Top 10 Real INSIGHTS

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TOP 10 | REAL INSIGHTS

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

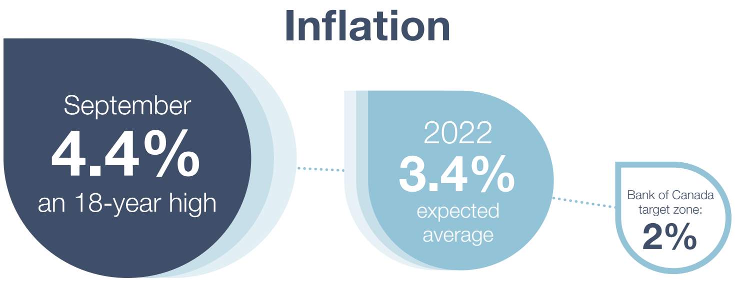
1. WHAT IS THE OUTLOOK FOR CANADIAN ECONOMY FOR 2022?

Canada's Economic Outlook for the Fourth Quarter of 2021: Growth Has Been Delayed, But Not Derailed

Even with full employment, when labour markets recover to pre-pandemic levels, a slower increase in the working-age population will impact economic potential beyond 2023. After faltering in the spring, Canada's economy has begun to recover. Growth in output is expected to be 5.1% in 2021 and 4.4% in 2022. High levels of consumer savings and government stimulus are among the drivers of this trend but the latter will begin to fade shortly. Economic growth is predicted to be slower by the end of next year.

Widespread manufacturing delays and price increases have resulted in greater inflation in Canada and worldwide. The effects are transient, but it will take at least another year for consumer price rises to return to the Bank of Canada's 2.0% objective. While easing government stimulus measures will assist lowering federal and provincial deficits, the debt overhang will continue to be a long-term burden. In the short run, estimates following the outcome of the September 20 election see no substantial shift in the previous policy orientation of the Liberal administration. Minority governments, on the other hand, have a tendency towards injecting uncertainty to future program and expenditure plans.

The agricultural industry, which has been heavily impacted by hot and dry weather, is also becoming a drag on economic activity. StatsCan stated in a flash estimate that third-quarter annualized GDP increased by just 1.9%, far less than the 5.5% expected by the Bank of Canada. **Inflation, which reached an 18-year high of 4.4% in September, is expected to climb further this year and average 3.4% in 2022, well beyond the Bank of Canada's 2% target zone.** Investors are still expecting the Fed in the U.S. to raise interest rates for the first time in March. As agriculture dragged, the August growth of 0.4% fell short of expert expectations of 0.7%. Overall, 15 of the 20 industrial sectors increased, with services-producing industries increasing by 0.6% and goods-producing industries declining by 0.1%.



The Canadian economy most likely missed forecasts in the third quarter due to continued supply chain issues and a severe drought, according to official statistics released on Friday, causing experts to predict the Bank of Canada will be more cautious in raising interest rates. The economy grew by 0.4% in August, falling short of expectations, and was destined to record no growth in September as supply chain concerns hampered car exports and retail sales fell, according to Statistics Canada. However, policy lift-offs are expected into 2022.

2. OUR CITIES IN A POST-COVID WORLD: WILL THEY BE DIFFERENT? IN WHAT WAY?

Changes in urban living will determine the future normal and what cities must plan for in order to prosper.

The epidemic has altered the fabric of Canadian cities. Downtowns cleared out, businesses shuttered, while the real estate market boomed in ways no one could have foreseen. Housing grew even more unaffordable, urban parks became crowded, roadways were redesigned to accommodate more than just automobiles, and everyone with another option chose not to use public transportation. The wealth disparity worsened as the wealthiest Canadians profited while others struggled. COVID-19 has also highlighted the difficulties cities confront in providing fundamental services while adhering to federal and provincial budgetary constraints.

Policy-makers are preparing cities for future reopening and resuming urban life, and planners are confronted with certain fundamental questions: what should cities look like in the aftermath of a pandemic? What steps can cities of all sizes do to become more economically resilient? How can our cities serve everyone, not just the wealthy? How can cities stay affordable to individuals on lower incomes when bidding wars for homes extend to even smaller urban centers? How can cities maintain the vibrant cultural mix that gives them their unique identity? Certain themes merit deeper investigation. It is necessary to repair the scarred urban landscape and people. It is critical to understand why the city exists. During the response and aftermath of the pandemic, good planning and societal cohesiveness will need to cross.

The consideration of governance and financial issues should be preceded by examining the services that Canadian communities should fund and offer. Pre-pandemic programming strains on municipal finances had already reached a breaking point in larger cities. Municipal administrations were already facing new and difficult issues as a result of growth trends in urbanization and densification. Many of these pre-existing pressures have been amplified by COVID-19. A comparison of local engagement in various programs and services to those of provincial or federal equivalents should begin with the sector that has received the greatest attention during COVID-19: health and social services. This comprises ambulance services, social housing, social assistance, and childcare, in addition to public health. These are all significant expenditures for cities and are critical to providing life stabilizing support to city citizens. Aside from the obvious complexity of the health and social services sectors, cities must also assess the sustainability and attractiveness of their present financing and service delivery obligations in other areas, as seen through the lens of the next normal.

Written by Namista Tabassum

Finally, transportation charges round out the top four sources – which are also on the decline as cities encourage alternate modes of transportation such as cycling and transit to minimize the impact of cars. To address these limitations, new revenue mechanisms such as debt financing, public asset development, privatization, and asset sales for repurposing, and greater proportion of existing taxes might be used.

The strongest predictor of city design in the future is the direction of change before to the epidemic - tendencies that are likely to be exacerbated rather than reversed. Canadian cities are rapidly expanding. Our top five fastest-growing cities are all in the top 20 in the United States and Canada. Prior to COVID-19, the population trend of the United States' major cities – New York, Los Angeles, and Chicago – was flat or dropping, owing to reduced immigration and an exodus of local citizens. Not the case in Canada's largest cities, which were expanding all over the place – from downtowns to suburban centers and satellite cities – thanks to high and ongoing levels of immigration and relocation from other parts of the country.

> Toronto will continue to be the fastest expanding urban region in Canada and the United States, having just surpassed Chicago and, in a few decades, could catch up to Los Angeles to become the North America's second megalopolis after New York.

And it's not all about downtown development. The suburbs and surrounding cities of Toronto, such as Oakville, Markham, Hamilton, Kitchener-Waterloo, and Barrie, as well as commercial and residential hubs around Vancouver, such as Surrey, Richmond, and Burnaby, have grown at a similar rate. There is no sign of the property price declines witnessed in major centers such as London and New York- it's actually quite the opposite, and this isn't going to change any time soon. Canada and its cities will most likely become even more appealing to the rest of the globe in the coming years. The most effective urban formula appears to be one of peace, order, and good governance. However, the urban balance may move somewhat from the major downtown core and more to the periphery – a trend that has already begun to occur in search for example of more affordable housing and gradually reversing the patterns of the previous two decades.

3. UNDERSTANDING THE ESG IMPERATIVE AND HOW IT IS BEING INTEGRATED

ESG Programs are a key tool for real estate investors to combat greenhouse gas emissions by commercial and residential properties.

ESG is becoming more significant as a company's sustainability business model as well as a risk management technique. ESG offers the possibility to create significant operational savings throughout the life of an investment for some higher upfront expenditures. An investment in energy efficiency, for example, may be a beneficial option. Commercial and residential buildings contribute one-third of world greenhouse gas emissions and consume up to 40% of global energy. As a result, well-developed ESG programs can help real estate investors manage the risks associated with climate change.

In this extremely competitive economy, investing choices will be critical. Millennials are on course to inherit $30 trillion in assets over the next few decades, and they are more concerned about social responsibility and climate impact than prior generations. To attract that money, funds and publicly traded companies must increasingly have comprehensive ESG policies and processes in place. Another advantage that may not be as obvious is the karma-building impact of an active ESG policy. Being able to interact with the community and illustrate the good effects of your initiatives may come in handy later.

There are a few possibilities available, but they may not be suitable for everyone, depending on their location or what they want to do with the land. We are witnessing greater capital consolidation, and this will likely continue.

With increased fears about economic instability and a downturn, investors are considering more cautious ways to real estate investing. This means that to attract capital, middle market real estate funds will need to diversify their structuring, have strong sustainability policies and associated ESG reporting.

If interest rates remain relatively low, property values are projected to grow and cap rates to fall as more real estate continues to attract more investment and deployment of capital. One of the key determinants and criteria in their decision-making will be impact investing as they scope out and focus on companies which have strong ESG policies and performance.

Real estate owners and operators are following a three-step process: identify who within the organization is responsible for sustainability and climate governance, benchmark their current environmental performance, and determine investment paths aligned with positive environmental, social and governance impacts that will also create value.

The "S" in ESG is a real estate value driver - sustainability. As the social impact of real estate becomes more quantifiable, such as in the areas of health and wellness and inclusive communities, financing structures are evolving to include these social factors, and we anticipate that more capital will be available for projects that incorporate these solutions. Diversity and inclusion remain front of mind for real estate professionals who are creating the next generation of real estate companies. To promote diverse representation, leaders should think more broadly about the skills and talents that will be necessary in the future, including perhaps ESG skills that might contribute to overall corporate strategy

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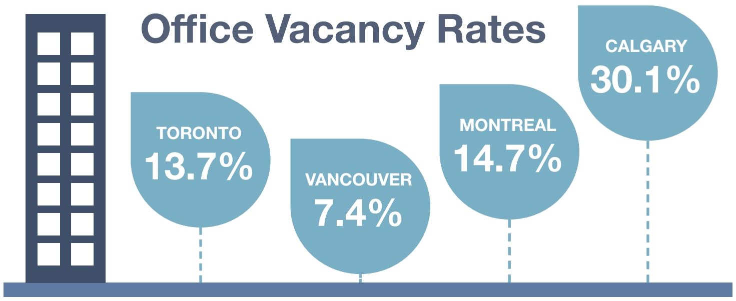
When it comes to ESG policy vs. regulation, a balance must be struck between establishing solid rules to stimulate investment in ESG sectors and imposing regulations that may have the opposite impact. ESG policy stability is crucial for the business, particularly since real estate firms invest over time and construction norms are anticipated to grow to include higher environmental demands. Due to a lack of consistency, ESG reporting may appear to be an alphabet soup. However, progress on the standardization of ESG measuring methods is expected, including the continuing evolution of international standards. The establishment of a sustainability standards board would give better clarity on calculating indicators and mandatory disclosures. However, waiting to get started is not advised, as current frameworks and standards like as GRESB, SASB, and TCFD are useful tools that investors understand.

4. THE IMPACT OF THE PANDEMIC ON THE OFFICE MARKET: WHAT IS THE FUTURE OF WORKPLACE ENVIRONMENTS?

Real estate analysts estimate that flex leases will grow from their current share of 2% of the overall market to as much as 10% by the end of this decade.

According to the most recent CBRE research, office vacancies in Canada reached their highest level in decades this quarter as new supply continued to enter the market and the fourth wave of COVID-19 hindered a projected return to work. The national office vacancy rate was 15.7% in the third quarter, up from 15.3% the previous quarter, marking the highest level since 1994. Despite the headwinds, the market is exhibiting indications of resilience, with prices remaining relatively constant thanks to institutional investors prepared to wait through a brief market turbulence.

There are also fewer enterprises wanting to sublease space as they prepare to return to work, while many companies are deferring decisions about how much space they require until their lease is up for renewal. Because technology demand will continue to be a major driver of new office space, the remote-working issue may not be as problematic as previously thought. Already, there aren't many possibilities for corporations looking for large facilities, and the downtown Toronto vacancy rate fell 10 basis points to 9.9% in the third quarter. When the suburban market is included, **Toronto's vacancy rate was 13.7% while Vancouver's was 7.4%. Montreal had a rate of 14.7% and Calgary's was 30.1%**, where oil and gas businesses have been severely impacted now for years.



Employers are increasingly turning to flexible office space providers like WeWork for short-term solutions until more typical office work habits resume. Green Street, a real estate analytics firm, predicts that flex leases will expand from their present 2% market share to as much as 10% by the end of this decade.

Some office space will be converted to alternate uses, which might include the obvious choice of residential usage as well as a less obvious reuse as distribution facilities for e-commerce enterprises. With office space that is centrally placed and close to transit, these buildings may be more appealing than warehouses located far from major population centers, especially if same-day and even two-hour shipping becomes increasingly popular. Prologis PLD -0.1%, which serves the industry, claims that much of its demand in the last decade has "been concentrated in large 24-hour cities."

When office buildings do reopen to everyday employees, they will most likely look and feel different than in the past, according to Gabe Marans, executive managing director at Savills, a prominent real estate leasing business. They, like other firms that have been tested, will learn to adjust to new circumstances. "Do you remember when cinema theatres were upgraded?" They installed reclining seats as well as improved food and beverage service. "They had no choice but to provide an experience that clients couldn't have at home," Marans explained. While businesses will need to adjust, they must also be able to give some of the home comforts that employees have become accustomed to over the last year.

5. HOW HAS THE APARTMENT MARKET PERFORMED THROUGH THE PANDEMIC? ARE BILLIONS IN ASSETS LIKELY FOR SALE?

While unemployment and economic uncertainty leads to downturn in sales, PwC suggests condominium as one of three best bets in real estate investment.

The recovery in key markets is erratic and varies greatly. There has been speculation of a potential slowing in the urbanization trend that we've noted in prior years, but it's too early to say if this will be a long-term shift. If remote work becomes a more permanent option, some homeowners, particularly those who work from home in a tiny area, may move outside of major cities for larger square footage and easily accessible green space.

At least one developer in the Greater Toronto Area stated that they were modifying their approach to suit this trend and were exploring for home sites further afield. People who work remotely may want a designated working place, thus open-concept houses may need to be reinvented. According to recent interviews, demand for low-rise residences, particularly in suburban areas, has been quite robust, but there are fears that this may be a misleading signal following the pandemic limitations.

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Higher unemployment and economic instability, along with fewer immigration, are projected to hamper housing development in Canada for the foreseeable future. Canada Mortgage and Housing Corporation (CMHC) predicts big city housing starts, sales, and prices to decline, although Toronto, Ottawa, and Montreal will recover quicker than Vancouver, Edmonton, and Calgary. The two Alberta communities are anticipated to take longer to recover since they were already feeling the effects of low oil prices.

PwC recommends three real estate investment best picks, one of which is a condominium. CMHC predicts a drop in condo prices next year, but it's crucial to recognize that supply has been limited in several areas. There was greater anxiety in the Toronto market, where lower short-term rental activity is causing some investors to sell, although this is believed to be a temporary occurrence. PwC also examined custom-made rentals. Demand for rental property may be mitigated by a decrease in immigration as well as an increase in university students, many of whom attend lessons online rather than in person.

While the asking price for rents in large cities such as Toronto is either flat or has declined, it is projected that the rental market would ultimately benefit from a slowdown in homeownership and, when borders reopen, a backlog of new immigrants. However, there is some worry about the termination of government income assistance and wage subsidy programs, which may have an influence on renters' capacity to pay their rent in the coming months, as well as additional supply caused by the slowdown in short-term rental activity.

According to CREA data, the real (non-seasonally adjusted) national average selling price increased by 13.9% year over year in September. Between August and September 2021, sales recorded by Canadian MLS® Systems increased by 0.9%, the first month-over-month gain since March.

The real (non-seasonally adjusted) number of transactions in September 2021 was down 17.5% year on year from the previous year's record. Nonetheless, it was the second-highest September sales total ever by a wide margin. Between August and September 2021, sales recorded by Canadian MLS® Systems increased by 0.9%, the first month-over-month gain since March. According to CREA data, the real (non-seasonally adjusted) national average selling price increased 13.9% year over year in September. Some sales recorded through Canadian MLS® Systems increased by 0.9% between August and September 2021, representing the first month-over-month gain since March.

The real (non-seasonally adjusted) number of transactions in September 2021 was 17.5% lower than the previous year's record. Nonetheless, it was by far the second-highest September sales total ever. Some sales recorded through Canadian MLS® Systems increased by 0.9% between August and September 2021, representing the first month-over-month gain since March. Year-over-year price inflation in B.C. is approaching 20%, while it is lower in Vancouver, on pace with the provincial figure in Victoria, and higher in other parts of the province.

Year-over-year price increases in Alberta and Saskatchewan are in the mid-to-high single digits, while growth in Manitoba is in the low double digits. In September, Ontario saw year-over-year price growth of more than 25%; however, as with B.C. big, medium, and smaller city trends, gains are noticeably lower in the GTA and Ottawa, around the provincial average in Oakville-Milton, Hamilton-Burlington, and Guelph, and significantly higher in many of the province's smaller markets.

Greater Montreal's year-over-year price growth continues just above 20%, while Quebec City's is presently at 13%. Price increase in New Brunswick is somewhat above 30% (greater in Greater Moncton, slightly lower in Fredericton and Saint John), whereas it is presently 12% in Newfoundland and Labrador (a little lower in St. John's).

6. HAS INVESTMENT ACTIVITY RETURNED TO PREVIOUS HIGH LEVELS? WHY IS IMPACT AND SUSTAINABLE INVESTING GROWING?

The easing of COVID-19 propelled buyers and sellers off the sidelines in Canada in Q2, resulting in record investments; upwards trends in ESG lead to spike in impact investment.

With the country's economy rebounding, C$14 billion ($11 billion) worth of commercial real estate changed hands in the three-month period, a 29% increase over the previous quarter, according to a report Monday from commercial brokerage CBRE. Investors targeted apartment buildings and warehouses, driving a surge of deals that has Canada on pace to post nearly C$50 billion in commercial real estate investment this year. That would be a new annual record, according to the report.

> According to a very recent study released by CBRE, commercial real estate worth C$14 billion ($11 billion) changed hands in the three-month period, a 29% rise over the previous quarter. Investors focused on apartment complexes and warehouses, resulting in a boom of transactions that has Canada on track to report about C$50 billion in commercial real estate investment this year. This would be a new yearly high.

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"Capital cannot sit on the sidelines indefinitely; it must be deployed and put to work at some time," Paul Morassutti, vice chairman of CBRE's Canadian division, said recently in an interview with BNN Bloomberg. "There has been a very strong sense over the last two quarters that we are at least coming near to some degree of normalcy." Despite the fact that vaccines are helping Canada's economy, commercial real estate investors have continued to flock toward buildings that have shown to be durable during the epidemic. Warehouses have grown in popularity as a result of the e-commerce boom. Apartments, long seen to be solid investments, have gained a boost in recent months as rising home prices have kept many would-be purchasers out.

While retail and office buildings experienced revived interest in the second quarter, Canadian investment in those sectors trailed behind that of other sectors of the market. "There was a desire for a lot of investors out there to shift out of retail and office assets, where there are larger question marks over those asset classes," Morassutti said. The CBRE analysis focuses on individual building transfers, excluding mergers in which whole corporations change ownership. Even with those transactions included, the CBRE analysis stated that last quarter's influx of investment was enough to make it the third-busiest on record.

Impact investing is another trend that has surged in Canada, with a significant rise in the real estate sector. Issues that can be tackled with this approach include building affordable housing, renewable energy centers, not-for-profit facilities to help marginalized communities, and keeping rents affordable for certain income and occupation groups (artists, not-for-profits, social enterprises). The recent surge in ESG and Responsible Investing (RI) strategies. The Real Estate Foundation, BC, has some major initiatives to showcase guidelines for using a portion of assets for impact investment. Their current portfolio consists of affordable housing accelerator funds, multi-asset-class impact funds for projects aligned to UN Sustainable Development goals, direct investment in circular economy-friendly construction processes and goods that support biomass fuel technology that transforms trash into fuel. The Real Estate Foundation BC spends money on waste recovery, sustainable food, water infrastructure, and energy efficiency. They also issue funds to COVID-19-affected enterprises and organizations that are eligible for financing.

7. ELEVATING DEVELOPMENT TO THE ANOTHER LEVEL: SUSTAINABILITY, INNOVATION, NET ZERO AND LEADING-EDGE DESIGN

The Green Building Principles set forth by WEF & JLL, provides guidelines towards a more sustainable real estate future and net zero emissions.

The World Economic Forum's global real estate CEO community has outlined a vision and roadmap for the future of buildings and cities in order to make them more livable, sustainable, resilient, and affordable. The Green Building Principles, created in collaboration with JLL, seek to facilitate the transformation of real estate portfolios across all industries, asset types, and locations in order to substantially decrease carbon emissions. If severe action is not taken quickly, the earth will continue to warm at an alarming rate, putting mankind on an irreversible path of doom. The sixth assessment report of the Intergovernmental Panel on Climate Change (IPCC), which will be issued in August 2021, projects that if the present pace of warming continues, the Earth will most likely hit and exceed the crucial 1.5°C threshold by 2052, if not sooner. According to the paper, warming is a direct outcome of human-caused emissions, with buildings accounting for 38% of all energy-related emissions (28% from operational emissions and 10% from materials and construction).

There are ten recommendations in the Green Building Principles. To inform objectives, first compute a comprehensive carbon footprint of your portfolio in the most recent representative year. Second, establish a goal year for attaining net-zero carbon emissions by 2050 at the latest, as well as an intermediate aim of lowering at least 50% of these emissions by 2030. Third, calculate and record the embodied carbon of new construction and large renovations. Fourth, optimize emissions reductions for all new developments and large renovations in the pipeline to assure net-zero carbon (operational and embodied) delivery by the final goal year. Fifth, promote energy optimization across current assets as well as future ones. Sixth, maximize on-site renewable energy supplies. Seventh, guarantee that all off-site energy is obtained from renewable sources wherever possible. Eighth, work with stakeholders in your value chain over whom you have influence to decrease Scope 3 emissions. To compensate for remaining emissions, get high-quality carbon offsets. Finally, collaborate with stakeholders to establish collaborative initiatives and equally divide intervention costs and benefits. It is critical to maintain the urgency of action and to underline that, while the goal date cutoff of 2050 is purposely selected to correspond with the Race to Zero, it is critical to establish as ambitious ambitions as feasible.

KPMG also added further insights by identifying nine categories to further enhance innovation mindset in real estate sector. This include digitizing processes entails altering old processes so that they can analyze more data and be accessed online and in real time—all while becoming more efficient and user pleasant; Flexible workplaces enable employees to work "anywhere" and "anytime," helping to shift real estate from a fixed asset to a flexible service; Healthy workplace and living innovations focus on improving interior working conditions, from improving air quality to improving employee happiness, health, and productivity; Improvements in design and building materials and methods, such as 3D printing or timber skyscrapers, are examples of innovative structures; Internet of Things (IoT) technologies employ web technology to link various devices, systems, and/or buildings, allowing renters and commercial property managers to operate conventional in-house gadgets in a simple and centralized manner; New finance methods attempt to make financing simpler, more accessible, and/or to boost liquidity on both the demand and supply sides; Platforms for connecting enable users to communicate with stakeholders in new and more seamless ways, promoting cooperation and knowledge-sharing; Sustainable innovations emphasize energy conservation,

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water efficiency, and the circular economy in order to increase sustainability, support regulatory requirements, and minimize costs. Finally, virtual reality and 3D mapping employ computer or drone technology to duplicate constructed surroundings, allowing users to build and/or experience traditionally tangible areas in a virtual context would be of major significance.

A great example of progress include work on a multimillion-dollar renovation of a 20-story office skyscraper in downtown Toronto has begun. A new heating, cooling, and ventilation system, which replaced one built 60 years ago, uses cutting-edge technology to improve air quality at 11 King St. W. In addition, Triovest Realty Advisors' two-year upgrade will reduce energy consumption and greenhouse gas emissions while meeting Canada Green Building Council sustainability criteria. Another example is the warehouse at 355 Wilkinson Avenue East Port in northwest Dartmouth which received zero-carbon design and performance certification.

Warehouses have trailed behind offices and retail establishments in implementing energy-efficient, low-carbon architecture for many years. After all, what's the point? The basic box constructions, which are popular in the current pandemic-fueled growth in e-commerce, are out of sight and under less obligation to demonstrate sustainable credentials than other commercial real estate. But, in 2017, executives at East Port Properties, a development, leasing, and property management firm in Halifax/Dartmouth, addressed a different question: Why not? As a consequence, three completely inhabited warehouses have been built, one of which is the first to receive Canada Green Building Council accreditation for zero-carbon design and construction. These examples show the industry's shift in mindset towards leading-edge design.

8. RETAIL HAS BEEN BRUISED DURING COVID-19: WHAT LIES AHEAD FOR LANDLORDS & TENANTS?

To rebalance retail space, key trends include repurposing shopping spaces, a rise in omni-channel retail.

"Overall, there is an ongoing rebalancing of retail space, but no one is actually pulling the plug," says Tim Sanderson, executive vice-president of JLL and national retail lead for Canada. There have been renegotiations for improved lease rates, particularly during the early lockdown, though that is dying down as everything reopens. Weaknesses remain in the financial centers, particularly Toronto and Montreal, as well as, to a lesser extent, Vancouver, and Calgary, since office employees have not returned in sufficient numbers.

The suburbs have been stronger in the retail sector. Locations in these areas are increasingly being sought after by investors, indicating confidence in the market's future. While the major regional malls have suffered from being locked down for 200 days or more in the last year, they are also occupied by very deep-pocketed retailers who are savvy and able to deal with the landlords, as well as who understand the minutiae of all the government support programs available. Unfortunately, the typical individual with one business or coffee shop has been forgotten in all of this. Retail will grow and evolve, and there aren't many companies entering the market with large scale development, but staying small with 3 or more shops being launched.

With lease volumes soaring across Canada, industrial real estate, particularly suburban storage space, has emerged as an unexpected rescuer. And if you thought COVID-19 was bad for the retail industry, guess again. The on-again, off-again limitations, as well as the migration to e-commerce, have clearly harmed retail real estate. However, retail leasing volumes began to rise from the second quarter of 2020, and retail vacancy rates are expected to remain stable.

Until March 2020, when COVID-19-related actions shuttered or restricted occupancy in a wide variety of stores, national in-store sales remained stable and e-commerce sales increased. Brick-and-mortar sales peaked, but had recovered to pre-pandemic levels by July of last year. Additional closures during the first half of 2021 have further lowered such sales. According to Tate Economic Research Inc., e-commerce sales have slowed since their high in May of last year, but they are still more than double what they were before the outbreak. People are regaining confidence in shopping at stores. Curbside pickups from retailers and restaurants have increased, while supermarket delivery and meal kit sales have surged in popularity. Online and click-and-collect purchasing may result in lost sales opportunities because shoppers frequently pick up impulse purchase products while physically at a store. More technologically enhanced drive-through services, self-checkouts, and click-and-collect purchases appear to be trends that are here to stay.

To combat such retail outlooks, some key trends are emerging. First is the repurposing of shopping centers. Increase in commercial center redevelopments is expected, in which at least some retail space is eliminated and residential or other space is added. He stated that certain big-box stores are being re-tenanted and are occasionally used as distribution centers. Rentals in the industrial sector are not the same as rents in the retail sector. And, when curating a retail center, whether enclosed or unenclosed, putting an industrial use in the heart of it has an influence. It alters the appearance. Many stores are becoming pseudo-industrial users anyway. So it is recommended that industry players attempt to find out what the highest and greatest applications are for some of the edges of their portfolio.

Another key trend to look out for is omni channel retail. Eyeglass shop Warby Parker, men's bespoke clothes retailer Indochino, clothing seller Frank and Oak, mattress manufacturer Casper, and Amazon, which Tate claimed now has 600 physical storefronts in North America, are among the once digital-only companies that have expanded into physical venues. When firms like Amazon speak about the value of retail presence, this bodes well for the future of retail. Experts anticipate that omni-channel commerce will reduce need for physical retail space in the future. Because so much purchasing will be done online and things will be transported directly from a warehouse, stores will not require as much inventory in their back rooms. This means room for further repurposing.

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When it comes to reopening the Canadian retail, the US is ahead of Canada. Landlords south of the border are back to pre-pandemic demand and pre-pandemic deal discussions. Once lockdowns expire, Canada may expect the same scenario. Experts believe landlords will be a little pickier about who they make transactions within terms of how solid those tenants are and how, if we wind up in a similar position in the future, will they be able to transact. Believing in their covenant is one thing; believing in their commercial viability is even better, because owners depend upon the success of the retailers.

9. THE INDUSTRIAL DILEMMA: HOW DO YOU GROW WHEN THERE IS NO AVAILABLE SPACE

Innovative repurposing of dark stores and using satellite facilities further away from prime locations may be stop-gap measures to account for low availability of space.

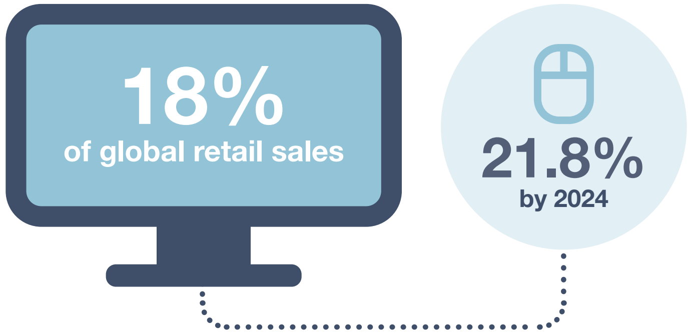
On the industrial front, however, vacancies are minimal as demand for distribution and logistics space is at an all-time high. According to CBRE, the national vacancy rate for industrial space was 2% in the third quarter, while certain regions, including Vancouver, London, Waterloo Region, and Toronto, had availability rates of less than 1%. Because of a lack of land and onerous zoning rules, the industry is hampered from expanding, and Canada may begin to see an increase in multi-story warehouse space to satisfy demand. Property owners and real estate leasing businesses alike are attempting to manage these new conditions, and both anticipate a very altered commercial space scenario in the future.

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 pressure on industrial space rents, sale prices, and land prices remains, as rising demand has driven vacancy rates to previously inconceivable lows. Colliers reports that vacancy rates fell in ten of twelve Canadian industrial areas in the third quarter with the national figure is 1.5% this month.

According to Gord Cook – executive vice-president of Colliers and a specialist of industrial space – since the 2009 financial crisis, most markets in Canada have been undersupplied. Now, big areas like Toronto and Vancouver have industrial vacancy rates of less than 1% — the lowest in North America. Despite a robust construction pipeline, this low vacancy rate situation is likely to persist, given that the industrial development process, from permissions to building completion, may easily take three years.

Stay-at-home measures have driven internet sales to a stunning 18% of global retail sales. According to Colliers study, this proportion is predicted to rise to 21.8% by 2024. "The transition to e-commerce has put great pressure on industrial space," Cook adds, referring to the storage of consumer goods such as appliances and building supplies for restorations. It's quite possible that Canadian cities may run out of industrial space within a year.

Internet Sales



Vancouver is confined by mountains, the ocean, and the border, as well as the ALR, and has the country's most serious deficit of logistical space. It also boasts a bustling port which, according to Port of Vancouver, will offload a record 3.5 million cargo containers in 2020. "The last of the region's effective supply will be consumed between 2028 and 2035," according to the Vancouver Regional Industrial Lands Strategy Report, 2020. It doesn't help that any available spaces are already absorbed by big companies like Amazon, leaving few for other companies seeing similar properties.

Taking advantage of the extremely tight market, a local developer is constructing one of Metro Vancouver's largest industrial parks. Montrose Properties' Richmond Industrial Centre will include more than 3 million square feet of industrial space. When finished in 2027, the $350-million project will feature up to 12 buildings ranging in size from 100,000 to 500,000 square feet. However, prime location and development pipelines like these may not be enough to keep up with demand. Companies are repurposing space they already have or can easily purchase for distribution and fulfilment, and some are even turning to dark storefronts – retail premises that are shuttered but are utilized to store or prepare items. There's also a surge of firms recruiting to handle logistics and figure out ways to squeeze out more space and improve efficiency to satisfy pandemic needs, Cook added. Other corporations are dealing with a scarcity of space by exploring farther than they expected for land, employing secondary or satellite facilities distant from a desirable location.

Written by Namista Tabassum

10. HOW ARE REAL ESTATE COMPANIES INTEGRATING TECHNOLOGY AND OTHER INNOVATION TO IMPROVE THEIR BOTTOM LINE?

After years of talking about how Canada's real estate market was on the verge of embracing PropTech, the COVID-19 pandemic has propelled digitalization.

In the real estate market, digital technologies are forging new avenues. We are altering the way we conduct business with consumers, renters, investors, developers, operators, suppliers, workers, and other stakeholders. Not to mention that the fundamental substance of how Canadians live, work, shop, and play is rapidly shifting. The Canadian real estate industry is on the verge of a digital tipping point. As an industry that has historically been resistive to technological change, digital skills are now paving the road to improved profitability through data analytics and automated back-office activities. Furthermore, technology is propelling growth by enabling firms to engage more intimately with their customers.

There has been a lot of strides being taken towards digital transformation in the real estate sector. After years of talking about how Canada's real estate market was on the verge of embracing property technology (PropTech), the COVID-19 epidemic has propelled digitalization. However, the discussion has evolved. While concern of losing out on this developing trend has fueled investments and new funds to drive PropTech, the tone of the conversation in 2020 indicates a more cautious approach: financing is expected to dip slightly to US$8.4 billion in 2020 following years of strong growth, according to CB Insights. Companies are paying strict attention to expenses, thus the emphasis is increasingly on necessity rather than discovering the next unicorn.

In terms of major disruptors, construction tech, cybersecurity, artificial intelligence, big data analytics and internet of things are some areas where impact investment is seeing a surge. It is understood that such investments will help in creating a more resilient real estate and construction sector insulated against world-wide crises like the pandemic. Key areas of PropTech investment focused on using digital solutions for cloud computing and efficient location agnostic work technologies to ensure business continuity. Virtual tours for selling and showing properties is also seeing a surge, where technology can aid in customer engagement and sales.

During a period of rising commercial pressure, real estate businesses are seeking for ways to control their costs, particularly those that are not passed on to renters. Firms described how the epidemic has accelerated their hunt for efficiency through PropTech, ranging from technologies to remotely monitor buildings to project management software that streamlines operations on a single platform. This year, construction technology was at the top of our list of real estate disruptors. Many firms agree modular construction solutions that handle labour shortages have reached a stage where they make more financial sense and are thus seeing more adoption. Construction firms are also demonstrating an increased interest in digital twin technology.

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