Top 10 Real INSIGHTS

Vancouver Real Estate Strategy & Leasing Conference 2021

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ISSUE 67

TOP 10 | REAL INSIGHTS | Vancouver Real Estate Strategy & Leasing Conference 2021 | ISSUE 67

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For further details on these top trends please visit the Real Estate Forums portal at realestateforums.com

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Written by Namista Tabassum

1. ESG 101: WHAT YOU NEED TO KNOW ABOUT ENVIRONMENTAL, SOCIAL AND GOVERNANCE INVESTING AND HOW IT WILL IMPACT YOUR BUSINESS

The real estate sector under scrutiny due to 40% contribution in worldwide energy usage and carbon emissions; ESG trends on the rise.

According to a 2017 United Nations Environment Program estimate, buildings account for up to 40% of worldwide energy usage and carbon emissions. Building operations account for two-thirds of the effect of real estate, while building materials and the construction process account for the remaining third. Both aspects require development. The increase in GHG emissions caused by economic activities is a key contributor to global warming. The IPCC (Intergovernmental Panel on Climate Change) assessment has pointed out that an average temperature increase of 1.5 to 5.6°C by 2100 would pose substantial threats. There are environmental hazards, such as a possibly major rise in floods and a precipitous fall in biodiversity. Health hazards also include an increase in infectious illnesses and outbreaks, which might disrupt supply and demand. Also, regulatory risk is a hazard that should not be overlooked. As strong environmental rules are projected to develop in the next years, economic players must foresee the regulatory side effects of climate change.

Global policies are requiring firms to lower their environmental externalities. Among the most influential is the UNFCCC (United Nations Framework Convention on Climate Change), which has established specific goals. These include keeping greenhouse gas concentrations stable at a level that prevents harmful anthropogenic interaction with the climate system. Attaining this level in a set time period that will allow ecosystems to naturally adjust to climate change and ensure the long-term viability of economic growth and food production. Other key frameworks and pledges include the World Green Building Council (WGBC) Net Zero Carbon Buildings Commitment, Net Zero Asset Managers Initiative, Urban Land Institute (ULI) Greenprint Net-Zero Goal and many more. Governments, in addition to industry pledges, have begun to build voluntary and regulatory frameworks for setting net-zero objectives, such as the Australian Climate Active Certification and the Japanese Zero Energy Buildings (ZEB).

Building materials and direct fuel usage for activities have the greatest influence on real estate and infrastructure. The most efficient strategy to minimise emissions from fuel consumption is to electrify, which removes the need for fossil fuels and allows for the use of renewable energy for power. Switching to sustainable fuels, such as biomass fuels, is also a possibility, however there are advantages and disadvantages depending on the fuel type. Embodied carbon – emissions associated in the extraction, processing, shipping, usage, and end-of-life disposal of building materials — should be avoided to reduce emissions from building materials. Concrete is the most significant source of GHG emissions in buildings, accounting for more than 8% of worldwide emissions through the use of fossil fuels in manufacturing and chemical reactions during processing. Steel also contains a high level of embodied carbon due to the usage of fossil fuels in manufacturing.

Decreasing the amount of building materials through efficient design, as well as employing natural (e.g. sustainably grown wood [FSC certified]) and recycled materials, are effective approaches of reducing embodied carbon in structures. These concerns must be made early in the design process, and existing buildings should be reused if practical. Life cycle assessment (LCA) is a valuable design-stage method for identifying the embodied carbon of materials, assisting in the selection of those with the lowest carbon effect, and determining the number of removals necessary to achieve net-zero emissions. There are several LCA tools that are simple to use, such as the Embodied Carbon in Construction Calculator, Tally, Athena Impact Estimator for Buildings, and One Click LCA.

Investor pressures are also increasing. According to S&P Global, sustainable bond issuance, which includes green, social, sustainability, and sustainability-linked bonds, might potentially top $1 trillion. However, with more money comes greater accountability, as firms are under growing pressure to back up their promises of sustainability with actual facts. Furthermore, 36 institutional investors with $5.5 trillion in assets have signed a new Canadian Investor Statement on Climate Change, citing their fiduciary responsibilities. The Statement, signed by the asset management departments of five of Canada's top banks, as well as important institutional investors such as the Ontario Pension Board, urges on corporations to take action on serious climate risks, including through industry associations and lobbying. The Statement, coordinated by the Responsible Investment Association (RIA), also outlines the activities that significant Canadian investors will take to help the global quest of net zero emissions ahead of the most critical climate conference in history - COP26. This includes revealing their sponsored emissions and establishing expectations that their investees would set emissions objectives and report on progress.

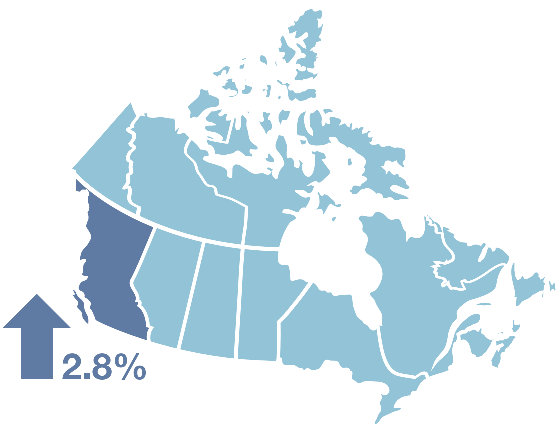
Confusion over conflicting standards and norms has made it difficult for firms to compare net zero carbon ambitions in like-for-like terms, thus opening the door to greenwashing. As things now stand in the ESG world, there is an urgent need for a standardised certification mechanism to evaluate organisations' net-zero ambitions. The SBTi Net-Zero Standard is anticipated to serve as a global certification standard for company net zero carbon ambitions. However, a standard specific to the real estate sector, particularly investment firms, is still awaited. Regardless, firms are urged to get on board and start with what is currently available.

Written by Namista Tabassum

2. ECONOMIC OUTLOOK FOR THE LOWER MAINLAND: WHAT WILL RECOVERY LOOK LIKE?

Economic growth in British Columbia is predicted to be modest, with growth skewed toward major metropolitan economies.

British Columbia's economy is expected to increase by 2.8% this year, surpassing the rest of the province, before slowing to 2% in 2021. Investment in the burgeoning technology sector in Vancouver and the surrounding Southwest quadrant of British Columbia, as well as major project investments highlighted by the construction of LNG Canada's $40 billion natural gas liquefaction plant, the associated Coastal Gaslink Pipeline in the North Coast region, and public-sector investments, are driving this growth. Population growth will also continue to be strong due to high federal immigration objectives and a shortage of qualified employees in the province, which will drive consumer and housing demand.



The Southwest region of British Columbia will continue to outperform Vancouver and the rest of the Lower Mainland. The Southwest will continue to benefit from strong population growth trends, a developing technological sector, higher development trends, and elevated construction trends. Demographics on the island are also ageing. The influx of retirees to the area will continue to support consumer demand. These sectors, however, will face labour shortages in marketplaces as jobless rates approach 4%. The resale house market is still in good shape and should tighten in response to firming demand and a lack of listings supply. Price increase is likely to be increase through 2021 and rise above overall inflation.

Interior B.C. markets will confront further difficult economic conditions as a result of employment losses in the forestry industry, tough coal and energy markets, and continued low mining investment. Local people hired on big projects in the Northwest will help to strengthen labour markets and local earnings. Nonetheless, population growth will be slow in the lack of local job prospects. The Thompson-Okanagan's forestry troubles have been mitigated in part by high population growth in previous years, which has continued to stimulate consumer demand, population expansion owing to retiree inflows, and demand from prime age workers seeking chances to benefit on the region's growth.

The North Coast of British Columbia will see an increase in economic circumstances as a result of the development of LNG Canada's natural gas liquefaction plant. Much of this, however, will be centred on the Kitimat-Terrace corridor. Even with greater training for the local people, the market is unable to fulfil labour demand. Although the region will benefit from local spending, much of the labour will come from other districts of British Columbia, such as the Cariboo and Thompson-Okanagan. Given significant forestry exposure, the Nechako will become more like the rest of the interior.

3. THE SHIFT FROM A LANDLORD MARKET TO A TENANT MARKET: IS RETAIL IN THE LOWER MAINLAND POISED FOR A COMEBACK?

Industrial leasing prices in the Lower Mainland have risen faster than at any other time in recent memory, and space is becoming increasingly scarce.

Following a frenetic start to the year, activity in BC housing markets has slowed to a level that is largely consistent with long-run averages. Because of the strength of the first half of this year, MLS® sales are on track to comfortably beat the previous annual sales record of 112,425 units set in 2016. This year, BCREA anticipates that provincial housing sales will total 121,450 units.

While a repetition of the record-breaking market of 2021 is unlikely, housing market activity is forecast to continue robust in 2022. According to BCREA's baseline prediction, the BC economy will be prospering, with broad-based employment growth and healthy consumer demand. While fixed mortgage rates are expected to climb over the coming year, and a higher minimum stress test rate was introduced earlier this summer, provincial MLS® house sales are expected to reach 102,750 units in 2022. That prognosis, like everything else, is dependent on the condition of the COVID-19 pandemic. British Columbia has made tremendous progress with vaccines, but cases remain high, and the end of the pandemic remains a long way off. As a result, the recovery may be inconsistent.

Industrial leasing prices in the Lower Mainland have risen faster than at any other time in recent memory, and space is becoming increasingly scarce. Amazon is signing contracts for structures that have yet to be completed. According to a Colliers research, the vacancy rate in Port Moody, New Westminster, and Tsawwassen First Nation was nil for the second quarter of 2021, while other areas varied from 0.3% (Maple Ridge, Chilliwack) to 2.2% (North Vancouver). Vancouver, at 2%, was somewhat higher, owing to the vacant Molson brewery site near the Burrard Bridge. Lower Mainland land sales have also increased to roughly $600 million each month. During the second quarter of 2021, land sales drove a 130% year-over-year rise in the value of commercial real estate transactions.

This compression, which has resulted in the tightest supply in North America, has had unintended consequences. Investors have begun to enter the market, outbidding end consumers. According to a Colliers analysis on six recent industrial site transactions in the region, just two buyers were end users—a window manufacturing

Written by Namista Tabassum

company and a maker of vegan nutritional gummies—while the other four were developers or investors. According to Raymond Wong, Vice President of Data Operations at Altus Group, just 14% of industrial space was purchased by real users in 2020, compared to 31% the previous year.

The high demand for rooms has had one good impact. Industrial property developers in the area have begun to plan a new type of project—multi-story skyscrapers. Despite Metro Vancouver planners' encouragement to make better use of the region's limited supply of industrial property, developers have resisted moving away from the paradigm of single-story buildings surrounded by a sea of parking for several decades.

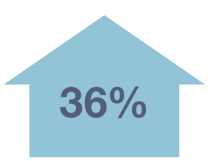
Another trend that watchers in British Columbia are keeping an eye on is the transfer of anchor-tenant property in certain faltering malls into logistics and distribution centres. That tendency has been seen in the United States from time to time, when department-store anchor tenants join the endangered-species list despite the fact that mid-level shops are doing well. Some firms are interested in it, but it is a less viable alternative in Canada.

4. RETURN TO OFFICE: HOW ARE DIFFERENT COMPANIES APPROACHING THIS? HOW IS OFFICE LEASING GOING TO BE IMPACTED GOING FORWARD?

Hybrid work models stand to change the office leasing space, but vacancy rates predicted to be at a healthy 9%.

One of the most heated disputes post-pandemic is what will happen if work patterns change—or do not change—as a result of the pandemic. A plethora of tales about who's doing what are sprouting in the social media realm, alongside statistical assessments seeking to discover a pattern among early signals. Advocates for various potential solutions—commercial brokers for traditional office spaces, remote-work cheerleaders—are vehemently debating their case in public, further complicating the issue.

What Vancouver's ever-expanding technology industry—**which has grown by 36% in the last five years and currently ranks 11th in North America in terms of talent infrastructure**—will do is critical. Typically, IT firms wanted to locate downtown or close because their urban-loving, bike-riding, brewpub-visiting workers did. They've also stated that it's critical for collaborative creativity to take place in person. However, technology is a sector in which remote work is completely practical.



Vancouver's ever-expanding technology industry

in North America in terms of talent infrastructure

According to Jason Kiselbach, Senior Vice President and Managing Director at CBRE, prior to COVID, downtown Vancouver and the metropolitan region had among of the tightest office vacancy rates in North America. According to Kiselbach, the pandemic reduced transaction volumes as renters who relocated to a remote workforce considered their future requirement for space. "This is prompting caution in terms of deciding on a long-term office lease and putting up the necessary funds."

However, in a June analysis, CBRE's national investment team predicted that demand for downtown Vancouver office assets will return to pre-COVID levels. There were only four headlease sites greater than 20,000 square feet available in the city area at the time. Moreover, despite an abundance of subleases on the market, the total vacancy rate remained low, at around 4%, according to the research. Using a cautious prediction, CBRE expects downtown vacancies to peak at 7% by 2024, slightly below the balanced market of 8%.

The sublease issue has been continuously monitored by Ross Moore, managing broker of Cresa's Vancouver office in the United States. From March to early June, he saw empty sublease space in downtown Vancouver nearly treble, rising from 130,000 square feet to over 365,000. As a result, subleases accounted for 37% of all vacant space, which is three times the long-term average. According to Moore, tech-oriented organisations are often leading this trend, partially because they are ready to operate remotely, but also because start-ups are finding it more difficult to acquire finance. He believes that when the economy improves, sublease vacancies will peak before the end of the year.

Every year, around 400,000 square feet of office space in the downtown centre is taken up. Dubuque instructed Colliers analysts to create a "doomsday scenario" in which occupancy drops by 500,000 square feet in 2020 and gains nothing the following year. The resulting vacancy rate is a respectable 9%. Dubuque argues that rather than an oversupply of office space, there may be a scarcity of premises that tenants genuinely desire. Companies are searching for newer premises close to transportation, with unique design, high-end facilities and finishes, great air quality, natural light, and seismic protection, with the average age of an A-class office building in downtown Vancouver already over 30.

There's also the Amazon factor in downtown Vancouver. Moore claims that the e-commerce behemoth has already committed to 1.8 million square feet, which is far more than 10% of the Class A inventory. "They just tend to grab up any decent bits of office space that come on the market." Despite the shift to remote work, Oxford's David Routledge believes that offices will continue to attract people. He cites a recent poll of 2,300 office workers in the United States conducted by the American design company Gensler, in which just 12% preferred working full-time from home.

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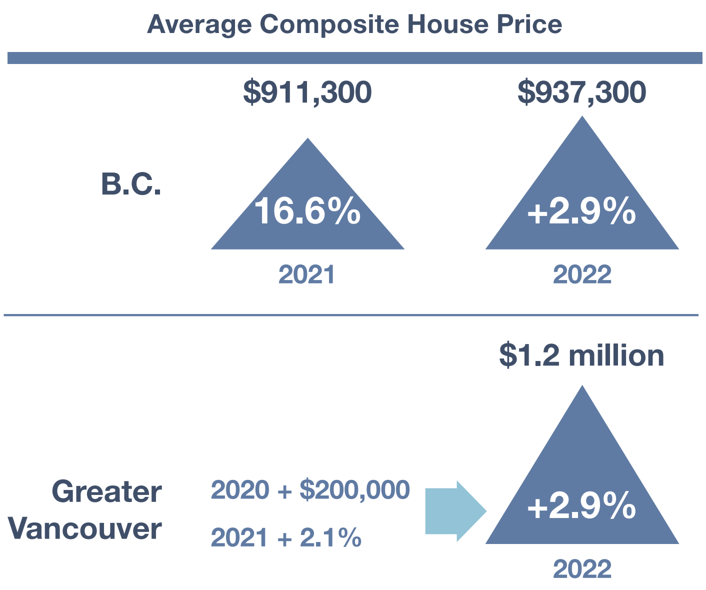
5. RETROFITTING EXISTING BUILDINGS & NEW DEVELOPMENT: FROM CONSTRUCTION COSTS TO LEASING

Shift towards sustainability and the CleanBC program may add on to costs; rebates also in place to encourage participation.

"With strong demand being supported by low mortgage rates and a rapidly recovering post-COVID economy, the more pressing concern is whether there will be an adequate supply of listings in the market," said BCREA chief economist Brendon Ogmundson in a third quarter Housing Forecast Update released on August 19, 2021. According to BCREA, due to a dearth of supply and high demand, **the average B.C. composite house price will rise 16.6 % this year to $911,300, and another 2.9 % in 2022 to $937,300. According to the prediction, the average home price in Greater Vancouver will be $1.2 million next year, up 2.1 % from 2021 and about $200,000 higher than two years ago**. Such vacancies and future trends pose new questions around existing buildings.



To promote B.C.'s economic recovery and help British Columbians save on energy bills, the Province is tripling CleanBC Better Homes retrofit subsidies for specified home-heating and energy-efficiency modifications. "Because many people are still working from home as a result of the pandemic, we're tripling popular CleanBC subsidies for certain home energy retrofits and renovations," said Bruce Ralston, Minister of Energy, Mines, and Low Carbon Innovation. "With our partners, we are assisting families in making the transition from fossil fuels to sustainable energy and making their homes as efficient, pleasant, and economical as possible."

CleanBC is the Province's effort to lessen the environmental impact of existing buildings and spend less energy. British Columbians can cut greenhouse gas emissions and improve air quality by using more renewable energy and utilising it more effectively in homes and buildings. "People want inexpensive solutions for heating their homes with renewable energy to cut pollution and contribute to climate change mitigation," said George Heyman, Minister of Environment and Climate Change Strategy. "By increasing our assistance via CleanBC, we're helping people improve their living environments by providing greater incentives to transition to cleaner, more efficient technology and supporting decent employment across the province as we reinvest in our communities."

In terms of new development, there is the Broadway Plan to redevelop certain communities in the city of Vancouver. Building heights are increased under the planned Broadway Plan, with up to 40 storeys near subway stations and up to 30 storeys in shoulder regions along Broadway between stations. However, in neighbourhood commercial districts, the heights will not rise significantly — typically ranging from four to six storeys to reduce redevelopment demands on existing businesses and optimise sunshine on the walkways. The Plan's primary goal is to increase employment space (see below), market rental, and affordable housing along Broadway, however strata will be permitted in many sections (usually with an affordable housing component).

There have also been suggestions to raise the ceiling heights in existing housing spaces. They will permit the reconstruction of rental structures, but the new buildings must have 80% market rental apartments and 20% below market rental units. Furthermore, residents would be able to return to the new buildings at the same or reduced rents, as well as receive a top-up to allow them to temporarily relocate during construction. To meet these standards, the City proposes increasing the density of projects (20 to 25 storeys), however they understand that redevelopment may not be feasible for many locations. Their intention is to progressively rebuild these neighbourhoods. Sites in apartment zones that do not have rental housing can be converted into 15 to 18-storey strata structures, "... with 20% of the floor space secured as non-profit social housing." The City would approve six-storey market rental housing buildings in RS/RT zones, and 12 to 18-storey market rental housing developments in selected important areas, "... with 20% of the floor space secured at below-market prices."

6. NEGOTIATING IN TODAY'S MARKET: WHAT ROLE DOES RISK MANAGEMENT PLAY IN FINALIZING THE TRANSACTION?

Market uncertainty poses highest form of risk across sectors; data analytics and technology may be harnessed to mitigate this.

Even when the real estate market is vibrant and growing, there are a slew of hazards that come with pursuing a career in real estate. Not only must the security of properties be ensured, but relationships with clients, workers, renters, investors, and a variety of other parties engaged in activities must also be considered. With so many moving components in practically every aspect of buying, selling, and renting property, the margin for mistake is minimal, but the odds of facing an expensive, time-consuming litigation are high.

Written by Namista Tabassum

Having the correct business insurance programme may certainly help alleviate many of the dangers that come with the territory, but what other actions can real estate professionals take when putting together a solid real estate risk management programme? The majority of high-quality real estate risk management plans are built on three broad strategies: avoiding risk, controlling risk, and transferring risk. Risk avoidance is the decision not to participate in activities that are judged too dangerous. Risk management requires developing a strategy to reduce the effect of prospective hazards. Risk transfer entails delegating responsibility to a third party, which is where commercial insurance often comes into play.

Risks would vary widely based on position, portfolio and client type. For agents and brokers, clients would be the biggest source of risk. When negotiating transactions, such concerns as lawsuits, claims around accidents, injuries and damages, travel mishaps and market uncertainties are primary. Insurance could protect against certain risks, but market uncertainty is not one of them. It is paramount to look for solutions by following market trends. Excellent market insight publications exist to provide forecasts of upcoming trends, which can go a long way to mitigate such risks.

For commercial real estate managers and owners, the risks are more high scale. And growing portfolios mean greater risk. Given the market upheaval across Canada due to COVID-19, it has become clear that the only path to resilience is through understanding trends, being highly adaptable to market needs, and harnessing technology. Deloitte's 2021 report on the state of commercial real estate also urges key players to use big data and analytics even more than before to identify patterns and pivot business strategies for maximum resilience. With the rise of Internet of Things (IoT), there is now an overwhelming amount of data available. Successful risk management may be determined by whoever is able to analyze and predict outcomes best. Coming up with key market indicators will be essential to staying abreast of post-pandemic ripples in the market, many of which are expected to not normalize anytime soon.

Key risks for commercial real estate transactions would be around physical property risks related to state and condition of properties. With extreme weather and climate changes becoming the norm, this will continue to be a point requiring keen monitoring. Apart from regular repairs, properties could also be damaged from external calamities like wildfires or large-scale natural disasters. Storm damage and property losses caused by climate change are a very significant issue for real estate management. Similarly, increasing insurance rates and reduced property limitations are a trend directly driven by climate change. Tenant risks are another core issue. With policies for rebates and accommodations aimed to tenants during the pandemic, property owners will need to revisit existing contacts and change transaction policies. Fairness while being mindful of post-pandemic changes in the market landscape will be essential to maintain long-term relationships with tenants.

One very important trend that integrates into all other risks is around the shift in the real estate industry towards ESG reporting and sustainability focus. New and emerging technologies will play an increasingly important role in understanding the impact of environmental and social short-term shocks and long-term stressors and will serve as an important tool for risk management and improving an organization's ability to be dynamic and responsive to both. Visibility into data is an important component of risk management, as is the ability to track and measure activities necessary to bring about change and improvements. Actively managing risk and reacting to change within a real estate portfolio allows a real estate owner to construct a good technique for developing resilience within their portfolio and so making themselves more desirable to investors. Investing in resilience indicates that a real estate owner is prepared for any potentially disruptive occurrence, and it exhibits an organization's capacity to adapt to risks and opportunities. This fosters trust and confidence among stakeholders, therefore protecting the value of assets in a portfolio.

7. THE STRATEGIC APPROACH TO THE TERMS OF LEASE: COMPARING THE EXPERIENCE ACROSS ALL ASSET CLASSES

Trend to move in stronger than moving out; merchants look everywhere for available space to lease – leading to interesting market dynamics.

The retail leasing activity in Vancouver is expected to outpace that of both 2019 and 2020. The quantity of rented square footage in 2020 stayed the same as in 2019. The focus has shifted away from CBDs, as many office workers have relocated outside of the downtown area and worked from home. In 2021, available space dropped as supply dried up to a fraction of earlier levels. Work has been stalled in the last five years due to a shortage of appropriate sites, and the pandemic has slowed construction even more.

The trend to move in remained stronger than the trend to move out, but not as strong as in prior years. In this setting, merchants have sought everywhere for available space to lease, as all property types have suffered a decrease in availability. The most significant contributors to the drop in availability were general retail, neighbourhood centres, and malls. In turn, power centres and strip centres have suffered small drops as availability rates stay below 2%. Rents for available space have gone downhill, but we expect see rents rise again after a recent decrease, in line with net effective rents. Rents for available space were lower in Q2-21 than in 2020 but remained higher than in 2019.

Each commercial real estate asset class includes characteristics that distinguish the operation and analysis. Although some fundamental operating and valuation concepts apply to all asset classes, the subtleties of each asset class will result in variances in the relevance of various aspects during the research. Office, retail, and industrial buildings, for example, frequently sign long-term leases of five to ten years, whereas flats are commonly rented for one year and hotels rent rooms by the day. Even among the primary asset types, there are subclasses of assets, such as office buildings in large cities' Central Business Districts vs office buildings in suburban areas.

Written by Namista Tabassum

Across asset classes, different leasing terms are prevalent. Office properties often have long-term leases of at least five to ten years and are appealing to investors seeking greater certainty in long-term income flows than other property categories. Retail establishments are often heavily customised to the local community and demographics, and the design and feel of each building can differ greatly. Leases for retail buildings, like those for office properties, are often in the five- to ten-year range, providing the amount of cash flow consistency that many investors need. Because the vast majority of industrial real estate is involved in product manufacturing and distribution, they require convenient access to transportation corridors, which is why these buildings are frequently located near shipping ports, airports, railway stations, or major highway thoroughfares. Industrial assets, like office and retail facilities, often have long-term leases and are frequently held by a single or several major tenants rather than a diverse tenant mix. Hotels, motels, luxury resorts, and event centres are examples of hospitality properties that are often rented for a single night or for short periods of time, such as a few days or a week. As you might expect, this permits hospitality-focused hotels to easily raise prices during moments of strong demand, but it also implies that income might decrease considerably during market downturns, natural disasters, or any number of other causes. Hospitality properties are frequently divided into real estate and operation, with an “operating partner” overseeing the day-to-day activities of the hotel or event venue.

The lease arrangement is the final key factor to consider while analysing your investment. The first item of business is to determine if the lease is a ground lease or a fee simple lease. Is it an absolute triple net lease (NNN), or are the landlord’s duties specified, resulting in a double net (NN) lease? The amount of effort you, as the owner, have to put into the property’s upkeep and care will determine how much return you want on your investment. The higher the work, the bigger the reward. Furthermore, how long is the lease and are there alternatives for renewal for the tenant? Are there rent hikes (rent bumps) built in to stay up with the market? Leases come in an infinite number of variations, and each provision must be carefully considered. Locating and assessing leases that meet investment requirements can therefore safeguarding your equity and creating value over time. After that has been narrowed down your alternatives, it’s strongly advised that you consult with an expert real estate lawyer to evaluate the lease. It may cost a few bucks up front, but it can save you thousands in the long run.

8. THE INDUSTRIAL LEASING MARKET: ARE THE ESCALATING LEASE RATES SUSTAINABLE? WILL THEY CONTINUE FOR THE FORESEEABLE FUTURE?

For the second consecutive quarter, the Greater Vancouver Area (GVA) industrial market established records for vacancy and weighted average asking net rent.

As the summer passed and health restrictions lifted throughout most of Canada, excitement for a return to work after Labor Day grew. However, when Q3 2021 came to a conclusion and COVID case numbers grew, several corporations delayed their return to office plans, with some deferring them until Q1 2022. Many areas saw a fall in sublet space quarter over quarter, with the decrease evenly split between downtown and suburban submarkets. This could be due to many tenants reserving space in advance of their return to the workplace, as well as sublet space reverting back to the landlord as direct space. The industrial sector is in high demand across the country, with e-commerce, warehousing, manufacturing, and other customers fast leasing distribution, logistics, and warehouse space. Despite the fact that 31.5 million square feet are now under development, developers are still unable to match demand. As a result, vacancy rates are likely to continue low, rent growth to be substantial, and land prices to climb for the foreseeable future.

For the second consecutive quarter, the Greater Vancouver Area (GVA) industrial market established records for vacancy and weighted average asking net rent. Furthermore, for the fourth consecutive quarter, there were no openings in the GVA industrial market for bulk/logistics space (>100,000 square feet). **Nearly the last year, Amazon has absorbed over 1 million square feet, accounting for 20.6% of overall absorption**. The weighted average asking net rent for the GVA increased 13.2% year on year in the third quarter. Companies are increasingly seeing the acquisition of strata apartments as an appealing way to hedge against rising lease prices. The high demand for strata is evident in the quick rise in strata prices and the high level of pre-sales activity in strata developments across the GVA. Strata developments account for 30% of total space under construction, a trend that is expected to continue given the limited availability of land, growing rental prices, scarcity of freestanding structures, and low loan rates.

To fulfil the demand for space, we must increase supply. To accomplish so, the zoning and approvals procedure must be altered. There are two big gaps in the process: the time it takes to approve development site designs and the time it takes to have properties entitled. Developers should expect to spend three to seven years getting a site correctly zoned and serviced, assuming it’s already designated, and another nine to twelve months going through the site plan application process. To steer and simplify the development process, the public and private sectors must collaborate to establish a national task force. There are just too many parties engaged, and there are far too many delays in getting shovels in the ground. Rather than working in silos, developers would benefit from a permissions task force to lead and simplify the process from coast to coast while holding all stakeholders accountable.

Written by Namista Tabassum

Industrial project planners, developers, and constructors must be more daring. This implies that we must broaden our taste for and acceptance of stacked, or high-density, industrial structures. While it is important to respect the building's end users as well as the neighbouring inhabitants and neighbours, developers should not be hesitant to propose multi-story industrial complexes that combine office, retail, and other uses. Marine Landing, Vancouver's first twinned six-story, stacked industrial and office complex, is a prime example of this, with workstations ranging from 600 to 34,000 square feet. The planned buildings on the Canada Line mass transit network in South Vancouver have industrial features such as oversized parking spaces, freight elevators, and wide corridors, and the complex is located 20 minutes from downtown Vancouver in a bustling neighbourhood with homes, offices, retail, food, groceries, and entertainment. Creating bigger, mixed-use buildings in places where people already work and live can help relieve some of the issues we have in key markets when it comes to industrial space.

Because there is now a large pricing difference between industrial products in metropolitan centres and those in rural locations, firms are increasingly attempting to migrate to markets such as Chilliwack, B.C. and Hamilton, Ontario. Employee desires and demands have also evolved, making it easier for enterprises to relocate their operations. High housing costs in Vancouver and Toronto, mixed with a growing desire to flee our cities in the midst of the pandemic, means that more individuals are willing to live outside of major cities. Finding suburban workers is no longer as difficult, and some workers may embrace the shift to a smaller market where they may enjoy a higher quality of life.

This trend is also gaining traction in Canada, as more businesses seek low-cost industrial premises. A number of high-profile firms have relocated their distribution centres to "secondary" or "peripheral" locations outside of the traditional core distribution markets. In Ontario, for example, Ford Canada announced a 500,000-square-foot distribution centre in Brantford; international retailer H&M, which leased 700,000 square feet in Ajax; Bridgestone took 450,000 square feet in Hamilton; and Kal Tire, which signed a deal for 350,000 square feet in Orangeville. Developers should not be afraid to expand outside of traditional markets since businesses and people will follow. The industrial market has transformed, and with Canada seeing record-low vacancy rates for the first time, the time has come for the sector to be bold and seek solutions for increasing industrial supply.

9. WHAT DOES THE FUTURE OF LEASING LOOK LIKE OVER THE NEXT 12 MONTHS?

Rising inflation can occur concurrently with fast GDP growth, and while real estate often performs well in this scenario, it is difficult to determine how much of the success is attributable to inflation versus production growth.

Price increases are being caused by the gradual reopening of the economy from lockdown this year, raising fears among some analysts that interest rates may rise sooner than originally anticipated. Given the sources of greater inflation and the central banks' instructions, the increase is most likely temporary, and higher interest rates are unlikely in the next year – if not longer. Rising inflation is commonly thought to be positive for property values since it is a real asset, but the situation is necessarily complicated. Rising inflation can occur concurrently with fast GDP growth, and while real estate often performs well in this scenario, it is difficult to determine how much of the success is attributable to inflation versus production growth.

If inflation remains high, we anticipate increased demand for property assets with indexed rents. Furthermore, the fact that property rates are greater in real terms than government bond yields, may make the sector more appealing. However, the lesson of the previous two decades is that when pricing real estate, the trajectory of the broader economy and market dynamics for the various property sectors tend to matter more than inflation. The improving economy is a more compelling cause to acquire real estate than the prospect of rising inflation. When trading assets, real estate investors will need to consider more about their expectations about future inflation levels, given the danger that estimates are understated. Development pricing will also become riskier if an economic cycle that is stronger than projected maintains commodity and labour costs high.

Community development at business sites is also an important component of increasing asset value and developing brands. There may be locations that demonstrate high levels of operational excellence, but if they are unmotivating to work at or dull to visit from a work/shop/play standpoint, leasing will be difficult. If, on the other hand, community building is included into property management strategy and dynamic centres are created that pull in the building community as well as the larger community, the building becomes a unique destination that is well-positioned for expeditious leasing. Dynamic sites are strong sites, which ultimately help property owners. Their asset improves, as does the node, and both become stronger and more resilient.

In what is expected to be a record-breaking year for commercial real estate investment, the industrial sector is the obvious asset winner, outperforming multifamily housing, retail, and all other types of commercial real estate. According to Colliers, investors spent more than $4.1 billion on Canadian industrial buildings and land in the second quarter alone. Experts believe that cumulative 2021 sales will be the asset's greatest ever due to strong tailwinds. Across the country, upward pressures on industrial space rents, sale prices and land prices remain, as rising demand has driven vacancy rates to previously inconceivable lows. According to Colliers, vacancy rates fell in ten of twelve Canadian industrial areas in the third quarter; the national figure is 1.5 % this month. Despite a robust construction pipeline, the low vacancy rate is likely to persist, given that the industrial development process, from permissions to building completion, may easily take three years.

According to Colliers Canada's National Market Snapshot 2021 Q3, as cities' serviced industrial land base approaches zero, leases and land values have reached all-time highs. Landlords are demanding

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$15.50 per square foot on average, up roughly 16.9% from a year ago — the second highest rate in Canada behind Victoria and the second highest among major cities in North America. Victoria has the highest rate in Canada, at $16.02; Toronto has a rate of $10.66; and Montreal has a rate of $8.41. In the city centre, industrial stratum space sells for an average of $488 per square foot, a price that may more than quadruple.

10. HOW IS THE LACK OF LAND INVENTORY IMPACTING PRICES? HOW HIGH WILL LEASE RATES GO?

Canada is practically running out of room, putting the country on the verge of a reckoning.

Canada's property market is hotter than almost everywhere else on the planet. Despite concerns about irrational bidding wars and the bubble collapsing, what's driving it is a rising imbalance between supply and demand: buyers want huge homes but can't get them because there isn't enough space in and around major cities. Canada, the world's second-largest country by landmass, is practically running out of room, putting the country on the verge of a reckoning. The ideal of a separate house and a plot of land, which has been taken for granted by generations of Canadians and continues to lure new arrivals, may soon be out of reach in desirable areas. This might require a broadening of the concept of house to encompass condominiums and rentals, possibly changing how the middle-class approaches everything from raising kids to saving for retirement.

According to statistics collated by Bloomberg News from local real estate boards, **over 60% of home sales in 18 towns in and around Toronto, Montreal, Vancouver, and Ottawa last year were for single-family detached residences**. Apartments accounted for only approximately a fourth of the sales in these areas. However, when looking at what has been created in these same cities and their surrounding bedroom communities during the previous decade, the percentages are exactly reversed: According to official data published by Bloomberg, 60% of new housing stock is flats and just 25% is detached dwellings. Because of this mismatch, desperate buyers have been forced to compete for an increasingly limited supply of single-family houses. According to Dallas Fed statistics, Canada's benchmark house prices increased by about 15% in 2020, with only Luxembourg reporting a larger increase.

home sales in 18 towns in and around Toronto, Montreal, Vancouver, and Ottawa last year

single-family detached residences

Developers, however, do not appear to be reacting. Despite the fact that building on a record number of new houses began in Canada's metro regions in March, the ratio of single-family detached homes declined to 19% from 24% the previous year, according to official data. While this ratio improved in April, new home starts declined overall that month. It all boils down to land. While Canada has a total size of nearly 10 million square kilometres (3.9 million square miles), roughly 40 times the extent of the United Kingdom, the majority of Canadians live in a few big cities. While the work-from-home era has broadened that radius for some, transforming quiet farming communities and weekend getaway spots into some of the country's hottest real estate markets, the possibility of returning to the office even a few days a week has kept most workers from venturing too far afield.

Land usage has been further regulated by city-specific limitations. Vancouver is trapped between the Pacific Ocean and the mountains; provincial anti-urban sprawl restrictions have virtually rendered Toronto and Ottawa into development islands; and Montreal is an island. Canada will also require additional dwellings, especially as Prime Minister Justin Trudeau tries to increase immigration to historic highs to compensate for the pandemic slump. According to a recent Bank of Nova Scotia assessment, the country has a housing deficit in general, with the lowest number of housing units per 1,000 inhabitants among G-7 countries. Because of this pressure, the slack that has arisen in urban condo and rental markets over the last year is projected to be temporary, which helps to explain developers' focus on density. Local zoning laws, rather than land limits, are the principal impediment to developing new flats in Canada's cities. Even if more flats are constructed, Canadians will have to adjust to living in them.

Commercial real estate is also a point of concern. In what is expected to be a record-breaking year for commercial real estate investment, the industrial sector is the obvious asset winner, outperforming multifamily housing, retail, and all other types of commercial real estate.

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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

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