Top 10 Real INSIGHTS

2021 RealREIT

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1. UNCERTAINTIES THREATEN CANADIAN ECONOMY

Delta variant, election, inflation all could pose challenges to economic recovery

While Canada's high vaccination rate will aid the country in avoiding the worst of the Delta-driven fourth wave, there are signs that the variant's spread is causing a global slowdown. Markets and supply chains are being affected in the US and in China. Furthermore, the International Energy Agency has warned that a global slowdown caused by the highly contagious Delta variant will lead to a decline in oil demand.

In August US Federal Reserve Chair Jerome Powell, called the Delta variant a "wild card" for the global economy.

While Canadians headed to the polls on September 20, Peter MacKay, former Minister of Foreign Affairs and National Defence, told BNN Bloomberg that the fourth wave was one of the biggest issues on the campaign trail.

In addition to the variant, Canadian voters have indicated that their concerns are centered on the economy and on creating affordable housing.

"The biggest domestic vulnerabilities are those linked to imbalances in the housing market and high household indebtedness," Governor of the Bank of Canada Tiff Macklem told reporters. "These are not new, but they have intensified."

A big driver of housing demand in Canada is immigration. Right now, Canada is in the middle of a very ambitious immigration plan and is on track to bring 401,000 newcomers to the country in 2021.

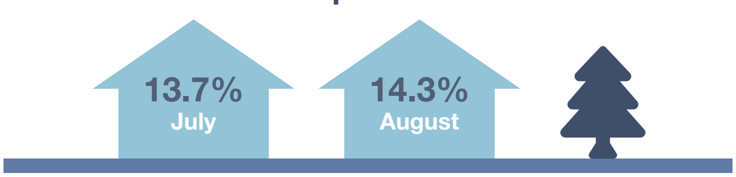
In October 2020, the Federal Liberals announced the 2021-2023 Immigration Levels Plan. The plan sets an immigration target of about 1% of the population for the next three years.

Mark Kenney, President and CEO of CAPREIT, has stated that in order for there to be responsible immigration policy, there must be responsible housing policies in place which needs to come from all levels of government.

In July, inflation grew to its highest level since May 2011. At 3.7% it is higher than the 3.1% inflation rate that was measured in June and it was 30 bps higher than economists were expecting.

Statistics Canada reported that the homeowners' replacement cost index, which is related to the price of new homes, went up at 13.7% in July – the fastest hike since 1987. In August, the index moved up even further to 14.3%.

Homeowners' Replacement Cost Index



The rising price of cars was also a major contributor to rising inflation. Passenger vehicle prices rose 5.5% in July. The rise, according to StatsCan was due in large part to global shortage of semiconductor chips.

The Bank of Canada (BoC) forecasts that inflation will run about 3% into 2023 which is higher than its 2% target. However, Macklem will be monitoring inflation closely. "Sure, there is some uncertainty about this. We will be watching these effects; we will be watching the evolution of inflation very carefully."

In the meantime, the BoC has reduced stimulus measures in the form of weekly bond purchases to $2 billion from $3 billion.

BMO Chief Economist Douglas Porter expects the Canadian central bank to wind down their quantitative easing program by early 2022, which would set the stage for rate hikes within the following 12 months.

2. THE PANDEMIC HAS UNEQUALLY AFFECTED REIT PERFORMANCE

Some REITs hit harder than others during the pandemic but index is up 25% so far in 2021

Before the onset of the COVID-19 pandemic, the Canadian REIT sector was experiencing a boom. The S&P/TSX Capped REIT Index had just reached its highest value in 10 years.

However, since the pandemic, the REIT sector has been battered with most seeing their unit prices drop. The second quarter of 2020 brought the largest ever year- over- year decline in quarterly earnings at negative 13%, according to Carolyn Blair, Managing Director at RBC Capital Markets Real Estate Group.

Although the markets have rallied in the last 5 quarters, some REITs have not fully recovered especially the REITs that focus on the hospitality, office and retail sectors.

National office availability had increased from 11.6% in Q1 2021 to 15.4% at the end of the second quarter, Altus Group reports.

The office market faces challenges caused by the delay in workers' return to the office and possible longer- term structural issues caused by permanent shifts in demand for office space due to work from home, according to Nareit but it anticipates that occupancy and rents will stabilize and begin to recover later in 2022 or early in 2023.

The hospitality and retail property markets have stabilized Nareit observes, but are unlikely to see significant improvement until travel volumes and shopping patterns get much closer to pre-pandemic patterns.

Benefitting from the increase in online shopping and the growth in demand for distribution centres, Industrial REITs did exceptionally well. Between September 2019 and September 2020, this category of REITs reported an average weighted return of 11%, the National Post reports.

Despite a softened rental market during the first year of the pandemic, residential REITs also managed to do well. Government support programs helped keep rent defaults low. As long as housing prices remain unaffordable, there will be continued demand for rental housing.

To adjust to the current market conditions and as a hedge against an uncertain future, some REITs have cut their distributions to shareholders. By the beginning of 2021, at least 11 Canadian REITs had reduced their distributions. One of which was RioCan REIT which cut its monthly distribution by one-third which strengthened their balance sheet by $152 M. Jonanthan Gitlin, President and CEO of RioCan stated that it was a difficult but necessary response to the pandemic's effect on their cash flow.

With interest rate hikes on the albeit distant horizon and inflation on the rise, market uncertainty remains.

Real estate and REITs have historically been resilient during periods of inflation. Historically, both rents and real estate values tend to increase along with all other price levels, providing real estate owners with higher revenues, although in inflated dollars.

Historical data for REIT returns supports this view. Nareit has observed that REITs have outperformed the S&P 500 during periods of both high and moderate inflation, while slightly underperforming during low inflation periods.

Currently REITs are benefitting from the wide availability of debt at interest rates that are – for now - at historically low levels. Competition among lenders to place debt has been robust which has driven rates even lower.

There is further reason for optimism. At the end of H1 2021, CBRE, Vice Chair Paul Morassutti pointed out that TSX REIT index, was already up 25% in 2021 a stunning reverse from the -13% return in 2020.

"Net asset values have not moved at that pace, they've only moved moderately, but the momentum is absolutely going in the right direction," he said.

All tolled, Canada's REITs generally came into the pandemic in good financial condition.

"Most of the Canadian REITs went into the pandemic with strong portfolios and healthy balance sheets," says Rothschild, the Canaccord Genuity analyst. "If this happened five or 10 years previously, it would have been a lot worse."

3. PANDEMIC AN ESG ACCELERATOR

REITs expand their commitment to ESG in response to climate change and heightened equity awareness

REITs have significantly expanded their commitment to ESG practices in recent years. ESG reporting is widespread and still growing among REITs of all sizes.

REITs have lately focused on environmental initiatives, and these are continuing with projects like renewable energy generation. During the pandemic however, the social component of ESG has been prioritized among companies.

In the first year of the pandemic over 330 institutional investors managing more than USD $9.5 trillion in assets made a commitment to protect their employees as well as their communities.

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

Nareit released the third annual report on the REIT industry ESG performance in 2021. It revealed that the percentage of REITs with an equity market cap under USD $5 billion that are reporting on ESG jumped from 43% in 2018, to 71% in 2019, to 97% in 2020.

REITs Reporting ESG

43% 2018 → **71%** 2019 → **97%** 2020

REITs are also increasingly making public commitments toward meeting ESG goals and targets—strengthening transparency and accountability for taking concrete, tangible sustainability action. The report identified that 60% of US publicly traded REITs publicly disclose ESG goals. This is an increase from 53% in 2019.

Boards are increasingly refreshing their members. In doing so, REITs are strengthening diversity and representation across their leadership bodies. Data has shown that companies with a balanced board composition achieve better financial results and have a lower risk profile compared to their peers.

Programming around community outreach and development is widely reported across the industry and growing in prevalence year-over-year. In 2020, 100% of respondents reported having community engagement programs. These efforts primarily took the form of financial or in-kind support of local non-profits, engagement with local students, and knowledge-sharing with local businesses.

During the pandemic, REITs expanded initiatives to grow, develop, and maintain a healthy and engaged workforce to support their employees' mental health and physical well-being. 75% of REITs offered flexible employee work programs in the last year, compared to 63% in 2019.

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

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

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

In fact, "investor demand for ESG products spiked as the pandemic put a lens on climate change and diversity issues and businesses and governments looked for ways to fund their transitions to cleaner and more equitable operations," The Financial Post reports. Issuers had sold $13.6 billion in ESG-linked bonds as of July 21 — almost as much as the $15.8 billion sold all of last year, according to FP Data.

Dream Industrial REIT sold $400 million in green bonds in June, and Allied Properties REIT issued $600 million in green bonds in February — the largest ESG-linked bond issuance from a real estate company in the past two years.

4. DEVELOPMENT A KEY STRATEGY FOR REITS

Millions of square feet of density is being added to REIT-owned properties

In a trend that predates the pandemic, Canadian REITs are taking underutilized properties and adding new uses and more density to them.

The potential build-out for some Canadian REITs, particularly those with retail sites, is larger than their current gross leasable area, RENX reports.

RioCan REIT is turning transit-oriented retail assets it owns into mixed-use projects with a substantial mix of residential.

In Calgary, RioCan has partnered with residential developers in a $70 million mixed-use 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, the REIT 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 wasn't the highest-and-best use for that site any longer," said Andrew Duncan, Senior Vice-President of Development at RioCan REIT in an interview with RENX.

Choice Properties REIT also has a number of densification projects underway. In Toronto's east end, plans are underway to transform the 19 -acre site of the Golden Mile Shopping Centre into a 11 building development that will add 2,500 residential units as well as 260,000 square feet of additional retail, green space, private and public community amenity space. The community will be linked to two Crosstown LRT stations.

Choice Properties' development pipeline includes 4 other mixed-use projects, 15 projects on vacant land, 6 projects dedicated solely to residential use and 17 sites that will expand current retail uses., the Financial Post reports.

Smart Centres 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 redevelopment 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 multistorey 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 older store closed freeing 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 terminus of the GTA's 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 also incorporate a transit hub.

First Capital REIT will partner with Pemberton Group to develop the 28- acre former Christie Cookie factory site located in Toronto's west end along Lakeshore Avenue. This will be First Capital's largest development and involves multiple phases. Once built out the site will contain residential, retail and commercial uses, including approximately 750 affordable housing units and a minimum of 3,000 family-oriented units.

CT REIT and Oxford have submitted a Master Plan development for the Canadian Tire headquarters located on the southwest corner of Yonge and Eglinton that would contain 5 buildings ranging in height from 45 to 70 storeys containing 2,701 residential units as well as retail and commercial uses.

"Projects are getting bigger and more complex, and we're seeing a lot of mixed-use," said Altus Group Cost and Project Management Senior Director Marlon Bray.

"They're looking long-term at pipelines and thinking of the future and not just what's going to happen tomorrow," he said.

Allied Properties REIT Executive VP of Development Hugh Clark remains a strong advocate of the "live, work and play" concept and believes it will continue to prosper. He said mixed-use projects need amenities to help people socialize.

5. INVESTORS CANNOT AFFORD TO IGNORE CLIMATE CHANGE ANY LONGER

Investors who do not factor climate-related risks need to recalibrate expectations – Blackrock

Over the past few years, the frequency of extreme weather and climate-related disasters with losses exceeding USD $1 billion has skyrocketed. Of the 10 costliest natural disasters in 2020, six occurred within the US., according to Munich RE.

And there's been no reprieve from climate-related disasters this year. Two months into 2021, Texas suffered a deep freeze, with temperatures dropping below zero across much of the state. This summer has been marked by devastating wildfires and hurricanes. In BC more than 8,580 square kilometres have burned as of mid- August 2021, the third- highest number on record. Also this summer, severe flooding in Henan, China, killed more than 300 people after 201.9 millimetres of rain fell in one hour.

Yet, the extreme weather and resulting losses seem to have had little or no impact on some investors. In spite of the winter freeze, Dallas-Fort Worth led the way in apartment investment in the first half of 2021, with USD $7.7 billion in properties changing hands, according to CBRE. That represented 8.4% of total sales in the United States in that time period.

Many investors are ignoring the alarm bells when it comes to their acquisition strategies. Byron Carlock, national partner and real estate practice leader with professional services firm PwC, says climate change has yet to emerge as a significant factor in investment decisions.

> "There's been a lot of talk about climate change, and we've been looking for it to show up in transaction activity, but it's not," Carlock notes. "Prices are still holding up, and thus far, climate change is still considered an insurable risk, though insurance rates have gone up dramatically."

A 2019 report by BlackRock Investment Institute pointed out that risks could include higher insurance premiums or decreased insurance coverage, rising operational costs such as energy use for air cooling systems and greater CAPEX needs to make buildings more resilient.

BlackRock concluded that "investors who are not thinking about climate-related risks, or who view them as issues far off in the future, may need to recalibrate their expectations."

However, many other large investment companies are taking serious action against climate change.

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 buildings 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.

In 2020, Hudson Pacific Properties achieved 100% net-zero carbon across all operations through a combination of energy efficiency, on-site renewables, off-site renewables, and carbon offsets.

Investment firm Brookfield Asset Management Inc. has named former Bank of Canada and Bank of England Governor Mark Carney as its head of transition investing toward a post-carbon world.

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

Rating company Moody's Corp. recently acquired a majority interest in Four Twenty Seven.

6. OFFICE DEMAND TIED TO RETURN TO WORK

Companies are delaying plans to return to the office this fall

With the onset of the Delta variant, many companies have postponed the decision to call employees back to work in September.

Wells Fargo and Chevron have delayed their September return while Amazon and Facebook won't bring their employees back until early 2022.

Employees are working from home a lot longer than initially forecast, making it harder or more disruptive for them to return them to the office. New routines have been developed during the pandemic and people have gotten used to not commuting to the office. There is a belief that the return to the office could weigh on productivity or make it harder to attract new employees.

"If you have a little blip, people go back to the old way. Well, this ain't a blip," said Intel CEO Pat Gelsinger.

As companies chart a way forward many will be espousing hybrid work model, where some days are in the office and others are at home.

RBC is in the process of creating hybrid, flexible work arrangements for its employees. "We believe that flexible and hybrid work models are here to stay, and that the role of the office has forever changed," CEO Dave McKay stated. "This means we're going to hold onto the best of what we've learned over the past 18 months and recapture the best of everything we've missed from the pre-pandemic world."

Analysts are trying to predict the effect hybrid work will have on the real estate industry and on office REITs. "Rent collection has been fairly resilient, even with widespread remote work during the pandemic, due to tenants maintaining ongoing operations and long-term leases with expirations of generally less than 10% per annum over the next few years," according to Fitch Ratings.

This past August, State Street Corp. announced plans to vacate its offices in Manhattan. It plans to move 500 employees out of New York City and into coworking spaces, existing offices in the suburbs or they will work from home.

After State Street made this decision stock prices for some of the largest Office REITs in the US dropped. SL Green Realty Corp. dropped 1.1%, according to Seeking Alpha.

"We absolutely see the value for having physical space in the area that serves as a hub for employees and clients in the NYC area but we also know this is a tremendous opportunity to reimagine and redesign the workplace in a very fit-for-purpose way that improves performance, productivity and our employees' experience," stated State Street spokesperson Edward Patterson.

For companies trying to get their employees back into the office, it may take a bit of enticement.

"I think that people will be surprised that we're going to need to make offices exciting, we're going to have to have more facilities and we'll probably need more space per person," Michael Cooper, Chair and CEO of Dream Office REIT, told BNN Bloomberg.

"I think a lot of people are going to offer their employees more flexibility. That doesn't necessarily mean less office space. So, there's a lot to play out and I think it's going to take minimum of a year before we have a good handle on it," Cooper said.

7. REBOUND IN HOUSEHOLD SPENDING GOOD NEWS FOR THE RETAIL SECTOR

Retail Sector hit with labour shortages as pandemic continues

There was a sharp rebound in consumer spending in June. This was due to households starting to spend some of the huge savings built up during 2020 and the first part of 2021. Going forward, the Conference Board of Canada (CBofC) forecasts that the composition of spending will change as households spend less on goods and more on services like travel.

"There's nothing like some retail therapy to cure the post-lockdown blues," Royce Mendes, senior economist at CIBC Capital Markets, said in a note to clients.

Retail sales rose by 4.2% month-over-month in June, recovering ground from a 2.1% decline in May but this increase was below Statistics Canada's preliminary estimate of 4.4%.

Six out of ten provinces saw retail sales rise in June. Nova Scotia experienced the sharpest increase (+16.3%) and Newfoundland saw the steepest decline (–2.6%). Ontario accounted for 79% of Canada's retail sales growth in June.

6/10
provinces saw retail sales rise in June

SHARPEST INCREASE: Nova Scotia **+16.3%**

STEEPEST DECLINE: Newfoundland **-2.6%**

79%
Ontario accounted for 79% of Canada's retail sales growth in June

An acceleration in vaccination programs in June prompted some provinces to ease restrictions. This allowed many Canadians to dine out, book vacations and engage in social activities. All of which meant more spending.

Preliminary estimates for July are not as rosy and suggest a decrease in retail spending by 1.7%.

"Unless the pandemic's fourth wave spoils the party, consumer spending will power Canada's economic growth for the rest of this year. Most of the boost is likely to come from customer-facing services that were hit the hardest last year, such as travel, recreation, and restaurants. Middle-and higher-income households will drive most of the spending. But, given the ongoing uncertainty, lower-income households are likely to hold on to a larger proportion of their savings for a rainy day." CBofC

However, in the United States, the situation is still very serious. Reports coming out of the US blamed a sharp fall in retail sales on the spreading Delta variant there. The variant is also keeping diners from eating out. Restaurants are pleading for more government support to make it through this latest wave.

In the face of this latest wave, retailers race to innovate to stay ahead of the game.

Amazon is contemplating opening more bricks and mortar stores the Wall Street Journal reports. Right now, it operates about 25 Amazon 4-Star stores. The stores, which are about 4,000 square feet sell a mix of consumer goods. It is planning a new format department store. At 30,000 square feet Amazon's department store is smaller than traditional formats. Its plan is to sell a variety of different products including clothing, technology home goods.

Over the last year, the company has been opening Amazon Fresh grocery stores in major US markets.

The company is also experimenting at physical stores with a "Just Walk Out" shopping experience. "Just Walk Out" technology automatically detects when products are taken from, or returned to the shelves, and keeps track of them in a virtual cart. When you're done shopping, you can just leave the store.

At the beginning of September, Walmart announced that it would be hiring 20,000 supply chain workers in advance of the holiday season. Other large retailers are going on hiring sprees as well. Grocery chain Aldi plans to hire more than 20,000 workers in the US. The Dollar General has hired more than 50,000 employees since July and Amazon is looking to hire 55,000 more workers to keep up with demand. Retailers are experiencing labour shortages and are offering signing bonuses and increasing their hourly rates.

According to Benjamin Tal, Deputy Chief Economist at CIBC, Canadian businesses that took advantage of the wage subsidy may have an easier time getting workers to return than their US counterparts, largely because that support came directly from the government instead of through employers.

"A wage subsidy program that is aimed at keeping the employer-employee link intact might be more successful in motivating workers to return to work as opposed to a direct income support," he reported in May.

Labour participation rates are higher in Canada than in the US. Frances Donald, Chief Economist at Manulife Asset Management. "For that reason, its likely we don't see the same level of job shortages here in Canada as in the US. But we're still likely to see mismatches in demand and supply of labor."

8. CASH STOCKPILES AND CHEAP DEBT PROMPTING BUYING FRENZY

REITs and REOCs involved in $1.3 B in acquisitions in Q1; momentum continues in Q2

In a recent report CBRE revealed that REIT/REOC groups accounted for 12.2% of national investment volumes in the first quarter of 2021. Much of the activity was concentrated within the 'beds and sheds' assets classes.

These are some of the major transactions that have occurred so far in 2021.

In the residential sector, Centurion REIT acquired the 171-unit Montfort Manor multifamily property in Ottawa for $44 million.

Student housing REIT Alignvest acquired two Waterloo properties: Bridgeport House for $61 million and Preston House for $39 million.

PIRET bought a 300,000 square foot industrial building located at 8000 Henri-Bourassa Blvd W for $41.3 million.

Skyline Commercial REIT bought a half a million square foot distribution centre in Calgary in Q2. The private REIT acquired the property, which is leased to Canadian Tire, for $67 million. Earlier in the year it bought a four-property industrial portfolio from IMCO for $132 million. The four properties contain 11 buildings and totals 1,177,202 square feet.

In a deal that will add 2.5 million square feet of gross leasable area to their portfolio, Nexus REIT announced in August that it will acquire 9 industrial and distribution properties in four different provinces: Ontario, New Brunswick, Saskatchewan and Alberta. Once these transactions close, the REIT will have made $640 million in acquisitions so far in 2021.

In a series of dispositions, First Capital REIT is selling three of its western retail properties; two in Airdrie, outside of Calgary and one in Langley BC. The company is also selling 50% interest in a mixed-use development in downtown Toronto to Centurion Apartment REIT.

ProREIT acquired an industrial portfolio consisting of 283,495 square feet from Summit REIT. The portfolio, situated in Ottawa, was bought for $49.2 million.

CAPREIT acquired two Montreal rental properties totalling five buildings and 154 suites for $30.6 million. Located in the west end of the city, occupancy at both properties was 95.5% at closing, and both had recently undergone significant exterior and common area renovations.

The company also acquired 485 units in Oshawa in the second quarter of this year. The Borges & Raynar portfolio in Oshawa consists of four buildings and was acquired for $103.7 million.

InterRent REIT bought 920 Inverhouse Drive in Mississauga for $32.7 million. The property consists of 95 units.

Dream Industrial REIT made two acquisitions in Montreal in Q1: 401 Marie-Curie St – a 527,400 square foot building for $114.2 million as well as 3055 Anderson Street a 365,700 square foot facility for $61.8 million.

In Q2 the REIT announced plans to sell 75% of 20 US industrial properties containing a total of 29 buildings and 7.3 million square feet. The assets which sold for CAD $602 million are 98% occupied, with a weighted average remaining lease term of 3.6 years, RENX reports. Dream also plans to sell its three remaining US industrial properties to the same purchaser.

Allied REIT acquired the office component of the Place Gare Viger redevelopment in Montreal from Jesta Group. The REIT will pay $128.2 million for the Gare Viger and the land, and $121.4 million for the new office tower.

In the US, Real Capital Analytics (who was just acquired by MSCI for USD $950 million in a whopping all cash deal), reports that investment activity in the US has rebounded to pre-pandemic levels. And as demand for industrial and multifamily properties soared, cap rates have compressed and prices have soared. According to RCA apartment prices were up 12% year-over-year in June, while industrial prices were up 9.8%.

“There's a ton of money out there, valuations are through the roof, the debt markets are wide open,” said Steven Siesser, Partner and Private Equity Chair at US law firm Lowenstein Sandler.

So far this year, there has been a surge in M&A activity within the sector, Bisnow reports. In the US, real estate M&A deal value reached USD$44.2 billion in H1 2021. This is an almost 400% increase from the same time the year before.

US retail REITS Kimco Realty and Weingarten Realty merged under the Kimco name last April. The combined company is now valued at USD $20.5 billion. Their combined portfolio includes 559 grocery-anchored shopping centres and mixed-use assets totaling 100 million square feet of gross leasable space, according to a press release.

On this side of the border, Blackstone REIT is in the process of acquiring Toronto- based WPT Industrial REIT in a cash deal valued at USD $3.1 billion, including debt. The non-public BREIT is paying USD $22 per unit for WPT – 17% over the closing price on August 6.

WPT focuses on distribution and logistics properties and owns approximately 110 properties in the US. The Financial Post reports that even prior to the transaction, WPT stocks had rebounded by 28% since the beginning of the year.

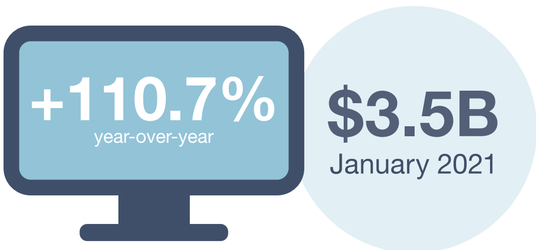
9. SO MUCH DEMAND & SO LITTLE SPACE

Demand for industrial space shows no sign of letting up. Current level of absorption ‘unsustainable’.

During the pandemic, the shift to e-commerce was accelerated with store closures and limits on how many people could shop in person. This not only forced many to shop for food and other essential items online, it also forced more retailers to pivot to online sales.

Statistics Canada reported retail e-commerce sales were up 110.7% year-over-year reaching $3.5 billion in January 2021.

Retail E-commerce Sales



A recent report by CBRE found that for every $1 billion in e-commerce sales, 1.25 million square feet of additional warehouse space is required. Online spending by Canadians is estimated to reach $92.7 billion by 2025 and net-new warehouse requirements from e-commerce-related demand are expected to exceed 40 million square feet over the next five years.

The national industrial vacancy rate decreased by 60 bps from Q1 to 2.3%. Correspondingly, national average rental rates increased, almost hitting the $10 per square foot level at $9.82. Rents in Vancouver surpassed $15 while in Toronto rates have bypassed $11 per square foot.

At the end of Q2, over 27 million square feet of industrial product was under construction across Canada. One third of the new construction is occurring in the GTA while 4.5 million square feet is under construction in Montreal and 5.5 million square feet in Vancouver. However, this is level of development is not enough to meet current demand.

In a single quarter, the amount of space available for lease or purchase decreased by 35% in Vancouver, 28% in Montreal and 25% in Toronto.

CBRE reports that due to the lack of space, the current level of net absorption is unstainable. At the current pace, London and Waterloo would run out of space in 3 months’ time, Vancouver in 6 months, and Toronto and Montreal in 9 months.

To address the shortage of distribution space, Granite REIT closed on a 92.2-acre parcel of land in Brantford, Ontario in August. President and CEO of the REIT, Kevan Gorrie referred to the area as an “active and rapidly growing distribution node.”

Granite intends to develop a multi-phased business park comprising about 1.7 million square feet of distribution and logistics space. The site is serviced and capable of accommodating buildings ranging from 100,000 to 500,000 square feet.

The REIT plans to begin the first phase of construction in Q3 2022. It anticipates a stabilized development yield of approximately 5.5% from the property.

10. HEALTH & WELLNESS FEATURES DEMANDED BY OFFICE TENANTS

Landlords are seeing significant ROI in pursuing healthy building certification

Even prior to the pandemic, the importance of healthy buildings had been gaining traction. There has been growing evidence that good air quality and ventilation in buildings promote well-being and improve cognitive performance. Now, experts say there’s a direct connection between the healthy built environment and the fight against COVID-19. Tenant are demanding that their health be made a priority before they return to work.

There’s been a general, larger awareness for what wellness now looks like when people return to work,” Narita Cheah, CO-founder and Director of design firm Paperspace Asia.

There are two certification frameworks that have emerged within the past five years to respond to the need for healthier buildings: the WELL Building Standard (WELL) and Fitwel. These certification programs can help organizations address health and well-being at the asset and fund levels, and contribute to GRESB scores.

Both rating systems can be used internationally. Both can be applied to different asset classes, including office and residential. Both systems can work for whole buildings, partial buildings, or tenant improvements. Both have been increasingly sought after during the pandemic.

The Fitwel certification has a significant and expanding footprint. Between 2019 and 2020, its overall global use rose 190% year over year and in Q4 2020, it soared by 640%. In Canada, there was 144% growth between 2019 and 2020, a demand being driven largely by tenants.

The Centre for Building Performance's new Viral Response Module, which supplements its global Fitwel building certification was made available last year. It was created in response to industry demand for guidance on optimizing buildings to mitigate transmission of COVID-19.

The module, is an annual certification affirming that a property is in compliance with viral mitigation policies and practices that are backed by the latest research and body of evidence. "For this module, we looked at emerging research unique to COVID-19 as well as research on other viral diseases to ensure that while the module addresses COVID-19, it also prepares real estate portfolios for future health emergencies that involve viruses," said Joanna Frank, President and CEO for the Center for Active Design.

The module is divided into three areas:

1. enhancement of the indoor environment to mitigate disease transmission
2. encouraging behavioural changes such as mask- wearing and social distancing
3. building trust among occupants that the space they are using is safe

The module also covers human health components such as the need for adequate sick leave policies.

BentallGreenOak achieved VRM Approval for 17 US portfolio properties in Fall 2020.

Also 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 is President and CEO of the International WELL Building Institute.

Canada's leadership in the global adoption of WELL programs is notable, having over 100 million square feet enrolled. Brookfield Properties, is one its largest proponents having achieved the WELL Health-Safety Rating at 114 retail assets and nearly 100 office properties totaling more than 200 million square feet in 10 major markets across the US and Canada, making it the largest office and combined office and retail portfolios to achieve the designation as of April 2021.

"WELL and Fitwell Building certifications have been increasingly adopted over the past decade, turning owners' and occupiers' attention from sustainability alone to a more wholesome view of the built environment and how people behave within it," says Robyn Baxter, vice president, workplace strategy and innovation with Colliers Canada. "We can expect to see additional dimensions to these, reflecting post-COVID concerns and preparing for potential future pandemics.

There is significant ROI attached to attaining a healthy building certificate. Effective rents are between 4.4% and 7.7% more rent per square foot than their nearby peers that are not WELL or Fitwel certified, according to research by MIT's Real Estate Innovation Lab, which analyzed public databases and rents in 10 major American cities.

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