

CANADIAN REAL ESTATE FORUM

FALL 2021 / ISSUE 87



RESET, REALIGN, RESTART?

OTTAWA

Concièrge Approach To Investment Propels Ottawa to Top of the Economic Pack

Immigration and Autonomous Vehicles Will Contribute to Future Housing Demand

Organizations Choosing a More Cautious Future-Proofing Approach

Ottawa Sets Sights on Quality, Innovative Housing

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MARKETS ARE ATTRACTING INVESTOR, STAKEHOLDER ACTIVITY AND ASSET REINVENTION



George Przybylowski
Vice President
Real Estate
Informa Connect

When industry watchers throw out terms such as “balance” and “stabilized,” what a keen investor sees is opportunity, and that is exactly the conditions the Ottawa and Calgary marketplaces find themselves in after months of the impact of pandemic uncertainty.

Despite being thousands of kilometres apart, the two markets have much in common, not the least of which was a sizzling first quarter that led to steep gains in all sectors, be they retail, commercial, industrial, office or residential, followed by a cooling down period once summer ended.

According to one Canadian Market Outlook for Ottawa for 2021, there has been a renewed interest from industrial space users, placing a strong demand on high-quality space in the National Capital Region’s market. Despite the average age of available stock being roughly 40 years, rental rates have reached record highs over the past year. With the entire 2.8million-square-foot pipeline to Amazon and no other new supply on the horizon, the report stated “the need for new speculative developments has only intensified.”

As the number of COVID-19 cases decline, and the office buildings welcome back occupants, there are opportunities to be had in collaborative approaches and “dynamic” workplace strategies. Both the multi-residential and retail markets have attracted the attention of out-of-town investors and transaction activity.

“With a strong public sector and continuously growing tech scene, Ottawa’s commercial real estate market provides plenty of opportunity for occupiers and investors looking for quality assets or to grow their portfolios.”

On the other side of the country, Calgary’s City Council approved a 10-year, \$1 billion Downtown Revitalization Plan this past April, with one of the primary objectives being to facilitate the conversion of 12M sq.ft. of currently vacant office space into residential housing and create amenities throughout the greater downtown.



“On a positive note, large volumes of landmark consolidators have historically signaled the bottom of the market, indicating that Calgary’s downtown office market could reach an inflection point in the late stages of 2021,” stated a report on the city’s outlook.

Evolving consumer habits are driving demand for warehouse space, as retailers, distributors and ecommerce corporations adapt. Suburban retail has seen an uptick in interest, as well, as many prefer the close-to-home options when shopping. This reimagining trend has also positioned the city’s industrial market as a hub to service all of Western Canada.

Like Ottawa, Calgary’s highly skilled workforce has enabled the tech industry to lead to some development activity. In fact, last year, tech tenants accounted for several large green shoots of positive absorption in the office market, which is expected to accelerate this year.

With all this commercial potential, the Real Estate Forums offer yellow brick roads to the wizardry of insightful analysis, without the flying monkeys to detract from a dazzling future. From facilitating that growth, post-pandemic trends, key municipal planning policies, and turning the economy engine into high gear to meeting the needs of all the major stakeholders, the Forums will pull aside the curtain of uncertainty to reveal the how these two markets are actually performing and what opportunities lie ahead in the future – no heel-clicking required.

It’s been a long eighteen month stretch of uncertainty, but there appears to be a strong light at the end of the tunnel as we look at the path forward.

Thank you for your support in attending our virtual Forums. We hope you find the Ottawa Real Estate Forum and Calgary Real Estate Forum valuable and that they help support the future of your business in these two major markets.

George Przybylowski



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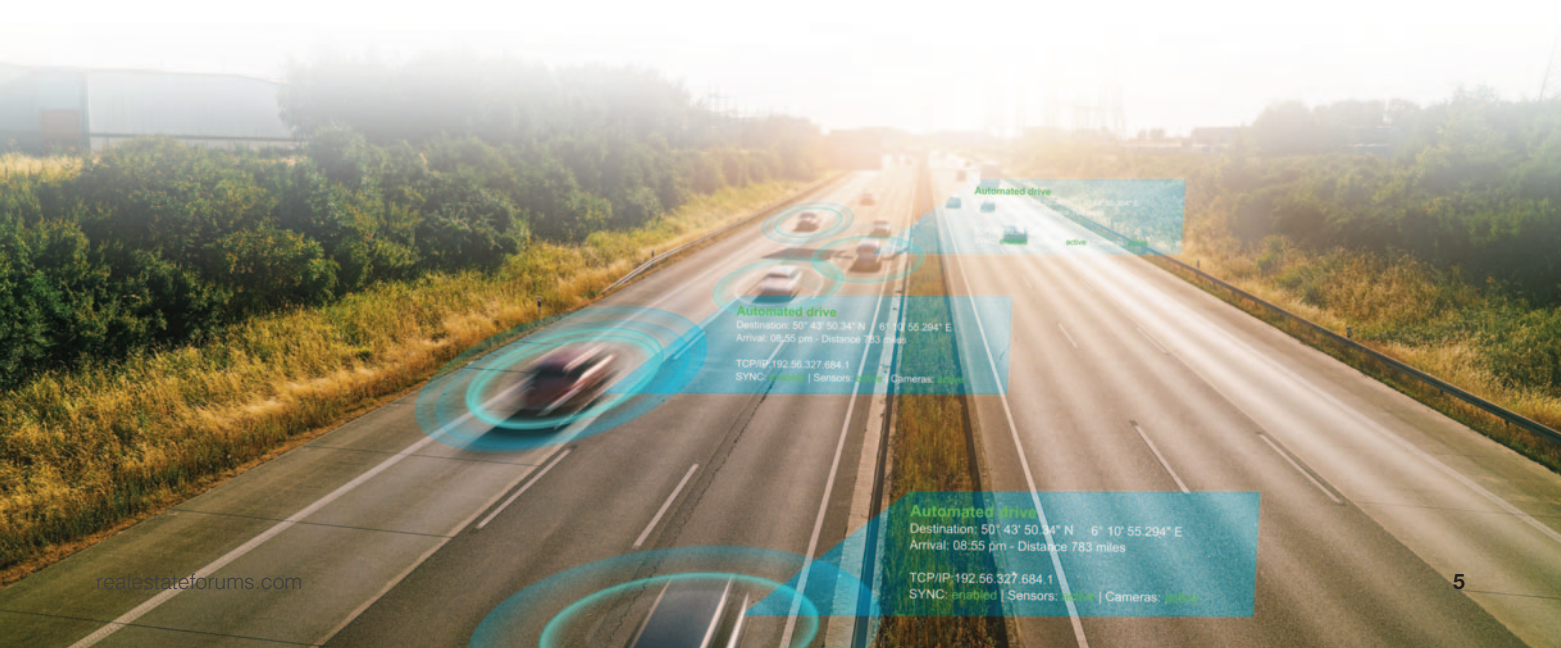
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COMMERCIAL REAL ESTATE REMAINS FLEXIBLE AND AGILE AS IT CONTINUES TO CONFRONT TRANSFORMATIVE CHANGE AND UNCERTAINTY



By Raymond Wong
Vice President
Data Solutions
Altus Group



By Kruti Desai
National Research Insights
Manager
Data Solutions
Altus Group

The commercial real estate outlook is growing to be increasingly positive as we move through 2021. Investor motivation drives strong transaction volumes over the first half of the year paired with an ongoing return to in-person work and skyrocketing industrial demand. Momentum is set to continue going strong. Despite ongoing uncertainty in the office market, the progression of hybrid work models will push the fate of office assets to the forefront over the near-term as some companies are eagerly planning a return spanning over the next four to six months, and others are still in a wait-and-see planning phase. The further compression of industrial availability rates leaves the sector in a unique spot as pressures for sufficient space mount. Although economic growth has seen improvements, vaccination rates, the return to work and school, as well as the fall federal election will all be factors at play in commercial real estate.

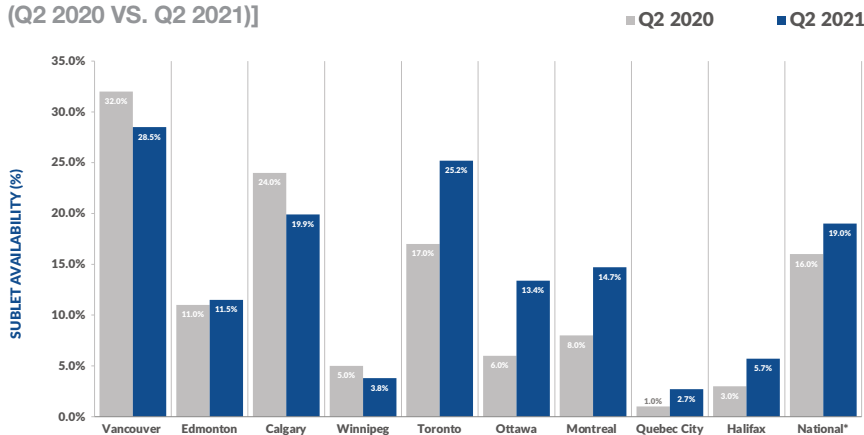
Two consecutive months of employment growth point to continued economic recovery across most major Canadian markets as vaccine distributions brought an end to strict pandemic-related restrictions. According to Statistics Canada, employment grew 1.2% in June 2021 and 0.5% in July 2021, with unemployment sitting at only

7.5%, falling from the peak of 9.4% recorded at the beginning of this year when restrictions were at a high. With the re-opening of restaurants and retail sectors, accommodation and food services saw the greatest increase in employment for July. While the manufacturing industry recorded a notable loss in employment earlier this year, employment levels in the sector are now said to have completely recovered. When it comes to remote work, the proportion of employees working from home has dropped to 25.8%, falling below record lows recorded in October 2020. As the wait and see period amid over a year of pandemic struggles reaches its end, re-openings across sectors will spur a surge in economic recovery across most major markets in Canada.

Office availabilities vary by market, but rising rates could be tempered by a gradual shift back to in-person work

As Canadian markets seem to have put the majority of pandemic-related struggles and slowdowns behind them, the ultimate fate of office assets remains to be seen. With the completion of the first half of 2021, national office availability sits at 15.4% as of the second quarter, up from 11.6% at the same time in 2020. Calgary remains as the market with the highest overall office availability rates, reaching 24.8%, while Ottawa records the third lowest availability rate at 11.7%, following 9.8% in Vancouver and 9.2% in Quebec City. According to Altus Group's Investment Trends Survey results for Q2 2021, office assets across markets remain on the sell side of the buy/sell momentum ratio. However, with rapid progression of vaccination rates and continued conversations around return-to-work plans, trends point to the wide employment of a hybrid work model with employees spending one to three days in the office per week and working remotely for the remainder of the work week. While some Canadians are not eager to return to offices and others crave the social interaction and collaboration of the office, this solution seemingly caters to

Chart 1: Office Sublet Space as a % of Available Space (Q2 2020 VS. Q2 2021)



Source: Altus Group

* Major markets covered by Altus Group

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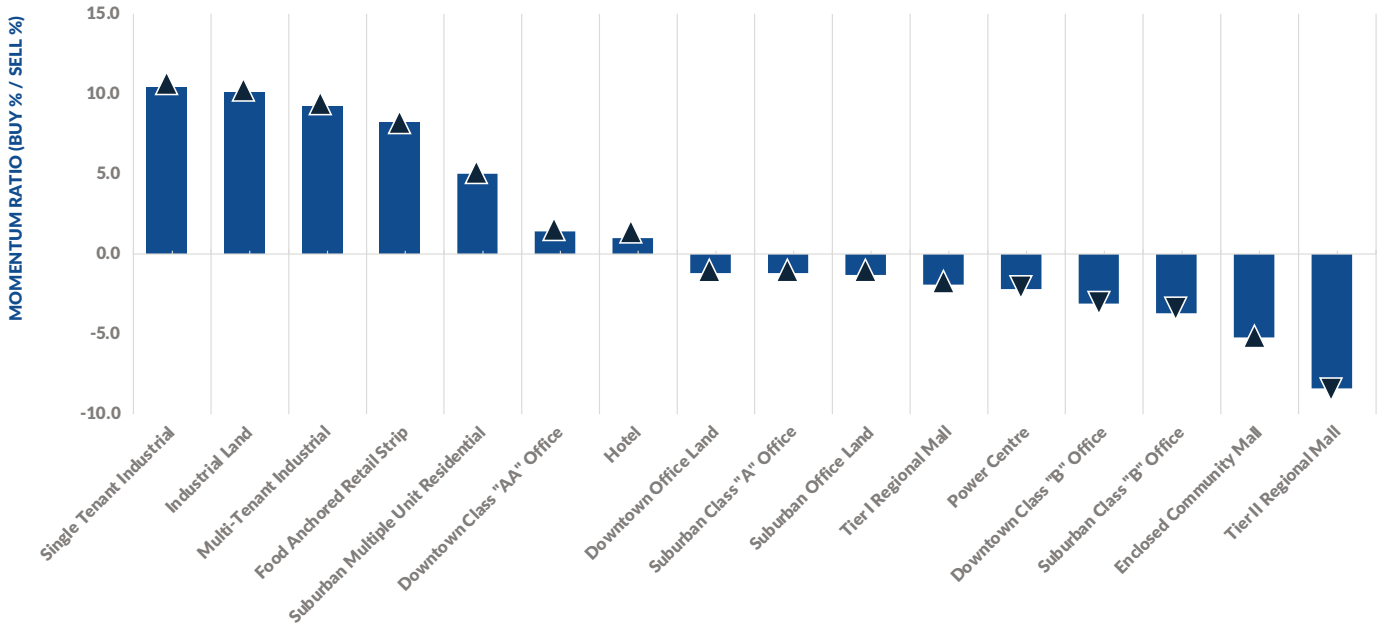
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Chart 2: Property Type Barometer
All Available Products (Q2 2021)



Source: Altus Group Investment Trends Survey

The Ottawa office market is in a strong position for recovery moving forward not only as a growing tech hub, but also with mass amounts of federal government employees exploring a return to in-person work.

Oppositely, the Calgary market faces continued challenges with little relief in sight. As mentioned, availability rates in the market are the highest in Canada and have remained as such for five consecutive quarters.

the needs of both groups. Still, the outcome is highly dependent on how employers approach this return to work as it relates to safety measures, scheduling-needs, and flexibility, as well as how the combination of return-to-work plans influences the culture within office assets among individual markets.

The Ottawa office market is in a strong position for recovery moving forward not only as a growing tech hub, but also with mass amounts of federal government employees exploring a return to in-person work. As of August 2021, over 200 federal employees are voluntarily participating in Public Services and Procurement Canada's 'Pathfinder Project', in which they will choose to either reserve in-person workspaces if they want to work from the office, or work from home if more convenient. The findings of said project will be used to determine in-person office practices and protocols moving forward. On top of the federal workforce, Ottawa has been ranked tenth on the list of the top 50 Canadian and U.S. tech hubs in 2021, up four spots from the previous year and surpassing both Vancouver and Montreal. This high-ranking score is driven in part by tech jobs composing 11.6% of total jobs in the region and could help push momentum forward as the Ottawa market emerges from the pandemic moving forward.

Oppositely, the Calgary market faces continued challenges with little relief in sight. As mentioned, availability rates in the market are the highest in Canada and have remained as such for five consecutive quarters. While both direct and sublet space are the highest in Calgary compared to other major markets, Calgary was one of the only markets to see a decrease in sublet space as a % of available space in Q2 2021 compared to the previous year, with Vancouver as the only other market recording the same trend (Chart 1). Although activity is expected to pick up in the months ahead with rising vaccination rates, Calgary could lag behind other Canadian markets due to a slowdown in leasing activity and with a bulk of office space sitting empty despite hybrid working models. Still, growth in Calgary's tech sector could bring some positivity to the office outlook, with a few notable companies announcing their growth and plans for headquarters in the city. This includes TDS, a U.K.-based software consultancy, Mphasis in partnership with UCalgary, a cloud-specialist solutions provider, as well as RBC's plan to invest in creating a Calgary innovation hub over the next few years. Overall, the office market is improving from unprecedented lows faced throughout 2020, but recovery will still be slow-going especially in the Calgary market and will be heavily dependent on potential momentum driven by growing tech companies in the area.

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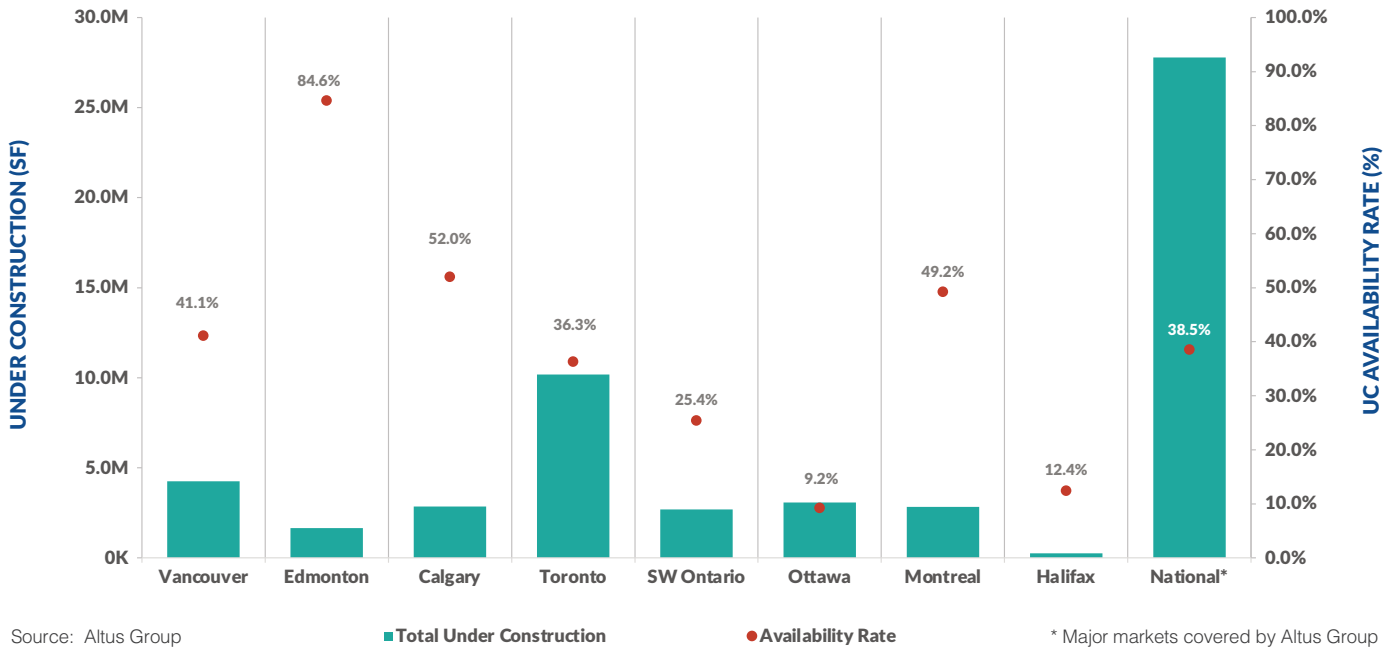
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Chart 3: Industrial Under Construction & Availability
Availability (Q2 2021)



Industrial availability challenges persist across markets

Throughout the entirety of the pandemic, the industrial sector has remained a winner across markets recording strong transaction volumes and record-low availability rates. For the past few quarters and as of Q2 2021, all three industrial asset types (Single-Tenant, Multi-Tenant and Industrial Land) have been the top preferred products by investors, according to Altus Group’s Investment Trends Survey results (Chart 2). Numerous industrial developments are on the rise in an effort to accommodate soaring demand – a trend that was already apparent pre-pandemic and that has not slowed since. A substantial portion of industrial space under construction is situated in the GTA, with over 10 million square feet under construction in Q2 2021, at an availability rate of 36.3%. This is followed by 4.2 million square feet under construction in Vancouver, 3.1 million square feet in Ottawa, and 2.9 million square feet in Calgary (Chart 3). Many project burgeoning demand to persist over the long-term as

e-commerce sales remain steady paired with the re-opening of retail and general economic improvements continue to push a need for logistics capabilities across the globe. With shipping delays adding to industrial challenges, warehouse demand is at an all-time and unprecedented high, likely to push availability rates even lower.

Throughout the entirety of the pandemic, the industrial sector has remained a winner across markets recording strong transaction volumes and record-low availability rates. For the past few quarters and as of Q2 2021, all three industrial asset types (Single-Tenant, Multi-Tenant and Industrial Land) have been the top preferred products by investors, according to Altus Group’s Investment Trends Survey results (Chart 2).

Ottawa has been recognized as a growing hub for distribution over the past few years, especially with the recent completion of the second Amazon fulfillment centre in Barrhaven, following the first completed in 2018 in southeast Ottawa. Industrial

availability in the market continues to compress, down to 2.6% in Q2 2021 from 3.8% in Q2 2020 (Chart 4). With demand rising across regions, Ottawa is no exception to the trend of rising industrial development. Ottawa-based developer Avenue31 is taking full advantage of heightened demand in the area, with multiple developments on the horizon including a recent proposal for the development of 650,000 square feet of warehouse and distribution space located across the street from Amazon’s site in southeast Ottawa, as well as construction underway of an additional 147,000 square feet in the National Capital Business Park.

With the second highest Industrial availability in Canada, Calgary rates dropped to 5.6% in Q2 2021, down from 6.8% in the same quarter last year, succeeded only by Edmonton at 6.7%, rising from 6.4% in Q2 2020 (Chart 4). However, where Calgary struggles with office market activity it could make up for in the industrial sector. According to Altus Group’s Investment Trends Survey for Q2 2021, Calgary Single-Tenant Industrial sits as the top preferred product-market combination by investors. This, paired with recent notable transactions and development announcements in the area indicate rising momentum, despite availability rates sitting much higher than other major markets.

2021

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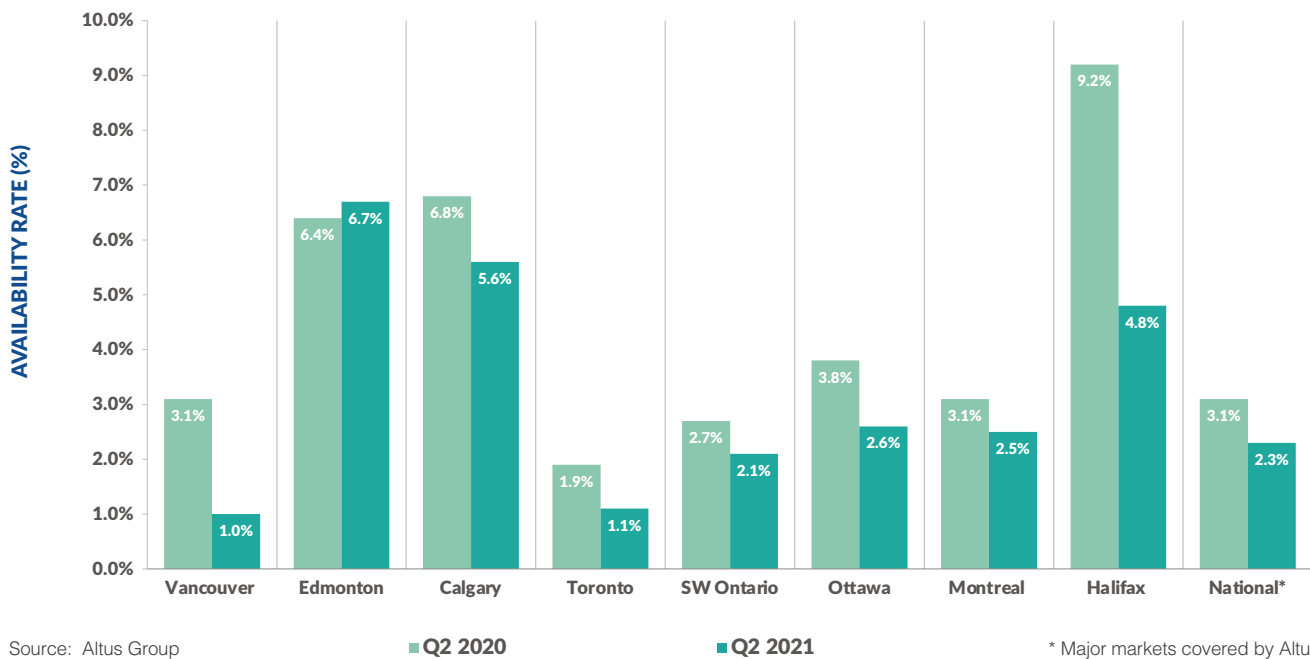
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Chart 4: Industrial Availability

Availability (Q2 2020 vs. Q2 2021)



Source: Altus Group

■ Q2 2020

■ Q2 2021

* Major markets covered by Altus Group

The industry will also have to begin focusing on more than just real estate and narrow in on their risk profiles such as their ESG commitments to secure a more sustainable, resilient, and attractive portfolio. COVID-19 has created unprecedented changes to how we use real estate and will have lasting effects.

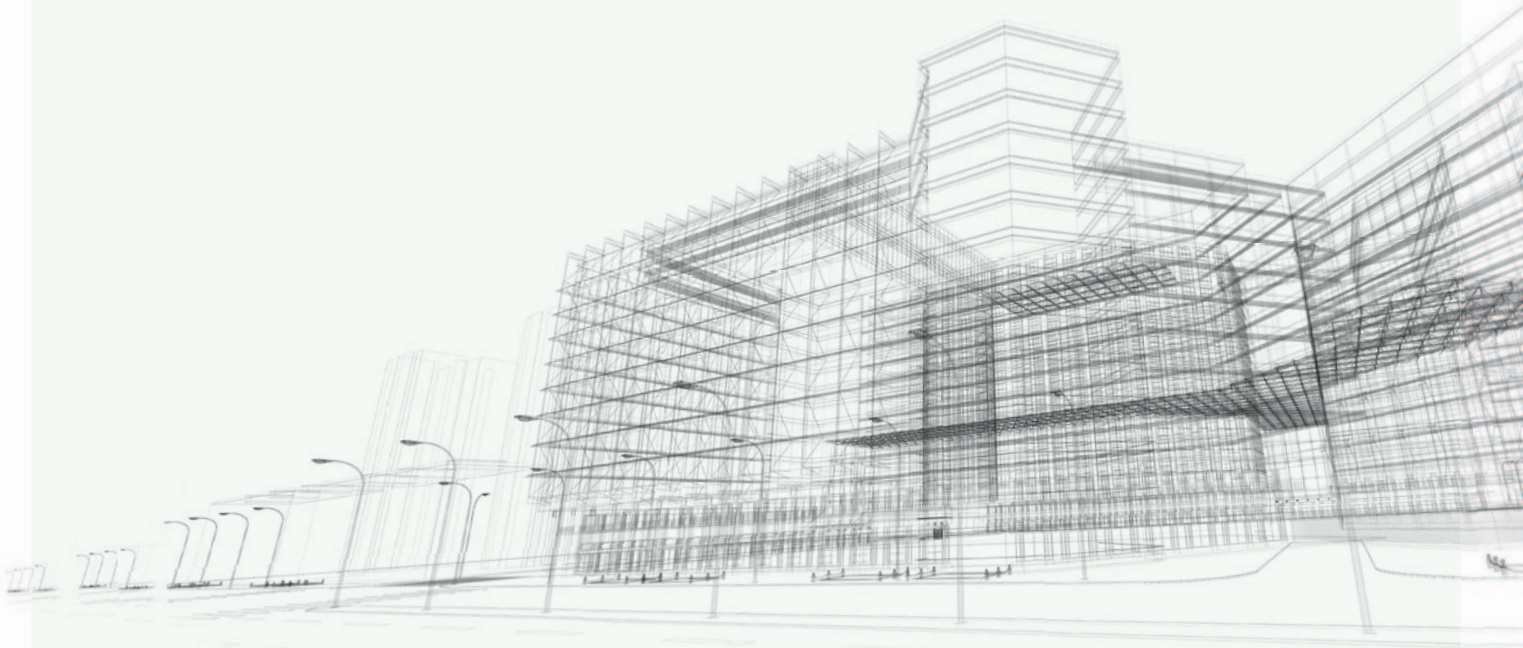
Pandemic-induced shocks to global supply chains have also presented demand challenges when it comes to industrial warehousing space. While some are facing major shipping delays related to congestion in North American ports, others do not have sufficient space to meet distribution needs. Although the re-opening of in-person retail could lead to a slowdown in e-commerce activity relative to all-time highs over the past year, the holiday season and retail activity that comes with it is just around the corner. Investors are taking note and prioritizing industrial development, but availability rates are likely to remain at record-lows for the foreseeable future.

Although some commercial real estate markets begin to shift forward in the first half of 2021 amid continued restrictions and coming out of a third wave, other markets such as Calgary continue to struggle to regain market confidence and like some other markets, has taken a wait-and-see approach as they brace a looming fourth wave. In particular, the office market will face a long-haul recovery as the hybrid workplace model continues to be tested and ongoing remote work lingers, and as tenants continue to ponder shrinking their office footprints. Yet, other markets such as the Ottawa office market have shown some signs of recovery and a market of agility as workers slowly return to their office and its tech sector shows signs of growth. The

booming industrial and commercial land sectors continue to steer full steam ahead across the country with record low vacancy rates and a surging demand largely due to market influences from the growth in e-commerce. This trend has pushed investors to go beyond markets like Vancouver and Toronto ultimately picking up the pace in markets like Calgary and Ottawa contributing to their falling industrial vacancy rates. New supply coming to market is expected to provide some relief, however supply remains limited thus more warehouses will need to be built to meet the growing demand. As we move through the second part of 2021, it remains to be seen which markets (and sectors) will remain resilient, adaptive, innovative, and rebound and which will flounder. Investors will have to look for opportunities where they least expect amid an ever-changing landscape and market conditions. The industry will also have to begin focusing on more than just real estate and narrow in on their risk profiles such as their ESG commitments to secure a more sustainable, resilient, and attractive portfolio. COVID-19 has created unprecedented changes to how we use real estate and will have lasting effects. Commercial real estate will therefore have to remain agile, flexible, and proactive as the pandemic persists which will continue to create more transformative and permanent change across the industry. ■

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INDUSTRY LEADERS
DURING THE CONTENT
FORMATION OF THE
OTTAWA REAL ESTATE
FORUM

BOC EXERCISES
CAUTION AND KEEPS
BENCHMARK RATE
AT 0.25%

Inflation creeps higher as supply
chain challenges persist.

2

EMPLOYMENT
GAINS POINT TO
LABOUR IMBALANCE

“There are people without jobs
and jobs without people,” says
Benjamin Tal.

3

RETURN TO THE OFFICE
PUSHED BACK

As yet, the federal government
has no plans to return to the
office while Tech leads the pack
with flex work arrangements.

7

GATINEAU GOING
GANGBUSTERS

The municipality is becoming
a magnet for residential and
commercial tenants alike.

6

OTTAWA'S HOUSING
MARKET RISKS
OVERHEATING

Cost of housing rises amid stable
economy and strong job growth.

5

MOMENTUM IN OTTAWA'S
OFFICE SECTOR

An increase in leasing activity in
the third quarter nudges overall
vacancy a notch lower.

4

INDUSTRIAL VACANCY
RATES ONE OF THE
LOWEST IN THE
COUNTRY

E-commerce demand adds
pressure to a tight market.

8

CAPITAL FLOODS
INTO OTTAWA

After a slow start to 2021,
investment is up over 100% in Q2.

9

DEVELOPERS BULLISH
ON OTTAWA

Millions of sq. ft. are under
construction in the National
Capital Region.

10

RETAIL REBOUNDS
WITH RELAXED HEALTH
RESTRICTIONS

Shoppers starting to return to
pre-pandemic patterns.

BONUS!

OTTAWA URBAN
BOUNDARY SET TO
EXPAND BY 3165 ACRES

Province asks city to make sure
the most “suitable land has been
selected” to be added to the
urban area.



FEDS CUSHIONED THE BLOW, AND OTTAWA CONTINUES TO GROW



Julie Taggart
President
Taggart Realty Management Inc.

Compared to other real estate markets, Ottawa has fared well considering the upset experienced across North America and globally over the past 18 months.

"I think in Ottawa we were very fortunate in terms of what happened during the pandemic," says Julie Taggart, President, Taggart Realty Management Inc. "Ottawa has always been bit of bubble and while we were affected by the pandemic it was less than other cities. The federal government being a big employer in Ottawa, people didn't lose their jobs."

People in Ottawa have continued to buy goods and services, while affected retailers found new ways to operate. "A lot of retailers realized, a year into the pandemic, that this could be the new norm, so they had to make a lot of modifications on how to service their clients," Taggart says. On the food and hospitality side, some restaurants that might never have offered takeout before have made it a lasting part of their business model. As seen in other Canadian cities, innovation is a by-product of adversity.

The residential sector experienced a slight increase in vacancy. "I think it had to do with students not coming back to in-person learning and immigration dropping off" Taggart says. "Also in the service industry, many people got laid off which forced them to move back home"

As for the office market, time will tell what some of the larger tenants will do with their space, whether adopting a hybrid work model or downscaling space. Employees are now accustomed to working from home and enjoying a more balanced lifestyle, so companies will have to make accommodations or risk the employees looking elsewhere.

Ottawa enjoys a stable economy that draws private investors and pension funds. And with its abundance of green space, the city offers a very attractive lifestyle. Taggart says Ottawa needs to find other ways to attract more talent and make sure it "stays on the map."

"We need to find a larger independent employer, and we need more amenities, venues like the aquarium in Toronto, for example, that appeal to a large market," Taggart says. "We've reached a million people in the last couple of years and we must continue to not only grow but be able to accommodate that population and make it affordable and accessible to everybody."

■ *Michelle Morra*

CONCIERGE APPROACH TO INVESTMENT PROPELS OTTAWA TO TOP OF THE ECONOMIC PACK



Jim Watson
Mayor
City of Ottawa

“We roll out the red carpet. We told city staff – particularly our planning department – that we want to provide concierge service for large investors so they don’t have to jump through 150 hoops with three government levels. We want people to locate their business here.”

It’s no accident that Ottawa is poised for the fastest post-pandemic rebound of any city in the country. Since voters elected Jim Watson in 2010, the city has aggressively courted businesses to Canada’s capital.

“We roll out the red carpet,” the Mayor explained. “We told city staff—particularly our planning department—that we want to provide concierge service for large investors so they don’t have to jump through 150 hoops with three government levels. We want people to locate their business here.”

The business-friendly model promptly proved popular, driving down unemployment to 30-year lows. Even since the pandemic, it’s stayed in the single digits, giving Ottawa the lowest jobless rate in the country.

support for Stage 3, which will reach west into Canada’s largest technology hub in Kanata, as well as Stittsville and farther south to Barrhaven.



Government builds stability, business fuels growth

Situated between Toronto and Montreal, Ottawa has successfully levered its strategic location and affordable land as a logistics hub. Amazon recently completed a distribution centre, east of Ottawa. Another, south of the city, is due for completion this year.

“That is creating a lot of jobs in a city that is still primarily a government town,” he observed.

Tech—Ottawa’s second-largest industry—has also thrived through the pandemic. That’s not the case for the city’s third-largest industry, tourism, whose revenues were severely curtailed. As former President & CEO of the Canadian Tourism Commission, Watson is keenly attuned to the value that visitors bring to the capital’s economy. The city is aggressively working with Ottawa Tourism to promote staycations as a short-term solution.

From Bytown to Biztown

Massive infrastructure investment is another economic driver. With Stage 2 of Ottawa’s commuter rail network construction underway, the city has garnered broad

“Within four years, 75 percent of Ottawa’s population will live within five kilometres of a train station,” Watson added.

Other infrastructure gigaprojects include a multibillion-dollar makeover for Parliament Hill; LeBreton Flats, a large downtown development; a new Civic Campus of The Ottawa Hospital and trauma centre to serve all Eastern Ontario and Western Quebec; a new central library; and recreation centres throughout the city.

Big private investments supplement the civic stimulus: The city has overhauled Rideau Street in tandem with a \$400-million overhaul to the Rideau Centre; Bayshore Centre got a \$250-million expansion; and Canadian Tire has opened up a giant store in Carlingwood.

“The private sector likes Ottawa’s prosperousness,” he noted. “Plus, housing prices are more reasonable than Vancouver and Toronto. We’re very safe and green with an extensive bike path network and the most golf courses per capita. Our museums and performing arts are world class. It’s unsurprising that we’re moving ahead!”

■ Robert Frank

IMMIGRATION AND AUTONOMOUS VEHICLES WILL CONTRIBUTE TO FUTURE HOUSING DEMAND



Jeff Westeinde
President
Zibi Canada
Executive Chairman
Milestone Environmental

“As a developer I love when you know what your sales price and costs are going to be, and then they stay that way,” says Westeinde. “Right now real estate values have skyrocketed in almost every sector, but we’re fortunate that demand has been driving revenue up while keeping pace with what we’re seeing on the construction side. Because it is changing so rapidly, it introduces a whole layer of uncertainty.”

As Canada becomes more attractive on the world stage, demand for development will continue to soar – and the Ottawa-Gatineau area is no exception.

“I think we’re going to see a lot more influx of immigration when our borders open up,” says Jeff Westeinde, President of Zibi Canada and the Executive Chairman of Milestone Environmental.

“It used to be that immigration was focused on Toronto and Vancouver, with Montreal coming in third and not a lot of trickle-down to other centers. I’m seeing that change dramatically not just in Ottawa but in the general Outaouais area.

“I think the Gatineau market is significantly underappreciated so you’ll see us spend a lot more time there as well. We’re in for a pretty good run on both sides of the river.”

Westeinde, a veteran Ottawa real estate developer, is a principal at THEIA Partners, which is spearheading the highly anticipated, multi-billion-dollar Zibi project with Toronto’s Dream Unlimited. The 34-acre mixed-use project is the largest, most complex waterfront redevelopment in Canada and straddles both sides of the Ottawa River in the national capital region.

Although the demand for more housing has been almost insatiable, long approval processes and soaring lumber prices have made it challenging to get supply to market, he says.

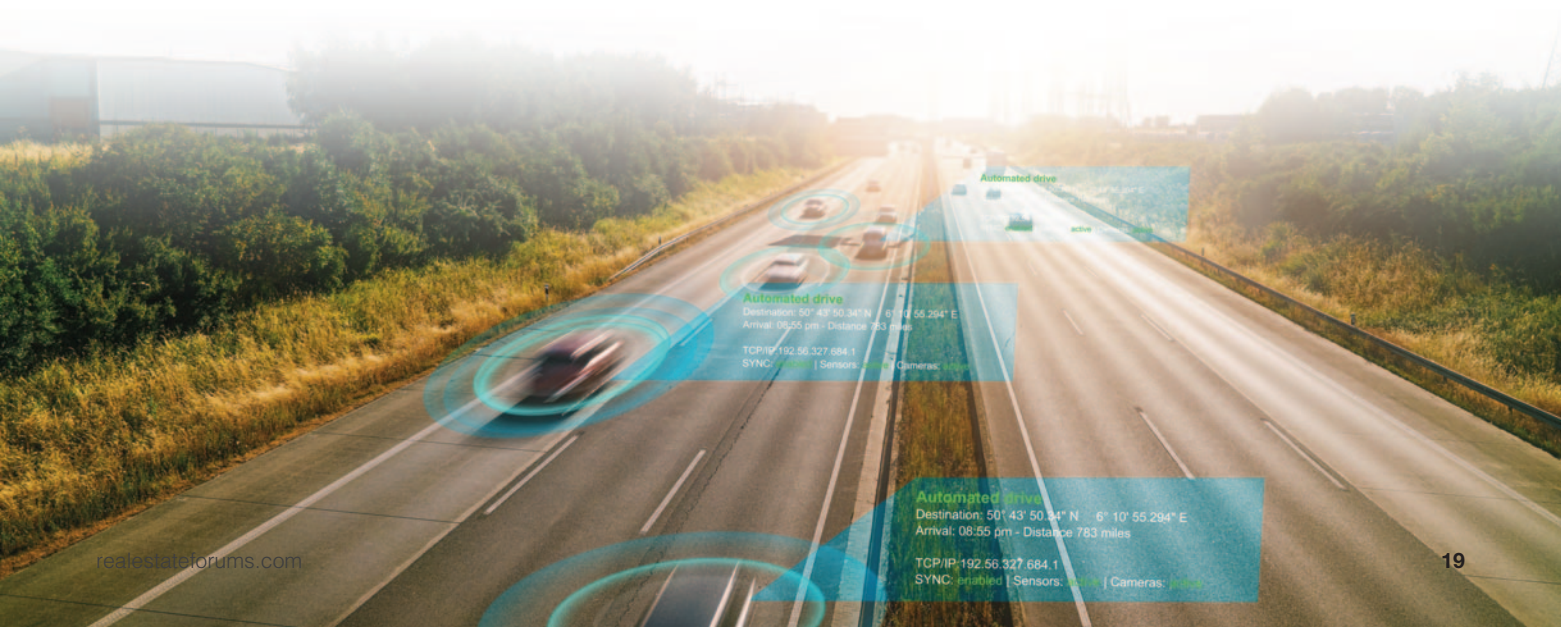
“As a developer I love when you know what your sales price and costs are going to be, and then they stay that way,” says Westeinde. “Right now real estate values have skyrocketed in almost every sector, but we’re fortunate that demand has been driving revenue up while keeping pace with what we’re seeing on the construction side. Because it is changing so rapidly, it introduces a whole layer of uncertainty.”

Also contributing to the evolution of how we will work, live and play are the prevalence of remote working arrangements, autonomous vehicles and the advent of satellite internet, he notes.

“If your place is two or three hours out of town, but you can be fully connected and productive during your commute, you may want to take advantage of having more space and the amenities that living in nature can provide. Most people with a second home choose to go the cottage rather than stay in an apartment downtown,” Westeinde says.

“We used to be very focused on the urban core. Now you’ll see us step outside of that but do something very different than what you would typically see.”

■ Barbara Balfour





“If you have a prominent hybrid model, all of a sudden the use of all the infrastructure we’ve put in place just servicing office space gets underutilized.”

Vandewouw says. “There are autonomous vehicle companies in the business park, so why not showcase this and be early adopters?”

What’s needed for these ambitious projects to succeed? People. Not unlike the rest of North America, Ottawa’s workforce spent the pandemic working from home. In the name of work-life balance and employee retention, many employers are instituting a home/office hybrid model. Vandewouw acknowledges this is necessary but worries about its impact on the city.

“If you have a prominent hybrid model, all of a sudden the use of all the infrastructure we’ve put in place just servicing office space gets underutilized,” he says.

Pre-COVID, Kanata North in particular was seeing a very high demand for space. Now that kids are back in school and there’s traffic again on the Queensway, Vandewouw is a little disappointed that people aren’t flocking back to the office in Kanata North. He says employers will need to make the workplace more attractive through not only a hybrid model, but by offering opportunities to work in outdoor spaces.

Also on Vandewouw’s radar is that Ottawa, long touted as an affordable place to live, has become less affordable. “If a house is still a little over a million in Vancouver or Toronto and now it’s almost a million in Ottawa,” he says, “if you’re in Toronto is it that much better to move to Ottawa?”

At this time there’s no denying Ottawa’s appeal. Vandewouw points out that relative to other cities Ottawa offers shorter commute times, a relaxed pace, and diverse options for entertainment and leisure. “You can be downtown in 20 minutes, or you can be standing in a river fishing or on a ski hill in 20 minutes. There’s always something to do regardless of your lifestyle.”

■ *Michelle Morra*

OPEN FOR BUSINESS ON A LARGER SCALE



Martin Vandewouw
President
KRP Properties

A year-and-a-half shutdown has not prevented big change from moving forward in Ottawa. The city has designated the Kanata North Technology Park as a special economic zone. “The old style of zoning and planning are no longer applicable,” says Martin Vandewouw, President, KRP Properties. “This plan will allow a lot higher density and urbanization of the suburban office park, and more mixed-use development than we’re seeing today.”

Phase 2 of the LRT is scheduled for completion in 2025. This extension will continue from Tunney’s Pasture to Moodie and Baseline Stations. A feasibility study sponsored by Kanata North Business Association is exploring the use of autonomous vehicle technology, via rapid bus or some other form of driverless shuttle, to ferry tech workers between the business park and the LRT extension.

“They’re trying to leverage some of the technology going on and highlight it,”



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SOARING POPULATION GROWTH THREATENING HOUSING AFFORDABILITY ACROSS THE COUNTRY



Michael Waters
Chief Executive Officer
Minto Group

After decades of slow and stable growth, Ottawa is waking up to a population explosion at triple the numbers it has seen in the past.

Much of that growth is due to changes in federal immigration policy, combined with local expansion of the technology, financial and real estate sectors. As more new Canadians are anticipated to arrive after COVID-19 restrictions are lifted, housing affordability is inevitably going to erode, says Michael Waters, Chief Executive Officer at Minto Group.

“People are discovering Ottawa is a fantastic place to live and still relatively affordable compared to a city like Toronto,” says Michael Waters, chief executive officer at Minto Group. “As much as house prices and rents have grown in Ottawa, they probably grew as fast or faster in Toronto.

“But right now, we’re just not producing enough homes. This is partly because the time frame to get through the planning stage is lengthening while the production capacity of the industry is limited,” he says. “Even if you get approval, you can’t necessarily obtain the equipment and the suppliers to actually produce it – and certainly COVID-19 has highlighted the weaknesses of our supply chain.”

With an anticipated arrival of 20,000 to 30,000 new residents annually, Ottawa’s traditional output of only four to six thousand homes will fall drastically short.

Not keeping up with population growth is part of a larger national trend where the volume of home production has remained the same over the past 20 years. “Now we’re almost 30% bigger as a population, and all those people have to live somewhere,” says Waters.

“There are a lot of cranes in the sky and new development underway, but it’s not enough. We’re now seeing new town homes, which are usually the most affordable options for first-time buyers, moving out of reach. That’s obviously a concern if you’re trying to attract young engineers or other professionals to come work for your business.”

Waters points to ongoing investments in the city’s infrastructure and institutions such as the LRT and Ottawa hospital campus. “Those investments are what will attract more people and reaffirm the desirability and modernity of the city. I think Ottawa’s long-term population projections need to take all these trends into account and be examined more closely to make sure we’re not doing something will really harm affordability. Because that in turn could be a constraint on the growth of the city.”

■ Barbara Balfour

“Those investments are what will attract more people and reaffirm the desirability and modernity of the city. I think Ottawa’s long-term population projections need to take all these trends into account and be examined more closely to make sure we’re not doing something will really harm affordability. Because that in turn could be a constraint on the growth of the city.”





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HAPPEN



INSTITUTIONAL SHIFT TO INDUSTRIAL & MULTI-RES OPENS OFFICE ACQUISITION OPPORTUNITIES



Vincent Chiara
Chief Executive Officer
Founder
Mach Group

Tech industry growth has dramatically changed Ottawa's office outlook, driving up demand for top-tier properties during the two decades.

"The talent pool here has attracted employers who expect quality space," noted Mach Group Chief Executive Officer and Founder Vincent Chiara. "We're looking for a combination of A and B+ class assets, and for opportunities to redevelop."

While institutional buyers chased properties in Vancouver, Toronto and Montreal, Ottawa has remained a niche for opportunity in the office market, a trend that has further entrenched during the past year-and-a-half.

"Big players have taken their foot off the pedal because of the pandemic as well as due to the stellar performance of industrial and multi-residential real estate asset classes," Chiara declared. "That's why we're here. We see some significant opportunities in Ottawa and intend to make quite a few acquisitions here during the next few years."

We're hiring!

To that end, Mach Group is currently actively recruiting local real estate talent to build its Ottawa team.

"We want to have the first line on the ice there," he said. "You can't win hockey games with the third line on the ice all the time. You have to have the right people who understand the market and know the players and the tenants."

Sometimes, it's worth the trip

Even though the downtown core remains Mach Group's focus, everything along Ottawa's new commuter train lines are in Mach Group

crosshairs, all the way to Nepean and Kanata. The company will also continue to seize good prospects that occasionally arise outside that geographic locus, like the 1.5 million square foot former Sears warehouse in Belleville.

"Occasionally, it's worthwhile for a large player to range farther afield and pay \$7 per square foot in Belleville instead of twice the price in Toronto," Chiara observed. "It's worth the trip."

Better workplace, better civil servants

Although the large civil service footprint supports the widely acknowledged stability of Ottawa's office market, rent-sensitivity means that most of the space that the government rents is in second-tier B class—and sometimes C class—properties. Chiara sees this as an opportunity.

"Rent comprises 5% of my operating costs; employees 75%," he recounted. "If I pay a little more rent to provide better premises, and they reward me an additional 10% productivity, then that rent differential becomes worthwhile."

Chiara believes that better workplaces will energize and instill loyalty in government employees by heightening their sense of belonging and ownership.

"Encouraging work-from-home accomplishes exactly the opposite of that," he concluded. "Home is called home for a reason: It is not a place for work. It's a place where you *don't* work. It is *not* conducive to motivating productivity. That's counterintuitive."

■ Robert Frank

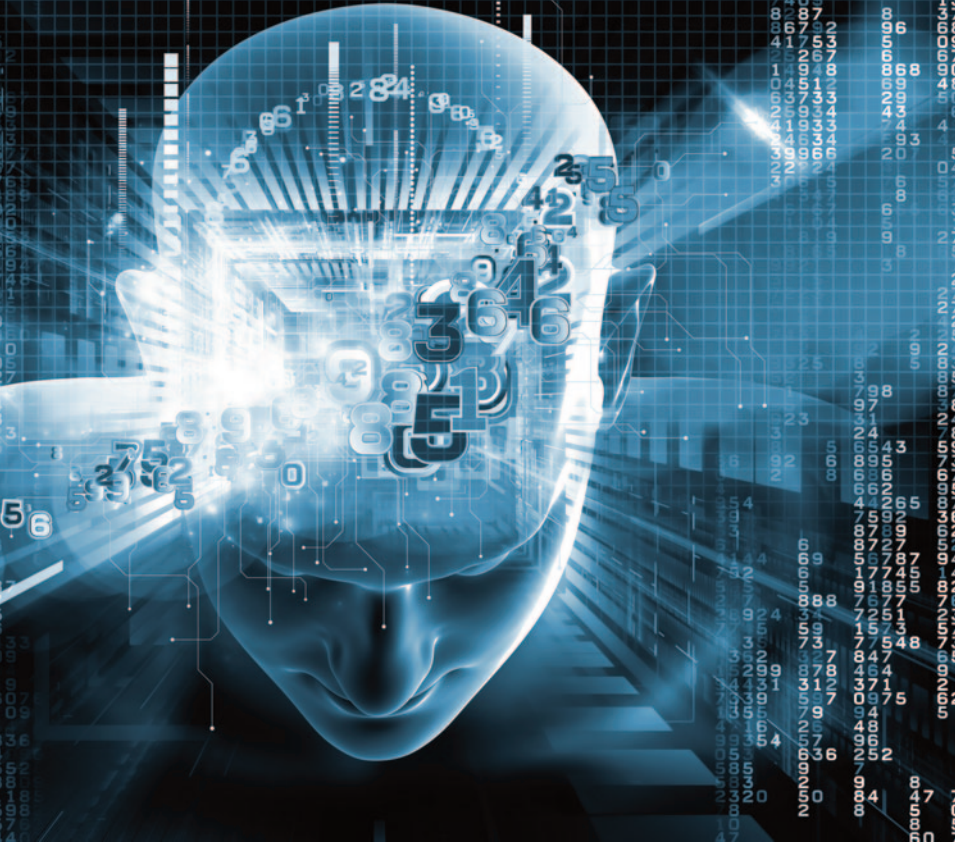
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“We have decades of knowing what it's like to work in the office but only 18 months of knowing what it's like to have everybody at home. Implementing a hybrid model isn't as simple as a snap of the fingers.”

ORGANIZATIONS CHOOSING A MORE CAUTIOUS FUTURE-PROOFING APPROACH



Meredith Thatcher
Co-Founder
Agile Work Evolutions Inc.

Despite the lure of significant real estate savings, many organizations are choosing not to scale back on office space right now. Instead, they're taking on a more cautious approach to explore all their options, says Meredith Thatcher, Co-Founder of Agile Work Evolutions Inc.

“Most executives aren't saying, ‘Okay, let's divest of that building and get it done’”, says Thatcher. “They're saying, ‘Let's talk about how we can take advantage of what we've learned to improve our business and drive our strategy.’”

“Maybe that means a short-term renewal for a year or two to give themselves an opportunity to really understand how work in the future is being shaped. Then, taking a look at how much space they actually want to keep to move forward.”

Thatcher, who has been future-proofing organizations for remote work for the better part of two decades, notes that the idea of a hybrid workplace is not new. While the COVID-19 pandemic accelerated a shift that was already happening, it also created a level of disruption that complicates matters, she says.

“We have decades of knowing what it's like to work in the office but only 18 months of knowing what it's like to have everybody at home. Implementing a hybrid model isn't as simple as a snap of the fingers. It touches every single process from records management and approval processes, to brainstorming and innovation. It means challenging every status quo we've known and so we need to revisit to ensure those processes remain efficient.”

Continuing employee flexibility and fluidity even after the pandemic has ended will be essential to avoid a mass talent exodus, Thatcher continues, but how it is implemented may vary. “Perhaps it could involve enabling a percentage of employees to be fully remote, hybrid or in the office, or it could be giving everyone flexibility to come and go as they need. Other organizations may want all employees on-site on certain days of the week.

“This will evolve with getting a clearer understanding of the needs of every role and then matching employees' preferences to business needs. The longer people stay at home, the more we're going to overhaul who we are as an organization, and how we work together and deliver service.”

■ *Barbara Balfour*

OTTAWA SETS SIGHTS ON QUALITY, INNOVATIVE HOUSING



Stephen Willis
General Manager, Planning
Infrastructure and Economic
Development
City of Ottawa

The 15-minute metropolis

One particular objective in the new, 25-year master development plan that the city is formulating has captured public imagination. The concept reshapes major cities into a collection of socially and economically stratified, self-sufficient communities, by placing amenities in close proximity. Everything residents need remains within a 15-minute walk or public transit ride from their residence.

In Ottawa, that delivers different objectives—all desirable—depending upon your priorities.

“It has caught on like wildfire,” Willis observed. “Some people seek its quality of life. Post-pandemic, they want to do more in their neighbourhood and become more hyperlocal. Another group want to ditch commuting and have amenities close at hand. Others like the environmental virtue, lowering their energy and carbon footprint with more walking and cycling. Some want to stay in their neighbourhood when they age out of their house.”

Intensification, rather than greenfield development, will account for 60% of new housing. The city is supplementing increased height limits around train stations by steering suburbs away from single-family homes toward a broader variety of low-rise housing within 500 metres of public transit corridors. High rises up to 40 storeys might also be allowed on large enough lots along main streets 30+ metres wide, provided they transition building mass sufficiently to retain neighbourhood character.

Now that Canada’s capital has passed the million-population milestone, its municipal administration aims to up its game to match its newfound mid-size city status.

“We want to welcome high-quality development projects,” Stephen Willis, General Manager, Planning, Infrastructure and Economic Development, City of Ottawa, said in an interview. “We want to work with anyone who shows us innovative projects and see if we can find a way to try them out in Ottawa: More affordable construction and more family-oriented units for more compact living—those are some areas where we would like to see more innovation.”

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“The 15-minute neighbourhood concept has caught on like wildfire. Some people seek its quality of life. Post-pandemic, they want to do more in their neighbourhood and become more hyperlocal. Another group want to ditch commuting and have amenities close at hand. Others like the environmental virtue, lowering their energy and carbon footprint with more walking and cycling. Some want to stay in their neighbourhood when they age out of their house.”

High-end rental: Institutional interest hot

“We have seen more application for new rental projects this year than in the past twenty years, combined,” he reported.

While increased supply will be welcome, it still leaves a shortfall at the other end of the market.

“Rapid housing price increases are a big concern for us,” Willis acknowledged. “We’re not responding to low-end of market demand with new product in Ottawa.”

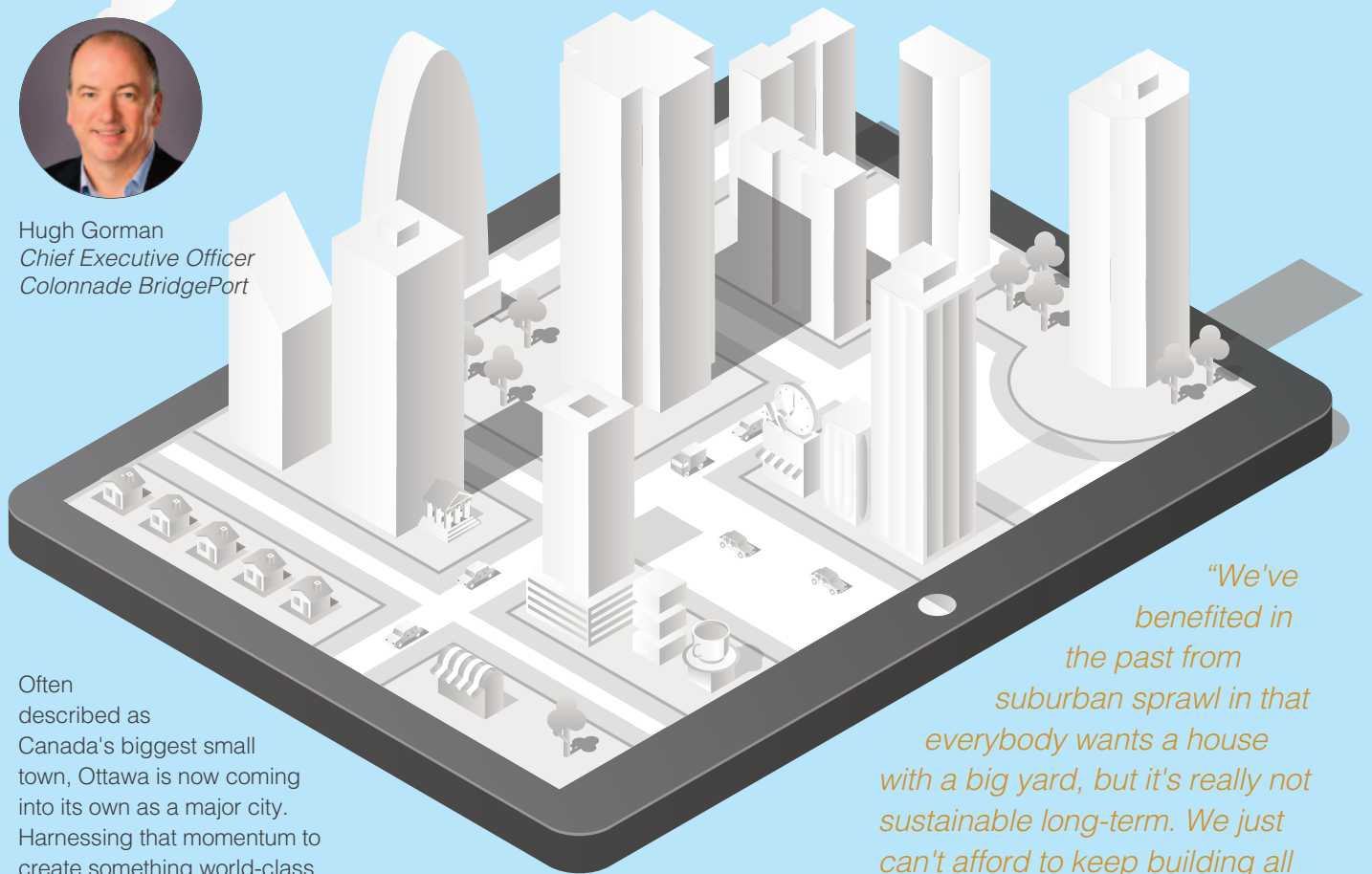
Ontario has only recently enabled limited inclusionary zoning, and restricted it to locations near commuter train stations.

■ Robert Frank

INTENSIFICATION AROUND INFRASTRUCTURE IS KEY TO ATTAIN THE 15 MINUTE NEIGHBOURHOODS



Hugh Gorman
Chief Executive Officer
Colonnade BridgePort



Often described as Canada's biggest small town, Ottawa is now coming into its own as a major city. Harnessing that momentum to create something world-class requires a common vision from the highest levels of political leadership, says Hugh Gorman, Chief Executive Officer at Colonnade BridgePort.

And recognizing the need to curb suburban sprawl and focus on urban intensification in policy planning is part of that vision, says Gorman. "Based on the geographic footprint of the city, its population and tax base size, we simply can't continue supporting unbridled suburban growth.

"We've benefited in the past from suburban sprawl in that everybody wants a house with a big yard, but it's really not sustainable long-term. We just can't afford to keep building all the infrastructure, like roads and sewers. For the continued growth of the city, I think urban intensification is crucial."

Gorman has witnessed a shift in the past three or four years, where getting projects approved has become easier; the catalyst for this new mindset has been the LRT, he says. "Everybody from community associations to the city bureaucracy has acknowledged this is a big investment that needs to be economically viable. And the only way to do so is to intensify around that infrastructure," he says.

"What's interesting is we've got this system almost in advance of the demand; the investment is now driving policy instead of the other way around. So now we need to build up the support framework around it, including places where people live and work."

Gorman wants city planning to encourage residents to live and work in 15-minute neighbourhoods – "where you could work, shop and spend time with family and friends and never have to go more than 15 minutes from your house to make all that happen," he says.

"We've benefited in the past from suburban sprawl in that everybody wants a house with a big yard, but it's really not sustainable long-term. We just can't afford to keep building all the infrastructure, like roads and sewers. For the continued growth of the city, I think urban intensification is crucial."

Rethinking how people get around and commute to work will help alleviate capital infrastructure investments such as having to build more highways or expand the Queensway, Gorman adds.

"We're not going to see a ton of office growth over the next three to five years, but I do think we'll see a stabilization that combines working remotely with connecting face-to-face.

"Long-term, we're headed in the right direction. What makes Ottawa so unique is we have a chance to get it right."

■ Barbara Balfour

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Emily Niell
Senior Sustainability
Research Analyst
Epic Investment Services

MANAGING ESG AND CLIMATE RISK: THE ECONOMIC OPPORTUNITY OF OUR GENERATION



Steven Pacifico
Vice President, Sustainability
Innovation & National Services
Epic Investment Services

Responsible investing is widely understood as the integration of environmental, social and governance (ESG) factors into the investment and decision-making process. ESG covers a wide range of issues such as environmental mitigation measures, protection of health and well-being of occupants, and incorporation of policies to increase transparency behind investment decisions. It is now one of the largest economic opportunities for the commercial real estate sector.

ESG is a relatively new concept, in fact the term ESG was first coined in 2005. Today, ESG investing now represents 61.8% of professionally managed assets in Canada¹. The incorporation of ESG practices into investment decisions and portfolio management surged in 2020 when the pandemic emerged. Properties that had strict health and well-being practices were more resilient to the risks posed by the virus. Investors are now making ESG a priority when it comes to portfolio management to reduce their exposure to risk. However, the largest material risk that is currently facing the commercial real estate sector in Canada demands more attention. That risk is climate change.

ESG is a relatively new concept, in fact the term ESG was first coined in 2005. Today, ESG investing now represents 61.8% of professionally managed assets in Canada¹.

All properties across Canada are being impacted by climate change, however the value-at-risk will vary based on two factors: physical risk and transitional risks. Physical risk accounts for the impact of climatic events, such as extreme weather, on a property. In Canada, these extreme weather events, such as flooding and forest fires caused \$2.4 billion in damage in 2020². Transitional risks arise from efforts to address environmental changes including new government regulations such as the national carbon tax, shifts in consumer demand, such as tenants requesting Net-Zero buildings and new investor demand, such as the growing ESG interest of millennial investors. 77% of millennial investors, claimed that ESG issues are top priority when assessing investment opportunities, with nearly 90% setting it as a first investment criteria³. Millennials will play a key role in future investments as they are the largest population by generation, and they will inherit multi-trillion dollars from their baby boomer parents.

These risks present a large opportunity for investors, as there are numerous ways to reduce the value-at-risk from properties. Here are three steps that one can take to minimize the impacts of climate change on their portfolio.

1. Property-level climate risk analysis.

The first step to protect a portfolio is to understand the key physical climate risks that the property faces at the postal code level. These assessments should be factored in for property valuations, acquisitions, and dispositions.

2. Implement measures to reduce the physical impact on your property.

After key threats are determined, capital can be allocated to implement measures to reduce risk. For example, if the property is in a high-risk flood zone, then it would be advantageous to install elevator water sensors that prevent them from submerging into flood waters. According to an analysis from FM Global, for every \$1 a company spends to protect structures from hurricane, wind, and flood damage, estimated loss exposures decrease by an average \$105 due to reduction in risk of property loss and business disruption⁴.

3. Governance and regulations investment planning.

Stronger action is now being taken by governments to reduce GHG emissions that buildings are emitting. Portfolio managers need to understand current and future regulations and allocate capital to meet these new requirements. For example, Canada's federal government has implemented the National Carbon Tax, in which the price of carbon is set to increase 8.5 times in the next decade⁵. Costs of natural gas are expected to increase by 450% by 2030 and electricity costs to increase by 135%. To mitigate these increased costs, properties will need to (1) reduce energy consumption; (2) decarbonize their portfolio by low-carbon fuel switching; and (3) consider onsite renewable energy. The first step to decarbonizing a portfolio is to identify key carbon emitting systems at properties and when they are due for renewal. Then, capital can be set aside to replace these systems with a low or no-carbon system.

By embracing the opportunities outlined above, investors and portfolio managers can protect their assets by preventing lower property valuations, higher insurance rates, higher utility costs, and potentially costly building repairs if an extreme weather event occurs.

COVID-19 has highlighted the vulnerability of building portfolios that did not incorporate ESG principals. The virus gave us little time to prepare after this unprecedented event. Time has been given to prepare for climate change, however that time is quickly running out. The industry must take climate risks seriously as its impacts are already being felt throughout the world. Investors have the power to control how their capital is spent, so it is crucial they use their power to ensure vigorous ESG practices are in place to mitigate climate change. Only then, will investors be able to embrace the full economic opportunity presented by ESG. ■

¹ *Financial Post*. Nov. 26, 2020

² *Financial Post*. June 2021.

³ *CNBC*. December 2019.

⁴ *FM Global*. 2019.

⁵ *The Globe and Mail*. March 2021.

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

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

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.

7

HOW ARE SECONDARY MARKETS SURROUNDING CALGARY PERFORMING?

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

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.

5

CAN DEMAND ABSORB ALL THE NEW PROJECTS IN THE MULTI-RES MARKET OR WILL IT BE OVER-BUILT?

The Canadian multifamily sector outperformed most other property types in terms of surviving the pandemic, but annual rent growth decelerates.

4

REPURPOSING OLDER ASSETS: HOW WILL \$45M IN INCENTIVES IMPACT THE MARKET?

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

8

THE INDUSTRIAL MARKET IS OUTPERFORMING ALL OTHERS DURING COVID-19: WILL THIS CONTINUE?

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.

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.

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.

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



CALGARY CHANGING WITH THE TIMES



Chris Ollenberger
Managing Principal
QuantumPlace Development Ltd.



Dallas Wingerak
Chief Executive Officer
Ronmor

There's a different kind of vibe here. No longer just a boom and bust city, Calgary is seeing growth in tech, manufacturing and logistics and is essentially acting as an inland port for Canada and the western seaboard. This young, affordable, liveable and entrepreneurial city blessed with urban and suburban amenities and world-class green space has a very positive energy, and we see it as an understated opportunity worth keeping an eye on.

While the Calgary real estate market is not performing at the same level of excitement as many other areas of North America, the city is poised to come out of the oil and gas sector downturn and the COVID-19 pandemic stronger, more resilient, but also steady. This makes for a very good environment for investors.

Certainly the office sector has taken a rough ride. This is a city that's accustomed to taking 40 percent of its revenue stream from the downtown area. That is no longer the case—valuations just aren't there—so the municipality is reinvesting in the core. The \$200 million Greater Downtown Plan includes a number of tactics to find a long-term fix for the vacancy issues happening downtown. The aim is to fill vacant spaces with some of those new opportunities and entrepreneurial energy, but also to ensure a better mix of residential and business spaces. Calgary recently embarked on a plan to invest in converting office space to residential in several buildings, both downtown and in the Beltline. We see this as a very positive move.

General outlook about Calgary has changed. Whereas traditionally, office space filled up very quickly during a boom because employers went on hiring sprees, people today are being smarter, more strategic and diversified with their companies and their hiring. The overwhelming theme of COVID-19 and its impacts has taken everybody down a notch, and yet we are seeing new businesses, as well as small businesses that have become more nimble, reinvented themselves by shifting or pivoting, offering their services in ways that work within the confines of COVID. On a macro level, between the rebound in oil prices and some bright lights on the tech side, there is a refreshing level of optimism in the market.

This Forum is a great opportunity to reconnect with a number of people throughout the city and beyond, to really discuss where Calgary is going and the opportunities facing us here today. Over the last 18 months we've all been focused on hunkering down, making sure our employees were looked after and our businesses were healthy, with a lot of internal gazing. Now it's time to look outward again as we learn how to move forward coming out of the pandemic.

If COVID proved anything to landlords and developers it's that the city is incredibly resilient. Recovery will take some time, but once we have the right infrastructure and all of the right pieces in place, Calgary will be a force to be reckoned with.

■ *Michelle Morra*



“That’s all we should be doing: attracting new businesses to grow in Calgary.”



Greg Kwong
*Executive Vice President
Regional Managing Director
CBRE Limited*

JOBS ESSENTIAL TO DOWNTOWN RECOVERY

Calgary’s downtown market has struggled with a high vacancy rate in office buildings, but there are reasons for optimism. As the world cautiously starts to move forward from the COVID-19 pandemic, staff are returning to offices. Furthermore, Calgary’s office sector has started to expand its reach beyond the energy business.

According to Greg Kwong, Executive Vice President, Regional Managing Director at CBRE Limited, “In the long term it would be better to add 100 jobs in the tech sector than 100 jobs in the energy sector. Not to ignore energy, but we need to diversify.” Meanwhile oil and gas companies are putting space back in the market. “The next phase of growth for the energy sector is mergers and acquisitions,” Kwong says, “so we’re going to see a lot of sublease space come on the market over the next six to twelve months.”

Kwong stresses that a high office vacancy rate is more than a number to bandy about at cocktail parties. It’s the result of not enough people having jobs. He would like to see the municipality focus on getting people back to work, as well as providing tax and financial incentives to attract companies to Calgary.

Regarding initiatives such as the city’s plan to invest millions in a new arts centre, Kwong would much rather see the money provide incentives for companies to move from other locations to Calgary. “That’s all we should be doing: attracting new businesses to grow in Calgary,” he says.

What else will help the city rebound from what has been a lengthy economic slump? Aside from a more appropriate use of government funds, Kwong says, there are buildings that should be demolished to create more parking space and—of course—moving forward from a global pandemic remains top of mind. “We obviously have to deal with this COVID situation. That’s not just unique to Calgary but impacts the overall economy.”

As the downtown market grows, a Ring Road is one way that the city plans to provide service to that growth. Kwong says it’s just one of many measures needed to alleviate traffic pressures. “But it’s creating jobs. The Ring Road is a four or five year project and now, two years into it, there are people working as a result,” he says.

■ *Michelle Morra*

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INVESTMENT NEEDED TO POSITION PROPERTIES FOR 2022 REBOUND



“How you operate your asset is how you achieve your future. We have a word here: Playful. Assets that are fun, fresh and new-feeling will see vacancy fall below 15 percent. If you stay stuck in the old red granite structures, though, and fail to invest in amenities, you will see vacancy spike to 45 percent. We’re witnessing that in our two best assets, where we’ve implemented that strategy.”



Scott Hutcheson
Executive Chair
Aspen Properties

Property owners ought to prepare for an influx of capital into Calgary next year, urged Scott Hutcheson.

Aspen Properties’ Executive Chair also chairs the province’s economic development agency, Invest Alberta Corporation. That gives him a bird’s-eye view of the growth lying ahead.

“We have concluded 31 memorandums of understanding globally,” he said. “Growth will come from a wide range of industries. It won’t comprise as much energy as you might think, though there is some petrochemical on the horizon.”

Calgary’s affordability, its young, highly educated talent and low taxes have made it highly competitive for tech investment.

“We’ve lagged because oil and gas crowded out other sectors, so there wasn’t room for the growth that we’ve witnessed in Montreal, Toronto, Kitchener and Vancouver,” Hutcheson acknowledged.

“That’s about to change,” he predicted. “It’s a fresh start. It’s a different start.”

Technology titans Mphasis and Bird E-Scooters, which have already announced big job growth in Alberta, are just the beginning.

“I’ve worked on all those files, so I have the good fortune to see that what is coming is quite different from the 2014-2020 business cycle” Hutcheson said. “It’s a competitive environment, where Calgary can offer things that other communities like Vancouver and Toronto might not, like affordable housing.”

“Growth is coming,” he predicted, “and it will be diverse, no longer derived from one sole sector.”

While rising hospitalization numbers have delayed a recovery, pent-up pandemic-depressed demand will drive vigorous growth in 2022, Hutcheson forecast.

“There’s a lot of dry powder on the sidelines,” he observed. “That’s good. When people get back to work, say, in January, this country will see the cork come off the bottle and unleash all the unspent money waiting in the wings. There is real potential for 5-7 percent GDP growth.”

Aspen has adopted a very focused, investment-driven philosophy to position its properties for the expected rebound.

“How you operate your asset is how you achieve your future,” Hutcheson suggested. “We have a word here: Playful. Assets that are fun, fresh and new-feeling will see vacancy fall below 15 percent. If you stay stuck in the old red granite structures, though, and fail to invest in amenities, you will see vacancy spike to 45 percent. We’re witnessing that in our two best assets, where we’ve implemented that strategy.”

Hutcheson was referring to its Ampersand and Edison properties, where Alpine introduced a vast range of amenities.

“Playful assets, playful offices like Ampersand convey a really upbeat, compelling vibe, the moment that you enter the main lobby, where we’ve built basketball court” he concluded. “It offers our tenants 56,000 square feet of amenities, and we allow dogs and other pets in the building.”

■ Robert Frank

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CITY COMMITS A BILLION TO MAKEOVER



Thom Mahler
Urban Initiatives
& Program Lead
Downtown Strategy
City of Calgary

The wait-and-see is over: Calgary has found a win-win formula to work with private investors aimed at making downtown as livable as Vancouver and Montreal.

“Until now, all our investments were highly focused on getting a crazy amount people in and out of downtown at peak-times,” recalled Thom Mahler, Manager, Urban Initiatives and Program Lead, Downtown Strategy, City of Calgary. “We were like Toronto’s financial district. Everyone left at the end of the workday, and our real life resided in the peripheral neighbourhoods.”

“Even before the pandemic, it had become obvious that we had to think differently,” he declared. “There was broad recognition that the oil and gas sector wasn’t going to bring back all those employees. That’s when anyone who had an office or retail asset in downtown Calgary got really serious about alternatives—and the city did likewise.”

Calgary’s Real Estate Sector Advisory Committee forged a high level of trust among stakeholders, providing a conduit for unprecedented public-private collaboration.

“We have tremendous capacity in this city which we can reorient, together with real estate owners who are trying to attract different types of tenants, who in turn are trying to attract different types of talent. That aligns with the city’s longstanding vision for downtown,” Mahler observed.

The result? The most ambitious urban redevelopment scheme in North America.

“We absolutely have momentum,” he smiled. “The city and all of its stakeholders are now very aligned and know what they have to do.”

Massive multiplier effect

The city’s commitment to inject \$75 per square foot into redevelopment projects, to a maximum of \$10 million per project, will make many pro-forma plans viable.

“Calgary city council is always good,” Mahler acknowledged. “When something has broad stakeholder support, they get excited about it. That’s why council was comfortable giving us the first \$200 million to start. Now, our council is asking: ‘How much more will you need?’ We told them that we

“Calgary city council is always good,” Mahler acknowledged. “When something has broad stakeholder support, they get excited about it. That’s why council was comfortable giving us the first \$200 million to start. Now, our council is asking: ‘How much more will you need?’ We told them that we will eventually need at least \$1 billion over the next 10 years, and they didn’t blink.”

will eventually need at least \$1 billion over the next 10 years, and they didn’t blink. We need to show success with the first \$200 million, but they are prepared for future requests.”

Calgary is capable of bold investment, thanks to the city’s solid financial status. Multiplied by private investment, during the coming decade the downtown subsidies will help to offset a \$16 billion fall in property valuation that has depressed the downtown tax base.

“That forced up taxes in other non-residential areas, which was really hurting businesses and our competitiveness across the city.”

Redevelopment will support thousands of jobs during the coming decade, stimulating Calgary’s construction and design industries.

Provincial and federal support has proved tougher to secure than municipal money.

“Those programs are targeted at narrower objectives, not holistic city makeovers,” Mahler explained.

Detailed plans for the west end of downtown, which will witness the most transformation—both public and private—remain pending.

“We’re not there yet,” he concluded. “That is coming in the next year or so.”

■ Robert Frank





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Robyn Baxter
Senior Vice President
& Co-Managing Director
Workplace Advisory
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Whether virtual, onsite or a hybrid of both, the key to successful workplaces is in trusting employees to decide when and where they work best.

While virtual offices only recently became a necessity for most people, the concept of working from home is hardly new. In fact, Robyn Baxter has been working with clients on flexible work arrangements for the past 25 years.

However, prior to the pandemic, the ability to work remotely was primarily available to employees of large organizations with extensive footprints, says Baxter, Senior Vice President and Managing Director of Workplace Advisory at Colliers Canada.

“One main reason work from home programs were often not fully explored until now was the misconception that employees couldn’t always be trusted to do their job remotely,” says Baxter.

“Most of those misgivings have evaporated since we’ve now been doing it successfully for 18 months. Many of our clients are saying they’ve actually been more productive than ever before. It’s now very hard to come up with a good reason for why we should come back full time.”

While few may feel that working remotely all the time is the best solution, being at the office for a five-day, 40-hour workweek may not be the best scenario either, she says.

Over the years, Baxter has led utilization studies of millions of square feet, measuring how many employees were at their desk in an office at any given time of the day.

What they found was that no matter the industry, desks were never occupied more than 50% of the time.

“People were in meeting rooms, working from home on a handshake agreement with their boss or having meetings with clients. They were at any number of places, but not at their desks. So we’ve known for years that people are already working this way; it’s just that spaces haven’t always been set up for it,” says Baxter.

Out of fear of being caught short, companies have been cautious in reducing office space, instead seeking creative leasing terms with more flexibility to get out or take on more space.

But at the end of the day, employers need to ask themselves whether rows and rows of cubicles are going to support the work they’re trying to achieve, or whether they should instead place more emphasis on a variety of different spaces to congregate, brainstorm, socialize - “all of the things that we do really well when we’re together,” says Baxter.

■ Barbara Balfour

“One main reason work from home programs were often not fully explored until now was the misconception that employees couldn’t always be trusted to do their job remotely. Most of those misgivings have evaporated since we’ve now been doing it successfully for 18 months. Many of our clients are saying they’ve actually been more productive than ever before. It’s now very hard to come up with a good reason for why we should come back full time.”





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RETAIL INDUSTRY MUST FIND A HOOK TO LURE SHOPPERS AWAY FROM THE INTERNET



Eve Renaud
Vice President
Rencor Developments

“Enclosed shopping centers are going to have to revolutionize,” says Renaud. “Part of that could be bringing in stores like Winners or Costco where the product offering changes so quickly that new inventory isn’t captured on their website. So that gives people an incentive to visit.”

Between the COVID-19 pandemic and the general economic climate, the bricks and mortar retail market in Calgary is continually shifting. One change that experts say could be permanent is the need for a hook to lure people out of their homes and into a physical building to shop.

“Basically, shopping has to be a great experience,” says Eve Renaud, Vice President of Rencor Developments Inc. “There has to be something that drives them to commute to a bricks and mortar location, or they’re just going to shop on Amazon for their daily goods because it’s so much easier.”

At the same time, Renaud concedes that humans are still social beings with a need to see and interact with other people. While some services like seeing a doctor have changed due to the advent of telemedicine, being physically present is necessary for getting a haircut or a manicure.

The culmination of providing those essential services with special offers and events will be part of not just redefining the retail experience but allowing it to coexist with the Internet. “It could be an experience that starts by shopping at home, then concludes with picking up your purchases at the mall,” says Renaud.

But for events to draw crowds, they must be authentic to the markets they serve while also getting buy-in and participation from tenants, she cautions.

“For example, Chinook Centre has been hosting their Stampede breakfast for the past 60 years and that’s an experience that gets people into the mall,” she says. “Maybe they don’t necessarily go to shop but it’s a way for them to enjoy the Calgary Stampede, have a pancake and then run into the mall since they’re already there.”

In contrast, the C class shopping centers that offer only four walls, a few stores and no interesting amenities simply won’t cut it, she says.

“Enclosed shopping centers are going to have to revolutionize,” says Renaud. “Part of that could be bringing in stores like Winners or Costco where the product offering changes so quickly that new inventory isn’t captured on their website. So that gives people an incentive to visit.”

While those C class properties likely won’t be back-filled with new retail outlets, they are well-positioned to take advantage of their prime locations, often close to transit connections and residential areas. “They can still succeed by incorporating other uses, like grocery stores, colleges or quasi-office space,” says Renaud.

■ Barbara Balfour

REPOPULATING DOWNTOWN TO REVITALIZE CALGARY



Greg Guatto
President & CEO
Aspen Properties

“Downtown needs to be a cool place to live to get people to move. It’s not just about offering cheaper rent. People want amenities. They need grocery stores and transportation networks. Plus, above all, they want safety and security.”



“You need to bring people downtown, to turn vacancy into vibrancy in order to attract talent and business to our city,” urged Aspen Properties CEO Greg Guatto.

Few people currently reside in Calgary’s 9-to-5 city core. Properties there have shed some \$16 billion in value in the wake of energy sector decline and pandemic prohibitions, which further diminished demand for office space. The result?

“We have a property tax problem today in our city which finds all other forms of real estate bearing a tax burden once covered by a thriving downtown. Shifting that load to other asset classes, including housing and commercial properties outside downtown, poses a serious, long-term fiscal threat,” he observed.

Guatto has joined forces with Brookfield and QuadReal and other members of the city’s Real Estate Sector Advisory Committee, to identify revitalization needs and propose solutions.

“The objective is to eliminate six million square feet from Calgary’s office space over the next decade, by converting it to serve other purposes,” he declared.

Guatto suggested that success hinges on making downtown as attractive a place to live as trendy surrounding neighbouring districts like East Village, Kensington and Bridgeland.

“Downtown needs to be a cool place to live to get people to move,” he explained. “It’s not just about offering cheaper rent. People want amenities. They need grocery stores and transportation networks. Plus, above all, they want safety and security.”

Easy access to nearby amenities will also help, locations like the new arena project, the event centre planned for the stampede grounds, and the Stephen Avenue revitalization.

“Many things identified within the Greater Downtown Plan are amenities like the riverfront walk, parks and planning of public spaces with events.” Guatto noted.

He also advocated adding downtown university campuses and student housing.

“We’re seeing technology firms move to the city,” Guatto observed. “When you draw talent downtown, technology companies will follow.”

He praised city leadership for making such a shift possible in a collaborative fashion.

“Technology firms’ main asset is their talent,” Guatto commended, “and if you want them to locate here, you have to attract the educated population base that they seek.”

“Without Calgary’s Greater Downtown Plan incentives, you wouldn’t see any older office buildings converted to residential, simply because it is uneconomic,” he concluded. Office building conversions to residential uses are challenging and require a great deal of capital. In addition, the rents today have to be attractive to get people to live here without vibrancy and those other amenities.”

■ Robert Frank

DEMAND FOR CALGARY INDUSTRIAL SPACE EXTENDS OUT WEST



Matthew Johnson
Executive Director
Industrial Investments
KingSett Capital



E-commerce was already growing quite rapidly before the COVID-19 pandemic, but lockdowns compelled laggards and late adopters to join the bandwagon. That proved to be an explosion of demand to fulfillment centres, translating to extremely tight industrial markets in Calgary and other markets across Canada.

“The pandemic forced people into e-commerce which forced stuff out of malls and into fulfillment centres,” says Matthew Johnson, Executive Director, Industrial Investments at KingSett Capital, “and that led to the requirement for more space.”

Johnson believes that e-commerce will continue to grow on the same trajectory as it has in the past 18 months. “There will just be more options to conduct your business on e-commerce, better platforms, rewards for being a repeat customer, all those things you build off momentum.” He adds that just because workers are gradually returning to the office doesn’t mean a disruption to online shopping.

A lack of space in the Vancouver market, and the high price of space there, has led to a trend towards Calgary acting as an inland port for transportation and logistics. Johnson expects this to continue for some time.

“I think when you add a fairly significant premium to A quality industrial space between Vancouver and Calgary, and just the availability of it, I don’t think there’s going to be much choice to make that decision to come to Calgary,” he says. “The rail links are there. Many of the goods that would normally be distributed out of Vancouver would have gone to points east of there anyway, and rail freight typically is not that large a cost piece of the overall supply chain when you consider goods coming from China and so on.” This he believes will be a big driver of growth in the Calgary market as two groups use this inland port: people who are forced to, just to find space, and groups that are enticed to for economic reasons.

Calgary is different from other industrial markets in that the small bay spaces, under 10,000 sq ft, are among the most available because, as Johnson describes it, Calgary is still in the bottom of the growth cycle. “As the market finds its footing, and as you see population growth continue or return, and if we do see more large users coming into the space, it typically creates spinoff uses that take the smaller bay,” Johnson says. “But at present it’s the softest part of the market.”

■ Michelle Morra

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RETAIL REBOUNDS, WITH OFFICE TO FOLLOW



Rosanne Hill Blaisdell
Managing Director
Chief Operating Officer
Harvard Developments

Harvard Developments looks to long-term prospects for its returns. That's why it plans to invest in more mixed-use real estate including commercial, residential and office projects in downtown Calgary.

"We aim for investments to be accretive over the long term," explained Rosanne Hill Blaisdell, Managing Director and Chief Operating Officer. "I am a strong believer in the Calgary market. Traffic patterns downtown will improve, and we believe they will support the kind of developments that we're going to pursue there."

Harvard is already seeing a rebound in its retail properties, which it sees as a bellwether.

"Everyone thought that retail was going to die on the vine and that all shopping would move online," she observed. "The last several months have proven that that's not the case. People are spending with a vengeance and eating out. We have more than five million square feet of retail space, and right now our restaurants are having some of the best months that they've ever had."

Office will follow, post-pandemic, Hill Blaisdell expects.

"Many companies might dabble with work-from-home. For some positions it works well, but no one can deny the importance of collaboration, interpersonal connection and the power of working together," she asserted. "Look at the mental health statistics and the productivity issues that have emerged from working at home. Moving forward, the way that people work might differ, but they will still need that space. Office will prevail."

While the world will still need Calgary's energy expertise for the foreseeable future, most growth in office demand will derive from technology firms.

"Tech will change the way that real estate operators, owners and developers make every decision," Hill Blaisdell acknowledged. "Our strategy is to properly embrace tech to enhance our customers' experience."

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"People are spending with a vengeance and eating out. We have more than five million square feet of retail space, and right now many of our restaurants are having some of the best months that they've ever had."

The city's plan to invest in the downtown core will reinforce that revival, she suggested.

"I believe there is a willingness amongst downtown stakeholders and influential Calgary business leaders to work in partnership with governments to pull us through this difficult time," credited Hill Blaisdell. "There are many resources in municipal and provincial toolkits that they can bring to the table to lever private investment."

"Calgary has a sound business base, a deep talent pool, affordable housing and lifestyle opportunities that appeal to a young demographic," she concluded. "Our company has quite a few properties and land holdings which are poised for redevelopment and/or infill. For 2022, we're focusing on improving the assets that we have and identifying ways to enhance their value, moving forward. We have a 7.5-acre site—Eau Claire Market—that we are dying to kick off."

■ Robert Frank

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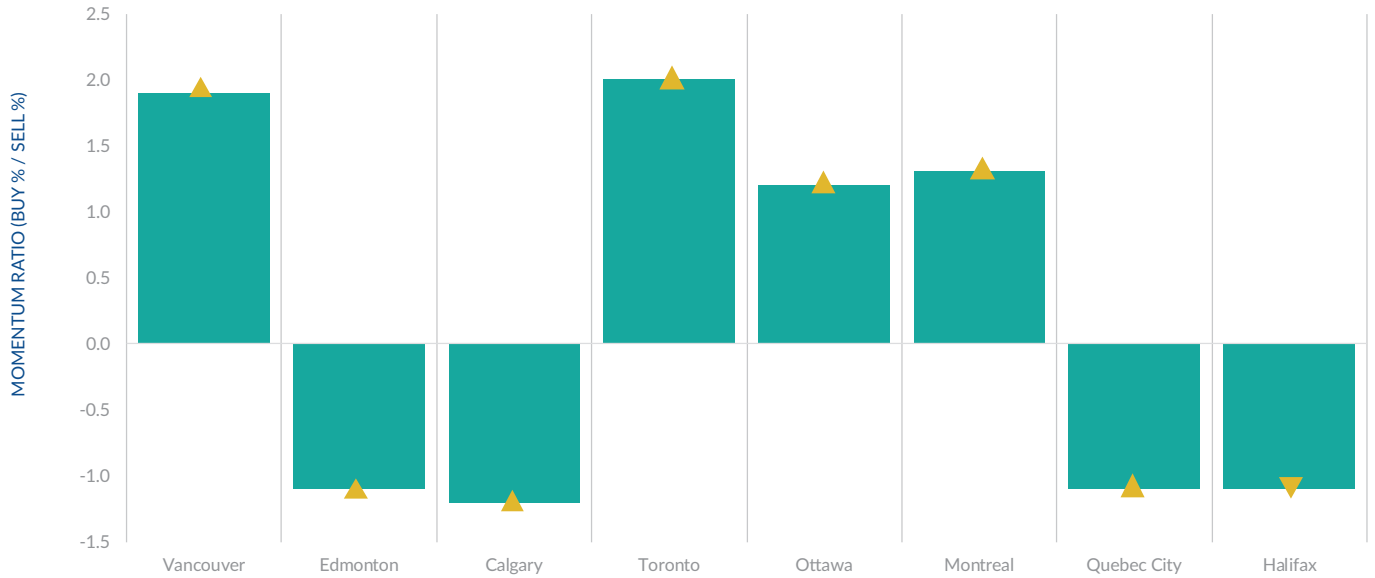
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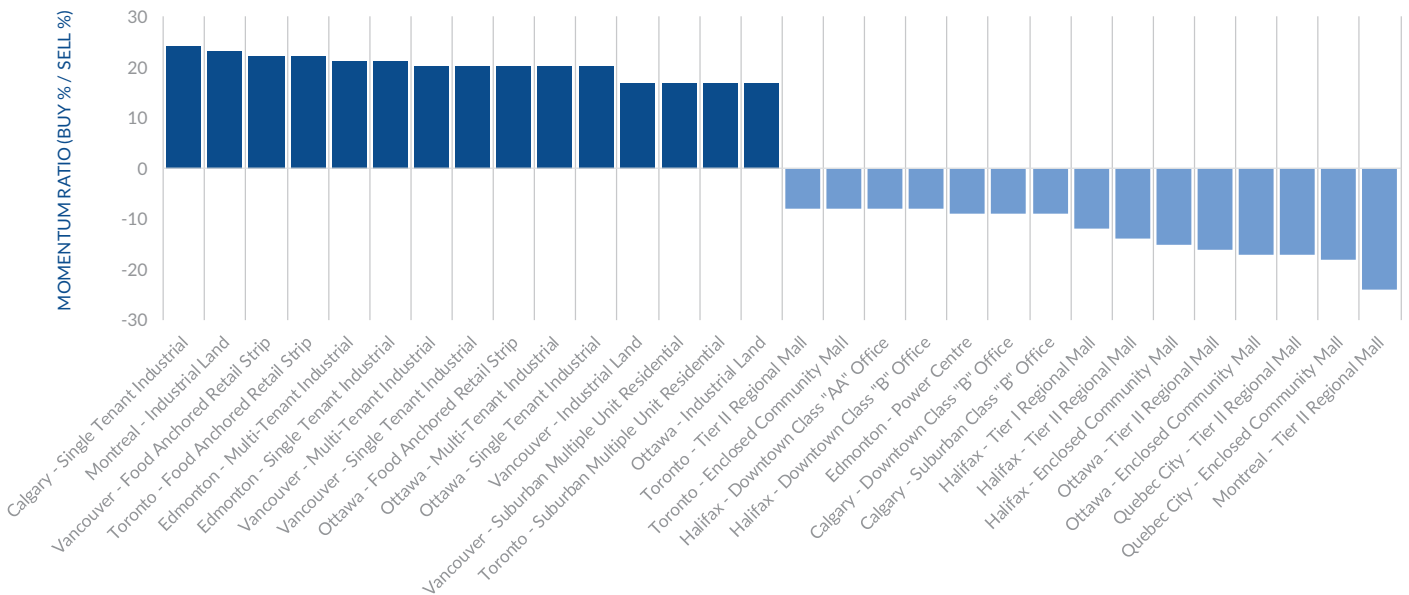
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Industrial and food-anchored retail assets continue to garner investor interest throughout the pandemic

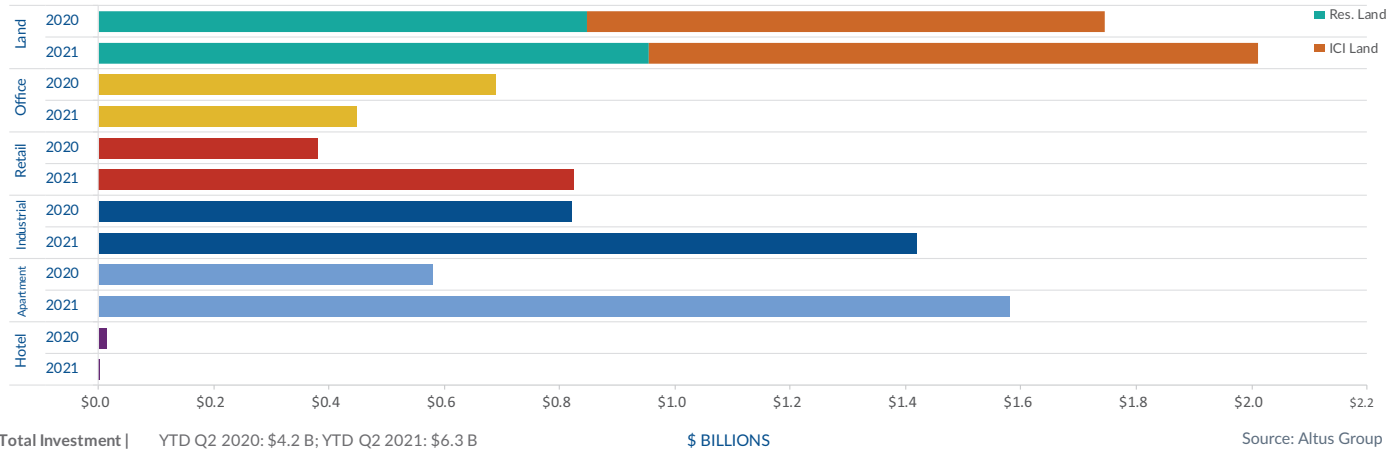
Product/Market Barometer – Top 15 Preferred/15 Least Preferred | All Available Products (Q2 2021)



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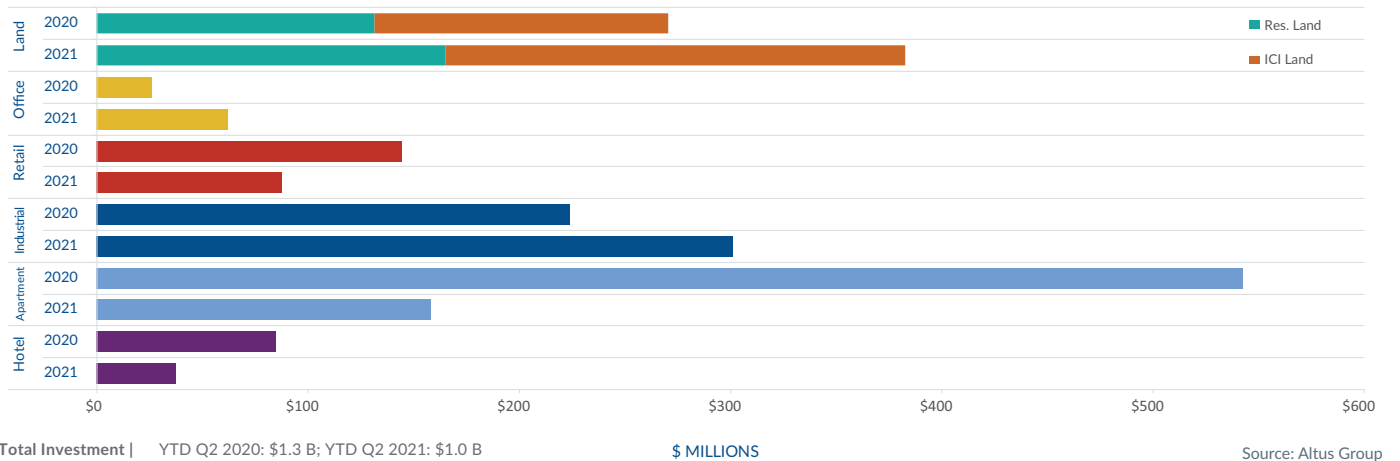
Continued strong gains in investment activity for industrial, retail, and apartment, but slumping confidence for office and hotel sectors lingers

Property Transactions by Asset class | Greater Vancouver Area, YTD Q2 2020 vs. YTD Q2 2021



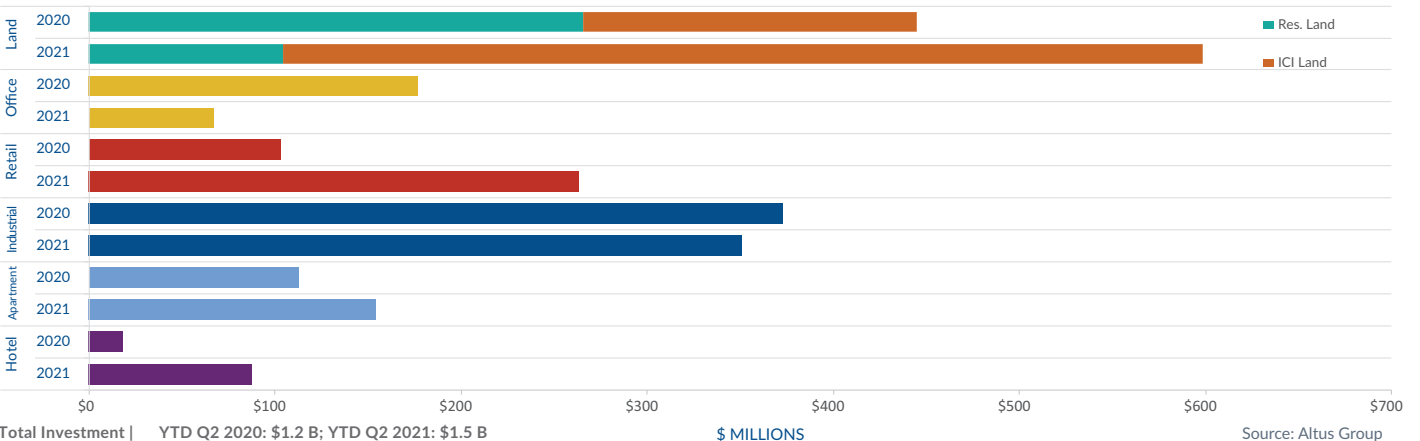
Land, office, and industrial sectors in Edmonton saw strengthening activity while apartment, retail and hotel sectors slow down

Property Transactions by Asset class | Greater Edmonton Area, YTD Q2 2020 vs. YTD Q2 2021



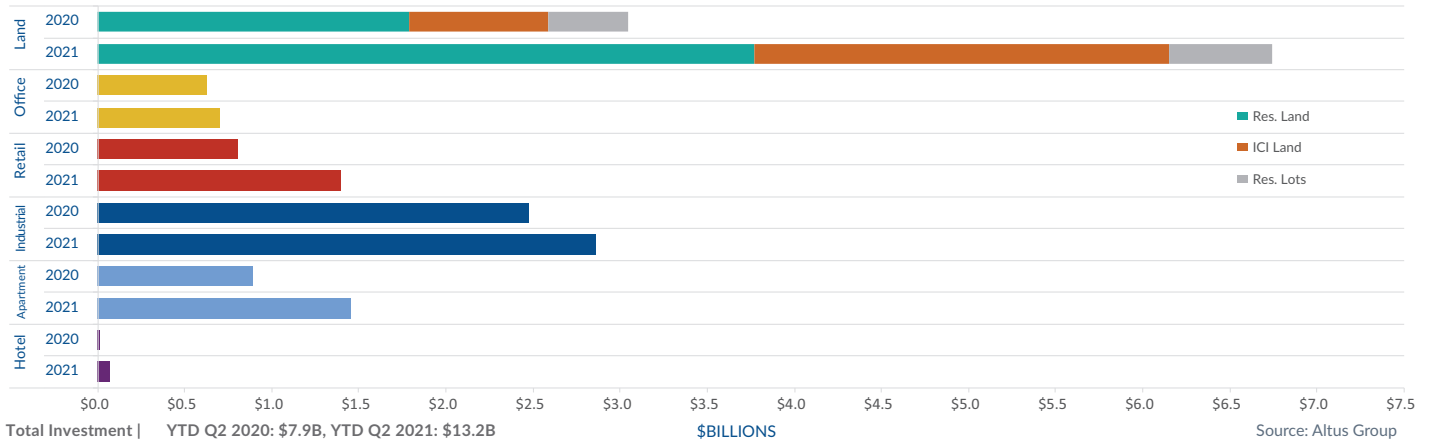
Amid ongoing economic challenges, Calgary investment activity slowed across the office and industrial sector, with strong increases for other sectors

Property Transactions by Asset class | Greater Calgary Area, YTD Q2 2020 vs. YTD Q2 2021



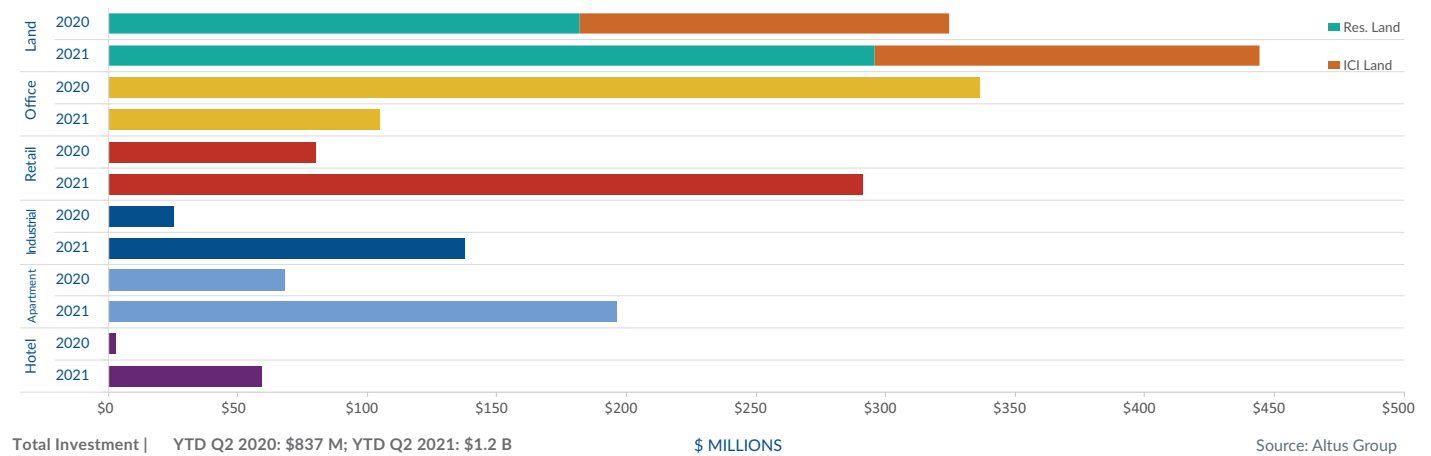
Investment momentum picks up in the GTA with all sectors showing increases in transaction activity, with the most modest increase seen in the Office sector

Property Transactions by Asset class | Greater Toronto Area, YTD Q2 2020 vs. YTD Q2 2021



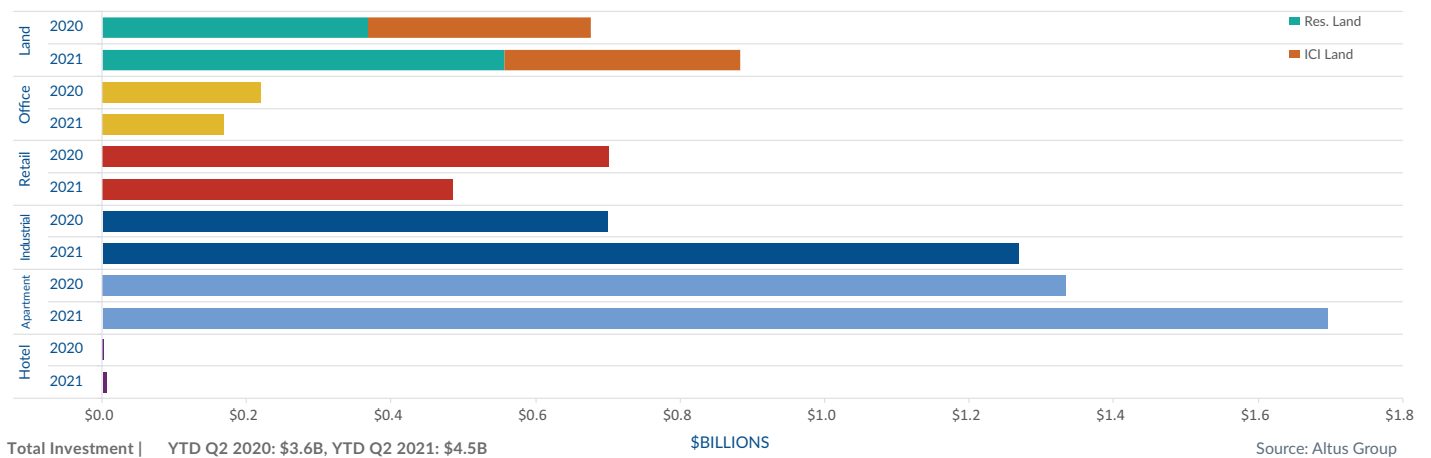
Market activity within the Ottawa office sector slows down, while all other sectors experience gains

Property Transactions by Asset class | Greater Ottawa Area, YTD Q2 2020 vs. YTD Q2 2021



Industrial and apartment sectors continue to push forward, while office and retail soften

Property Transactions by Asset class | Greater Montreal Area, YTD Q2 2020 vs. YTD Q2 2021



A RETURN TO PEOPLE-FIRST PRINCIPLES



Tara Steell
General Manager
Calgary Land
Dream Development

Calgary will soon see its closest new master-planned residential community since the 1990s rise in the city's 'new west'.

City council has approved construction of the first 1,300 residential unit stage of Alpine Park, a leafy, \$2.5 billion community located alongside two kilometres of the newly-completed Southwest leg of Calgary's ring road.

The project will prioritize people, reversing a 75-year postwar housing trend of cars dominating daily life. Porch-lined homes will be street or park-oriented, with lanes to keep cars out of sight in back.

Tara Steell, General Manager, Calgary Land, Dream Development, credited city administration and council members for the forward thinking that permitted the project to proceed.

More enjoyable, safer walks

"The city has been incredibly open to new ideas," she affirmed. "We were able to fine-tune everything from pedestrian crossing widths to treelined walkways set back from the road to enable people to walk safely to-and-from the one million square foot neighbourhood hub that Dream will develop there."

Most residents will be within an eight-minute walk from the Alpine Park's 'Village Centre', where families can get groceries, grab a coffee or catch up with friends.

"We will also have a privately-held main street, which will let us shut it down and host street festivals—post COVID, of course," Steell said.

Parks – designed in collaboration with CIVITAS, known for their work in St. Patrick's Island – are well equipped to let neighbours gather and get acquainted, with public lawns, seating and barbecue areas, gathering fireplaces, community gardens, and extensive landscaping.

"We also have some incredible, naturalistic playgrounds that encourage challenging play," she added.

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The planning process also culminated in the innovative Storm Park – a more environmental rain run-off solution than traditional storm water facilities using 'Nautilus ponds' that allow for a naturalized wetland amenity for residents to enjoy.

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"We fine-tuned everything from pedestrian crossing widths to treelined walkways set back from the road to let enable people to walk safely to-and-from..."



"The ponds minimize the storm water footprint while letting the land surrounding them filter the runoff," Steell explained. "We plan to add a network of pathways to let residents enjoy the natural setting, which is relatively unique."

Though cars might be out of sight, they won't be out of mind. With realestateforums.com

downtown and the University of Calgary reachable in 17 and 25 minutes respectively, the ring road put Alpine Park within minutes of work and study. The many untamed attractions of Kananaskis Country are also within ready reach.

"You can be day camping by the river in just 35 minutes," Steell noted.

Dream has spent nearly a quarter-century assembling its holdings in the area. Once all the phases of the 643-acre Alpine Park are complete, it expects some 10,000 people will reside in the community, with a further 1,000 acres owned further west.

■ Robert Frank



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“VISIONARY” PLAN WILL POPULATE AND POPULARIZE DOWNTOWN CALGARY



Ken Toews
Senior Vice President
Development
Strategic Group

Urbanist Ken Toews praises Calgary’s determination to turn its moribund-after-hours city core into a dwelling and leisure magnet.

“The municipal administration employs some true visionaries—and city council has backed them up,” underscored Strategic Group’s Senior Vice President, Development.

Facing a \$16 billion plunge in downtown property values, soaring office vacancy, and plunging tax revenue, the city has proffered a \$75 per square foot incentive to convert office buildings to residential uses.

“This is really forward thinking,” Toews continued. “Great cities have livable cores. Toronto, Vancouver, San Francisco and Portland are tech hubs because they employ urbanites who want to live downtown, close to work and within bicycle range of restaurants.”

The city’s support has made possible conversions that would otherwise be uneconomic.

“Conversions get less rent, but once we attract more renters downtown, rents will rise, and then you will see brand new high-rises built, attracting a continuum of renters—young people starting their careers, service workers and students,” he suggested. “Next comes the 30-50 crowd, who are ok with downtown lifestyle. That’s when you’ll see executives and company owners occupy bigger units in the towers. Within five years, the broader downtown demographics will create a cooler Calgary, that draws people downtown for fun.”

Conversions nonetheless pose considerable challenges.

“Office buildings often don’t suit residential. Distances from elevator cores to glazing can be quite long,” Toews explained.

Imaginative firms like Strategic Group thrive on such challenges.

“We pride ourselves on thinking outside the box. Some projects seem to make no sense. Then, we take another look and discover a way to make it work,” Toews recalled. “For example, we developed some innovative, bullet-shaped suites that made two Edmonton projects possible.”

Strategic Group might soon turn to light wells, a popular feature of Paris apartments, to channel sunshine deep into structures short on windows.

“Within five years, the broader downtown demographics will create a cooler Calgary, that draws people downtown for fun.”

“Some of these buildings are built right up to the property line and there’s no room for glazing,” Toews observed. “Then we looked and incorporating light wells, and in the right situation believe they will work.”

“We’ve done more Alberta conversions than any other company. Not just to residential. We turned one office property into self-storage and another into a farmer’s market. We fast track these projects so a typical office to residential conversion will take 12- 18 months of construction time. Heritage buildings are more complex, and often take longer, but the Heritage cool factor draws people to the area and improves nearby property values.” We expect our heritage restoration of the Art Nouveau Barron Building will be a catalyst for more residential development in the downtown.

“It’s fun. It’s a lot of fun,” he concluded. “By recycling buildings, we’ve also saved some 60,000 tonnes of material from the dump. That’s better for the environment.”

■ Robert Frank




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MARGETTS FORECASTS “BIG RETURN TO THE OFFICE”



Bryce Margetts
Vice President
Western Canada
Canderel

Most people ache to get back to the office, asserts Bryce Margetts, Vice President, Western Canada, Canderel.

“We hired an army of young people on Zoom who spend hours on end on Zoom calls. They’re feeling alienated. Staff and their spouses working from home have reported mental health problems. They miss water cooler conversations; face-to-faces,” he observed. “There is a desire to learn from peers and mentorship is a big part of our culture.”

The urge to return is not universal, Margetts acknowledged. A generation gap and industry-specific needs will also influence office space reuptake.

“Older employees are juggling children and don’t miss commuting,” he said. “Some have elders to care for. For them, working from home has been a reprieve.”

As employers grapple with each generation’s needs, many firms have already ordered staff back to the office.

“It’s happening across the board in small- and mid-size firms—including our company,” Margetts said. “After the September long weekend, all employees had to return to the office on a hybrid model—three days on; two days off.”

“It’s very divergent,” he continued. “Some large corporations won’t return to work until 2022, while most legal and architecture firms never left.”

Whether we will witness a significant structural shift remains a real estate industry concern.

“We will generally see a big return to the office, hitting 50% to 75% by the end of the first quarter of 2022, still on a hybrid model with a day or two a week at home.”

“We’re hearing rumours of major moves by Alberta companies that could soon see big blocks of 150,000 square feet on the sublease market,” Margetts said. “It’s market dependent. Vancouver sublet space is more scarce and landlords there are bullish about return-to-work. In contrast, Alberta oil companies face a trifecta: poor energy economics, excess expansion space and work-from-home. Everything is being scaled back.”

Lease turnover remains a wild card. While tenants have largely respected the terms of their leases, it remains to be seen how much space tenants will shed at renewal time, though Margetts remains optimistic.

“We’re not shrinking any space,” he said. “That’s very much the case for a lot of companies. When a 400,000 sq.ft. tenant pulled its staff out in 2020, 80% said they wanted hybrid work, with hot-desking for meetings. As of last month, they want to return—with no hot-desking. They want their own space. Interaction is even more important in tech companies.”

“We will generally see a big return to the office, hitting 50% to 75% by the end of the first quarter of 2022,” Margetts predicted, “still on a hybrid model with a day or two a week at home.”

■ Robert Frank

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