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INSIGHTS

Calgary Real Estate Forum 2021

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ISSUE 66

TOP 10 | REAL INSIGHTS | Calgary Real Estate Forum 2021 | ISSUE 66

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1. CALGARY'S GREATER DOWNTOWN PLAN: WHAT YOU NEED TO KNOW ABOUT THIS $1B INVESTMENT INTO THE CITY CENTRE

$200 M approved to begin, with major investments in Art Commons, real estate conversion projects, and the 'downtown vibrancy capital program'.

Calgary's long road to recovery starts in its downtown. The Calgary City Council is ramping up activities to revitalize downtown as part of Calgary's long-term resilience strategy. The first $200M out of the $1B investment into the city center has already been approved. While there is a significant emphasis on art and culture by allocating $80M into the first phase of the Art Commons transformation project, the rest is going into real estate and infrastructural developments.

$45M will go into converting unused office spaces into residential properties. This strategy is something the city has worked on since the 2014 recession, where downtown commercial spaces fell to unuse due to mass layoffs. The tools are also available to manage this investment with optimal outcomes. Having partnered with the Calgary Downtown Association, private developers, and community partners to implement creator-led projects that rethink under-utilized spaces downtown, 1M is another key player to follow.

Along with investments, tax policies will also play a key role. Although an existing initiative, CRL will provide a way to segregate property tax revenue increases. The aim is to bolster redevelopment in the Rivers District to fund further infrastructural improvements. The Canada Municipal Lands Corporation (CMLC) is then allocated funds to implement plans specifically targeting downtown initiatives.

Like Tax Increment Financing (TIF) used widely in the United States, Calgary's Community Revitalization Levy (CRL) provides a means to segregate property tax revenue increases that result from redevelopment in the Rivers District into a fund for infrastructure improvements. The city levies and collects the CRL through the property tax system and then allocates the funds to the Canada Municipal Lands Corporation to implement the plans.

These initiatives are meant to breathe new life into the 'ghost town' status of Calgary. The city has been hit hard due to recessions and falls in oil prices, but the pandemic further exacerbated it. According to a report by Avison Young, almost 13.5 million square feet of office space remains unoccupied, which is estimated to hold roughly 90,000 employees. Of note are locations like Western Canadian Place, North Tower (97% vacancy with 648,000 sq. ft. available), 901 on Seventh, with 597,000 sq. ft. empty and the Bow, the 57-storey tower that has reported 29% vacancy. All these properties are prime real estate and initiatives are pushing to repurpose them into affordable housing or other initiatives. Since the oil and gas sector made up the largest share of tenants downtown, industry trends suggest that repurposing and, ultimately, economic diversification, may be the most practical step forward.

Calgary's office vacancy rates are at all time high at over 30%, which is 3 to 4 times higher than other major markets like Montreal and Toronto. Even if the local economy were to diversify to alleviate the oil sector downturn, the employment trends are expected to get leaner. Workplace policies are also expected to change permanently as companies strategize what the best foot forward is. This means many jobs that are lost are unlikely to return. As Calgary pushes for investment in IT and sustainable energy sector, we can expect to see interesting developments to shift more people downtown to increase population density in the core.

Written by Namista Tabassum


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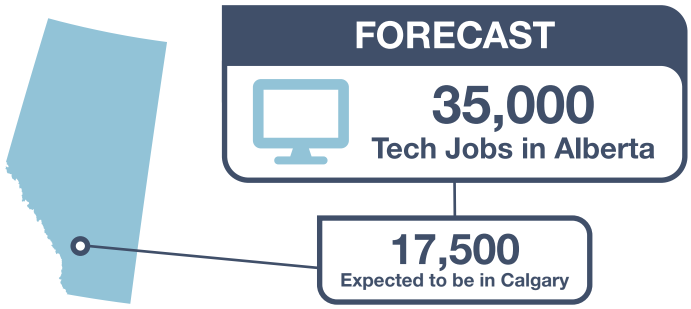
2. CALGARY'S INNOVATION AND TECHNOLOGY ECOSYSTEM: WHAT DOES THIS MEAN TO THE CITY'S GROWTH?

Alberta forecasted to spend $18.4 B through 2022 on Digital Transformation (DX) of Calgary Industries

Canadian expenditure on digital transformation (DX) was expected to reach $28 billion in 2020, with a growth rate of 7% despite the obstacles posed by the COVID-19 epidemic, according to the latest IDC Worldwide Digital Transformation Spending Guide. Unfortunately, due to the pandemic's effects, growth is anticipated to be significantly slower than in 2019, but to rebound fast in the following years (2021-2023), with a five-year compound annual growth rate of (CAGR) of 13%. These numbers indicate a shift in the trend of a dynamic globally connected world where the traditional boundaries of business are shifting. A more digital world is creating new ways to create value, work productively and interact synergistically. These DX trends are not limited to high-tech industries but Calgary's economy as whole.

IDC Canada predicted a 20 % increase in digital spending, which will be specifically on technologies and services to build disruption in business practices, products, and organizations across the board. This expected increase in digital spending also means a need for tech talent. ICTC forecasts 35,000 tech jobs in Alberta, 17,500 of which are expected to be in Calgary. This indicates a rapid expansion of the IT sector. The effect will ripple further into indirect employment of tertiary and linked industries. The key industries performing DX activities include Agribusiness, Creative Industries, Financial Services, Clean Energy, Life Sciences, Logistics and Manufacturing. New technologies like mobile, cloud computing, artificial intelligence (AI), sensor and data analytics gaining traction, industries now have lower barriers of entry and are ripe for disruption.



This rapid expansion of Calgary's digital economy is in alignment with Canada as well as the current global movement. Even in 2017, Statistics Canada released research valuing Canada's digital economy at $109.7 B – significantly larger than mining, quarrying and oil and gas. This indicates that Calgary's continued efforts to diversify its economy beyond oil and gas may be realized through DX. Moreover, the sustainable energy industry is projected to spend $1.9 B by 2022, with a 26% increase in DX in Calgary and a 20% increase in sector specific digital spending by 2022 according to Calgary Economic Development (CED). This will have a significant impact on local economic resilience and growth rates in GDP.

Other trends linking positively to the DX movement includes the innovation and startup ecosystem of Calgary. This market has continued to attract global attention as a city on the rise for its technology focused startups. The influential Global Startup Ecosystem Report (GSER) recognized Calgary as a city to watch out for during London Tech Week. Calgary was placed second in Canada as an innovation ecosystem with the 'bang for the buck' in terms of local tech fund raising, and one of the top 100 rising tech startup ecosystems in the world. It was also ranked among the top 20 cities in North America for finding inexpensive and talented tech labor. The startup community is predicted to triple in size and create 30,000 new jobs by 2031. The ecosystem is also being built to collaborate, with investment from local companies, government partnerships, industry, and non-profits. According to Hockeysticks, tech investments doubled year-over-year at $307M, with 34 deals from 62 investors (195% increase from previous year) in 2020, with no indication of slowing down. Most of these investments were in healthtech and fintech.

Infrastructural leaps are also being seen in connectivity. According to CED's recent 5G and Connectivity report, Calgary is at the top of the list of Canadian municipalities in terms of 5G development and overall connection readiness. This accomplishment is the product of years of collaboration between The Corporation and wireless service providers, government agencies, and community partners. The City's Fibre Strategy, municipal Wi-Fi, and Internet Exchange projects established a solid basis for innovation. Multiple parties are now cooperating under the Wireless Infrastructure Deployment Program on how to fairly grant access to City assets for wireless infrastructure buildout.

With these emerging trends, the biggest issue now facing Calgary is whether the city can maximize its growth from these upward trends. While overall tech spending increases, as do jobs forecasted, Calgary is facing a skills shortage. Montreal, Toronto, and Vancouver zoom ahead in terms of largest downtown tech occupiers. According to CBRE, Calgary scores 59.5% in their tech talent scorecard, ranking 6th in Canada. The score card was based on 13 metrics related to market depth, vitality, attractiveness of employers, availability of talent, quality of labor and gross operating costs. Calgary lagged due to its significantly lower scores in talent availability total gross occupancy of downtown offices. Furthermore, Calgary ranked 10th with tech talent making only 5.9% of total employment. Notable initiatives to meet these skill gaps include the EDGE UP program to assist displaced oil and gas workers find new jobs in tech, and the $30 M gift that SAIT received from Calgary philanthropist David Bissett. This gift has been used to establish a school for digital education for students aimed help create a pipeline of local tech talent. These converging DX trends are expected to cause long-term sustainable growth of the Calgary economy and increase downtown occupancy like other major Canadian cities.

Written by Namista Tabassum

3. REOPENING AFTER THE PANDEMIC: WILL CALGARY AND OUR OFFICE WORKPLACES CHANGE?

The pandemic exacerbated current trends in remote work, e-commerce, and automation, requiring up to an estimated 25% more people than previously projected to switch jobs.

According to McKinsey Global Institute, the pandemic exacerbated current trends in remote work, e-commerce, and automation, requiring up to an estimated 25% more people than previously projected to switch jobs. McKinsey's research suggests a strong correlation between disruption and levels of physical proximity in certain occupations. The most disturbed arenas would be medical care, personal care, on-site customer service, and leisure and travel – thus facing long-term instability in returning to work. Three key trends are emerging and reshaping the post COVID-19 workplace: a likely continuation of remote work and virtual meetings, faster adoption of automation and AI in work arenas with high physical proximity, and a shift in the mix of occupations. All of these will have a lasting impact and reduced demand of office spaces. The current skyrocketing vacancies are just a start. As technology and flexible work designs are normalized, companies are expected to have fewer employees, and reduce budget for physical workplaces.

With these shifting trends, CBRE reports on the predicted popularization of a hybrid work model – a mixture of remote and on-site work. At the global level, 49% of organizations are looking at 25 to 75% full-time remote workers. While workplace flexibility is not a new concept, a lot of organizations are adopting the digital-first attitude for task completion. There have been several reports of personnel hired during the epidemic who have struggled to integrate into teams while working remotely. And a recent CBRE study of 1,000+ office workers revealed unequivocally what people appreciated the most in the workplace after working remotely during COVID-19. The top perks of working in an office, according to employees, are interactions with coworkers (38%), in-person meetings (33%), and in-person cooperation (32%). And based on the trends of Facebook and Google looking to increase their office footprints and encourage 3-day on-site work weeks, the trends say that the physical workplace is here to stay, albeit in a reduced capacity.

To ensure employees, come back to work, organizations will need to establish distinct workplaces where people desire to work. This will result in increasingly consumer-oriented approaches to the workplace, with companies designing their workplaces to meet the demands of their employees. The conventional limits of where work is conducted are being redefined because of a large-scale experiment in virtual work owing to the coronavirus epidemic. However, the challenge is that there is no perfect approach to implementing the hybrid model. Some key issues would be correctly identifying which employees can work remotely without impacting productivity, maintaining workplace equity for all employees, and combating a disconnected workforce. Having an open communication with employees, communicating new policies, and investing in the right technology will be integral to the success of the hybrid model.

Taken together, these criteria imply that office space must provide enough value to entice employees to select it over virtual work environments. In summary, CBRE anticipates that the workplace will become more consumer oriented. Before COVID-19, corporations promoted placemaking initiatives and invested in flexible workspaces with the promise of hospitality services, flexible working conditions, and picture-worthy locations. It is estimated that most firms will require the same-sized footprint as before, but it will be rebalanced, with considerably more focus on We Space (kitchens, cafés, collaboration areas) vs Me Space, which will be replaced by desk-sharing in a hybrid model that promotes an activity-based work environment. Clients with longer leases or who need to make an immediate real estate choice are thinking about workplace modifications that reflect changing employee expectations, collaboration demands, and new methods of working.

Based on all outstanding results, CBRE advised a flexible mix of 50 percent working from home paired with organized team days in the office based on all outstanding variables and significant results. The business went on to break down which weekday activities could be completed efficiently outside of the office and which workday duties required in-person cooperation. The result was a hybrid work plan that enhanced organizational culture, increased team productivity, and reduced the company's real estate footprint by 21%.

4. GIVING OLDER ASSETS A NEW LIFE: A LOOK AT REPURPOSING EXISTING PROPERTIES AND SITES. HOW WILL $45M IN INCENTIVES IMPACT THE MARKET?

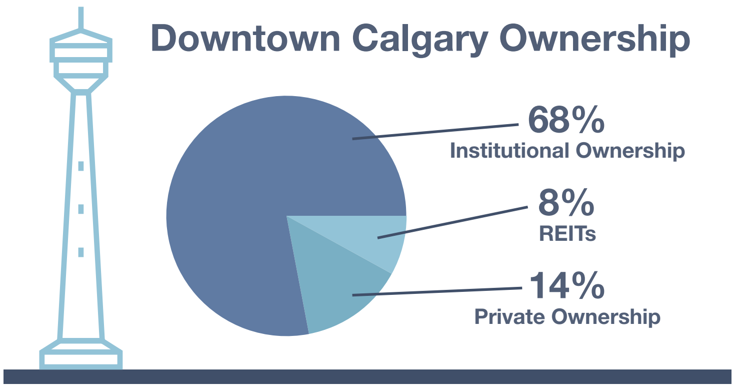
Policy experts advocate the repurposing of empty downtown office spaces to transform and future proof one of the country's hardest impacted office marketplaces.

Calgary has long been plagued by the ripples from the oil and gas sector and low downtown occupancy. The entire value of Calgary's office buildings has decreased by more than $14 billion between 2015 and 2019. To compensate, the city has slashed tens of millions of dollars in services and employment. This has reduced tax income and led to a surplus of unoccupied buildings. According to policy researchers Graham and Dutton at the University of Calgary, construction activity is strong during boom years as developers respond to the requirements of corporations and organizations for extra office space to accommodate their increasing workforces. However, economic downturns mirror plummeting demand. With record high vacancy rates, research suggests that it could take 10-15 years for the economy to revive and office demand to return to absorb current inventory. More broadly, an excess of vacant buildings has wider societal ramifications. including the propensity to create conditions favorable to vandalism, unwelcome and illegal occupancy, or generating an atmosphere and experience that feels dangerous. The $45M will be a step toward remedying these challenges.

Written by Namista Tabassum

Repurposing aging buildings is not a new thing to Calgary. In Aug 2019, Strategic Group successfully developed the Cube, by converting an underutilized seven-story, 51,733 square feet site into houses for Calgary residents. Constructed while meeting Built Green environmental standards, it aimed to increase the viewpoint and potential for neighboring enterprises, make use of existing parks and infrastructure, and contribute to the neighborhood's vitality. This exemplifies Calgary's $45M downtown plan to incentivize use of empty commercial spaces. Furthermore, Altus Group talks about the potential of underperforming assets beyond the pandemic crisis. Qaiser Mian, Senior Director – Research, Valuation & Advisory at Altus Group, highlights the opportunities in timely conversion of hotels into affordable housing through government funding, as well as market apartments to maximize rising demand for rentals. While not focused specifically on the downtown core, this brings up interesting possibilities for other unused spaces.

While there is no public list of ownership for Calgary's asset-rich downtown, CBRE breaks down owners into 3 categories: 68% institutional ownership, 8% Real Estate Investment Trusts (REITs) ownership, and 14% private ownership. Major players include Brookefield, Oxford, Aspen Properties and Allied Properties. With municipal policies looking to diversify, these will be some of the many key players in pushing the initiative forward.



Part of attracting key players is the Downtown Calgary Development Incentive Program. The Downtown Calgary Incentive Program's overall aims are to improve overall economic activity in the Greater Downtown Area by removing office space from the Greater Downtown Plan Area, increasing downtown residential dwelling units to improve vibrancy, and lowering the downtown office vacancy rate to support property values and the non-residential property tax assessment base. This contributes to Greater Downtown's economic recovery by encouraging the removal of underutilized space downtown and the creation of lively downtown neighborhoods, all while preserving property values. Criteria for qualifying for the program includes elimination or removal of office spaces, conversion into residential spaces in the downtown core. Eligible projects will offer grant up to $10 million per property, based on residential conversions of $75 per square foot – making it a lucrative opportunity for asset owners.

5. UNDERSTANDING WHERE THE MULTI-RESIDENTIAL MARKET IS HEADING: CAN DEMAND ABSORB ALL THE NEW PROJECTS OR WILL IT BE OVER-BUILT?

The Canadian multifamily sector outperformed most other property types in terms of surviving the worst of the epidemic, but annual rent growth decelerates for the first time since 2016.

In 2020, the Canadian multifamily sector outperformed most other property types in terms of surviving the worst of the epidemic. Despite outperforming on a relative basis, fundamentals are beginning to soften. This tendency, which was also observed in the United States, was more pronounced in metropolitan centers. According to year-end figures, national vacancy rates increased by 150 basis points to 3.8 percent in 2020, while rent growth slowed for the first time since 2016, albeit it remained robust at 4.3 percent.

While these developments have dampened short-term returns, the fundamentals that drove the sector's excellent performance prior to lockdowns – rapid population growth, a restricted supply pipeline, and growing home ownership prices – remain in place as we enter 2021. Indeed, given the ongoing rise in property values in key cities and the federal government's recent declaration of higher immigration objectives through 2023, these dynamics are set to intensify this year. The multifamily sector's relationship to the broader economy, which is anticipated to recover in 2021, and the ongoing strength of its sectoral tailwinds confirm a positive long-term prognosis. These macro factors very certainly assure that the current softening fundamentals are just transitory.

The industry has seen substantial attention because of its excellent long-term multifamily outlook and countercyclical character, as well as a significant backlog of investible institutional money. In 2020, Canadian multifamily investment volumes reached a new high of $11.0 billion, breaking the previous high established in 2019. This growth was even more remarkable when contrasted to the United States, where multifamily volumes fell by 27.6 percent in 2020. Given that borrowing rates remain at all-time lows, with CMHC-insured mortgages now quoted in the range of 1% to 2%, depending on term, investment volumes are expected to grow further and reach $11.8 billion countrywide in 2021.

Increased investor demand has also continued to put lower pressure on cap rates. While many people felt that multifamily cap rates had reached their lowest point in key cities at various periods over the last few years, continuing government bond yield reduction has allowed real estate spreads to stay robust. Cap rates are anticipated to fall further in 2021 because of the inflow of capital into this asset class and its good rental prospects.

Written by Namista Tabassum

6. THE REBIRTH OF RETAIL: FROM BUOYANCY AND GROWTH TO CHALLENGES AND TRANSFORMATION

Though downtown is still unpopular, Calgary's retail leasing market has approached pre-pandemic levels.

According to JLL, the Calgary retail leasing market will continue to strengthen in 2021. The first half of the year was just as hectic as the second half of the year. A more relaxed attitude to the epidemic is paying off, since movement rates were higher than in many other regions of the country, particularly in Q1.

The CBD remains unpopular, with office vacancies of up to 20%. Foot traffic continues to decline. Many staff have not returned to their workplaces and are continuing to work from home. The East Village, Beltline, and Central Core continue to have a high level of retail availability. Retailers have looked to street frontage when deciding where to locate their stores. By far the biggest interest has been seen in general retail, which has seen an increase in move-ins. The South Central area is a major consumer of retail space. With a rise in space absorption and a drop in fresh supply, available space declined somewhat in 2021. The tendency toward inward movement has remained stronger than the trend toward outward movement.

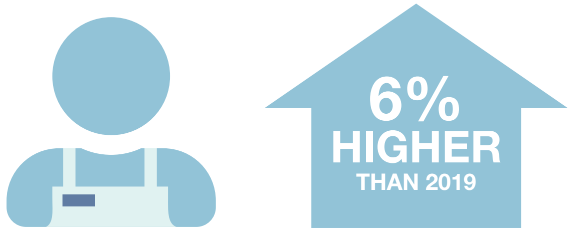
The largest contributors to the reduction in availability were general retail and neighborhood centers. Malls also had a role, but to a lesser extent. Following a decline in Q1-20, asking rents for available space rose in Q2-21, maintaining higher than 2019 prices. While net effective rents for occupied space fell by 12% in 2020, they rebounded modestly in Q2-21, staying 7% lower than in 2019.

Recovery is key to the retail market. Retail is the commercial real estate sector most affected by the COVID-19 epidemic. The sector, which was already undergoing fast transformation owing to shifting consumer preferences, will see those trends accelerate in 2021. Retailers around the country were subjected to a range of pandemic-related effects, such as mandated closures, decreased working hours, and low foot traffic. Since local economies began implementing gradual re-openings, government financial assistance and landlord rent reduction have helped numerous stores remain open, but these measures will not be able to continue indefinitely or preserve every firm.

The current outlook is a mixed bag. Enclosed malls and street-front retail are still struggling, while strip malls anchored by food stores and other critical services are prospering. The pandemic has resulted in several long-term effects, such as encouraging more Canadians (especially those in older demographics) to engage in e-commerce. This means food delivery services like Uber and Skipthedishes, and grocery deliveries like Instacart.

Softer health and safety regulations, as well as improved mobility, have led to increasing retail sales, which are expected to grow by 18% in 2021. Retail sales in 2021 will be 6% higher than in 2019. The recovery of food services is projected to be faster than the rest of the country since Alberta's 2021 sales are outperforming the national performance. After regaining foot traffic in July, full-service restaurants in Calgary are likely to suffer a drop in sales when the fourth wave passes through and the weather cools down. QSRs will continue to perform better now that they have almost fully recovered.

RETAIL SALES IN 2021



Calgary has made significant progress since the economy reopened, with increasing visits to retail and leisure establishments. Visits were down 38% in January 2021 compared to pre-pandemic levels, but just 4% in August. Visits to workplaces were steady over the summer, down 30% from pre-pandemic levels, while transport station visits fell 39% in August. Calgary City Council adopted the Greater Downtown Plan and a $200 million initial commitment to support it on April 26, 2021. By adding additional housing, tourism attractions, entertainment, and leisure, the city hopes to enhance foot circulation in the region.

7. HOW ARE SECONDARY MARKETS SURROUNDING CALGARY PERFORMING? INSIGHTS ON AIRDRIE, BALZAC, COCHRANE, ROCKY VIEW AND OTHER COMMUNITIES

Decreasing supply of development ready property along with reduced cost base and tax benefits continue to encourage developers to acquire land in Calgary's secondary markets.

The decreasing supply of development-ready property, along with a reduced cost base and tax benefits, has continued to encourage developers to acquire land in municipalities surrounding Calgary such as Rocky View and Balzac. New projects inside the City of Calgary have seen substantial leasing activity in the midbay market, as well as the benefits of being located within city borders. Despite rising construction and building material prices, market demand is prompting developers to begin development on new projects in the second half of the year.

Balzac has become a household brand in the industrial market, not just locally but also nationwide. The Lowes distribution center building in Balzac, which was initially announced in Q2 2021, was the most noteworthy project to be completed this quarter.

Written by Namista Tabassum

The 1.23 million square foot facility is set to open in the Fall of 2021 as part of a larger endeavor to improve the company's Canadian distribution network. The City of Calgary is keeping an eye on Rocky View County for industrial development. In 2011, the Balzac area has 775,000 square feet of inventory space. This year, Rocky View County's industrial capacity is anticipated to exceed nine million square feet. This tremendous development is primarily driven by the cost advantage of seen outside the municipal borders, with lower land values, taxes and development standards lending momentum. According to Pauls Marden, Broker at Colliers International, companies could save as much as 18% by relocating to Rocky View County from Calgary. Sobey's, Lowe's, and Smuckers have already relocated their warehouse operations out of Calgary, and the city should pay close attention so that other large corporations, including as Loblaw, Saputo, and Federated Co-operatives, do not follow suit.

Housing demand has also been steady. According to recent Calgary Real Estate Board (CREB) data, the real estate markets in Calgary's surrounding communities remained hot in September, driven by high demand for single-family homes and persistently limited supply. September sales, which were largely single-family detached houses, were likely hindered by a lack of available properties in most areas, including the biggest, Airdrie. As a result, sales increased just 5.1% year on year last month, even though transactions are up 76% year to year over 2020. Inventories were also down year on year in all three markets, with Cochrane experiencing the greatest reduction of over 50%. Furthermore, supply levels in many areas were considerably below two months, resulting in increased costs.

The benchmark price in Airdrie increased the most, rising nearly 13% from September 2020 to $389.700. All seven neighboring communities experienced year-over-year price increases, with Canmore seeing the most, up roughly 14% to $901,700. Strathmore had the smallest increase from September of last year, rising approximately 3% to $361,700, with flat sales growth year on year and more than three months of availability. High River had the tightest market last month, with only 1.1 months of supply while seeing sales increase of almost 54%, the fastest rate of growth among towns monitored by CREB, including Calgary.

8. THE INDUSTRIAL MARKET IS OUTPERFORMING ALL OTHERS DURING COVID-19: WILL THIS CONTINUE POST-PANDEMIC OR IS IT OVERHEATED?

Demand for all types of industrial space will outpace supply over the next 12 to 18 months since 75% of new building is already committed.

Every quarter, every major market has seen fewer industrial property vacancies. E-commerce and logistics are driving this, but demand is coming from all industries. The shortage of supply will have an impact on industry, food processing, and film production, all of which compete for the same places. This was already a low-vacancy market prior to the pandemic, and with rising demand from e-commerce, it has undoubtedly put a pressure on inventories under development.

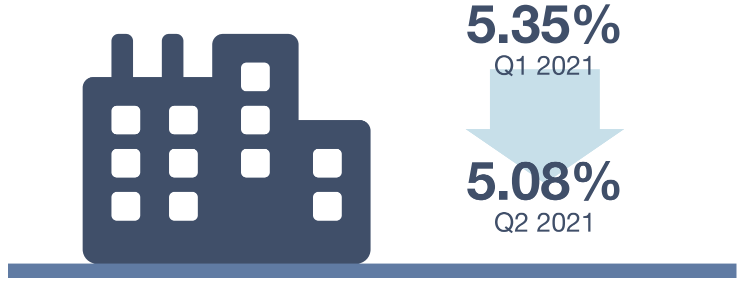
Chris McCauley, senior vice-president of commercial real estate services company CBRE Limited, predicts that demand for all types of industrial space will outpace supply over the next 12 to 18 months since 75% of new building is already committed. In the past, pre-leasing industrial property was not as prevalent as pre-leasing office, but now pre-leasing has become a major trend. Self-storage is another industry vying for warehouse space. The modest increase in occupancy rates have been substituted by climbing numbers due to the lifting of limitations and warehouses operating at pre-pandemic levels across the board.

Through the second quarter of 2021, the Calgary Industrial market has seen a continuance of demand in the distribution and logistics sectors according to Colliers' Q2 2021 report. This has played a significant part in the strong positive absorption statistics and vacancy decreases that we have seen over the previous three quarters. Net absorption is at 930K square feet, a 520K square feet decrease from the previous quarter. The 12-month absorption is at 3.52M square feet.

Reactions from the development community and occupiers have resulted in an increase in land sales in Calgary and adjacent regions, indicating a robust market, as demand for large-format distribution and owner / occupier facilities remains strong. Walmart just leased 157,648 square feet from ONE Properties in Stone Gate Industrial, while X-Treme Packaging leased 145,841 square feet from Summit REIT in Foothills. Another indicator of the market's strength has been the successful selling of owner/user properties that had been on the market for a long time, as buyers take advantage of the cheap interest rate environment and rising confidence as the economy recovers from the effects of the epidemic. Given the continuous demand, some landlords are becoming pickier with renters and deal conditions on specific vacancies. The above-mentioned noteworthy transactions, as well as the continued lease demand carried over from Q1 2021, have contributed to the quarter's drop in vacancy and positive net absorption.

The vacancy rates continued to fall, dropping 27 basis points (bps) from 5.35 percent in Q1 2021 to 5.08 percent in Q2, putting increasing pressure on market rents and decreasing inducements.

Vacancy Rates



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A reason for Calgary's continued appeal is that Calgary is less expensive and has more space alternatives than other distribution centers such as Vancouver, especially as Vancouver approaches a 0% vacancy rate for industrial space. According to a 2018 Triskele Logistics for the City of Calgary study, purchasing a warehouse here costs an average of $3.5 million less than in Vancouver. It also discovered that transportation prices by truck within Western Canada are about 50% lower from Calgary than from Vancouver. According to industry statistics, the average lease fee per square foot of space there is $15.50. Calgary's costs for large warehouse space are roughly half that, at $8.20 per square foot. Because Calgary is located on major highway and rail axes that run north-south and east-west, an estimated 50 million customers have access to ground transportation within 24 hours. Extra benefits, such as Alberta's low corporation tax rate, zero payroll tax and Calgary's comparatively cheaper property taxes, can clinch the deal for interested firms.

9. WHAT HAS ATTRACTED INVESTORS TO CALGARY? HOW MUCH ACTIVITY IS THERE NOW? IS IT EXPECTED TO GROW?

CED initiatives make Calgary's market attractive, while Calgary commercial real estate investment volumes total $619.6 million across 183 deals in Q2 2021.

Several different initiatives make Calgary attractive to investors. Of note is the economic strategy set forth by CED – Calgary as a New Economy. Under this initiative, a powerful financial tool wielded is the Opportunity Calgary Investment Fund (OCIF). OCIF was created to act as a catalyst for Talent and Technological Innovation initiatives. This has led to 5 new projects announced in 2020, $19M in funds committed, $472M in investment size, and 142,000 square footages occupied over 3 to 5 year forecasted period. This will lead to a predicted total of 439,000 square footage of space absorbed, thus inducing lower vacancy rates.

Such initiatives, along with the pandemic, have led to a few key trends emerging in terms of Calgary's real estate market's resilience and growth opportunity. According to PwC, these include the accelerating change of offices to a hybrid model, a rise in suburbanization due to more remote work options, and a significant rise in industrial real estate. Reimagining workspaces, downtown's development plan incentive and the rising industrial market are points of opportunity. All these together had had an impact on the investment outlook.

In the second quarter of 2021, Calgary commercial real estate investment volumes totaled $619.6 million across 183 deals. This sum represented a modest 14 percent quarterly drop in investment volumes, but it placed the market within 5.1 percent of its three-year trailing quarterly average. Even though market activity was still impacted by the pandemic, Calgary continued to show signs of return to pre-pandemic levels. Because to the market's robust first half, the city is on track to reach a full-year total of $2.7 billion in 2021. This would return the city's activity levels to pre-COVID levels experienced in 2019. In Q2, transactions valued under $20 million continued to drive most of the investment activity. In the second quarter, acquisition volumes in this price range totaled $430.3 million. While volumes for target transshipments increased, acquisitions in this price range remained modest, reaching just $189.3 million.

The Private Canadian Investor type was the most active purchasing group in Q2 2021, accounting for a total of $129.1 M. This sum was virtually equal to the three-year trailing average for the group. The Owner-Occupier/User/type was the second most active category, accounting for $96M in acquisitions. ICI land, industrial, and retail were the most active asset groups throughout the period, with volumes totaling $180.4M, $169.8M, and $122.6M, respectively. This demonstrated a significant improvement over recent performance. The next most active asset categories were multifamily and office assets, with total volumes of $93.2M and $39.6M, respectively. Multifamily asset types typically performed in line with the three-year average, although office spaces continued to underperform.

10. WHAT IS DRIVING THE LEVEL OF DEVELOPMENT ACTIVITY? HOW ARE PROJECTS OVERCOMING ANY CHALLENGES?

Gradual reopening of the economy, lower interest rates and a rise in infrastructure investment drive development activity in Calgary.

Calgary's current development activity was, in part, commenced by the Municipal Stimulus Program (MSP) funded as a series of capital investments by the Government of Alberta. Through MSP, the City of Calgary announced $152.8 M in investments for new infrastructure to aid Calgary's recovery in December 2020. Areas of focus included affordable housing, critical road & fiber infrastructure renewal, cultural building envelope upgrades, facility upgrades, park system upgrades, stormwater community drainage improvements and transit infrastructure.

With expected economic expansion of 5.8 percent in 2021, the gradual reopening of the economy will continue to boost confidence. With the Bank of Canada holding off on raising interest rates until the early part of 2023, as inflation, despite rising in the Spring of this year, will remain within the Bank's 2.0% target range in the medium run. Coupled with 80 percent recovery of total lost jobs, it has fueled a renewed flow of funds into the housing market. These federal monetary and fiscal policies are favorable for real estate development and demand. As work-from-home solutions have removed the need for commuting, homebuyers' interest has expanded to locations outside of major metropolitan centers. Simultaneously, demand for smaller downtown residences has slowed. This could lead to an increase in housing prices, and

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an inflow of funds for market expansion. In such cases, rising mortgage interest rates could burst the resale market bubble.

Special emphasis is being given to Calgary's industrial market, with a citywide growth strategy in place. Calgary's significance as an inland port and distribution center for Western Canada is built on strong industrial regions. The work on the industrial growth strategy will help to reinforce that basis and diversify our city's economic growth. The city collaborated extensively with BILD Calgary, NAIOP Calgary, and other industrial stakeholders to create the new DC, which combines three existing industrial districts (Industrial General (I-G), Industrial Business (I-C), and Industrial Commercial) (I-C). The District of Columbia offers a range of approved uses to speed up the approval process by minimizing or eliminating the requirement for change of use permits and land use redesignations. It is appropriate for unoccupied industrial lots in industrial districts, as well as those next to Major Streets such as Arterial Streets and Industrial Arterial Streets. This DC does not apply to parcels in existing or inhabited industrial zones (such as Greenview or Manchester).

Calgary possesses a variety of competitive advantages that may be used to assist expansion of existing industrial subsectors while also attracting and supporting future industrial development. Among these benefits are Its strategic distribution center position, as well as its multimodal logistics network of air, train, and roads; A big and expanding labor force; High-quality services and utilities, such as transportation, water, and electricity networks; Availability of unoccupied serviced industrial lands in a variety of locations, with various lot sizes and land use choices; and A network of established and current industrial firms that can provide and acquire goods and services from new industrial businesses.

The City of Calgary's Real Estate & Development Services, as a land developer in the industrial sector, has a strategy for City-owned industrial lands; however, a comprehensive strategy that advocates for growth investments, regulatory improvements, and obstacle reduction, regardless of ownership, does not yet exist. Other policy issues include extensive budget cuts to reduce deficit. The construction industry continues to expand globally due to disruptive technologies, according to Forbes. However, shortage in talent may mean that all developmental needs are not being met. This is further impeded by local elections and policy changes which could lead to halting of Projects.

According to the Alberta Urban Municipalities Association (AUMA), there are some current land use planning challenges to keep in mind. The first is the fact many communities in Alberta are built near bodies of water for ease of communication and transportation. Flooding has been a recurring feature of many settlements since their beginnings. Municipalities must ensure that their statutory plans and land use ordinances are in accordance with the Floodway Development Regulation, when applicable. The second issue arises from the significant challenge of energy developments in urban communities, with new, existing, and abandoned facilities requiring different levels of policy attention. Third is proximity to and consideration of contaminated sites. Fourth is the rising pressure of development on expansion into rural areas, which has adverse effects on agriculture. Fifth are private property rights and regulations, and finally environmental assessments. All of these could be barriers to development.

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CANADIAN MULTI-RES TENANT RENTAL SURVEY

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