward efficiency and lowering costs — while still important to the corporate bottom line — will now give way to flexibility, resilience, employee satisfaction and productivity," Maria Sicola, Founding Partner of CityStream Solutions told NAIOP's Development magazine.

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

Many businesses will be restructuring supply chains to mitigate the future risk of disruption. According to Frank Crivello, Chair & Founder of US real estate firm Phoenix Investors, this could mean reshoring operations and regionalizing suppliers—both of which could strongly benefit the industrial real estate sector.

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.

JLL has estimated that demand for industrial real estate in the US could reach an additional 1 billion square feet by 2025. Along the same vein, CBRE has projected that Canada will need about 40 million square feet of additional warehouse space over the next five years in order to accommodate the growth of online shopping that grew exponentially during the pandemic.

Incorporating wellness features into a building will become a necessity because of COVID-19. Over the last few months, people have become more interested in the role that indoor environments play in our health and wellness.

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 importance of ventilation and air quality will continue beyond COVID-19 as more and more studies show a correlation between fresh air and the reduction in the spread of viruses.

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

## 10. REIMAGINING THE POST-PANDEMIC CITY

**Cities exploring ways to eliminate pandemic exposed inequities**

The disruption of the last year has begun a series of conversations around the 'post-pandemic city.' How can the city be designed or redesigned so that it is more equitable and more sustainable?

One of the concepts gaining traction is the circular economy. Going far beyond the idea of recycling, it is a complete rethinking of our current linear industrial economy, which uses finite resources to make products that are consumed and eventually thrown out.

The objective of the circular economy is to extract as much value as possible from resources, using products for much longer and creating new products out of discarded ones.

The circular economy designs out waste, pollution and other negative consequences of economic activity that harm human health and natural systems. These wastes includes toxic substances, greenhouse gas emissions, air, land and water pollution, and traffic congestion.

Implementing the circular economy in cities can bring tremendous economic, social, and environmental benefits.

According to the Ellen MacArthur Foundation, which has been studying the circular economy since 2011, the implementation of a circular economy vision could foster the emergence of:

- New growth and business opportunities support skills development and jobs
- Liveable cities with improved air quality, reduced pollution, and enhanced social interactions
- Resilient cities, reducing reliance on raw materials by keeping products in use and balancing local production with global supply chains

In Baltimore, the Waste to Wealth program rethinks three of the city's largest waste streams – construction, wood and food waste. As the value from these waste streams is recaptured, new jobs and products are created. For example, the deconstruction programme in Baltimore deconstructs vacant houses in Baltimore brick by brick. The materials are restored, along with their value. This initiative has grown into a U.S. $4 million business and has created six to eight times more jobs than the normal demolishing process.

In 2020, the world's largest furniture maker, Ikea, announced a new strategic partnership with the Ellen MacArthur Foundation and has committed to becoming a fully circular business by 2030.

This Spring, in collaboration with the City of Montréal, Fondaction is preparing the launch of a $30 M investment fund dedicated to the circular economy. This new investment vehicle will aim to finance and support SMEs with innovative business models or those who wish to transform their model by integrating circularity principles, in particular, to reduce greenhouse gas emissions or the production of residual materials.

The pandemic will likely impact the way people move around the city. Using shared transportation will continue to be perceived as a health risk and will lead to an upsurge in micromobility – the use of bicycles, e-scooters and other personal motorized vehicles.

Montréal announced the creation of more than 320 kilometres of new pedestrian and bicycle paths across the city to facilitate this greener way of travel.

Because transit ridership has plummeted since the onset of the pandemic, there was worry that transit agencies would have to cut services drastically, but provincial and federal funding has helped to keep the system running. Even though many people have chosen to temporarily forgo public transit, it has been essential for getting frontline workers to their places of work.

In Montréal, service has been maintained at 2019 levels despite the fact that ridership is only 65% of what it was before COVID-19, according to Luc Tremblay, CEO of the Montréal Transit Corporation. The decline in ridership will impact the budget by about $1 B between 2020 and 2022.

Despite reduced ridership, the government has announced a significant expansion to Montréal's light rail system with the addition of 23 new stations. Construction is set to begin in 2023. "Build it and they will come," Tremblay says.

The pandemic will cause people to become more reliant on their immediate neighbourhoods to bring them the goods and services they require.

"The 15 Minute City" is an idea that was developed by Professor Carlos Moreno at the Sorbonne in Paris. The definition of it is that everything that you need on a daily basis – your home, work, shops, schools, healthcare – is located within a 15- minute walk or bike ride. It is a concept that is being embraced in cities such as Paris, Edmonton, Portland, Detroit, Dallas and Chicago.

It is also gaining traction during COVID-19 to promote equity among the inhabitants of a city, ensuring that everyone has access to necessities without needing a car to get there. However, Jay Pitter, a Toronto- based urban designer, believes that this concept cannot reverse the "segregation that has been embedded into city planning" without significant intervention and investment.

However, the C40 Cities Climate Leadership Group pledged last May "to build a better, more sustainable and fairer society out of the recovery from the COVID-19 recovery." The cornerstone of the group's policy agenda is the transformation of the world's megacities into "15- minute cities." C40 is a network of the world's megacities committed to addressing climate change and has 97 member cities, including Montréal, Toronto and Vancouver.

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